

REVIEW ARTICLE

FINANCIAL RISK ANALYSIS AND COUNTERMEASURES OF COUNTRY GARDEN COMPANY

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ABSTRACT

The real estate industry is a mainstay in many places. However, real estate companies have high capital intensity and high cost of investment, high proportion of debt in total assets, and long time to recover funds. Therefore, the real estate industry has a high financial risk and the risk is difficult to grasp. As it is of great economic significance to the country, it is necessary for us to conduct a detailed study on the financial risks it has faced and will face, and give corresponding countermeasures. Country Garden is the backbone of China's real estate industry. As a national real estate enterprise, its financial risks are complicated and diverse. Taking Country Garden Company as an example, this paper analyzes the existing financial risks. Firstly, it expounds the definition and classification of financial risks and reviews the previous research results at home and abroad, then analyzes the financial indicators and possible risks of Country Garden Company, and finally proposes countermeasures to the financial risks of Country Garden Company.

KEYWORDS

Real Estate Enterprise, Financial Risk, Country Garden Group, Response

1. INTRODUCTION

Real estate is an important pillar of the national economy. In 2020, the added value of real estate will be 750 million yuan, accounting for 7.3% of GDP. It plays a considerable role in promoting social and economic progress, and in the next period of time, it still has a lot of room for development. However, the real estate is a systematic project involving extensive, large investment and long payback period. Its development characteristics are that the company needs to make a large amount of capital investment, long operation cycle, long capital recovery period and low capital liquidity, which increase the financial risk of the real estate company. Therefore, real estate has always been a hot issue. Each real estate enterprise should pay more attention to preventing financial risks, and the policies issued by China should also constantly improve the real estate industry.

The biggest risk faced by enterprises belongs to financial risk. The reason for many enterprises' bankruptcy is due to improper management and control of possible financial risks, which leads to financial crisis. So how to manage it well is the key to the success of an enterprise. As an important industry related to people's life, the development of real estate has also played a great role in the development of the entire national economy. Therefore, it is very important to solve these problems in the shortest time.

Therefore, this paper would like to take Country Garden Company as

an example, select representative financial indicators, comprehensively describe the company's financial situation, and analyze the financial risk on this basis. This paper studies the debt paying ability, profitability, operation and development ability of Country Garden, selects some representative indicators to evaluate the financial situation of Country Garden, evaluates its risk from different angles, and puts forward corresponding countermeasures for future financial risks, so as to take effective and reasonable preventive measures, which provides a strong guarantee for the development of the company.

2. CONCEPT DEFINITION AND RESEARCH OVERVIEW

2.1 Definition of Financial Risk

Enterprise financial risk refers to that under the comprehensive effect of the internal and external macro cycle and micro cycle system of the company, the operation track of the company's capital flow will have a certain adverse impact on the company's value and financial performance (Yang, 2022). The main points of financial risk definition can be summarized as follows: financial risk refers to the risk of loss due to various uncertainties in the business process of an enterprise's investment and development projects, which lead to deviation from expected earnings. At the same time, business risks, policy risks and legal risks will also have a certain impact on the company's operating efficiency. The sum of various risk factors reflected in the daily business

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activities of enterprises is financial risk.

2.2 Overview of Financial Risk Research in Real Estate Industry

The research on corporate financial risk in our country originated in the 1980s, which is relatively late compared with that in foreign countries. Some studies first analyzed the financial risks of real estate companies from the perspectives of financial risks and nonsystematic risks (Sheng and Zhou, 2005). Based on the above analysis, different solutions are proposed for different companies. And based on the Z-score method is a more general financial risk early warning model. Some studies pointed out in their paper that real estate enterprises are faced with risks such as debt repayment failure, interest rate change risk, refinancing risk, etc., and analyzed the causes of the risks, and gave corresponding measures (Yang, 2018).

Some studies first explained the definition and classification of financial risk, and then combined theory with practice. Later, taking Zhongzhi Group as an example, he first analyzed its corporate financial status and described the financial risks it is facing, explained the reasons for the sources of financial risk, and finally put forward suggestions for three-dimensional financial risk control from the inside out (Li, 2014). Some studies also carried out some research on the financial risk of the real estate industry, mainly focusing on the weak financing capacity of real estate companies, the incomplete and cautious investment decisions, and the risk of capital recovery. Specifically, it studied the financial indicators of a real estate company from 2013 to 2017 and found out the specific reasons for the existence of financial risks. Finally, it proposed corresponding measures to enhance the risk response ability (Wu, 2018).

