A Research on the Quality of Corporate Information Disclosure: A Case Study of Kangmei Pharmaceutical

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Abstract. With the continuous development of the economy and the increasing maturity of the securities market, the quality of information disclosure of listed companies has become the focus of market attention. Taking Kangmei Pharmaceutical as an example, this paper deeply analyzes the problems existing in information disclosure, discusses the causes of the problems, and puts forward corresponding countermeasures and suggestions, aiming to provide reference and reference for improving the information disclosure of Chinese listed companies. By analyzing the problems of false records in Kangmei Pharmaceutical's financial reports, untimely disclosure of material asset restructuring information, and insider trading, this paper discusses the motivation of financial fraud and analyzes it using the GONE theory. This paper proposes that in order to improve the quality of accounting information disclosure of listed companies, it is necessary to improve the internal governance structure of the company, strengthen external audit supervision, increase the punishment for violations, and improve the market environment. The research concludes that the problem of accounting information disclosure quality is the result of a combination of factors, and future research can be carried out on the basis of a wider sample to enhance the universality and applicability of the research, and pay attention to the impact of the development of science and technology and changes in the market environment on the quality of information disclosure.

Keywords: Information Disclosure Quality, Kangmei Pharmaceutical, Financial Fraud.

1. Introduction

In today's globalized economic landscape, the capital market plays a vital role, and as a core participant in the capital market, the quality of information disclosure of listed companies is like the cornerstone of the capital market, which is directly related to the health, stability and fairness of the market [1]. With the rapid development of the economy and the increasing maturity of the securities market, the importance of information disclosure of listed companies has become more and more prominent. The quality of information disclosure is not only a key basis for investors to make scientific decisions, but also an important measure of market fairness and transparency [2].

With the rapid development of China's social economy, there have been a large number of financial fraud incidents in recent years, among which financial fraud and other violations of laws and regulations of pharmaceutical companies are not uncommon. Kangmei Pharmaceutical's financial fraud incident has caused serious social impact, caused investors to suffer heavy economic losses, restricted the company's survival and development, brought a huge impact to the capital market, and made the public question the credibility of the pharmaceutical industry and the supervision of the national medical security system [3]. Therefore, an in-depth analysis of Kangmei Pharmaceutical's financial fraud plays a very important role in preventing fraud, improving drug quality, regulating the healthy development of the pharmaceutical industry, and safeguarding the safety of national property. As a well-known enterprise listed on the Chinese stock market, Kangmei Pharmaceutical's information disclosure has attracted widespread attention and has become an important case for studying the quality of information disclosure of listed companies. Through in-depth analysis of Kangmei Pharmaceutical's information disclosure, it can provide a practical basis and policy suggestions for improving the information transparency of listed companies and improving the information disclosure system, which has important theoretical and practical significance.

The research theme of this paper is the quality of corporate information disclosure, especially taking Kangmei Pharmaceutical as an example, this paper analyzes the problems existing in its information disclosure, discusses the causes of these problems, and proposes improvement countermeasures. Through the case analysis of Kangmei Pharmaceutical, this paper aims to provide reference and reference for improving the quality of information disclosure of listed companies in China, and also provide a practical basis for regulators to formulate relevant policies.

First of all, from a theoretical point of view, the research in this paper is helpful to enrich and improve the theoretical system of information disclosure quality. Through the analysis of the case of Kangmei Pharmaceutical, we can deeply understand the causes and mechanisms of financial fraud, and provide empirical support for the theory of financial fraud. Secondly, from a practical point of view, the research results of this paper can provide guidance for listed companies to improve the quality of information disclosure, and help companies establish a more transparent and standardized information disclosure mechanism, so as to protect the interests of investors and maintain the stability and healthy development of the capital market. Finally, from the regulatory perspective, the research in this paper can provide a reference for regulators to formulate and improve information disclosure regulations, strengthen supervision, and increase the cost of non-compliance, so as to effectively curb information disclosure violations.

