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# Research on Identifying and Addressing Corporate Bond Default Risks: The Case of Company B

**Yueyue Zhu**

*Department of Accounting, Lanzhou University of Technology, Lanzhou City, Gansu Province, China*
*3439659719@qq.com*

***Abstract:*** *In recent years, frequent bond defaults in China's bond market have triggered a series of chain reactions within the industry. Bond defaults not only precipitate corporate liquidity crises but also undermine the effective functioning of financial markets, thereby infringing upon investors' legitimate rights and interests. Consequently, identifying and preventing bond defaults has become a focal point for enterprises. This paper identifies risks in corporate bond defaults by combing through their causes and analysing the case of Company B's bond default. The introduction of the 'three red lines' policy signifies China's property market has entered a phase of deleveraging and high-quality development. With financing channels constrained, the sector faces deepening adjustments and accumulating risks. Company B has for the first time acknowledged its inability to repay maturing debts, thereby establishing its default as a fait accompli; subsequently, the company has pivoted its focus towards debt restructuring in pursuit of a viable solution. To mitigate corporate bond default risks, this paper proposes measures including strengthening internal corporate governance to enhance decision-making efficiency; proactively disclosing information to reduce capital costs; and establishing diversified restructuring plans. These steps aim to prevent liquidation, facilitate corporate revitalisation, and thereby safeguard financial market stability.*

***Keywords:*** *Bond Default; Risk Identification; Real Estate Enterprises*

## 1. Introduction

China's macroeconomy is currently undergoing a critical phase of structural adjustment and deleveraging. Real economy enterprises face dual pressures from cyclical fluctuations and structural transformation, with corporate bond default risks rising significantly. Since the 2014 '11 Chaori Bond' incident shattered the myth of 'rigid redemption' in China's bond market and ushered in substantive defaults, bond default events have exhibited a trend towards becoming routine and increasingly diverse. During 2014-2015, the new energy sector witnessed the first wave of credit bond defaults; From 2018 onwards, the scope of defaults expanded further, culminating in an industry-wide "debt default crisis". The bond defaults by state-owned enterprises such as Yongmei Group in 2020 signalled a shift in defaulting entities from private enterprises to state-owned enterprises, with the affected sectors expanding from a single domain to multiple areas including manufacturing, services, and real estate.

The property sector has emerged as the hardest-hit area for bond defaults. By April 2025, cumulative bond defaults by Chinese property developers had reached 1.07 trillion yuan. Leading developers including Evergrande Group, Sunac China Holdings, Shimao Group and Country Garden have all been embroiled in default crises, dealing a severe blow to confidence across the upstream and downstream supply chains, financial institutions and investors. To alleviate the crisis of property developers defaulting on their obligations, the state has established a real estate relief fund. The 2025 Government Work Report explicitly states that efforts will be sustained to stabilise the property market and halt its decline, with 'effectively preventing debt default risks among property developers' identified as a key priority. This underscores the urgency and significance of managing bond default risks.

This paper selects Company B as its case study subject, partly because it has long been a leading player in China's real estate sector, and partly because its first default occurred against the backdrop of policy measures such as the 'three red lines', rendering it both timely and representative. On the other hand, this is because Company B, as a listed company, maintains relatively standardised periodic financial reporting and interim announcements, rendering its data readily accessible. By analysing the risks and countermeasures during Company B's default process, valuable lessons can be drawn for

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other property developers facing similar default risks, while also serving as a cautionary tale within the capital markets.