3. FINANCIAL STATUS ANALYSIS OF COUNTRY GARDEN COMPANY

3.1 Brief History of Country Garden

Country Garden Group was established in Shunde, Guangdong in 1992 and was listed on the Hong Kong Stock Exchange in 2007. Biguiyuan mainly provides diversified products to match different markets. Since its establishment, it has kept pace with the development of China's real estate market. The company's business scope has gradually expanded from Guangdong Province to other high growth regions in China. Country Garden also successfully entered Malaysia, Australia and other foreign markets in December 2011. This strategic expansion has not only made Country Garden a leader in the real estate industry in Guangdong Province, but also expanded in other regions, enhancing its brand influence. Country Garden adopts an all-round business model. It distributes business in almost all aspects of real estate development, so it also gains profits in every aspect. At the same time, it enjoys low-cost development due to the continuous expansion of its scale. Country Garden is a leading enterprise in China's new urbanization. It has its own unique views on market positioning and avoids the fierce competition between first tier and second tier cities., Most of the customer groups are third and fourth tier cities. This is also known as the suburban market operation mode that drives demand with high cost performance ratio.

The development mode of Country Garden is also unique. At the same time, the company also regards real estate as its main business, including hotels, buildings, property management, etc. The advantage of diversified operation is that investment in hotels, business centers, schools, theme

parcs, infrastructure, community support, etc. can improve the market value of real estate. With the advantages of high speed, high quality and low cost, Country Garden has covered more than 1200 towns since it covered 768 towns in 2017. The total number of owners served has also increased to 5 million, which leads the industry in terms of coverage, service scope and breadth. In 2018, Country Garden ranked 353 among the world's top 500 enterprises, closely following Vanke. Since its establishment, Country Garden has grown in scale and sales volume, ranking among the top three real estate enterprises in China.

3.2 Overview of Financial Situation

3.2.1 Asset Status Analysis

It can be seen from the above table that the total assets of Country Garden increased from 591.572 billion yuan in 2016 to 2015.8 billion yuan at the end of 2020. The asset appreciation and debt growth of Country Garden show a significant downward trend year by year. As shown in Table 1, Country Garden Group has been in a state of high debt in the past five years, reaching 89.6 in 2018, far exceeding the industry average level of 52. The company's asset multiplier is the embodiment of the company's debt level. However, because the real estate in China is sold in advance, there is a certain advance payment in its debt, which will eventually become sales revenue. Therefore, when reviewing the asset liability ratio of the real estate industry, we should exclude the liabilities arising from accrued liabilities, so as to draw a more objective conclusion (see Figure 1). From the overall development trend, the net debt ratio of Country Garden decreased year by year from 2016 to 2020, reaching 55.6% in 2020, much lower than 94.6% in 2020. Table 1 shows that the equity investment of Country Garden has doubled in the past five years. The greater the multiplier of shareholders' equity, the higher the debt level of the company, and therefore the higher the financial leverage ratio of the company's external financing. At this time, enterprises will face greater financial risks. However, if the company's operation is growing, the higher the shareholder's equity multiplier, the more profits it will bring to the company. This can only be explained by analyzing the operation of Country Garden Company.

Therefore, according to the above data, the total assets of Country Garden Company increased by nearly 3.4 times from 2016 to 2020, indicating that Country Garden Company is developing steadily in recent years. Although the total liabilities are increasing year by year, the increase rate has slowed down, and the net asset liability ratio has also been lower than 70% for many consecutive years, indicating that

