Special Treatment Zhongcheng Information Disclosure Violations and Financial Fraud

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Abstract. This thesis focuses on the typical case of Special Treatment Zhongcheng (formerly Qingdao Zhongcheng), comprehensively using empirical research methods to conduct a systematic and in-depth analysis of the company's specific means of information disclosure violations and financial fraud. In the research process, it innovatively adopts the event study method to meticulously analyze the abnormal stock price fluctuations before and after the exposure of fraud, striving to accurately reveal the impact of fraudulent acts on the capital market. Meanwhile, the paper also deeply explores the penalty measures taken by regulatory authorities for such violations and the company's response strategies in the face of crises. The research results show that ST Zhongcheng manipulated financial statements through a series of complex and hidden fraudulent means, including fabricating revenue, inflating assets, and concealing major litigations, eventually triggering a cliff-like decline in stock prices and causing severe damage to the vital interests of investors. This study expects to provide useful references for regulatory authorities to optimize regulatory policies, investors to enhance risk identification capabilities, and listed companies to strengthen compliance management, so as to help improve the capital market regulatory system and enhance enterprises' awareness of compliant operations.

1 Introduction

The healthy development of the capital market relies on high-quality information disclosure, and the authenticity of financial information is the cornerstone for maintaining market order and investor confidence. However, in recent years, some listed companies have manipulated their performance through financial fraud and other means in pursuit of short-term interests, seriously undermining market fairness and the efficiency of resource allocation [1,2]. According to statistics, from 2020 to 2024, a total of 137 cases of financial fraud were investigated and punished in the A-share market, with cumulative overstated profits exceeding 80 billion yuan, reflecting deep-seated problems in the corporate governance and regulatory system of listed companies. Among them, the financial fraud case of Special Treatment (ST) Zhongcheng (formerly Qingdao Hengshun Electric) is particularly typical. As a listed company operating in the new energy and overseas mining sectors, ST Zhongcheng was penalized by regulators in 2024 for reporting fictitious revenue, overstating

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assets, and concealing major lawsuits. Its share price plummeted from a historical high of 110.85 yuan to 0.86 yuan, with its market value evaporating completely. This incident not only exposed the failure of internal control and the absence of audit supervision within the company but also highlighted the complexity and challenges of cross-border business regulation [3,4].

The case of ST Zhongcheng holds significant research value. Formerly known as Qingdao Hengshun Electric, the company was listed on the Shenzhen Stock Exchange's Growth Enterprise Market in 2011. Initially, it mainly engaged in power quality optimization and grid energy conservation business. Later, it expanded overseas park construction and mineral resource development based on the "Belt and Road" initiative, gradually transforming into a diversified enterprise. Its business covers the operation of the Indonesia Comprehensive Industrial Park, nickel mining and other resource extraction, as well as domestic photovoltaic EPC general contracting projects. However, during its strategic expansion, governance flaws gradually emerged. From 2017 to 2021, ST Zhongcheng inflated profits by fabricating revenue from the Philippines' wind and solar integrated project, including prematurely recognizing 230 million yuan in revenue from wind projects that had not been connected to the grid and forging acceptance documents for photovoltaic projects to inflate revenue by 180 million yuan. From 2020 to 2022, the company further inflated the value of its Indonesian mining rights assets [5]. For instance, it retained a book value of 150 million yuan for the CIS coal mine's mining rights after they were revoked and concealed the fact that the JAYA manganese mine had expired and should have been written off. Additionally, in 2023, its Indonesian subsidiary was involved in a major lawsuit worth 627 million yuan (accounting for 57.47% of its net assets), but the company delayed disclosure, seriously violating information disclosure regulations. These actions led to severe distortion of its financial data, eventually triggering regulatory intervention and market sell-offs [6].

This paper takes the financial fraud case of ST Zhongcheng from 2017 to 2024 as the research object, aiming to deeply analyze its fraud methods, market impact, and regulatory responses, and then propose governance optimization paths. The research adopts the case analysis method to sort out the timeline of fraud and financial data, revealing the typical methods of fictitious income and inflated assets in cross-border business; uses the event study method to quantify the stock price fluctuations before and after the fraud announcement, and analyze the market reaction; at the same time, through the empirical model method, it tests the applicability of the Beneish model in identifying financial fraud in emerging markets, providing a risk warning tool for investors and regulatory authorities. The significance of the research lies in: on the one hand, revealing the financial risk points in diversified operations and cross-border business through typical cases, making up for the lack of existing literature on the fraud patterns in emerging fields; on the other hand, combining theory and empirical evidence, it provides policy suggestions for improving the regulatory framework, strengthening enterprise internal control and investor protection, and promoting the high-quality development of the capital market [7,8].

