

Analysis of the Restructuring of Huishan Dairy's Debt

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Abstract. On 24 March 2017, the "black swan" incident of Huishan Dairy broke out and its share price dropped by 90% overnight. Since then, it has been in a serious debt crisis and its development has come to a standstill. Besides, it has sought to restructure itself several times over the years to get a new lease of life. The sequence of events is as follows: poor management of the company, debt crisis, share price collapse, suspension of the company, repeated debt restructuring and finally successful restructuring. To date, in November 2021, just over a year ago, according to the official website of Yuexiu Huishan Dairy, the dairy is in the IPO listing stage. This article focuses on the process and procedures of restructuring Huishan Dairy's debt, analyzing the situation before and after the restructuring based on financial and market data, assessing the success or otherwise of the restructured Huishan Dairy, which still has a "dominant share", sufficient "cash flow", and an over-invested "upstream industry". The problem of excessive investment in the "upstream industry" was resolved, and the "strategic layout" was clear and feasible. Based on the past and potential problems of Huishan, and considering the new situation and the advantages of its own development, the company has proposed some inspirations for the restructuring of the industry and the corresponding development suggestions.

Keywords: Huishan Dairy; Debt restructuring; Development suggestions.

1. Introduction

In recent years, the level of disposable income of the population has been increasing and the per capita consumption of dairy products has continued to rise. In terms of demand, consumers' demand for dry dairy products (e.g., cheese and butter has gradually increased), and there is a strong demand for high-end and low-temperature products, which will further promote dairy companies to improve their business capabilities [1]. In order to respond to the demand for consumer upgrading, leading dairy companies will invest more resources in quality milk sources, channels, brands and product research and development to establish barriers to entry for high-end dairy products. In recent years, the debt restructuring activities of companies in China have become increasingly frequent and have become an important phenomenon in the economic life of China, thus attracting widespread attention from the economic community. In the dairy industry, Yuexiu Huishan, after its debt restructuring, does not have a high market share and is in the back of the pack, with Yili, Mengniu and Guangming each accounting for 31.3%, 18.8% and 12% of the market in 2022. Although Yuexiu Huishan has a complete industrial chain, there is still a lot of room for development in the derivative dairy products that can be manufactured.

This article describes the process of debt restructuring of Huishan Dairy, analyses the reasons why Yuexiu Group finally succeeded in restructuring Huishan Dairy. Subsequently, we analyse the changes in Huishan Dairy's corporate situation and business model before and after the restructuring, summary the advantages and disadvantages of development, and use case studies and comparative analysis in the analysis process. The analysis also provides recommendations on the development strategies and tactics that Huishan Dairy can choose from, in order to ensure that Huishan Dairy will be listed again in the future and will continue to operate well. The case study method is a method of analysing a

particular case to derive a pattern, and therefore the case must be representative, and through careful scientific study of the case, a representative understanding of the overall characteristics can be derived. In this paper, we examine the debt restructuring of Huishan Dairy to compare the changes in the company before and after the restructuring and to assess the success of the debt restructuring. The comparative research method is a research method aimed at extracting similarities and differences by examining a certain number of objects or people, with reference to certain criteria, to explore certain patterns. In this paper, this research method is applied to the restructuring proposals made by different companies in the restructuring process of Huishan Dairy.

2. Case Descriptions

Liaoning Huishan Dairy Group, or Huishan Dairy, was first established in Shenyang, Liaoning Province in 1951. As one of the largest private enterprises in Liaoning, Huishan Dairy has built up a complete whole industry chain over the years, covering all elements of the dairy industry chain, including pasture cultivation, concentrate feed processing, breeding and raising of good breed cows, processing of a full range of dairy products, dairy research and development and quality control [2]. It is listed in Hong Kong in 2013. Huge investments were made in 2014 to create the full chain. Its current liabilities were as high as \$15.863 billion and its current assets were but \$13.992 billion, as reported in the 2016 annual interim report. It is predictable that the financial chain has gone awry. On 24 March 2017, the Huishan Dairy Black Swan broke out and the share price dropped by 90%. On 16 November 2017, Huishan Dairy entered into provisional liquidation. From 16 November 2017 to 11 November 2020 in the phase of introducing a third party for debt restructuring. The company has discussed its proposals with Yili and Mengniu, but they all ended in failure. On 12 November 2020, Huishan Dairy was successfully restructured with Yuexiu Group, and has since become one of the "troika" of Fengxing Food Group, a subsidiary of Yuexiu Group [3].