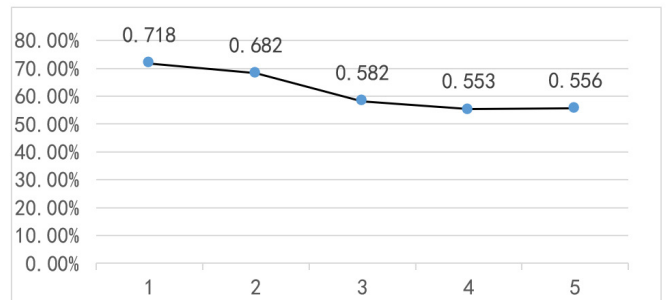


Figure 1: Net asset liability ratio of Country Garden from 2016 to 2020

Table 1: Assets of Country Garden from 2016 to 2020

Index (100 million yuan)	2016	2017	2018	2019	2020
Non current assets	1067.3	1817.5	2299.4	2756.3	2736.5
Current assets	4848.3	8679.1	13997.5	16315.1	17421.5
Current liabilities	5915.6	10496.6	16296.9	19071.4	20158
Non current liabilities	4053.1	7695.3	12194.0	13987.5	14929.6
Total liabilities	5099.5	9330.5	14600	16900	17588
Asset liability ratio	0.862	0.887	0.896	0.886	0.873
Equity multiplier	7.25	8.85	9.60	8.78	7.84

the company has sufficient cash and overall liquidity is guaranteed. On the whole, Country Garden Company's assets are relatively stable and have a strong ability to withstand risks.

3.2.2 Analysis of Sales

It can be seen from Table 2 that the real estate market of Country Garden has developed rapidly, showing a steady growth trend in general. Although the growth rate of sales area slowed down significantly in 2017 and 2018, it reached 62.37 million square meters in 2019, with a year-on-year growth rate of 13%. Similar to the sales regions, the sales growth of Country Garden in 2018 was 9.8%, and in other years, it was growing steadily, reaching 570.7 billion yuan in 2020.

Inedx	2017	2018	2019	2020
Sales area	6066	5416	6237	6733
Sales	5508.0	5018.8	5522.0	5707.0
Sales revenue	2268.99	3790.8	4859.1	4628.5

It can be seen from the financial data of the past five years that the business scale of Country Garden is getting larger and larger, and the real estate sales are also increasing year after year. From the perspective of sales, the real estate industry has stabilized as a whole as the epidemic situation has been gradually controlled. Biguiyuan Company will increase its total sales by up to 25% in 2020 and 2016-2020, showing strong flexibility in its performance and maintaining its leading position in the industry for several consecutive years.

3.2.3 Analysis of Cash Flow

According to the data in the cash flow statement and the information checked, the operating cash flow of Country Garden Company was negative in the first half of 2020, which was the first time since it became positive in 2016. Cash flow from financing activities also decreased significantly in the same period. Of course, this year, the real estate market was affected by the epidemic, and there were many enterprises whose cash flow declined. However, the real estate enterprises like Country Garden, which were all net outflows, were not among the top 20. This shows that there are some problems in the cash flow of Country Garden Company. The possible reasons for the decrease in operating cash flow are that Country Garden Company has made great

efforts to reduce prices and promote sales under the epidemic situation, and Country Garden Company is speeding up its construction and commencement.

The debt financing ratio of Country Garden is significantly higher than that of debt financing, while the loan ratio of Country Garden is relatively high, which indicates that Country Garden relies heavily on bank loans. Relying too much on bank loans, if the house price rises or falls sharply, it will lead to a large amount of capital flow, thus making the operation problem of real estate enterprises become a credit problem of banks. In the field of highly concentrated real estate investment, how to effectively reduce financing costs is an important factor for real estate enterprises to break through the bottleneck of development.

So in summary, the cash flow of Country Garden Company has declined in recent years, which is also a problem that Country Garden Company should focus on when it has a good asset position and sales status.

3.3 Analysis of Financial Indicators

3.3.1 Analysis of Solvency

It can be seen from Table 4 that the proportion of current liabilities of Country Garden in the past five years is very high, but in the non current liabilities, the proportion of long-term liabilities of Country Garden is relatively low, and the current ratio of Country Garden is about 1.16. Generally, the company's current ratio should be above 2. The quick ratio of Country Garden is 0.43-0.62. When the quick ratio=1, it means that the current liabilities of each company correspond to one unit of current assets. It can be seen from Table 4 that the current ratio of Country Garden is relatively low in the past five years. If the quick ratio of the company is too low, it means that the short-term debt risk of the company is very high; In the real estate industry, the current ratio is 1.47, while in the quick ratio, the average is 0.79. The current ratio of Country Garden is lower than the average level, and the quick ratio is also lower than the industry average level, which indicates that the short-term solvency needs to be enhanced. For real estate companies, if they cannot refinance in time, there will be a risk of capital chain rupture.

