



**RESEARCH ON QIANYUAN ASSET MANAGEMENT COMPANY'S
DISPOSAL STRATEGY TO JINLI STATE-OWNED REAL ESTATE
ZOMBIE ENTERPRISE**

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**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL FULFILLMENT
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ZOMBIE ENTERPRISE**

Thematic Certificate

To

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This Independent Study has been Approved as a Partial Fulfillment of the Requirement of International Master of Business Administration in International Business Management

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ABSTRACT

Title: Research on the Qianyuan Asset Management Companys' Disposal Strategy of Jinli State-owned Real Estate Zombie Enterprise
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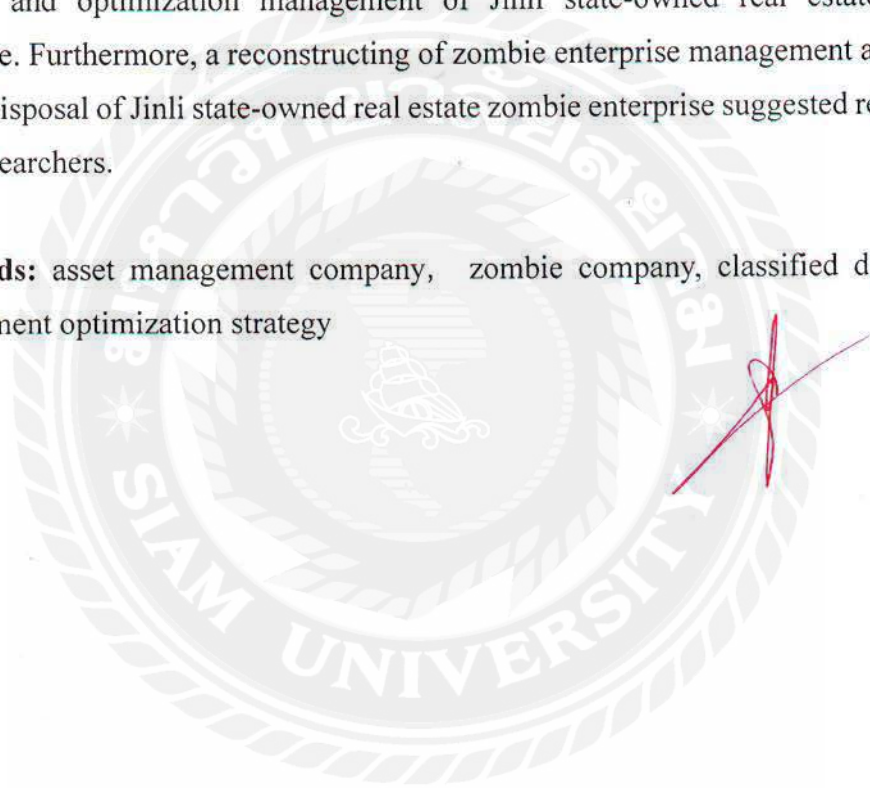
The term "zombie enterprise" was first proposed in 1987. Despite their ongoing production and business activities, this phrase refers to enterprises with low-benefit, long-term loss and insolvency, and can no longer repair themselves and develop. Zombie enterprises are different from general problem enterprises. They maintain daily function through long-term reliance on bank lending and other methods, so they maintain the traits of kidnapping and extortion. Previous work on "zombie enterprises" focused on the "lost decade" in Japan. This knowledge showed a break-away from inadequate supply and cutting overcapacity. Targeting those "zombie enterprises" under supply-side structural reform was witnessed in China. According to the data of SASAC in 2016, a total of 2,041 "zombie enterprises." They were found chiefly in state-owned and "particularly poor enterprises and involved assets of 3 trillion yuan. A proper disposition of "zombie enterprises" was the key. It provided an understanding of "three cuts, one decrease, one remedy" and deepened supply-side structure reform. It also can reduce and defuse the risk of local government debt default. Moreover, it is a meaningful way to "deleverage" the state-owned economy and the essential requirements of financial risk prevention.

In the scientific and effective treatment of state-owned zombie enterprises, such enterprises' formation and exit mechanisms should be analyzed and studied. The problems of such enterprises have received some attention in relevant policy discussion; based on the domestic treatment of zombie enterprises on relevant foreign experience as a reference, their own experience was found gravely insufficient. The information was unable to create qualitative analysis, so there was insufficient theoretical and

practical research. Concurrently, the existing research mainly focused on external factors. In order to achieve "clearing" these companies, a series of social problems, such as the increase in the unemployment rate, will occur. These findings reveal that reasons for its formation should be analyzed based on the enterprises' internal motivations to effectively achieve the zombie enterprises to overcome deadlock and turn losses into profits.

Regarding the circumstances of Qianyuan asset management company and Jinli state-owned real estate enterprise, this paper recommended a scheme of classification disposal and optimization management of Jinli state-owned real estate' zombie enterprise. Furthermore, a reconstructing of zombie enterprise management and its risk control disposal of Jinli state-owned real estate zombie enterprise suggested referencing other researchers.

Keywords: asset management company, zombie company, classified disposition, management optimization strategy



摘要

题目： 乾元资产管理公司处置金栗国有地产僵尸企业的策略研究

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“僵尸企业”这一概念于 1987 年被第一次提出，指的是尽管还在进行着生产经营活动，但其效益低、长时间亏损且资不抵债，不再具备自我修复与发展能力的企业。僵尸企业同一般情况下的问题企业存在差异，僵尸企业是通过长期依赖银行借贷等方式实现企业运转，具有绑架勒索性。对“僵尸企业”的研究基本集中在日本“失去的十年”。以推动供给侧结构性改革为背景，我国对无用供给进行大规模破除，并将“僵尸企业”的处理作为关键内容，实现过剩产能的有效处理。以有关调查为依据，2016 年我国的重点“僵尸企业”以及特困企业数量达到 2041 家，涉及资金共 3 万亿元。其中，国有企业占比较高。对这类企业的有效处理，对实现供给侧结构性改革以及减弱政府负债风险而言十分重要，更能有效实现国有经济的“去杠杆”效果以及金融风险的合理规避。

在国有僵尸企业的科学有效处理方面，需做到对这类企业的形成以及退出机制进一步分析与研究。尽管这类企业的问题在有关政策讨论中已得到一定程度的重视，但目前国内对僵尸企业的处理方式依然以国外有关经验为参考，自身经验严重不足，无法做出定性分析，因此存在理论、实践研究不够的问题。同时，现有研究依旧以外部因素为主。要实现这类公司的“出清”，就会导致一系列问题，如失业率提高等。所以应以企业内部原因出发对其形成原因进行分析，有效实现僵尸企业的脱僵，最终达到转亏为盈的目的。

本文将从乾元资产管理公司的角度出发，针对金栗国有地产僵尸企业的自身情况，提出对金栗国有地产僵尸企业的分类处置和优化管理的方案，同时本文针对性的给出了在处置金栗国有地产僵尸企业过程中对僵尸企业管理重构的建议和其风险控制的建议，以期给予其他研究者一些参考。

