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Financial Risk Analysis and Prevention of Xiangxue Pharmaceutical

Hui Xie, Kaiyin Sun

Zhanjiang University of Science and Technology, Mazhang District, Zhanjiang, Guangdong, 524003, China

ABSTRACT
In recent years, under the dual pressure of national pharmaceutical policy adjustments and intensified market competition, the pharmaceutical manufacturing industry has been facing severe challenges, with financial risks being particularly prominent. As a representative enterprise in the industry, Xiangxue Pharmaceutical's financial risk situation has attracted much attention. Taking Xiangxue Pharmaceutical as the research object, this paper analyzes the enterprise's financial risk status from four dimensions: financing risk, investment risk, operational risk, and cash flow risk. It points out that the enterprise has problems in financial risk prevention, such as insufficient response to policies, excessive investment expansion, irregular information disclosure, and imperfect internal control. Corresponding countermeasures are proposed, including strengthening capital management, optimizing business layout, improving the quality of information disclosure, and enhancing internal control. The purpose is to provide risk management and control references for Xiangxue Pharmaceutical and other pharmaceutical enterprises, and help enterprises achieve stable development.

KEYWORDS
Financial risk; Xiangxue pharmaceutical; Risk prevention; Internal control

1 Introduction

With the continuous growth of the national economy, the pharmaceutical manufacturing industry, as an important field for people's livelihood security, is undergoing profound changes in its development environment. It is constrained by the dual factors of slowing product growth and fierce market competition, and is in a critical period of transformation and upgrading. As a representative enterprise in the industry, Xiangxue Pharmaceutical maintained sound operating conditions in previous years. However, in recent years, risks in its capital chain and profitability have become prominent. Coupled with intensified market competition, its operating performance has declined significantly. From the perspective of financial risk management, this paper systematically analyzes Xiangxue Pharmaceutical's financial data, identifies potential risks, traces the causes of risks, and provides effective risk control solutions for the enterprise and the pharmaceutical manufacturing industry.

2 Overview of xiangxue pharmaceutical

Guangzhou Xiangxue Pharmaceutical Co., Ltd. was established in 1997, with its predecessor being Luogang Pharmaceutical Factory founded in 1958. It was listed on the Growth Enterprise Market of the Shenzhen Stock Exchange in 2010, and its headquarters is located in the Science City of Guangzhou Economic and Technological Development Zone. The company focuses on the R&D, production, and sales of new-type prepared slices of traditional Chinese medicine, proprietary Chinese medicines, and functional health products. It has leading products such as Antiviral Oral Liquid and Qinggan Lidan Oral Liquid, some of which are national key protected varieties of traditional Chinese medicine. In terms of R&D, it has four R&D centers and six innovation platforms to promote the modernization and internationalization of traditional Chinese medicine.

Table 1 Profitability of xiangxue pharmaceutical (2020-2024) (Unit: 100 million yuan)

Item	2020	2021	2022	2023	2024
Total Operating Revenue	30.72	29.71	21.87	22.99	18.59
Total Operating Cost	29.05	31.67	25.76	24.52	22.67
Operating Profit	2.02	-5.75	-4.60	-3.30	-7.85
Net Profit	1.16	-6.47	-5.05	-4.02	-8.61

Source: Company Annual Reports

From 2020 to 2024, both the total operating revenue and total operating cost of Xiangxue Pharmaceutical showed a fluctuating downward trend. The operating profit turned negative in 2021 and remained negative for four consecutive years. The net profit changed in sync with the operating profit, with losses for four consecutive years.

3 Financial risk analysis of xiangxue pharmaceutical

This paper studies financial risks in a broad sense and analyzes Xiangxue Pharmaceutical's financial risk status from four aspects: financing risk, investment risk, operational risk, and cash flow risk.

