Original Research Article

Analysis of the profitability of listed companies based on the DuPont analysis method—A case study of higold group

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Abstract: This study examines Higold Group's profitability using financial disclosures for 2022–2025. DuPont decomposition and a comparison with Kinlong Hardware and Tute identify the main changes in margins, asset turnover, and shareholder returns. Higold's net profit margin increased throughout the period, supported by higher gross margins and changes in its product mix. In 2025, however, assets and equity expanded faster than earnings, reducing return on equity despite continued profit growth. Successive substitution attributes most of this decline to lower asset turnover. The findings suggest that the company's growing capital base requires closer attention to investment timing and asset use. Capacity expansion should follow demand, while financing decisions should reflect expected project cash flows and repayment requirements.

Keywords: DuPont analysis; higold group; profitability; asset turnover

1. Introduction

Higher earnings do not always produce a higher return on equity. This distinction is relevant to companies whose capital base changes substantially after an initial public offering. New funding expands the resources available for investment, but the resulting earnings may take time to materialize.

Higold Group provides a useful case. The company manufactures home hardware and outdoor furniture and listed on the Shenzhen Stock Exchange in 2025. Revenue increased by 25.83% that year, and net profit attributable to shareholders of the parent rose by 32.39%. Its reported weighted average return on equity nevertheless fell from 35.88% to 30.60%. These movements raise a specific question: How did changes in margins, asset use, and financing combine to produce a lower shareholder return?

DuPont analysis addresses this question by expressing return on equity as the product of net profit margin, total asset turnover, and the equity multiplier. Previous studies discuss its application to financial performance assessment and the limitations of interpreting complex business activities through a small set of accounting ratios. This study applies the framework to Higold's financial statements and uses product and sales-channel disclosures to interpret the results. A comparison with two hardware businesses provides additional context.

2. Data and methods

The analysis uses Higold's prospectus and 2025 annual report. The 2022 figures establish the starting point for revenue and margin comparisons. DuPont ratios for 2023–2025 are calculated from consecutive year-end financial statements.

Average assets and equity are the arithmetic means of their opening and closing balances. To maintain consistency, both profit and equity refer to amounts attributable to shareholders of the parent. Net profit margin is defined as attributable net profit divided by revenue; asset turnover as revenue divided by average total assets; and the equity multiplier as average total assets divided by average attributable equity. The resulting identity is:

ROE = Net profit margin × Total asset turnover × Equity multiplier

ROE calculated in this way is distinguished from the weighted average ROE disclosed by the company.

The latter accounts for the timing of equity changes, which matters in a year involving a share issue. Both measures are reported where necessary.

Successive substitution is used to decompose the change between 2024 and 2025. The factors are replaced in the order of net profit margin, asset turnover, and the equity multiplier, using unrounded financial data. The contributions are accounting decompositions and depend on the substitution order.

The peer comparison uses 2025 disclosures from Kinlong Hardware and Tute. Kinlong supplies architectural hardware, while Tute operates in home hardware and is quoted on China's National Equities Exchange and Quotations. Differences in their products, customers, and business scale are considered when interpreting the ratios.

3. Profitability analysis

3.1. Improvement in profit margins and changes in product mix

Between 2022 and 2025, Higold's revenue increased from approximately RMB 1.62 billion to RMB 3.59 billion, while attributable net profit rose from RMB 205.66 million to RMB 703.51 million. Net profit margin increased from 12.69% to 19.57%. Over the same period, gross profit margin rose from 31.67% to 37.20%, indicating that a larger share of sales remained after production and procurement costs.

Table 1. Key financial indicators of higold group.

Indicator	2023	2024	2025
Operating Revenue (100 million RMB)	22.22	28.57	35.95
Net Profit (100 million RMB)	3.33	5.31	7.04
Gross Profit Margin (%)	34.43	35.84	37.20
Net Profit Margin Attributable to Parent (%)	14.97	18.60	19.57
Total Asset Turnover (times)	1.32	1.28	1.09
Equity Multiplier (x)	1.61	1.51	1.45
ROE (based on average equity, %)	31.72	35.88	30.84
Asset-Liability Ratio at Period End (%)	38.45	30.16	31.41

The expansion of basic hardware contributed to the changing revenue mix. Its share of sales increased from 42.84% in 2024 to 46.70% in 2025, with a segment gross margin of 40.37%, above the company average. Outdoor furniture's revenue share fell from 9.18% to 6.73%. A greater contribution from basic hardware is therefore consistent with the improvement in the overall gross margin. The separate effects of product mix, manufacturing arrangements, and input costs would require more detailed segment analysis.

Expenses provided some additional support. Combined selling, administrative, research and development, and finance expenses declined from 14.52% of revenue in 2024 to 14.17% in 2025. Selling and research expense ratios fell, although the administrative expense ratio increased. The reduction in the combined expense ratio was relatively modest. Higher gross margins consequently provide the clearest explanation for the improvement in net profit margin, alongside changes in other income, expenses, and taxation.