2. Overview of Kangmei Pharmaceutical's Information Disclosure

Kangmei Pharmaceutical has a number of problems in information disclosure, including but not limited to false records in financial reports, failure to timely disclose material asset restructuring information, insider trading, etc. These problems not only violate relevant laws and regulations, but also seriously mislead investors, causing a negative impact on the company's stock price and market order. Since Kangmei Pharmaceutical entered the capital market in 2001, Guangdong Genzon Zhujiang Certified Public Accountants has been responsible for the audit business of Kangmei Pharmaceutical, but it has not been found that Kangmei Pharmaceutical has deliberate, organized and systematic financial fraud, which is an extremely serious dereliction of duty [4]. In 2019, Kangmei Pharmaceutical exposed itself as fraud, admitting that the company had inflated monetary funds by 29.9 billion yuan in 2017. On November 12, 2021, the Guangzhou Intermediate People's Court made a first-instance judgment on the lawsuit of the special representative of Kangmei Pharmaceutical, and the audit institution Genzon Pearl River was sentenced to bear 100% joint and several liability. Genzon Pearl River was ordered to make corrections, confiscated 14.25 million yuan of business income, and imposed a fine of 42.75 million yuan. Subsequently, Genzon Pearl River took the initiative to cancel its practice certificate.

According to the investigation, Kangmei Pharmaceutical's monetary funds were inflated by as much as 29.9 billion yuan, and after inquiring about Kangmei Pharmaceutical's monetary funds and short-term loans from 2012 to 2018, it was found that the two have been growing significantly. In recent years, Kangmei Pharmaceutical has been continuously carrying out debt financing, and behind the financing, accompanied by high financial costs, Kangmei Pharmaceutical's financial expenses reached nearly 1.9 billion yuan in 2018. This means that Kangmei Pharmaceutical is still borrowing money to run the company under the premise of having sufficient cash flow (see Table 1).

Kangmei Pharmaceutical's announcement (see Table 2) shows that Kangmei Pharmaceutical's operating income in 2017 was roughly adjusted from more than 26 billion yuan to about 17 billion yuan, a decrease of 34%, resulting in a net profit from more than 4 billion yuan to about 2 billion yuan, a decrease of 48%. In 2018, Kangmei Pharmaceutical's operating income was roughly more than 19 billion yuan, and its net profit was about 1 billion yuan, which was significantly lower than that in 2017. It can be seen from Kangmei Pharmaceutical's reply to the inquiry letter of the Shanghai Stock Exchange that in 2017 alone, Kangmei Pharmaceutical inflated its operating income by nearly 9 billion yuan, and at the same time confirmed more than 7 billion yuan of business costs. In the three years from 2016 to 2018, Kangmei Pharmaceutical Co., Ltd. inflated its operating income by more than 20 billion yuan [5].

Table 1. Amount of financial fraud of Kangmei Pharmaceutical from 2016 to 2018 (in ¥100 million)

DATE	2016	2017	2018H1	2018
Inflated business income	89.99	100.32	84.84	16.13
Inflated operating profit	6.56	12.51	20.29	1.65
Inflated monetary assets	225.49	299.44	361.88	--
Inflated fixed assets	--	--	--	11.89

Source: China Securities Regulatory Commission

Table 2. Announcement on the correction of accounting errors of Kangmei Pharmaceutical (part) in the previous period (in ¥100 million)

ITEM	2017		2018
	Before the adjustment	After the adjustment	
Operating income	26.48	17.58	19.36
Net profit	4.09	2.14	1.12

3. Analysis of the Causes of Kangmei Pharmaceutical's Information Disclosure Problem

This paper uses the Gone theory to analyze the causes of Kangmei Pharmaceutical's information disclosure quality problems from four aspects:

3.1. Greed

The excessive pursuit of super-economic gains by policymakers [6]. The pursuit of personal wealth and status by Ma Xingtian, the de facto controller of Kangmei Pharmaceutical, and his family may be one of the driving forces of financial fraud. In order to maintain the company's market value and personal wealth, they may not hesitate to push the bottom line of ethics and law and instruct financial personnel to create false financial data to deceive investors. Ma Xingtian was sentenced to 12 years in prison and fined 1.2 million yuan for the crimes of manipulating the securities market, illegal disclosure, non-disclosure of important information, and bribery by a unit.

