Research on the Process and Countermeasures of the Financial Fraud Case at Tianjin Zeda Yisheng Company

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Abstract: With the vigorous development of China 's economy, more and more enterprises have emerged in China 's economic market. However, in the development of these enterprises, the problem of financial fraud has occurred from time to time. This problem not only damages the interests of investors and causes them to suffer heavy losses, but also brings the risk of bankruptcy to listed companies themselves and causes serious damage to the securities market. Seriously disrupt social order.

This paper first analyzes the motivation, means, identification and prevention countermeasures of financial fraud by combing domestic and foreign literature. Then it defines the definition and characteristics of financial fraud, briefly explains the common means of financial fraud and further discusses the relevant theories. By examining the financial fraud case of Zeida Yisheng, this paper analyzes in detail the fraud methods adopted by the company, including inflating income and profits, concealing transactions and exaggerating projects under construction, and makes an in-depth analysis of the negative impact of these measures on the enterprise. At the end of the article, from the perspective of the government, the company, investors and industry-related personnel, the prevention methods for financial fraud of listed companies in China are proposed. In order to reduce the financial fraud of listed companies, a case study of financial fraud by Zeda Yisheng is carried out to maintain the healthy and stable situation of China 's capital market.

Key words: Zeda Yisheng; Financial fraud; Impact of financial fraud.

1. Introduction

1.1 Background and Significance of the Study

1.1.1 Research Background

China 's securities market has experienced more than 30 years of development and established a relatively stable framework, which has made great contributions to the country 's economic development. The China Securities Regulatory Commission formally established the science and technology innovation board in 2019. The launch of the science and technology innovation board shortened the cycle of venture capital and promoted the benign interaction between venture capital and capital market. Due to its high inclusiveness and loose listing conditions, it has attracted many scientific and technological innovation enterprises to list.

The science and technology innovation board took the lead in implementing the registration system. Although the relevant policies are not yet perfect, in order to facilitate the financing of scientific and technological innovation enterprises, the science and technology innovation board reduced the entry threshold. Many newly established enterprises have problems such as weak governance structure, imperfect internal control system and unpredictable business risks, which lead to some companies even adopt some fraudulent means to ' reverse ' in order to quickly go public. In this case, it is urgent to detect the financial fraud tendency of listed companies in advance through information collection and analysis to strengthen supervision and prevent financial fraud in time[1].

1.1.2 Research Significance

(1) Practical Significance

This paper takes the financial fraud phenomenon of Zeda Yisheng Co., Ltd.as the core to carry out research and analysis, focusing on the negative impact of financial fraud on enterprise development, integrity recovery and economic growth. From the perspective of examining the situation of inflated operating income, disclosing the phenomenon of inflated profits and judging the trend of financial data changes, this paper deeply analyzes and excavates the relevant links of financial statements, including risk identification, internal control audit, risk management, professional ethics and professional ethics.

(2) Theoretical Significance

In order to explore the specific problems of Zeda Yisheng 's financial fraud case, this study analyzes the case in detail to show the serious consequences of financial fraud on companies and investors. This paper not only fills the vacancy of financial fraud theory, but also deepens the research level in the field of financial fraud and corporate governance. This study has led to in-depth thinking on strengthening corporate governance, audit supervision and internal control mechanism, which not only stimulates the rise of enterprise risk management and moral management awareness, but also forms a far-reaching positive impact in the follow-up research in the financial field[2].

1.2 Literature Review and Research Methods

1.2.1 Literature Review

Through the review of domestic and foreign literature, it is found that the history of foreign capital markets is longer than that of domestic capital markets. They have conducted more in-depth research on the motivation, means, identification methods and preventive measures of corporate financial fraud. They are more in-depth and relevant theories and systems are more mature. However, due to the geographical differences, many empirical studies have been put forward by foreign scholars. In view of the relatively young capital market in China and the short history of domestic scholars ' research on financial fraud, these models are not applicable to China 's capital market. Therefore, it is necessary to learn from foreign research experience, such as the Sarbanes-Oxley Act of the United States or other relevant laws and regulations, as well as the experience and lessons of regulators. These theories and practical experience can provide important reference for domestic research. Researchers can explore the specific factors related to the financial fraud of Zeida Yisheng, such as the problems of corporate governance structure, internal control mechanism, audit supervision and so on[3].

1.2.2 Research Methods

This paper uses data analysis methods to conduct in-depth analysis of the company 's financial data to detect potential financial fraud. The research conclusions show that there are some abnormal patterns and indicators when conducting a detailed review of the financial data of Zeda Yisheng Company, such as the phenomenon of inflating operating income, concealing liabilities and signing false contracts. Such anomalies may imply potential financial fraud. With the help of data analysis technology research, this paper quickly discovered some abnormal phenomena, such as false transactions and improper tampering of financial statements. After further investigation and verification, it revealed the root causes of the problems, which helped to enhance the company 's financial transparency, reduce financial risks and improve the internal control system. This method has effectively contributed to the accuracy and reliability of the company 's financial information and successfully prevented potential financial fraud.

