

V. N. KARAZIN KHARKIV NATIONAL UNIVERSITY

Educational and Research Institute “Karazin Business School”

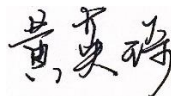
Department of Management and Administration


**MASTER’S THESIS**

Title: “Development of a business strategy of an enterprise”

Completed by 2<sup>nd</sup> year student,  
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specialty 073 “Management”

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**TASK**

**TO MASTER THESIS**

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1. Title: Development of a business strategy of an enterprise

Supervisor: Anna KRAMARENKO, PhD (Economics), Associate Professor

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2. The term of the student's submission of thesis on November 15, 2023

3. List of issues that need to be developed

1. Study theoretical approaches to strategic management.

2. Analyze development status and reveal the problems of ZH Ltd.

3. Develop the recommendations for implementation of ZH Ltd. business strategy.

#### 4. Work plan

No	Stages of work
1	Approval of the thesis content
2	Preparation of the thesis' first section
3	Completion of the first section according to the supervisor recommendations. Writing the thesis' second section
4	Completing of the second section according to the supervisor recommendations. Preparation of the thesis' third section
5	Completing of the third section according to the supervisor recommendations. Preparation of a report for a scientific conference with a presentation of the main results of the thesis
6	Writing of the introduction, conclusions of the thesis. Making references list
7	Submission of the thesis to the Department of Management and Administration

#### 5. Date of assignment issue June 30, 2023

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## INTRODUCTION

**Relevance of the study.** Since the reform and opening up, the real estate industry has grown along with China's economy, making important contributions to the country's GDP growth and the improvement of people's quality of life. Especially in the first decade of this century, the reform of China's economic system and the deepening of the market economy have given real estate enterprises the opportunity to grow rapidly, achieving the «golden age» of the real estate industry, with the real estate industry and the industry chain driven by the real estate industry accounting for more than 30% of China's GDP.

However, in the process of rapid development of real estate, gradually exposed such as high price speculation, vicious land hoarding and other problems. In order to solve these chaotic phenomena, the government has launched macro-control policies for the real estate industry in recent years, including the «price limit, sales limit, purchase limit, loan limit, business limit» policy of strict control, land use restriction, the introduction of new shanty reform policy, tightening of the financing environment and other measures have been introduced one after another, and through the reform of the state and land tax, cut off the close ties between local governments and real estate enterprises.

The real estate industry is the foundation of market economic activities, with the widest industrial chain cluster effect, and is crucial to the healthy and orderly development of the national economy. As China's economy promotes the new development pattern of double cycle, the state no longer uses real estate as a short-term means to stimulate the economy, and under the main tone of regulation and control of adhering to the attribute of residence, it guides the real estate in-depth supply-side structural reform, which prompts the real estate industry to move towards the new normal of steady development, and the market pattern gradually changes from a seller's market to a buyer's market, which has become a catalyst for the transformation of real estate enterprises. Under the dual impact of the epidemic and regulation, real estate

enterprises are bound to face the severe challenges of survival and development, coupled with the capital-intensive attributes of real estate, once the strategic direction of the error will lead to the lack of enterprise risk-resistant ability, which seriously affects the development of enterprises. In this context, the study of the development strategy of real estate enterprises is of great strategic significance in promoting the long-term stable and healthy development of the real estate industry under the new situation of market economy.

**Goal of the research** is to study the possibilities for Huafa to further upgrade and innovate its strategy with a longer-term perspective, improve its layout, enhance its quality and efficiency, improve its management, accelerate its transformation, establish its leading position in the industry and consolidate the influence of its brand, so as to achieve a new breakthrough in corporate development.

**Research objectives:**

- to review strategic management theory;
- to systematize research related to strategic management;
- to define approaches to building the strategy of the real estate industry;
- to analyze the external and internal environment of ZH Ltd.;
- to identify problems and reasons for the development of ZH Ltd.;
- to define the strategic options of ZH Ltd.;
- to develop the recommendations for ZH Ltd. strategy implementation.

**The object of the research** is business strategy improvement possibilities in modern conditions.

**The subject of the research** is ZH Industrial Co., Ltd. strategic management, analyzes its operation status quo and existing problems, so as to formulate a development strategy suitable for ZH Co.

**Research methods.** The following research methods are mainly applied:

1) Literature research method. By collecting, identifying, organizing and analyzing literature works related to strategic management and state-owned enterprise reform and real estate enterprise development, this paper provides theoretical basis and

practical support for ZH Industrial Company to formulate suitable development strategies by searching, reading, screening and organizing the contents of the literature in related fields.

2) Case study method. Ltd. as a research case, combined with the relevant theories of strategic management, this paper carries out a comprehensive and in-depth investigation of ZH Industrial Company, grasps the actual operation of the company, digs out the problems and their root causes in the process of the company's operation, and applies SWOT, PEST and other analytical tools to systematically and objectively analyze the internal and external influencing environments, so as to make clear the environment in which the company is located, and its own strengths and weaknesses. We analyze the internal and external environment in a systematic and objective way by using SWOT, PEST and other tools to identify the environment in which the company operates, its strengths and weaknesses, and its opportunities and threats, and then put forward countermeasure suggestions and measures in combination with the company's own vision and goals to formulate a practical development strategy.

3) Survey and research method. This paper collects, examines and organizes the disclosure information, annual report materials, bond reports, listed company announcements and industry research reports of ZH Limited, adopts the investigation methods such as on-site interviews, telephone interviews, video conferences, etc., and learns about the company's operation status and the development of its operation strategy through in-depth field research of the enterprise and visiting and communicating with the executives of the enterprise; finally, it conducts comprehensive analysis on the acquired materials and information.

**Practical significance.** It is based on this background that this paper selects the topic, taking ZH Ltd. as the research object, through the application of strategic management and its related theories, standing on the realization of ZH to China Huafa's strategic objectives, providing scientific and reasonable strategic suggestions, so that Huafa Co. can go farther on the road of enhancing its core competitiveness and high-quality development, which is of practical and operational significance for the planning and implementation of its development strategy. At the same time, it can also provide

experience reference and theoretical reference for other real estate enterprises facing strategic transformation in China, which is of positive significance for promoting local and regional economic development and even cooperating with the implementation of national strategies.

## **SECTION 1**

### **THEORETICAL APPROACHES TO STRATEGIC MANAGEMENT**

#### **1.1. Strategic management theory**

Strategic management refers to the dynamic management process in which an enterprise pursues long-term survival and development in a competitive environment, analyzes its internal organizational resources and external influences, combines its own mission, culture and vision, formulates strategic objectives and makes strategic choices, and ensures the effective realization of strategic objectives through the implementation of a series of measures and flexible adjustments [2]. This process includes four links: strategy analysis, strategy formulation, strategy implementation and strategy guarantee.

The essence of strategy is to solve the development problem of the enterprise, so the development strategy is the theoretical basis of how to realize the development of the enterprise. The basic types of development strategy include diversification strategy, intensive strategy and integration strategy [4]. This paper utilizes the basic knowledge of strategic management, mainly based on diversification strategy and intensive strategy.

Diversification strategy refers to the strategy made by an enterprise to selectively enter into new industrial fields outside the original industry to help the enterprise to develop new markets and occupy the market more, or to avoid the risk of single operation. It is divided into relevant diversification strategy and non-relevant diversification strategy. This paper mainly applies the former, i.e. the strategy of entering related industries or markets based on the original products, which is subdivided into centralized diversification and horizontal diversification. Concentrated diversification, also known as concentric diversification, is characterized by the use of new products and the original product is different, but the technical relevance of the

stronger, can use the existing technology to develop new products. Horizontal diversification, characterized by the use of new products and the original product is different, different technology, but the market relevance of the stronger, can use the existing distribution channels to sell new products [7].

Intensive strategy, also known as intensive strategy, refers to the enterprise in the existing business remains unchanged, through the market penetration, market development or product development to tap the potential to seek new development strategy, the types include:

1) Market penetration strategy, the combination of existing products and existing markets, including the use of existing products to open up new markets to realize the penetration of the existing market for the provision of new products to realize the penetration of the market. The strategy mainly includes three forms:

- cost leadership strategy, strengthen cost control so that the overall operating costs of the enterprise in the industry at a lower level of strategy;
- differentiation strategy, to take different from competitors to form the business characteristics of the strategy;
- centralized strategy, focusing resources to form a specialized advantage of the strategy [16].

2) Market development strategy, combination of existing products and new markets, including the opening up of other regional markets, explore potential customer segments, open up new marketing channels.

3) Product development strategy, combining new products and existing markets, including technological improvement of existing products in the existing market, the development of new products [22].

The Core Competence of the Corporation theory (The Core Competence of the Corporation) points out that the core competence has the characteristics of uniqueness, comprehensiveness, value, extensibility and dynamics, etc., and that the enterprise combines the knowledge, resources and skills, and builds a comprehensive system of its own capabilities around these characteristics, which becomes the source of obtaining sustainable competitive advantages [52]. Core competitiveness is the most

crucial strategic asset of an enterprise, and it is the unique ability of an enterprise established in the process of resource accumulation and development. From the overall perspective of an enterprise, core competence must be the basis of the entire company's business, capable of generating a series of other products and services to achieve economies of scale. The competition of modern enterprises is reflected in the struggle for core competitiveness, so improving core competitiveness is an objective need for the long-term development of enterprises.

To summarize, the above theoretical framework system provides sufficient strategic theoretical support for the research of this paper, and lays a strong theoretical foundation for the scientific and reasonable formulation of enterprise development strategy for ZH Ltd.

## **1.2. Research related to strategic management**

Strategic management is the key to determining the success or failure of all business activities of an enterprise, the overall guiding ideology of enterprise management, and the blueprint for the long-term development of the enterprise. It is precisely because of the wide application and important role of strategic management that it has become a key research direction in academic circles at home and abroad for many years.

The term strategy originated in military warfare and then expanded to political, economic, and cultural activities. The theory of strategic management originated in the 1960s. The American scholar Chandler, recognized as one of the founders of the field of strategic management, pointed out that the structure of the firm follows the direction of the expansion strategy. Ansoff put forward the concepts of corporate strategy and strategic management, as well as the «four elements of strategy» including competitive advantage, synergy, growth vector, and product and market scope, which became the forerunner of modern strategic theory and marked the emergence of the idea of strategic

management and the formation of the basic research framework [1].

Regarding the primary factor determining an enterprise's competitive advantage, Porter, a representative of the external environment school, believes that it is the industry structure and industrial positioning, and further puts forward the theory of competitive strategy, which takes the strategy of concentration, the strategy of differentiation, and the strategy of cost leadership as the basic strategy for winning competitive advantage. Hamel, on the other hand, considers this factor to be core competitiveness, and emphasizes in his doctrine of core competence that enterprises need to combine their own resources to establish a system of core competence in order to realize their unique competitive advantage [27].

Edward de Bono, based on Porter's five forces of competition theory, creatively put forward beyond the competition theory, that corporate strategy is the enterprise to take itself as a competitor, value as the core, through the monopoly of value and value innovation beyond the self, to create a relatively higher value for customers. The process of creating relatively higher value for customers through value monopolization and value innovation [9].

It can be seen that the international mainstream strategic management research after more than half a century of evolution, has formed a relatively complete theoretical system, and has achieved world-renowned practical achievements.

With the development of reform and opening up, modern enterprise strategic management has become a domestic research hotspot, after practice and exploration of the stage of theoretical achievements, the development of domestic enterprises and even economic promotion have certain theoretical significance and practical significance.

In terms of corporate strategy management, Jiang Ruxiang, known as the «first person of sustainable growth strategy», published China's first monograph on corporate strategy «The Gap», in which he mentioned that Chinese companies need to establish a sustainable growth strategy that can unite people's hearts and minds, gain a competitive advantage, and guide the development of the business and its expansion [71]. Li Ling's team further interpreted Edward de Bono's theory of transcending

competition and provided unique insights into strategy implementation, arguing that companies need to pursue flexibility and effectiveness in their strategies, rather than just striving to outperform their rivals [40].

In terms of enterprise strategy selection, Liu Shicheng believes that enterprises should avoid falling into the misunderstandings of over-diversifying enterprise resources, blindly pursuing diversification, ignoring diversification relevance, and neglecting disadvantageous links in the selection process of diversification strategy [41]. Li Xuan points out that the key to determining the business performance of an enterprise lies in formulating, planning and executing a good strategy, and that there are five main types of strategy implementation models in domestic enterprises: directive, cooperative, growth, transformation and cultural [28].

In terms of enterprise strategy, Xiang Baohua suggests that the strategic problems faced by modern enterprises are mainly reflected in four aspects: establishing sustainable competitive advantages, dealing with the interactive countermeasures of market competition, deciding on the evolution of the business portfolio, and making good internal supporting management measures [26]. Shang Yingqiu, on the other hand, attributes the root cause of strategic problems to the changes in the business environment [58]. As an open system, an enterprise's business strategy is a means to help it avoid the risk of uncertainty in future development.

It can be seen that the current research contribution of domestic strategic management theory is mainly in two aspects, one is to modify the western management theory based on the Chinese background, and the other is to create a new theory in the Chinese background, but neither of them has yet to form a theoretical system and enter the mainstream. Considering China's international status as the second largest economy in the world, and the fact that the Chinese economy and Chinese enterprises are going to play a more influential role in the world arena, domestic research still needs to make new breakthroughs in theory and new progress in practice before it can be applied in a wider range of fields.

### 1.3. Study on the development strategy of the real estate industry

There is a wealth of research experience on the development strategy of the real estate industry both at home and abroad. Since the domestic real estate industry is very Chinese, the adaptability of most foreign studies to Chinese enterprises has yet to be verified. In contrast, domestic academics are better able to propose theoretical guidance close to the domestic market. In recent years, the real estate industry has entered a new industry cycle, which has drawn the attention of scholars to the strategic issues of real estate enterprises, so as to promote the healthy development of the real estate industry.

Fu Ke and Pan Jian for real estate enterprises to choose diversification strategy or focus strategy, its point of view is that the key lies in the company's resources, the core competence and business development of the cycle of growth is an important symbol of the maturity of the modern enterprise, the enterprise should take the establishment and improvement of the core competence as the main prerequisite for the expansion of the company's goal, through their own accumulation or external expansion of the original core business and the combination of the growth of new business to Realization [36]. Fu Dalian mentioned that in order to turn crisis into opportunity under the intensive macro-controls, real estate enterprises should be innovative in strategic transformation, advocating the implementation of differentiation, specialization strategy and regional grouping strategy, enhancing their own financing ability to strengthen strategic financing, and changing the single profit model, such as increasing self-development or participating in the holding of operating projects [20].

Liu Xiaojun and Wang Shaowen pointed out that the diversification strategy is a double-edged sword for real estate enterprises, with profits and risks coexisting, and reminded that real estate enterprises need to adjust the goals and positioning of the strategic strategy as soon as possible, and clarify the corporate planning and development ideas, so as to maximize the control of risks [57]. Chen Harvest combined diversification strategy and strategic synergy theory and mentioned that real estate enterprises should consider the correlation and synergy effect with their main business

when choosing the diversification path.

Comprehensive analysis of the above, scholars on strategic management and real estate industry development strategy have made valuable research from different stages and dimensions, which provides a strong theoretical basis for this paper to study the development strategy of ZH Co.

## **Conclusions to Section 1**

Strategic management is the dynamic management process in which an enterprise pursues long-term survival and development in a competitive environment, analyzes its internal organizational resources and external influences. The essence of strategy is to solve the development problem of the enterprise.

The competition of modern enterprises is reflected in the struggle for core competitiveness, so improving core competitiveness is an objective need for the long-term development of enterprises.

In terms of enterprise strategy selection, enterprises should avoid falling into the misunderstandings of over-diversifying enterprise resources, neglecting disadvantageous links in the selection process of diversification strategy.

Diversification strategy is a double-edged sword for real estate enterprises, with profits and risks coexisting, and reminded that real estate enterprises need to adjust the goals and positioning of the strategic strategy as soon as possible, and clarify the corporate planning and development ideas, so as to maximize the control of risks.

## SECTION 2

### DEVELOPMENT STATUS AND PROBLEMS OF ZH LTD.

#### 2.1. Introduction to ZH Ltd.

«Huafa», headquartered in Xiangzhou District, Zhuhai, its predecessor, the Zhuhai Special Economic Zone Development Company, Real Estate Management Department, was founded in 1980, is the earliest enterprise engaged in real estate development and operation in Zhuhai, completed the shareholding system in April 1992 to establish the Zhuhai Special Economic Zone Huafa Real Estate Company Limited, officially changed its name in October.

In April 1992, the company completed the shareholding system reform to establish Zhuhai Special Economic Zone Huafa Real Estate Co. Huafa, which means «China Development», started the development journey of wickerwork, obtained the national first-class qualification of real estate development in 1994, and was listed on the Shanghai Stock Exchange in February 2004.

The registered capital of Huafa was 240 million yuan at the time of establishment, and has increased to 2.117 billion yuan through the equity distribution reform, capitalization, debt-to-equity conversion, placing of new shares, and private share issuance over the years. The main controlling shareholder is ZH Group Limited, which directly holds 24.2% of the shares, and indirectly holds 4.29% of the shares through its subsidiary Huafa Consolidated, with the actual controller being Zhuhai SASAC (see Figure 2.1). The Company's headquarter and subsidiaries included in the scope of the consolidated financial statements totaled 407 in 2019.

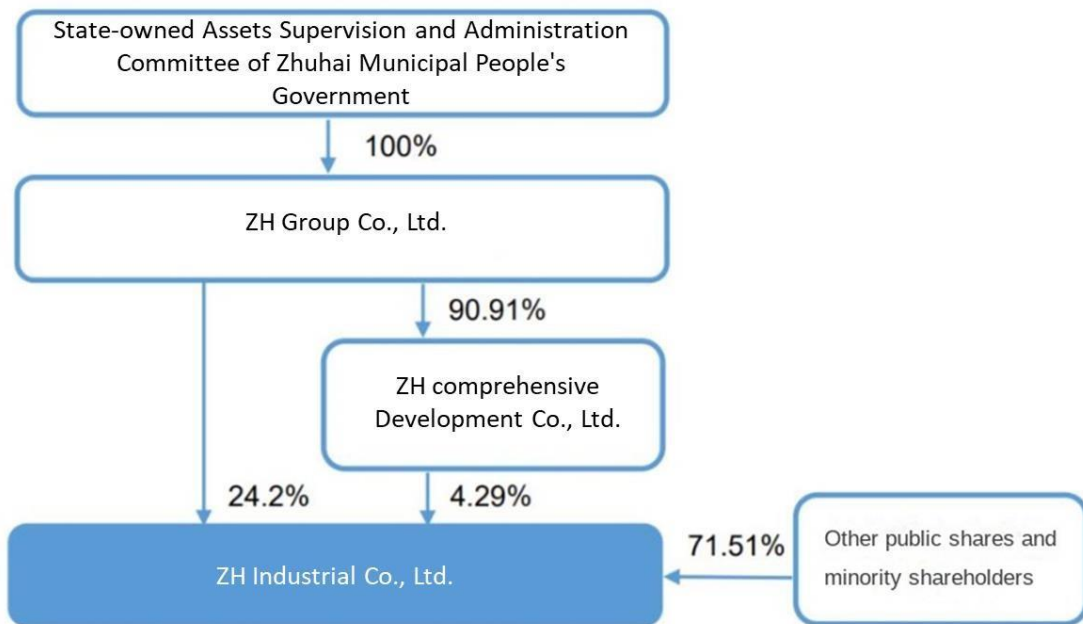


Figure 2.1 - Shareholding structure of ZH Industries Limited at the end of 2019

*Source: author's compilation based on [23], [72], [74]*

Huafa Group, the controlling shareholder of the Company, owns six major segments: property development, urban operation, industrial investment, financial industry, commerce and trade services, and modern services. Huafa is an important listed real estate enterprise under Zhuhai State-owned Assets Supervision and Administration Commission, which is the core platform of property development segment that contributes 41% of Huafa Group's revenue, and is also the key platform to undertake the realization of resources of urban operation segment.

