



Analysis of financial statements based on the perspective of strategic management: A case study of Midea group in China

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Abstract

The main purpose of this paper is to address the existing gap in traditional analysis methods by integrating strategic management and environmental aspects, and to establish a theory of quality analysis of corporate financial conditions. This paper uses the method of combining enterprise strategy and financial statement analysis to analyse the quality of assets, profit and cash flow of enterprises, and then evaluates the allocation of strategic resources, the effect of strategy implementation and the ability of strategic support. This study demonstrates that the application of the theory of financial condition quality analysis can enhance the assessment of enterprises in terms of their market expansion ability, strategic layout ability, and internal governance ability, and this approach is aligned with the requirements of users. Based on the link between strategic management and financial statement analysis, this paper establishes a theoretical framework for financial position quality analysis. The theoretical framework of financial condition quality analysis established in this paper solves the limitations of traditional financial analysis methods and existing financial quality analysis theories, and opens up a new way for corporate financial analysis. Based on the analysis framework, this paper analyses the three aspects of Midea Group's cost management, diversified strategic layout and global breakthrough strategy, and puts forward suggestions for the future development of the enterprise.

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1. Introduction

The traditional financial statement analysis methods mainly include trend analysis, ratio analysis and factor analysis, etc. It uses the relevant financial data in the financial statements to construct financial indicators. The traditional analysis method analyzes the operation and financial status of the enterprise in the past, and evaluates the ability of the enterprise in terms of profit, operation, debt repayment and development

(Wang & Sheng, 2022). However, the traditional analysis method does not consider the internal and external environment of the enterprise when analyzing the past financial data of the enterprise and then evaluating the future development of the enterprise. The present methodology exhibits limitations in effectively aligning the operational and financial state of an enterprise with its development strategy and the external industry landscape.(Huang, 2020). Moreover, the existing analysis methods fail to use a dynamic perspective to measure the long-term development ability of enterprises and the hidden internal management information, so it is difficult to truly grasp and evaluate the quality of financial status as a whole. Furthermore, research in this field has highlighted the growing interest in the value relevance of corporate strategic information and accounting information as non-accounting data (Barth, Li, & McClure, 2023). This paper examines and interprets the enterprise's strategic resource allocation, strategy implementation effectiveness, and strategic support abilities of enterprises based on the theory of enterprise financial condition quality analysis. It does so by analysing three key aspects: asset quality, profit quality, and cash flow quality. Subsequently, the paper evaluates the enterprise's strategic layout and implementation, market potential and expansion capabilities, as well as management mode and internal governance efficiency. The theory of analysing the quality enterprise financial condition takes into account the factors that influence the enterprise's internal operation and the heterogeneity of different enterprises' operation.

It integrates the financial indicators with the enterprise's strategy and management activities, and raises the significance of financial indicators to the realm of strategic management (Zhang, Qian, & Chen, 2019). Therefore, the theory of financial condition quality analysis better solves the limitations of the traditional financial statement analysis method, which only focuses on indicators and does not consider strategy and environment. At the same time, the previous financial condition quality analysis system does not fully consider the factors affecting the company's financial quality, which not only lacks the evaluation of the company's strategy and operating results, but also obviously lacks the analysis of the company's sustainable development ability. The previous financial condition quality analysis system takes DuPont Analysis method as the core, in which it was difficult to fully reflect the authenticity and accuracy of financial conditions. It is quite unfavourable for investors and users of financial statements, and affects the development of investment market to a certain extent. This paper solves the limitations of the previous financial condition quality analysis system by commencing with an examination of the enterprise strategy and the environment. It then proceeds to assess the enterprise's operating conditions and its capacity for strategic support in a rational manner. Consequently, it enhances the theory of financial condition quality analysis. . Moreover, the theory of financial condition quality analysis proposed in this paper combines the financial statements of enterprises with the actual strategy and operation of enterprises, which is more conducive to the correct judgment of investors and other users of statements. This paper takes the financial statements of Midea Group as an example, and evaluates the financial condition quality of Midea Group according to the established theoretical framework of financial condition quality analysis. Finally, based on the results, this paper puts forward some suggestions for the future development of internal management of Midea Group from the strategic management perspective.

2. The Relationship between Strategic Management and Financial Quality

Financial quality is the quality of an enterprise's financial position. Financial status mainly refers to the source and distribution of the company's operating funds at a certain point in time, which is the performance of the relatively static state of the capital movement. It mainly reflects the company's operating activities in terms of funds through the capital balance statement, income statement and related attached tables. The quality of financial position pertains to the overall financial condition of the enterprise as depicted by its assets, profits, and cash flows during monetary transactions or operations. (Zheng, 2020). Strategic management refers to the dynamic management process from the setting of enterprise objectives to the implementation. The quality of financial position is closely related to the implementation process of strategic management. The relationship between strategic management and financial position quality is shown in Figure 1. The assessment of enterprise asset quality pertains to the manner in which an enterprise allocates resources in a rational manner to support its strategic objectives. The profit quality, on the other hand, serves as an indicator of the extent to which strategic management is effectively implemented. Lastly, the quality of cash flow provides insight into the long-term viability of strategic management implementation. (Zhang, 2021).

