

# \*Thinking on the Delisting of ST Collin due to Financial Fraud

-- Based on the Perspective of Business Ethics and Professional Ethics

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**Abstract:** The Securities and Futures Commission (SFC) announced 2022 financial fraud cases are common, but because of the professional managers of false manipulation is rare, so this paper selected Collin environmental protection equipment Co., Ltd. based on business ethics and professional ethics perspective on its delisting due to financial fraud analysis, respectively, on the company's accounting staff and professional managers to reflect on the perspective, and to address the problem of the corresponding solutions and recommendations, hoping for the current corporate moral governance imbalance in the reality of the problem of reflection, the company's accounting staff and professional managers. We also propose corresponding measures and suggestions to solve the problem, hoping to provide reflection and reference for the reality of the imbalance of corporate moral governance, and expecting practitioners to improve the quality of professional ethics and to be alert to the ethical edges.

**Keywords:** Collin Environmental Protection, Financial fraud, Business ethics, Professional managers, Professional ethics.

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## 1. Introduction

### 1.1. Research Background

In recent years, China's rapid development of the capital market, as of the end of April 2023, the country has more than 5,100 A-share listed companies, but not all companies listed after the operating conditions to the expected prosperity of the development of the unity of some companies almost with the company's vision of the direction of the company deviates from, or even nearly unable to achieve the profitability of the listed target, which creates the generation of surplus management. Due to the listing requirements are relatively strict, and the capital market is rapidly changing, surplus management excessive change appeared in the financial counterfeiting. At the same time, the report of the 20th Party Congress put forward the requirements for the construction of business environment, that is, vigorously improve the basic system of market economy, including social credit, making clear the importance of social credit to build a new development pattern and promote high-quality development. "The 14th Five-Year Plan emphasises the need to vigorously promote the establishment of a high-standard market system, to build a sound market system and institutional system, to insist on fair access, fair regulation, openness and orderliness, honesty and law-abidingness, and to form an efficient, standardised and fair-competitive unified domestic market.

Against the background of the economic downturn and the general environment of the epidemic in recent years, financial counterfeiting has occurred from time to time in the capital market. As a result, financial fraud can often be the flip side of the coin of the professional ethics of accounting practitioners as well as other managers or boards of directors in terms of ethical issues that are valuable. The Securities and Futures Commission announced in 2022 typical cases of financial fraud, there is no lack of large volume, good reputation of the listed companies in the wind, counterfeiting means of stealth enhancement, of which \*ST Collin not only

did not remove the cap and has been mandatory delisting will become a "typical case", and this case exposes management loopholes stemming from accounting practitioners, the loss of trust and professional managers of professional ethics. The management loopholes exposed in this case are mostly due to the breach of trust of accounting practitioners and the lack of professional ethics of professional managers.

### 1.2. Literature Review of Business Ethics

Business ethics originated with Adam Smith who suggested that its key idea was the "invisible hand". As a result, academics began to pay attention to business ethics, and there is a growing diversity of research perspectives on the importance of business ethics, with a consensus that it can reduce unnecessary waste in social and economic activities. From a corporate governance perspective, Yeh et al suggest that business ethics is a standard of moral judgement that must be adhered to in order for a business to survive and achieve stable growth. From a stakeholder perspective, Wen Fengbo et al argued that business ethics represents the influence of corporate managers' responsibility for the behaviour of their employees and stakeholders. From the perspective of the development of Confucian business culture and other perspectives, Li Peiting suggests that the shaping of business ethics needs to be supported by an appropriate cultural matrix. From the perspective of elements related to business ethics in China and the West, Ma Xujun et al constructed a business ethics indicator system. From the macro perspective, Shao Anhua proposes to construct the basic principles and theoretical foundation of business ethics, and combine them with social supervision and the rule of law to form a new value system of business ethics under the socialist market economic system; Lin Junyue proposes to improve China's social credit system to rapidly reconstruct business ethics. From the micro perspective, the empirical results made by Wang Yarong and others through the questionnaire samples show that employee work ethic has a positive predictive effect on their job satisfaction; employee work ethic and their work

centrality and hard work also have a positive predictive effect on their work commitment. Chenyi Ye, from the new perspective of accounting credit culture, proposes a practical path to build modern business ethics through the establishment of ethical identity mechanism, fair value mechanism and stakeholder trust mechanism by the main body of accounting to promote the construction of accounting ethical governance and integrity system. Chen Zhihong puts forward problems and solutions from four perspectives: cost-benefit, stakeholder, ethical decision-making, and social responsibility in the case of "Haitian Taste" double standard door. Jin Ruiqi takes Xintai Electric as an example and points out the role played by business ethics and the problems in the whole counterfeiting incident. Lin Hongzhen takes Company Q's L plan as an example and analyses the hegemonic contract from the aspects of business ethics and law. Han Panpan takes Ruixing Coffee's financial fraud as an example, and analyses and puts forward governance countermeasures from the perspective of Upper Chestnut Ethics and Moral Hazard Governance according to the Triangle Theory.