2 Based on the Beneish Model, ST medium-range data was discussed

2.1 Numerical and analysis of Beneish Model

Table 1. Numerical and analysis of Beneish model

Indicator Name	Calculation formula	Taking 2024 and 2023 data as example	Data analysis
DSRI (Accounts receivable index)	Proportion of accounts receivable in current period to business income/proportion of accounts receivable in previous period to business income	DSRI = 2.11	Accounts receivable as a proportion of operating income has risen sharply, indicating that the company may falsely increase revenue by fictitious accounts receivable or relaxing credit policies. Combined with revenue of only 137 million yuan in 2024, down 70% year-on-year, accounts receivable is still as high as 549 million yuan, accounting for 400% of revenue, the risk of repayment is very high, and there are signs of revenue manipulation.
AQI (Asset quality index)	Proportion of non physical assets in the current period/proportion of non physical assets in the previous period	AQI = 1.27	The proportion of non physical assets has increased significantly, combined with the 11.7% decrease in intangible assets in 2024, and the cancellation of mining rights has not been impaired, which may beautify the asset structure and cover up the deterioration of asset quality through capitalization expenses or false asset valuation.
DEPI (Depreciation rate index)	Depreciation rate of the previous period/depreciation rate of the current period	DEPI =0.52	The depreciation rate is halved, but fixed assets are reduced by 6.7%, which may falsely increase profits by shortening the depreciation life or making less depreciation.
TATA (Accruals)	Accruals/total assets	TATA = -0.0955	The accruals are negative, indicating that the expenses are recognized in advance or the liabilities are undercounted, combined with the operating cash flow of - 311 million yuan, the actual operating capacity is insufficient.
GMI (Gross margin index)	Gross profit margin of the previous period/gross profit margin of the current period	GMI =0.74	Gross profit margin dropped sharply from 42.99% to - 146.9%, and the cost is upside down, which may manipulate profits by falsely increasing costs or delaying the recognition of revenue.

SGI (Operating income index)	Current operating income/previous operating income	SGI =0.30	It shows that the revenue of enterprises in 2024 is only 30% of that in 2023, which has declined sharply, or the strategy needs to be adjusted due to marketing, marketing, cost and other problems. Revenue fell by a cliff, business shrank, but accounts receivable remained high, and there was suspicion of cross period adjustment of income.
SGAI (Sales overhead index)	Proportion of sales management expenses in current period to business income/proportion of sales management expenses in previous period to business income	SGAI =2.56	The soaring proportion of expenses exceeds the decline of revenue, which may manipulate profits through expense capitalization (such as R&D expenses included in assets) or related party cost sharing.
LVGI (Financial leverage index)	Current asset liability ratio/previous asset liability ratio	LVGI =0.83	The asset liability ratio is still more than 90%, short-term loans are 312 million yuan+liabilities due within one year are 140 million yuan, monetary funds are only 59 million yuan, and the liquidity crisis is imminent.

Note: the main reason for choosing 2025 and 2024 data to be brought into the model here is that the company's financial and accounting report in 2024 has been issued with qualified opinions, and the audit report with negative opinions on internal control has been issued. At the same time, St Zhongcheng has been issued "non-standard" audit reports by audit institutions for three consecutive years, and the company's cumulative net profit loss in the past six years has reached 2.431 billion yuan. The data here comes from the compilation and integration of websites such as Juchao net, Sina Finance and economics, Yingwei finance, and Oriental Wealth net [9].

According to a number of indicators of beneish model value in the table 1, the company may manipulate profit and asset structure by means of fictitious receivables, cost capitalization and depreciation policy adjustment. Revenue plunged 70% and gross profit margin turned negative, the main business lost profitability, and cash flow continued to be negative, exposing the actual operating difficulties. The asset liability ratio exceeds 90%, short-term liabilities reach 452 million yuan, but monetary funds are only 59 million yuan, and liquidity risk has touched the warning line.

2.2 Risk assessment and analysis

Table 2. Risk assessment

Risk dimension	Specific performance	Possibility of financial manipulation
Revenue side	Revenue plunged 70%, the proportion of	High

	accounts receivable was abnormally high, and DSRI increased abnormally	
Profit side	Gross profit margin - 146.9%, sgai soaring, Tata negative	High
Asset side	Non physical assets increased falsely, mining rights were not impaired, SGI cliffs	High
Cash flow	Operating cash flow has been negative for two consecutive years and has a high dependence on financing	Medium
Compliance	Concealing major lawsuits (627 million yuan) and delaying information disclosure	High

Through the risk dimension in the table 2, this article can see that the core financial dimensions of the enterprise, such as income, profit and assets, are abnormal, and there are major compliance defects, and the possibility of financial manipulation is generally high.

2.3 Beneish model

The result of beneish model is 1.04 (much higher than the threshold - 1.78), combined with signals such as income manipulation, asset false increase and abnormal cost, there is a risk of systemic financial fraud, which is in line with the characteristics of delisting risk warning (* st). According to the analysis, m-score is significantly higher than the threshold, and multi-dimensional financial anomalies can judge that there are major defects in corporate governance.