## 2. Literature Review

Bond defaults are an inevitable consequence of the market-oriented operation of the bond market. With the rapid development of China's bond market, bond default incidents have become increasingly frequent. This aligns with the general patterns observed in the development of international bond markets and signifies the gradual maturation of China's bond market. Zhou Donghua et al. (2025) note that bond defaults not only impact the issuer itself but also adversely affect subsequent financing and innovation investment levels among enterprises within the issuer's industry[1]. Zheng Bugao (2021) observed that bond defaults in China exhibit sectoral diversification. While earlier defaults were predominantly concentrated in cyclical industries characterised by overcapacity, the implementation of stringent financial regulatory policies has led to the spread of credit risk towards non-cyclical sectors[2]. LIU P et al. (2022) and HUAN Z (2022) et al. contend that credit bond default events in financial markets exhibit an increasing trend, with the scope of affected industries and entities continually expanding. This not only heightens the difficulty of issuing bonds for sectors prone to default risks but also undermines the stability of the bond market[3][4]. Xue Tian (2024) contends that frequent corporate breaches of trust increase the likelihood of corporate bond defaults[5]]. Ma Yanfei (2020) found that among bond-issuing enterprises that defaulted, most did not suffer from operational difficulties. However, due to weak liquidity management capabilities, they were unable to navigate volatile economic conditions. Consequently, external factors led to a breakdown in their funding chains, resulting in bond defaults[6]· Ke Shaoqing et al. (2023) note that when firms discover competitors facing penalties for environmental violations, they may respond by increasing the scale of green innovation and enhancing its quality[7]. Xiong Haifang and Liu Tianming (2022) contend that enterprises should actively engage in liquidity management, particularly those with high debt dependency and weak corporate governance capabilities. Concurrently, heightened attention should be paid to debt and asset conditions to mitigate the contagion effects of debt default risks[8]. Zhou Yarong et al. (2024) propose that regulatory authorities should establish and improve early warning systems, strengthen monitoring of bond issuers' information disclosure and financial conditions, thereby mitigating market volatility caused by information asymmetry[9].

## 3. Case Background

### *3.1 Company B Profile*

Company B was established in 1992 and listed on the Main Board of the Hong Kong Stock Exchange in 2007. In 2018, its services division was listed on the Hong Kong Stock Exchange, alongside the introduction of its 'enhancing quality while controlling growth pace, pursuing steady progress for long-term development' strategy. Company B held the title of China's top property developer by sales for six consecutive years from 2017 to 2022, achieving sales of RMB 758.8 billion in 2021. In mid-2023, the company experienced a debt default, subsequently facing operational difficulties.

### *3.2 Company B's Business Operations*

*Table 1: Company B's Principal Business Operations in 2023*

| Item | Operating Revenue (¥ billion) | YoY Change (%) | Operating Costs (¥ billion) | YoY Change (%) |
|---|---|---|---|---|
| YoY Change | 3914.9 | -5.66% | 3287.3 | -8.40% |
| Other | 96.24 | -37.54% | 45.25 | -59.36% |

Table 1 Data source: Company B Annual Report

Since the second half of 2021, Company B has experienced a significant decline in sales performance due to multiple factors including the downturn in the property market and tightening financing conditions. In 2023, Company B achieved annual operating revenue of approximately RMB 401.015 billion, representing a decrease of around 6.8% compared to the RMB 430.371 billion recorded in 2022. The same year saw Company B incur substantial losses, with a net loss attributable to shareholders reaching RMB 178.4 billion – an expansion exceeding 28-fold year-on-year – and a gross

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profit of negative RMB 93.609 billion. As shown in Table 1, the real estate revenue of Company B was 391.49 billion yuan, a year-on-year decrease of 5.66%; Operating costs amounted to 328.73 billion yuan, a year-on-year decrease of 8.40%; The revenue of other industries was 9.624 billion yuan, a year-on-year decrease of 37.54%; The operating costs of other industries were 4.225 billion yuan, a year-on-year decrease of 59.36%.