In general, according to the above data analysis, by the end of 2020, the balance of the company's interest bearing liabilities had dropped to 326.5 billion yuan, down 11.7% year on year. The balance of cash available on the company's book reached 183.62 billion yuan, so Biguiyuan has sufficient financial security. It shows that Country Garden Company has

Index	2016	2017	2018	2019	2020
Net cash flow from operating activities	412.63	240.84	293.81	146.66	36.13
Net cash flow from investment activities	-204.57	-443.85	-122.69	-190.91	-46.3
Net cash flow from financing activities	274.54	728.22	738.32	252.57	97.6
New borrowings	365.36	871.06	1089.18	1120.46	1.44
Issue shares	0.00	0.00	63.43	1.35	65.7

Index	2016	2017	2018	2019	2020
Current ratio	1.196	1.128	1.148	1.164	1.17
Quick ratio	0.58	0.62	0.59	0.55	0.43
Asset liability ratio	0.862	0.887	0.896	0.885	0.873
Current liabilities/total liabilities	79.4801	82.47	83.7340	82.838	84.89

Index	2016	2017	2018	2019	2020
Net profit	136.6	260.64	346.18	395.50	350.22
Net profit margin on sales	8.92%	12.67%	12.81%	12.6%	11.67%

high-quality financial risk

3.3.2 Profitability Analysis

Although there is a good trend in sales area, turnover and sales revenue, Biguiyuan's profitability is insufficient. Although the net profit increased steadily, the growth was relatively small, and the net profit decreased by 4.528 billion yuan in 2020 compared with 2019. The net sales interest rate represents the share of the enterprise in the operating income and reflects the ability of the enterprise to obtain profits from sales. The higher this index is, the more net profit the company generates from sales revenue. In 2017, the net profit rate of sales increased significantly, but in recent years, the increase was small, and even decreased to 11.67% in 2020.

It can be concluded that although the overall trend of Country Garden is consistent with the industry level and its changes are relatively stable, the profitability of Country Garden still needs to be improved. At the same time, it shows that the sales volume of Country Garden is increasing, but it also contains greater financial risks.

3.3.3 Analysis of Operation Capacity

In today's general environment, real estate, as a capital intensive enterprise, also needs to consider changes in financing policies. In this case, it is more difficult for enterprises to finance. However, the capital turnover rate of Country Garden Group is still in the leading position in the industry against the background of the epidemic, ensuring sufficient cash flow, which improves the company's ability to withstand operational risks.

(1) Inventory turnover rate. The inventory turnover rate refers to the ratio between the enterprise's operating cost and the average inventory value, indicating the speed of the enterprise's inventory realization within a certain period of time. It is an important indicator to reflect the operation capability of enterprises. When the inventory level of an enterprise is stable, the high or low inventory turnover rate reflects the turnover speed of the company's capital in the inventory. The higher the company's inventory turnover rate, the stronger the company's inventory liquidity. The inventory of Country Garden was 990.23 billion yuan in 2019 and 1088.16 billion yuan in 2020, with a growth rate of 9.89%. The increase of inventory occupies the working capital and increases the cost of the enterprise. This shows that the inventory liquidity of Country Garden Company has declined. This is also related to the epidemic that spread across the country. Because the epidemic caused some enterprises to start late, the operating costs of enterprises were reduced compared with last year.

(2) Turnover rate of current assets. The company's use efficiency of current assets is shown by the turnover rate of current assets. Generally speaking, a high turnover rate of current assets means that the company's current assets are used more efficiently and the company's profits are higher. Changes in current assets of Country Garden are as follows.

Index	2019	2020
Cash available balance	2683.48	1836.2
Net lending ratio	43.3%	55.6%
Net current assets	2327.65	2491.97
Turnover rate of current assets	1.2%	1.3%

The turnover rate of current assets of Country Garden Company was 1.3% in 2020, up 0.1% from the same time last year. This also shows that the use efficiency of current assets of Country Garden Company has improved. The benefit of the improvement of the turnover rate of current assets is that not only the available cash balance will increase, but also the net borrowing ratio of Country Garden Company will decrease. The operation capacity of Country Garden Company has been enhanced compared with 2019.