3.2. Opportunity

Kangmei Pharmaceutical's internal governance structure is not perfect, and there are problems such as excessive concentration of power and opaque decision-making, and it is difficult for independent directors to play a role in the context of a dominant force. From the perspective of Kangmei Pharmaceutical's shareholding structure, the characteristics of a dominant share are obvious. Chairman Ma Xingtian and his wife directly or indirectly hold one-third of Kangmei Pharmaceutical's shares, and the rest of the shares are highly dispersed, forming a "key person control" led by Ma Xingtian [7]. From the perspective of the principal-agent relationship, Ma Xingtian concurrently serves as the chairman and general manager of Kangmei Pharmaceutical, and most of the senior executives in the company are also "two positions in one", and the board of directors and the board of supervisors are controlled by Ma Xingtian, integrating the hierarchical restraint mechanism of supervision and supervision, resulting in the basic failure of internal supervision, and the actual controller fully grasps the right to appoint and dismiss independent directors. Ma Xingtian and his family directly or indirectly hold one-third of Kangmei Pharmaceutical's shares, and the board of directors and board of supervisors are controlled by Ma Xingtian, resulting in the basic failure of internal supervision, and the management can easily commit financial fraud and information disclosure violations. In addition, the audit system and supervision at that time were insufficient, and the supervision of financial information disclosure of listed companies was not strict enough, so that Kangmei Pharmaceutical's financial fraud could not be discovered and stopped in time within a certain period of time.

3.3. Need

Kangmei Pharmaceutical Co., Ltd. is facing huge capital demand and market competition pressure, and in order to maintain a good performance image and listing status, there is a demand for financial fraud. The company's stock price has generally shown an upward trend since 2016, reaching a peak of 27.99 yuan per share in May 2018, and the total market value has also reached 100 billion yuan.

3.4. Exposure

Due to the incomplete and due diligence of internal and external supervisory bodies and independent auditors in the supervision and investigation of fraud, Kangmei Pharmaceutical's financial fraud was covered up to a certain extent, reducing the possibility of being discovered. From 2016 to 2018, Kangmei Pharmaceutical Co., Ltd. has accumulated 88.68 billion yuan of inflated monetary funds, 29.128 billion yuan of inflated operating income, 4.101 billion yuan of inflated operating profit, and 510 million yuan of overstated interest income. These huge financial frauds were eventually exposed by the China Securities Regulatory Commission, causing the company's stock price to plummet and its market value to shrink significantly.

Through the above analysis, we can see that the causes of Kangmei Pharmaceutical's information disclosure problem are multifaceted, involving multiple factors such as greed, opportunity, demand and exposure, which together led to Kangmei Pharmaceutical's financial fraud.

At the same time, Kangmei Pharmaceutical is facing huge financial pressure, including debt repayment pressure, continuous financing needs and market protection motives. During the period of 2016~2018, Kangmei Pharmaceutical's 8.879 billion yuan of funds were misappropriated by related parties, raising the stock price by maliciously speculating on its own stocks, sending false positive information to the stock market to attract investors to buy the company's shares. The company's liquidity is severely insufficient, and in order to stabilize the stock price, maintain the illusion of rapid earnings growth, and meet the financing needs, the motivation for financial fraud has arisen [8].

4. The Follow-up Impact

4.1. Impact on the Company's Stock Price

Kangmei Pharmaceutical's stock price fell sharply after its financial fraud was revealed. From its peak in May 2015, the company's share price fell by nearly 90%, and its market value fell to less than 20 billion yuan.