### *3.3 Analysis of Company B's Bond Default*

In August 2020, policies including the ‘three red lines’ were successively introduced, aimed at controlling the leverage ratios of property developers and preventing financial risks, thereby achieving the long-term, sustainable and healthy development of the property market. In the same year, Company B recorded its first revenue decline since listing, with its gross profit margin falling consecutively to reach the ‘yellow zone’. In 2022, amid the ongoing downturn in the property market, Company B experienced a significant slowdown in sales receipts while still facing substantial repayments on maturing debts. In 2023, Company B failed to pay two US dollar bond interest instalments, designated as ‘4.2%N20260206’ and ‘4.8%N20300806’, totalling US$22.5 million. This incident marked a pivotal moment in the exposure of bond default risks.

Subsequently, Company B publicly acknowledged default on offshore debt obligations, marking the formalisation of bond defaults. In 2024, the company suspended trading after failing to publish its financial reports on schedule, shifting its focus towards advancing offshore debt restructuring to avert bankruptcy liquidation. In 2025, Company B made substantial impairment provisions, resulting in a significant net loss in its financial statements. While the company currently maintains positive net assets, it faces the risk of delisting should it fail to meet the conditions for resuming trading by October 2025.

## 4. Bond Default Risk Identification Analysis

This paper categorises the bond default process of Company B into three distinct phases: pre-default, mid-default, and post-default. By analysing the core risk points at each stage, it clarifies the trajectory of risk evolution.

### *4.1 Early-stage Risk Identification of Bond Defaults*

Since the implementation of the ‘three red lines’ policy in 2020, property developers' financing channels have tightened, ushering the sector into a downturn. Concurrently, stricter financial regulation has signalled that the traditional ‘high leverage, high turnover’ development model relied upon by the property industry is no longer sustainable. Company B, as a leading private property developer with extensive business operations, is significantly impacted by market conditions. Its sales performance has shown a marked decline since 2022, with monthly equity sales figures steadily decreasing. By July 2023, contracted equity sales amounted to merely RMB 12 billion, representing a substantial contraction compared to previous levels. The persistent decline in sales receipts has impeded the company's cash flow recovery, thereby heightening the risk of bond defaults. In terms of financing, Company B primarily relies on bank loans, bond issuance and pre-sale proceeds. As risks in the property market have escalated, financial institutions have become more cautious in extending credit to property developers, while the bond market has shown diminished confidence in real estate enterprises. Consequently, Company B now faces significant financing constraints. Moreover, Company B's assets are predominantly comprised of real estate projects, which exhibit limited liquidity. Consequently, against a backdrop of sluggish sales and difficulties in recovering payments, the company's available liquidity has progressively tightened.

### *4.2 Mid-term Risk Identification for Bond Defaults*

In August 2023, Company B failed to make two interest payments on its US dollar-denominated bonds. This incident swiftly drew intense market scrutiny, triggering substantial declines in both its share price and bond values. Investors reassessed its credit risk, prompting a sell-off of shares and bonds that further deteriorated the company's financing environment in capital markets. Consequently, Company B's domestic bonds faced significant pressure. To alleviate its repayment crisis, the company has commenced extending the maturity dates of certain domestic bonds, such as proposing an extension plan for the ‘16B05’ bond maturing on 2 September 2023, reflecting its severe difficulties in meeting

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debt obligations. Whilst such extensions may temporarily ease repayment pressures, they also expose the company's financial distress, heightening bondholders' concerns over principal and interest payments and thereby amplifying the risk of bond defaults.

### *4.3 Post-default phase of bonds*

In October 2023, Company B failed to repay a principal amount of HK$470 million upon maturity due to depleted liquid assets. Subsequently, the company issued an announcement formally acknowledging its inability to honour all offshore debt obligations, marking the formalisation of 'Company B's default'. As its financial condition deteriorated sharply, normal business operations suffered severe disruption, employee stability was compromised, and project construction and delivery schedules ground to a significant halt, plunging overall operations into a comprehensive crisis. Following the default announcement, international rating agencies promptly downgraded its credit rating to 'default grade' (D-level).