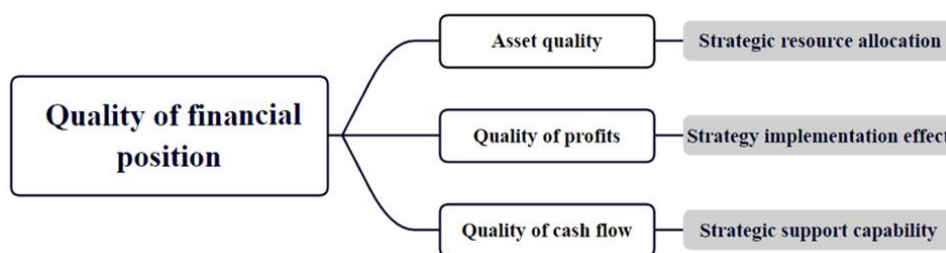


Figure 1. The relationship between strategic management and the quality of financial position.

2.1. Asset Quality and Strategic Resource Allocation

In this paper, assets are classified into three categories according to their quality: the first category of assets' realized value is equal to the book value of the assets, such as monetary funds. The high value of such assets can provide sufficient capital guarantee for the stable operation of enterprises and the implementation of strategic management, but it will also cause the loss of time value of funds and investment opportunities, and increase the cost of capital. At the same time, the allocation of strategic resources will affect the holding of cash, so we can analyse the strategic resource allocation of enterprises by observing the holding of the first type of assets (Peng & Zhang, 2023). The second type of assets' realization value is lower than its book value, such as part of the investment, short-term debt and so on. The second type of assets may have limited potential value; however, it is important to note that the size of these assets alone does not necessarily indicate poor asset quality for the enterprise. The size of these assets could be influenced by the enterprise's strategic decisions to expand its business operations. The realized value of the third type of assets is higher than its carrying value, and it mainly includes inventory part of the investment assets, etc. The potential value of this type of assets is high, which can reflect the future development direction of enterprises to a certain extent (Zhang, 2000). When implementing the strategy, the enterprise should rationally allocate the required resources, that are, planned according to the proportion of the above three types of assets. For example, operating assets serve as the fundamental and substantial assurance for enterprises to partake in their respective business operations. Consequently, enterprises commonly prioritise the allocation of operating assets in relation to the three categories of assets (Qian & Zhang, 2011). Therefore, the overall asset structure of an enterprise can often reflect the deployment of strategic management, and at the same time, the matching degree of strategic management and asset structure also reflects the asset quality of the enterprise, which also requires the degree of consistency between asset structure and enterprise strategy (Qian & Zhang, 2009).

2.2. Profit Quality and Strategy Implementation Effect

The profit quality of an enterprise is mainly reflected in the gold content of the enterprise profit and the degree of consistency between the profit structure and strategic management. First of all, the gold content of profit involves the profitability of profit, which is mainly evaluated and analysed through financial indicators such as operating profit margin and gross profit margin. Better profitability can reflect the gold content of profit to a certain extent. It should be noted that general articles can only determine the preliminary direction of profitability through a simple comparison of financial indicators related to profitability, but it is difficult to make an objective and specific evaluation. Hence, the inclusion of gold content in profitability is contingent upon its ability to generate corresponding cash flow and sustain profitability. The former examines the proportion of credit sales revenue in operating income, while the latter analyses the proportion of operating profit in total profit. Secondly, different strategies of management bring different asset structures, and different asset structures will bring different profit structures. The profit structure of the enterprise is highly consistent with the strategic management, which reflects the profit quality of the enterprise to a certain extent, and also indicates the effectiveness of the implementation of strategic management (Qian & Zhang, 2008). Hence, it is imperative to note that a high level of profitability encompasses more than just a substantial amount of gold content and that is why, profit structure should align with strategic management. In this way, the sustainability of business operation can be maintained and a solid foundation can be laid for the development of enterprises.

2.3. Cash Flow Quality and Strategic Support Ability

Cash flow quality refers to whether the enterprise has high quality cash flow to support the continuous and stable implementation of strategic management. The assessment of the adequacy of cash flow from operating activities primarily lies in its ability to sustain the regular functioning of the enterprise and furnish continuous financial support for the implementation of the strategy. The cash flow of operating activities should be consistent with the profit generated by the business activities of the enterprise, which can better reflect the development and demand of the enterprise's economic activities. Secondly, the assessment of investment activity cash flow quality can reflect as an indicator of the long-term development objectives of the enterprise. This is specifically manifested in the changes observed in cash flow resulting from the acquisition and divestment of fixed assets, intangible assets, and other long-term assets, which are influenced by internal

or external expansion strategies. (Zhang & Wang, 2003). The cash inflow generated by financing activities provides initial resources for strategic management. High quality cash flow of financing activities should pay attention to the diversity and appropriateness of financing, and reduce the cost of financing. Therefore, the sustainability of the strategy depends on whether the enterprise has a stable and continuous cash flow.

