

A Study on Violations of Information Disclosure by Listed Companies Against the Background of the New 'Nine National Policies': Taking Vtron Group Co., Ltd. as an Example

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Abstract. This paper examines the implementation of China's new "Nine National Policies," introduced in April 2024, aimed at enhancing the stability and healthy development of the capital market amidst significant market fluctuations. The policies focus on strengthening supervision, preventing risks, and improving the regulatory framework for listed companies, including stricter issuance and listing access, continuous oversight, and enhanced delisting mechanisms. A notable outcome has been the investigation or detention of numerous listed companies and their controllers, with Vtron Group Co., Ltd. serving as a case study. Using case analysis and GONE theory, the study details the characteristics of the policies, Vtron's violations of information disclosure rules, and the motivations and consequences of these violations. It finds that while the number of punished companies has risen, violations have become more covert and diverse. Despite progress, regulatory enforcement by the China Securities Regulatory Commission remains inadequate. Nonetheless, the policies have significantly advanced the capital market's development. Future efforts will require stricter measures and further research as China continues stabilizing its economy and financial markets.

Keywords: Capital Market Stability; Regulatory Supervision; Information Disclosure Violation.

1. Introduction

On April 12, 2024, "Several Opinions of the State Council on Strengthening Supervision, Preventing Risks, and Promote High-Quality Development of the Capital Market" was officially released. This is the third "Nine National Policies" ushered in by China's capital market after the two "Nine National Policies" in 2004 and 2014. Compared with the "Nine National Policies" in 2004 and 2014, the new "National Nine Articles" has shown significant changes in many aspects, the most striking of which is the comprehensive upgrading of the capital market regulatory system. The new "Nine National Policies" not only strengthens the supervision of the capital market, but also pays more attention to market fairness and transparency, which is particularly evident in the strict control of "listing control" and "export control". The new "Nine National Policies" make it clear: strengthen information disclosure and corporate governance supervision; build a comprehensive anti-counterfeiting and anti-counterfeiting system in the capital market, and seriously rectify illegal acts in key areas such as financial fraud and capital occupation [1]. Currently, the impact of the new "Nine National Policies" has further become prominent, and the implementation has entered the deep-water zone. Against this background, the number of listed companies under investigation has increased greatly, and Vtron Group Co., Ltd. is one of them. Therefore, based on the background of the implementation of the new "Nine National Policies", taking Vtron Group Co., Ltd. as an example and carrying out a case analysis based on relevant theories, this article studies and analyses the causes of its information disclosure violations and the economic consequences when the information disclosure violations are exposed. Thus based on this, some feasible suggestions are put forward to further regulate the information disclosure behavior of listed companies.

2. New "Nine National Policies"

The new "Nine National Policies" emphasizes the severe crackdown on violations of information disclosure, including increasing administrative penalties and raising the standards for criminal liability. In terms of the characteristics of punishment, after the release of the new "Nine National Policies", first of all, the number of listed companies investigated and punished illegally increased significantly. At the same time, the investigated and punished illegally were more intensive, For example, there were 24 cases in one day on May 10 alone. Secondly, the punishment for violations is stricter. For serious violations of information disclosure, not only the relevant responsible personnel will be criminally punished, but also their civil liability will be investigated and investors will be compensated for their losses. Meanwhile, the standards of criminal liability investigation have been raised. "Supervisory attention" is a relatively light type of punishment among the types of regulatory punishment. In 2023, nearly 40 per cent of cases where the type of punishment is "supervisory attention". Since the release of the new "Nine National Policies", there have been only 5 cases of listed companies with the type of illegal punishment of "supervisory attention", accounting for less than 2%. The number of "case investigation" companies has increased to 28. In addition, the new "National Nine Policies" also emphasizes joint discipline of violations, and forms a strong deterrent against violations through cross-departmental collaboration and information sharing. In addition, the investigation and punishment time is faster. For example, in the case of *ST Xinfang, where the illegal facts spanned seven years, the interval between the initiation of the investigation and the issuance of the 'Notice of Prior Administrative Penalty' was only about one month [2].