Beneish=−4.84+(0.92×2.11)+(0.528×0.74)+(0.404×0.86)+(0.892×0.30)+(0.115×2.56)+(0.173×0.52)+(0.327×−0.0955)+(4.67×0.83)

=−4.84+1.94+0.391+0.347+0.268+0.295+0.090−0.031+3.88

=1.04

2.4 Investor advice

Investors should be highly alert to delisting risks, always pay attention to regulatory inquiries and audit opinions, and avoid the stock until financial transparency.

Table 3. Company information

Dimension	Specific means	Key evidence
Revenue side	Revenue from wind power/photovoltaic projects in the Philippines recognized in advance	230 million revenue was recognized if the grid connection conditions were not met
Asset side	Fictitious Indonesian mining assets	CIS coal mine mining rights are still listed after revocation
Information disclosure	Delay in disclosure of material litigation	627 million lawsuits disclosed four months overdue

On the income side, the enterprise falsely increased its performance by confirming 230 million yuan of revenue from wind power/photovoltaic projects in the Philippines that did not meet the grid connection conditions in advance, as shown in table 3. On the asset side, it fictionalized the revoked CIS coal mine mining rights in Indonesia and continued to list them in order to beautify its asset structure. In terms of information disclosure, it delayed the disclosure of 627 million yuan of major litigation for four months. The three acts involved income manipulation, asset falsely increase and compliance violations, respectively, exposing serious problems in the authenticity of enterprise financial data and the standardization of information disclosure.

2.5 Analysis of empirical results

Stock price trend: in the 30 trading days before the announcement, the stock price has fallen by 28%; On the day of the announcement, the stock price fell by the daily limit (20%), closing at 0.86 yuan, down 98.3% from the historical high of 110.85 yuan.

3 Analysis of abnormal fluctuations in stock prices after the exposure of financial fraud

After the exposure of financial fraud and credit violations, the company is facing a serious crisis of trust, and partners question the reliability of the company, which may lead to the stagnation or termination of cooperation projects. At the same time, the company is also facing great difficulties in financing. Banks and other financial institutions may tighten credit lines, raise loan interest rates, or even recover loans in advance, which makes the company's capital chain more tense and business activities difficult to carry out normally. St Zhongcheng company has been severely punished by the China Securities Regulatory Commission for financial fraud and letter violations, including ordering corrections, warnings and fines of 7.5 million yuan. In addition, the company may also face class action lawsuits from investors and need to bear corresponding civil liability, which will further aggravate the company's financial burden. Since 2024, the company has issued 18 delisting risk warning announcements and suspended trading since May 6, 2025, facing the risk of termination of listing. At the same time, up to now, it has not yet put forward effective solutions or faced passive measures such as asset liquidation and equity restructuring.

For investors, many have made wrong investment decisions due to the false financial information disclosed by the company, resulting in heavy investment losses. St Zhongcheng's financial fraud not only caused losses to investors directly investing in the company, but also hit investor confidence in the whole capital market. Investors doubt the authenticity of financial information of listed companies and worry about the fairness, fairness and transparency of the capital market, which may reduce investment in the capital market and affect the healthy development of the capital market [10-12].

In the capital market, St Zhongcheng's behavior destroys the normal order of the capital market and violates the principles of fairness, fairness and openness. False financial information and illegal information disclosure interfere with the resource allocation function of the market, making funds flow to companies with poor management and financial fraud, while companies with real investment value and development potential may not receive sufficient financial support, affecting the efficiency and healthy development of the capital market. At the same time, in order to investigate and punish such illegal acts, regulators also need to invest more human, material and financial resources, which reduces the operational efficiency of the capital market to a certain extent.

4 Conclusion

This study takes st Zhongcheng as the research object, revealing that it implements financial fraud by fictitious income, falsely increasing assets and concealing major matters, which leads to a sharp fall in stock prices and seriously infringes on the rights and interests of investors. This typical case has exposed the shortcomings of internal governance, external regulatory loopholes and weak risk awareness of investors. Although regulatory penalties have a certain deterrent to violations, there is still a long way to go to systematically solve the chronic diseases of the capital market.

In order to effectively prevent financial fraud and information disclosure violations, it is urgent to cooperate with many parties. At the company level, corporate management should improve the governance structure, strengthen the independence of the board of directors and the board of supervisors, and optimize the internal control system; Regulatory authorities need to strengthen coordinated supervision, improve laws and regulations, and substantially increase the cost of violations; Investors should enhance their risk awareness and enhance their ability to safeguard their rights. Only by building a three-dimensional defense line of internal checks and balances, external strict management and rational participation of investors can the government safeguard the fairness and justice of the capital market and promote its new journey towards healthy, stable and sustainable development.

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