3. Case Study

3.1. Enterprise Profile

Founded in 1986, Midea Group is a large-scale modern technology enterprise group primarily focused on air conditioning and consumer appliances. Additionally, the company is actively involved in the domains of robotics and automation systems, as well as intelligent supply chain operations. In 2021, Midea Group led the home appliance industry with a revenue of 343.3 billion yuan, of which overseas revenue reached 137.6 billion yuan.

Midea Group is a global enterprise that dares to innovate and change and insists on diversified development. It does not only lead the industry of air conditioners, refrigerators, smoke machines and cookware, etc., but also actively transforms to digitalization and intelligence, and holds Kuka Group, a German robot intelligent automation company. Simultaneously, the Midea Group actively participates in international markets, with its overseas production facilities spanning across 15 countries. Its business operations encompass over 200 countries and regions.

3.2. Strategic Management

In 2011, Midea Group established "product-leading, efficiency-driven and global operation" as the three strategic axes of the company, which has become the booster for the company to move forward steadily.

At the end of 2020, in response to the increasing need for excessive digitalization and intelligence, Midea Group undertook a comprehensive upgrade and optimization of its strategic management framework by expanding the previous three main axes to four main axes. These axes are now focused on "leading technology, direct user access, digital intelligence driving, and global breakthrough". The Midea Group implemented the "user direct" strategy, concurrently elevating "product leadership" to "technology leadership," upgrading "efficiency driven" to "digital intelligence breakthrough," and enhancing "global operation" to "global breakthrough." This shows that Midea Group is moving from the "product-centered" differentiated management mode of product, efficiency, globalization and other advantages to the "user-centered" enterprise and market resources cross-border integration and connection of modern management mode. Midea Group is comprehensively laying out digital intelligence and technology, and leaping towards leading position in the global home appliance industry.

3.3. Analysis of Midea Group's Financial Statements under Traditional Methods

3.3.1. Profitability Analysis

The comparison of profitability indicators among Midea Group, Haier Zhijia and Gree Electric Appliances in 2021 is shown in Figure 2. The overall gross profit margin of the home appliance industry is between 15%-20%, and the gross profit margin of Midea Group is slightly higher than the average, but lower than that of Haier Zhijia and Gree Electric Appliances. This shows that Midea Group's cost management ability and brand premium are slightly inferior to both. Under the impact of rising global raw material prices, cost control is more of a challenge for Midea Group. The net profit margin of 8.50% is higher than that of Haier Zhijia, but significantly lower than that of Gree Electric Appliances. Therefore, Midea Group's cost management ability still needs to be improved. The high return on total assets and return on net assets show how effectively capital is used and how profitable the assets are. In general, Midea Group's profitability is of high quality, but its cost and expense control ability needs to be improved.

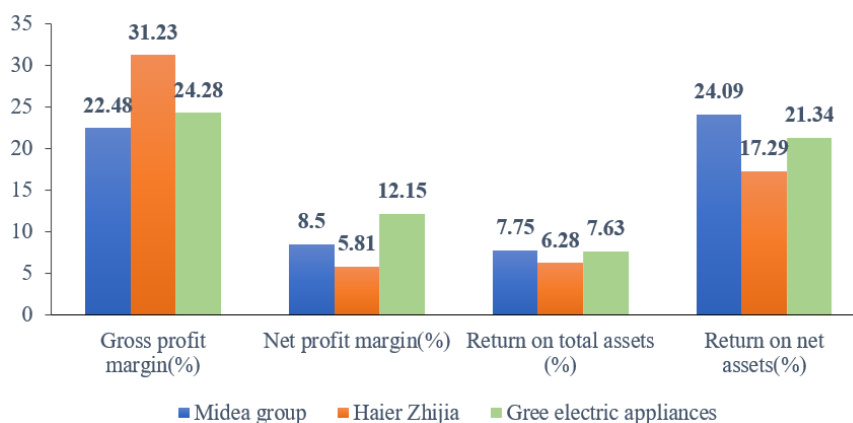


Figure 2. Comparison of profitability indicators among Midea group, Haier Zhijia and Gree.