The establishment of the "blacklist" of the intermediary agency has further consolidated the primary responsibility of the issuer and the responsibility of the "gatekeeper" of the intermediary agency. Since the introduction of the new "Nine National Policies", the Securities Regulatory Commission has successively introduced more than 40 supporting institutional rules. In the next step, the Securities Regulatory Commission will promote the implementation of the supporting policies and measures that have been introduced. At the same time, the Securities Regulatory Commission pays attention to accurately distinguishing responsibilities in accordance with the law in law enforcement, and strives to crack down on the actual controllers of listed companies, the chairman and other "key minority" who violate the law. In the first half of the year, a total of about 100 "key minorities" were punished, an increase of about 40% year-on-year, about 350 million yuan was confiscated, an increase of about 38% year-on-year, and about 27 people were banned from entering the market. One of them is the overlapping application of property penalties and qualification penalties. For example, Wang X., the then-chairman and controlling shareholder of Changshu Zhongli Technology Group Co., Ltd., as well as the actual controller who organized and instructed the illegal information disclosure of the company, was punished separately. The total fine amounted to RMB 15 million, and a lifelong ban on participating in the securities market was imposed [3].

It also can be seen that with the increasing number of listed companies under investigation, some actual controllers, major shareholders and executives of listed companies who have not been investigated and know that there are problems in the enterprise have taken the initiative to find securities firm and investment banks to seek "emergency" measures. Such listed companies seeking help from investment banks face a common feature: the company itself touches the regulatory red line after the implementation of the new "Nine National Policies", and it is difficult to adjust in the short term; the relevant person in charge may be worried about being investigated, or worried about being forcibly delisted after the implementation of the new regulations for delisting next year. Therefore, asking securities firm and investment banks for help and looking for "emergency" measures has become the common choice of such enterprises [4].

3. Introduction to the Case of Violation of Information Disclosure of Vtron Group Co., Ltd.

Lu Keping, the actual controller of Jiangsu Sunshine Group Co., Ltd., decided to indirectly obtain control of the board of directors of Vtron Group Co., Ltd. through the control of the Taizhou Zhongshuwei Equity Investment Partnership (L.P.). Lu Keping became the actual controller of Vtron Group Co., Ltd. no later than June 19, 2023. On September 20 of the same year, Sunshine Group signed the Framework Agreement on Equity Transfer Cooperation with Jiangxi Xiling Energy Co., Ltd., which is actually controlled by Liu Jun. According to the agreement, Liu Jun will become the actual controller of Vtron Group Co., Ltd. in the next 12 months. From September 28 to October 27, 2023, Liu Jun transferred a net of 1.327 billion yuan without the internal fund approval of Vtron Group Co., Ltd., and the whole process was not disclosed.

In mid-to-late December last year, Vtron Group Co., Ltd.'s "self-reveal" of 1.327 billion yuan in the company's accounts was drawn away by Liu Jun, the actual controller of the company's proposed acquisition of Xiling Energy Co., Ltd., and has not been returned. Because the whereabouts of this huge amount of money have been unknown, the audit committee of the board of directors of Vtron Group Co., Ltd. failed to approve the company's annual financial report and internal control report for 2023. This directly led to the failure of Vtron Group Co., Ltd. to disclose the annual report of 2023 and the quarterly report of 2024 within the statutory time limit. On the evening of May 8, Vtron Group Co., Ltd. was investigated by the China Securities Regulatory Commission for suspected failure to disclose the annual report and other information disclosure on time.

On the evening of May 30, 2024, Vtron Group Co., Ltd. issued an announcement that Science City (Guangzhou) Investment Group Co., Ltd., the company's second largest shareholder, appealed to Liu Jun, Lu Keping, Lu Yu, Jiangsu Sunshine Group Co., Ltd., Shenzhen Bohai Industrial Operation Group Co., Ltd., Tianjin Jiaying Miracle Technology Co., Ltd., and Jiangxi Xiling Energy Co., Ltd. to jointly compensate Vtron Group Co., Ltd. 1.327 billion yuan and the corresponding interest loss in their own name.

Vtron Group Co., Ltd. has previously revealed that from September to October last year, the company transferred 1.327 billion yuan to Shenzhen Bohai Industrial Operation Group Co., Ltd. Net, and the management could not judge the nature of the amount. At the same time, Audit Committee of the broad of Directors of Vtron Group Co., Ltd. cannot reasonably guarantee that the company's financial report discloses that the company has no actual controller, implying that Vtron Group Co., Ltd. actually has a real controller [5].