On April 29, 2019, after Kangmei Pharmaceutical issued an announcement on the correction of accounting errors, the stock price had 6 falling limits from April 30 to May 13, and the stock price continued to fall after that, and the market value shrank from 100 billion to more than 14 billion, a decrease of nearly ninety. On July 4, 2024, after Kangmei Pharmaceutical successfully "took off the hat", the stock abbreviation was changed from "ST Kangmei" to "Kangmei Pharmaceutical", and the stock price rose by one word, with a market value of 29.39 billion yuan.

After the financial fraud was revealed, the capital market's trust in Kangmei Pharmaceutical fell sharply, causing the stock price to plummet. As soon as Kangmei Pharmaceutical's accounting error was announced, the stock price plummeted, which showed the market's strong reaction to financial fraud. The financial fraud incident caused Kangmei Pharmaceutical's stock price and market value to shrink significantly, and the market value dropped from 100 billion to 10 billion, showing the huge negative impact of financial fraud on the company's stock price. Moreover, after Kangmei Pharmaceutical Co., Ltd. underwent reorganization and successfully took off the hat, the market reacted positively, and the stock price rose and fell, showing that the market is optimistic about the company's future prospects.

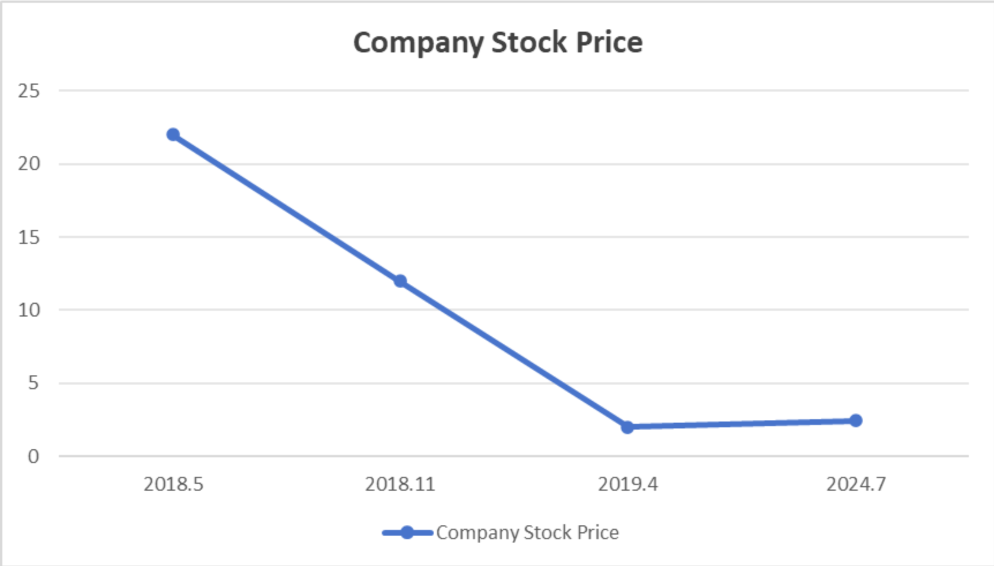

Figure 1. Stock price of Kangmei

Before the financial fraud was exposed, at the end of May 2018, the total market value of Kangmei Pharmaceutical was as high as more than 130 billion yuan, and the stock price was about 22 yuan before the financial fraud was exposed on October 16, 2018, and plummeted to about 12 yuan in 10 trading days (see Figure 1). After the financial fraud was exposed, on May 17, 2019, Kangmei Pharmaceutical reported 6.64 yuan per share. The risk warning was implemented on May 21, and the stock abbreviation was changed to ST Kangmei, and then it fell for 5 consecutive trading days. On April 15, 2024, ST Kangmei quoted 1.99 yuan per share. On July 2, 2024, ST Kangmei closed at 1.93 yuan per share. On July 4, 2024, Kangmei Pharmaceutical's share price closed at 2.12 yuan per share. As of the close of trading on November 20, 2024, Kangmei Pharmaceutical reported 2.43 yuan per share [9].