However, according to the overall data analysis, the inventory turnover rate of Country Garden in 2020 will be 0.37, down 9 percentage points compared with last year; The turnover rate of total assets was 0.24, a decrease of 4 percentage points compared with last year; The turnover rate of accounts receivable was 12.24, nearly the same as last year. The overall operating capacity of Country Garden has decreased significantly compared

4. FINANCIAL RISK ANALYSIS OF COUNTRY GARDEN COMPANY

4.1 Investment Risk of Country Garden

The investment risk of real estate enterprises is closely related to and interacts with the profitability and solvency of enterprises.

According to the cash flow statement of investment activities of Country Garden from 2016 to 2020, its net cash flow of investment activities in the last five years is all negative, but the overall trend is slowing down, except that the decline rate in 2017 increased to 117%, reaching 44.38 billion yuan. According to the above data, the cash paid by Country Garden Company to construct fixed assets, intangible assets and other long-term investments has increased significantly in recent five years, but it is obvious that the cash flow paid for investment in financial activities is higher than the cash flow paid for investment in fixed assets, indicating that the investment in Country Garden has been more inclined to financial assets in recent years. However, in general, Country Garden has been implementing a positive expansion development model in recent years.

It can be seen from the above table that the business income of Country Garden is increasing year by year, and the growth rate is the largest in 2017, reaching 296.3%. However, the growth rate remained relatively stable in the last three years, with only a slight upward and downward trend. Of course, the best indicator reflecting the enterprise's operating results is the net profit. From the above data, the net profit of Country Garden Company has fluctuated greatly in the past five years. After rising in 2017, the growth rate of net profit in the last three years has been declining. By 2020, this figure will reach 11.4%. It can be seen that the profitability of Country Garden has declined in the past three years. Net income refers to the ratio of net profit to sales income. It reflects the contrast between the company's net profit and operating income.

It can be seen from the above table that the net profit rate of sales increased in 2017, but the increase was small in the next three years, and even decreased to 11.7% in 2020. It also reflects to some extent that the profitability of Country Garden is gradually decreasing. The rate of return on assets reflects the profitability of the enterprise's overall assets and its application benefits. The return on total assets of Country Garden has been declining for 17 years, indicating that the investment and output level of the company are declining.

To sum up, the stability of the company's profitability has been weakened. The lack of profitability will lead to the lack of solvency, which will greatly affect the company's investment risk.

4.2 Financing Risk

In recent years, with the increasing enthusiasm of the national economy and the people for housing consumption, the development of the real estate market is accelerating. Most enterprises are difficult to operate projects independently, and their own funds account for a relatively small proportion. They must rely on the help of external financial institutions and investors. Therefore, the vast majority of project construction requires a large amount of foreign capital.

According to the financial statements of Country Garden in recent years, the financing mode is mainly borrowing funds, which increased to 86.18% in 2016, and then decreased year by year, to 65.8% in 2020. Correspondingly, the proportion of cash inflows from equity financing only increased. The vast majority of the cash flow from financing activities is used to repay debts, especially in the last two years. As a result of the acquisition of majority shareholders' equity, share buybacks, etc., the portion of the cash flow from financing activities used to repay debts has increased significantly, reaching 141.21 billion yuan

Table 7: Cash Flow Statement of Investment Activities of Country Garden from 2016 to 2020

Index	2016	2017	2018	2019	2020
Cash received from sale of property, plant and equipment	0.2	2.3	0.15	2.8	30.5
Interest and dividend investment received	0.5	35.2	2.5	97.6	160.4
Cash paid for purchasing fixed assets and equipment	-2.0	-54.7	-3.2	-80.6	-309.8
Cash paid for purchasing subsidiaries, associates and joint ventures	-10.0	-10.6	-15.6	-331.2	-3031.3
Cash paid for securities investment	-8.8	-0.2	-12.2	-3371.3	-3027.9
Other projects	-0.8	-9.1	-11.8	-177.0	-259.5

Table 8: Profitability of Country Garden Company from 2016 to 2020

Index	2016	2017	2018	2019	2020
Business income	1530.8	6066	5416	6237	6733
Growth rate of operating income	35.2%	296.3%	-10.7%	15.2%	8.0%
Net profit	136.6	260.64	346.18	395.50	350.22
Net profit growth rate	40.7%	90.8%	32.8%	14.2%	-11.4%
Net profit margin on sales	8.9%	12.7%	12.8%	12.6%	11.7%
Return on total assets	2.0%	3.2%	2.6%	2.2%	1.8%

