

# Analysis of Post-Bankruptcy Effects and Reorganization: The Case of Founder Group

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**Abstract.** The Founder Group, initially known as Yan Zhong Industrial, was one of the first batch of joint-stock companies listed in China. Contemporarily, due to various factors, it has suffered continuous losses and a significant drop in stock price. On June 2, 2022, creditors applied for reorganization at the Beijing No. 1 Intermediate People's Court, citing bankruptcy reasons but potential for restructuring. By December 26, 2022, the court confirmed the completion of the restructuring plan and ended the process. This study focuses on the bankruptcy and reorganization of Founder Group, a significant case in corporate restructuring. It delves into the methods and outcomes of this process, contributing to the ongoing research on corporate survival and adaptation strategies in the face of financial distress. The study employs empirical research methods, analyzing financial, business, and market performance data. It also explores legal and practical aspects of restructuring, distinguishing between survival, sale, and liquidation reorganizations. Results indicate that companies changing their main business post-restructuring fare better economically than those that don't. Founder Group's restructuring involved a multi-faceted approach, including debt-to-equity swaps, cash settlements, and debt retention, offering insights into effective corporate restructuring strategies. These results shed light on the effectiveness of various restructuring strategies in large-scale corporate bankruptcies. It provides a valuable reference for similar cases, especially in the current economic climate marked by increased uncertainties and risks of large corporate failures.

**Keywords:** Corporate restructuring; bankruptcy reorganization; financial recovery.

## 1. Introduction

Peking University Founder Group, formerly known as Yanzhong Industrial, was one of the first batch of joint-stock listed companies after the founding of the People's Republic of China. Founder Technology's main business covers Internet intervention services, IT system integration and solutions, etc. In recent years, due to the combined impact of multiple factors, Founder Technology has suffered losses year after year and its stock price has plummeted. On June 2, 2022, the creditors applied to the Beijing No. 1 Intermediate People's Court for reorganization on the grounds that Founder Technology had reasons for bankruptcy, but it was only worthy of reorganization. On September 27, 2022, the court ruled to accept the reorganization application and appoint an administrator. On December 26, 2022, the court ruled to confirm the completion of the reorganization plan and terminate the reorganization process.

Systemic risks caused by many factors such as capital chains continue to emerge for many companies, which has led to many companies facing mergers or bankruptcy because they cannot adapt to the current economic system. Corporate bankruptcy and reorganization involve many stakeholders. Business failures have become a common part of daily life and society has become accustomed to the concept of bankruptcy [1]. How to safeguard the interests of all parties and maximize overall interests is the key and prerequisite for bankruptcy and reorganization. In recent years, corporate bankruptcy and reorganization cases have increased year by year. From 2007 to 2021, a total of 97 A-share listed companies in China had their reorganization plans approved by court rulings. From 2019 to 2021, the number of listed companies applying for (and being applied for) reorganization was respectively 14, 17 and 33 companies, and the company's reorganization plan has been approved by the court in 6, 13 and 24 companies respectively.

The approval rate of the 2021 reorganization plan is as high as 72.7%. In 2007, my country promulgated and implemented the Enterprise Bankruptcy Law, which identified three bankruptcy exit

paths for enterprises, including bankruptcy liquidation, bankruptcy reconciliation and bankruptcy reorganization, and proposed an enterprise bankruptcy and reorganization system in legal form [2].