3.1 Financing risk analysis

3.1.1 Short-term debt-paying ability

Table 2 Current Ratio of Xiangxue Pharmaceutical (2020-2024)

Financial Indicator	2020	2021	2022	2023	2024
Current Ratio	0.85	0.49	0.32	0.35	0.30
Industry Average	3.10	3.19	2.69	2.85	2.88
Quick Ratio	0.66	0.37	0.23	0.27	0.23
Industry Average	2.59	2.67	2.25	2.37	2.30

Source: Company Annual Reports, Sina Finance

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = Quick Assets / Current Liabilities

From 2020 to 2024, Xiangxue Pharmaceutical's current ratio dropped from 0.85 to 0.30, and its quick ratio fell from 0.66 to 0.23. Both ratios were far lower than the industry average and showed a downward trend, reflecting the enterprise's weak short-term debt-paying ability. The reasons include the significant decline in current assets from 2020 to 2024 due to operational and market factors, as well as the high operating costs caused by intensified competition in the pharmaceutical industry and rising raw material prices, which further weakened the short-term debt-paying ability and led to poor financial conditions.

3.1.2 Long-term debt-paying ability

Table 3 Asset-liability ratio of xiangxue pharmaceutical (2020-2024)

Financial Indicator	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 (%)
Asset-Liability Ratio	56.50	65.79	68.51	72.06	80.81
Industry Average	33.08	31.20	33.73	33.24	33.74
Equity Ratio	153	247	256	310	574
Industry Average	65.89	67.95	62.99	74.46	74.46

Source: Company Annual Reports, Sina Finance

Equity Ratio = Total Liabilities / Owners' Equity

From 2020 to 2024, Xiangxue Pharmaceutical's asset-liability ratio rose fluctuatingly from 56.50% to 80.81%, far higher than the industry average; the equity ratio increased from 153% to 574%, also much higher than the industry average and showing a continuous upward trend. The reasons include: the company suffered losses for four consecutive years from 2021 to 2024; in response to the COVID-19 pandemic, the company maintained its operations through liabilities, carried out a large number of financing activities; and the controlling shareholder occupied a large amount of the company's funds. The data indicates that the proportion of liabilities in the capital structure has increased, and the long-term debt-paying ability has been continuously weakened.

3.2 Investment risk analysis

Investment risk refers to the possibility that investors may suffer losses or receive lower investment returns than expected due to the impact of various uncertain factors during investment.

3.2.1 Analysis of net profit margin on sales

Table 4 Net profit margin on sales of xiangxue pharmaceutical (2020-2024)

Financial Indicator	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 (%)
Net Profit Margin on Sales	4.62	-21.77	-23.07	-17.47	-46.34
Industry Average	2.62	15.28	7.34	8.85	-12.74

Source: Company Annual Reports, Sina Finance

From 2020 to 2024, the net profit margin on sales dropped from 4.62% to -46.34%. Since 2021, it has decreased significantly and been much lower than the industry average. The decline in 2021 was due to the failure to meet expectations in the sales of proprietary Chinese medicines (resulting in reduced revenue) caused by changes in the market environment and pharmaceutical policies as well as intensified competition, the compressed profits due to rising costs of raw materials, and the provision of a large amount of impairment for goodwill and construction in progress. After 2022, the profit margin continued to decline fluctuatingly due to market and cost issues as well as increased financial expenses.

3.2.2 Analysis of return on equity (ROE)

Table 5 Return on equity of xiangxue pharmaceutical (2020-2024)

Financial Indicator	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 (%)
Return on Equity	2.77	-21.01	-20.68	-18.35	-57.41
Industry Average	8.29	7.12	7.12	1.41	4.46

Source: Company Annual Reports, Sina Finance

The return on equity dropped significantly from 2.77% to -57.41%, which was much lower than the industry average. In 2021, the company suffered losses due to the pandemic, policy changes, competition, and impairment provisions, and continued to lose money in the following three years, resulting in negative indicators. Overall, the company has weak investment return capacity and is prone to investment risks, so it is necessary to optimize its operations to avoid operational difficulties.

3.3 Operational risk analysis

Total asset turnover, accounts receivable turnover, and inventory turnover are selected to analyze operational risks.