Adhering to the business policy of «integrity, quality and service» and the tenets and beliefs of «building an ideal home» and «the more perfect the more perfect we pursue», Huafa has laid out 44 cities and developed more than 170 high-quality properties and many office, commercial real estate and hotel projects, serving more than 600,000 homeowners. Huafa has developed more than

170 high-quality properties and many office, commercial real estate and hotel projects, serving more than 600,000 owners, and many projects have won various awards from the state, province and city. After four decades of development, Huafa has become a comprehensive real estate enterprise with increasing comprehensive strength,

upgrading brand image and substantial growth in sales, and ranked 52nd among the Top 500 Real Estate Development Enterprises in China in 2020 (see Figure 2.2), and 296th among the Fortune China 500.

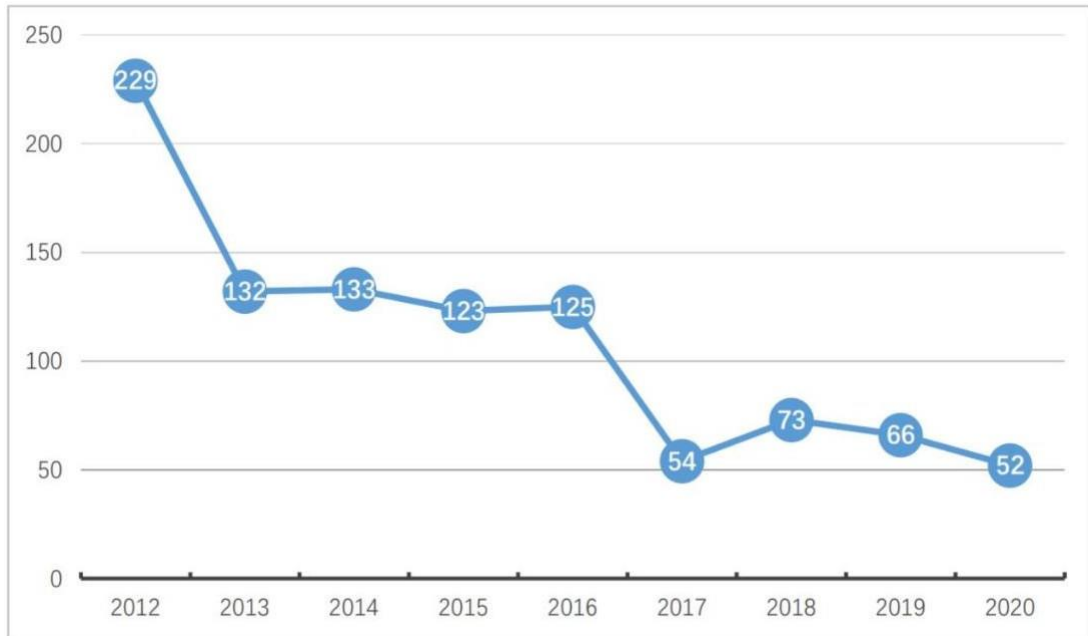


Figure 2.2 - Huafa's Industry Ranking 2012-2020

*Source: author's compilation based on [39]*

**Organizational structure.** Huafa has a perfect corporate governance structure and maintains full independence from its controlling shareholder, Huafa Group, in terms of personnel, organization, business, finance and assets. The company has gradually formed a headquarters-regional-project company system (see Figure 2.3), built a flat corporate governance structure, established a perfect institutional system, standardized rules of procedure and procedures, and governed the operation of internal institutions, thus forming a management mechanism with centralized control, hierarchical management, and clear division of power, responsibility and profit. This mechanism can avoid problems and risks caused by lengthy decision-making, effectively guarantee the authenticity of information conveyed, improve the company's governance capacity and the utilization efficiency of organizational resources, and ensure that the company's operations are carried out in an efficient and orderly manner.

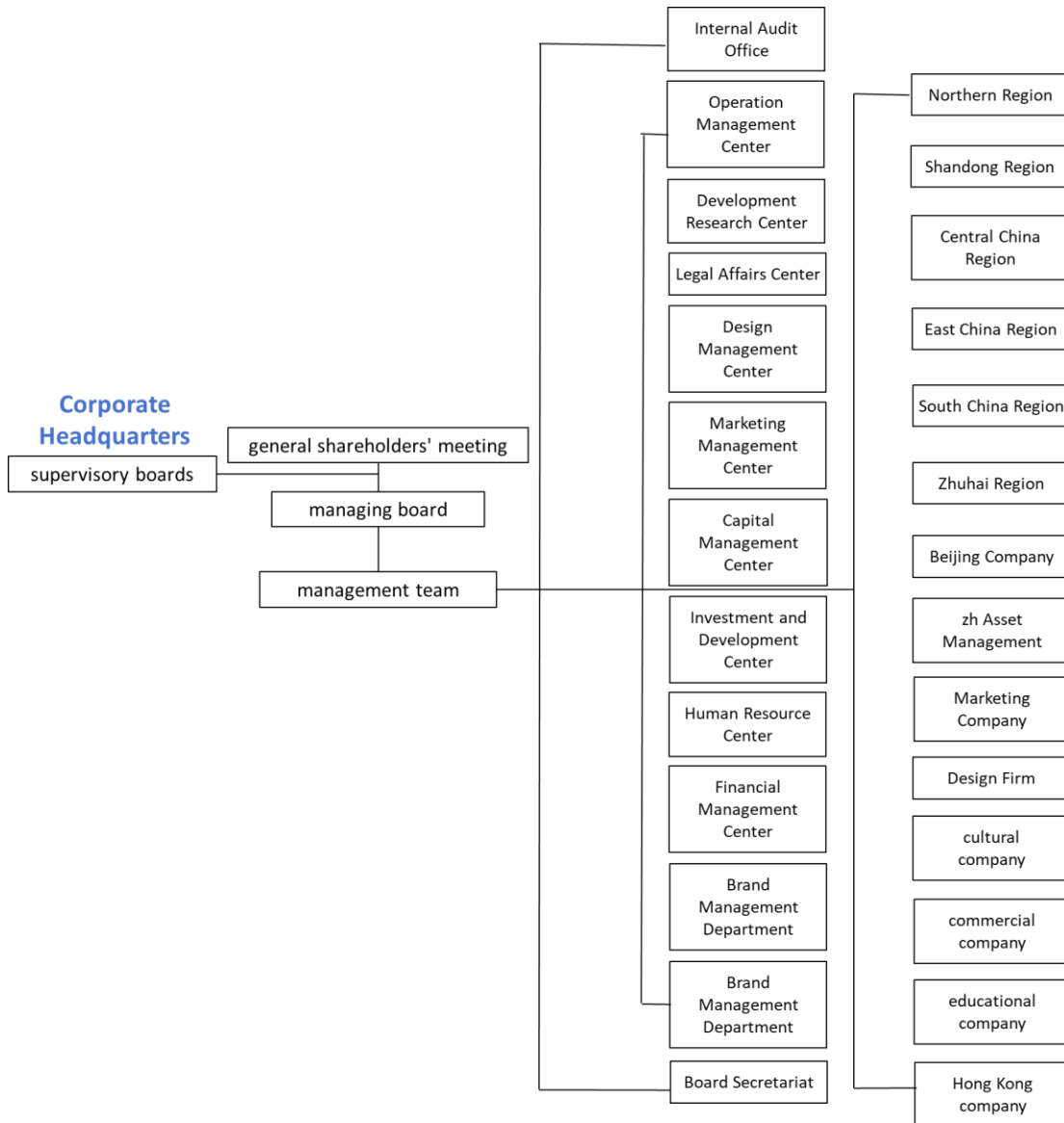


Figure 2.3 - Organizational Chart of ZH Industries, Inc. at the end of 2019

Source: [75]

Sales performance. In 2020, benefiting from more favorable government bailout and the release of the results of key layout areas, coupled with the exploration of innovative marketing mode, online and offline, to help promote sales, Huafa continued to maintain the first position in the contracted sales in Zhuhai region, with a growth rate better than the average level of real estate enterprises of the same size, and the total amount of contracted sales for the first time reached 120.5 billion yuan (see Figure 2.4), which fulfilled the strategic objectives set by the company in that year.

It took only 5 years for Huafa to go from sales exceeding 10 billion to breaking through the scale of 100 billion. The contribution of sales in foreign cities has become more diversified, with the number of sales cities expanded to 18, and the proportion of contracted sales increased significantly, of which the proportion from first- and second-tier cities was as high as 94.25%. It can be seen that the company's ability to withstand the risk of market fluctuations in a single city has been further enhanced.

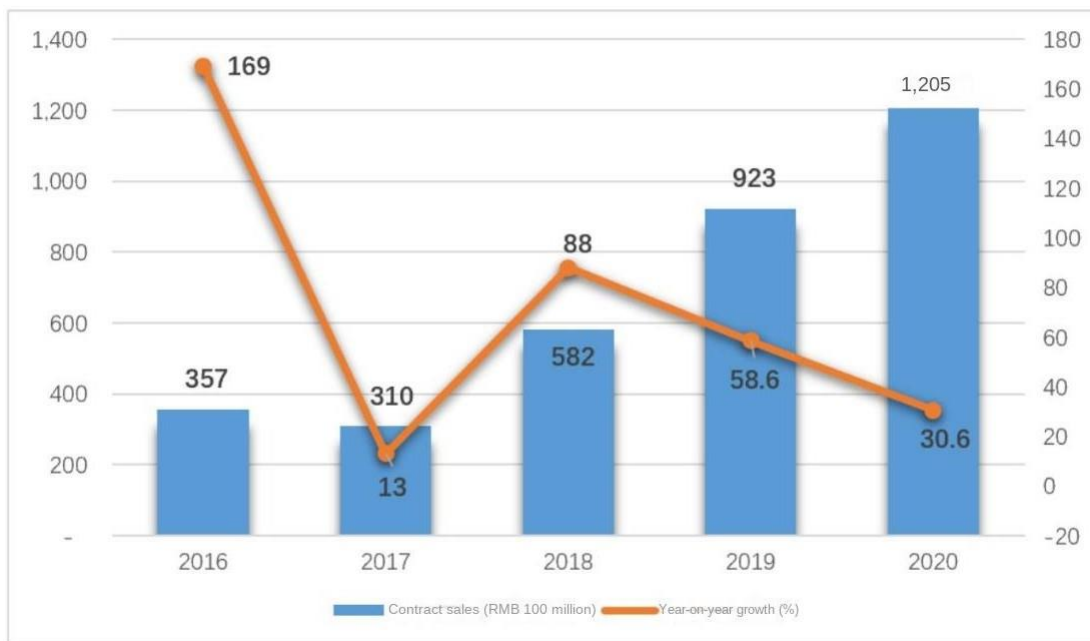


Figure 2.4 - ZH Shares Full-Caliber Sales and Its Growth Rate, 2016-2020

*Source: author's compilation based on [75]*

Land bank. The company closely follow the changes in the pattern of the real estate market, began to expand externally in 2012, in 2017 significantly increased the land acquisition, opened a new round of investment layout, and actively storage. 2019 the company proposed to build, the number of projects under construction 106, the consolidated caliber of the total land reserve floor area of 20,914,200 square meters, of which the new land reserve floor area of 7,508,100 square meters, an increase of 20.93%.

From the perspective of regional layout of land reserve area, South China accounted for 33.93%, East China accounted for 8.31%, Central China accounted for

45.71%, and North China accounted for 12.05%. From the point of view of land acquisition cost, the average floor price of new land dropped 48% compared with the previous year, and compared with the company's sales unit price in recent years is at a lower level. Therefore, high-quality decentralized land reserves, indicating that the company's land bank structure has been further optimized.

In recent years, Huafa has implemented the business development pattern of «one nucleus and two wings», with «one nucleus» being the main business of real estate, accounting for more than 95% of the total operating income, and the main development products are residential buildings, office buildings, stores and garages, and the operation mode is mainly based on self-development and sales, and various modes such as cooperative development are steadily promoted. The business model is mainly self-development and sales, with steady progress in cooperative development and other modes.

Huafa's four decades of growth and development are summarized in this paper as four strategic development stages (see Figure 2.5).

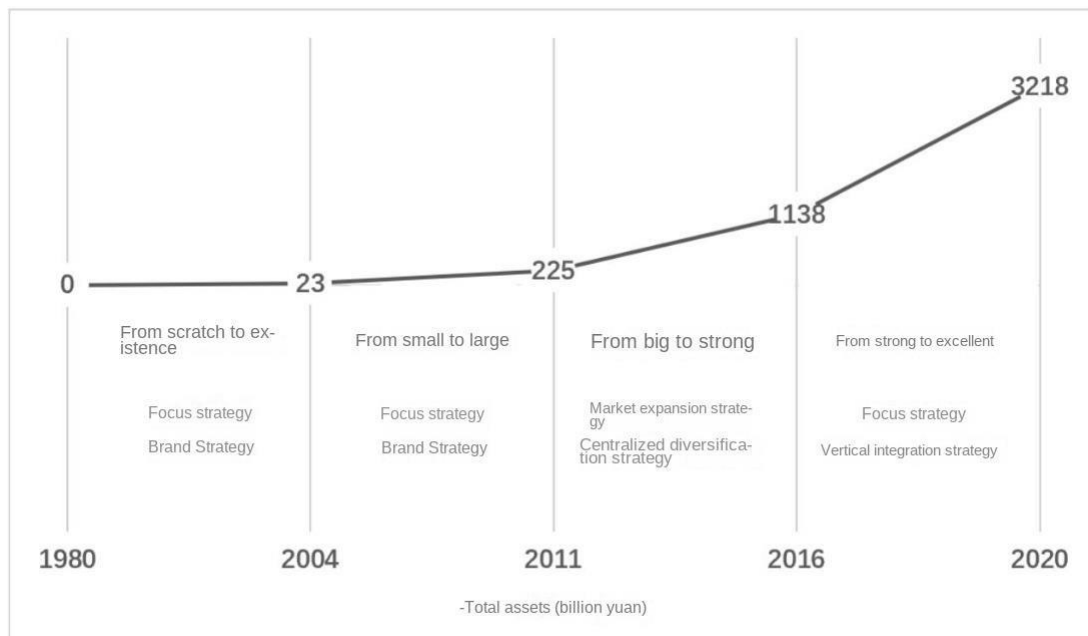


Figure 2.5 - Stages of ZH Stock's Forty-Year Strategic Development

*Source: author's compilation based on [75]*

1) From 1980 to 2011, the company started from RMB3000, cultivated the Zhuhai market with internal strength, and helped promote the development of urban construction in a comprehensive way, especially seizing the industry opportunity of «10 years of real estate» to build the best products in the Zhuhai real estate market. After landing in the capital market in 2004, the company has realized two leapfrog development from small to big and from big to strong, and occupied the leading position in the real estate market of Zhuhai. The following is an analysis of the two phases of Huafa's strategic development in the past ten years.

2) 2012-2016: Market expansion strategy, centralized diversification strategy phase. Following the pace of national new-type urbanization, Huafa started to fully implement the strategic layout of «based in Zhuhai, laying out the whole country and exploring overseas» in 2012, and has achieved fruitful results one after another. Real estate business to implement the centralized diversification strategy, in 2015 officially launched the «excellent + life» product system, covering six systems and 40 highlights, to establish the brand connotation, through the provision of different product series to expand the brand influence, through the diversification of product power to accelerate the enhancement of the industry position, the sales exceeded the scale of tens of billions of dollars to reach 13.3 billion yuan. In 2016, it newly entered 11 cities including Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Suzhou, Nanjing, etc., opened up the San Francisco market in the United States, set up subsidiaries in Hong Kong and Macao, and formed a strategic layout of 4 regions, namely, Zhuhai, Guangdong and Guangxi (except Zhuhai), Liaoning and Inner Mongolia.

3) 2017-present: focused strategy, vertical integration phase. The company actively responded to changes in the industry and promoted the upgrading of its main business, entering the TOP 100 real estate enterprises in China. Subsequently, the Company has set up a number of upstream and downstream industrial chain sub-brand companies, facilitated the growth of supporting industries, and cultivated emerging industries, gradually forming a «one-core, two-wing» pattern with residential as the main business, and the simultaneous development of commercial real estate, housing leasing and upstream and downstream industrial chains. In terms of strategic layout,

Zhuhai is the company's strategic base camp, core first-tier cities and key second-tier cities are the company's strategic development direction, focusing on the Guangdong-Hong Kong-Macao Greater Bay Area, the Bohai Rim Economic Zone, and the middle and lower reaches of the Yangtze River, increasing the new round of investment in land acquisition, and in 2018. In 2020, the company will expand to 44 cities across the country and reach 120.5 billion yuan in sales for the first time, historically entering the camp of 100 billion yuan real estate enterprises, becoming the second echelon of national real estate enterprises, and heading for the third leap from strength to excellence.

To summarize, the forty years of Huafa's development is a leap from ZH to China Huafa, and its industry position has been raised from 229th in 2012 to 52nd in 2020. In particular, the sales volume has risen from 10 billion yuan to over 100 billion yuan in only 5 years. However, the rapid expansion has not been able to take into account the simultaneous growth of profits, frequent financing and debt pressure has risen, the strategic layout, product positioning has not yet fully kept pace with the pace of the current situation of problems superimposed on the intensification of competition squeeze the company has not yet crossed the national real estate enterprises TOP 50. In the face of the complexity of the external environment, Huafa needs to analyze its own problems in depth, re-plan its strategy, help the company to make the best use of its strengths and avoid its weaknesses, and tap into new growth points in order to make the enterprise development smoothly stand on a new stage.

## **2.2. Analysis of the external and internal environment of ZH Ltd**

This section takes ZH Co., Ltd. as an actual case, for the company's macro-environmental situation, the PEST analysis model is used, which analyzes the real estate industry in terms of the political and legal environment, the economic environment, the socio-cultural environment, and the technological environment.

For the company's industry environment, the Porter's Five Forces analysis model is used, which analyzes the company in terms of the suppliers' negotiating power, the purchasers' bargaining power, the potential entrants, and the existing competitors, threat of substitutes are analyzed in five aspects.

1) Analysis of the political and legal environment. In recent years, the real estate industry has become the focus of China's supply-side structural reform, as housing issues such as imbalanced housing supply and severely divergent housing prices have come to the forefront. 2020, the real estate market experienced a process of stopping, restarting, recovering, and tightening as a result of the New Crown Epidemic and state regulation [44].

Financial policy: the first half of the year is relatively loose, which is conducive to the financing of real estate enterprises and payback. In the second half of the year, there was obvious tightening, and the regulator introduced the «three red lines» financing management rules, new regulations on real estate loan concentration management and many other regulatory rules, forcing real estate enterprises to deleverage and reduce liabilities. The overall response from the financing side and the payback side, to the real estate enterprises to put forward higher requirements, to guide the real estate industry into the era of management dividends.

Land and tax policies: In the first half of the year, land supply in core first- and second-tier cities was increased, and many cities introduced regulatory policies such as lowering pre-sale conditions, deferring payment of land premiums, and encouraging settlement. In the second half of the year, the heat is reduced, 19 cities involved in «restrictions on purchases, loans, prices, sales» and increase taxes and fees and other policies to increase. In the next five years, the Ministry of Finance will steadily promote real estate tax legislation [46].

Looking ahead, the «14th Five-Year Plan» has set the tone: real estate is related to people's livelihood, consumption and investment development, and need to promote its balanced development with the real economy, finance, and help the economic cycle. Upstream and downstream, production, supply and marketing of new real estate characterized by the integration of resources, the real estate industry in the next five

years to point out the direction of development.