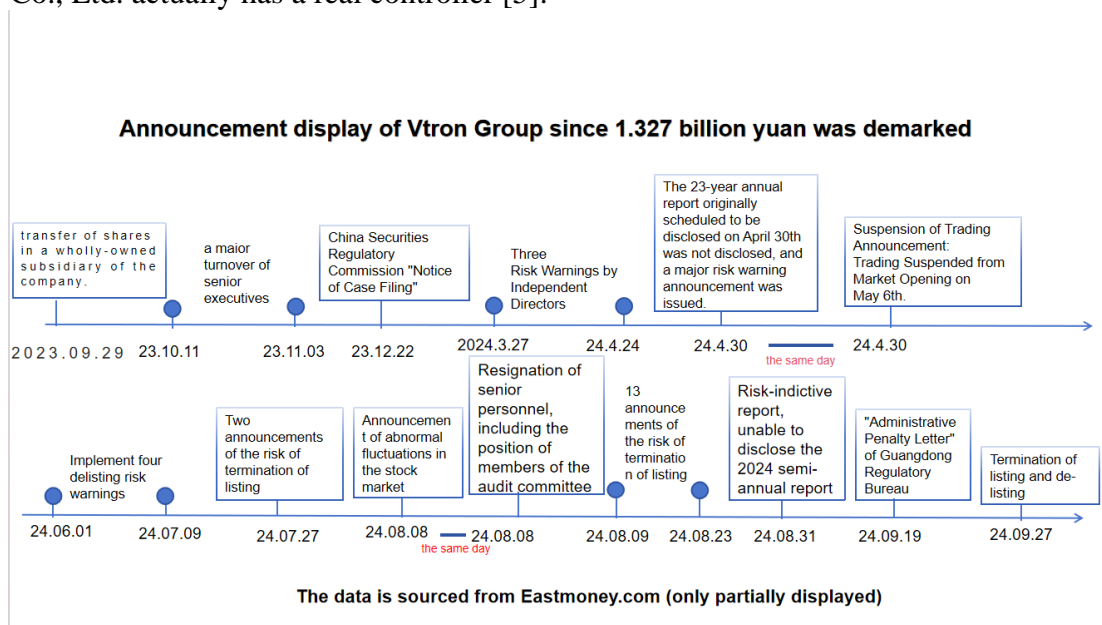


Fig. 1 Announcements of Vtron Group

On the evening of September 18, ST Vtron announced that the company received an administrative penalty issued by the Guangdong Securities Regulatory Bureau. It informed ST Vtron, Liu Jun and Lu Keping in advance that the suspected information disclosure of illegal cases had been investigated. The Guangdong Securities Regulatory Bureau intends to impose administrative penalties and take market ban measures against the company and relevant personnel in accordance with the law. According to the pre-notification, St Vtron failed to disclose in a timely manner multiple alleged violations of information disclosure regulations, including changes in the actual controller, changes in the company's control resulting from agreement-based acquisitions, non-operating fund occupations by related parties, and non-operating fund transactions between the company and related parties.

4. Analysis of the Causes of Information Disclosure Violations by Vtron Group Based on GONE Theory

The GONE theory of financial fraud is to divide the causes of fraud into four factors, namely greed, opportunity, need and exposure. These four factors influence and interact with each other to determine whether fraud will occur [6].