3.3.2. Analysis of Solvency

The solvency index of Midea Group from 2019 to 2021 is shown in Figure 3. The home appliance sector has a liquidity ratio that typically ranges from 1.5 to 2.0; the higher the liquidity ratio, the less short-term financial assistance is required for everyday operations. The liquidity ratio of Midea Group from 2019 to 2021 is at a low level, and it is decreasing year by year. Meanwhile, the quick ratio, which excludes assets with poor repayment ability, also dropped to 0.911 in 2021, lower than the industry standard level of 1.0. Nevertheless, it is important to note that a significant portion of Midea Group's short-term liabilities primarily consist of operating liabilities. This strategic allocation effectively mitigates financing costs and should not be misconstrued as an indication of weak short-term solvency for Midea Group. In the context of assessing the enduring financial stability of Midea Group, it is deemed more suitable, in typical circumstances, for the asset-liability ratio within the home appliance industry to remain at or below 60%. The asset-liability ratio of Midea Group is not only higher than 60%, but also on the rise as a whole, which indicates that the enterprise has more assets which are borrowed, and the capital risk is greater. The equity ratio reflects the ability of a company's net assets to repay its debts. The equity ratio of Midea Group is 1.7 higher than the average level for all three years. But the company's long-term liabilities were formed by pledging Kuka Group's equity, reflecting a better utilization of the company's assets. In general, Midea Group's solvency is not weak, and the capital cost of fund raising is low, but there are certain risks.

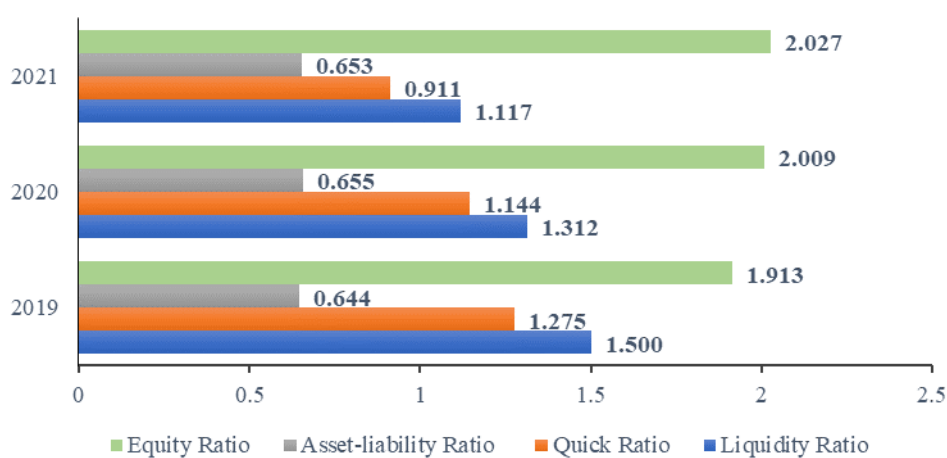


Figure 3. Indicators of Midea group's solvency.

3.3.3. Analysis of Operating Capacity

The operating capacity index of Midea Group from 2019 to 2021 is shown in Figure 4. Midea Group's account receivable turnover ratio continues to exceed 10, indicating that the enterprise possesses a robust ability to recover accounts invoices and maintain a high turnover rate. The household appliance industry's inventory turnover ratio of 4 is more appropriate, Midea Group's three years of inventory turnover ratio is above 6.3, which reflects the enterprise's excellent inventory management and sales cost transfer ability. Although there is a small fluctuation in the total asset turnover, but it is generally at a high level. This shows that Midea Group has a strong sales capacity and good asset investment returns. On the whole, Midea Group's accounts receivable and inventory turnover ability is outstanding, total assets turnover ability is strong, enterprise operation ability is excellent.

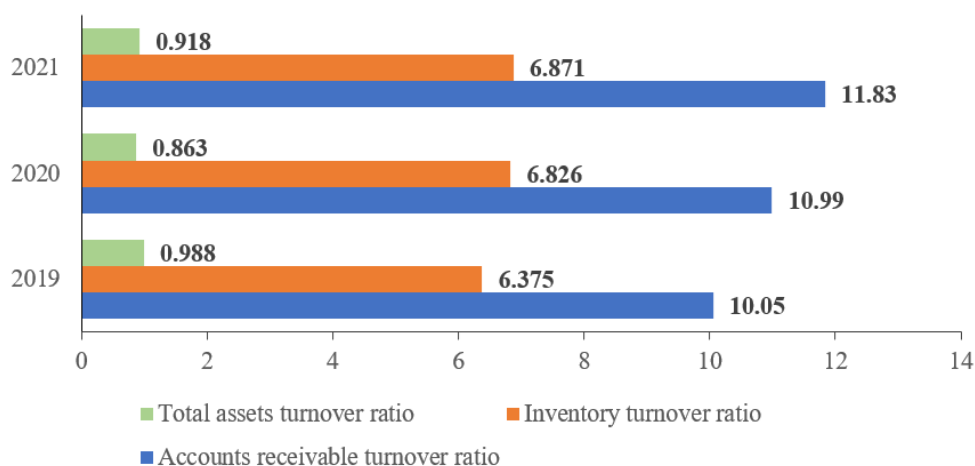


Figure 4. Operating capacity index of Midea group.