2) Analysis of the economic environment. In 2020, the epidemic will hit the world and the world economy will fall into recession, with UN data predicting that the cumulative loss of global economic output in 2021 will reach US\$8.5 trillion. On the other hand, China's economic recovery has stabilized, with per capita GDP exceeding \$10,000 for the second consecutive year, GDP growth averaging 2.3% for the year (see Figure 2.6), with 6.5% in the fourth quarter returning to the potential growth level of previous years, and the total value of GDP exceeding RMB 100 trillion for the first time, realizing a new milestone leap in China's economy and comprehensive national strength, and making China the world's only major economy to achieve positive growth in trade in goods. In 2021, the opening year of the 14th Five-Year Plan, the National People's Congress put forward China's vision for 2035, leading to a long-term positive economic trend.

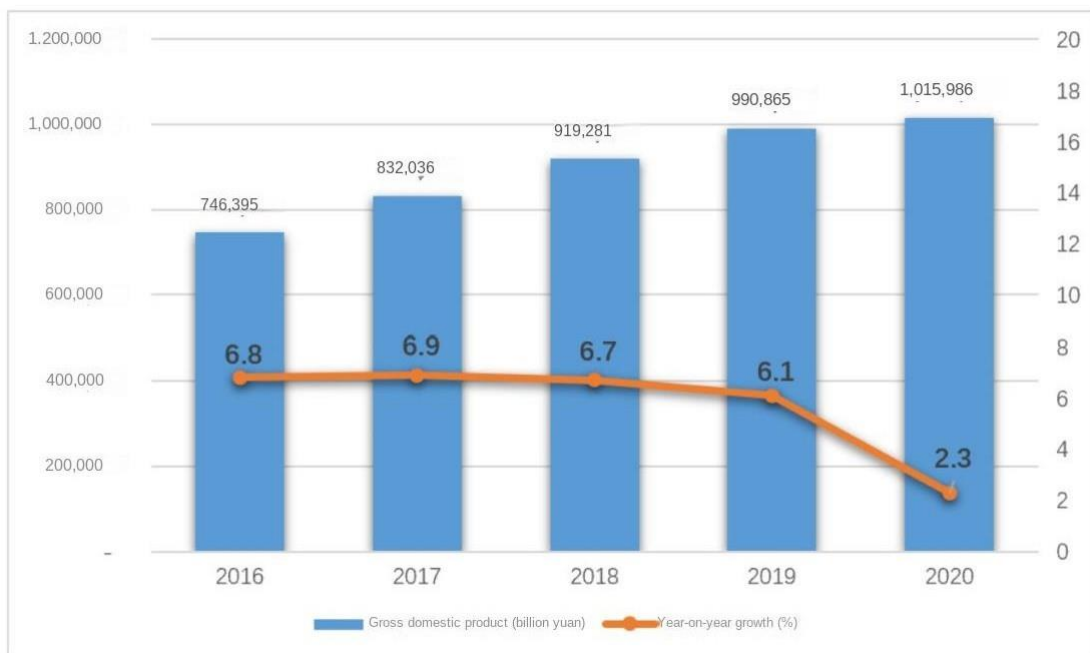


Figure 2.6 - GDP and its growth rate, 2016-2020

Source: [50]

On the investment front, the National Bureau of Statistics (NBS) announced that the country's investment in real estate development in 2020 will be 14,144.3 billion

yuan, up 6.9% (see Figure 2.7), much higher than the fixed asset investment growth rate of 2.9%. Combined with the trend over the past five years, the continuous flow of capital to the real estate market, fueled by huge domestic demand, has led to a steady climb in its total investment, which has increased from 17% to 27% of the national total.

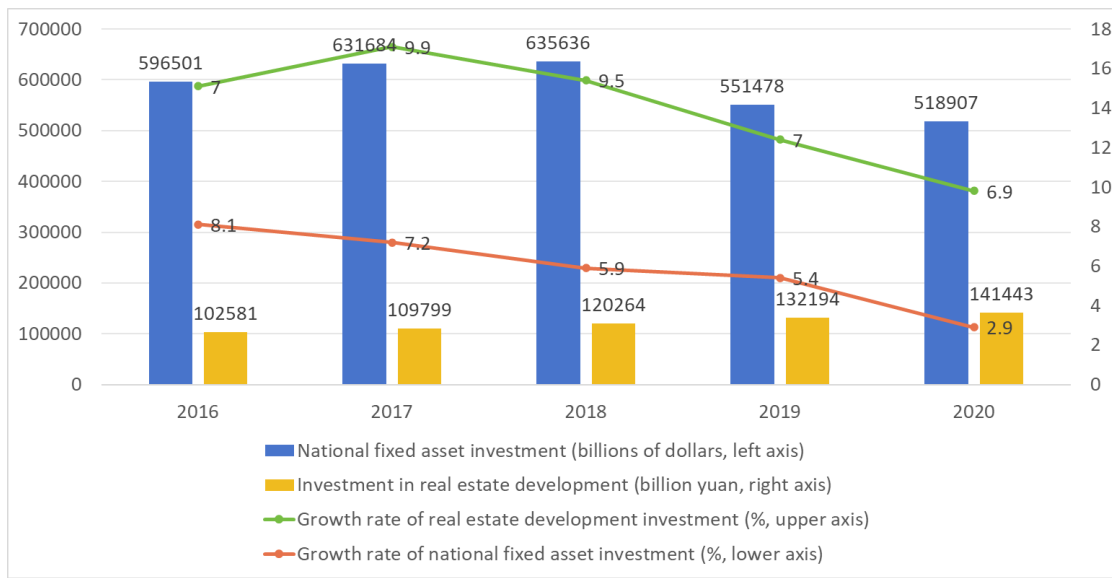


Figure 2.7 - Trends in National Fixed Asset Investment and Gross Real Estate Development Investment, 2016-2020

*Source: author's compilation based on [50]*

In terms of sales, in 2020, the national commercial real estate sales area will be 1,760.86 million square meters, an increase of 2.6%, and the sales of commercial real estate will be 1,736.13 billion yuan, an increase of 8.7% (see Figure 2.8). The overall internal liquidity source of real estate is restricted by policies, causing the sales growth rate in recent years to show a downward trend, in which the sales area of commercial real estate in 2019 even showed negative growth for the first time, and in 2020, under the influence of the epidemic and the aggravation of regional policy differentiation, the sales rhythm of real estate enterprises showed greater fluctuations, and the growth rate slowed down significantly.

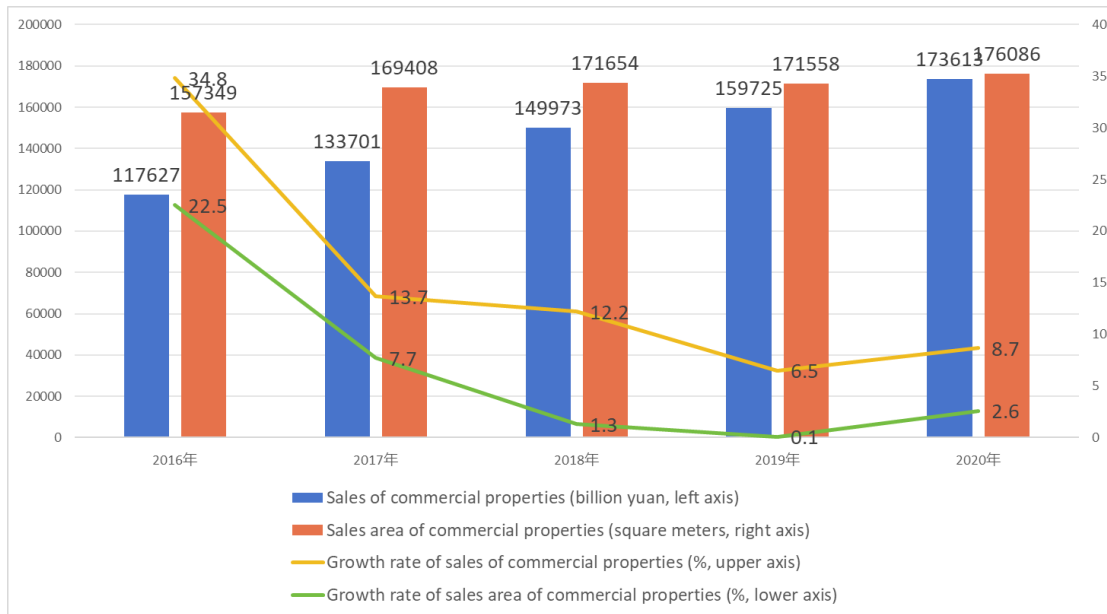


Figure 2.8 - Trends in Commercial Real Estate Sales and Sales Area, 2016-2020

*Source: author's compilation based on [50]*

China's economy is building a new development pattern of double-cycle, which provides a favorable external environment for the development of the real estate industry, and domestic demand will continue to be the key to support the future growth of real estate.

3) Analysis of the socio-cultural environment. According to the National Population Development Plan 2016-2030 and data from the National Bureau of Statistics, the urbanization rate of China's resident population will be 60% in 2020, 65% during the 14th Five-Year Plan period and 70% in 2030. And according to the new policy released by the NDRC in 2021, the settlement restriction will be completely abolished in cities with a resident population of less than 3 million, and in 2019, the number of such cities has already reached 30. The gradual liberalization of the settlement policy will drive the urbanization process, which will continue to create a large amount of new housing demand and greatly promote the expansion of the real estate market.

According to the Bureau of Statistics, the per capita disposable income of Chinese residents in 2020 will be 32,189 yuan, an increase of 4.7%. And the first negative growth of 1.6% in consumer spending, but residential consumption expenditure still

maintained growth of 3.2% (see Figure 2.9), although the growth rate has slowed down, but in the overall structure of consumer spending, residential consumption expenditure has not only risen year by year for five consecutive years, but the proportion of the proportion also rose from 21.9% in 2016 to 24.6% in 2020. Thanks to relief policies such as lowering mortgage rates, relaxing subsidies for home purchases, and encouraging settlement, the effect of stimulating real estate de-inventorying has been evident.

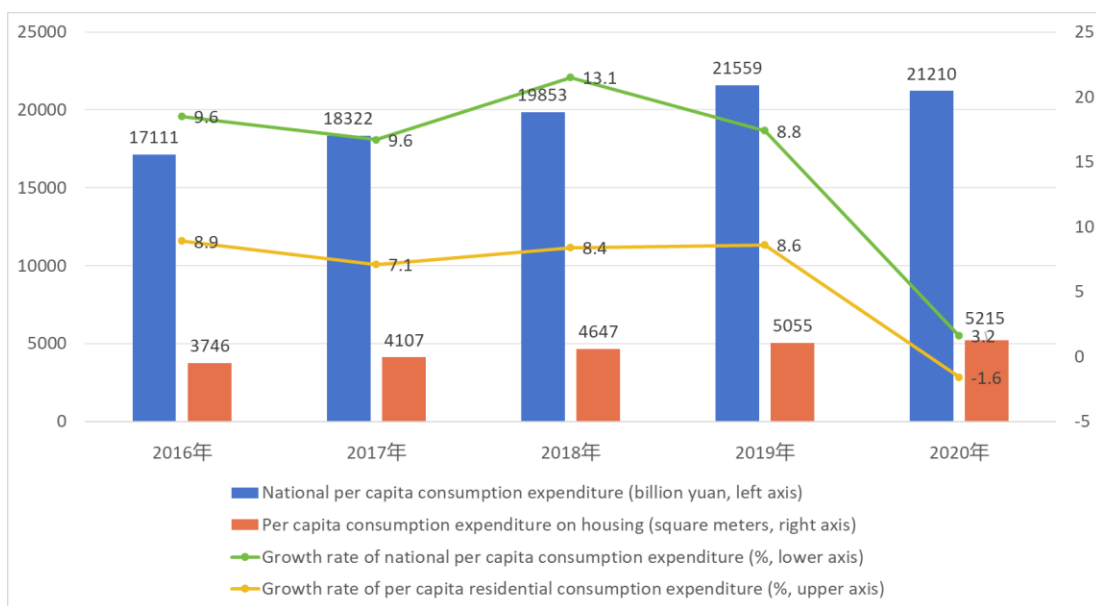


Figure 2.9 - Trends in Consumption Expenditures Per Capita and Consumption Expenditures Per Capita on Housing, National Population, 2016-2020

*Source: author's compilation based on [50]*

With the progress of people's living standards and education, the concept of consumption has changed dramatically, giving rise to many personalized needs, different age levels, the purpose of purchasing a home, expectations, for product diversification, brand quality, new technologies and so on, there is a higher and higher pursuit, and further promote the real estate market tends to refinement.

Under the current socio-cultural environment, China has gradually formed a new pattern of urban agglomerations and metropolitan areas as the main spatial form, with a large urban population base, active population mobility and diversified family

structures, expanding space for housing demand.

4) Analysis of the technological environment. Real estate enterprises to meet the individual needs of consumers on the basis of shaping high-quality products, enhance product value and premium capacity, science and technology innovation is undoubtedly the way to go.

Green concept, the future society needs residential products, not just a single form of housing, but also to have a large number of services to meet the living environment and even quality of life, it will increase the demand for green health, so real estate developers are required to have a long-term planning of the project, the services and supporting the life of the required form of effective combination, to provide more to meet the needs of a comfortable life of green and healthy residential products.

Intelligent concept, with the rejuvenation of the home-buying group, the demand potential increases, and the acceptance and recognition of intelligence is significantly increased. However, the current layout of residential intelligence is still in the exploratory stage, the proportion of residential intelligence in the industry as a whole is on the low side, the obvious market gaps at the same time contains a wide range of business opportunities.

In terms of enterprise operation, «big data» is used to investigate and analyze industrial and market data in real time, providing a scientific basis for the formulation of enterprise strategies, and fully utilizing the data-processing and computing power of computers to assist enterprises in solving decision-making problems.

In short, the Internet and information technology represented by 5G, big data, cloud computing, Internet of Things, and artificial intelligence are reshaping the ecology of real estate and its upstream and downstream industries as well as the urban form, and the whole industry chain needs to follow the trend and embrace the technological revolution [51].

Porter's competitiveness analyses:

1) Bargaining power of suppliers.

For the real estate industry, suppliers are mainly embodied as: suppliers or manufacturers of land, capital, materials and equipment, and related ancillary service

providers. Land resources are undoubtedly the most important raw materials for real estate enterprises, and land appreciation is an important part of the profit composition of real estate projects. As an irreplaceable and scarce resource, land is only owned by the government, which is a supplier with absolute monopoly, and the bargaining power of the government is dominant in the process of land allocation. In the process of land allocation, Huafa, as a company under the Zhuhai State-owned Assets Supervision and Administration Commission (SASAC), has good government-enterprise relations, which gives it more chances of successfully acquiring land reserves in Zhuhai compared to other cities, and the business revenue of its Zhuhai headquarters has always accounted for more than 30% of its total business revenue. 2020, the Zhuhai government carried out a reform of state-owned enterprises by transferring and integrating the former Urban Construction Group and the former Anjiu Group to Huafa, which enabled Huafa to gain more access to the low-cost and high-quality land resources in Zhuhai. As a result, Huafa Group obtained more low-cost and high-quality land resources in Zhuhai. In terms of land transfer, in recent years, Huafa has acquired land reserves in some hotspot cities through acquisitions and mergers and acquisitions at lower costs.

Finance and real estate have long been helping each other. 2021, in the real estate industry financial regulation continues to strengthen the situation, resulting in real estate enterprises to take land more concentrated in the high-quality cities that can bring stronger anti-risk, high profitability, the second and third tier cities within the heat of the differentiation is likely to be further highlighted. Coupled with the tightening of housing-related credit under the «three red lines», the capital environment for real estate enterprises is significantly tighter than before, and developers will be more cautious in acquiring land out of the consideration of the margin of safety of their investments, preferring to prioritize their resources to high-quality residential land, which will keep the high-quality land resources in a situation of fierce competition [56].

In the supply chain, due to the large number of suppliers, overcapacity, competition and other characteristics, and real estate demand for its industrial chain to

occupy a dominant role, so the developers to increase the space for price pressure, especially real estate head of the enterprise's regional spread more widely, the influence of the industrial chain is greater, so the bargaining power is higher.

### 2) Bargaining power of buyers.

Purchasers generally gain bargaining power by bargaining with companies. However, due to the immovability of real estate products such as commercial properties and commercial real estate, the low degree of product substitution, the high switching cost for purchasers, and the fact that unlike oversupplied retail products, etc. which can be strongly price-pressured by outlets or powerful buyers, real estate companies are mostly in a strong position, and comparatively speaking, purchasers have a weaker bargaining power, and they usually obtain their benefits by seeking price discounts, and requesting for improvement in the quality of their products and services.

### 3) Threat of potential entrants.

Potential entrants in real estate mainly include internationally renowned foreign enterprises, diversified groups with cross-border investment, and local veteran small and medium-sized enterprises, which bring new ideas, technologies and resources to the industry while intensifying market competition, cutting down on corporate profits, and even leading to the exit of some enterprises. The degree of threat depends on the strength of the counterattack of existing enterprises and the level of industry barriers. China's real estate market has high industry barriers, combining highly policy-sensitive and capital-intensive industry attributes with high requirements for potential entrants. From a technical point of view, due to the long development cycle, long service life and high technical requirements of real estate products, existing industry players, especially large-scale and branded real estate enterprises, have accumulated rich experience in project development and management, formed a high-quality talent team, and established a greater advantage in cost control and economic efficiency. However, it must be mentioned that the Internet giants Alibaba and Jingdong, have laid out the real estate market, to the development of urban supporting service providers, the combination of online and offline to play the traffic advantage, the industrial output and resource grafting to play the technological advantage, so that the Internet and the

real estate industry in-depth fusion, and quickly break down the barriers, undoubtedly, is a major challenge to the existing real estate enterprises.

#### 4) Competition among existing enterprises.

According to the data released by the industry, in 2020, there will be 166 real estate enterprises with sales of more than 10 billion yuan, among which the number of 100 billion yuan real estate enterprises will increase to 41. Ten billion real estate enterprises accounted for about 61.8% of the market share, the top ten enterprises market share of 27.7%, the concentration of the industry to further enhance. In the future, under the new cycle of the industry, the competitive differentiation of real estate enterprises is an inevitable trend [64].

Competition is an important bargaining chip is the land reserve. Land reserve is the cornerstone of real estate enterprise performance growth, the head of the real estate enterprises to increase the storage road naturally show their skills. For example, China Resources, Greenland, etc. through the layout, structure, regulation of the strategy, and actively broaden the land acquisition channels, Shimao, Sunac is through active mergers and acquisitions advanced.

The second is the shift in competitive trends. Scale competition, driven by refined development, will shift to the competition of comprehensive strength based on products, operations and services. Head real estate enterprises have the advantages of strong risk resistance due to the layout of many cities, rich and low-cost land acquisition and financing channels, strong premium capacity due to product diversification, and strong manipulation ability to pursue high-quality growth. Based on the 2019 data, Huafa is 39.3% and 51.88% behind the top 100 real estate enterprises in terms of average operating income and average net profit (see Figure 2.10), and it needs to accelerate catching up with the industry average in order to stabilize its position in the competition among the 100-billion-dollar real estate enterprises.