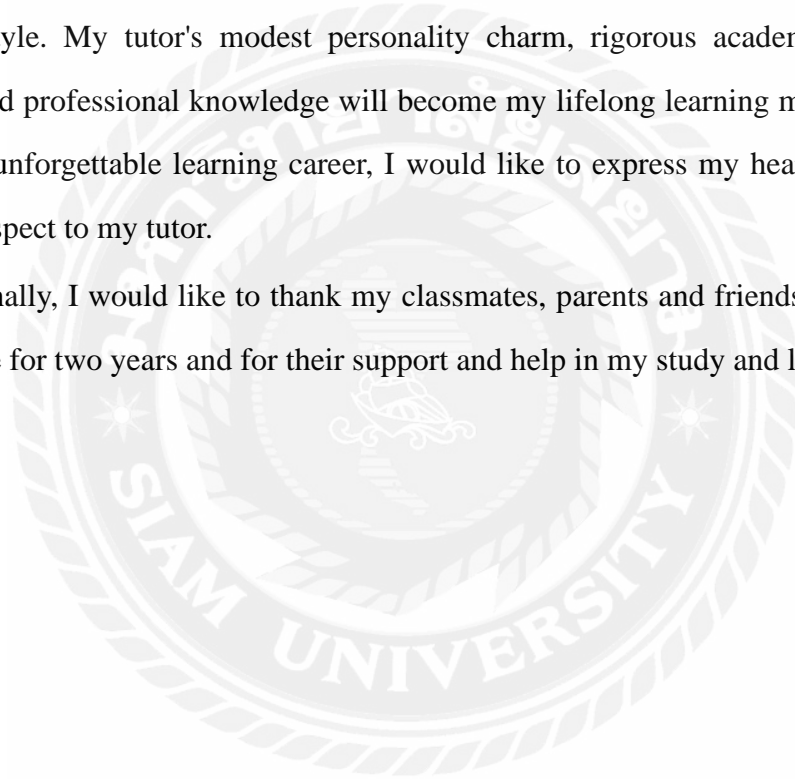
关键词：资产管理公司，僵尸企业，分类处置，管理优化策略



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CHAPTER 1 INTRODUCTION

1.1 Research background

Zombie enterprises cause a great waste of social resources, resulting that other enterprises can't obtain the corresponding economic resources, which affects the orderly development of the enterprises concerned. Chinese Premier Li Keqiang issued instructions to clean up zombie enterprises on November 4, December 2 and December 9, 2015. On July 30, 2019, the Politburo of the Communist Party of China Central Committee held a meeting to analyze and study the current economic situation, emphasizing the establishment of a long-term mechanism to solve the problem of arrears and speed up the "liquidation of zombie enterprises".

China's real estate industry began the process of marketization in 1988, when is very late comparing to other countries. In the early stage of development, in order to stimulate development, the government promulgated a number of favorable policies. So the development momentum of real estate industry is sufficient and the contribution to our economy gradually increased. But the burst of social resources into the real estate industry occupied the real economic resources, giving birth to a large number of speculation. And due to their own lack of management capacity, the state-owned real estate enterprises operated poorly and the bad debts increased rapidly. Under the influence of many factors, these enterprises gradually zombified.

1.2 The significance of research

1.2.1 Theoretical significance

As for the disposal and effect of state-owned zombie enterprises, most of the existing research is not supported by actual cases. In the background of this research situation, this paper focuses on the zombie enterprises of state-owned real estate industry, hoping it can make some referenced value to the researchers in the same field through this research on Qianyuan Company's disposal strategy to Jinli Enterprise.

1.2.2 Practical significance

The classification and treatment of zombie enterprises should be premised on the corresponding corporate situation, so as to make different policy according to different situation and deal with the debts effectly. This paper selects Jinli Enterprise as the research direction and analyzes the identification and cause of its zombification. Then combine the external macro environment to put forward some suggestions and opinions on the disposal of Jinli Enterprise, thus promoting the reform of Jinli Enterprise.

1.3 Research problem

Jinli State-owned Real Estate Zombie Enterprise (hereinafter referred to as Jinli Enterprise) is a central enterprise approved by the State Council in 1984. After the decoupling between government and enterprise, Jinli Enterprise turns into a policy real estate development enterprise under the direct management of the State-owned Assets Supervision and Administration Commission (hereinafter referred to as SASAC) of the State Council. However, under the influence of macroeconomy, Jinli Enterprise's management is seriously out of control. Its operating pressure is very strong and the financial situation is deteriorating year by year. Because of the company's poor blood-making capacity, it can't repay a large number of loans fundamentally in the way of repaying loan with loan.

From the perspective of Qianyuan Asset Management Company (hereinafter referred to as Qianyuan Company), this paper analyzes the internal governance of Jinli Enterprise and the classification and disposal of its subordinate sub-enterprises in detail, and provides a new perspective for zombie enterprises to "get out of the way" and turn loss into profits.

1.4 Research objective

First, according to the characteristics of Jinli sub-enterprises, Qianyuan Company divided Jinli sub-enterprises into two categories: "the company that should reorganize and restructure" and "the company that should be insolvent". In addition, the author puts forward some specific reform measures for the management mechanism of Jinli enterprise, and then raises the hope of the regeneration of Jinli Enterprise.

Second, this article separately elaborates the disposal risks may be involved in the process of disposal. Trying to provide reference for similar zombie enterprise strategic transformation through the summary of disposal experience of Jinli Enterprise.

1.5 The theoretic basis of this paper

1.5.1 Definition of zombie enterprise

The term "zombie enterprise" was first proposed by the economist Peter Coy^①, referring to enterprises that, despite of their ongoing production and business activities, are low-benefit, in long-term loss and insolvent, and no longer have the capacity to repair themselves and develop. Zombie enterprises are different from the general problem enterprises. They maintain daily function through long-term reliance on bank lending and other ways, so they always has the traits of kidnapping and extortion.

1.5.2 Definition of asset management company

The financial asset management limited company in this paper refers to a special financial institution set up by a country when the bank is facing a large-scale crisis or there is a banking crisis of systemic non-performing assets. The main purpose of asset management company is to protect and help commercial banks that are already in systemic crisis and operational difficulties to get rid of the crisis of non-performing assets, resume normal operations and to maximize the preservation of their assets and reducing their losses as soon as possible.

1.5.3 Insolvency

Insolvency refers to the fact that all of the debtor's assets are no longer fully indebted. And it's reflected in the balance sheet as owner's equity presents a negative number, that is, the undistributed profit column appears negative, and the absolute value is greater than the paid-in capital, at which point the assets are less than the liability.

1.5.4 Stakeholder Theory

Stakeholder theory refers to the management activities of the operators of the

^① Liu Kuifu & Mao Ning. (2016). *A Foreign Literature Review of Zombie Companies Research*. Foreign Economics & Management, 38(10), 3-19.

relevant enterprises on the basis of weighing the interests of the various stakeholders concerned with the enterprise, and this theory originated in Freeman's book in 1984. This set of theory firstly pointed out that the operation and development of enterprises and each stakeholder is closely related. It can be said that the long-term interest development of enterprises and each stakeholder is a symbiotic relationship, and the goal of the enterprise should be to pursue the overall interests of all stakeholders and not only a small number of major shareholders.

1.6 Hypothesis

Hypothesis 1- The reasons for the formation of zombie enterprises in our country include internal and external factors. It is under the joint action of internal and external factors that the formation of zombie enterprises is promoted.

Hypothesis 2- Internal factors mainly include large size of enterprises, high assets and liabilities, inefficient operation, imperfect management mechanism and so on. Internal factors are the main reason for the formation of zombie enterprises.

Hypothesis 3- External factors include unfair competition among enterprises, changes in national policies, reform and development of economic systems, and so on. External factors are a secondary cause of the formation of zombie enterprises.

CHAPTER 2 LITERATURE REVIEW

2.1 The criteria for determining a zombie enterprise

There are different criteria for the identification of zombie enterprises. On the basis of analyzing and comparing three standards (official standard, CHK standard and the standard of the National Development Institute of the People's Congress), this paper puts forward the criteria used in this paper. And as the assumptions of this article, it will be used to judge whether Jinli Enterprise is a zombie enterprise.

2.1.1 Official standard

On December 9, 2015, Premier Li Keqiang proposed the standard of "zombie enterprises" for the first time, he said that zombie enterprises have deficit continually for more than three years and are in conflict with the direction of structural adjustment.