Yuexiu Group is the leading enterprise in Yuexiu District, Guangzhou City, it is a state-owned enterprise, its deep ploughing in the financial, real estate and transportation infrastructure industries for many years, occupying a certain market share, in 2019 Yuexiu Group officially took the food industry as its main industry, and has now formed an industrial system with finance, real estate, transportation infrastructure and food as the core [4]. Guangzhou Yuexiu Fengxing Food Group Co., Ltd. is a subsidiary of Yuexiu Group, which is mainly engaged in the development of food products, including dairy products and meat products, and its subsidiaries, Fengxing Dairy and Huishan Dairy, are both high quality dairy products brands in China, while its subsidiary, Huang Shang Huang Group, is a high quality meat food brand in China. On 20 March 2017, the creditor bank suddenly received a notice from Huishan Dairy that it was unable to repay the principal and interest for some reason. A few days after the fermentation, at around 11:30 am on 24 March, Huishan Dairy's share price suddenly plummeted, falling wildly by more than 90% in half an hour and eventually by 85% after an emergency suspension, at which point the market value was only HK\$5.7 billion, evaporating more than HK\$30 billion in half an hour. The biggest drop in the company's history.

After the debt crisis of Huishan Dairy in 2017, its debts amounted to more than RMB 30 billion and its creditors had more than 70 creditors, including up to 23 banks and more than 10 financial leasing companies, in addition to some private equity institutions. After a listed company experiences certain operational difficulties, there are usually two ways in front of the company's debtors and creditors, one is bankruptcy liquidation. The other is debt restructuring, and the final bankruptcy liquidation or debt restructuring, creditors' say is very significant. Since bankruptcy liquidation has many disadvantages such as time-consuming and labor-intensive, debt restructuring is increasingly chosen by more and more creditors [5]. In April 2020, New Hope and Yuexiu Group both proposed restructuring plans. From the restructuring proposals put forward by both parties, the two proposals were broadly similar, except for the higher amount offered by Yuexiu Group in terms of capital contribution. The draft proposed by VCG is broadly as follows:

- Fengxing Food Group, a second-tier subsidiary of Yuexiu Group, will set up a new company to take over the relevant business of Huishan Dairy. Related equity and assets.
- Windy Food Group contributed RMB2 billion in cash thereby holding a 67% equity interest in the newly established company.
- The creditors contributed at \$985 million with the corresponding claims in their hands, thereby holding 33% of the equity in the new company.
- Windy Food Group provides \$3 billion in addition to the above, of which \$2 billion is used to settle debt and no more than \$1 billion is used as co-beneficial borrowing to repay debt to supplement cash flow.
- Claims are simply divided into two main categories, financial general claims and operating general claims, and make different payout options, while giving creditors a choice.
- Yuexiu Group has undertaken to develop corresponding business support programmes for Huishan Dairy from the whole industrial chain.
- The Yuexiu Group has formulated a plan to plan its investments over a five-year period.
- Planning for the A-share listing of the new company.