4.1. Analysis of Greedy Factors

On the evening of September 18, 2024, *ST Vtron announced that the company received a "Notice of Advance Notification of Administrative Penalty" issued by the Guangdong Securities Regulatory Bureau. *ST Vtron, Liu Jun and Lu Keping's suspected illegal information disclosure cases have been investigated. The relevant illegal acts can be traced back to the first half of 2023. At that time, Lu Keping, the actual controller of Sunshine Group, decided to nominate more than half of the members of the board of directors of *ST Vtron by controlling Zhongshuweike Equity Investment Partnership (L.P.), and then obtained control of the board of directors of *ST Vtron. On September 20, 2023, Sunshine Group, which is actually controlled by Lu Keping, signed a framework agreement on equity transfer cooperation with Xiling Energy Co., Ltd., which is actually controlled by Liu Jun. According to the relevant regulations, Liu Jun became a related natural person of *ST Vtron. From September 28 to October 27, 2023, the *ST Vtron CITIC bank account actually controlled by Liu Jun had a financial transactions with the CITIC bank account of Shenzhen Bohai Industrial Operation Group Co., Ltd. under his own control. Without the approval of *ST Vtron's internal funds, Liu Jun transferred about 1.437 billion yuan from *ST Vtron's bank account without authorization, and transferred about 110 million yuan. According to the advance notice, the net transfer of 1.327 billion yuan was used by Liu Jun to repay personal debts, which constitutes the occupation of non-operating funds of related parties, accounting for 67.24% of the latest audited net assets of *ST Vtron.

4.2. Analysis of Opportunity Factor

According to the data of the enterprise investigation, Sunshine Group indirectly owns 99.93% of the equity of Zhongshuweike Equity Investment Partnership (L.P.). Sunshine Group is the largest shareholder of Jiangsu Sunshine, a listed company. In fact, the controller Lu Keping is a "seasoned player" in the capital market and has been fined many times for violations. And this time, he seems to be employing the same old tricks as he enters the game with Vtron Co., Ltd. [7]. Due to the nested multi-layer equity relationship, it is impossible to accurately identify the control relationship between Vtron Co., Ltd. and Sunshine Group. Vtron Co., Ltd. also emphasised in its annual report that "no actual controller", which gave Lu Keping and his son a great opportunity to control Wei Chuang Co., Ltd. At the same time, from the beginning of 2021, Lu Keping's son Lu Yu entered the management of Vtron Co., Ltd. and successfully became the chairman of Vtron Co., Ltd. in June 2023. Three months after Lu Yu took power, he signed a framework agreement on equity transfer cooperation with Xiling Energy. It is worth noting that shortly after the signing of the aforementioned equity transfer agreement on September 20, Vtron Co., Ltd. suddenly underwent a major turnover in its

senior leadersjoop. On October 11, Vtron Co., Ltd. suddenly issued an announcement that Chen Xiang, director, secretary of the board of directors and deputy general manager of the company, Lu Yu, general manager, and Zhou Feng, the head of finance, all submitted their resignation reports and no longer held relevant positions. Only Lu Yu retained the position of chairman. What's more bizarre is that the important executive left only two days, and the company immediately hired a new general manager, financial manager and secretary of the board of directors on October 13. On December 26, Vtron Co., Ltd. disclosed that Wen Jingjing, the new financial manager, and Zhang Shuhan, the secretary of the board of directors, also announced their resignation. These all suggest that Vtron Co., Ltd. had already shown signs of an impending collapse from within.

4.3. Analysis of Demand Factor

It is learned from the "Advance Notice of Administrative Penalty" of the Guangdong Regulatory Bureau that from August 15 to September 15, 2023, Vtron Co., Ltd. transferred 540,000,000 yuan in the name of prepaid purchases to provide a guarantee for the private lending by Sunshine Group, which constituted a related transaction of non-operating capital transactions, occupying Vtron Co., Ltd. 27.36% of the audited net assets of the shares in the latest period. The third quarter report of 2023 did not truthfully disclose the above-mentioned related transactions of non-operating capital transactions, and there are false records. This shows that the demand for illegal information disclosure of Vtron Co., Ltd. is partly related to the 'Sunshine group' where Lu Yu is affiliated. Moreover, the major shareholders of the family have the motives and ability to encroach on the interests of small and medium-sized shareholders by faling and manipulating the information disclosure behaviour of listed companies [8]. There were also signs before. Nominally, Vtron Stocks has no actual controller, but Lu Yu, the chairman of the board, legal representative, and non-independent director, can exert significant influence on the company in terms of equity ownership, board decision-making, and operational management. Furthermore, Jiangsu Sunshine Group, which Lu Yu is affiliated with, has a poor reputation in the capital market. Recently, Sihuan Bioengineering Co., Ltd. announced that the actual controller, Lu Keping, was prosecuted by the Securities Regulatory Commission on suspicion of manipulating the securities market. Lu Keping is Lu Yu's father, and his subsidiary Jiangsu Sunshine Group is a well-known enterprise in the wool industry. As the actual controller of Sihuan Bioengineering, Lu Keping also pledged a high proportion of Sihuan Bioengineering shares to provide financial support for the 'Sunshine Group' [9].