3.3.1 Analysis of total asset turnover

Table 6 Total asset turnover of xiangxue pharmaceutical (2020-2024)

Financial Indicator	2020 (Times)	2021 (Times)	2022 (Times)	2023 (Times)	2024 (Times)
Total Asset Turnover	0.34	0.26	0.23	0.27	0.24
Industry Average	0.59	0.57	0.55	0.54	0.49

Source: Company Annual Reports, Sina Finance

From 2020 to 2024, Xiangxue Pharmaceutical's total asset turnover decreased fluctuatingly from 0.34 times to 0.24 times, which was significantly lower than the industry average. The main reason is the substantial decline in the company's operating revenue, which directly restricted the improvement of total asset turnover. This indicates that the company's overall asset operation efficiency is relatively low and it faces great operational pressure.

3.3.2 Analysis of accounts receivable turnover

Table 7 Accounts receivable turnover of xiangxue pharmaceutical (2020-2024)

Financial Indicator	2020	2021	2022	2023	2024
Accounts Receivable (100 million yuan)	10.39	10.97	6.00	7.05	8.10
Accounts Receivable Turnover (Times)	3.09	2.78	2.58	3.52	2.45
Industry Average (Times)	8.04	12.29	7.54	7.64	8.02

Source: Company Annual Reports, Sina Finance

From 2020 to 2024, Xiangxue Pharmaceutical's accounts receivable turnover decreased fluctuatingly from 3.09 times to 2.45 times, which was significantly lower than the industry average. This indicates that the company's accounts receivable recovery speed is slow and its capital utilization efficiency is relatively low.

3.3.3 Analysis of inventory turnover

Table 8 Inventory turnover of xiangxue pharmaceutical (2020-2024)

Financial Indicator	2020 (Times)	2021 (Times)	2022 (Times)	2023 (Times)	2024 (Times)
Inventory Turnover	2.61	2.74	2.68	3.44	3.74
Industry Average	2.78	2.73	2.80	2.84	2.37

Source: Company Annual Reports, Sina Finance

Inventory Turnover = Operating Cost / Average Inventory Balance

The inventory turnover increased fluctuatingly from 2.61 times to 3.74 times, which was slightly better than the industry average. In 2023, due to the recovery of sales and the optimization of inventory and supply chain management, the turnover rate increased and was higher than the industry average, laying a foundation for future development. However, continuous attention and management optimization are still needed.

3.4 Cash flow risk analysis

Table 9 Cash flow indicators of xiangxue pharmaceutical (2020-2024)

Financial Indicator	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 (%)
Cash Flow Ratio	3.63	4.06	4.34	5.09	0.34
Cash Recovery Rate of Total Assets	2.40	2.27	2.35	3.11	0.23

Source: Company Annual Reports, Sina Finance

Cash Flow Ratio = Net Cash Flow from Operating Activities / Current Liabilities

Cash Recovery Rate of Total Assets = Net Cash Flow from Operating Activities / Average Total Assets

The cash flow ratio and cash recovery rate of total assets reflect cash flow risks. From 2020 to 2024, the cash flow ratio dropped from 3.63% to 0.34% and remained at a low level for a long time, indicating that the enterprise's ability to repay short-term debts with cash generated from core business is insufficient. The cash recovery rate of total assets fluctuated; against the background of the decline in the enterprise's total assets, the net cash flow from operating activities remained stable from 2020 to 2023, but dropped significantly in 2024, leading to a sharp decline in this indicator. In addition, the company has problems such as fund occupation by the controlling shareholder and poor management of other payables, which further aggravate cash flow risks and reduce capital turnover and short-term debt-paying ability. Therefore, it is necessary to strengthen capital management to ensure the stability of cash flow.

