# Research on the Improvement of Hengli Group's Value Creation Ability Based on Integrated Reporting

**Shunjie Li**

Economics & Management School, Jiangsu University of Science and Technology, Zhenjiang, 215000 Jiangsu, China

hope_1888@icloud.com

**Keywords:** Integrated reporting, Sustainability, Value creation, Hengli group

**Abstract:** When evaluating the value creation ability of an entity, as the traditional financial reports focus on analyzing the profitability of an entity through its past financial situation, the sustainable development of an enterprise usually be ignored. The integrated reporting effectively solve the problems. This paper adopts the method of case study, taking Hengli Group as an example, compares the entity's value creation ability based on financial report information with that analyzed by using the integrated reporting framework, then explains how integrated reporting can contribute to the correct evaluation of the entity's value creation ability. It also puts forward corresponding improvement countermeasures at the end.

## 1. Introduction

Since the financial crisis broke out in 2008, people have begun to think about whether the independent financial framwork report system can meet the needs of information disclosure in the current era of rapid development. In August 2010, Prince Wales of the United Kingdom and the National Reporting Initiative jointly established the International Integrated Reporting Committee (IIRC). With the promotion of the organization, after joint discussions with the International Accounting Standards Board (IASB), the United States Financial Accounting Standards Board (FASB), the four major and national enterprise regulators, non-profit institutions, stock exchanges, and the academic community, the discussion paper of the Integrated Reporting was released in September 2011, and the official draft was finally released in 2013 .This paper adopts the method of case study, taking Hengli Group as an example, based on the analysis of its existing report data, combined with the basic concept and preparation framework of the Integrated Reporting, this paper evaluates its value creation ability, and puts forward constructive suggestions to improve its value creation ability accordingly.

## 2. Introduction to Hengli Group

Headquartered in Wujiang District, Suzhou City, Jiangsu Province, Hengli Group was founded in 1994 as Wujiang Huaqian Manufacturing Factory. In 2002, Jiangsu Hengli Chemical Fiber Co., Ltd. was established. Hengli Group is based on its main business and adheres to industry. Since then, it has diversified into the fields of heating, hotels and real estate.

Hengli Group is an international enterprise developing with the whole industrial chain of oil refining, petrochemical, polyester new materials and textiles. The Group now has one of the world's largest PTA factories with the largest monomer capacity, one of the world's largest functional fiber production bases and weaving enterprises, with 120000 employees. It has built a national 'enterprise technology center', and its competitiveness and product brand value are among the top in the international industry.

## 3. Financial Situation of Hengli Group

This paper evaluates Hengli Group's financial situation based on the result of the annual report for the first half of 2022 of Hengli Group, this paper evaluates its financial situation, and the results are as follows:

Table 1 Profitability Analysis Of Hengli Group in the First Half of 2022(Unit: 100 Million Yuan)

| | 2022.01-2022.06 | 2021.07-2021.12 | Growth rate |
|---|---|---|---|
| Operating revenue | 1371 | 1203 | 13.96% |
| Operating cost | 1197 | 1037 | 15.46% |
| Gross profit | 173 | 166 | 4.62% |
| Gross profit margin | 12.68% | 13.81% | - |
| Net profit | 90 | 87 | 3.60% |
| Net interest rate | 6.61% | 7.27% | - |

In the first half of 2022, the company's operating income was 137.126 billion, up 13.96% year on year, while the gross profit margin was 12.68%, down 1.17%, and the net profit margin was 6.61%, down 0.66%, from 7.27%, indicating that although the sales volume of Hengli Group had increased, its profitability was on a downward trend due to the higher growth of operating costs, which was mainly due to the rising trend of coal, crude oil and PX purchase prices, However, overcapacity in PTA industry restricts product prices. In addition, the profitability of Hengli Group is only at the middle level in the same industry, which indicates that the development ability of the enterprise is lacking and its profitability needs to be strengthened.