3.3.4. Development Ability Analysis

The operating income and growth rate changes of Midea Group are shown in Figure 5. Figure 6 shows the comparison of development capacity indicators among Midea Group, Haier Zhijia and Gree Electric Appliances in 2021. From 2019 to 2021, Midea Group's operating revenue increased steadily. Although Midea Group's operating revenue growth rate declined in 2020 due to the impact of the epidemic and other factors, the overall revenue growth rate still showed an upward trend. This shows that Midea Group has a strong development capacity. The statistic compares Midea Group's development capacity index for 2021 to that of Haier Zhijia and Gree Electric Appliances in the same sector as it is shown in the figure. The growth rate of operating income of Midea Group are the highest among the three, and it can be seen that its development capacity is in a leading position in the home appliance industry.

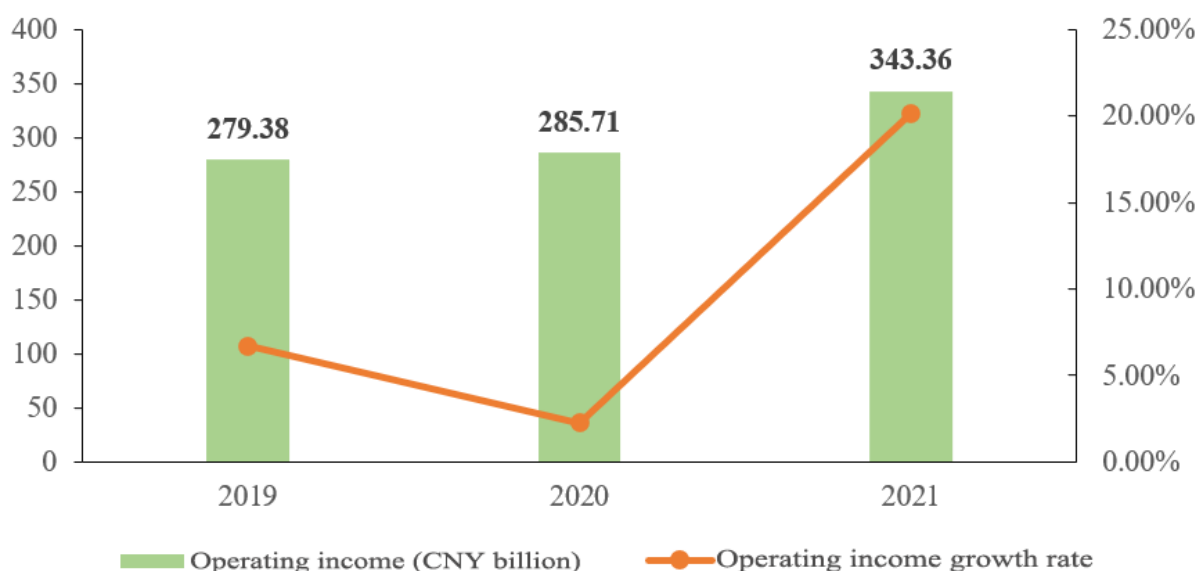


Figure 5. Operating income and growth rate of Midea group.

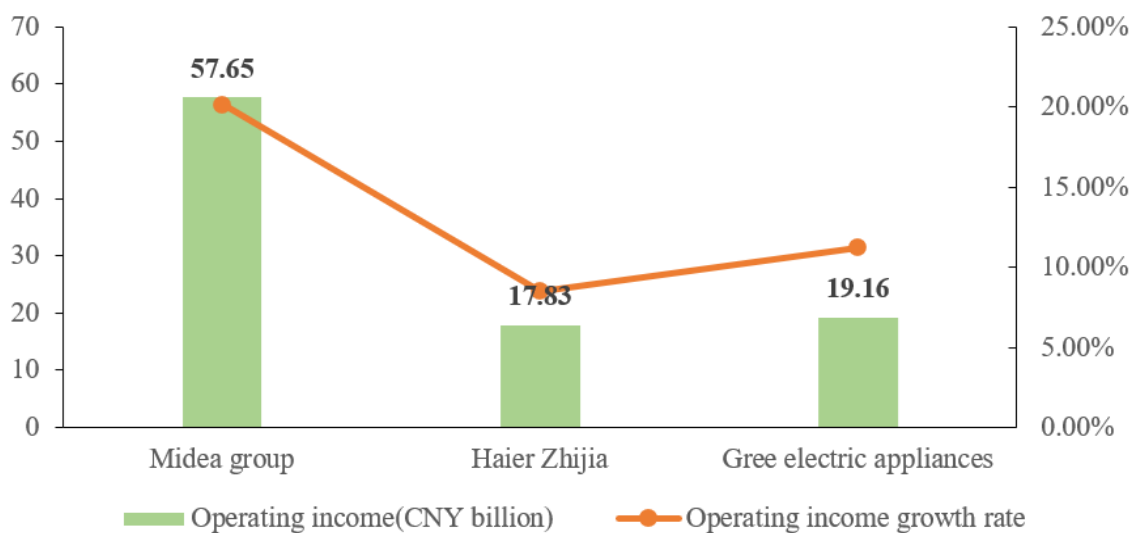


Figure 6. Comparison of development capability indicators among Midea group, Haier Zhijia and Gree electric appliances in 2021.