To address its debt crisis, Company B has proactively engaged in negotiations with both domestic and overseas creditors to comprehensively advance debt restructuring. Domestically, the company has secured extensions for multiple bond maturities. Internationally, it has engaged specialist institutions to assist in designing restructuring proposals, focusing on alleviating repayment pressures through measures such as extending debt terms, reducing interest rates, and implementing debt-to-equity swaps to avoid bankruptcy liquidation. Furthermore, Company B has recouped funds by divesting select high-quality projects and assets, such as the sale of its stake in the Guangzhou Asian Games City project. It has also adjusted its operational strategy, concentrating resources on the construction and delivery of key projects to maintain stable operations.

## 5. Countermeasures and Recommendations

### *5.1 Pre-default period*

#### *5.1.1 Strengthen Internal Corporate Management*

Enterprises should exercise prudence in controlling the scale of land acquisition, avoiding indiscriminate expansion, and conduct thorough market research and feasibility analysis during strategic decision-making processes. Concurrently, robust dynamic risk assessment mechanisms should be established to flexibly adjust strategic positioning in response to market demand shifts, while aligning with the organisation's unique characteristics.

#### *5.1.2 Expand Diverse Financing Channels*

Enterprises should actively diversify their financing channels to reduce reliance on any single method. By fully utilising multiple financing approaches such as equity financing and asset securitization , they can optimise their capital structure and lower their debt-to-equity ratio.

#### *5.1.3 Strengthen Cash Flow Management*

For enterprises facing bond defaults, accelerating the recovery of funds is a crucial measure to improve cash flow. Furthermore, comprehensive cost control should be strengthened, with unnecessary expenditure reduced to safeguard the security of the company's liquid assets.

### *5.2 Mid-Term Default*

#### *5.2.1 Uniform Disclosure Standards*

Regulatory authorities should establish robust and standardised disclosure requirements, mandating that enterprises comprehensively, accurately and promptly disclose key information including operational performance and financial standing. Enterprises should proactively explain to investors the reasons for difficulties in meeting interest payments and propose practical, comprehensive solutions to mitigate market panic and potential legal risks arising from information asymmetry.

#### *5.2.2 Actively Pursue Debt Rollovers*

Enterprises should formulate reasonable and feasible extension plans, such as extending repayment periods or arranging instalment payments for interest, to reassure creditors and create the necessary time to mitigate their own debt risks.

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#### *5.2.3 Resolutely Implement the Task of Ensuring the Delivery of Completed Buildings*

Enterprises should concentrate resources to prioritise the completion and delivery of key projects. This not only helps stabilise market confidence but is also a crucial measure in responding to policy requirements, safeguarding brand reputation and maintaining social stability.

### *5.3 Post-Default Period*

#### *5.3.1 Implement Comprehensive Debt Restructuring*

Enterprises should establish debt restructuring committees and engage financial and legal intermediaries to devise systematic restructuring plans. For offshore debt restructuring, capital structures may be optimised through measures such as debt-to-equity swaps; for onshore debt restructuring, extensions may continue to be sought to alleviate short-term repayment pressures.

#### *5.3.2 Implementation of the Asset Divestiture Plan*

The company should divest certain core high-quality assets to raise the funds required for restructuring, while endeavouring to maximise the value of these assets in the transaction.

#### *5.3.3 Actively Driving the Transformation of Business Models*

The introduction of the ‘three red lines’ policy signifies the end of an era of unsustainable growth within the industry. Following the easing of the crisis, enterprises should proactively transition from models reliant on high leverage and rapid turnover towards more sustainable development pathways.

## 6. Conclusion

Changes in the external policy environment and cyclical adjustments within industries constitute key factors leading to corporate bond defaults. To effectively mitigate bond default risks, enterprises should strengthen internal governance, actively diversify financing channels, enhance cash flow management, and improve the quality and transparency of information disclosure. Only by combining internal capacity building with external environmental optimisation can a sustainable risk prevention mechanism be established, thereby safeguarding market credit order and promoting the steady development of the bond market.

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