3.2. Asset expansion and changes in shareholder returns

Higold's total asset turnover fell from 1.28 times in 2024 to 1.09 times in 2025. Year-end assets increased by 64.21% to RMB 4.106 billion, substantially exceeding revenue growth.

Much of the increase occurred in cash and financial assets. Monetary funds rose from approximately RMB 1.007 billion to RMB 2.109 billion, while financial assets held for trading reached RMB 283.13 million. IPO proceeds and operating cash generation enlarged the asset base without an equivalent immediate increase in sales. The decline in total asset turnover therefore needs to be interpreted in light of the changing asset composition. It offers limited evidence, on its own, about factory efficiency or customer payment performance.

The equity multiplier also declined, from 1.61 in 2023 to 1.45 in 2025, as average equity grew faster than average assets. However, the year-end liabilities-to-assets ratio rose from 30.16% to 31.41% in 2025. These movements are compatible because one measure uses average balances and the other describes the closing position. Short-term borrowings increased from approximately RMB 100 million to RMB 351 million, making repayment schedules and the use of borrowed funds relevant to any assessment of financing needs.

On the average-equity basis, ROE fell from 35.88% in 2024 to 30.84% in 2025. Successive substitution assigns a positive contribution of 1.87 percentage points to the higher net profit margin. Lower asset turnover contributed −5.58 percentage points, and the lower equity multiplier contributed −1.34 percentage points. Together, these changes account for a decline of approximately 5.05 percentage points, calculated from unrounded values.

Asset turnover accounts for the largest negative contribution under the chosen substitution order. The company earned more from each unit of revenue, but generated less revenue relative to its enlarged asset base. The reported weighted average ROE of 30.60% reflects a different treatment of equity timing and is retained separately from this decomposition.

3.3. Peer comparison and operational analysis

Table 2 compares Higold with Kinlong and Tute. Higold recorded higher net profit margins and weighted average ROE than both peers in 2025. Its asset turnover was also higher, although differences in business models limit direct performance rankings.

Table 2. Key financial indicators of peer companies for 2025.

Indicator	Higold Group	Kinlong Hardware	Tute Shares
Operating revenue (100 million RMB)	35.95	55.44	9.34
Operating revenue growth rate (%)	25.83	−16.48	2.74
Net profit attributable to the parent (100 million RMB)	7.04	−1.00	1.24
Net profit margin attributable to the parent (%)	19.57	−1.81	13.23
Weighted average ROE (%)	30.60	−1.83	19.86
Total asset turnover (times)	1.09	0.59	0.96

The companies experienced different earnings trends. Tute's revenue increased slightly, but attributable net profit fell by 6.04%. Kinlong reported a loss as revenue declined by 16.48%. Higold increased both sales and earnings.

Sales arrangements offer one explanation for these differences. Offline distribution, e-commerce, and Higold's separately reported cloud-commerce channel together accounted for 80.07% of its revenue in 2025. Offline direct sales contributed 7.43%. This mix provides access to several customer groups and may reduce dependence on individual buyers. Distribution demand nevertheless remains exposed to housing and renovation activity.

Product characteristics also matter. Basic hardware can be sold in volume through distributors, and the segment's higher revenue share and margin supported Higold's earnings. Kinlong's architectural hardware activities involve different customer requirements and service arrangements. Product mix, operating costs, and impairment charges must therefore be considered alongside sales channels when explaining the observed profitability gap.

Cash flow adds a further qualification to the ratio analysis. Higold generated approximately RMB 1.04 billion in operating cash flow in 2025, equivalent to 1.48 times attributable net profit. This supports the assessment that annual earnings were accompanied by substantial cash generation. At the same time, accumulated cash increased total assets and reduced sales relative to that base. Cash generation and the subsequent use of funds are distinct aspects of performance.

4. Conclusions and recommendations

Higold's profitability improved between 2022 and 2025 as net profit margins increased. Changes in the product mix and higher gross margins helped explain the improvement. In 2025, however, growth in assets and equity exceeded the increase in earnings. The DuPont decomposition shows that lower asset turnover accounted for most of the decline in average-equity ROE under the specified substitution order.

The immediate management issue is the use of the expanded capital base. Capacity investment should follow expected orders and existing utilization levels, with expenditure staged according to project progress. This would help limit prolonged holdings of unused funds and underused equipment. As sales channels expand, management should also monitor distributor inventories, payment collection, and customer credit, assessing growth against the working capital it requires.

Financing decisions should be based on expected project cash flows, borrowing costs, and repayment dates. A relatively low liabilities-to-assets ratio provides only part of the information needed to determine

an appropriate debt level, particularly when short-term borrowing is increasing.

The study is limited to one company and two peers. It identifies accounting contributions and plausible operating explanations, but cannot establish the independent causal effects of particular product or channel strategies. A longer post-listing observation period, supported by capacity utilization and project-return data, would clarify whether Higold's additional capital produces sustained improvements in shareholder returns.

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