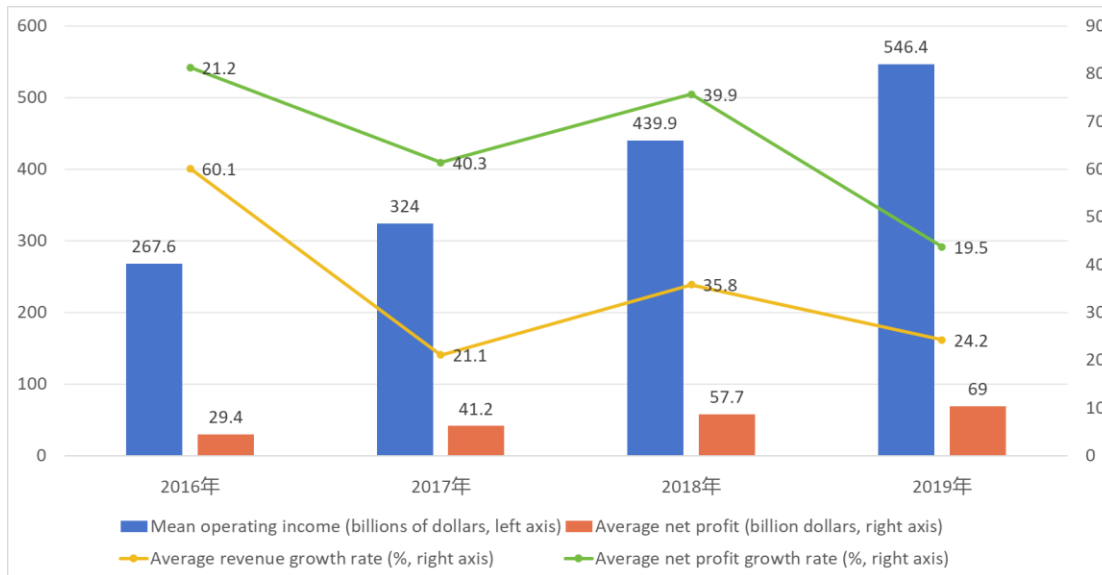


Figure 2.10 - Changes in Average Revenue and Net Income of Top 100 Real Estate Companies, 2016-2019

Source: [30]

In addition, Huafa is a real estate enterprise under the Zhuhai State-owned Assets Supervision and Administration Commission. There are a number of real estate enterprises ultimately controlled by local governments catching up with each other in the industry, and there is no lack of leaders among them.

#### 5) Threat of substitutes.

Substitutes are categorized into direct and indirect substitutes. From the perspective of real estate products, no matter which form of residential, commercial and residential apartments, villas, office buildings, etc., because of its characteristics of real estate, so there are very few substitutes, although in recent years the emergence of emerging products such as caravans, space capsule, container house, but in fact belongs to the chattel or property rights are not in line with China's traditional concept of the family and the family's demand for housing, from the attributes of the difficult to direct substitution, and has a high cost, the need for customization and policy restrictions, the threat of direct substitution can be ignored.

From the perspective of real estate product segments, there are substitution possibilities between products, for example, ordinary commercial housing can replace

high-grade housing such as large-area duplexes and villas, and guaranteed housing such as public rental housing, shared ownership housing and long-term rental apartments can replace commercial housing. On the other hand, with the change of consumption concepts of the younger generation and the increase in housing volume and price, the rise of long-term rental apartments and the prosperity of second-hand housing, both of which have a certain impact on the commercial housing market. However, the qualification requirements and the general location of most of the subsidized housing have not yet posed an absolute threat to commercial housing.

Analysis of enterprise resource factors:

1) Human resources:

Huafa has a total of 7,566 employees in 2019. Among them, there are 474 employees in the headquarter of the Company and 7,092 employees in its major subsidiaries. There are 20 senior managers in the company, all of whom have rich experience in relevant business work and management for a long time. There are only 24 retired employees. According to the education level, 30.45% of the employees have college degree or below, 57.49% have bachelor's degree, 11.67% have postgraduate degree and 0.38% have PhD degree. The educational level of the staff at the headquarters of the Company is generally higher than that of its subsidiaries. The company has always attached great importance to talent training and development, mainly from several aspects [30]:

In terms of compensation management, the Company has established a differentiated compensation adjustment mechanism to determine different compensation adjustment ratios in multiple dimensions; adjusted the corporate annuity program and relaxed the conditions for employees' participation; and set up a human resources information system to create an interactive platform for employees and human resources. The company has won four awards, including the «2019 Best Employer of the Year in China», reflecting the industry's recognition of Huafa's employer brand.

In terms of recruitment, 95% of the 2019 campus recruitments were from 985/211 colleges and universities, and 81% were from master's degree programs, which is a

fruitful result of excellent talent recruitment. In terms of training, we have vertically carried out multi-level talent training programs from «Huafa New Star» to middle and senior managers, and horizontally carried out special talent training programs covering various professional lines to stimulate the growth of employees.

## 2) Financial resources:

Huafa has a net profit of CNY3.32 billion and operating income of CNY33.15 billion in 2019 (see Figure 2.11). Operating revenue has been growing rapidly in recent years, with a CAGR of 29%. Benefiting from business expansion, the carry-over revenue was high, mainly contributed by projects in East China and Zhuhai. In terms of revenue composition, real estate development and sales accounted for over 95% of revenue, with a CAGR of 29.21%. Overall, the Company's profitability needs to be further improved.

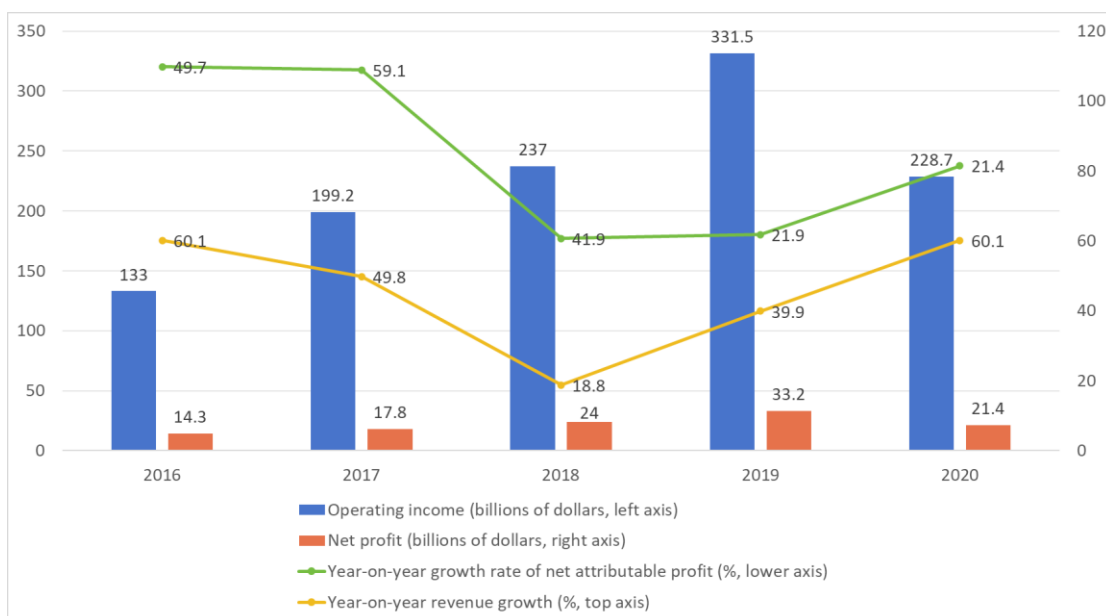


Figure 2.11 - ZH Shares Revenue and Profit and its Growth Trend in the First Half of 2016-2020

*Source: author's compilation based on [75]*

In recent years, the Company's gearing ratio has remained at around 81.5%, with total debt exceeding the previous year's total in mid-2020 (see Figure 2.12). In accordance with the regulatory «three red lines» financing management requirements,

the company controls the three main indicators of gearing ratio, net debt ratio and cash-to-short-debt ratio after excluding advance receipts, and in mid-2020, the company exceeded all three indicators and entered the «red gearing», and by the third quarter of 2020, the company had improved the cash- to-short-debt ratio and entered the «orange gearing». By the third quarter of 2020, the Company had improved its cash-to-short-debt ratio and entered the «orange gear». The Company has clearly defined its medium- and long-term goals of deleveraging and debt reduction, requiring more refined financial management in the future.

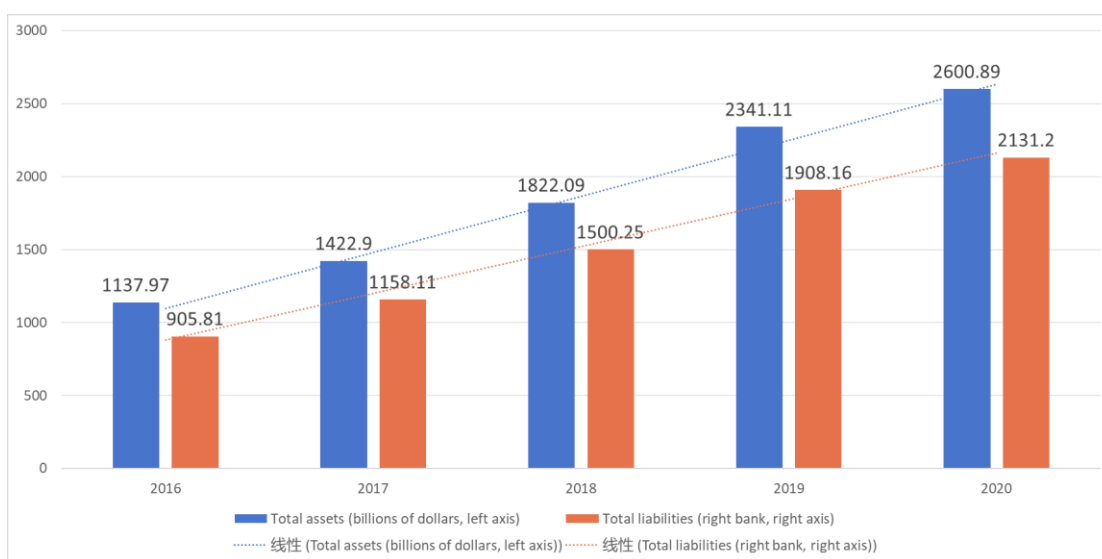


Figure 2.12 - ZH Shares Total Assets and Total Liabilities, H1 2016-2020

*Source: author's compilation based on [75]*

The company's main credit rating is 3A, and Huafa Group, as its strong backing, is rich in financial resources, and its direct and indirect channels are relatively unimpeded. 2020 comprehensively utilized a variety of financing means, and successfully issued corporate bonds, anti-epidemic bonds, ultra-short-term financing and other financing products, with sufficient external credit and multi-faceted financing channels to provide a good guarantee for the company's liquidity, so that the company's risk of repaying debts is controllable.

With the investment in land reserve and project development, the inventory balance increased by 23.85% year-on-year in 2019. Among them, the growth of

commercial property business led to a 105.82% year-on-year increase in investment properties, while the increase in joint venture projects led to a 28.94% year-on-year increase in long-term equity investments. Advance receipts also showed significant growth, up 49.96% year-on-year in 2019. Operating income increased significantly by 60.75% year-on-year in mid-2020 as a result of more carry-over projects, and inventory turnover efficiency and total asset turnover ratio improved.

### 3) Technical resources:

With the rapid integration of information technology, science and technology and people's residential life, Huafa has made great efforts in technological research and development, and its research and development expenses reached 83.52 million yuan in 2019. The company has taken many measures in terms of technical resources: to assist strategic development with scientific research. The company actively explores product research and development, completes the preparation of «Huafa technology + product empowerment research and application»; releases the excellent + product system 4.0, pays more attention to the product innovation of green health, intelligent science and technology combined with the human habitat, for example, the green health from the application of low-carbon building materials, anti-haze and noise reduction, new wind system and other technology systems, especially the 2020 epidemic triggered a profound change in the sensitivity of home buyers to the green, healthy and ecological human habitats. For example, green health from the application of low-carbon building materials, anti-haze, noise reduction, new air system and other technology systems, especially the epidemic in 2020 caused a profound change in the sensitivity of home buyers to green, healthy and ecological human settlements, and the company keenly and actively optimize the standard of Huafa's healthy human settlements; intelligent science and technology from the application of «human black technology» such as the company's exclusive research and development of face recognition, sharing community, intelligent garage, etc., to create a smart home product system [34].

The research and development of science and technology showed promising progress. The company has demonstrated its achievements in artificial intelligence and intelligent community services at the Third High Innovation Fair, and has completed

the declaration of «Zhuhai-Macao-Hengqin Intelligent Public Housing Project» to the Guangdong Provincial Engineering and Technology Research Center in collaboration with the City University of Macao, and the company's doctoral research station has been awarded a plaque.

Huafa will continue to increase its R&D efforts and innovation level in the future, to promote cutting-edge construction technology on the project, to enhance the project engineering management level, and at the same time make full use of the advantages of the supporting policies to transform the R&D investment into the company's profit.

#### 4) Business reputation:

Enterprise reputation is a unique resource and strategic intangible asset. A good reputation is conducive to building the core competitiveness of an enterprise and forming competitive barriers. With the background of a state-owned enterprise, Huafa has been fulfilling the role of a state-owned enterprise and practicing social responsibility for many years, which helped Huafa Group to win the Best Strategic Public Welfare Award of the Sixth «CSR China Culture Award» in 2020. With strict control of project quality and pursuit of product quality, our projects have won many awards, including more than 100 awards at the provincial level and above, including more than 20 international and national awards such as the Asian Real Estate Award. The company has never defaulted on financing and its main credit rating has been upgraded to 3A [32].

Because Huafa has put credibility in the first place since its establishment, it has been highly recognized in the industry. 2017, it was selected as one of the «2017 Top 3 Real Estate Listed Enterprises in China», and was honored as one of the «16th Top 20 Real Estate Credit in Guangdong». 2018, it was honored as one of the «AAA Grade Credit Enterprises in Guangdong Real Estate Industry» by Guangdong Real Estate Industry Association. 2019, it was honored as one of the «Special Contributing Enterprises in the 40th Anniversary of Reform and Opening-up of Guangdong Province» by Guangdong Real Estate Association. In 2018, it was awarded «AAA Grade Credit Enterprise of Guangdong Real Estate Industry» by Guangdong Real Estate Industry Association, and in 2019, it was awarded «Special Contribution

Enterprise for the 40th Anniversary of Reform and Opening-up of Guangdong Province» by Guangdong Real Estate Industry Association [30]. The Company has maintained a high level of credibility in the industry, which has a significant impact on the Company's future short-term financial performance and long-term market value.

### **2.3. SWOT analysis of ZH Ltd.**

SWOT analysis model is a research tool for comprehensive analysis of the internal and external environment of the enterprise, the analysis tool is first to list the advantages and disadvantages of the internal environment, the external environment of the opportunities and threats of the main factors in the comprehensive combination of the formation of the analysis matrix, and then the internal and external environment of the key factors of success to match the systematic analysis to draw the final conclusions, so as to provide objective basis for the development of corporate strategy.

#### **1) Strengths analysis:**

- Excellent corporate culture and good management level. In 2020, Huafa Group was selected as one of the «Double Hundred Enterprises» in the State Council's State-owned Enterprises Reform, becoming the only enterprise in Zhuhai and the only prefecture-level state-owned enterprise in China. Under the guidance of Huafa Group's corporate culture and values, Huafa has cultivated a stable and mature management team that has been honed in the market for many years, established an efficient and perfect management decision-making structure, and actively fulfilled its social responsibilities to lead the enterprise to good development.

- Strong background of shareholders to ensure sustainable development. Huafa is a main board-listed real estate enterprise under Zhuhai SASAC, with good government-enterprise relationship, easy to get more resources tilted, with policy advantages and credit advantages. Huafa Group, the controlling shareholder of the company, is a comprehensive group directly under the Zhuhai State-owned Assets

Supervision and Administration Commission (SASAC). It deepened the reform of state-owned enterprises in 2020, reorganized and integrated five enterprises, namely, Urban Construction Group, Anju Group, Convention and Exhibition Group, Textile Industry Group, and Architectural Design Institute, to become the first state-owned enterprise in Zhuhai, which is able to give strong support to Huafa in terms of governmental coordination, land reserve, project construction, and investment and financing, which will support the future sustainable development of the company and is an important backing for the growth of the company. It can support the company's sustainable development in the future and is an important backing for the company's growth.

- Experienced in project development and high credibility as a state-owned enterprise. Huafa has been cultivating its business for more than 40 years, and the quality of its products is well recognized. So far, Huafa has developed more than 170 high-quality properties and many office, commercial real estate and hotel projects, and many of its projects have won various awards from the state, province and city. Complemented by design, culture, gardening, marketing, construction of new materials and other sub-brands, affiliates Weiyi shares to provide customized decoration, Huafa property to provide high-quality property services to form a synergistic force, all-round to create the brand effect of Huafa, to create a comprehensive advantage of the product and service, is conducive to the shaping of the image of boutique developers. The company has a state-owned enterprise background and a 3A credit rating, and has not had any bad project events or financing defaults, so it has maintained a high reputation in the market for a long time.

- Double increase in revenue and profit, smooth financing channels. Huafa achieved double-digit growth in revenue and profit in the interim period of 2020, up 60.8% and 29.3% year-on-year respectively, with good growth. As a 3A credit subject, utilizing the advantages of listed company and SOE background, together with the assistance of controlling shareholder Huafa Group, financing channels can be further broadened, and a number of innovative financing products have been implemented in recent years; at the same time, efforts have been made to reduce the cost of capital

operation, and in February 2020, 1.58 billion yuan of 5-year public bonds were issued, with an interest rate of 3.38%, which is a record for bonds of the same size and rating in the same period [18].

- Continuous optimization of regional layout with fragmented concentration. In recent years, Huafa based on Zhuhai, accelerate the nationalization of regional expansion, and actively promote the strategic layout of «Zhuhai as the strategic base camp, break through the first-tier and key second-tier cities», the external expansion of the company in 9 years, the company from a single city, a single region to 44 cities, «6+1» regional layout. In nine years of external expansion, the Company has developed from a single city and a single region to 44 cities and «6+1» regional layout [75]. The company continued to increase attention to different regional policy guidance, seize the policy window period to actively increase quality land reserves, so that the regional layout has been optimized, the risk dispersion is improved, in order to enhance the anti-risk capacity at the same time, the key areas of sales results in a significant release.

In the industry environment where the growth rate of national commercial real estate sales slowed down significantly, Huafa's average compound growth rate between 2015-2019 reached 62.3%, with the sales growth rate better than the average level of real estate enterprises of the same scale. Even though the epidemic in 2020 had an impact on the resumption of work and production, the company's sales still performed beautifully with a growth rate of 30.6% (see Figure 2.13), with total contracted sales exceeding \$100 billion, historically entering the ranks of real estate enterprises with sales of \$100 billion. Benefiting from the gradual release of the results of the key layout in first- and second-tier cities and the continuous optimization of the national layout, the Company's competitiveness in the industry continued to improve. The company's overall industry ranking has jumped from 229th in 2012, when the expansion period began, to 52nd in 2020. The company has achieved continuous catching up in scale, improved its position in the industry, and gradually demonstrated its scale advantage.