4 Analysis of causes of financial risks of xiangxue pharmaceutical

4.1 External factors

4.1.1 Changes in policy environment

With the deepening of national medical reform, the frequent introduction of pharmaceutical policies has had a direct impact on Xiangxue Pharmaceutical. The *Pilot Program for National Organized Drug Procurement and Use* launched in 2019 has compressed the enterprise's profit space; the reform of medical insurance payment methods has put forward higher requirements for product value, forcing enterprises to improve their R&D capabilities and product quality. In 2021, the medical insurance cost control and "volume-based procurement" policies had a short-term negative impact on the traditional Chinese medicine industry, resulting in a net profit loss of 647 million yuan for Xiangxue Pharmaceutical. Although the national policies supporting the development of the pharmaceutical industry have brought opportunities, they also put forward higher requirements for enterprises' R&D and product value.

4.1.2 Changes in market environment

Intensified market competition has squeezed Xiangxue Pharmaceutical's market share. In recent years, the number of Chinese proprietary medicine manufacturers in China has increased significantly, with new enterprises concentrated in major medicinal material provinces such as Guangdong and Sichuan. At the same time, more cost-effective products have been launched in the market. In 2023, the bidding price of Xiangxue Pharmaceutical's Banlangen Granules decreased, while the price of raw materials rose during the same period, bringing greater pressure on the enterprise's R&D and market promotion.

4.1.3 Changes in financing environment

Strengthened financial market supervision has made it more difficult for Xiangxue Pharmaceutical to obtain financing, with fewer channels and higher costs. From 2020 to 2023, the financing environment tightened, and the supervision policies on shadow banking compressed the scale of non-standard financing. The interest expenses increased, reaching 237 million yuan in 2023, accounting for 98% of the financial expenses. This has put higher requirements on the enterprise's capital operation and debt-paying ability, increasing its pressure.

4.2 Internal factors

4.2.1 Excessive investment expansion

Under external pressure, Xiangxue Pharmaceutical has increased its R&D investment, especially in cutting-edge biotechnology and pharmaceutical fields such as TCR-T cell therapy, which requires sufficient and stable capital support. At the same time, it has carried out large-scale investment and financing activities to meet the needs of market expansion. However, some projects have failed to achieve the expected returns, leading to insufficient cash flow, great pressure on capital operation, and reduced debt-paying ability. Borrowing to maintain operations has alleviated the crisis in the short term but brought great long-term debt pressure, which is detrimental to the financial situation.

Xiangxue Pharmaceutical's business layout is too extensive, and the fluctuating profitability of its core products has weakened its financial stability. The broad business scope has increased management difficulty and costs. Although the company has attempted to develop in multiple fields, the high investment and fierce competition have resulted in the returns of new businesses failing to meet expectations, further aggravating financial risks.

4.2.2 Irregular information disclosure and financial fraud

Xiangxue Pharmaceutical has problems such as incomplete and untimely information disclosure in its annual reports, and accounting error corrections and retrospective adjustments in its financial reports for multiple years. Such behaviors have triggered a crisis of trust among investors and affected stock price fluctuations; combined with strict financial supervision, they have reduced the enterprise's financing ability, increased compliance costs, damaged its market image, and had a negative impact on its operations and future development. These issues also reflect the enterprise's poor internal management and lack of internal control.

4.2.3 Imperfect internal control

The irregular information disclosure has exposed Xiangxue Pharmaceutical's imperfect internal control. The company received regulatory warning letters for three consecutive years from 2020 to 2022. The enterprise's self-evaluation of internal control was overly optimistic. In 2023, it provided 163 million yuan of asset impairment losses, but the previous internal control evaluation did not prompt relevant risks, leading to a sudden huge loss later; in 2023, it was found that the controlling shareholder occupied 177 million yuan of funds in violation of regulations, which reflects the loss of control in capital management and the uselessness of the approval mechanism. Defects in internal control increase the risk of financial fraud, affect investors' judgment, trigger a trust crisis, and further aggravate financial risks.