In the composition of the company's period expenses, the sales expenses account for 4.8%, the management expenses account for 23.7%, the financial expenses account for 59.6%, and the research and development expenses account for 11.9%. The company's financial expenses account for a relatively high proportion, mainly due to a large amount of borrowing. The company's administrative expenses also accounted for a high proportion, with a year-on-year growth of 17%, which was related to the expansion of the company's business scale.

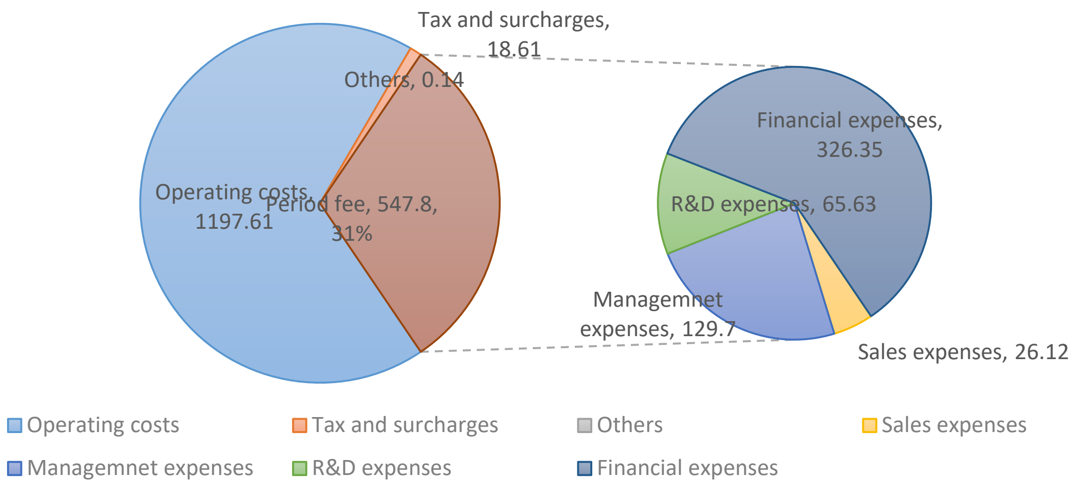


Fig.1 Composition of Total Operating Costs of Hengli Group (Unit: 100 Million Yuan)

In the first half of 2022, the total assets of Hengli Group is 312 billion yuan, up 8.24% year on year, and the liabilities rise 9.68% year on year. The rising assets and liabilities reflect the expansion trend of the enterprise. However, among the assets of Hengli Group, the proportion of non current assets is as high as 38. 6%, combined with the fact that the restricted assets of enterprises account for a large proportion, reflecting the poor liquidity of assets. Moreover, the scale of the project under construction of the enterprise is up to 21.4 billion yuan. Since the profitability of the project under construction is difficult to determine after completion, this has uncertainty on the enterprise's value creation ability. The leverage ratio of 70.63% reflects the high financing content and heavy debt burden of enterprises, which requires investors to be vigilant.

Table 2 Balance Sheet Change of Hengli Group in the First Half of 2022 (Unit: 100 Million Yuan)

| | Assets | | | Liabilities | | | Equity |
|---|---|---|---|---|---|---|---|
| | Current | Non current | Total | Current | Non current | Total | Equity |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | assets | assets | assets | liabilities | liabilities | liabilities | |
| 2022.06 | 955 | 2164 | 3120 | 1377 | 827 | 2204 | 917 |
| 2022.01 | 796 | 2086 | 2882 | 1999 | 811 | 2009 | 873 |
| Growth rate | 20.00% | 3.75% | 8.24% | -31.13% | 2.04% | 9.68% | 4.95% |

In the first half of 2022, the proportion of long-term liabilities of enterprises has increased, which shows that the debt structure of enterprises has improved. The interest coverage ratio of enterprises is 3.72, which indicates that enterprises have enough profits to pay the current interest. At the same time, the source of debt of Hengli Group is mainly from banks. What's more, the enterprises have good relations with many domestic banks, indicates the financing channels are relatively common, and the long-term debt paying ability is good.