People began to actively explore bankruptcy reorganization. Various modes. Reorganization is generally divided into two categories: pure financial reorganization and reorganization involving a comprehensive reorganization of the company's business, and their common premise is that the enterprise should have operating value [3]. In the research on effect analysis, domestic experts and scholars have proposed that it should be measured from multiple dimensions, including financial, business, market performance, etc. Through empirical research, it is concluded that companies that change their main business after bankruptcy and reorganization have better economic results than companies that have not made business adjustments. If the company only relies on government subsidies and single debt repayment, it may not be able to achieve it in the later period. Expected economic effects. According to the legal system and practice, reorganization is divided into three categories: survival reorganization, sale reorganization and liquidation reorganization [4]. Traditional survival-type reorganization is time-consuming, high-cost, and has certain limitations. Liquidation-type reorganization is close to bankruptcy liquidation, while sale-type reorganization is an emerging model in between, which can improve debt repayment. Rate, protect the interests of creditors, and help transfer valuable businesses to maximize the use of social resources [5]. Peking University Founder Group, a state-owned enterprise, filed for bankruptcy and reorganization, and the debt default behind it shocked the market. Therefore, the analysis of the effects of this company's bankruptcy and reorganization will be helpful for subsequent research on corporate survival reorganization. In the current economic environment, due to the increase in uncertainty, some large enterprises are also facing the risk of bankruptcy, which has had a huge impact on the social economy. In order to alleviate the negative effects of the bankruptcy of these large enterprises, people are working hard to find and innovate different methods of corporate bankruptcy and reorganization. Founder Group, as China's top school-enterprise cooperation model, its bankruptcy and reorganization cases are highly timely and representative. This article will discuss its bankruptcy and reorganization methods, hoping to provide reference and inspiration for the bankruptcy and reorganization strategies of other large enterprises.

## 2. Case Description

As shown in Fig. 1, on December 2, 2019, Founder Group failed to pay off its 2 billion yuan ultra-short-term financing when it matured, kicking off its debt crisis. Founder Group has gone through four major stages of bankruptcy and reorganization: first, it submitted a bankruptcy reorganization application, then initiated the reorganization process, then found and identified strategic investors, and finally implemented and executed the reorganization plan. In this process, there are several key participants such as the bankruptcy reorganization administrator: Founder Group's liquidation team, whose members come from the People's Bank of China, the Ministry of Education, financial regulatory agencies, relevant government departments in Beijing, and Beijing Dacheng Law Firm wait. The main body of its reorganization includes Founder Group and its five subsidiaries, namely Founder Industrial Holdings, Peking University Medical Industry Group, Peking University Founder Information Industry Group and Peking University Resources Group. For reorganization investors, on April 20, 2020, the bankruptcy reorganization administrator publicly solicited investors. A total of 29 companies expressed interest. In order to ensure that the selected investor's best meet the requirements, the managers conducted multiple screenings of these 29 companies, mainly based on their qualifications, debt repayment plans and rationality, matching with industry development, employee placement and stabilization plans and other factors. To encourage investors to propose more reasonable plans, the managers provided them with detailed guidance, covering the reorganization model, transaction structure, future operating plans, debt repayment plans, protection of employee rights and interests, risk management and regulatory rectification plans. Wait. In July 2020, the court ruled that Fangzheng Group and its four subsidiaries, Founder Industrial Control,

Peking University Medical, Peking University Information Industry, and Peking University Resources, would merge and reorganize; in the end, after many rounds of competition, under the principles of justice and fairness. The combination of Ping An + Zhuhai Huafa defeated the combination of "Taikang Life + Wuhan State-owned Assets" and won the bid on January 29, 2021 to become Founder Group's restructuring investment [6]. Ping An's existing comprehensive health system mainly includes Ping An Good Doctor (online consultation and Internet hospital operation), Ping An Smart Healthcare (pharmaceutical database, knowledge map, empowering hospitals and doctors, etc.), Ping An Healthcare Technology (medicine cost control) Hepingan Life, Health Xin'an and Pension Insurance (medical expense payers), but lack ready-made physical hospitals, which is the largest resource of Peking University Medical Care under Founder Group.