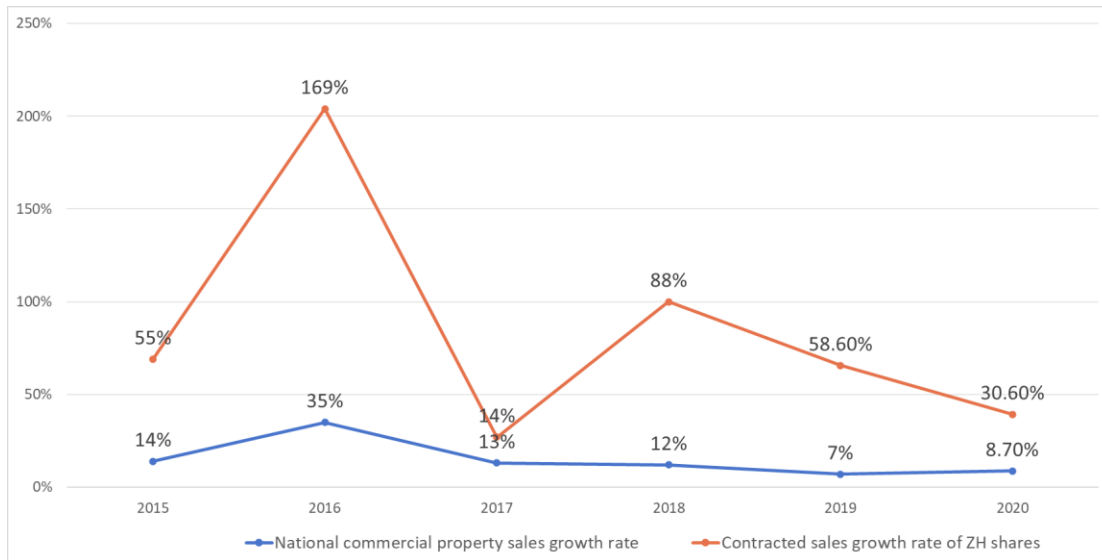


Figure 2.13 - ZH Shares Contracted Sales vs. National Commercial Real Estate Sales Growth Rate, 2015-2020

*Source: author's compilation based on [75]*

## 2) Analysis of weaknesses:

- Higher pressure on project development and construction. In recent years, Huafa has formulated year-on-year increase in sales scale targets, there is a large demand for replenishment of inventory, and actively invested in the layout, so that the scale of development has increased year by year. In 2019, the company's number of projects under construction and proposed to be constructed is as many as 106, with a large scale of projects under construction, and a large scale of investment of 216,322,000,000 yuan, which is still required, facing a greater pressure on development and construction expenditures.

- Lack of clear product positioning. In terms of residential products, Huafa has a wide range of products, including rigid-demand properties, public transportation-oriented TOD products and long-term rental apartments, as well as houses and villas. The company launched diversified residential products, although it can adapt to the development of more types of projects, but the product positioning is not clear enough, so that the product labeling and brand recognition will be reduced, reducing the viscosity of the potential customer base; this also leads to the company's control over individual product areas has been weakened; product replicability and standardization

is not enough, but also need to speed up the development of «short and quick» projects, in order to develop the «short and quick» projects. The company also needs to accelerate the development of «short and quick» projects in order to help it achieve the sales target of «quick turnover».

- The urban layout has yet to be improved. Huafa's current development direction is to break through to the first-tier and key second-tier cities, the development of more than 40 years layout of the city has not yet exceeded 50, compared with the head of the real estate enterprises of Evergrande 228 cities, Biyueyuan 269, in the layout of the scale of the existence of a large gap. The national real estate regulation and control of the first and second tier cities will be more stringent, and the urban growth space is becoming more and more limited, and it should be appropriate to open up new battlegrounds in the three or four cities in the urban agglomeration with better economic development, sufficient demand, and leading industries [21]. Otherwise, once the first and second tier real estate market tends to be saturated, and the lack of layout of the energy level of the third and fourth tier cities, will likely lead to the company's sustainable development of insufficient backward force.

- The effect of diversification is not significant. Huafa has proposed expansion into commercial real estate and housing leasing in recent years. In 2019, the company increased its investment in long term rental apartments, and its investment properties increased by 105.82% over the same period. However, from the actual effect, in 2019, real estate sales revenue increased by 62.2% year-on-year, contributing 97% of the total revenue, while other business income is mainly decoration, agency, design, advertising, project management, property-related services, housing rental income and sports and fitness, etc., which can be seen in the commercial real estate and housing leasing rental income, only accounted for less than 3%. And this kind of heavy asset business on the company's cash flow there is a certain amount of pressure, the company needs to speed up the exploration of innovative financing channels, revitalization of stock assets, in order to avoid aggravating the pressure on capital.

- Cash flow pressure needs to be alleviated. High-intensity land acquisition pushes up the leverage level, short-term debt repayment pressure highlights: the scale of debt

maturity within one year is large, there is a certain concentration of debt repayment pressure, net cash flow from operating activities failed to cover the funding gap. The «three red lines» exceed the standard, the future capital pressure can not be ignored: in the third quarter of 2020, only the cash short-term debt ratio index just reached the standard, the company excluding the advance receipts after the gearing ratio reached 79%, more than 70% of the requirements; net gearing ratio of 148%, far more than the requirements of 100%, according to the data of Kshare, the weighted net gearing ratio of 50 real estate enterprises in the same period. According to the data of KRC, the weighted net debt ratio of 50 real estate enterprises in the same period was around 78%. Financing costs have also risen: the overall average financing cost rose from 5.87% in 2018 to 6.35% in 2019. Cash flow can be regarded as the lifeline of an enterprise, and companies need to pay attention to and adjust it urgently [29].

- Profitability to be improved. Huafa focuses on the first and second tier cities, and with the land resources seized, it still mainly develops and sells projects on its own, based on the characteristics of SOEs and prudent judgment of market entry, and the cooperative development mode is only partial. Expansion in different places increases labor costs and sales costs. The company's total expenses have increased by 57.44% compounded annually over the past three years, and selling expenses and administrative expenses have increased by 44.62% and 48.99% year-on-year respectively in 2019, which is insufficient to control expenses. The increase in land acquisition cost and production material cost, and the simultaneous growth of capital cost with the expansion of liabilities have significantly slowed down the growth rate of net profit. The gap between the return on net assets of 7.66% in 2019 and the average of the top 100 real estate enterprises of 15.9% is large. The gross profit margin of the East China region, which accounted for 40.66% of the sales in 2019, fell to 19.14%, which was lower than the overall level of each region. Therefore, the management level of the two fees needs to be improved, and the overall profitability needs to be further improved [29].

### 3) Analysis of opportunities:

- National strategy to guide the development of the industry. The 14th Five-Year

Plan promotes a new type of real estate characterized by the integration of resources that effectively connects upstream and downstream, production, supply and marketing, and pays more attention to the construction of the rental market. In the future, a number of national strategies such as the «Guangdong-Hong Kong-Macao Greater Bay Area» and «One Belt, One Road» will continue to be supported, and incentives such as «building a modernized metropolitan area» and «accelerating the networkization of city clusters and metropolitan areas» will be implemented one after another. A series of planning recommendations will lead to the subsequent release of policy dividends, market opportunities to be dug deeper, pointing out the direction for the new stage of development of the real estate industry [31].

- Rising income and consumption levels of the population. China's sustained economic growth, the per capita income level of residents gradually increased, the residents of the consumer spending on housing for five consecutive years, accounting for the proportion of the overall structure of consumer spending is also increasing, coupled with the country's recent implementation of the reduction of mortgage interest rates, relaxation of subsidies for home purchases, encouragement of settlement and other regulatory policies, in addition to meet the needs of the day-to-day housing, the demand for housing improvement and investment in home ownership in the ascendant. Coupled with the real estate transactions have become more mature, the purchase of loans, second-hand housing transactions, housing leasing and other fast norms, are conducive to the expansion and development of the real estate industry [35].

- Expansion of consumer demand by new urbanization. The country's new policy and future plans promote new urbanization centered on people, deepen the reform of the household registration system, and accelerate the citizenship of the agricultural transfer population. The demographic dividend brought about by the orderly relaxation of urban settlement restrictions and the acceleration of urbanization will have a positive impact on the real estate industry. The new consumer group promotes housing demand, which is conducive to promoting the expansion of the real estate market.

- Regional development contributes to earnings growth. China's four major city clusters-Guangdong-Hong Kong-Macao Greater Bay Area, Yangtze River Delta,

Beijing-Tianjin-Hebei, and Chengdu-Chongqing city clusters- generate more than 45% of the country's GDP with about 11% of the country's land area. the first three city clusters are relatively mature, and the 14th Five-Year Plan will basically build rail transportation networks for all three clusters and metropolitan areas to fully increase interoperability, while Chengdu-Chongqing city cluster is in a period of rapid growth. The «14th Five- Year Plan» will basically complete the rail transportation network of these three city clusters and metropolitan areas in order to comprehensively increase interoperability, while the Chengdu-Chongqing city cluster is in a period of rapid growth. Huafa shares layout to Guangdong, Hong Kong and Macao Bay Area, the middle and lower reaches of the Yangtze River, the Bohai Rim important first- tier cities and second-tier cities as the focus of expansion, and the national strategy to a high degree of consistency, of which Zhuhai is the base camp is the only mainland land and Macao and Hong Kong are connected to the city, the future of Guangdong, Hong Kong and Macao under the effect of synergies of industry, is expected to be driven by the surrounding areas of the Greater Bay Area in Zhuhai. Regional development will play the role of urban agglomerations and central cities to drive, the company in the region of low-premium high-quality project reserves will be expected to receive premium dividends, and help performance continued growth [42].

- Broader opportunities for the strongest industry concentration. China's real estate industry has become a new watershed in the camp of real estate enterprises with sales of 100 billion. Against the backdrop of slowing industry growth and facing uncertainties, large and medium-sized real estate enterprises with scale advantages, brand influence, cash flow balancing ability, product creation and sales ability will obtain more resource tilts and liquidity supplements to establish a more obvious competitive advantage, while small-sized real estate enterprises will be at a disadvantage more often, or even face the predicament of being parted out or withdrawn. Huafa has stepped into the camp of 100 billion real estate enterprises, and acquired 36 projects in 2019 by way of public bidding and cooperative development, and has cooperated well with many industry benchmark enterprises such as BIG, CR, Sunac and Wharf, obtaining benefits such as higher capital utilization rate, lower

investment risk, and leverage to leverage scale. Flexible land acquisition brings a new round of development opportunities for the Company [5].

- New technology for real estate industry innovation. The national strategic goal proposes to greatly leap forward the strength of science and technology, prompting the speed of new technology iteration and upgrading, reshaping the real estate and its extended industrial chain, and releasing the vitality of industrial upgrading. Huafa actively embraces the technological revolution, and its subsidiary, HASCO China Construction New Technology Company, has set up an assembly design institute to promote the Hong Kong and Macao certification of the National Assembly Building Industry Demonstration Base; the company's informationization construction has begun to bear fruit; and the product system will increase the application of intelligent technology. In the future, it is necessary to actively explore the in-depth integration of science and technology with the company's real estate business and the business of upstream and downstream subsidiaries, and try to apply the elements of science and technology in multi-dimensions and multi-scenarios, from development to management, and from sales to service, to provide technological transformation and informationization support for all aspects of the company, so as to further enhance the core competitiveness of the enterprise.

#### 4) Threat analysis:

- Transition of the market to a slower pace of stabilization. In recent years, uncertainties in the international environment have increased dramatically, the downward pressure of the macro-economy has not been reduced, and financial regulation has increased, slowing down the growth rate of the scale of the real estate industry. 2020, the normalization of epidemics in China's real estate market has brought a fierce impact on the construction and sales progress of the project, affecting the head, the tail end of the enterprise's growth rate is low, and the average growth rate of sales of tens of billions of real estate enterprises has dropped to 14.4%, which is far lower than that of 49.3% in 2016. 49.3%. In 2021, the new financing regulations will reduce the willingness of real estate enterprises to acquire land, and the «three red lines» will accelerate the industry reshuffle, which will lead to a decline in the land market

turnover, narrow the price increase, and real estate enterprises will pursue quality growth to prevent and control risks. In this situation, the real estate market has clearly entered the slowdown and stabilization channel, steady development will be the main tone [5].

- Real estate control policies continue. The state emphasizes «housing without speculation», and continues to strengthen real estate policy regulation and control to maintain a balance between growth stabilization and risk prevention. A number of regulatory rules have forced real estate enterprises to deleverage and reduce liabilities, and comprehensively control their financing channels. The policy efforts have covered from city-specific policies for each city to enterprise-specific policies for each financing entity. With the implementation of differentiated and precise regulation and control in each city, the regional differentiation of policies has intensified, and the policy inhibition has made the survival environment of real estate enterprises more restricted.

- Stricter requirements for industry standards. The real estate industry has entered a period of refined development from a period of rough growth, and this change has empowered the development of the industry and rapidly improved its specialization, standardization and standardization. The government, regulation, industry associations, consumer groups, etc., have all put forward higher requirements and expectations for the refined operation of real estate, product quality, engineering quality, environmental performance, marketing methods, service quality, etc., and the whole industry has entered the era of «low tolerance for error». In order to cope with the environment and policy changes, the implementation of business strategy and transformation and upgrading is particularly important.

- Increased competition by echelon differentiation. As the real estate market changes from incremental to stock, superimposed on the epidemic, economic slowdown, industry policy fluctuations and other multiple impacts, the industry boom continues to be under pressure, the overall profit margins continue to narrow, resulting in intensified competition in the industry, the echelon of the concentration of real estate enterprises continued to diverge. 2020, the TOP30 strong real estate enterprises

accounted for the value of the top 100 new land reserves of 70% of the value of the land sales ratio is higher than that of the other echelon, the scale effect of the head of the real estate enterprises is obvious. The scale effect of head real estate enterprises is obvious. After entering the 100 billion real estate enterprises, Huafa will face the direct competition from the TOP50 real estate enterprises with stronger comprehensive strength, and the competition for market share will become more heated, which will undoubtedly bring more serious threats.

- Increasing real estate costs. The government's attitude towards combating idle land is becoming more and more severe, which will inevitably increase the cost of land holding, forcing real estate enterprises to change the past «land hoarding» development style, and in order to cope with the pressure of slowing down the industry's growth rate, the need to speed up the efficiency of project turnover. First and second-tier cities with high land purchase costs, so that the key layout of the real estate enterprises to cope with market adjustments when the sales price elasticity becomes smaller. In addition, inflation caused by rising raw materials, labor costs, security costs, etc., the expansion of off-site also makes the enterprise operating costs rise, if the enterprise cost control ability is insufficient, will increase the operating pressure, the development of a potential threat.

- Increasingly personalized consumer demand. With the improvement of people's income levels and changes in consumer attitudes, the demand for real estate products is becoming increasingly diversified, driving the demand for housing from quantity to quality.

Firstly, the improvement demand of high-income families, 90-140 square meters, especially in Tier 2 to Tier 4 is the main market, which needs to increase supply from both incremental and stock.

The second is the demand for first-time buyers from middle-income families, for which the current rise in housing prices in major cities has led to a higher threshold. Compared with luxury and suburbanized new homes, second-hand homes are more diversified in terms of location, house type and total price, and the supply is relatively larger, so this type of first-time buyer mainly prefers the second-hand home market.

Thirdly, the quality of living for single people living alone, which is becoming a new trend globally. For example, unmarried young people of the right age prefer small single apartments that are easy to afford; divorced and not remarried young and middle-aged people prefer medium-sized apartments with supporting parks, recreational and fitness venues; and elderly people who live alone tend to prefer senior apartments scattered in normal neighborhoods that are equipped with simple fitness facilities, daily security guardianship, and other services for their needs of aging at home. In order to continuously improve the quality of real estate enterprises, it will become a trend to provide customized services according to the segmentation and diversified needs of consumers.

By comprehensively assessing the strengths and weaknesses of ZH Ltd. in the internal environment and the opportunities and threats in the external environment as described above, the SWOT strategy matrix of ZH Ltd. is summarized and analyzed (see Table 2.1).

Table 2.1 - ZH Industries SWOT Strategy Matrix

External environment	Internal environment	Strengths	Weaknesses
		(1) Excellent corporate culture and good management level (2) Strong background of shareholders to ensure sustainable development (3) Experienced in project development and high credibility as a state-owned enterprise (4) Double growth in revenue and profit, and smooth financing channels (5) Continuous optimization of regional layout and decentralized concentration (6) Sales growth rate better than peers, competitiveness enhanced	(1) Higher pressure on project development (2) Product positioning is not clear enough (3) The city layout has yet to be perfected (4) Diversification effect is not significant (5) Cash flow pressure needs to be alleviated (6) Profitability to be improved
Opportunities	(1) National strategy to guide the development of the industry (2) Residents' income and consumption level rise (3) New urbanization expands consumer demand (4) Regional development contributes to performance growth (5) Industry concentration and opportunities for the strongest are wider (6) New technology promotes real estate industry innovation	Developmental strategies (SO)	Turnaround strategy (WO)
		(1) Taking advantage of favorable policies and market opportunities, steadily expanding externally to optimize performance. (2) Penetrate and deeply cultivate regional layout, flexibly acquire land resources, and increase market share (3) Enhance cross-regional brand recognition, strengthen marketing management and improve financing capability (4) Leveraging its strengths and enhancing its innovation capability to occupy a favorable position in the industry.	(1) Utilizing external market opportunities, adopting market concentration strategy and improving regional layout (2) Improve its management level, clarify product positioning and increase product advantages (3) Increase the promotion of diversified business and improve its profitability level. (4) Introducing relevant technical core talents and increasing the degree of integration of new technologies in various aspects.
Threats	(1) The market to reduce the speed of the transition to stability (2) Stricter requirements of industry standards (3) Real estate control policies continue (4) Echelon differentiation competition intensifies (5) Increasing real estate costs (6) Increasingly personalized consumer demand	Diversified strategy (ST)	Defensive strategy (WT)
		(1) Appropriately controlling cross-regional expansion, adopting a stable development strategy, and looking for favorable timing before entering new markets (2) Increase cooperation with competitors to reduce investment risks and minimize the chances of white-hot competition. (3) Expand to the upstream and downstream of the industry or other industries to form new performance growth points (4) Enhance the level of refinement and standardize cost control.	(1) Slowing down the pace of off-site expansion and adopting an asset-light strategy to improve profit returns from cooperative projects (2) Enhance inventory digestion efforts to ensure good cash flow (3) Improve operational efficiency and reduce operating costs to lay the foundation for corporate development. (4) Consolidate the product model and strengthen the existing development mode.

*Source: built by the author*

ST Diversified strategy is to rely on internal advantages to avoid external threats. This strategy controls cross-regional expansion, which will cause the company's

market share and land acquisition opportunities to be squeezed by «inward» competition and miss the favorable time for development during the current period of intensified competition in the industry and the rush for high- quality land resources. At the same time, excessive increase in cooperation with leading competitors will continue to dilute the average profit, and may not have the dominant position in the operation of the project, and too many cooperation projects will lead to the company to sacrifice the long-term interests. Therefore, this strategy is not suitable for the company's development plan.

The WO turnaround strategy is to utilize external opportunities to compensate for internal weaknesses. The strategy favors accelerating and increasing diversified businesses. At present, the company's diversified businesses are mainly in commercial real estate and long term rental apartments, which are asset-heavy businesses, and excessive diversification will take up capital and increase risks; the introduction of relevant technical core talents will firstly face increased financial costs. Meanwhile, the company only relies on improving its own management level to do large-scale, on the one hand, time cost consumption, on the other hand, did not give full play to the company has established a certain brand influence and social resources advantage. Therefore, this strategy is also not in line with the company's development ideas.

WT Defensive strategy is to weaken internal weaknesses to avoid external threats. This strategy slows down the speed of foreign expansion, which will obviously make the company gradually lose the market dominance of the national layout, and too conservative, leading to business shrinkage, affecting the enhancement of the industry status, which is not conducive to the development of the enterprise in the long run. At the same time to consolidate the product model, the lack of product upgrading and innovation, unable to keep up with the trend of the times and market demand trends, affecting the competitiveness of the product market. Therefore, this strategy is even more contrary to the company's development plan.

SO Developmental strategy is to utilize internal advantages to grasp external opportunities, i.e. in the rising stage of the Company's development, it is good at seizing the policy window period and market opportunities that are favorable to itself,

deepening the foundation of its strategic layout, enhancing its cross- regional brand influence, and flexibly acquiring land to obtain land resources and seize market share. At the same time, it should actively build and expand its characteristic advantages and enhance its innovation ability, so as to occupy a favorable position in the industry. Therefore, this strategy is the optimal strategy for the Company to choose at present [6].