Accordingly, we understand the definition of the connotation of business ethics and China's research on business ethics, which is based on the business ethics perspective of the company's financial counterfeiting cases to analyse and reflect on the more but it involves the professional manager's business ethics has not been, and at the same time also involves a major violation of the law, so this paper, through the Collin Environmental Protection Equipment Corporation ("Collin Environmental Protection"), will analyse and propose governance measures. "Collin environmental protection" annual report and other disclosure information such as the Securities and Futures Bureau to study and analyse, Collin environmental protection using the error of using the total amount method to confirm the new media advertising business revenue to inflate the 2021 annual operating income and costs. The analysis of this financial fraud, from the perspective of business ethics and professional morality, the manipulation of professional managers and the lack of professional ethics of accounting practitioners, put forward feasible countermeasures to the current imbalance in corporate moral governance of the reality of the problem to provide thinking and reference, and hope that practitioners to improve the quality of professional ethics and moral edge to be vigilant.

## **2. Collin environmental protection financial fraud basic introduction**

### **2.1. Company Profile**

Collin Environmental Protection Equipment Co., Ltd. was founded in 1999 and listed on the Shenzhen Stock Exchange on 9 November 2010. 2020, the end of Hangzhou Mingxin Investment Management Co., Ltd. (hereinafter referred to as Mingxin Investment) bought from the secondary market to become the company's second-largest shareholder, with a shareholding of 18.50%. 2021, January, Chongqing Dongcheng Ruiye Investment Co. left the company, and the new chairman Du Jiansheng led a new batch of senior management team into the listed company. Zhu Jinfu was elected as Chairman of the Supervisory Board and Ms Zhang Manxi was appointed as General Manager of the Company. Among them, Chairman Du Jiansheng and CFO Li Genwang are from Sinosteel, in addition, the newly appointed Chairman of the Supervisory Board Zhu Jinfu is an associate professor

of the Finance Department of the School of Economics of the Beijing Technology and Business University, vice president of the Digital Economy Research Institute, and the founder and chairman of the board of Beijing Xiaotu Science and Technology Co, Ltd, which also does not seem to have any relationship with the business of Collin. However, this new batch of directors and supervisors members and Minghuan Investment and the real controller Liao Xingun in the connection relationship.

After more than 30 years of development, Collin has reached the pinnacle of independent innovation, always at the forefront of industrial hoover technology, and showing the way for China's bag technology. The BaoTai dust collector produced by the company has won the title of China Famous Brand Product, and the BaoTai brand has become one of the most influential brands in the domestic dust collector industry; the Collin brand has won the title of China Famous Brand Product, and is quite popular at home and abroad.

### **2.2. Introduction of the counterfeiting incident**

#### **2.2.1. Change of "Collin Environmental Protection" to "\*ST Collin"**

Co; lin Environmental Protection announced on 25 April 2019 that it received a letter of concern issued by the Shenzhen Stock Exchange. The Shenzhen Stock Exchange requires the company to disclose: whether the current production and operation situation is seriously affected by the liquidity crisis and the PV policy, and whether it touches the relevant provisions of the Exchange that require the implementation of other risk warnings on the company's stock trading. Collin environmental protection on the evening of 24 April 2019 disclosed the annual report shows that the company last year in a number of projects in succession "stepped on mine", resulting in a large amount of asset impairment provision.

Due to the Tianjian Accounting Firm (special general partnership) issued an audit report on the 2018 annual financial report of Collin Environmental Protection cannot express an opinion, the company's stock trading will be "delisting risk warning" special treatment from 26 April 2019, after the resumption of trading, the abbreviation of the stock from the "After the resumption of trading, the stock abbreviation will be changed from "Collin Environmental Protection" to "\*ST Collin".

#### **2.2.2. \*ST Collin Formally Delisted**

Since 2021, \*ST Collin had been suspected of a number of information disclosure violations, and on 29 December 2022, it received the "Prior Notification Letter of Administrative Penalties and Market Entry Ban" and the "Decision Letter of Administrative Supervisory Measures" issued by the Jiangsu Regulatory Bureau of CSRC, and the facts listed had a significant impact on the Company's consolidated statement of accounts for the year 2021.