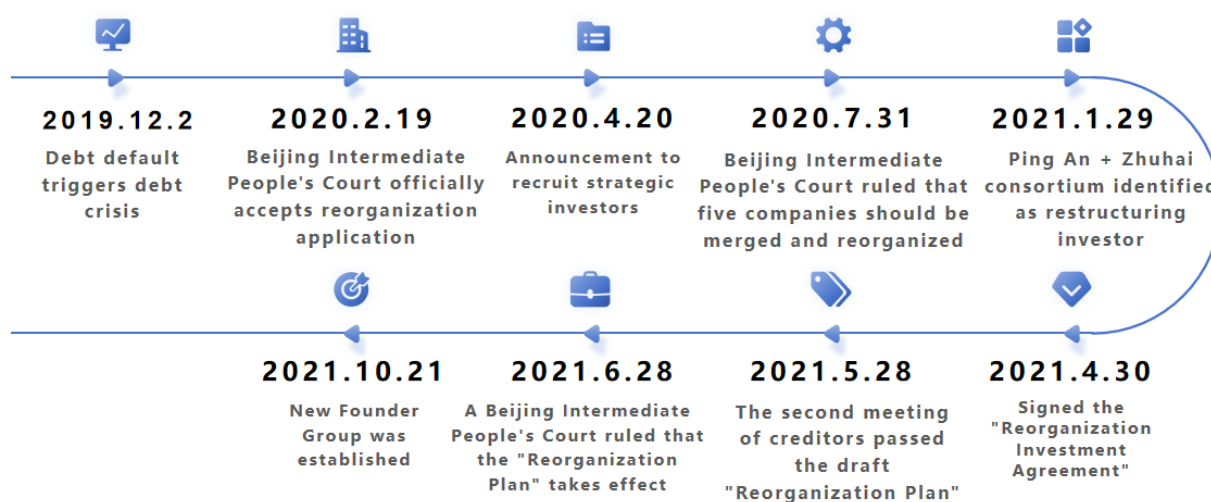


Fig 1. Processes schematical diagram.

### 3. Analysis

Since 2017, Founder Group's net profit attributable to the parent company has continued to show negative growth. By the first three quarters of 2019, its losses had reached as high as 3.193 billion yuan. As of December 1, 2019, due to the failure to repay the 2 billion yuan of ultra-short-term financing bonds "19 Founder SCP002" on time, the group faced credit risks, and its credit rating was downgraded from AAA to A. Data as of January 31, 2020 show that Founder Group's total assets were 62.257 billion yuan, while its total liabilities were as high as 146.970 billion yuan (this does not include potential external guarantees and other liabilities), resulting in negative owner's equity. 84.713 billion yuan. On February 14, 2020, facing the increasingly serious debt problem, the Bank of Beijing filed an application for bankruptcy reorganization of Fangzheng Group with the Beijing No. 1 Intermediate People's Court, pointing out that although it was unable to repay its debts, it still had the possibility of reorganization. Possible. On February 23, Founder Group began bankruptcy and reorganization procedures.

As of April 20, 2021, 743 creditors have filed claims declarations with Founder Group, totaling 256.169 billion yuan, of which 17.696 billion yuan are property-guaranteed claims and 238.473 billion yuan are ordinary claims. This figure it far exceeds the debt amount at the beginning of 2020. Sustained financing during a reorganization is key to a successful reorganization and is the most pressing issue that debtors in financial difficulty must face. In terms of solvency, from the perspective of asset-liability ratio, Founder Group's asset-liability ratio and financial leverage ratio were relatively high before bankruptcy and reorganization. As shown in Fig. 2, the asset-liability ratio of Founder Group in 2019 was 71.65%, which is in an alert state. Compared with 31.99% in 2023, it can be seen that through bankruptcy and reorganization, converting debt into equity can effectively reduce the company's debt ratio. Thereby optimizing the asset and liability status of the enterprise. In

terms of current ratio, the current ratio in 2019 is 0.738, compared with 1.779 in mid-2023. After the implementation of reorganization, the current ratio will be improved accordingly due to the reduction of debt situation, and the solvency of current liabilities will be greatly improved. Promote. In addition, from the perspective of return on net assets, as shown in Fig. 3, from -0.699 in 2019 to 0.0137 in mid-2023, it can be seen that the profitability of the company has turned from losses to profits after liquidation and reorganization.