Combined with the results of SWOT matrix: from the view of external factors, although the company is facing various threats, these threats are obviously smaller than the wide range of external opportunities, so it is more important to grasp the good opportunities to resist the threats; from the view of internal resources, the company's overall advantages, especially the background of the state-owned enterprises is a unique competitive barriers, so it is more important to maximize the advantages to make up for the disadvantages. Overall, the above analysis suggests that ZH Industrial should prioritize the adoption of SO development strategy in its overall management.

#### **2.4. The problems and reasons for the development of ZH Ltd.**

Problems in the development of ZH Ltd.:

1) Insufficient foresight in strategic layout. The company's development for more than 40 years, the layout of 44 cities, compared with the same is a state-owned enterprise background of greenland holdings, the layout of more than 150 cities, the layout of the scale of the existence of further room for improvement. Although contracted sales in 2020 exceeded 100 billion, but still hovering on the edge of the TOP 50 national real estate companies, the industry position needs to be improved. In terms of land reserve, for regions with large sales contribution, there is not enough new land reserve to support its subsequent long-term development, while some of the regions in which the company is heavily positioned, sales are just starting, but may face the impact of the epidemic and industry environment, and there are uncertainties in the

future development of the company. 2019, the company's proposed, in progress, and the completion of the unsold land reserve of 20,645,000 square meters in floor area, which is not yet able to fully meet the development requirements for the next three to five years. The Company's proposed construction, construction and completion of unsold land reserve of 20.645 million square meters in 2019 will not be able to fully meet the development requirements for the next 3-5 years.

2) Insufficient precision in product positioning. Huafa has made fast turnover a priority, but its inventory grew 24.62% compounded annually from 2017 to 2019, with an average turnover days as long as 2,176 days. 2019 inventory of 159.045 billion yuan is much higher than Longguang's 86.352 billion yuan and Sunnice's 51.79 billion yuan of the same size echelon in the same period. The large scale and long cycle of inventory affects the return of funds. The problem of inventory depletion is the product itself. If the product is not marketable, even price cuts and promotions will not have a significant effect. For example, the company's first project in Guangzhou, Baiyun District, the king of the land, the project delayed for three years after the opening of the hardcover large family design had encountered difficulties in the realization.

Domestic branded real estate enterprises, such as BIG and Evergrande, mainly develop just-demanding residential properties in suburban, third- and fourth- tier cities; CR and Greentown mainly develop high-end improvement residential properties; Poly and Jindi mainly develop first-time improvement residential properties in urban areas; and Agile mainly develops medium- and high-end low- density residential properties. In comparison, Huafa's residential product line is richer and covers a wider audience, with rigidly-demanding properties and public transportation-oriented TOD products, as well as houses and villas. Although the richness of the product range can be adapted to the development of multiple types of projects, there is no clear positioning of the consumer groups in each region and city level, and a good combination of precise positioning and differential positioning. On the one hand, there is no focus on creating a segment that meets the company's direction, so-called specialization, the consumer's impression of Huafa's brand labels will be reduced, and it is difficult to associate the company's fist product, but it affects the company's control over the target product

areas; on the other hand, there are not many replicable and standardized mature products, and the company pushes the «one plate, one policy» strategy to polish the products. On the other hand, there are not many mature products that can be replicated and standardized, and the company promotes the strategy of «one plan for one project», which requires polishing products, but the current situation is more appropriate to launch «short and quick» projects according to the city level, otherwise it is difficult to solve the problem of long project development cycle and high inventory.

3) Poor industrial diversification. Huafa has implemented a diversified strategy for the industry, in accordance with the business development pattern of «one core and two wings», in addition to the main business of real estate, other businesses cover commercial real estate, long term rental apartments and the upstream and downstream industry chain, and the income from other businesses accounted for 4.6% of the total revenue in 2018, and will be slightly reduced to 4.3% in 2019, and only 3% in the medium term of 2020. It will only be 3% in the medium term. In December 2020, the company sold Huafa Jinglong, which has been cultivated for 5 years and is responsible for the construction of building projects and the design of indoor and outdoor decoration, and Jiantai Construction, which has already had a breakthrough in its performance, to Weiye Shares, a GEM-listed company under its affiliate, HASCO Holdings, to solve the competition in the same industry, resulting in the contribution of other revenues to be further declined.

In addition, the whole industry chain created with the real estate business as the core, generally speaking, the upstream of real estate includes finance, agency construction, residential support, assembly building, etc., serving the financing to construction process in the early stage of real estate development. The downstream of real estate covers property management, marketing, Internet home decoration, etc., serving the demand for housing and property management in the later stage of real estate development. Among them, property management is the most favored industry by real estate enterprises by virtue of fast expansion, high profit margins, and quality property management services can enhance the reputation of the property, so it is the most favored layout of the industry. However, at present, ZH Property Management

Services Co., Ltd. is controlled by other segments of Huafa Group, and in terms of finance, Huafa has only invested in ZH Group Finance Co., Ltd. with 10% equity ratio, and together with the subsidiaries that have been sold to be in charge of generation and assembly construction, it is obvious that the whole industry chain business that the company wants to build is more dependent on the resources of the parent company, and it is related to its sub-branding linkage and cooperation. It can be seen that Huafa's diversified business is far from reaching a mature stage, and its contribution to revenue continues to decline, which not only occupies the company's capital, but also has a certain impact on the main business of real estate.

4) Financial soundness to be improved. First, profitability to be improved. Huafa shares in recent years in the case of real estate sales market is good, the gross profit margin is declining year by year, so that the profit growth rate is less than the revenue, a significant decline year on year. 2018 net profit year-on-year growth of 41.88%, but a significant decline in 2019 to 21.9%. 2019 return on net assets of 7.66% compared with the average of the 100 top real estate enterprises of the average value of 15.9% level of the gap is large. Second, short-term debt service pressure is highlighted. The company's gearing ratio has been higher than 80% for three consecutive years, and 81.51% in 2019 is higher than the average value of 78.7% of the top 100 real estate enterprises. Total liabilities increased by 27% year- on-year to 190.816 billion yuan, of which the total financing amounted to 105.723 billion yuan to break through the 100 billion yuan. Net debt ratio was as high as 160.5%, while the average value of 50 representative A+H listed real estate enterprises was around 78% during the same period, which was not only higher than the average level of the industry, but also exceeded the regulatory red line requirement. Short-term debts amounted to RMB 36.82 billion, while the book capital was only RMB 26.08 billion, with an obvious funding gap. Third, costs and expenses increased. The company's selling expenses and administrative expenses in 2019 increased by 44.62% and 48.99% year-on-year, respectively. The cost of land was RMB6,716/sqm, up from RMB6,544/sqm in 2018, while the average selling price fell sharply by 22% to RMB23,306/sqm compared with the same period, and the spread between the cost of land and the selling price of the

property decreased. In addition, financing cost under high leverage increased from 5.87% in 2018 to 6.35% in 2019, and interest expense increased by 69.37% year-on-year. Lastly, in terms of the Company's new borrowings, bank borrowings accounted for 38.36%, while the continued contraction in the financing environment may limit the scale of its financing as the regulation started to implement the real estate loan concentration management in 2021. As a result, the high leverage ratio limits Huafa's room to lower its leverage and freedom to acquire land, given that its land bank is not particularly sufficient. Debt pressure and higher financing costs, coupled with project profit margins under pressure, Huafa shares in the future how to take into account the return to the speed of profit growth, has become the company urgently need to solve the reality of the problem.

Reasons for problems in the development of ZH Ltd.:

1) Ineffective land reserve planning.

Land reserve, as the backup force for Huafa's development, did not keep pace with the rapid expansion in time. from 2018 to 2019, the company's land reserve holdings declined by 14% and 7% year-on-year respectively in terms of capacitated floor area. From the regional distribution point of view, the East China region as the main force of the company's performance growth, in 2019, the company's sales contribution accounted for 40.66%, for two consecutive years more than the Zhuhai home base, but its land bank only accounted for the company's 8.31%, and the problem of shortage of land bank is particularly prominent. Central China land reserves accounted for 45.71%, but sales contributed only 8.77%, there are a large number of reserves in the development and construction period, has not yet reached the pre-sale period to release the benefits of the epidemic continues to have a negative impact on the macroeconomic and industry environment, and due to the large volume of the local project, there is a phased development, sales in batches, the region's reserve projects in the future is likely to face a certain degree of risk of depolymerization, but also need to pay close attention to the regional market demand situation. We also need to pay close attention to the regional market demand. As can be seen, the Company's land reserves and potential sales areas failed to match, the layout was obviously unbalanced, and it failed to

conduct more in-depth market research and judgment on various regions in conjunction with the market changes and sales targets of the Company, and reasonably plan land resources, resulting in the subsequent shortage of sales value or pressure on the depletion of goods in certain regions.

To solve the endogenous demand of land reserve shortage, which makes the company chase for land kings in the open market. 2020, the company won the new land parcel in Wuhan with a price of 9.43 billion yuan, the premium rate is as high as 17.88%, and the floor price of 21,000 yuan/square meter set a new record in Wuhan area. Spending tens of billions of dollars in Shanghai Minhang, Pudong New Area new land reserves, premium rate of 46.4%, 32.71%. According to the E-House Real Estate Research Institute report shows that, as of August 40 typical cities across the country land transaction premium rate of 13.6%, the company frequently get the king of the premium rate exceeds the industry average. Under the trend of price restriction, purchase restriction and other control policies, the development pressure of land king will increase [30].

## 2) Cautious investment of missed opportunities.

Huafa shares in the past five years has implemented horizontal integration strategy, actively deployed in overseas markets. 2016 the company successfully acquired the U.S. San Francisco project, followed by a few years also actively invested in Hong Kong project. But according to the annual report, the U.S. project until 2020 has not yet delivered mature products, capital investment for five years has not yet produced economic benefits, Hong Kong, Macao, two platforms, is now mainly engaged in the sales agent, did not see the substantial progress of the investment and development. It can be seen that the company out of the country, can not fully play their own social resources in the domestic advantage, the local real estate policy, resident staff mobility, organizational structure needs to be strengthened. In recent years, the evolution of the international environment and the increase in risk points, coupled with the tightening of foreign control policies, in order to avoid the uncertainty of foreign investment, the company can only suspend the pace of international expansion, has missed the early years of overseas investment in the favorable period.

State-owned enterprises «low tolerance» institutional culture, decision-making time is longer than private enterprises, the internal approval process flow is relatively cumbersome, coupled with the tightening of the industry environment, the three red line yoke, the company attaches more importance to the quality of investment. However, the company crossed into the 100 billion camp, but also need to take into account the stability of the scale. For the mainland market part of the second-tier suburbs and key third and fourth-tier cities of low- yield, high-scale projects, if you miss the opportunity to intervene, will, to a certain extent, constrain the scale of development.

### 3) Lack of segmentation of product target consumers.

If the target consumer group is well segmented, the products can be marketable and the inventory can be speeded up. Customer segmentation is an important management ability formed by the long-term development and accumulation of a company. Vanke was the first company in the industry to study customer segmentation. In 2005, Vanke began to conduct multi-dimensional segmentation of its products based on the life cycle, income and value orientation of its customers, and categorized its customers into 5 major groups and 8 sub-groups: economically pragmatic families (25%), professional up-and-coming families (29%), families with aspirations for children to be born (31%), families with manifestation of success (9%), and families with concern for the later years of their lives (6%), thus greatly expanding the product line of Vanke, which has become the most important product line in the industry. home-buying program, greatly extending Vanke's product line. Moreover, before acquiring the land, it has found the corresponding market of the land, determined the good customer groups, then combined with the corresponding mature products or product innovation, and after acquiring the land, it does the re-demonstration of the program, starts the construction quickly and then promotes the marketing at the later stage, realizing the industrialized production. Another example is Poly's Shanghai and Wuhan projects, which use mobile big data based on LBS cell phone signaling to tap into the distribution of potential customers' hotness and population migration, predicting the trend of population flow and thus helping to determine the future population potential

around the project. And then there's Longfor, which uses two paths, city mapping and customer segmentation, to divide the city into many small segments to be studied by real estate elements [63].

Compared with these real estate companies that are in the forefront of the industry in the study of customer needs, Huafa still needs to improve its product capability for the segmentation of consumer groups, and the «Four Seasons Series» and «Mansion Series» implemented by the company belong to the luxury wide-area residences, with a relatively long construction cycle, and the company needs to accelerate its efforts to expand «short and quick» projects at the present stage. In light of the Company's goal of «fast turnover», it is necessary to accelerate the expansion of «short and quick» projects. How to combine the localized consumer demand of each region and city, promote standardized and systematic products, and improve the turnover efficiency of real estate project development is undoubtedly the key to solving the problem of high inventory.

#### 4) Brand influence wideness to be strengthened.

Huafa is a household name in the Zhuhai area. However, after going from local to national, when some of the projects launched in the region were not scarce products in terms of household size or property type, the sales response in each region was inconsistent. The Company's brand influence in the region has not yet been fully established.

In 2019, Kerry Research Center evaluated the TOP100 brand communication power of Chinese real estate enterprises in 2019 by the index system of product promotion, media promotion, exposure, investor relations, etc., and Huafa ranked 41st, and the 2020 list was refreshed to 27th due to the public welfare of the anti-epidemic and the update of the product system. During the same period, Feng Caixun and Phoenix.com assessed the brand value of real estate enterprises in the TOP100 in 2020 from the dimensions of brand new media platform influence, brand matrix, brand recognition, and brand public opinion, etc., and Huafa ranked 59th, and 77th among the TOP100 of real estate enterprises in terms of word-of-mouth. The overall performance of the company in national brand promotion is not satisfactory. Brand

influence is closely related to the company's performance and growth. Expanding foreign resources is a gradual process, and real estate development involves the integration of many local resources. In order to accelerate the harvesting period of foreign projects, it is necessary to build a wide range of brand influence to consolidate the regional layout, and to drive the brand effect to enhance profitability, in order to help the company win in the competition in foreign markets [65].

5) Regional professionals need to be introduced and cultivated.

Employees of Huafa's major subsidiaries account for 93.74% of the company's total number of employees, most of which are concentrated in foreign regions. As the company's headquarter assumes the management function and the main subsidiaries assume the project operation function, the regional companies take up the important work of product creation, project management, brand promotion, advertising and marketing in the local area, which puts forward high requirements for the level of regional professionals. The proportion of employees with college degree or below reaches 30.45%, and the proportion of postgraduate degree is 11.67%, which is polarized, with more middle- and low-end talents and insufficient high-end talents, and the reserve of middle- and high-level talents still needs to be strengthened. The management and sales personnel of regional companies and project companies are generally recruited locally, and are seldom dispatched directly by the headquarters; when necessary, the relevant departments of the headquarters briefly go to the site for direct guidance, and it is difficult to go to the site to provide support in case of a tight epidemic situation [67].

The organizational structure of South China Company will be adjusted in 2019, and the adjustment and optimization of the talent structure should be focused on the Guangdong, Hong Kong and Macao Greater Bay Area, which is the key layout of the Company; Central China Company and North China Company are newly formed, and the recruitment of talents should be pushed forward quickly. The construction of regional organization structure and talent system should be in line with the company's «6+1» layout, and with the accelerated development of the company's scale, the cultivation of talent optimization should be strengthened. Due to the development of

regional companies formed differently, the level of regional personnel is uneven, the market information sensitivity is not enough, the industry experience is not enough to accumulate, insufficient knowledge of the industry, the company's excavation and analysis of the local market demand is relatively loose, the lack of adequate market research and judgment, to give the localization of the product positioning, promotion, sales solutions for the ability to be improved. This also leads to Huafa brand in the regional spillover effect is not as expected, yet to be refined to shape and expand the influence [68].

6) Low input-output ratio of innovative business.

Huafa's diversified businesses mainly include commercial real estate, long term rental apartments, residential supporting industries and construction industrialization. Currently, only commercial real estate has formed four major product lines of Huafa Commercial in Zhuhai: Huafa Shangdu, Huafa Boutique Aloe, Huafa Xintiandi, and Read-Tide Bookstore, of which Huafa Shangdu, with an investment of RMB 2 billion, is the largest, highest-grade and most functional landmark commercial complex in Zhuhai to date, and is the new business card of Zhuhai city. Urban renewal is exploring expansion to other cities in the Greater Bay Area. As for the upstream and downstream industries, the sale of the two construction companies has contributed less to the income of the grip, leaving a small income of design companies, marketing companies, gardening companies, technology companies and so on.

In 2019, Huafa's investment real estate in one fell swoop changed the previous stable book value to as much as 4.891 billion yuan, a sharp increase of 105.76% year-on-year, which includes investment in commercial real estate, long-term rental apartments, and urban renewal projects. The transformation of real estate enterprises is a long-term process that requires continuous trial and error exploration. New business like long term rental apartments, most of them are in the stage of figuring out and climbing, the profit model of some areas is not yet clear, the personnel management requirements are high, and they often require a lot of upfront investment and technical support to cultivate the foundation and experience, and most of these businesses are asset-heavy self-holding projects, which need to be operated for a long period of time

at the same time, and the initial capital accounted for the large amount of money, and the commercial real estate and leasing project has a long rental return cycle, so it will be in a long a period of time. 2020 mid- diversified business income accounted for only 3% of the total revenue, the current view of the profitability is limited, and the occupation of funds on the financial layer of pressure, in the short term, can not be expected to become the second point of growth in performance [70].

7) Returns affected by competition from related businesses in the same industry. Huafa Group, the controlling shareholder's urban operation segment, is also engaged in real estate development business, and has certain residential land resources in Zhuhai area and neighboring cities in recent years, especially in 2020. Huafa Group integrated and reorganized Zhuhai Urban Construction Group and Anju Group, and obtained more low-cost and high-quality land resources. In order to solve the problem of competition in the same industry, under the premise of retaining its own development projects, Huafa Group only contracted the whole process of engineering management and marketing management to Huafa Shares in the form of consultant or management, and used the registered trademark «Huafa», but did not inject quality assets into Huafa Shares in isolation of property rights. 2019, Huafa Group will be the first to inject quality assets into Huafa Shares for 9 projects including In 2019, Huafa Group paid a certain management fee to Huafa through project trusteeship for the engineering consultancy and marketing management of nine projects. Huafa shares thus gained 650 million yuan of interest from related transactions, but the related party expenses to be paid were as high as 1,549 million yuan, and the expenses on the books of related party transactions were obviously doubled over the income, presenting a state of not being able to make ends meet. Under the situation of 100% sales return rate, the company can earn about 5% of project sales by contracting group projects, while the company's net profit margin has been around 10% for many years, consuming almost the same amount of manpower and resources to do the projects with profit margin halved, which affects the rationality of the company's asset allocation.

Interbank competition also limited Huafa Group's incentive to pour resources into Huafa Shares. In 2019, Huafa Shares carried out seven relevant financing activities

through factoring companies, asset management companies and finance companies under Huafa Group, and the average financing costs obtained from Huafa Group through connected transactions were generally above 8%, while the company's overall average cost of financing was only around 6.35%, which caused the company's This made the financing cost of the Company rise significantly, and the annual finance cost amounted to RMB268 million, representing a year-on-year increase of 15.98%. Although the contraction of the macro financing environment had an important impact, the high cost of financing from Huafa Group was also one of the reasons for the sharp increase in interest expenses [69].