Unlike Yuexiu Group, New Hope offered to take 67% of the shares for RMB 1.5 billion [6]. According to the Table. 1, one can see that New Hope's proposal invested less capital than Yuexiu Group, and the financial creditors wanted a higher debt retention rate with little difference in debt service ratio. In addition, Yuexiu Group gave a corresponding development plan and listing plan, and once Huishan was relisted, then the equity in the hands of creditors would gain more, Yuexiu Fengxing's restructuring proposal was approved by the creditors, and eventually the creditors chose Yuexiu Group. In August 2020, Yuexiu Group launched the preliminary research and project and conducted comprehensive due diligence; in September and October, Yuexiu Group evaluated other dairy companies participating in the restructuring and participated in the creditors' vote respectively; by November, the court ruled that Huishan Dairy restructuring plan and terminated the restructuring process, and Yuexiu Group took over Huishan Dairy. In June 2021, Yuexiu Huishan completed the registration and industrial and commercial changes, and In June 2021, the registration and business change of Huishan Dairy was completed, and 83 companies of Huishan Dairy officially became subsidiaries of Yuexiu Group.

Table 1. Restructuring proposal by Yuexiu Group & New Hope Group.

	Amount of capital contribution & shareholding	Creditor contributions & Shareholding	Debt Retention Rate
Yuexiu Fengxing	2 billion → 67%	985 million → 33%	8.5%
New Hope	1.5 billion → 67%	33%	8.3%

3. Analysis

According to Huishan Dairy's 2016 financial statements, the actual shareholding of Yang Kai, the chairman of Huishan Dairy before the restructuring, was as high as 73%. It resulted in Yang Kai having too much say in the board of directors and a serious phenomenon of "one share is too big", which directly led to other directors having no say in the board of directors, and this governance structure is inherently risky. This structure is inherently risky. Modern corporate governance is often based on checks and balances, where different departments and positions are checked against each other to avoid the disadvantages of too much centralised power. After the restructuring, Huishan Dairy still has this problem, with a 67% shareholder with absolute control, which poses a certain risk to Huishan Dairy's subsequent development [7].

As shown in the Table. 2, Hui Shan Dairy's net cash flows from operating activities in 2013, 2014 and 2015 were RMB 1,152 million, RMB 2,093 million and RMB 2,077 million respectively, while net cash flows from investing activities in 2013, 2014 and 2015 were -RMB 5,923 million, -RMB

5,059 million and -RMB 4,052 million, which can clearly show that Hui Shan The difference is offset by cash flow from financing activities and cash flow from short-term borrowings, but it can also be seen that compared to 2013, Hui Shan Dairy's financing ability is greatly reduced, which also means that Hui Shan Dairy's cash flow is in serious trouble. However, Yuexiu Group has a smooth cash flow and sufficient funds available. In its restructuring plan, Yuexiu Group proposed to support Huishan Dairy from the direction of the whole industrial chain, and made a practical plan to invest funds for the next five years and the corresponding revenue forecast, and also planned to integrate with Fengxing Dairy for listing.

Table 2. Adequate "cash flow".

Cash Flow Indicators	2010	2011	2012	2013	2014	2015
Net cash flows from operating activities (\$ billion)	0.45	7.52	14.42	11.52	20.93	20.77
Net cash flows from investing activities (\$ billion)	-18.27	-16.85	-13.67	-59.23	-50.59	-40.52
Net cash flows from financing activities (\$ billion)	16.69	14.11	2.5	90.52	5.83	15.79

The dairy industry, which has a high share of the domestic market, has devoted itself to the upstream industry chain in recent years. Milk sources are extremely important to the dairy industry and the scarcity of quality upstream milk sources can significantly increase a company's competitive advantage in the industry. Huishan Dairy naturally cannot give up the upstream industry in its hands, but it will also cause the problem of over-investment in the upstream industry. Before completing the restructuring, Huishan Dairy had gone through years of turmoil and its brand awareness and market share continued to decline, but it still has considerable value in terms of the number of farms and dairy cows in stock [8]. Dairy industry analyst Song Liang once told Time Finance that Huishan Dairy's most significant value lies in its upstream farming business. They have a very complete upstream supply system, including pasture cultivation, pasture processing and dairy cattle breeding, and the entire pasture resource is of great value. Official data (seen from Table. 3) shows that at present, Yuexiu Huishan has 400,000 mu of highly efficient forage and feed cultivation bases, 600,000 tonnes of feed production bases with processing capacity, 78 modern self-managed farms, 120,000 cows, and 4 modern dairy product processing bases nationwide.

