

On the Business Ethics of Jiu hao Group

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Abstract

Many enterprises in order to obtain short-term benefits, often easy to ignore business ethics, through financial fraud means to commit crimes, deceive the market and stakeholders. This paper analyzes the truth behind the backdoor listing of enterprises from the background, research significance and process of Jiu hao Group 's backdoor listing and reorganization, so as to deeply study the problems of business ethics and accounting professional ethics under the asset reorganization, and give corresponding improvement suggestions based on the actual situation of Jiu hao Group.

Keywords

Jiu hao Group; Backdoor Listing; Asset Restructuring; Business Ethics.

1. Introduction

Merger and reorganization are one of the ways for enterprises to realize value-added, and backdoor listing is an effective way to make enterprises listed quickly. In 2018, the number of enterprise groups trying to enter the capital market through backdoor listing has increased year by year. From 2008 to 2018, China applied for backdoor listing of 276 companies, of which 192 were successfully backdoor listing, and the approval rate was as high as 92 %. Why do so many companies want to go public through backdoor listing? On the one hand, driven by interests, the market competition is becoming increasingly fierce. Enterprises hope to integrate and expand through asset restructuring, break through the limitations of enterprises themselves, and also strip and disperse enterprise losses to improve the overall efficiency of enterprises; on the other hand, because of the harsh IPO conditions, it requires listed companies to make profits for at least three consecutive years, and the cumulative profit reaches more than 30 million. In addition, there are also considerations of the main business income, net profit and other related factors, while the regulatory authorities have a long audit cycle and many uncertain factors. It is precisely because in such an environment, backdoor listing has become a way for many enterprises to go public quickly, and enterprises do not hesitate to risk illegal financial fraud.

2. Rationale

2.1. The Meaning of Business Ethics

Some researchers have proposed that business ethics and corporate ethics are different. Business ethics can be divided into broad and narrow senses. In the narrow sense, business ethics only refers to the codes of conduct and standards of enterprises in business activities. In the broad sense, business ethics generally refers to different business activities. Business ethics is the moral criterion that people must follow while pursuing interests: business activities aim to maximize profits, but cannot infringe the rights and interests of other stakeholders when seeking corporate profits. The code of conduct for business ethics can effectively regulate relationships in business activities and establish reasonable business values, etc.

2.2. The Meaning of Accounting Professional Ethics

In China's accounting industry, great attention is paid to accounting professional ethics and legal norms. Accounting professional ethics is a phenomenon in the field of accounting activities, and the moral theory summarized from this is the responsibility and moral quality of accounting staff. At present, there are few moral standards that restrict internal accounting personnel. There are relevant provisions in the 'accounting basic work norms', which are generally: loving jobs and dedication, familiar with laws and regulations, doing things according to law, objective and fair, doing a good job of service, and keeping secrets. Accounting practitioners voluntarily follow accounting professional ethics can effectively help society and enterprises to avoid the occurrence of fraud, standardize industry work, improve the quality of accounting information.

2.3. The Meaning of Backdoor Listing

Backdoor listing refers to the unlisted company to select the appropriate listed companies as this kind of shell resources, its assets are directly injected into the shell enterprises for replacement, the use of enterprise assets reorganization to realize the direct control of the listed company, IPO. From the past cases, most of the backdoor listed companies are led by private enterprises, and these companies have small market value, low operating performance and long-term downturn in market value, which are ideal shell resources. After the implementation of backdoor listing, often accompanied by a surge in stock prices. Once such shell companies declare a suspension, they begin to plan specific backdoor actions.

3. Jiu hao Group Backdoor Listing

3.1. Background Information

Zhejiang Jiu hao Office Service Group Co., Ltd. (hereinafter referred to as " Jiu hao Group ") is the first company in China to use the service mode of logistics hosting platform. The controlling shareholder Guo Congjun hopes that the enterprise will become the leading enterprise of China 's logistics hosting. The company 's uniqueness lies in the ' Internet + logistics ' business model. One of its main sources of income is to charge a certain percentage of intermediary service fees to suppliers. Nine good group achieved rapid development at the same time also look forward to the company bigger and stronger, hope that through the power of the capital market to achieve great progress. Therefore, the backdoor listing party-Anshan Heavy Mining Machinery Co., Ltd. (hereinafter referred to as Anzhong Co., Ltd.) was selected. However, due to its poor management mode and insufficient sustainable development capacity, in this context, after full discussion by all parties, it decided to carry out major asset restructuring. The backdoor listing process of Jiu hao Group is as follows Table 1.