#### 8) Cooperative development leverages scale and dilutes profits.

Huafa's cooperative development projects have continued to increase since 2015, directly leading to a significant climb in its minority interest, especially in 2017 when the value exceeded the ownership interest attributable to the parent company for the first time, and its share in total equity rose from 50.31% to 54.37% in 2019. In the mid-2020s, the company's pre-cooperative development projects with low equity ratios were carried forward one after the other, resulting in a 10.37% year-on-year drop in minority interest. Profit and loss decreased by 10.37% year-on-year, which had a greater impact on the net profit growth rate as it accounted for about 31.3% of the net profit, and the 6% growth rate was much lower than the revenue growth rate of 60.8%. In addition, the operating revenue of South China region accounted for 24.99% of the total revenue in 2019, and the East China region accounted for 20.66%, becoming the two regions contributing the most to the Company's business revenue, both of which accounted for more than the 19.07% of the Zhuhai region, the home base of the Company. In fact, the Zhuhai region operating income fell by 24.18%; East China region showed a double drop in revenue and gross profit margin. This situation is also due to a number of Zhuhai and Cinnamon cooperation projects, East China and China Resources Land and other cooperation projects have entered the carry-over period, the project delivery of advance receipts to revenue [73].

The cooperative development mode has helped the company grow rapidly in the short term. However, due to the different interests of different partners, in order to

protect the project revenue, some major shareholders in the cost of expenditure is not fully in accordance with the standards of Huafa shares, in the operation and distribution of the link is prone to contradictions, which will have an impact on the development nodes of the project operation, marketing prices, profit distribution and other aspects. On the other hand, due to the Huafa shares with the strength of more powerful real estate enterprises in the local market social resources and appeal, many project companies have not been consolidated, resulting in the distribution of profits in accordance with the ratio of shares, the level of net attributable profit is far less than the scale of expansion of the sales growth rate embodied.

9) Expansion of land reserves too fast reduces operational efficiency.

In order to sprint to the goal of sales over 100 billion yuan, Huafa actively replenish the land reserve, increase the debt raising efforts, although facing greater financial pressure, but still successively in guangzhou, wuhan, shanghai and other places to win the «king of the land». 2019 new land capital of more than 30 billion yuan, the amount of land in the middle of 2020 to reach 825% of the total sales. 82.5%. The land growth rate is too fast will affect the inventory turnover, the company from 2017 to 2019 inventory turnover times show a downward trend, in 2019 for 0.16 times, and compared with the industry, during the same period of time, Aoyuan real estate 0.26 times, the times of the holding 0.54 times, the company's operating efficiency can be seen to belong to a lower level [66].

As the country implements the responsibility of urban regulation, the heat of the land market will be quickly suppressed if it rises significantly, and the financing environment will still not be optimistic, all of which will affect the land acquisition incentive of real estate enterprises. The competition for high- quality land plots in hotspot cities with high profitability and low risk will become more intense, and the differentiation within cities will become more obvious. The company entered the sales of 100 billion echelon, facing the head of the real estate enterprises more direct competition, in order to increase the chips in the echelon competition, support the long-term scale expansion, consolidate the industry position, the company in the land bank is not particularly sufficient, it is bound to compete for high-quality land bank

resources, and will be the speed of storage accelerated. And the real estate market has been hoarding appreciation of the financial dividend years, turning to fine management dividend years, which requires the company to strengthen the «land reserves to in transit» and «in transit to sellable» inventory conversion measures, optimize the cost, internal control, approval and other control systems, comprehensive and deepen the refinement of management, so as to improve the cash flow and improve the quality of the industry. Deepen the refinement of management, so as to improve cash flow, to ensure that the capital chain is sufficient. Otherwise, the low efficiency of operation and management, the failure to realize the inventory in time, the high leverage ratio, the high debt and the consequent increase in financing costs, coupled with the pressure on the profit margins of the projects, will lead to a certain degree of uncertainty in the future level of profit growth of the Company.

## **Conclusions to Section 2**

The forty years of ZH stock is a leap forward from ZH to China ZH, and the industry position has increased from 229th in 2012 to 52nd in 2020. Sales have risen from 10 billion yuan to over 100 billion yuan in just five years. However, the rapid expansion has not been able to take into account the simultaneous growth of profits, frequent financing and debt pressure has risen, the strategic layout, product positioning has not yet fully kept pace with the pace of the current situation of problems superimposed on the intensification of competition extrusion so that the company has not yet crossed the national real estate enterprises TOP 50. In the face of the complexity of the external environment, ZH shares need to analyze their own problems in depth, re-plan their strategies, help the company to build on its strengths and avoid its weaknesses, and explore new growth points, in order to enable the company's development to successfully reach a new level.

The competition for high-quality land plots in hot cities with high profitability and

low risk will be more intense, and the internal differentiation of cities will be more obvious. The company entered the sales of 100 billion echelon, facing the head of the real estate enterprises more direct competition, in order to increase the chips in the echelon competition, support the long-term scale expansion, consolidate the industry position, the company in the land bank is not particularly sufficient, it is bound to compete for high-quality land bank resources, and will be the speed of storage accelerated. And the real estate market has been hoarding appreciation of the financial dividend years, turning to fine management dividend years, which requires the company to strengthen the «land reserves to in transit» and «in transit to sellable» inventory conversion measures, optimize the cost, internal control, approval and other control systems, comprehensive and deepen the refinement of management, so as to improve the cash flow and improve the quality of the industry. Otherwise, the low efficiency of operation and management, the failure to realize the inventory in time, the high leverage ratio, the high debt and the consequent increase in financing costs, coupled with the pressure on the profit margins of the projects, will lead to a certain degree of uncertainty in the future level of the Company's profit growth.

At the macro-environmental level, China at the end of the epidemic can support the sustainable development of real estate in terms of its economy, technology, policy environment, and people's living habits. ZH also has natural advantages in real estate competition. Opportunities in the external environment outweigh threats.

The internal environment, the enterprise scale is moderate, the talent reserve is sufficient, the profitability is in the middle and upper level of the industry, and the credit rating is 3A. Brand operation and product shaping ability are strong. The investment and expansion ability continues to improve, and has covered bid developed regions. Debt leverage ratio slightly exceeds the government's guideline range, which is a controllable level. The overall internal environment can support the healthy development of the enterprise.

Combined with the results of SWOT matrix: from the view of external factors, although the company is facing various threats, these threats are obviously smaller than the wide range of external opportunities, so it is more important to grasp the good

opportunities to resist the threats; from the view of internal resources, the company's overall advantages, especially the background of the state-owned enterprises is a unique competitive barriers, so it is more important to maximize the advantages to make up for the disadvantages. Overall, the above analysis suggests that ZH Industrial should prioritize the adoption of SO development strategy in its overall management.

## SECTION 3

### FORMULATION AND IMPLEMENTATION OF DEVELOPMENT STRATEGY OF ZH LTD.

#### 3.1. Strategic options of ZH Ltd.

Vision is the starting point of enterprise development, indicates the development direction of the enterprise, and helps to determine specific strategic objectives. Strategic objectives in turn serve to realize the vision, clarify the requirements of enterprise development and ensure the correct direction of development. In order to realize the blueprint, stand out in the white-hot competition and continuously improve the industry position, Huafa depends on the achievement of the overall strategic objectives, so the selection of strategic objectives is important. In order to better realize the ten-year plan, this paper is based on the real estate industry trends and the objective requirements of the company's development, which will be broken down into short-term, medium-term and long-term goals to do a good job of planning and envisioning.

Short-term development objectives are planned for the next 2-3 years as follows:

1) Enhancing the status of the industry. Zhuhai has launched the new development of «second venture» to build a new modernized and internationalized special zone and a hub-type core city. Huafa, which is the same age as Zhuhai, should take the initiative to grasp the development opportunities of Guangdong-Macao deep cooperation zone, Zhuhai's «second venture» and Hengqin FTZ, and form a synergy with Huafa Group, so as to take advantage of the momentum and leap forward in the final year of accomplishing the «100-billion-dollar dream» to enter the top 50 real estate enterprises in China. It has entered the TOP 50 real estate enterprises in China.

2) Building a new brand culture. Huafa will promote the new brand image of «Quality in China, Craftsmanship in Building Homes» nationwide. The connotations of the new brand established at this stage include:

- «Quality», which is the company's core pursuit;
- «China», which represents the existing national layout and establishes the future strategic goal of «based in Zhuhai, layout of the whole country, and developing overseas»;
- «Craftsmanship», which is the company's realization of the new brand culture;
- «Building Homes» highlights the relentless pursuit of not only building houses, but also exquisite and stylish lives.
- At this stage, the company will fully promote the brand renewal development path that integrates «new image and new vision», «new products and new services» and «new interaction and new cooperation» [62].

3) Optimize financial structure. Achieve the goal of improving the «three red lines», and reduce the financial indicators to the range of regulatory requirements. Reasonable use of leverage to ensure steady growth in sales. Enhance fund management and control capabilities to provide continuous and sufficient cash flow security.

The medium-term development objectives are planned for the next 3-5 years as follows:

1) Performance target: Appropriate scale and prioritize efficiency. Broaden sources of income, significantly improve profitability, establish a sound operation and management system and development and management model, form a balanced profit model, and consolidate the industry's position.

2) Regional Objective: Highlight the market and innovate the brand. Develop more than 60 cities and focus on cultivating sales force. Continuously improve the development capacity and market share, further expand the brand advantage, and form the core competitiveness unique to SOEs.

3) Product Objective: People-oriented, creating high-quality products. Combining precision and differentiation, focusing on the development of high-quality properties with characteristics and in line with the direction of the market, creating a scientific and reasonable product structure and development structure, consolidating the

customer base and expanding the brand effect [61].

Long-term development goals are planned for the next 5-10 years as follows:

- The company will expand its presence in nearly 80 cities, grow its sales to about 180 billion yuan, and develop extensive brand awareness and influence nationwide.

Combined with the understanding of strategic management theory, this paper proposes the principles followed by Huafa in choosing its development strategy:

- Consistency: The operational objectives of the business units should be consistent with the overall development of the company, the planning formulated by each lower-level functional department needs to be consistent with the objectives of the higher-level management, and the business strategy should be consistent with the company's development vision and objectives;

- Relevance: The purpose of formulating strategies to solve a part of the problems arising from the development of enterprises needs to be tailored to the situation, characteristics, and industry characteristics of the enterprise, so as to make the enterprise more competitive;

- Adaptability: everything from the practical point of view, need to be with the existing conditions of the enterprise, including strengths, weaknesses and so on;

- Sustainability: the development strategy is the company's long-term development plan, to take full account of the development of the real estate market and the development of the times, dynamic adjustment, corporate survival and development can be guaranteed;

- Forward-looking: It is necessary to consider the company's future development trend in advance [60].

According to the results of SWOT matrix, it has been concluded that Huafa should adopt SO development strategy in its overall business strategy. The development strategy includes integration strategy, intensive strategy and diversification strategy. When Huafa Stock formulates the specific development strategy, it should fully consider the internal and external factors closely related to the actual situation of the

enterprise to make a choice.

As the Company sold some of its upstream subsidiaries with low gross profit and high debt in order to reduce debt and optimize its statements, and property management companies and finance companies are mainly controlled by the parent company, it is obvious that the Company is unable to build an upstream and downstream industry chain on its own in the short term, and needs to rely on the resources of the parent company, and therefore is not suitable for adopting the integration strategy.

Due to the general background of the complicated environment and the actual needs of the enterprise, it is impossible to respond to the competition squeeze and many policies to be tightened with a single strategy. The Company has just stepped into the camp of 100 billion real estate enterprises and is in a good opportunity for development, so it can combine the intensive strategy with the diversified strategy and strive to better realize the established strategic objectives.

1) The internal level of strategic choice. In terms of strategic layout, in recent years, the company has been expanding rapidly for the sake of scale, increasing leverage, high debt, gross profit margin suffered a setback, and then subject to the «three red lines» financing control, it should reduce the number of new areas in order to avoid the risk and reduce the investment and development expenditure, and it is not suitable for adopting the market development strategy. The company needs to shift to steady expansion, further consolidate and deepen the market on the basis of the existing high-quality regional layout, that is, adopting the market penetration strategy, making full use of the relationship network deployed in the locality and a certain degree of resource superiority, and continuing to consolidate the market share of high-profit, low-risk high-quality cities, and extending the development of the urban agglomeration, the core city of the metropolitan area around the satellite city.

In terms of building product strength, adopt a product development strategy. The Company should maintain the spirit of innovation, combine with big data analysis, conduct in-depth market research, and take into account the sales distribution of the top 50 real estate enterprises' first home purchase products (below 90 square meters), first reform products (90-140 square meters), improvement products (140-200 square

meters), and luxury residential products (above 200 square meters) in each city as well as the layout of the Company, and make product segmentation and rational allocation of products in response to the user groups at a deeper level [59].

Products should be people-oriented and close to user needs, integrate and improve technological intelligence. For medium- to high-end and innovative products, do a good job of branding, boutique, and implement boutique strategy to increase brand premium; for just-demand products, do a good job of standardization, industrialization, and implement high-turnover strategy for rapid dematerialization. In short, the market penetration and product development combination of intensive strategy, improve and optimize the product line, speed up the brand promotion, in-depth capture of high-quality market, help empower the brand value and increase market share.

2) The external dimension of strategic choices. As the real estate industry changes from incremental market to stock market, the diversified layout of the top 50 real estate companies has begun to land, and the layout direction of the top ten is basically related to real estate and synergistic industry, which shows that the most robust strategic path in the stock era is to combine heavy assets with light assets, and to layout around the upstream and downstream of real estate. Considering the limitations of cross-border costs, trial and error risks, difficulty in sharing resources, and long effect cycle, it is difficult to form a scale effect, and it is not suitable for adopting unrelated diversification strategies. The company can learn from the search for profits to good, broad space, suitable for deep cultivation of new areas, and in order to control leverage, from the active operation to the investment in the change of the potential of the stock market to become the company's «second curve», to seek new profit growth points. In the new business field, the layout should favor the growth industry with good growth, stronger development certainty, and shorter revenue return cycle. Layout should also be diversified by adopting the mode of lower capital investment and investing in shares through venture capital funds, mergers and acquisitions funds and other channels. In terms of land investment, finding strategic partners and entering into strategic cooperative alliances for cooperative development is an important way to improve the balance sheet. For projects with high debt ratios, the percentage of shareholding can be

reduced. In conclusion, it is necessary to start from the relevant synergy of the new industry and the diversification of investment and development methods, and adopt relevant diversification strategies to promote the diversified development of enterprises.

In summary, combining the results of SWOT analysis and the discussion of various factors at the internal and external levels of the enterprise, after comprehensive analysis, it was finally determined that Huafa should implement the development strategy combining intensive strategy and related diversification strategy to help the enterprise to transform and upgrade, deeply cultivate the main industry and synergize diversification to enhance competitiveness and establish a foothold in the long term.

### **3.2. ZH Ltd. strategy implementation**

1) Regional penetration strategy to consolidate market share. Strengthening the market layout and utilizing resources to select and store on a merit basis

From the perspective of urban development process, the five major city clusters are among the forefront of the country in terms of both the scale of economic development and the maturity of the real estate market. In recent years, Huafa has focused on the layout of the core city clusters of Guangdong, Hong Kong and Macao, the middle and lower reaches of the Yangtze River and the Bohai Rim Economic Zone, which is basically in line with the national strategy. As the core cities of North, Shanghai, Guangzhou and Shenzhen enter the stage of spillover radiation, the development potential of the surrounding cities continues to be released. In the long run, the core cities of the urban agglomeration and its neighboring third- and fourth-tier cities will still bring larger development space for the company. Therefore, the company should adopt the market penetration strategy, focusing on the «optimization of urban industrial clusters», to consolidate and deepen the existing layout, to play the existing areas have been deployed in all aspects of the resources, deepen and penetrate

the region. From the core of the first and second tier extension to the surrounding key three or four tier, that is, extended to the city cluster, metropolitan area, satellite cities around the core city, giving priority to the economic development of better, leading industry, sufficient demand for the city, the expansion of the core location of the urban disk-based, the depth of the entire region to do a good job of tapping. While steadily penetrating the market and optimizing the structure of land bank in a balanced manner, on the one hand, it avoids the fierce competition in hotspot cities and the capital pressure brought by high cost, and resists the risk of market fluctuation and policy concentration; on the other hand, it widely increases the brand influence, further drives the brand effect, enhances the scale advantage, and lays the foundation for the company's sustainable operation in the future [3].

2) Diversification of investment channels and reasonable control of land acquisition costs. With the disappearance of the leverage dividend under the «three red lines», the company should reduce the number of newly expanded areas to avoid risks and reduce investment and development expenditures. With the convergence of cities and the shackles of the red line, the company should diversify its expansion methods and quickly open up investment and development channels. In addition to bidding in the open market, the company should adopt a variety of modes such as mergers and acquisitions, co-development, urban renewal, and industry-city construction in the non-public market. With the background of state-owned enterprises and government resources, the Company may actively expand its land bank in the Guangdong, Hong Kong and Macao Greater Bay Area. It can promote the depth and breadth of cooperation with existing outstanding real estate enterprises in the industry, and reduce the risk of land acquisition and capital pressure. The company should prudently grasp the cost of land acquisition, make fine management of investment and development planning, effectively further improve the market development ability, and strive to increase the quality of land reserves at a low premium.

3) Collaborative and peer-to-peer projects to improve project returns. For projects with high gearing ratio, the shareholding ratio can be lowered, and the cooperative projects can be included in the long-term equity investment account in the balance sheet

by not operating and consolidating, so as to reduce the gearing ratio on the books. For small shareholding projects, i.e., projects in which a lower shareholding ratio obtains the right to operate but not to hold the shares, Huafa should avoid disputes that may lead to conflicting opinions with the partners in joint operation and enhance the efficiency of the company's decision-making; it should increase the management costs of operation and strive for a higher share ratio of the output of branding and management; it should weigh the optimal relationship between profit and expansion of scale in the overall control, and, although it is inevitable that the profit will be diluted, the appropriate small shareholding can be used to reduce the balance sheet's assets and liabilities. Although it is inevitable to dilute profits, appropriate small share manipulation can enhance the level of return on net assets, reduce capital risk, realize asset-light, expand brand influence by virtue of more project operations, feed performance growth, and contribute to scale expansion. For the project to avoid competition in the same industry, the contracted parent company, should improve the incentive program, the management fee and sales performance linked to the completion of sales performance to charge a different proportion of fee income, in order to enhance the level of return on the project [8].

4) Optimize product structure and expand brand influence. It is necessary to focus on efficiency and rationalize the product structure to make income more balanced. With the adjustment of the supply structure, rental housing and shared property rights housing will become an important component of the real estate market in first- and second-tier cities, and the supply of just-demand real estate products in these cities will be elevated in the future. Under this new trend, residents will become more rational in purchasing properties, and the rigid demand and improvement products that can meet the residents' self- occupation needs and have high cost-effectiveness and strong product strength will remain the mainstream of the market in the future. For Huafa, both upgrading the product line in terms of hardware and increasing the soft service of the products will become a norm. The company should closely follow the changes in market supply and demand, and implement measures according to market trends, increasing the number of first-tier cities for first-time buyers and first-time reform

products, and increasing the number of first-time reform and improvement products in second-tier and energy-grade third- and fourth-tier cities. The company needs to take into account the factors of residents' lives and regional supply and demand, and plan ahead for a good product ratio in each city to guide the acquisition of land.

Product research and development, continue to optimize the product structure, so as to achieve marketability. We implement the strategy of high-quality products in the core areas of the city, aiming to build high-end products and set mid-range prices to enhance product strength and cost-effectiveness, and utilize the brand effect to attract homebuyers.

5) Differentiated positioning to enhance brand identity. According to the strategic objectives of each region and city, use the historical transaction and forecast trend data to comprehensively differentiate the target customer groups, and plan and design the product value in combination with the industry positioning of the product. As the current distribution of Huafa's land reserves and sales performance in various districts is obviously unbalanced, the next three years should be rationally planned for the regional market to create the characteristics of each city [11].

Including the construction of supporting schools in residential areas, the integration of humanistic design near historical buildings, improve the elderly livable community space attention to warm marketing, brand interaction rejuvenation, etc., through a variety of ways to disseminate and promote the brand, to play the brand effect and increase brand premium. Relying on the cultural experience to export value, it makes people have reputation and loyalty to Huafa brand.