Table 3. Huishan Dairy Production and Sales Summary.

Year	2013	2014	2015	2016
Dairy production (million tones)	9.00	37.50	49.80	62
Dairy product sales (million tones)	24.61	28.75	29.33	39.75
Dairy Product Utilization	273.44	76.67	58.90	64.11

After the restructuring of Huishan Dairy by Yuexiu Group in November 2020, Huishan Dairy is now part of Fenghuang Food Group, which owns two dairy brands, Fenghuang Dairy and Great Wall Dairy, in addition to Huishan Dairy. Huishan Dairy can sign dairy agreements with the other two companies under the same group. After all, Fenghuang Dairy and Great Wall Dairy require raw milk procurement. This not only solves the problem of Huishan Dairy's high investment in upstream industries, but also provides quality upstream industries for the other two companies in the same group.

After the restructuring of Huishan Dairy Group, the dairy industry has clearly formed a three-line layout of Huishan in the north, Great Wall in the middle and Fengxing in the south, once the three have opened up their market shares in the region, and then interoperate, or adopt a joint listing, then

the pattern of China's dairy industry will change from Yili, Mengniu Chu Han type of dichotomy to Yili, Mengniu and Yuexiu Dairy's three-legged The situation. As early as the early stage of the restructuring of Huishan, Yuexiu Group has hired the world's top strategic consulting company to develop Yuexiu Huishan strategic planning and organizational management system optimization program, proposed Yuexiu Huishan will be the whole industry chain model to achieve the scale of the upstream farm into the top three in the country; midstream based on the formation of ambient milk, low-temperature milk, milk powder three major channels, to achieve regional leadership, national breakthrough, business income into the industry's top ten, downstream market The downstream market will enhance the brand marketing capability and become an influential dairy brand nationwide.

On 21 February 2023, at the Yuexiu Huishan Juan's Milk Powder Festival and Milk Powder Strategy Launch, Han Chunhui, Party Secretary and General Manager of Yuexiu Huishan, said that in 2022, Yuexiu Huishan's milk powder revenue increased by more than 210% year-on-year, and the revenue of its main product "Huishan Mare" series increased by more than 333%. The company's main selling point is that it has a lot of people who are interested in the company. According to the data available to Li Shengli, a professor at China Agricultural University and chief scientist of the national dairy industry technology system, there are only 32,400 head of Juanshan cattle in the country, 7,000 of which are in Yuexiu Huishan, the highest number in the industry. According to Han Chunhui, Huishan is currently the only milk powder brand in China that uses Juanshan milk sources, and hopes to create the first "Juanshan Milk Powder Festival" to start a new track [9].

In 2023, Yuexiu's dairy sector aims to accelerate the integration of resources and lay out a national market. According to the new owner, Yuexiu Group, Yuexiu Huishan will become an important part of its dairy sector, and infant formula will be a key business for Yuexiu Huishan to increase. According to Zhang Zhaoxing, secretary of the party committee and chairman of Yuexiu Group, according to the target set by the group, by 2025, the scale of Yuexiu Huishan's milk powder business is to exceed 2 billion yuan and enter the top 10 in the market. In addition, the revenue scale of Yuexiu Group's dairy sector (including Yuexiu Fengxing, Yuexiu Huishan and Great Wall Dairy) is to be raised from the current RMB 200 or 3 billion to RMB 10 billion. According to data from the China Courts Network, after the restructuring plan of Huishan Dairy entered its implementation period successfully, production and operation have returned to the right track, nearly 30 billion yuan of debts have been resolved, the restructuring plan has introduced 3 billion yuan of investment, 13.3 billion yuan of assets have been revitalised and more than 7,000 employees have been able to continue their employment. According to Yuexiu Group's plan, by 2025, the Group's revenue should reach RMB 200 billion, profit RMB 30 billion and asset size RMB 1,500 billion. And as of December 2022, Yuexiu Group's revenue was RMB 112.51 billion, profit RMB 18.01 billion and assets RMB 965.2 billion.