Table 1. Jiu hao Group Backdoor Listing Process

Time	Major Accident
April 7, 2015	Anzhong shares announced that temporary suspension.
14 November 2015	Anzhong shares issued a major asset restructuring transaction plan
April 23, 2016	Anzhong announced a formal major asset restructuring plan on the Shenzhen Stock Exchange website
May 2016	Notice of filing investigation issued to Jiu hao Group and Anzhong'
September 20, 2017	China Securities Regulatory Commission Releases Jiu hao Group Administrative Penalty Decision

3.2. Financial Fraud of Jiu hao Group

After the CSRC survey results show that Jiu hao Group through a variety of means of profit fraud, adjust cash flow. Among them, the inflated service fee income was CNY 264,897,68.70, the inflated trade income in 2015 was CNY 574,786.32, and the virtual bank deposits reached CNY 300 million. Specifically, through signing false contracts with suppliers, Jiu hao Group acts as an intermediary role to help suppliers collect funds to confirm their service costs and inflate service costs by more than 20 million; the company reuses the capital cycle to let Hangzhou Rongkang Information Company purchase goods from itself. In fact, Rongkang Information has not received the goods in the purchase process, and the delivered goods are returned, but Jiu hao Group still retains the sales revenue and accounts receivable of this trade, of which the transaction amount is about 57 billion. Jiu hao Group also has more than 300 million book capital by means of direct transfer of fictitious bank deposits. In order to reduce the shortage of funds, Jiu hao Group achieved balance sheet balance by inflating operating cash inflows and outflows, and increased long-term asset subjects to avoid excessive attention. The illegal behavior of the above Jiu hao Group resulted in a huge amount of false increase and serious fraud problem.

3.3. Jiu hao Group Financial Fraud Consequences

In the process of backdoor restructuring, Jiu hao Group 's financial fraud caused serious economic consequences and bad social impact, and finally ended with the punishment of the CSRC. On September 20, the CSRC issued an administrative penalty decision. Jiu hao Group was fined 600,000 yuan and ordered to correct its own problems within a time limit. Guo Congjun, the main leader of Jiu hao Group, was given a serious warning, fined 300,000 yuan and banned from engaging in related securities activities. Vice President of Jiu hao Group, Chief Financial Officer and others were also punished according to the seriousness of their violations.

The Lianda Auditor's Office, which deals with the "lingering" asset reorganization of Jiu hao Group, was also punished with an economic penalty of more than CNY 9 million. The content involves the confiscation of business income of more than CNY 1.5 million and a fine of more than CNY 7.5 million, and the economic penalty of more than CNY 1 million for the signing and registration of the audit report by Jiang Shuxia and Li Jie, respectively.

After more than half a year 's investigation, China Securities Regulatory Commission issued a disposition notice to the shell enterprise Anzhong shares, including warning the enterprise, and six-billion-yuan punishment. Yang Yongzhu, the direct leader in the process of asset restructuring, was severely warned and punished by 300,000 yuan; zhang Baotian was fined and warned for 200,000 yuan and 30,000 yuan for other principals respectively.

4. Business Ethics and Accounting Professional Ethics behind the Backdoor Listing

4.1. Analysis of Nine Pressure Factors

Stock price pressure is the key reason for Jiu hao Group 's financial fraud. Backdoor listing means that the stock price rises, and corporate refinancing will become easier. Equity mortgage and shareholding reduction can allow enterprises to obtain more funds. In addition, the profit of Jiu hao Group is up to tens of millions, and the profit promised by enterprises to listed companies is 320 million yuan in 2019. The huge growth makes the company go into nowhere, only to continue to falsify one way. In 2015, Jiu hao Group longed to reach a backdoor listing agreement with Huanrui Century, but for various reasons it did not succeed. In order to restructure and meet the strict financial index requirements of listed companies, and to find a good shell company, Jiu hao Group has frauded the financial statements data from 2013 to 2015. In the case of knowing that the business is not good, only to backdoor listing and change the

valuation of their own company, with high value as the evaluation conclusion, the Jiu hao Group placed assets pricing 3.719 billion yuan, the net assets estimated value increase rate as high as 449.5 %. From the perspective of business ethics, the name of the listed companies of Jiu hao Group crossed the bottom line of laws and regulations to improve the value of enterprises with high valuation. This behavior not only touched the laws and regulations, but also violated the business ethics and morality, so that many investors and stakeholders who were in the dark had economic losses and credit losses.