Table 3 Analysis of Debt Paying Ability of Hengli Group in the First Half of 2022

| | 2022.06.30 | 2022.01.01 |
|---|---|---|
| Interest cover ratio | 3.72 | 3.79 |
| Leverage ratio(D/(E+D)) | 70.63% | 69.70% |
| Current ratio | 0.69 | 0.69 |
| Quick ratio | 0.40 | 0.40 |

The current ratio of Hengli Group is only 0.69, far below 1.5; The quick ratio is only 0.40, far lower than 1, indicating that the short-term solvency of the enterprise is poor, the short-term liquidity of the enterprise is insufficient, or there is a certain short-term debt repayment pressure, which may also lead to dissatisfaction of suppliers, affect their bargaining power, and make them lose their price advantage.

To sum up, based on the analysis of financial statement data, although Hengli Group has expanded in the first half of 2022, its profitability has declined, which is only at the middle level of the industry. The liquidity is poor, and the large number of assets under construction result in uncertainty with their value creation ability. Further, the debt paying ability of the enterprise as a whole is declining, although the debt structure has improved and the paying ability for long-term debt is good, it is still weak in the paying ability for short-term debt. Therefore, based on financial performance, Hengli Group's value creation ability is not as good as expected.

## 4. Evaluation of Value Creation Ability of Hengli Group under the Framework of Integrated Reporting

The Integrated Reporting assess the comprehensive performance of the enterprise in all aspects and judge the sustainable development ability of the enterprise by integrating the six capital of the enterprise: finance capital, human capital, manufacturing capital, intelligence capital, social capital and natural capital. The detail is shown below.

### 4.1 Human Capital

The Hengli Group have relatively complete welfare benefits for employees, and their salaries are relatively high in the same industry. According to the calculation, the average sales revenue generated by each employee for the enterprise in half a year has risen from 10.029 billion at the beginning of the year to 11.428 billion yuan, indicating that their ability to create value has been improved. In addition, Hengli Petrochemical has launched stock ownership plan for employees, which can effectively motivate employees and help Hengli Group retain talents. In addition, the company cooperates with universities which can introduce fresh blood, and increase the competitiveness of the enterprise and the enthusiasm of employees.

At the same time, the company has a good corporate atmosphere, advocating communication and progress, further enhancing the initiative of employees and the cohesion of the group, and retaining talents to create value for the enterprise.

### 4.2 Manufacturing Capital

Hengli Group actively expands the business and adheres to the development of the whole industrial chain, involving in the fields of oil refining, petrochemical, prevention and chemical fiber, which makes the enterprise with more stable productivity.

Hengli is at the forefront of equipment upgrading and technical transformation. Before the PX project, the PTA capacity of the enterprise was 6.6 million tons. However, the polyester capacity was only 2.2 million tons, lagging behind the competitors Hengyi and Tongkun. Together with the limitation on domestic polyester production capacity, it’s profitability has been greatly restricted. Therefore, Hengli Group, in order to reduce its dependence on upstream imported raw materials, runs PTA's raw material PX project at all risks, thus gaining the advantage of production scale, surpassing Hengyi and Tongkun, and improving its competitiveness. However, PTA is faced with overcapacity, which restricts the growth of product prices, and the overall value of the enterprise.

From a financial perspective, the semi annual R&D expenditure of Hengli Group increased from 431 million yuan at the beginning of the year to 656 million yuan, up 52% year on year, and the ratio of R&D expenditure to operating revenue increased from 0.35% to 0.48%, which shows that the Group is paying more attention to R&D, but the proportion of R&D expenditure is still low, which shows that on the one hand, Hengli Group has high efficiency of R&D expenditure, which is related to the positive impact of talent management policies, but at the same time, Enterprises also need to increase their R&D efforts and maintain their advantages in manufacturing capital to ensure long-term competitiveness.