4.2. Impact on the Company's Reputation

As a former star enterprise in the pharmaceutical industry, Kangmei Pharmaceutical's fraud has seriously damaged the company's reputation. After the financial fraud of Kangmei Pharmaceutical was exposed, some companies that had business dealings with them will re-evaluate their cooperative relationship with Kangmei Pharmaceutical, such as Youbo Pharmaceutical, a subsidiary of Jiuzhitang, whose transaction details with Kangmei Pharmaceutical were retroactively questioned by the Shenzhen Stock Exchange after the fraud incident of Kangmei Pharmaceutical; and other negative news, such as the announcement of the verdict in the financial fraud case of Kangmei Pharmaceutical, the five INEDs were jointly and severally liable for huge amounts of damages, which triggered the INEDs of other listed companies to choose to resign one after another, and also triggered the society's thinking about the INED system.

4.3. Impact on the Capital Market

It undermines the order and rules of the capital market, seriously violates securities laws, regulations and accounting standards, disrupts market prices and resource allocation, expands market volatility and risks, infringes on the legitimate rights and interests of other investors and market entities, and damages the integrity and credibility of the capital market. It has dealt a blow to the capital market's confidence and support for the Chinese medicine industry, made the capital market doubt and worry about the authenticity, reliability and growth of Chinese medicine enterprises, affected the listing process and financing efficiency of Chinese medicine enterprises, and also affected the innovation vitality and development potential of the industry. At the same time, it also tests the supervision and reform of the capital market, exposing the problems of dereliction of duty, dereliction of duty and collusion in the performance of duties of relevant regulatory departments and institutions, making investors and the public question and dissatisfied with their ability and responsibility. This puts forward higher regulatory and reform requirements for the capital market, and it is necessary to strengthen the supervision and standardization of financial management, internal control, information disclosure and other aspects of traditional Chinese medicine enterprises, and improve their financial management level and information disclosure quality; Strengthen the accountability and discipline of relevant regulatory authorities and institutions, and improve their capacity and responsibility; Strengthen the education and guidance of investors, and improve their ability to identify and prevent risks.

5. Countermeasures and Suggestions for Improving the Quality of Information Disclosure of Listed Companies

5.1. Improving the Company's Internal Governance

Optimize the equity structure, avoid the entrepreneur's "one share" situation, introduce more institutional investors, and gradually increase the shareholding ratio of these investors, and secondly, to change the situation that the chairman and general manager of Kangmei Pharmaceutical are held by Ma Xingtian as soon as possible, these two positions should play different roles in corporate governance, so that the management and decision-making level can achieve checks and balances, and furthermore, it is necessary to improve the board of supervisors and independent directors system, determine a reasonable board of supervisors personnel structure, independent directors for the enterprise to assume supervisory responsibility, pay attention to its independence, In this way, independent directors can perform their duties normally and provide safe information protection for information users [10].

5.2. Strengthening the External Supervision Mechanism

To improve the external accounting supervision system, government agencies need to formulate corresponding accounting supervision implementation rules, formulate practical rules and regulations in accordance with national laws and regulations on accounting information management, and clearly carry out the audit work of financial statements, operating data, financial reports, etc.

6. Conclusion

The quality of accounting information disclosure of Kangmei Pharmaceutical Co., Ltd. is a typical problem in the accounting information disclosure of listed companies in China. Through the analysis of Kangmei Pharmaceutical's financial fraud and financial fraud incidents, we can see that the quality of accounting information disclosure is the result of a combination of factors. In order to improve the quality of accounting information disclosure of listed companies in China, it is necessary to start from improving the company's internal governance structure, strengthening external audit supervision, increasing penalties for violations, and improving the market environment. Only in this way can we protect the interests of investors and maintain the stable and healthy development of the securities market.

Although this paper provides countermeasures and suggestions for improving the quality of information disclosure, there are still some limitations. For example, case studies focus primarily on a single company and may not be fully representative of all listed companies. Future studies could be conducted on a broader sample basis to enhance the generalizability and applicability of the studies. In addition, with the development of science and technology and changes in the market environment, the ways and means of information disclosure are also evolving, and future research needs to pay attention to the impact of these new changes on the quality of information disclosure.

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