This official standard is not only in line with what is considered as a zombie enterprise, but also is intuitive. Therefore it is easier to define whether an enterprise is a zombie enterprise. However, official standard doesn't mean that there are no loopholes. There are still some problems. Growth companies in some emerging industries will match the standard at the beginning of their existence. Using this definition would judge it as a zombie enterprise, which often has great potential for growth, such as Amazon in the United States and JD.com in China.

2.1.2 CHK standard

Different from official standard, the economics community understands zombie enterprises mainly from a credit perspective. Caballero, Hoshi and Kashyap conducted a study of the identification methods of zombie enterprises and proposed the "CHK method". This approach states that if an enterprise's debt interest is less than the minimum rate of interest on the market, the lending relationship between the enterprise and the bank must be abnormal, so the enterprise's the probability of being a "zombie enterprise" is very high.^①

However, the same as the official standard, there are loopholes in CHK method.

^① Caballero, R. J. & Hoshi, T. & Kashyap, A. K. (2008). *Zombie Lending and Depressed Restructuring in Japan*. American Economic Review, 98(5), 1943–1977.

Therefore, the use of this method for the judgment of zombie enterprises will also lead to misjudgment. Some companies are often able to get loans with lower bank interest rates because they are in good management condition and have a low risk of default. Moreover, in order to support emerging industries, the government usually adopts the practice of lending low-interest loans to growth-oriented enterprises. Both of these companies are highly likely to be misjudged by the CHK method as zombie enterprises because of their low interest rates. At the same time, the CHK method can also cause omissions. Some companies seem to have normal interest rates, but this is not the case, their profits are already at a low level and can not repay the loan interest actually. They just keep going by borrowing to repay interest.

2.1.3 Standard of the National Development Institute of the People's Congress

In response to the shortcomings of the CHK method, Fukuda and Nakamura introduced the Profitability Criterion and Evergreen Lending Criterion to improve the CHK standard to the FN-CHK standard. The Profitability Criterion refers to the fact that an enterprise isn't a zombie enterprise if its income before interest and tax (EBIT) is higher than the minimum interest payable. Evergreen Lending Criterion refers to the fact that if a firm's EBIT in the year of t is below the minimum interest payable, the total external debt for $t-1$ is higher than half of its total assets, and borrowing will increase in the year of t , it will be a zombie enterprise. However, this standard isn't perfect. In the process of researching zombie enterprises in China, we found that some enterprises were wrongly considered as zombie enterprises because of only one-year economic problems and shock, which resurrected quickly in the next year. There is cognitive biases obviously.

2.1.4 The standard used in this article

Both foreign and domestic academic circles have made a gradual improvement in the definition of zombie enterprises, but there are always problems. Based on the emphasis on the role of government in the definition of Chinese zombie enterprises, combined with the definition and essential characteristics of zombie enterprises, this paper uses the "3 standard-8 dimension-8 index" model of Luan Fugui and Liu Mei^① to identify

^① Luan Fugui & Liu Mei. (2018). *The Construction and Application of Zombie Enterprises' Zombie Index*. Research on Economics and Management. 39(06), 135-144.

Jinli Enterprise. The model consists of three aspects: duration, blood transfusion degree and hematopoietic ability, covering 8 dimensions and 8 indicators, such as blood transfusion degree and blood transfusion dependence. And it has a high identified accuracy of 90.94%. It includes zombie companies that rely on bank borrowing and government subsidies, as well as the essential characteristics and "continuity" of zombie companies.

2.2 The reasons for the formation of zombie enterprises

Peek and Rosengren (2005) used empirical research to conclude that the bank's evergreen lending was a key factor for the formation of zombie enterprise. There are two reasons why banks are launching this business. The first is the encouragement of the relevant regulations of the government and commercial banks, and the second is the banks themselves. Zhu Shunnan and Chen Chen (2016) analyzed the formation of the operation mechanism of zombie enterprises in China by means of empirical investigation and research methods of commercial banks. The result shows that: zombie enterprises are mainly high-asset, high-debt and large-scale enterprises. Their low operational efficiency is the key factor that makes them become zombie enterprises. On the basis of the data of Chinese industrial enterprises from 1998 to 2013, scholars such as Nie Huihua and Jiang Ting (2016) made corresponding analysis, concluding that the main reasons for the survival crisis of zombie enterprises are structural. Namely, improper cooperation between some local government and enterprises and vicious competition among related enterprises lead to zombie enterprises. Xiong Bing (2016) pointed out that the cause of China's zombie enterprise management problems is the following three aspects: firstly, some enterprises did not keep up with the pace of national policies and the development requirements of the country in the long-term restructuring and transformation process; secondly, some enterprises have long been affected by the situation and environment of China's economic and social development, which has led to their technical constraints and the emergence of losses eventually; finally, China's incomplete reform of some state-owned enterprises in the 1990s led to the formation of zombie enterprises.

2.3 Measures to deal with zombie enterprises

2.3.1 Measures to deal with zombie enterprises in China

Gao Jianghong (2015) proposed that transfer the corresponding property rights and withdrawn from the market to achieve the market-oriented clean-up of zombie enterprises. Huang Xin (2015) proposed that the marketization of zombie enterprises should be divided into merger and reorganization and legal bankruptcy. Liu Xingguo (2016) also adopted the classification approach: take the means of merger and reorganization to achieve withdrawal for zombie enterprises with some value; take the means of management trust for zombie enterprises with deterioration of business, imminent closure and no hope to rescue; take corresponding assisting measures for zombie enterprises with assets in good condition and bright development prospects, which facing development difficulties due to temporary problems, so as to achieve the long-term healthy development of enterprises; take the means of bankruptcy and exit for zombie enterprises that fail to meet sustainable development goals.

2.3.2 Measures to deal with zombie enterprises abroad

In the treatment of zombie enterprises, Germany, the United States, Japan and South Korea have some same points but also have differences:

The same points: all of the four countries made laws on banking and labour. Firstly, make relevant laws and regulations on the problem of non-performing assets in the banking industry in the country, and make effective examination and clean-up of it. To solve the problem of rising unemployment rate caused by zombie enterprises, draw up laws to subsidize workers and improve the social security system to make them eventually complete re-employment. Secondly, highlight government intervention and guidance. The governments of the four countries have issued policies in the first time and actively guided zombie enterprises to achieve bankruptcy restructuring. The governments have also used financial means to deal with zombie enterprises and troubled banks. Thirdly, pay attention to the role of the market. The four countries have taken the market as the main way, and the government played a complementary role. Thus effectively avoiding the excessive intervention of the government, which will cause the disorder of the market. Finally, promote the bankruptcy and restructuring of zombie enterprises. The four governments pay great attention to zombie companies and

are actively pushing for their bankruptcy, eventually clearing them out of the market. And then effectively reducing their negative impact on the national economy and reducing the waste of resources.

Different points: Japan has pointed the finger at the banks' bad assets in its handling of zombie companies. Through the introduction of relevant bills and the establishment of industrial regeneration institutions, the banks' assets have recovered and treated timely. So that the pressure of bad bank debts can effectively reduce. In the treatment of zombie enterprises, the U.S. has focused its efforts on the auto industry and made some corresponding rescue plans. So that it can continue to develop. And the government becomes the shareholder and timely intervene the management of the enterprise through giving assisting funds to the enterprise. When the problem is alleviated, exit from the enterprise to avoid excessive intervention. Germany has focused on the soundness of its workforce re-employment system, which is a major innovation. For example, the transformation of the industry in Ruhr, Germany, has resulted in a huge number of traditional workers out of work. In response to this situation, the German government has adopted policies and laws to train them and promote their re-employment. South Korea mainly uses financial institutions to control zombie enterprises, and then remove them.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Scope of the research

This paper mainly studies the strategy of Qianyuan Company's disposal to Jinli Enterprise, so the scope of the research is limited to Qianyuan Company and Jinli Enterprise.