It is to maximize the healthy living environment and technological intelligence. The company needs to comply with the development trend of science and technology and human habitation, increase the research and development capability and innovation level, and actively explore forward-looking innovative business models. Create an intelligent one-stop service-oriented residential area, and integrate digital technologies such as face recognition, intelligent garage and zero-touch home return into facilities to create a digital community. Research and development of future residential highlights, to create a series of new products such as panoramic homes, minimum core,

innovative buildings, Internet communities, etc., so that the urban population to live in a healthy and comfortable.

In short, to differentiate to create high-end products, innovative products and rigid products, for the first two, branding, boutique, the implementation of boutique strategy to increase brand premium; for the latter, standardization, industrialization, the implementation of high turnover strategy to quickly go back to the money.

6) Precise positioning and improvement of the standardization system. For Huafa, in order to solve the inventory pressure and take into account the scale, it should implement the strategy of «fast turnover» and accelerate the expansion of «short and quick» projects. For high turnover projects need to improve the standardization system as soon as possible, from the design, procurement, development and certification, technical implementation to the management mode of the whole process to achieve standardization, systematic operation [13].

Accelerate the «land bank to in transit» and «in transit to sale» cycle, comprehensively improve the project turnover efficiency, in order to protect the accelerated development of this type of project, rapid demutualization, fast payback, thereby reducing development costs and expenses, enhance the development speed and investment leverage. At the same time, high- turnover projects should also strengthen quality management to ensure the brand image of state-owned real estate enterprises.

On the one hand, strengthen project control, improve the system, management and performance assessment for the problems of project development and construction, sensitive points of customer complaints after handing over the building, and post-service management, comprehensively optimize the quality management system, avoid the project quality risks, guarantee the quality of construction, and improve the competitiveness of the products.

On the other hand, improve the service process, customer and market reputation is to protect the foundation of the development of real estate enterprises, through the product quality to obtain customer recognition, through the service to obtain customer satisfaction, Huafa shares through the parent company's sub-brand of Huafa property linkage and cooperation, to create a full set of service system, such as community

management, shared community, home services, and in the traditional basis of property services, in line with the trend of the times to upgrade the service of the on the basis of traditional property services, the Company has upgraded the technical content of its services in line with the trend of the times, using intelligent technology and the Internet to enhance user experience and optimize the quality of services. Therefore, high-turnover products need to standardize products, quality and services, and open a healthy de-inventory mode of quality, quantity and speed to shorten the development cycle and promote good cash flow operation.

7) Healthy diversification of the industry to promote healthy development. New business options to capitalize on synergies with the main business Huafa shares is nearly six years gradually to the development of industrial structure diversification, relative to the majority of real estate enterprises for many years to try and start late, should learn from the industry's successful experience and the mainstream trend, to reduce the cost of trial and error, so the diversification strategy should grasp the correct direction. First, the main business of real estate should be consolidated [15].

The early cultivation and steady promotion of new business is based on ensuring the smooth operation of the main business. New businesses should be fully assessed. In-depth analysis of new business development prospects, potential characteristics and other circumstances, a comprehensive assessment of its possible policy adjustments, changes in market demand and other risks, preferential selection of a limited number of new business units, and gradually accumulate experience in the development of the new industry, the reserve backbone of talent and the establishment of the foundation, so as to form a quantitative change to the quality of the process, to become a real estate company's new main business.

8) New business layout and various ways to promote effectiveness. To improve the economic benefits of diversified industries for real estate enterprises, there are several main aspects: firstly, the layout direction is highly correlated to maximize the use of resources. Explore diversified businesses with shorter return period around the main real estate industry, scientifically select the layout direction, enhance the relevance between different businesses, give full play to the competitive advantages of

diversified synergistic development as much as possible, so that the internal resources of the enterprise can be reasonably allocated and maximized, and lay the foundation for the enhancement of the enterprise's profitability and other capabilities. Secondly, explore the stock market. Combining heavy assets with light assets, stock-type and self-holding property operation is a better direction for the company to tap the potential of the stock market, for example, going nationwide with commercial real estate and operation sub-brands to cooperate with the real estate business to construct real estate-based building complexes or commercial complex-type buildings, to nurture a larger market for commercial real estate and to cultivate the recognition of the commercial brand [17].

It is important to diversify the layout. By extending the real estate industry chain, increase equity investment in industries related to real estate business, Huafa shares wholly-owned subsidiary has participated in the establishment of Zhuhai Huajin Tongda Equity Investment Fund Partnership, in the new situation should be operated by the initiative of the change to the investment of shares, to take the mode of capital investment is lower, through the venture capital fund, mergers and acquisitions fund and other channels to invest in shares, focusing on the risk control, certainty of investment and investment returns It not only eases the pressure of its own capital and liabilities and disperses investment risks, but also captures more opportunities in niche fields and accelerates the speed of layout, thus realizing the organic integration and mutual promotion with the traditional real estate field, seeking to cultivate more profit growth points and obtaining capital appreciation benefits.

9) Innovative marketing channels to improve business efficiency. Accelerating the return of funds through both online and offline activities With the increasing concentration of the real estate industry, Huafa not only relies on the market layout and product characteristics to ensure scale growth, but also accurate and timely marketing strategy is an important factor to promote its development into the fast lane, the Internet and new media and other diversified marketing channels to help the company to improve the effectiveness of marketing. First, to improve the online sales center «Huafa Real Estate», home buyers can choose VR panoramic viewing in WeChat public

number, and then add online design function, home buyers can put forward design concepts for interior decoration, so that the company understands the user's demand for customized decoration. The platform helps the company and home buyers to realize effective communication and exchange, timely collection of information feedback, break through the limitations of time and space, and increase the sales conversion rate of online traffic. Second, big data customer storage, the use of Internet technology to potential user groups for the characteristics of the positioning, such as in the search engine or Internet media search for residential projects for the identification of users to screen, accurate advertising, to tap more potential users, faster customer storage, customer conversion opportunities are higher [19].

Third, to open up online channels, the use of third-party platforms such as Tmall good housing, Jitterbug, etc., the WeChat public number to become a live platform, universal marketing platform, invite well-known people live with goods, from the public number to issue coupons to purchase homes, low price deductions to attract the intention of home buyers. In short, innovative marketing channels, increase the characteristics of marketing strategy, integration of new media and traditional media resources, online and offline with the expansion of the push of publicity and sales guidance, to promote sales, grasp the return, stable cash flow.

10) Improvement of marketing system and cost management. With the expansion of Huafa's sales scale, marketing expenses such as marketing agency fees and advertising and promotion fees increased by 44.62% year-on-year in 2019 and 29.41% year-on-year in mid-2020, the company's increased marketing efforts impacted its net profit at the same time. The purpose of the Company's operation is to be able to obtain more lucrative sales profits, and the direct source of profits is the sale of products. Therefore, the company should not only innovate marketing channels, but also do a good job of expense management at the same time. Marketing expenses run through the whole process of product, pricing, channel, promotion and service. The company should build a complete and precise marketing management system as soon as possible. Improve the marketing control model, strengthen the management at major nodes, highlight the functions of market research, product positioning, market pricing, etc., to

follow the nodes of policy and market changes in different cities, adjust the push and pricing strategy with the market, step on the rhythm of the market to accurately push and flexibly pricing, and promote the growth of sales performance [24].

Target management, with the help of digital solutions to manage the sales indicators, sales forecasts and marketing performance analysis. Channel management, using event marketing, network marketing, integrated marketing, word-of-mouth marketing, universal marketing, multi-disc linkage, creating a home-buying festival and other ways to create momentum for the sales of customers, increase concessions, increase commissions, etc. to achieve the effective demutualization of the project.

Customer Relationship Management, customer classification, regional management and feedback to customers a series of activities to enhance the value of the company's brand, to obtain the brand premium. Marketing Activity Management, with the help of mobile devices and digital platforms, to strengthen the marketing activities. Digital platform, strengthen the follow-up and evaluation of marketing activities, and conduct customer demand opinion collection and satisfaction surveys to provide data references for product improvement, brand building and customer appreciation meetings, etc. Marketing expense management, do a good job in the whole process of expense budgeting, control and compliance management, and control a reasonable increase in expenses.

In conclusion, by improving the marketing system, strengthening marketing capabilities, ensuring the effective implementation of marketing strategies, continuously reducing marketing costs, enhancing net profit, improving service quality, increasing customer satisfaction and loyalty, and favorably promoting sustainable business growth.

### **3.3. Safeguards for the implementation of the strategy of ZH Ltd.**

Human resource security. People are the first productive force of enterprise

development, and talents are the core resources of enterprises. Therefore, to enhance the competitiveness of human capital is to expand the internal driving force of enterprise development potential. Combined with the efforts already made by the company in human resources management, several aspects need to be noted:

1) Optimize the talent ladder. With the formation of the national layout of Huafa, it has gradually completed the transformation from a two-tier structure headquarters-branch to a three-tier structure headquarters-regional company-branch. With the lengthening of the organizational chain, the company should standardize its human resource planning and focus on increasing the proportion of professional talents, especially the introduction of talents in each region should be put in place quickly to reduce the loss of middle management and professional and technical personnel. Establish and stabilize the high-quality talent team, enrich the multi-level talent training programs and special talent training programs, accelerate the growth of talents and improve the level of talents. Continuously optimize the talent structure, realize the synchronization between human resource construction and enterprise development, and promote the economic development of the enterprise.

2) Highly demanding talent level. Huafa has subsidiaries in Hong Kong, Macao and the United States, and its financing channels have long been extended to overseas markets. The company urgently needs to cultivate a group of highly skilled talents who are familiar with the policies and rules of the international and domestic markets, have an international vision and the ability to develop the markets of the two places, and are good at deploying the resources of the two places. The company has already started the deployment of industrial diversification, and during the transition period, but cannot send the relevant team of traditional real estate business to deal with the new business. Huafa have to employ relevant talents to deal with the new business, and specialize in the new business with full-time duties and responsibilities. This innovative employment system is in line with the Company's long-term development plan of internationalization and diversification.

3) Improve compensation performance management. The Company's restricted stock incentive plan and project follow-up mechanism mainly incentivize core

personnel, but also to improve the long-term incentive mechanism tilted to front-line personnel and key positions. Company needs to gradually improve the competitiveness of the performance-oriented compensation system in the industry, give full play to the best of their talents, personnel appropriate. The sense of belonging and identity of the employees need to be improved. Company needs to enhance the productivity of the employees, stimulate the vitality of the talents, so that human resources play an important role in promoting the implementation of the overall business strategy of the enterprise. The human resources play an important role in promoting the implementation of the overall business strategy of the enterprise [25].

Financial management assurance. With the state frequently issued policies to prevent excessive financial real estate industry, financing normalization tightened, financial management to protect and promote the virtuous cycle of capital operation of funds, it is in order to respond to environmental changes in the enterprise to obtain the key to lasting development. Need to be implemented from the following aspects:

1) Sufficient cash flow. Accelerate the revitalization of all kinds of assets, short-term to accelerate the push, active promotion and payback, long-term to combine product power, operating power, investment power together to influence the project to realize, comprehensively improve the efficiency of capital turnover, so that the funds as soon as possible to recycle to produce new benefits. Strengthen the analysis and forecast of the company's cash flow to ensure the timeliness of financial management. Adjust the capital structure, better use of financial leverage, balance the overall cash flow income and expenditure management, reduce the pressure of the enterprise's occupied capital flow, thus further enhancing the profitability and operational vitality of the enterprise.

2) Flexible financing management. The company needs to continuously improve its financing ability and actively expand financing methods such as equity financing, supply chain finance and asset securitization, etc. Long-term rental apartments in which the company is involved can be financed with the help of public REITs and special leasing company bonds. Through all-round innovation to broaden financing channels, revitalize stock assets and ease capital pressure. Most of the offshore

financing of Hong Kong subsidiaries requires guarantees from the parent company, and the foreign currency borrowings from related parties account for a large proportion and the cost is high. In the future, it is necessary to improve its own ability to obtain ratings and further open up offshore financing channels. Improve the ability of capital operation driven by both domestic and overseas financing, adjust and optimize the financial structure so that the company has sufficient funds, and strive to reduce the cost of financing in order to enhance the profitability, only low-cost and long-term financial support, in order to make the comprehensive competitiveness of the product to gain an advantage [43].

3) Ensure the safety of funds. Adhere to the centralized and unified deployment and management of funds by Zhuhai headquarters, and strengthen the fund collection and assessment system of regional companies. Increase the fine management of funds, improve the accuracy and utilization rate of fund plan, improve the fund early warning and planning mechanism, carry out foreign exchange hedging business at the right time to avoid the exchange rate risk of the flow of foreign currency funds in the market of the two places, consolidate the foundation of fund management, control the risk of fund liquidity, and provide the company with a solid and steady fund guarantee for its development.

Information construction safeguards. In 2019, Huafa completed the construction of the ERP (Enterprise Resource Planning) backbone system, which was a major breakthrough in information construction. The purpose of the company's promotion of information construction is to fully develop and effectively utilize information resources, enhance the company's operational efficiency, make scientific and reasonable decisions, and enable the company to ultimately gain a competitive advantage. Therefore, grasping scientific and technological innovation is to seek future development, and information construction work should be highly valued.

1) Management and operation: the company needs to accelerate the improvement, optimization and smooth operation of the ERP system, closely combine the company's actual management needs with advanced information technology, create an integrated management system for the whole process of the enterprise, establish a standardized,

efficient and convenient business process, break the barriers of communication and collaboration between regions, departments and systems, ensure the accuracy, effectiveness and timeliness of data and information in the process of transmission, and realize the seamless management of all operational aspects. It realizes the seamless management of all operation links, helps the company to respond quickly, collaborate closely, operate well and promote business development faster.

2) In terms of products and engineering: increase R&D efforts and innovation level, actively explore the iterative updating of technology-enabled product system, increase the value-added of products and brand characteristic labels, and enhance product power. Promote advanced construction technology to land on the project, realize the high degree of integration of the project from design, development, marketing to management, and enhance the company's flexibility, agility and adaptability.

3) In terms of external relations: information technology should be widely applied so that the company can quickly adjust its business strategy in accordance with changes in the market and demand, and provide products and services that are closer to customers' needs. Cloud computing, blockchain and other technologies to online marketing, for the company to effectively reduce inventory and save transaction costs. Launched O2O smart community services, seamlessly connecting community life with the Internet and winning word-of-mouth from residents. Through online services and digital marketing, the Company has established quick connections with suppliers, and has been able to get closer to its target customer base, thus improving its ability to grasp the market [45].

Internal control safeguards. Internal control management is an important influencing factor on the operation status of the enterprise and a basic guarantee for the enterprise to realize healthy and long-term development. Therefore, Huafa should be committed to promoting the optimization of internal control towards standardization, refinement and informationization, so as to comprehensively enhance the company's operational strength.

1) Improve the overall internal control system. As a state-owned enterprise, the

management structure should be unified, and it is necessary to strengthen the centralization of the Zhuhai headquarters, enhance the level of control of the headquarters over the functional departments, integrate public elements, organically integrate multiple sets of system systems, improve and reengineer the management process according to the business category, and promote the systematic, standardized, practical and operable nature of the enterprise system.

2) Optimize the three-level management and control system. Huafa's «6+1» regional companies are gradually completing the formation and adjustment, and the span and difficulty of the three-tier management of the headquarters- regional-project companies have increased, so we must be vigilant about the business risks. The hierarchical authorization scheme for approval matters should be promoted as soon as possible, so that the three-tier structure can respond quickly to changes in policies and markets, and all links and positions within the company can clearly define their rights and responsibilities, carry out decisions made by superiors, and improve the company's management efficiency [47].

3) Promoting the national brand control mechanism. In line with the company's layout, the brand nationalization strategy will be implemented to each regional company to expand brand awareness, and innovatively carry out regional cross- audit, improve the mechanism of independent accounting and self-financing of subsidiaries, and drive the self-blood-supporting ability within the enterprise.

4) Focus on promoting refined management. Including the development and construction, cost procurement, sales, payback, expense management, asset revitalization, tax planning and investment and expansion strategy of the «7+1» optimization of the control program, in order to reduce costs and increase efficiency, and strive to improve the company's profitability [49].

5) Pay close attention to cost control. Broaden the breadth and depth of cost management from the headquarters to the region, fully implement the new pricing model of «list pricing, fixed price grouping», adjust the implementation details of the cost of recruitment and procurement, the selection structure, and strengthen the quality of the implementation process of supervision and independent assessment, reduce costs

while doing a good job of risk prevention, and fundamentally contribute to the improvement of the company's operating efficiency and the realization of the long-term development strategy. This will fundamentally promote the improvement of the company's operating efficiency and the realization of its long-term development strategy.

### **Conclusions to Section 3**

In summary, combining the results of SWOT analysis and the discussion of various factors at the internal and external levels of the enterprise, after comprehensive analysis, it was finally determined that ZH shares should implement the development strategy combining intensive strategy and related diversification strategy to help the enterprise transformation and upgrading, deepen the main industry and synergize diversification, enhance competitiveness, and establish a foothold in the long term.

In short, the strategy implementation, first of all, regional penetration strategy to consolidate market share. Optimize the product structure and expand the brand influence. Industrial health diversification, prompting benign development. Innovative marketing channels to improve corporate efficiency.

Generally speaking, the guarantee of strategic measures is mainly through four aspects, namely, human resources guarantee, financial management guarantee, information construction guarantee, and internal control guarantee, to ensure that the company's strategy can be steadily implemented.

## CONCLUSIONS

In recent years, the real estate industry has been subject to frequent regulation, tightened financing, and intensified competition, and ZH Co., Ltd. is in urgent need of strategic adjustment in order to cope with the new round of reshuffling in the industry. This paper takes ZH Co. Ltd. as the research object, uses enterprise strategic management, core competence and other related theories, adopts PEST analysis model, Porter's Five Forces analysis model and SWOT strategy matrix, carries out a systematic, objective and comprehensive analysis of the current stage of the enterprise situation and internal and external environments, selects the development strategy in line with the actual development strategy of the company based on the results of the analysis, and formulates the strategy implementation paths and safeguard measures. Through the research of this paper, the following conclusions are mainly drawn:

1) The SO development strategy is more suitable for ZH's development stage and target blueprint. The national strategy is guiding the steady development of real estate, and new urbanization is still expanding housing demand. As the Company is upgrading from a local leading real estate enterprise to a national real estate enterprise, and transforming from high-speed development to high-quality development, it should actively grasp the opportunities and give full play to its unique advantages, relying on its background as a state-owned enterprise and the resources accumulated over the years, relying on its own brand operation capability, product creation capability and market development capability, to maximize its strengths and benefits in order to seek new development.

2) In order to achieve the strategic goal of a national first-class comprehensive real estate enterprise, the company should improve the status quo problems brought about by rapid expansion. Based on the combined results of multiple analytical tools and objective analysis of the company's situation, it was finally determined that ZH Ltd. should choose a development strategy that combines an intensive strategy and a related diversification strategy. This paper has formulated a dual-strategy approach for

the company, which is more in line with the current complex environment and the needs of the company, and provides a reference for other companies to learn from.

3) In light of ZH Limited's business situation and strategic choices, it is necessary to implement regional penetration strategy to consolidate market share; optimize product structure to expand brand influence; diversify industrial health to promote benign development; and innovate marketing channels to improve corporate efficiency. These are all strategic ways to help the company further enhance its core competitiveness advantages.

4) In order to guarantee that the strategic goals and approaches of ZH Limited can be implemented smoothly, this paper proposes measures to strengthen human resources, financial management, information construction, internal control and other aspects to provide sustained and powerful support for the enterprise, so as to improve the company's operational efficiency, promote blood-forming ability, enhance economic benefits and promote the enterprise to embark on the road of high-quality and long-term development.

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