### 4.3 Intellectual Capital

Hengli Group has a high R&D capability. In 2022, the number of patents of Hengli Textile increased by 11, and the total number of patents of the Group exceeded 1000, a significant increase compared with 55 patents ten years ago. At the same time, Hengli Petrochemical has mastered the key links in the production chain of petrochemical industry, aromatics and olefins, which makes it the leader in the industry in integrating the whole industrial chain of ‘crude oil, aromatics, olefins, PTA, EG and new polyester materials’, and improves the synergy between industries.

Hengli Group has a high-tech team involving multiple disciplines and professional fields, including oil refining, petrochemical, polymer materials, chemical fiber engineering, textile engineering and electrical engineering. This ensures the sustainable development ability and long-term competitiveness of the enterprise, and is a powerful guarantee for the realization of long-term value.

### 4.4 Social Capital

As leaders of Hengli Group, Chen Jianhua and Fan Hong have a strong sense of social responsibility and undertake many public welfare and philanthropy undertakings. For example, when COVID-19 just broke out, Hengli Group donated 100 million yuan to Wuhan Charity Federation to fight against COVID-19. And during the Spring Festival, Hengli Petrochemical worked overtime and produced at full capacity. It can be said that Hengli Petrochemical has made great contributions to the epidemic resistance. Hengli Group's supreme awareness of corporate social responsibility has made it in a good reputation and enhanced its potential value.

Moreover, the manufacturing industry belongs to the real economy and is an industry supported by the government. Therefore, the policy support has also brought a good development environment for the enterprise. It can be seen from the government subsidy of 2.629 billion yuan in industrial support obtained by Hengli Petrochemical in 2021 that the scale of external support obtained by the company is moderate, which has eased its financial pressure and brought value to the enterprise.

### 4.5 Natural Capital

Hengli Group attaches great importance to green production. It leads the production of 600000 tons of PBS biodegradable plastic projects, and it has an environmentally friendly attitude, which also enhances its social friendliness and reduces its risk of facing additional environmental surtaxes.

To sum up, although the financial performance is average, Hengli Group has the ability in the development of the whole industry chain and has leading manufacturing capacity, large-scale equipment renewal strategy, rising employee value creation ability, leading R&D ability and strong attitude towards R&D, high sense of social responsibility, and green environmental awareness. These factors have increased the core competitiveness, sustainable development ability, and long-term value of the enterprise. But at the same time, enterprises also have potential problems such as shortage in R&D investment and PTA overcapacity.

## 5. Countermeasures to Improve the Value Creation Ability of Hengli Group

Through the analysis and evaluation of Hengli Group's value creation ability under the integrated reporting framework, we can propose the following plans to improve its value creation ability:

### 5.1 Prudent Investment Decision

Although Hengli Group is in an expanding state, its profitability has declined rather than increased, and it is only at the middle level of the industry. The reason is its ability to make investment decisions. For example, the three M&A plans of Hengli Group: Tongli Tourism Acquisition in 2015, Tonglihong (Rice Wine Enterprise) Acquisition in 2015, and Songfa Investment (Porcelain Enterprise) in 2019 have all been in a loss state in recent years. These M&As, which have nothing to do with the main business and reduce the profitability of the Group, have not increased the competitiveness of Hengli Group, but have reduced the investment efficiency and the overall value of the enterprise. Therefore, the enterprise needs to invest cautiously and make prudent decisions.

### 5.2 Optimize Production Structure

Hengli Group needs to find the optimal production structure to maximize profits. At present, although PTA has realized scale advantage, the overall profit margin is limited due to overcapacity, which also limited the overall growth in the price of products. Therefore, Hengli Group needs to consider making adjustments in the production structure, reasonably arranging the output ratio of various products, and seeking the balance between human, financial, material and other resources to maximize profits.