3.1.1 Introduction of Qianyuan Asset Management Company

Qianyuan Asset Management Company is a state-controlled pilot experimental company, with asset management as the main business. It established three service objectives: service Qianyuan Bloc's development, service the overall layout of the central enterprises and service the society. Qianyuan Company takes the initiative to undertake the enterprise restructuring, exiting and project operation tasks, such as holding and managing the property rights of bad enterprises, accounting the enterprise's reform cost and collecting capital of sub-enterprises.

3.1.2 Introduction of Jinli Enterprise

Jinli Enterprise was established in 1984 with the approval of the State Council. It is affiliated with the State Construction Materials Industry Bureau and has the first class qualification of urban real estate development issued by the Ministry of State Construction. After the decoupling between government and enterprise, it became a government real estate enterprise belonging to the State Council and the State Building Materials Group. The enterprise is under the jurisdiction of SASAC of the State Council and is currently headquartered in Beijing. Jinli Enterprise's main business is divided into four sectors: the production, research and development of new environmental protection and energy-saving house, the construction of indemnificatory housing and other policy real estate development, the elderly industry, the production, research and development of new high-grade insulation materials. At present, there are 40 secondary companies under the Jinli Enterprise, of which 37 are in absolute holding.

In 1999, because of poor management, Jinli Enterprise was included in the national list of enterprises to implement mergers and bankruptcies by the State Council. In 2003, Jinli Enterprise's management completely paralyzed and the employees began large-

scale petitions, resulting in adverse social impact. In 2009, the SASAC of the State Council entrusted Jinli Enterprise to Jinchuan Group, and in 2011, it was transferred to Jinchuan Group without compensation.

Due to security, false capital contributions, debt disputes and other problems, Jinli Enterprise has 78 cases involved in litigation in total. In 2018, under the guidance of the relevant departments of SASAC, Qianyuan's superior units and Jinli Enterprise's superior units signed a non-reimbursable transfer agreement, which provided that Jinli Enterprise transferred 85% of the equity to Qianyuan Company.

3.2 Research methodology

First, the method of documentary analysis. This paper defines the zombie enterprises by collecting, arranging, reading and analyzing relevant literature. By means of researching and reading a large number of papers, essays and professional books about the identification, formation and disposal of zombie enterprises, thinking about the current situation of domestic research and the related theory in the process of the dealing with zombie enterprise, provide the theoretical basis for the case analysed in this paper.

Second, the method of field research. This case comes from Qianyuan Company, which I work in. After Jinli Enterprise was managed by Qianyuan Company, Qianyuan Company set up Jinli Enterprise Special Disposal Working Group, and I was arranged in this group. I went to Jinli Enterprise's headquarters, related companies, loan-related banks and other places to conduct and obtain specific information and data. I also visited the third party intermediary institution following the group to get some improvement opinions from related principals and gained some basic principles, policies, countermeasures and measures from Qianyuan Company.

3.3 The innovation point of this paper

This paper takes Qianyuan Company's disposal of Jinli Enterprise as an example, studies its disposal strategy, and uses the identification method of "asset-liability ratio" to divide Jinli Enterprise subsidiaries into: "the company that should reorganize and restructure" and "the company that should be insolvent". At the same time, combined with the corporate governance of Jinli Enterprise, the management reconstruction

proposal is put forward. This is conducive to Qianyuan Company's overall control of disposal process of Jinli Enterprise, and provide reference for the follow-up asset management companies to dispose of zombie enterprises.



CHAPTER 4 DATA ANALYSIS

4.1 The identification of Jinli Enterprise's zombification

4.1.1 Analysis of the loss of hematopoietic capacity

From the four angles of solvency, profitability, operating ability and development ability, the financial distribution of Jinli Enterprise in these years is analyzed. These four indicators are selected after comprehensive weighing and calculation, whether from operability or practical analysis, can reveal the loss of blood-forming ability of Jinli Enterprise.

4.1.1.1 Analysis of debt solvency

(1) Short-term solvency

This article summarizes the short-term solvency of Jinli Enterprise for the five years 2014-2018, as shown in Table 2-1 :

Table 4-1 2014-2018 Jinli Enterprise Short-Term Solvency Index Statistics

Metrics/Years	2014	2015	2016	2017	2018
Liquidity ratio	0.892	1.135	1.287	1.833	1.408
Cash flow ratio	-0.043	-0.134	-0.076	-0.144	-0.221

From the table above, we can see that the average liquidity ratio of Jinli Enterprise remained at about 1.311, while the real estate industry's ratio is 1.57. Jinli Enterprise's liquidity ratio is lower than the industry average liquidity ratio, which indicating its short-term solvency is poor.

Cash flow ratio reflects the proportion of operating cash flow of a enterprise. If it's negative, it means that the enterprise can not pay off short-term debt through cash generated by operating activities, and need to rely on the inherent capital to maintain operations. Such operating relationship is very unfavorable to the healthy development of enterprises, and also will increase the short-term capital turnover risk of enterprises.

From the data analysis of the current ratio and the cash flow ratio in the table above, it can be seen that Jinli Enterprise's economic ability to repay their debts in the short term is very weak.

(2) Long-term solvency

This article summarizes the long-term solvency of Jinli Enterprise for the five years 2014-2018, as shown in Table 2-2:

Table 4-2 2014-2018 Jinli Enterprise Long-Term Solvency Index Statistics

Metrics/Years	2014	2015	2016	2017	2018
Asset-liability ratio - Jinli Enterprise	78.38%	81.25%	86.34%	96.24%	101.96%
Asset-liability ratio - industry average	74.3%	75.4%	77.59%	79%	80.65%
Property rights ratio	3.62	4.35	6.27	25.95	-52.11

The asset-liability ratio is an important financial index to measure the health of enterprises. In general, the higher the asset-liability ratio is, the less healthier the enterprise is. The reason is that high asset-liability ratio often means that companies have more money from the liabilities and less money from the owners. As we can see from the table above, Jinli's asset-liability ratio from 2014 to 2018 is higher than the industry average ratio and increasing year by year.

The property rights ratio is the degree to which the capital invested by creditors is protected by shareholders' rights and interests. The law clearly stipulates that creditors' claims against enterprises take precedence over shareholders. As we can see from Table 2-2, the property rights ratio of Jinli Enterprise in 2014-2018 is much higher than 1, and even negative in 2018. This shows that shareholders' equity has been negative, and Jinli Enterprise have been seriously insolvent.

4.1.1.2 Analysis of profitability

Profitability is the ability of an enterprise to obtain profits from production and operation, and it is also used to measure the "blood-making ability" of an enterprise. Table 2-3 is an analysis of the profitability of Jinli Enterprise:

Table 4-3 Statistics on Profitability Ability Indicators for Jinli Enterprise from 2014 to 2018 (Unit: 10,000 yuan)

Metrics/Years	2014	2015	2016	2017	2018
Operating income	11570.00	6139.00	11411.00	17078.00	19664.00
Net profit	-785.00	4671.00	-39773.00	-32780.00	-17407.00

As we can see from the table above, although the operating income of Jinli Enterprise has been increasing year by year since 2015, but the net profit has been losing money year after year since 2016, which indicates that Jinli Enterprise's capital return ability is not strong, and the profitability is weak.