Table 9: Cash flow statement of financing activities of Country Garden from 2016 to 2020

Index	2016	2017	2018	2019	2020
Cash received from investment absorption	33.8	31.2	38.0	13.8	40.6
Cash received from borrowings	650.9	862.6	811.3	707.1	958.0
Cash from issuing bonds	219.0	27.0	3.2	85.3	85.0
Cash received from other financing activities	70.5	873.0	638.6	341.1	373.0
Subtotal of cash inflows from financing activities	755.3	1793.4	1491.1	1147.3	1456.6
Cash paid for debt repayment	-400.3	-371.6	-311.2	-603.8	-1412.1
Cash paid for dividend and profit distribution or interest repayment	-42.6	-50.9	-99.9	-143.4	-288.9
Cash paid for other financing activities	-37.8	1.4	9.7	-11.4	-10.1
Net cash flow from financing activities	274.5	1369.9	1070.3	388.7	-254.5

by 2020. In financing activities, cash outflow still accounts for a large proportion.

According to relevant data, Country Garden has two financing modes, one is the capital of Country Garden and the surplus generated by it, the other is the debt capital obtained by the enterprise according to law, which must be repaid on time. Borrowing and lending is a common financial risk, because each loan strictly stipulates the repayment time and method. Once the borrowed funds fail to bring benefits to the company on schedule, and the loans cannot be repaid on time, the enterprise will be in greater danger. Biguiyuan Company's financing methods are mostly debt financing, which is relatively risky. However, it can be seen from the above table that Country Garden has a large amount of debt, which has almost increased year by year. Short term loans and long-term liabilities will decrease in 2020, but the amount of debt is still large. One of the important indicators for evaluating the financing risk is the solvency. According to the above analysis on the solvency of Country Garden, although the asset liability ratio index of the company is within the normal range, the quick ratio and current ratio have decreased compared with last year. The data shows that the enterprise has a large amount of debt. If Country Garden continues to develop and invest in large-scale projects despite its debt, the capital chain may break and cause huge losses to the company. By the end of 2020, the Company's total liabilities had amounted to 1478.915 billion yuan, including 1368.416 billion yuan of current liabilities, accounting for 92.53% of all debts, and 110.5 billion yuan of non current liabilities, accounting for 7.47% of all debts. The debt structure is dominated by current liabilities.

So to sum up, in the case of increasingly unbalanced capital sources of enterprises, the capital mainly comes from loans. And its share in the total amount is relatively high. At the same time, 83.27%, 87.66%, 73.45%, 79.60% and 82.52% of the total cash outflows from financing activities were used to repay debts from 2016 to 2020, so there is a problem of borrowing new debt to repay old debt. Moreover, if the investment income does not meet the expectation, it will have a greater impact on the capital flow of the enterprise, thus increasing the financing risk of the company. Therefore, the financing method of Country Garden Company is not appropriate and needs to be further improved.

4.3 Working Capital Risk

The working capital risk is that the working capital is the capital required for the daily operation of the company. If the cash cycle of the company cannot be realized, the normal production and operation activities of the company will also be affected. This article mainly introduces the liquidity risks faced by Country Garden Company. Liquidity risk means that when a company does not have enough funds to pay its debts and expand its project scale, it is likely to suffer losses. This is a major financial risk.

From the above table, we can see that the internal ratio of accounts receivable and inventory in current assets of Country Garden Company has been increasing from 2016 to 2020, even reaching 0.84 in 2020. This may be caused by the characteristics of the real estate industry. The development cycle of real estate enterprises is very long and the capital return is slow. However, the larger its proportion in current assets will affect the cash flow of Country Garden Company, leading to the shortage