Fig 2. Assets and liabilities.

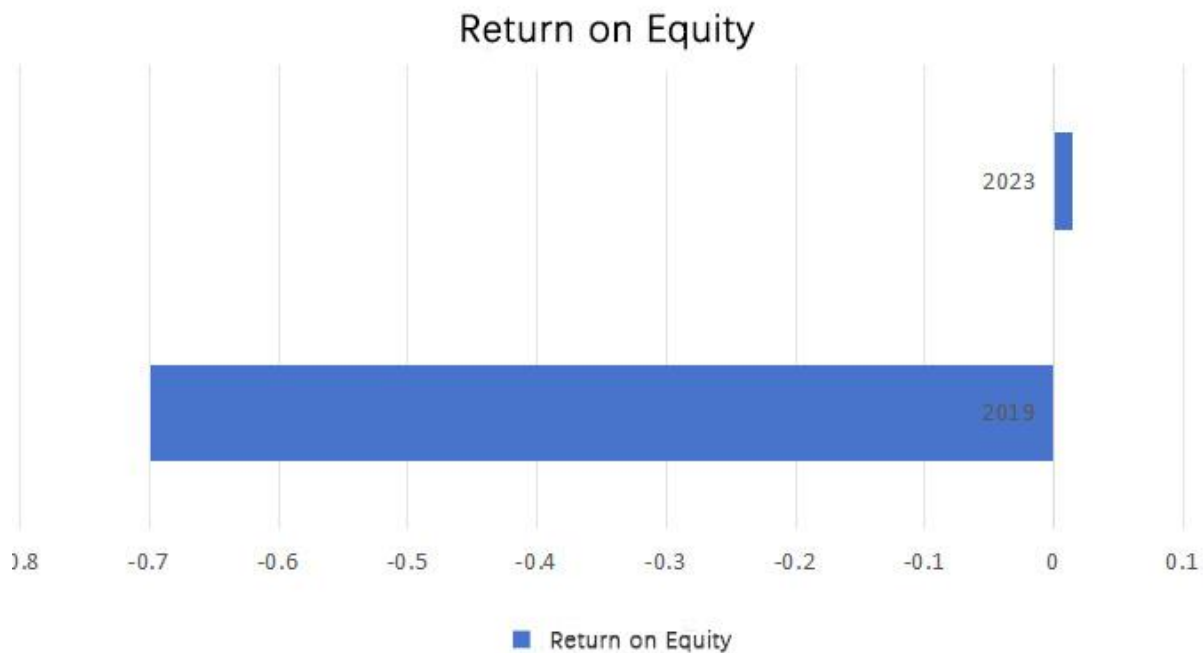


Fig 3. ROE diagram.

Regarding country's bankruptcy reorganization model, there are basically three models: liquidation reorganization, survival reorganization, and sale reorganization [7]. Considering that Founder Group is large in scale and difficult to realize, and its assets are mostly composed of other receivables and

long-term equity investments, Founder Group chose a sale-type reorganization. It is feasible for Founder Group to adopt a sale-type reorganization model, that is, the retained assets of the reorganization entity will be placed in the new Founder Group with investors and creditor holding platforms as shareholders according to the agreed method, or they will be directly acquired by investors [8]. In recent years, the debt repayment methods in the bankruptcy and reorganization of large groups have been relatively single, so creditors have little opportunity to choose. Most companies can only choose debt-for-equity swaps for repayment. Founder Group has implemented a variety of combination plans (e.g., cash settlement, debt-for-equity swaps) debt retention and other plans allow Founder Group to better connect to the next step in the subsequent bankruptcy liquidation process and quickly invest in the operations of the new Founder Group.