4.1.1.3 Analysis of operating capability

Operational capability is one of the measures of the efficiency of enterprise asset management. Table 2-4 is an analysis of Jinli Enterprise's operating capability:

Table 4-4 Relative Value Indicators of the Operating Capacity of Jinli Enterprise from 2014 to 2018 (Unit: sub)

Metrics/Years	2014	2015	2016	2017	2018
Accounts receivable turnover rate	0.9	0.24	0.18	0.03	0.52
Inventory turnover rate	0.42	0.37	0.26	0.32	0.36
Fixed asset turnover rate	0.97	0.95	0.56	0.76	0.97
Total asset turnover rate	0.61	0.62	0.55	0.58	0.51

As we can see from the table above, the average total asset turnover rate of Jinli Enterprise in 2014-2018 was only 0.574, well below the industry average of 0.91 times. This shows that Jinli Enterprise's total asset turnover speed is slow, and the asset management efficiency is low.

4.1.1.4 Analysis of development ability

This indicator is an assessment of the future development potential of enterprises. In this paper, the growth ratio of operating income and net profit are used to analyze the development potential of enterprises, and the capital preservation and appreciation rate is used to reflect the ability of Jinli Enterprise to create economic value. Jinli Enterprise's development capacity indicators are shown in Table 2-5:

Table 4-5 Statistics on Jinli Enterprise Development Capability Indicators from 2014 to 2018

Metrics/Years	2014	2015	2016	2017	2018
Growth rate of operating income	32.25%	20.55%	-11.25%	-12.65%	-6.93%
Growth rate of net profit	110.23%	122%	-89.4%	-468.74%	-112.47%
Capital preservation and appreciation rate	119.02%	108.24%	61.91%	19.91%	-66.45%

From the table above, we can clearly see that from 2016 to 2018, Jinli Enterprise's operating income growth rate and net profit growth rate for three consecutive years have shown a negative growth trend. This shows that the enterprise has been losing money in recent years. Moreover, since 2016, Jinli Enterprise's capital preservation and appreciation rate has been below 100%, indicating that the enterprise has shown a very serious trend of economic regression. The data above shows that Jinli Enterprise has lost the ability to develop.

4.1.2 Analysis of the blood transfusion survivability

The main ways for Jinli Enterprise to keep their funds running are low-interest loans and renewal of loans. In general, renewal of loans is a means for zombie enterprises to return old debts by new loans. In order to be more clear about the strength of new and old, this paper specifically introduces quantitative indicators, that is, the rate of new and old. The rate of new and old refers to the proportion of borrowing and corresponding repayment. Jinli Enterprise's borrow new and old situation from 2014 to 2018 is shown in Table 2-6:

Table 4-6 Jinli Enterprise's Borrow New and Old Situation from 2014 to 2018 (Unit: 10,000 Yuan)

Metrics/Years	2014	2015	2016	2017	2018
Loan	5000.00	97500.00	150250.00	155069.00	123532.00
Repayment	4500.00	95600.00	153000.00	154000.00	124000.00
The rate of new and old	125%	101.98%	98.2%	100.69%	99.62%

As we can see from the table above, the amount of borrowing received and repaid

by Jinli Enterprise in 2014-18 is very large, and the rate of new and old is higher than 90%. This shows that Jinli Enterprise obtain a large amount of renewal loans from the bank. It can fully borrow new loans to repay old loans, which indicates the enterprise is in the loan repayment.

4.2 The causes of Jinli Enterprise's zombification

4.2.1 The enterprise's own management error

The root cause of the financial operation obstacles of Jinli Enterprise lies in the enterprise's own management problems that Jinli Enterprise did not carry out the transformation and structural adjustment of the enterprise, and even made some serious decision-making errors in some events. This has contributed to litigation problems and the hardship to carry on the projects of Jinli Enterprise.

4.2.2 Wide range of mutual insurance between Jinli Enterprise and it's subsidiaries

Enterprises can apply loans to the bank by the way of mortgage. But the amount is generally not very large, and it is difficult to meet the actual capital needs of enterprises. To get larger loans, enterprise need to seek help from other enterprise to secure. However, if the lending enterprise is unable to repay the loan, the guarantee enterprise needs to fulfill its repayment obligations on its behalf. The fall of the lending enterprise will lead to the guarantee enterprise's problem of the capital chain. Jinli Enterprise has faced intense debt risk over the years and has been unable to repay loans with it's own assets, which eventually spread to other affiliates, and increase the zombification of associated enterprises.

4.2.3 External economic environmental reasons

Lower housing prices directly cause problems in the property market. And by the impact of the 2008 global economic crisis, Chinese economic base has suffered some damage. In these ten years, although Chinese capital economy market is booming, but the market is still a deep stimulus. This is how many zombie companies emerged, such as Jinli Enterprise.

4.3 Qianyuan Company's overall plan for the disposal of Jinli Enterprise

The disposal of Jinli Enterprise is a special task assigned by the State Council SASAC. After Qianyuan Company and Jinli Enterprise signed an agreement on the transfer of equity free of charge, Qianyuan Company put forward the following disposal strategy:

4.3.1 Grasp the principle of "one business, one policy"

According to the particularity of every individual, we should take different measures for different enterprises. This requires that we should adhere to the principle of "one business, one policy". In this paper, the "asset-liability ratio" indicator is used as the classification criterion. The asset-liability ratio refers to the strength of using creditors' funds in business activities. This indicator is a measure of a company's ability to repay its debt over the long term. Through the "asset-liability ratio" index, we can divide the subsidiaries of Jinli Enterprise into two categories, one is the company whose shareholders remain unchanged and carry out restructuring, that is, "the company that should reorganize and restructure", and the other is the company that should go through bankruptcy proceedings normally and transfer its equity to creditors, that is, "the company that should be insolvent".

4.3.1.1 The company that should reorganize and restructure

The company whose asset-liability ratio did not exceed 100 percent for three consecutive years, nor was it in the top 30 percent of the same industry, should reorganize and restructure.

For such companies, shareholders can consolidate and sell all of their assets or restructure the company, thereby transform the board of directors or managers and making strategic adjustments. This category of company can gradually make a profit, thus transform into a healthy company. Reorganization can be divided into two ways: merger and reorganization & debt restructuring.

(1) Merger and reorganization: Due to poor management in the day-to-day operation process, Some enterprises can not survive. However, due to social reasons and interests, we can transfer or merge its equity. Thereby reverse the situation and allow the enterprise to continue to operate after restructuring. In the process of disposing

of Jinli Enterprise, Qianyuan Company often adopt the way of merger and reorganization, and it turn out to be good.

(2) Debt restructuring: The manner in which a creditor consents to the debtor's modification of the terms of the debt in accordance with its agreement or the court's decision. In the process of disposing of Jinli Enterprise, Qianyuan Company has repeatedly led Jinli Enterprise management, the bank and relevant government departments to negotiate to modify other debt conditions to pay off the debt.

4.3.1.2 The company that should be insolvent

Enterprises with an asset-liability ratio of more than 100% for three consecutive years or a debt-to-liability ratio risk of 30% in the same industry should be insolvent. The assets of these companies are almost zero or even negative, and their equity should be taken over by creditors. The "insolvency class" can be divided into two categories: bankruptcy reorganization and liquidation.

(1) Bankruptcy reorganization: Bankruptcy reorganization is a legal system in which interested persons apply to the court and then make certain adjustments to the debt structure under the auspices of the court, helping the debtor to resolve the financial crisis and restore its operational capacity. After the company has officially declared bankruptcy, the insolvency representative is required to liquidate, evaluate, dispose of and distribute the property of the bankrupt company. Insolvency reorganization applies to companies that already have insolvency conditions but still have the hope of regeneration or have a higher residual value.

(2) Bankruptcy liquidation: Bankruptcy liquidation refers to the legal system in which a bankrupt enterprise is subject to death in order to enable creditors to be paid fairly. The liquidation group will take over the property of the company and make a final assessment, liquidation and distribution of the property.