4.4. Analysis of Exposure Factor

Before the introduction of the new "Nine National Policies", the possibility of exposure of violations was low, and the amount of fines was relatively low. The controller Lu Keping is a "seasoned player" in the capital market. Using nested multi-layered equity relationships, it is impossible to accurately identify the control relationship between Sunshine Group and Vtron Co., Ltd. Co., Ltd., which reduces the risk of exposure. At the same time, the negative market reaction caused by the release of negative news from the company was avoided in the short term, resulting in the benefits of information disclosure violations greater than the cost [10]. These have caused Vtron Group to continue to disclose illegal information in 2023. After the promulgation of the new "Nine National Policies", the punishment has been strengthened, the punishment for violations has been stricter, and the investigation and punishment time has been faster. China Securities Regulatory Commission has also successively introduced more than 40 supporting institutional rules, among which attention is paid to the accurate distinction of responsibilities in accordance with the law in law enforcement, and efforts have been made to crack down on the actual controllers of listed companies, the chairman and other "key minority" of violations. Therefore, despite receiving many risk warnings and reminder letters, under the precise impact of the "Nine National Policies" background, the independent directors have always expressed objections to the 2023 annual financial report and the internal control audit report during the deliberation of the audit committee, causing the 2023 annual statement to be repeatedly delayed.

5. Analysis of the Consequences of Vtron Co., Ltd.'s Disclosure of Violations

Following the misappropriation of RMB 1.327 billion in company funds by the responsible entity, the China Securities Regulatory Commission promptly launched an investigation into *ST and its related responsible individuals. Due to triggering the mandatory delisting scenario related to trading, *ST Vtron received a "Decision on the Termination of the Listing of Shares of Vtron Group Co., Ltd." from the Shenzhen Stock Exchange on September 18th. The new "Nine National Policies" clearly proposes to improve the investor compensation and relief mechanism in the process of delisting, and compensate investors for losses in accordance with the law for controlling shareholders, actual controllers, directors, executives, etc. who are responsible for major illegal delisting. Since this year, the regulatory department has continuously strengthened self-discipline supervision, administrative punishment, criminal accountability, civil compensation and other all-round three-dimensional accountability, so that violators have borne the due price of the violation. This means that for the responsible subjects related to *ST Vtron, delisting will not become an "penalty exemption card". In addition to the above-mentioned severe administrative penalties, *ST Vtron's relevant responsible subjects will also face criminal and civil accountability. From the "Advance Notice of Administrative Penalty" issued by the Guangdong Regulatory Bureau, it can be seen that Lu Keping was ordered to correct, given a warning, and a fine of 22 million yuan was imposed. At the same time, he was banned from entering the securities market for life; Liu Jun was ordered to correct, given a warning, a fine of 7 million yuan, and he was also banned from entering the securities market for life. Prohibition measures; Lu Yu was given a warning and a fine of 6 million yuan was imposed. He was banned from the securities market for 10 years, and other relevant personnel of the company were given corresponding fines.

6. Conclusion

Based on the background of the new "Nine National Policies", this article uses the GONE theory to analyze the reasons for the violation of information disclosure of Vtron Company. Then, the following conclusions are drawn from the case: First, the violation of accounting information disclosure of listed companies under the background of implementation has been curbed. Also with the supervision of regulatory behaviour has become stricter, and the number of penalties has greatly increased; secondly, there are various means of violations by listed companies. Judging from the notification of punishment cases by the Securities Regulatory Commission, the secrecy of the means of fraud of listed companies has increased; thirdly, in terms of external regulatory agencies, due to the difficulty of supervision, the Securities Regulatory Commission still has a Street lag. Fourth, the reform and improvement of the information disclosure system of the new "Nine National Policies" provide legal guarantees for the healthy development of the capital market. At present, China is working to vigorously stabilise and restore the real economy and the financial market. At the end of September, the country introduced a series of policies on the stock market. What impact will this have on the punishment of violations of information disclosure. It remains to be further studied in the future.

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