2 Relevant Concepts and Theoretical Foundations

2.1 The Concept of Financial Fraud

In order to deceive investors and stakeholders, it is fraud that enterprises deliberately use manipulation, tampering or misleading presentation to deal with financial information. This behavior uses fictitious income, exaggerated asset value, hidden liabilities and misreported profits to hide the real financial situation. Financial fraud not only violates accounting ethics and legal provisions, but also greatly damages the trust foundation of the market, which may lead to corporate bankruptcy, investor losses and financial system instability. Improving internal management and audit supervision, improving financial transparency and establishing accountability mechanism are the key points to prevent financial fraud. Honest operation and compliance with laws are the key cornerstones to maintain market order and protect investors ' rights and interests. Investors need to carefully evaluate financial information and keep an eye on the changing trend of financial indicators to facilitate the timely detection of potential risks[4].

2.2 Theoretical Basis

2.2.1 Principal-Agent Theory

American economists Burley and Milnes put forward the principal-agent theory in the 1930 s, which aims to solve the problem of operators owned by owners. The owners of enterprises cannot manage enterprises comprehensively and scientifically due to the lack of knowledge reserve, ability and energy. At the same time, the professional division of labor has led to the emergence of a large number of agents with professional knowledge and skills, who can effectively manage enterprises with their knowledge, ability and energy.

In the process of principal-agent relationship, the interests pursued by the principal and the agent are different. The principal hopes to obtain the maximum profit with the minimum cost, while the agent hopes to create wealth for the company while reducing the probability of risk to maximize personal interests. Due to the great conflict of interests between the two sides, the agent may tamper with the financial data out of selfishness, which is ostensibly to help the client to maximize the benefits, but in fact it may bring irreparable losses to the client[5].

3 Review of the Zeda Yisheng Financial Fraud Case

In 2016, Zeda Yisheng, an emerging company, was brimming with optimism. However, its pursuit of superior performance led it down an irreversible path. The company began fabricating false contracts and conducting fictitious transactions to artificially inflate its operating revenue—a practice that persisted for six full years until it was exposed in 2021. During this period, Zeda Yisheng colluded with clients to create fabricated related-party transactions, resulting in a cumulative overstatement of operating revenue amounting to RMB 555 million. Particularly in 2020 and 2021, the fabricated revenue accounted for over 50% of the disclosed operating revenue for those respective years. Concurrently, the company manipulated recurring profits by understating expenses, delaying or transferring various costs, and adjusted revenue and profit figures through related-party transactions. Over these six years, it accumulated approximately RMB 300 million in inflated profits—a stark revelation of its blatant deception toward investors. Following investigations into Zeda Yisheng and its responsible parties, the China Securities Regulatory Commission imposed penalties in accordance with legal provisions: the company was ordered to rectify its practices, issued a warning, and fined RMB 86 million; its actual controller, Lin Ying, was fined RMB 38 million and subjected to a lifetime market ban.

4 Analysis of Zeda Yisheng's Financial Fraud Methods

The results of the review and review by the CSRC show that the financial fraud of Zeda Yisheng Company began in 2016 and lasted for up to 6 years. This period can be divided into two stages : the first stage is before the listing, that is, from 2016 to 2019, which is the preparation for the smooth listing of the company ; the second stage is after the listing, from 2020 to 2021, whether it is before the listing or after the listing, the fraud means of Zeda Yisheng are relatively simple, mainly including signing false contracts, carrying out false business and using financial means to hide related transactions.

4.1 Overstatement of construction in progress

The inflated construction in progress refers to the fact that enterprises deliberately exaggerate the scale or value of the construction in progress by using untrue construction project schedule information or exaggerating key indicators to mislead investors, profit desires and regulatory agencies. Zeda Yisheng reduces depreciation to increase profits by using fictitious equipment purchases, but in fact it only transfers this money out of the company. In June 2021, Zeda Yisheng signed a procurement contract with Zhejiang Guantao Intelligent Technology Co., Ltd.to pay 42.69 million yuan for the purchase, but only 63.7 million yuan worth of equipment was finally delivered. The remaining equipment has not yet been delivered, while 36.23 million yuan is still recorded in the construction project subject, which leads to an inflated construction amount of 36.23 million yuan, but in fact there is no corresponding actual cost.

Falsely increasing operating income and operating profit is a common financial fraud. Enterprises may mislead investors and shareholders by manipulating financial data to make the company 's performance look better or healthier. Zeda Yisheng conceals important information and fabricates false content in the ' prospectus ' to inflate operating income and operating profit.