3.4. Analysis of Financial Statements from a Strategic Perspective

3.4.1. Asset Quality and Strategic Resource Allocation

According to the consolidated statement of Midea Group in 2021, monetary funds accounted for 18.53% of the total assets and their restricted funds were only 0.58%, indicating that the scale of class I assets was reasonable and met the needs of operation, management and investment. Compared with 2020, Midea Group's goodwill was impaired from 29.557 billion yuan to 27.874 billion yuan. This paper considers the fact that Kuka Group, which represents the primary source of goodwill, has experienced suboptimal operating income and a significant decline in its stock price. Therefore, Midea Group's goodwill should be classified as the second type of assets. However, Midea Group has achieved diversification through large-scale acquisitions from the

perspective of strategic management. Although this strategy may increase operating income, it may be accompanied by excessive goodwill and slow down the turnover speed of operating assets (Dai, 2022). Nevertheless, the acquisition of Kuka Group aligns with the requirements of intelligent robotics and automation within its log-intelligence driven strategy. The book value of inventories in the third category of assets was 45.924 billion yuan, maintaining an increasing trend. With strategic management related to the layout of global breakthroughs, Midea Group to expand sales business is also a top priority.

The Midea Group can be characterised as prototypical investment-driven enterprise. According to the statement of the parent company of Midea Group in 2021, it is indicated that investment assets including long-term equity investment, other non-current financial assets, other creditor's rights investment, other current assets and transactional financial assets, constituted 39.62% of the total assets. Notably, the statement did not include any operating assets such as inventory, accounts payable and accounts receivable. At the same time, it can be seen from the goodwill and statement notes that Midea Group has successively controlled many enterprises such as Kuka Group and Wuxi Little Swan Company Limited, forming a complete industrial chain. The core components of compressor, electric control and magnetic control have strong technology, and the products have good brand effect, which reflects the relevant diversification strategy of Midea Group (Li, 2020).

Observing the asset structure of Midea Group, current liabilities are less than current assets, and the funds occupied by current assets are provided by all current liabilities and part of long-term liabilities. Therefore, the financial risk of the enterprise is low and the financing cost is high, because it belongs to the stable asset structure. The proportion of fixed assets in this kind of asset structure is small, and the scale of current assets is relatively large. The proportion of current assets in relation to total assets is 64.15%, while fixed assets represent only 5.89% of the total assets. This distribution indicates the company's asset-light approach and financial strategy, which prioritises value creation (Li & Zhang, 2020).

3.4.2. Profit Quality and Strategy Implementation Effect

In 2021, the gross profit margin of Midea Group was 22.48%, maintaining a high level in the home appliance industry. In addition to profit indicators, this paper also needs to consider the gold content and sustainability of profit. Observing the gold content of Midea Group's profit, the credit sales revenue accounted for 8.62% of the operating revenue in 2021. The low proportion of credit sales indicates that Midea Group can balance the relationship between rapid development and credit sales while expanding sales scale and opening up overseas markets, and timely recover the profit cash generated by business activities. At the same time, it also means that there is cash flow matching the profits of Midea Group, and the good fit between the two reflects the high gold content of profits. Typically, non-operating income and expenditure, such as profits derived from the disposal and scrapping of non-current assets and government subsidies unrelated to the routine operations of the enterprise, do not constitute the primary source of total profit. Therefore, the net non-operating income and expenditure or the proportion of operating profit in the total profit can be used to evaluate the sustainability of corporate profit. From 2019 to 2021, Midea Group's operating profit accounted for more than 98% of the total profit, while its net non-operating income and expenditure accounted for less than 2%, indicating that it has good profit sustainability.

The primary source of revenue for Midea Group mainly consists of three sectors: Heating, ventilation, and air conditioning (HVAC), consumer appliances and robots and automation systems. Among these sectors, HVAC and consumer appliances contribute 46.02% and 42.77% of the total revenue, respectively. The continuous expansion of the smart home business group shows that the industrial layout of Midea Group's related diversification strategy is getting mature. Although the current revenue from robotics and automation systems is relatively low, there has been a consistent growth trend in this module. This indicates that Midea Group's strategy, which focuses on digital-intelligence, is now being implemented. In recent years, Midea Group has continued to promote its global breakthrough strategy and improve its overseas layout. In 2021, Midea Group's overseas revenue reached 137.654 billion yuan, accounting for 40.34%, up 13.69% year on year.