4.3.2 Strengthen market awareness

For the handling of zombie enterprises, we should also enhance the enterprises' own sense of operation, and let these enterprises realize the necessity of development, sense of mission and responsibility. Use market economy, this invisible hand to carry out asset reallocation and industrial integration. With the help of intermediary resources and integrating internal forces, strengthen communication between Jinli Enterprise

subsidiaries and affiliated enterprises.

4.3.3 Reform the management mechanism of Jinli Enterprise

In order to effectively help Jinli Enterprise to reduce losses, increase profits and get out of trouble, and break down the internal management mechanism and management mode obstacles that restrict the sustainable, healthy and stable development of Jinli Enterprise, we should promote the correct definition of the internal business functions between parent corporation and subsidiaries. Next, we will carefully study and determine the institutional positioning, department and organizational settings of the group headquarters, formulate specific reform programs, and actively promote Jinli Enterprise headquarters, sub-companies, branch offices "slimming down".

4.3.4 Prevent and control the associated risks in the process of disposal

Pay attention to do a good job of forecasting and research, to prevent the loss of state-owned assets in the process of disposal. Due to historical reasons, Jinli Enterprise have basically lost the actual control of some subsidiaries. There is a disorderly establishment and brutal growth of subsidiaries. According to statistics, as far as June 30, 2019, Jinli Enterprise have more than 600 subsidiaries, including 70 new in 2017, 85 new in 2018, 52 new in 2019. The level has been derived up to 10 levels. Due to the disconnect between business registration management and enterprise administration, the brutal growth of Jinli Enterprise is difficult to effectively resolve from the source, which brings great negative impact on the reputation and operation to central enterprises. And it also brings a risk of loss of state-owned assets, so it is urgent to stop the brutal growth of subsidiaries.

4.3.5 Properly place the employees of the enterprise

Jinli Enterprise has a heavy policy burden and bear a part of social responsibility. Although the relevant policies have given instructions on the socialization management of enterprise retirees, but the local financial department delays to undertake this task, because some sub-enterprises are located in areas of financial difficulties. It brings great difficulty to the disposal of debt. The funding gap of the employees' placement of Jinli Enterprise is large, so it is difficult for the local government to meet the needs of the workers' placement, which will inevitably cause some employees losing their jobs, form

unstable factors and bring the risk of stability. In order to speed up the disposal of Jinli Enterprise, we need to properly handle the placement of employees.

4.4 The achievements in the process of early disposal of Jinli Enterprise

4.4.1 Some subsidiaries went bankrupt

The people's court ruled that some subsidiaries of Jinli Enterprise have entered into bankruptcy proceedings. For example, Jinli Enterprise's Hunan subsidiary has been operating abnormally since 2016. The company's two projects in a city have been shut down and it is involved multiple ownership disputes. One of its project is being sold and disposed of and the company has ceased to operate. After consultation with various stakeholders, Qianyuan Company finally decided that the company's legal representative should directly file for bankruptcy reorganization to the court.

4.4.2 Asset disposal

After friendly consultations between Qianyuan Company and the bank, as far as January 21, 2020, the court take measures of litigation, preservation and enforcement, and dispose Jinli Enterprise subsidiaries' debt of 311.73 million yuan, of which 17.56 million yuan in cash and 294.17 million yuan with non-cash assets.

4.5 Problems in the process of disposing of Jinli Enterprise

4.5.1 Jinli Enterprise lack control over its subsidiaries

Due to the corporate governance problems of Jinli Enterprise, Jinli Enterprise can not effectively supervise its subsidiaries. Jinli Enterprise has the construction industry first-class construction qualifications, and is also state-owned enterprise. In order to obtain the goodwill of Jinli Enterprise, private enterprises and their subsidiaries jointly set up subsidiaries with the name of Jinli Enterprise. Although Qianyuan Company has now acquired a majority stake of Jinli Enterprise, private enterprises named after Jinli are still emerging. These enterprises have made Jinli Enterprise bear joint and several guarantee responsibilities in the vast majority of engineering loan contracts.

4.5.2 The bank's positiveness towards the bankruptcy filing of Jinli Enterprise subsidiaries is not high

In the process of disposing of Jinli's subsidiaries, we found that banks were reluctant to disclose non-performing loans for their own reasons. This is because the China Banking Regulatory Commission needs to assess the actual loan ratio of each bank, and local banks hide non-performing loans in order not to be liable. Therefore, although commercial banks are the largest creditors of enterprises, their enthusiasm to initiate debt restructuring is not high.^① For the perspective of foreign research, the banks often take the way of debt restructuring in the process of disposing of zombie enterprises. The reason is that banks want to maximize the recovery of loans, and borrowers expect to minimize the impact on reputation.^②

4.5.3 The work of activating and optimization is stagnant

According to the due diligence to one of the Jinli Enterprise's subsidiaries, we know that although the subsidiary is unable to develop and utilize existing land, it can submit an application to the local government for exiting the land. If the local government think that the exit meets the re-use conditions and other related requirements, the subsidiary can return the land to the government and obtain funds, so as to activate other projects of Jinli Enterprise. However, the government did not approve the applications for some issues left over from history, which prevented the disposal proceeding.

① Hart, O. Moore, J. Property. (1990). Rights and the Nature of the Firm. *Journal of Political Economy*, (6), 1119-1158.

② Dewatripont, M., Maskin, E. Contract. (1990). Renegotiation in Models of Asymmetric Information. *European Economic Review*, 2(3), 311-321.

CHAPTER 5 RECOMMENDATION AND CONCLUSION

5.1 Disposal recommendation for Jinli Enterprise's subsidiaries

In this paper, the subsidiaries of Jinli Enterprise that have not been disposed of are selected for analysis, and these subsidiaries are classified according to the criteria above. The corresponding disposal suggestions are put forward below.

5.1.1 Disposal recommendation for the subsidiaries applicable to merger and reorganization

The Hebei subsidiary of Jinli Enterprise was incorporated on November 09, 2009. The construction scale of the project is 120,000 cubic meters, and the total investment of the project is 100 million yuan, of which 40% of the funds comes from the enterprise's own funds, 60% comes from the bank loans. After the project is put into operation, the average annual sales revenue is expected to be 300 million yuan, the total annual profit is 32.39 million yuan, and the investment payback period is 6.2 years.

As Jinli Enterprise is involved in litigation and enforcement, Jinli Enterprise's 51% stake in Hebei subsidiary was frozen, indirectly preventing the Hebei subsidiary's project from being launched. Table 4-1 is the balance sheet from 2016 to 2018 of Jinli's Hebei subsidiary:

Table 5-1 Sheet of Asset-liability Ratio of Jinli's Hebei Subsidiary from 2016 to 2018

Years	2016	2017	2018
Asset-liability ratio	0.1%	60.7%	86%

The asset-liability ratio of the Hebei subsidiary of Jinli Enterprise did not exceed 100% for three consecutive years and was not in the top 30% of the same industry, so it should be reorganized and restructured.

"Reorganization and restructure" includes debt restructuring & merger and reorganization. The difference between debt restructuring and merger reorganization is that debt restructuring applies when creditors reach an agreement with the debtor to revise the debt. The Hebei subsidiary of Jinli Enterprise does not involve creditors, so it is more suitable to adopt the method of disposal of merger and reorganization, and the method of merger and reorganization has the following three advantages:

First of all, after the merger and reorganization, the enterprise will have a scale effect. A large number of resources will be concentrated after the reorganization, so that the quality of products will be improved through technological transformation. If Jinli Enterprise and its subsidiaries are merged or recombined, these enterprises will be related in the market, which can help the acquirer to obtain resources or assets conducive to the company's development at low cost, and help Jinli Enterprise Hebei subsidiary to expand the market and maximize their own interests.