The polyester product sector is one of the current strengths of Hengli Group. Its revenue and gross profit have increased in 2021 year on year, mainly due to the increase in sales prices and the decrease in raw material costs caused by the self-sufficiency of some raw materials. This shows that the product has a strong ability to contribute to the enterprise value. Hengli Group can conduct system analysis and fully exert its advantages in polyester products and other sectors of the enterprise, therefore maximize it’s value.

### 5.3 Based on Long-Term Development

Although the financial performance of Hengli Group is poor, it performs well in human, manufacturing, intelligence, social and natural capitals. Therefore, the decision-makers should take these non-financial capitals into consideration, focus on the long-term development of the enterprise, and avoid making inappropriate short-term decisions such as, the shortage in R&D expenditure. The R&D expenditure accounted for only 0.48% is an evidence. R&D should be view as a necessary investment for long-term value creation which should be pay attention to.

### 5.4 Disclose More Non-Financial Indicators

Hengli Group's mediocre financial situation is likely to cause investors to lose confidence and withdraw capital prematurely, leading to further deterioration of its financial situation. If the analysis is based on the Integrated Reporting framework and also pay attention to the non-financial factors such as human, manufacturing, intelligence, social and natural capitals, Hengli Group can be found to perform well in these capital aspects. More disclosure of these non-financial capital can give investors a comprehensive understanding of the enterprise.

At present, Hengli Group has also disclosed some non-financial information, such as a strong sense of social responsibility and environmental protection, so that stakeholders can understand the good reputation and social recognition it has brought to the enterprise, as a value-added project when evaluating the enterprise value of Hengli Group.

However, the disclosure made in respect of the non-financial indicators was still insufficient. First of all, when considering manufacturing capital, more indicators can be disclosed, such as the number of newly acquired contracts or orders. This is an effective evaluation indicator of value creation ability. As new contracts and orders are the guarantee of future operating income and profits., it can help investors analyze Hengli's future development potential. Secondly, when considering intellectual capital, employee turnover rate can be disclosed, especially the manager turnover rate. These data can effectively prove the effectiveness of its talent management policy and its talent management ability, which is alsoan indicator for it's value creation ability.

## 6. Conclusion

Although the financial performance of Hengli Group is flat, its performance in human capital, manufacturing capital, intellectual capital, social capital and natural capital is commendable. Therefore, the Integrated Reporting is highly applicable to Hengli Group, which can provide decision-makers and investors with information on all aspects of the enterprise at the same time, and evaluate the value creation ability of the enterprise in a more comprehensive view. Hengli Group should, while adjusting the production structure, make investment decisions based on the long-term development of the enterprise, disclose more relevant non-financial indicators according to the actual situation, increase the persuasiveness of non-financial performance, and meet the growing demand of stakeholders for relevant information.

## References


[1] Perkins, M. Integrated reporting and the collaborative community: Creating trust though the collective conversation. Journal of Law, Economic and Organization, Vol.57, No.22, pp.366-413, 2014.

[2] Lee, K. W., and G. H. Yeo. The association between integrated reporting and firm valuation. Review of Quantitative Finance & Accounting, Vol.47, No.4 pp.1221-1250, 2016.

[3] Cai Haijing, Wang Xiangyao. Can the implementation of the integrated report improve the value relevance of information? Empirical evidence from South Africa, the first country to enforce the integrated report. Accounting Research, Vol.34, No.1, pp.35-41, 2013.

[4] Ma Wenchao, Fang Tingting. Comparison and reference of enterprise comprehensive reports - case analysis from EnBW, CLP Holding and CGNPC. Finance and Accounting, Vol.42, No.14, pp.40-44, 2020.

[5] Zhao Tuanjie, Ji Xiaoqin. Construction of enterprise comprehensive report based on the concept of sustainable development. Finance and Accounting,Vol.43, No.2, pp.51-54, 2021.