Table 4-1: Exaggerated Operating Revenue (2016–2021) Ten thousand yuan per unit

a particular year	2016	2017	2018	2019	2020	2021
operating receipt	7219.11	12383.5	20227.73	22130.03	25570.41	32901.68
Artificially inflating operating revenue	3557.37	7388.88	11803.9	11479.48	15216.86	7104.35
Inflated ratio	49.28%	59.67%	58.36%	51.87%	59.51%	21.59%

Data source: Compiled from corporate financial statements

The company 's operating income has shown an increasing trend year by year, as shown in Table 4-1.From CNY 721.911 million in 2016 to CNY 329.0168 million in 2021, the proportion of inflated operating income has exceeded 50 %, reaching a maximum of 59.51 % in 2021. The company 's pre-IPO inflated behavior from 2016 to 2019 was mainly used to promote the company 's IPO preparation. During this period, the inflated proportion has been above 50 %, which indicates that the company has made great efforts to go public. It can be seen from the table that Zeda Yisheng did not stop its fraud after its listing in 2019. The financial data of Zeda Yisheng Company from 2016 to 2021 shows that it has manipulation in terms of total profit and inflated profit.

Table 4-2: Overstated Operating Profit (2016–2021)

a particular year	2016	2017	2018	2019	2020	2021
total profit	2142.7	4108.38	5967.71	9644.21	9269.59	4740.99
inflated profit	2243.82	3740.76	6160.85	6528.1	8246.92	2665.78
Inflated ratio	104.72%	91.05%	103.24%	67.69%	88.97%	56.23%

Data source: Compiled from corporate financial statements

As shown in Table 4-2, the scale of inflated profits has increased year by year and has shown a fluctuating trend, from CNY 22.4382 million to CNY 82.4692 million, while it has declined slightly to CNY 26.6578 million in 2021. The proportion of false increase fluctuated during this period, while it was low in 2017 and 2018, falling to 67.69 % in 2019, but it rose again in the future. Although the proportion of false increase fell to 56.23 % in 2021, the proportion of false increase was still at a high level, suggesting that the problem of financial fraud has not been effectively solved.

The case of Zeda Yisheng highlights the importance of corporate governance, regulators and investors. Financial fraud by inflating operating income and profits misleads investors and regulators. Due to the failure of regulators to detect and stop their violations in time, financial fraud has continued for many years. Investors failed to fully assess the financial risks of Zeda Yisheng in the investment process, and over-reliance on financial statements led to insufficient risk assessment. At the same time, investors ' weak awareness of supervision and reporting led to heavy losses. The case warns that all parties should jointly focus on maintaining the order of financial markets and the rights and interests of investors so as to promote the sustainable operation of enterprises.

5 Impact of the Zeda Yisheng Financial Fraud Incident

Due to financial fraud, Zeda Yisheng Company will face serious negative impacts in many aspects. In terms of legal liability and fines, it will not only be forced to withdraw from the market, but also be fined with 86 million yuan of huge compensation. The company will suffer huge economic losses due to this. At the moment of April 21,2023, Zeda Yisheng was issued by the China Securities Regulatory Commission 's ' administrative penalty decision ' due to suspected major violations. The company triggered a major illegal forced delisting mechanism due to the consequences of forced delisting. The impact was marked as a delisting risk warning. Since April 24, the company 's stock trading has been suspended, in terms of reputation. The damage to reputation will be a significant problem. The reason is that investors, customers and partners lose trust in the company, which will affect the company 's business and development for a long time. A company can not bear such a blow.