Table 1 shows the strategic alignment analysis of Midea Group's profits in 2021. Relevant studies have found that the business model of enterprises is the primary factor which affects the characteristics of accounting earnings (Dichev, Graham, Harvey, & Rajgopal, 2013), and different business models affect different corporate strategies, resulting in different profit structures. Midea Group currently chooses an "investment-led" resource allocation strategy to leverage larger assets through foreign investment. In order to correctly judge the resource allocation and profit quality of the enterprise, and then analyze the implementation effect of strategic management, this paper analyzes the controlling investment assets of the parent company, the core profit of the subsidiary, and the net cash flow generated by the operating activities of the subsidiary. Therefore, the allocation of Midea Group investment assets and other investment assets reveals the asset structure, profit structure and corresponding cash flow structure of Midea Group, as shown in Table 1. Other investment assets usually include trading financial assets, debt investment and other debt investment, long-term equity investment in consolidated statements, etc. The return rate of other investment assets of Midea Group is 10.37%, which is in the middle level, but the cash yield rate of its investment is very high. In general, the corresponding profits of other investment assets match well. Controlling investment assets can be identified by the difference between the parent's long-term equity investments and the consolidated statements, the difference between the parents' other receivables and the consolidated statements,

and the parent's prepayments and the consolidated statements. Better profits typically translate into better investing strategies because research shows a positive association between earnings quality and investment efficiency (Da Costa, Fernandes, Da Silva, & Noriller, 2021). The return rate of Midea Group's controlling investment assets is 26.27%, which indicates that the company's investment-led strategy has achieved satisfactory results. However, the cash rate of core profit is only 33.86%, which means that the cash outflow is too large, and the costs and expenses are too high to be adjusted. In short, Midea Group's profit and resource allocation strategy have a high degree of consistency, and the strategy implementation effect is good.

Table 1. Analysis of media group's profit strategy congruence Unit: CNY Billion.

Asset structure		Profit structure		Corresponding cash flow structure	
Project	Amount	Items	Amount	Items	Amount
Other investment assets	13.27	Other investment income	1.38	Cash flows generated from other investing activities	1.40
Controlling investment assets	91.35	Core profits of subsidiaries	23.99	Net cash flows from operating activities of subsidiaries	8.12

3.4.3. Cash Flow Quality and Strategic Support Ability

For most enterprises, the core profit deducts the depreciation of fixed assets, amortization of intangible assets, asset impairment loss and other non-cash expenses. Therefore, it is normal and adequate for the net cash flow of operating activities to be higher than the core profit. In 2021, the net cash flow generated by Midea Group's operating activities is 35.092 billion yuan, much higher than the core profit of 22.812 billion yuan. Midea Group can achieve sustainable reproduction at the current scale. The earnings ratio of core profits in the consolidated and parent company statements is higher than 1, but the earnings ratio of core profits in the subsidiary company is lower, which may be related to the increase of cash payment expenses.

The cash flow generated by investment activities is related to the expansion or adjustment strategy of enterprises. Internal expansion or adjustment is mainly made by comparing the cash paid for the acquisition and construction of fixed assets, intangible assets and other long-term assets. With the cash recovered from the disposal of these items. The cash paid by Midea Group for acquisition and construction is much larger than the net cash recovered from disposal, which indicates that Midea Group is continuously expanding its production capacity and improving its core competitiveness through internal expansion strategy. External expansion or adjustment is manifested by the continuous driving effect of controlling investment, which is mainly reflected in the cash paid for investment and the cash received for recovery of investment. The cash flow of Midea Group's capital payment and cash received from investment recovery both exceed 100 billion yuan, and the scale of the two is similar. This shows that Midea Group's outbound investment strategy is undergoing structural adjustment, and it is increasing investment in building technology, smart home, robotics and automation. As a result, the cash flow of Midea Group's investment activities reflects the layout of the diversification strategy and the transformation path with leading science and technology as the core. The cash flow generated by financing activities can maintain the normal operation of business activities and investment activities, and is an important source of funds for enterprises. Midea Group, as an enterprise with excellent profitability and stable capital chain, does not have a large demand for raising funds. In 2021, the working capital of fundraising activities was only 21 billion yuan, among which the cash received from borrowing accounts was roundabout 75%. At the same time, this part of loan financing is pledged by Kuka Group's equity, which reduces the capital cost and financing risk to a certain extent, reflecting the appropriateness of Midea Group's financing behaviour.