However, China's new corporate bailout mechanism does not appear to be particularly beneficial to debtors. In contrast, in the United States, although its corporate rescue regime is geared more toward debtor protection, most formal bailout applications are actually triggered by imminent liquidation actions by creditors. This shows that no matter how the design of the corporate bankruptcy rescue system favors the debtor, its effectiveness is still highly dependent on a strict debt enforcement system. In such a system, creditors can easily choose liquidation as a means of recovering their debts. This means that the pressure and actions of creditors greatly affect the actual operation of the company's bankruptcy rescue system [9].

#### 4. Implications

The Founder Group's experience in navigating through bankruptcy and reorganization offers invaluable lessons for large corporations facing similar challenges, encapsulating the essence of resilience and strategic adaptability in corporate restructuring. Central to their journey is the concept of agility and adaptability, highlighting the need for companies to remain flexible and responsive to rapidly changing market conditions, financial pressures, and emerging opportunities. A pivotal element of their success was effective stakeholder management, involving clear communication, transparent operations, and inclusive decision-making, which helped maintain trust and cooperation among creditors, investors, employees, and regulatory bodies. Their approach underscores the necessity for innovative financial strategies in restructuring. The Founder Group's use of diverse financial instruments, including debt-to-equity swaps, cash settlements, and debt retention, demonstrates how tailoring financial solutions to specific situations can optimize debt management and ensure continuity of business operations.

Strategic asset management played a significant role in their restructuring process. By critically evaluating their assets and liabilities, the Founder Group emphasized the importance of focusing on maximizing the value of viable units while divesting non-core or underperforming assets. This case also underscores the importance of legal and regulatory compliance in restructuring processes. The Group's adherence to legal frameworks and active engagement with regulatory authorities was crucial for a successful restructuring, emphasizing the need for businesses to ensure compliance and leverage legal provisions in their recovery efforts. Learning from failures and setbacks forms another cornerstone of their journey. Analyzing challenges, such as credit risks and operational losses, and implementing robust measures to prevent recurrence, fosters resilience and sustainable growth [10]. A focus on long-term viability and competitiveness is also critical, requiring a comprehensive approach that includes financial restructuring, operational efficiency improvements, and strategic realignments. The Founder Group's resilience is particularly inspirational, showing that with the right strategies, commitment, and stakeholder cooperation, it is possible for businesses to overcome significant challenges and turn adversities into opportunities for growth and renewal. Collaboration and partnership, as evidenced by the involvement of strategic investors like Ping An and Zhuhai Huafa, highlight the value of seeking alliances that bring fresh perspectives, resources, and capabilities. The Founder Group's case is a testament to the power of strategic collaboration in overcoming complex restructuring challenges.

In summary, the Founder Group's restructuring journey serves as a comprehensive case study, emphasizing the importance of agility, strategic financial management, stakeholder engagement, legal compliance, and the pursuit of long-term viability, offering a roadmap for businesses to navigate through tough times and emerge stronger and more resilient. The implementation of the enterprise reorganization system can further promote the development of our country's enterprises and economy. Although there are still many problems and flaws in the implementation of this system, it is believed that through the continuous improvement of the judicial department, this system will be able to balance the relationship between various stakeholders and truly solve problems for enterprises. Thus, safeguarding the rapid and stable development of the market economy [11].

## 5. Conclusion

To sum up, the Founder Group's restructuring journey exemplifies the importance of adaptability, effective stakeholder management, innovative financial strategies, and strategic asset management in overcoming financial distress. Emphasizing legal compliance and learning from past failures, their experience demonstrates how resilience, long-term viability, and strategic partnerships are crucial for successful corporate restructuring. The involvement of strategic investors and a focus on maximizing asset value were key to their turnaround. However, the article primarily focuses on the Founder Group's specific context, which might limit its applicability to companies in different industries or regions. Additionally, the complex interplay of external economic factors influencing the restructuring process is not deeply explored, which could provide a more comprehensive understanding of such transformations.

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