Secondly, merger and reorganization will actually bring synergies, that is, the acquirer can strengthen the management of Jinli Enterprise and adjust the original operation and management mode of Jinli Enterprise, which can promote zombie enterprises to get rid of bad conditions and resume normal operations as soon as possible.

Finally, for the acquiree, by merging as the acquirer's new subsidiary or branch, can effectively solve the problem of employee placement. This can reduce unemployment and improve social stability for society as a whole.

5.1.2 Disposal recommendation for the subsidiaries applicable to debt restructuring

There are four main ways to restructure debt: First, to liquidate all existing assets, including cash and non-cash assets, and use them for debt liquidation. This approach can relieve the temporary financial pressure of the enterprise, ensure that the enterprise temporarily maintains operation, and can also help creditors to recover certain claims as far as possible to reduce losses. Second, convert debt into capital, which is also known as debt-for-equity swaps. The biggest obstacle to such an approach is that the large amount of capital cannot be provided. Third, maintain the temporary operation of the enterprise by delaying repayment time. This approach is also called modifying other debt conditions or roll-over loan. This approach must use cash flow for debt repayment, so the requirement of the debtor's solvency and profitability is high. Fourth, this approach is a hybrid approach, which refers to a debt restructuring method that combines the three approaches above.

In practical application, debt restructuring is a complex process. Choosing which form of debt restructuring would require a trade-off between the debtor and creditors.

5.1.3 Disposal recommendation for the subsidiaries applicable to bankruptcy reorganization

The Guizhou subsidiary of Jinli Enterprise was incorporated in 2012 with a registered capital of 250 million RMB. It has signed a land development agreement with the local county government for a period of 8 years. The agreement stipulates that the Guizhou subsidiary of Jinli Enterprise, as the main body of development, shall carry out the transformation of shantytowns. (hereinafter referred to as the "Guizhou Project") The project takes the form of a two-stage joint development. After the start of the project, the Guizhou subsidiary of Jinli Enterprise gradually carried out the basic work of first-level development in accordance with the agreement. The first-level development investment is 400 to 500 million yuan. The project was originally expected to be completed in 2022.

In the early 2014, Jinli Enterprise asked to stop all projects under construction because of project losses, which prevented it from investing more money in Guizhou Projects. At the same time, the Guizhou subsidiary of Jinli Enterprise cost a lot in the first-level development process, resulting in the interruption of the capital chain. When the completion rate of the first-level development of the Guizhou Project reached 85%, it was no longer possible to continue the normal development. Since the end of 2014, the Guizhou Project has been completely shut down and has produced a series of negative effects, resulting in three consecutive years of losses and insolvency of the Guizhou subsidiary of Jinli Enterprise. The balance sheet of the Guizhou subsidiary of Jinli Enterprise from 2016 to 2018 is shown in Table 4-2:

Table 5-2 The Balance Sheet of Jinli's Guizhou Subsidiary from 2016 to 2018

Years	2016	2017	2018
Asset-liability ratio	105.2%	112.1%	122.3%

As we can be seen from the table above, the asset-liability ratio of the Guizhou subsidiary of Jinli Enterprise has been bigger than 100% for 3 consecutive years, so it should enter into bankruptcy proceedings.

Bankruptcy includes bankruptcy reorganization, bankruptcy settlement and liquidation. The bankruptcy reorganization system refers to the regulation and intervention of economic activities of the enterprise, including the coordination of the

interests of all parties. This approach can not only enable creditors to get some economic compensation, but also create opportunities for debtors to get new life in the financial crisis and maintain the stability of social order to a certain extent.

Guizhou Project belongs to shantytown transformation project. The project has development potential and is in line with the direction of industrial development. But the project encountered the problem of the financial chain interruption when it has not been completed. If the Guizhou subsidiary of Jinli Enterprise is applicable to bankruptcy liquidation, the cost of previous first-level development becomes sunk cost. Therefore, it should apply to bankruptcy reorganization. Bankruptcy reorganization involves a variety of specific disposal methods, including deferred debt repayment, debt reduction, targeted issuance of new shares or corporate bonds to specific targets, transfer of assets, conversion of claims into equity, and so on. This enables the debtor to achieve the purpose of debt serenity and regeneration, which would reduce the losses of creditors and avoid a large number of employees losing their jobs as a result of bankruptcy.

5.1.4 Disposal recommendation for the subsidiaries applicable to bankruptcy liquidation

For Jinli Enterprise, the subsidiaries that should enter the bankruptcy liquidation proceedings can be divided into two kinds: the first is the companies that meet the conditions of bankruptcy reorganization, but no longer have the ability to regenerate and operate; The second is companies that are self-insolvent and have commenced bankruptcy proceedings, but need final negotiations. In order to ensure the legitimate rights and interests of creditors and debtors, the court holds that both companies above should be declared bankruptcy and liquidate their assets in time.

5.2 The management reconstruction of Jinli Enterprise

Qianyuan Company's purpose of management reconstruction of Jinli Enterprise is to achieve the secondary development of it. This paper puts forward some concrete measures from the aspects of internal control and management of the enterprise.

5.2.1 Adjust the equity structure of Jinli Enterprise

The core content of corporate governance structure is the healthy equity structure,

which is a prerequisite to ensure the effective governance of the company. The equity structure determines the nature of the principal-agent relationship between the owner and the operator, which not only includes the proportion of the majority shareholder's shareholding and the nature of the shareholders, but also involves the distribution of control of the company and other related contents.

5.2.1.1 The issue of equity in Jinli Enterprise

(1) The investment subject is single

Jinli Enterprise's equity structure is relatively single, which made it difficult to create a reasonable governance model, resulting in its poor flexibility and adaptability, lack of core competitiveness and effective decision-making mechanism. Consequently, Jinli Enterprise can not allocate resources rationally, and ultimately lead to the situation of poor management.

In addition, Jinli Enterprise blindly rejected the investment of non-state-owned capital enterprises, meaning that it no longer has the conditions to expand the scale and allocation of resources. Relying solely on government subsidies to sustain the development of the enterprise cannot fundamentally solve the problem.

(2) The concentration of equity results in the absence of checks and balances

Through the analysis of the data of Jinli Enterprise and its 38 subsidiaries, it can be seen that Jinli Enterprise's average shareholding ratio of its subsidiaries is 75.5%, the maximum shareholding ratio is 100% and the minimum is 10%, which indicates that the degree of equity concentration varies greatly among different subsidiaries. However, in general, Jinli Enterprise's subsidiary equity concentration phenomenon is very serious.

5.2.1.2 Proposals to adjust the equity structure of Jinli Enterprise

(1) Encourage diversification of investment entities

Private enterprises generally have tenacious viability, and foreign-funded enterprises generally have advanced technology and humanized staff reward policy. Attracting the above-mentioned investment subjects to join Jinli Enterprise can give full play to the advantages of shareholder diversification, promote the equity optimization reform of Jinli Enterprise, stimulate the operating capacity of Jinli Enterprise, and achieve long-term development.

(2) Increase equity checks and balances to achieve relative control

At the same time, large shareholders can form a situation of mutual restriction and supervision, which can not only promote the diversification of shareholder structure, but also stimulate the competition and development of enterprises. In the process of disposing Jinli Enterprise, we should establish an appropriate equity structure and increase the share of other shareholders. At the same time, We should choose the investment subject reasonably, that is, choose the enterprises that have a great impact on the market economy.

5.2.2 Improve Jinli Enterprise's board of directors

5.2.2.1 Problems in the board of directors of Jinli Enterprise

(1) The functions of the board of directors are weakened

The chairman and general manager of Jinli Enterprise are appointed by one person. When dealing with company affairs, the chairman or general manager makes his own decisions that aren't in accordance with the relevant laws of the state, which makes the board of directors nominal.