4. Conclusions and Deficiencies

4.1. Conclusion

This paper breaks away from the traditional financial statement analysis method and pays more attention to strategic management and the environment of the enterprise. Starting from the quality of financial conditions such as asset quality, profit quality and cash flow quality, this paper analyzes the allocation of strategic resources, the effect of strategy implementation and the ability of strategic support. This paper not only constructs a theoretical analysis framework of financial condition quality for the overall operation strategy and internal management of enterprises, but also solves the limitations of the traditional "one-size-fits-all" financial index analysis method that only focuses on financial indicators. At present, most of the scholars still use financial indicators to analyze and compare their quality, but few scholars organically combine financial indicators and non-financial indicators to construct financial quality evaluation system (Xia & Huo, 2020). Therefore, the theoretical analysis framework of financial status quality in this paper is of great significance. At the same time, this paper takes the financial statements of Midea Group as an example to evaluate the financial position quality of Midea Group from strategic management perspective, and the conclusions are as follows:

(1) Thanks to its asset-light operation mode and technology-centered development strategy, Midea Group's operation and development capabilities are in the forefront of China's home appliance industry. By virtue of its position as a leading enterprise in the industry, Midea Group has achieved coordination with thousands of upstream and downstream suppliers and channel providers. Therefore, Midea Group has large-scale operating liabilities, which greatly reduces the financing cost of enterprises. However, the profitability of Midea Group needs to be improved. Although the operating income of Midea Group is more than 340 billion yuan, the gross profit margin and net profit margin are lower than Gree Electric Appliances, and the cost management ability is poor. Simultaneously, the subsidiary's core profit exhibits a low level of profitability, while the controlling assets fail to achieve an optimal level of profitability. (2) The diversification strategy of Midea Group has achieved good results. Midea Group has adopted an investment-led strategy to successively hold a number of enterprises in the fields of building technology, smart home business group and robot automation, and it actively adjusted with its investment structure strategically. At the same time, Midea Group implements internal expansion strategy not only improves the diversified scientific and technological strength of the enterprise, but also strengthens the competitiveness of the enterprise in the global home appliance market. However, based on the above analysis, Midea Group's business income related to robots and automation systems in Kuka Group in Germany is not ideal. The main reason for the unsatisfactory performance of Kuka Group lies in the difference in enterprise management after the merger and acquisition, which is one of the main problems faced by Midea Group after the merger and acquisition (Chen, 2022). At the same time, the high goodwill generated by Midea Group's acquisition of Kuka Group has a great risk of impairment, which also affects the asset quality of the enterprise to a certain extent.

(3) Midea Group is deeply engaged in overseas markets, with overseas production bases covering 15 countries and businesses involving more than 200 countries and regions. Meanwhile, the proportion of overseas business revenue is increasing year by year, and the company has a good global breakthrough strategy layout. However, the trend of "anti-globalization" is becoming increasingly serious in the world, which has an impact on the global strategy of the company to a certain extent. The negative impact of trade protectionism and global trade market frictions also makes the export of enterprises face many uncertainties.

Based on the financial analysis of Midea Group, the research implications of this paper are as follows:

(1) Midea Group should strengthen the control of cost budget, reduce the cost of material procurement through reasonable planning and incentive of human resources, and reduce the personnel of procurement organization. Enterprise needs to make better use of intelligence monitoring systems of big data and reduce related labor costs through big data analysis (Yin, Zhang, & Xu, 2021). At the same time, enterprises need to expand the scope of comprehensive budget, pay attention to the timeliness of financial management, and reduce unnecessary costs by relying on the comprehensive budget management planning of online and offline dual control (Shi & Li, 2017). Enterprises should also effectively decrease their sales revenue dependence on credit purchases, implement sound accounts receivable management practises, and prioritise the cash inflow from core profits. (2) Research shows that overseas investment can improve earnings quality by reducing the risk of earnings management (Gu & Semba, 2016). Therefore, Midea Group should strengthen its earnings risk management while making diversified overseas investments. At the same time, the enterprise also needs to pay attention to the impact of its own strategy on the business performance of the investee, ensure the normal operation of the operation mode and development strategy of the investee, and coordinate the strategic consistency between the enterprise and the investee (Li, Huo, & Shi, 2022). The Midea Group possesses the capacity to help the expansion of Kuka Group's business by leveraging industry influence and relationship resources. Furthermore, Midea Group can enhance its support to the Kuka Group and continuously enhance and surpass the pertinent technologies associated with intelligent manufacturing and digital-intelligence driving.

(3) Midea Group should be prepared to prevent trade frictions and global political and economic fluctuations when it expands its market and arranges overseas. Midea Group should improve product quality, enhance brand awareness, strengthen cooperation with enterprises and industry coordination (Wang, Li, Yin, & Zeng, 2021), and actively respond to possible challenges and waves.

4.2. Deficiencies

There are still some shortcomings in this study, which may lead to incomplete analysis results. The shortcomings and future prospects of this paper are as follows:

This paper adopts case analysis as the research method, and the research sample is relatively single. This paper does not select a large sample for empirical analysis, which may lead to one-sided results. In the future, this paper will continue to optimize the research methods and research objects, and the usage of the large-sample empirical analysis method to re-verify the theoretical framework, to increase the comprehensiveness of the analysis results.

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