On 2 February 2023, the SZSE issued the "Decision on Not Revoking the Delisting Risk Warning of the Stocks of Collin Environmental Protection Equipment Company Limited (SZSE [2023] No. 61)", in accordance with the facts identified in the Decision, the Company's annual report for the year 2021 contained business income that should have been deducted but had not been deducted, and after deducting the deductible business income that had no relation to its main business and the business income that did not have commercial substance income, the relevant operating income

of the Company for the year 2021 was less than RMB 100 million and the audited net profit was negative. The Jiangsu Securities Regulatory Bureau determined that it was proposed to give a warning and impose a fine of 3 million yuan on \*ST Collin, and the parties, Du Jiansheng, Li Genwang and Zhang Manxi, were fined a total of 3.5 million yuan. In addition, the Jiangsu Securities Regulatory Bureau determined that Du Jiansheng and Li Genwang will be subject to a 3-year securities market ban respectively.

From the market opening on 3 February 2023 \*ST Collin's shares were suspended from trading.

On 6 February 2023, the company received the Advance Notice issued by the Shenzhen Stock Exchange, and delisting was almost a foregone conclusion.

On 12 February 2023, \*ST Collin announced that, for personal reasons, Du Jiansheng resigned as director and chairman of the board of directors of the company, and Li Genwang resigned as financial controller and secretary of the board of directors of the company.

On the evening of 19 February 2023 the company disclosed the "Letter of Concern" issued by the Shenzhen Stock Exchange. It was mentioned that SZSE received a written document from Yongtuo Institute, the annual auditor of the Company for the year 2021, which revised the audit opinion on the Company's financial statements for the year 2021 from "Standard Unqualified Opinion" to "Unexpressed Opinion". In particular, the company incorrectly adopted the gross method to recognise the revenue of information technology service business, resulting in an inflated operating revenue of RMB 67,193,500 and an inflated operating cost of RMB 67,193,500 in 2021, and recognised an operating revenue of RMB 60,820,800 in total by providing technical research and development services to three companies, including Lemon Unlimited Network Technology (Guangdong) Company Limited, which did not have a reasonable commercial substance. And Yongtuo explained to modify the audit opinion mainly because "cannot get the appropriate cooperation of the management of the company on the relevant impact". In the letter of concern, the Shenzhen Stock Exchange requires \*ST Collin and all directors and supervisors to verify the situation as soon as possible, and verify the situation, the impact of the relevant matters on the company to timely fulfil the information disclosure obligations; such as involves the company's previous disclosure of the annual report for the year 2021 and the relevant financial accounting report audit report for the correction of the company should comply with the rules and regulations to fulfil the relevant information disclosure obligations.

On 17 March 2023 \*ST Collin received the "Decision on the Termination of Listing of Collin Environmental Protection Equipment Company Limited" (SZSE [2023] No. 201) from the Shenzhen Stock Exchange (hereinafter referred to as "SZSE"), which decided to terminate the listing of the Company's shares.

On 18 April 2023, \*ST Collin officially terminated its listing.

However, it is worth mentioning that on 9 February 2023, \*ST Collin has just received the "market ban decision letter" issued by the SFC. According to it, Du Jiansheng dominated and made decisions to recognise the relevant business income of \*ST Collin by the gross amount method and disclose the

matter in the 2021 annual report, and Li Genwang participated in the decision-making and execution of the foregoing, and the two of them committed serious violations, and each of them was subject to a 3-year ban on entering the securities market.

### **3. Reflection based on the Perspective of Business Ethics and Professional Ethics**

#### **3.1. Company Accounting Staff**

##### **3.1.1. Lack of "Independence" of Internal Control Personnel**

Although there is no information disclosure of the existence of the internal control department staff affiliation, but the internal control staff by the \*ST Collin in the top management consisting of professional managers of external coercion, or their own low professionalism, so that when the implementation of the wrong accounting method to confirm the advertising inputs did not provide timely feedback, from a certain point of view, is also a kind of irresponsibility to the company's stakeholders. Of course, this does not exclude that professional managers may strongly advocate or even overly advocate loyalty to the company, and at the same time, they hold the power of speech and the "life and death" of the internal control personnel, so that the internal control personnel may therefore out of their own interests, may comply with the "call" of the professional executives. call" of these professional executives. In this way, the moral level of these professional executives can already determine the ethical level of the whole company, and the internal control personnel also lacks its "independence", and its supervision is weak or even non-existent.

##### **3.1.2. The Ethical Quality of Financial Personnel Needs to be Improved.**

First of all, as the financial director of Li Genwang decision-making and implementation of the use of the wrong accounting methods to measure, in their own professional field not only did not comply with their own professional ethics, and even break the bottom line of the law, on the enterprise and even the community has a negative impact. Secondly, the moral quality of the accounting staff under his control also needs to be improved. When the leader made mistakes or violated the Accounting Standards for Business Enterprises (ASBE) and other systems, he still carried out his erroneous "orders", chose to follow the request to assist in the forgery, and participated in the crime while violating the basic ethics of the accounting profession. Finally, senior financial personnel are even more lack of basic professionalism, professional ethics and social responsibility.