Han Chunhui revealed that in 2022, Yuexiu Group made significant investments for Yuexiu Huishan, investing a total of more than RMB 1 billion in environmental protection upgrades for the farm and nearly RMB 100 million in digital construction of the entire industry chain. The proportion of mid- to high-end products in liquid milk has gradually increased, and milk powder has completed the layout of national channels. 2023, Yuexiu's dairy segment aims to accelerate the integration of resources and layout of the national market, specifically including the integration of high-quality milk resources, the integration of regional cold chain and sales channels, and the pull-through of business layout and marketing resources. In terms of infant formula products, Yuexiu Huishan currently has three product lines, namely Mare, Chupin and Xingen, to target the high-end and niche circuit. Among them, Huishan Mare is an infant formula that uses Juanshan milk source and has passed the new national standard registration, while Juanshan milk is recognised as a high-end milk source in the industry. Regarding to channels, by the end of 2022, Yuexiu Huishan's milk powder distribution network covered 31 provinces and cities and had laid out offline online channels such as mom-and-pop shops and e-commerce [10].

4. Suggestions & Insights

According to the above study, it is important not to rush the development of a dairy company, but to expand and develop little by little to avoid being shorted, resulting in cash flow failure and eventual bankruptcy. In the case of Huishan Dairy, Huishan Dairy has a very long-term vision and started to build a whole-industry chain business model at the earliest stage. It is also the same trend as the current leaders in the dairy market, who are now seizing upstream quality farms to ensure the quality of dairy products. The president of Huishan Dairy was so ambitious that in the process of building the whole industry chain, he did not clearly understand whether the revenue generated would be able to pay off the debt, and even at the time when Huishan Dairy was building the whole industry chain, it opened factories across the country in order to capture the national market share, which showed from the results that such blind development without considering the company's own strength was not feasible [11].

There are also many disadvantages to be learnt from the fact that a company with only one director holding a high number of shares and no other directors to check and balance each other can lead to the company being led astray by only one person without the need to go through the other members of the board. It is also recommended that a supervisory board be set up to oversee the company's operations and finances and to make recommendations on decisions made by the company. When faced with restructuring, companies need to actively seek partners, introduce their company's strengths to attract large companies' funds to support them, improve their industrial structure, enhance the use of assets and seek the government's help. Hui Shan Dairy is under the strong support of the Liaoning government and has been in contact with a number of companies to complete the restructuring.

5. Conclusion

In summary, based on the data retrieving and analysis, the process and causes of corporate restructuring were better understood. The restructuring will help to eliminate unnecessary expenses at the source of the business development and invest these funds in more important business development. After the restructuring, Huishan Dairy has a clear strategic plan and is getting back on track with its production and operations. After a decline in size and a reduction in market share following the debt crisis, the company's financial position has improved and valuations have become higher in recent years. After learning about the dairy sector, advice is provided on the development of companies in the dairy sector, as well as the problems faced by restructuring companies and suggestions for improvement.

This study examines the restructuring process in the dairy industry through an analysis of the case of Huishan Dairy, which has not been publicly disclosed since its forced delisting in 2017, and the data in this article may be distorted to some extent and can only be obtained by searching some other websites. The search for literature and the handling of data is also rusty and there is no extensive statistical analysis of data or use of the literature. The market of China's dairy industry has been close to saturation, and the global demand for dairy products is increasing year by year. China can do its best to develop foreign trade, and the dairy products will be exported to expand the market. Huishan Dairy is very hopeful to develop better after restructuring. Overall, these results offer a guideline for relevant development strategies based on the company's advantages and disadvantages.

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