4.2. Analysis of Nine Excuses

Jiu hao Group once hoped to achieve greater success as the first gimmick of “logistics hosting” service platform after the listing. In addition, the reason for the imperfect listing data is due to the tense restructuring time, and the subsequent problems are not expected in advance rather than intentionally. When encounter difficulties and equal access to opportunities, forcing nine good corporate fraud one of the excuse, that is, the motivation of corporate fraud reasons, so that corporate fraud and its own moral values, code of conduct consistent, regardless of whether the explanation is true and reasonable. Although this practice does not violate laws and regulations, it also violates business ethics, brings serious negative impacts to the society, and is easy to induce other enterprises to do the same behavior.

4.3. Nine Elements of Good Opportunity

Nine Good Group not only has the idea of fraud, but also the company’s management flaws in this opportunity, according to the investigation of its internal control useless. When Jiu hao Group conducts fictitious business, it can obtain official seals for false transactions without formal procedures. It is undeniable that official seals are important to enterprises. However, Jiu hao Group has not standardized the use of official seals, so its internal control has obvious problems. In addition, Jiu hao Group 's equity is too concentrated, and a larger proportion of shareholders Guo Congjun couples have absolute control of the enterprise, when making business decisions more will stand in their own interest’s point of view, prone to abuse of power for personal gain misconduct. This kind of unethical behavior will directly lead to a crisis of trust, ethical crisis and survival crisis, which will affect not only their own enterprises will also affect the stability of the entire industry market.

5. Improvement Suggestions

5.1. Establishing a Sound Legal System and Professional Norms

The comprehensive construction of business ethics and accounting professional ethics can effectively help society and enterprises to create a good environment, but it still needs the constraints of laws and regulations as the foundation. In order to adapt to the changing accounting environment and reduce the occurrence of fraud, it is also necessary to strengthen the implementation of accounting laws and regulations. Enterprises want to develop and survive must respect the law, abide by the law, the obligation to disclose real financial information to the community, relevant practitioners also need to abide by the accounting standards, be honest and trustworthy, due diligence.

5.2. Improving the Management Concept of Company Managers

In the construction of business ethics and accounting professional ethics, companies should strengthen industry self-discipline. First of all, leaders should establish business ethics consciousness and accounting professional ethics spirit in business management activities, consciously abide by laws and regulations, strengthen the construction of internal business ethics codes and strengthen internal business ethics control. Open and transparent enterprise financial information, let the public to supervise, form a good professional atmosphere.

5.3. Create a Good Business Environment, Play the Role of Professional Ethics

The government also needs to actively promote the construction of business ethics of enterprises, strengthen the construction of financial credit system of enterprises, legislate corporate credit, promote the disclosure and sharing of credit data of enterprises, and take the lead in encouraging the development of credit enterprises. In addition, through government intervention to maintain market order and environment, and increase the supervision of relevant employees, to ensure that the relevant departments earnestly fulfill their duties.

5.4. Strengthening the Professional Ethics Training of Company Staff

Continuing education is the necessary work content of accounting practitioners and the foundation of professional ethics construction of accounting personnel. Strengthening professional ethics training and overall quality education of accounting staff is conducive to improving the professional ability and work adaptability of financial staff. Establishing the credit files of accounting practitioners in order to restrict the professional behavior of accounting personnel, combining the practice of accounting professional ethics with accounting work, and promoting the real implementation of accounting professional ethics education in work.

6. Conclusions and Implications

The construction of business ethics and accounting professional ethics not only needs the strength of the whole industry, but also needs the strong support of all sectors of society. It actually puts forward higher moral requirements for enterprises and all sectors of society, so that enterprises and all sectors of society can cooperate harmoniously and purify social atmosphere and moral environment. In the process of backdoor listing, Jiu hao Group implemented false information disclosure by means of commercial fraud such as increasing sales income service fees, trade income and inflating bank deposits. This practice of only taking care of their own interests seriously violated business ethics and financial work ethics. People do not stand without faith, business without faith is not thrive, the interests of enterprises regardless of integrity in violation of business ethics, cannot guarantee the long-term healthy development of enterprises, and even disrupt the market order affect the country 's economic development.

Acknowledgments

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