(2) The system of independent directors is not perfect

The latest central guidance points out that in order to modernize state-owned enterprises, state-owned enterprises should implement the policy of sending external directors. But there is no director from other companies in Jinli's Enterprise. The vast majority of the company's directors come from Jinli's internal management, which makes the board dependent. Moreover, a survey of the existing directors of Jinli Enterprise by Qianyuan Company found that there is only one employee director, and the other directors are appointed by the higher-level units. The only employee director, who was also chosen by the company, was not elected by a vote of the workers' congress. It can be seen that the shareholders of Jinli Enterprise have relatively large control over the board of directors, which resulting that the board of directors has no substantive decision-making power, and can not achieve objectivity, impartiality and independence.

(3) There is no special committee

A special committee under the board of directors is a functional organization that can make decisions about individual functions of the board of directors or complement other functions. The board of directors that has a special committee, is conducive to the

board of directors to exert its independence. Jinli Enterprise has not set up a variety of professional committees, such as strategy, personnel, compensation and assessment, which makes it difficult to get in-depth study of matters requiring collective decision-making of the board of directors. To a certain extent, it prevent the board of directors from playing its role.

5.2.2.2 Recommendations on improving Jinli Enterprise's board of directors

In view of the above-mentioned problems, according to the relevant meetings and document spirit of the Municipal SASAC on regulating the construction of the board of directors of state-owned enterprises, this paper puts forward the following suggestions to improve the board of directors of Jinli Enterprise:

(1) Clarify and strengthen the functions of the board of directors

Strengthen the normative and binding role of the system, clarify the nature and status of the board of directors, and distinguish the powers between directors and general managers. Improve and perfect the organization and staffing, so that it is compatible with the responsibilities of the board of directors.

(2) Introduce external independent directors

The introduction of external independent directors can meet the needs of professionals within the board of directors and promote the development of the enterprise. The selection of directors, especially external directors, shall be a joint responsibility of the Secretary of the Board of Directors and the Human Resources Department, and shall be supervised by the Municipal SASAC Board of Supervisors and the Personnel Office.

(3) Set up special committees of the board of directors

Establish a special committee management system, set up strategy, budget, compensation and assessment, audit and other special committees. The professional committees are composed of a number of directors and working groups as required. In principle, the group members are selected by the relevant departments of the enterprise. Set up a board office to be responsible for the administration and liaison of the board of directors.

5.2.3 Optimize the incentive system of Jinli Enterprise

5.2.3.1 Develop compensation incentive system

The salary of Jinli Enterprise's senior management is limited, and there is no perfect reward system. The executives of state-owned enterprises are the personnel appointed by the government and managed the state-owned assets. In order to strengthen the management of enterprises by the executives, we should establish the corresponding compensation incentive mechanism.

5.2.3.2 Establish a scientific performance appraisal mechanism

The performance appraisal should be included in the normal award mechanism of the enterprise, and it is used as the evaluation criterion for the executive's business ability. We should create suitable selection mechanism according to each enterprise's mode of operation. This can not only seek greater benefits for the staff, but also enable enterprises optimize their own operating model and business strategy continuously in this benign competition.

5.2.4 Divest the social functions of Jinli Enterprise

5.2.4.1 Classify and divest the social functions of Jinli Enterprise's subsidiaries

In the face of the actual situation of different subsidiaries of zombie enterprises, it is necessary to classify them first, and then combine the situation of different companies to deal with accordingly, such as transfer, reorganization, withdrawal and government purchase. This can accelerate the divestiture of the government functions of zombie enterprises. The specific performance is: For the Jinli Enterprise's retirees, company should implement social management. For the subsidiary employees' family living areas, we should give it all-round protection. We can also carry out maintenance and transformation if necessary. Set up a fee calculation table in each household. Transfer the work of the management of these employees living place to the professional enterprises. Transfer the work belonging to the government management authority to the local management departments.

5.2.4.2 Staff's diversion and placement

For those who have lost their jobs as a result of the liquidation of the enterprise, the enterprise should provide them with the opportunity to re-employment and related vocational skills training, so that they can adapt to social needs. For laid-off workers who have lost their ability to work and the retirees, we should open up medical and old-age policies, set up special funds for the placement of workers, provide them with basic living allowances, and properly handle their unemployment or post-retirement living problems, so as to achieve the goal of no damage to personnel after the bankruptcy and reorganization of zombie enterprises.

5.2.5 Strengthen the control of Jinli Enterprise over its subsidiaries

The diversification of the shares of some subsidiaries of Jinli Enterprise makes it lack control over the subsidiaries, which is not conducive to the promotion of Qianyuan Company's plan of disposal to Jinli Enterprise. From the view of Jinli Enterprise's shareholding in its subsidiaries, Jinli Enterprise must expand and strengthen its control by acquiring equity, which can promote the further development and smooth implementation of the disposal plan.

In order to completely solve the problem of equity diversification, we can select several typical subsidiaries, which entrust courts and law firms to value the price of equity, and then formulate a share price transfer plan and implementation guidelines. In accordance with the requirements of the Company Law, the relevant articles of association of the company shall also be amended and an implementing document shall be formed. Then the shareholders should vote and form a resolution of the shareholders' meeting. To ensure that the management of the company controls more than 60% of the company's equity, the management of the enterprise should turn into shareholders. Management's acquisition of the company's equity can played an important role in concentrating the company's equity, which can lay a solid foundation for the subsequent proper disposal of Jinli Enterprise.

5.3 Conclusion

5.3.1 Research contributions

(1) This paper firstly defines the zombification of Jinli Enterprise, and analyzes the reasons for the formation of zombification. There are problems in the governance and business strategy of Jinli Enterprise. The mismanagement of subsidiaries leads to insolventness and serious impact on development, which makes Jinli Enterprise gradually become a zombie enterprise. In this case, Qianyuan Company determined the disposal of ideas according to the characteristics of Jinli Enterprise zombification. And then achieved classification and disposal purposes of Jinli Enterprise subsidiaries.

(2) The formation of zombie enterprises has many reasons, such as government intervention, bank loans and other external factors, but also their own low management level. The enterprise decision-making mistakes and poor control of subsidiaries lead to the zombification of the subsidiaries, and seriously affect the development of Jinli Enterprise. In this regard, this paper also puts forward suggestions to improve its corporate governance, thus improve the regeneration hope of Jinli Enterprise.

(3) At present, the existing domestic literature on the real estate zombie enterprise research is mainly focus on the theory of the zombie enterprise's formation reasons, identification methods and governance. In addition to studying the identification criteria for zombie enterprises at home and abroad, this paper also combines the characteristics of the real estate industry in which Jinli Enterprise is located, and analyzes the disposal of Jinli Enterprise by Qianyuan Company.

5.3.2 The limitations of this paper

First of all, because the existing data on zombie enterprises is most about the steel and coal industry, the data of real estate industry zombie enterprises is very rare, resulting in the limited data of this article. There is room for further research. Secondly, this article inevitably misses some information in such a complex research. The above deficiencies need to be supplemented and improved through a large collection of relevant information in the future, and at the same time, national policies need to be followed up continuously to do a more in-depth research.

5.3.3 Future research direction

In view of the limitations above, the author makes the following prospects for future research:

First of all, carry out a more in-depth data classification and research on the method of disposing of "zombie enterprises", analyse the risks of each method, and put forward ways to avoid these risks.

Secondly, search for more cases of the same type of enterprise, and organize the relevant data and study it, so as to enrich the results of the study.

Finally, follow up the future disposal of Jinli Enterprise, in order to get a complete zombie enterprise disposal case, so that whether the disposal strategy of this paper is effective will be verified.



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