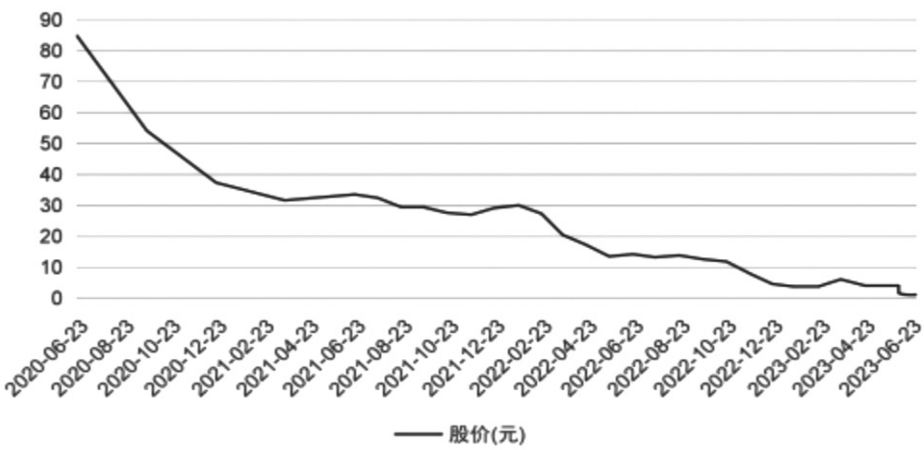

Figure 5.1 Zeda Yisheng Stock Price Chart Yuan per unit

As shown in Figure 5.1, the exposure of financial fraud in Zeda Yisheng has caused the company 's stock price to fall all the way. The loss of investor confidence has affected the company 's market value and capital market position. Financial fraud has also caused the company to fall into financial difficulties and increase operating pressure, thus affecting financing capacity and business continuity. The management may change, the executives may be dismissed or resigned, and the corporate governance structure will change. Zeda Easeen faces challenges such as shrinking business scale and tight capital chain due to delisting, as well as problems such as loan defaults, which may lead to multiple lawsuits that require asset preservation measures. The lawsuits involved in the company include investor representative lawsuits and contract disputes. Due to these lawsuits, the balance of the fundraising account of the company is frozen by about 69,369,815.01 yuan, and the balance of its own fund account is frozen by 433,098.51 yuan. Zeda Yisheng 's investor representative litigation case has been accepted by the Shanghai Financial Court, which may face a higher risk of liability.

6 Countermeasures for Preventing Financial Fraud

6.1 Improve the corporate governance structure

Strengthening the corporate governance structure is the core point of preventing financial fraud, which requires the company to establish an independent director system, so that professional people can supervise the management in the board of directors, and reduce the occurrence of such misconduct as insider trading. Corporate governance must accurately define the responsibilities and authority boundaries of the board of directors, and set up specialized committees, such as audit committees and risk management committees, to more effectively supervise, evaluate and manage the company 's operational risks. Corporate governance should also have an efficient communication mechanism to achieve the smooth transmission of information between the board of directors, management and personnel at all levels within the company, so as to share important information in a timely manner to increase the transparency of corporate governance. Corporate governance should disclose information such as governance framework, compensation system and internal control system, so as to increase investors ' sense of trust, bring risk management into the scope of corporate governance, build a comprehensive risk management system, and realize effective monitoring and management of financial risks. Corporate governance should regularly train directors, executives and internal control personnel to improve their awareness of financial risks, and at the same time carry out performance evaluation to encourage them to actively perform their duties. Corporate governance should build moral standards and incentives, and give rewards to employees who abide by rules and internal control systems to curb the frequency of fraud. Corporate governance should set up an independent audit committee to carry out independent supervision and verification of the company 's financial report and financial risks to achieve the goal of true and accurate financial data. Relying on these means, the company can promote internal supervision and management efficiency, reduce the potential risk of financial fraud, help the company achieve long-term stable development and maintain market reputation.

6.2 From the perspective of the investors themselves

If investors invest in companies with financial fraud problems, they often lead to huge losses. Investors play a key role in preventing financial fraud. Most of them need to take a series of effective measures to improve their vigilance and risk perception. First, they should strengthen financial knowledge education and cultivate investors ' ability to analyze and identify financial data to detect abnormal signs in time. Secondly, the company 's performance and operation are deeply explored, and the investment potential is evaluated by knowing the company 's management and profit sources to reduce the probability of encountering financial fraud risks. It is also of great significance to carefully screen investment objects. Investors have to carefully evaluate the company 's reputation and financial disclosure status, and choose companies with stable operating records and good transparency to invest. At the same time, investors should include the corporate governance structure into the scope of concern. It is necessary to clarify whether the company has set up an effective internal control mechanism and risk management system to reduce the probability of misconduct. The supervision and reporting of misconduct is also the scope of investor responsibility. Rely on continuous supervision of the company 's financial disclosure, and actively report misconduct to maintain their own rights and interests and the normal order of the market.

7 Conclusion

As one of the first companies delisted through mandatory procedures on the STAR Market, Zeda Yisheng has drawn significant attention for its financial fraud allegations. This case also marked the first instance in judicial practice where investors in the issuance market were included within the scope of protection. A thorough analysis of Zeda Yisheng's financial fraud case serves as an effective warning to listed companies, encouraging them to standardize their practices and reduce financial misconduct. Meanwhile, intermediaries can learn from these lessons to operate more diligently in the future, adopting more prudent investment approaches that enhance investment quality and foster a healthier capital market ecosystem. Based on the Zeda Yisheng case study, it is concluded that the root cause of corporate financial fraud lies in the pursuit of substantial profits—a finding that helps guide investors toward greater caution and ultimately curbs fraudulent activities. Therefore, companies should establish robust cultural frameworks, prioritize executive competency development, and strengthen ethical governance to curb greed. Regulatory negligence is a major factor facilitating financial fraud; companies bear responsibility for this. Enhancing internal oversight systems, ensuring intermediaries fulfill their duties, and improving the professional competence of certified public accountants can effectively mitigate opportunities for fraud, thereby reducing fraudulent incidents.

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