Table 10: Current assets of Country Garden Company from 2016 to 2020

Index	2016	2017	2018	2019	2020
Long term assets	0.70	1817.5	2299.4	2756.4	2736.5
current assets	24.0	8679.2	13997.5	16315.2	17421.6
current liabilities	13.8	7695.4	12194.1	13987.5	14929.6
Accounts receivable	6.2	2705.4	4264.0	4382.0	4109.4
stock	0.05	3651.7	6357.6	8220.8	10455.7
working capital	10.20	983.80	1,803.40	2,327.70	2,492.00
(Accounts receivable+inventory)/working capital	0.26	0.73	0.76	0.77	0.84

of available funds of the enterprise itself and the difficulty of capital turnover. Over time, the cash flow of the enterprise may be broken. On the other hand, liquidity risk is greatly affected by the operating capacity of enterprises. In 2020, the inventory turnover rate of Country Garden will be 0.37, down 9 percentage points compared with last year; The turnover rate of total assets was 0.24, a decrease of 4 percentage points compared with last year; The turnover rate of accounts receivable was 12.24, nearly the same as last year. The overall operating capacity of Country Garden has decreased significantly compared with 2019, so its liquidity risk has increased.

The working capital of Country Garden Company has been increasing steadily in recent years, which shows that its operation will not be interrupted due to poor turnover. However, in the past two years, the working capital growth of Country Garden Company has been relatively small, indicating that the proportion of current liabilities has become larger and larger. If we do not pay more attention, it will lead to a shortage of working capital, resulting in a decline in the short-term solvency of the enterprise, which is the further enhancement of its liquidity risk.

To sum up, the overall turnover speed of BGY still needs to be further improved, and the solvency still needs to be changed at this stage. Therefore, Country Garden has a certain working capital risk.

5. FINANCIAL RISK RESPONSE MEASURES OF COUNTRY GARDEN

Financial risk is an unavoidable phenomenon, but it can be avoided by appropriate ways to reduce its negative impact, so as to ensure the healthy development of the company. Country Garden is currently in a stable and rapid development stage, and more attention should be paid to various risks that may exist in the enterprise. The following describes in detail how Country Garden can avoid the risks mentioned in the previous section.

5.1 Investment Risk Response Measures — In-Depth Understanding of Investment Objects and Necessary Diversification

To reduce investment risk, Country Garden Company should have a deep understanding of the investment object and avoid concentrated capital development. In order to avoid the investment risk of enterprises, it is necessary to reduce the possibility of not realizing the ideal income. However, the most important thing to avoid enterprise investment risk is that enterprises should have good operation, profitability and development capabilities. Nowadays, the development projects of Country Garden Company are more from the third and fourth tier cities to the first and second tier cities. Because the first and second tier cities have more uncertainties, there are more risks. Therefore, Country Garden Company should be more cautious in selecting investment projects and comprehensively analyze the gains and losses. It is necessary to select projects with a certain investment and formulate measures and remedies to deal with possible investment problems. Decentralized investment can be divided into two aspects: decentralized objects and decentralized time, so as to minimize the correlation between investment projects. Such a conservative approach can also reduce the investment risk of Country Garden Company to a certain extent.

5.2 Financing Risk Response Measures — Scientifically Formulate Financing Strategies and Optimize Capital Structure

Before financing, Country Garden Company should scientifically and reasonably predict the funds needed in the follow-up development of the company's projects. So as to formulate the financing plan with the least risk. Among them, the most important thing is to choose an appropriate financing period according to the development of the enterprise and the collection time of accounts. The financing method shall be flexibly selected according to the product and production needs of the enterprise.

Optimizing the capital structure is also the key to reduce the financing risk of Country Garden Company. The sales revenue can be increased to increase the capital flow of the enterprise and strengthen the solvency of Country Garden Company. At the same time, it also prevented Biguiyuan Company from increasing its corporate debt due to blind investment. Therefore, expanding sales is the best response for Country Garden Company to avoid financing risks at this stage, and it also greatly optimizes the capital structure.

5.3 Liquidity Risk Countermeasures — Reducing Inventory

In the face of liquidity risk, Country Garden Company should further improve the sales volume of real estate and reduce inventory. In terms of project investment, it should not concentrate a lot of funds to develop new projects, but should pay more attention to the benefits brought by the project rather than the quantity. The operation capacity of Country Garden Company needs to be improved. The above analysis shows that the turnover rate of working capital is still low, so we should reasonably optimize the capital institutions and carefully allocate funds. Because Country Garden Company will carry out a large number of projects, a lot of funds will be occupied, and the payback period is relatively long. This phenomenon should be improved, and the main high-yield projects should be selected to recover the funds before investing in the next project to accelerate the flow of funds.

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