5 Solutions for financial risk prevention of xiangxue pharmaceutical

5.1 Responding to policy changes

Xiangxue Pharmaceutical should grasp policy dividends. For example, in accordance with the *Implementation Plan for Major Projects of Revitalization and Development of Traditional Chinese Medicine*, it should strengthen the construction of Chinese medicinal material planting bases, improve the quality of medicinal materials, and promote the development of the prepared slices of traditional Chinese medicine and proprietary Chinese medicine business; it should seize government support to enhance its core competitiveness. At the same time, in response to policies such as medical reform and centralized procurement, the company should ensure compliance in production and operation, continuously pay attention to policy trends, and adjust its strategies in a timely manner to adapt to changes.

5.2 Marketing reform to expand the market

Facing market competition and the squeeze of market share, Xiangxue Pharmaceutical needs to reform its marketing model, expand the off-provincial and international markets, and consolidate the brand influence and market competitiveness of its star products. It should be guided by consumer needs and continuously innovate and develop products that meet market demands. The enterprise needs to respond quickly to market changes, implement response measures efficiently from top to bottom, and optimize its business model every year to incorporate the latest market dynamics.

5.3 Strengthening capital management

Xiangxue Pharmaceutical should expand financing channels. In addition to traditional bank loans, it should actively explore diversified methods such as equity financing, bond financing, and supply chain finance to reduce dependence on a single financing channel. At the same time, it should reasonably control financing costs, strive for better financing conditions by optimizing the financing structure and improving the credit rating, reduce the pressure of interest expenses on finance, and ensure stable capital sources with controllable costs.

It should optimize the capital structure, reasonably arrange the proportion of short-term and long-term loans, and avoid excessive borrowing leading to debt pressure. A sound capital management system should be established. In view of the low accounts receivable turnover rate, the company should strengthen the recovery of accounts receivable, reduce the risk of bad debt losses, and alleviate capital shortage.

5.4 Optimizing business layout and strategy

The company should integrate and optimize its asset structure to improve asset liquidity and utilization efficiency, sort out the business of its subsidiaries, abandon non-core industries, focus resources on core industries, and reasonably allocate funds to strengthen core competitiveness. It should increase R&D and market promotion efforts for core products to gain more market share.

In the era of big data, enterprise managers need to change their thinking, strengthen connections with consumers, build a big data platform, realize refined sales through data analysis, create a brand culture, and ensure stable operations.

5.5 Improving the quality of information disclosure

Xiangxue Pharmaceutical needs to improve financial transparency, disclose in detail and in a timely manner the transaction background, performance capacity, risk assessment of major contracts and events, as well as the company's relevant financial data and changes; at the same time, it should disclose non-financial information to help investors fully understand the operating conditions. A communication bridge with investors should be established, and regular briefings should be held to deepen communication; information technology should be used to improve the efficiency and quality of information disclosure, shape a good corporate image, reduce investors' distrust, and enhance corporate stability.

5.6 Strengthening internal control

A sound internal control system should be improved. The internal control system should be updated every year in accordance with the latest laws, regulations, and industry conditions to make up for deficiencies in the system; internal control awareness training for all employees should be strengthened to ensure the effective implementation of the system. Various risks should be regularly evaluated and analyzed, and response measures should be formulated. It is necessary to ensure that the staff of the risk assessment mechanism are fair and impartial, and the board of supervisors should regularly check and analyze relevant data to avoid misjudgment affecting the enterprise's financial and overall stability.

6 Conclusion

Through the research on the financial risk and prevention of Xiangxue Pharmaceutical, this paper conducts an in-depth analysis of the enterprise's financial status, causes of risks, and prevention strategies. The study finds that Xiangxue Pharmaceutical has problems such as insufficient response to policies, excessive investment expansion, irregular information disclosure, and imperfect internal control, and faces financing, investment, operational, and cash flow risks. In response to these issues, countermeasures such as strengthening capital management, optimizing business layout, improving the quality of information disclosure and strategy, and strengthening internal control are proposed, which provide references for Xiangxue Pharmaceutical and enterprises in the same industry to improve their risk management and control capabilities.

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