##### **3.1.3. China's Legal System Still Needs to be Improved**

On the one hand, the laws and regulations on external supervision still need to be improved; on the other hand, the laws and regulations on accounting standards should be more clear and perfect. Because today's financial counterfeiting is often more covert means of financial counterfeiting, and even in the grey zone continue to "jump", on the one hand, to improve the construction of relevant laws and regulations; on the other hand, due to the different business conditions of various industries and standard-setting personal self-interested behaviour, resulting in new accounting standards are still there! The new accounting standards still have some room for manipulation by major enterprises.

## **3.2. Professional Managers**

### **3.2.1. Insufficient Professionalism**

In January 2021, Mingxin Investment became the new controlling shareholder of the listed company, and after the actual controller changed from Li Dong to Liao Xingsheng, Du Jiancheng from Sinosteel was newly appointed as the chairman of the board of directors, Zhu Jinfu was elected as the chairman of the supervisory board, and Ms. Zhang Manxi was appointed as the general manager of the company, and Li Hewang, who was also from Sinosteel, was appointed as the chief financial officer. One of them does not hold any shares in the company and belongs to the category of professional managers. But they also do not seem to have any relationship with Collin's business, but only with Minghuan Investment and the real controller Liao Xingxun in the relationship. This makes people doubt whether their professionalism can match.

### **3.2.2. Lack of Professional Ethics**

On 9 February 2023, when \*ST Collin had just received the Market Ban Decision Letter issued by the SFC. According to its display, Du Jiansheng dominated, decision-making to the total method of recognition of \*ST Collin's relevant business income, and in the 2021 annual report disclosure matters, Li Genwang involved in the decision-making and implementation of the foregoing matters. In the process of "shelling" frantically testing the edge of morality, just like the phrase "always walk by the river where there are not wet shoes", and eventually broke through the boundaries of morality.

### **3.2.3. Failure to Keep the Legal Bottom Line**

When the chairman of the board DuJianCheng appeared wrong illegal decision-making, as a professional counterpart of the financial director LiGenWang but also listen to and implement the total amount of law to confirm the \* ST Collin's related business income of the matter, the plot seriously violated the bottom line of the law, ultimately, the two were taken 3 years of the securities market barring measures.

## **4. Countermeasures and Recommendations**

### **4.1. Increase Internal and External Supervision**

Internally, the authority of the internal audit department has been improved by placing it under the audit committee. In this way, the internal audit department will not only supervise the accounting information of each basic department of the company, but also supervise the behaviours of the managerial level, which can fundamentally play the real role of internal audit; take the increase of the enterprise value as its function orientation; and gradually change from the traditional supervisory function to the corroboration and consulting function, so as to truly play the role of internal audit.

In addition, it is suggested that the regulatory authorities should be more stringent in the supervision of information disclosure of listed companies, especially with the steady progress of the registration system reform, the importance of information disclosure is more and more prominent, and the strength of the fight against information disclosure violations is also increasing. A number of directors, supervisors and senior management of listed companies have been subject to administrative penalties for information disclosure offences,

and some chairmen or de facto controllers of listed companies have been subject to administrative penalties for involvement in insider trading and market manipulation, and some of them have been banned from entering the market. In addition to keeping an eye on the "key few", intermediaries and their practitioners are crucial to reducing the incidence of disclosure violations. However, some intermediaries "gatekeeper" duties are not in place, there are still some shortcomings.

The SFC said in its briefing that in 2022, the number of cases of intermediaries violating the law remained high, and the problem of dereliction of duty and absence of some subjects was prominent; some assisted listed companies in forging agreements to inflate revenues, and became "accomplices" in counterfeiting.

## **4.2. Complete the Relevant Accounting Legal System**

China should continue to promote the "Enterprise Accounting Standards", "Small Business Accounting System" and other laws and regulations of the revision of the work, so that it is consistent with the actual situation of the market economy, at the source to regulate the regulatory system of the normal order.

At the appropriate time, the introduction of civil compensation system to form a deterrent to the behaviour of undesirable economic subjects.

The improvement of the legal regulatory system is the cornerstone and guarantee of the ethical behaviour of accountants.

## **4.3. Enhance the Sense of Responsibility**

Legal compliance is the basis for the continuation of business activities, and we should carry out business operations in strict accordance with national laws and regulations as well as local regulations, and improve the company's internal legal mechanism. The sustainable development of the enterprise ultimately depends on the support and trust of users and stakeholders, the enterprise only puts the feelings of users and stakeholders in the first place, and takes the initiative to bear the social responsibility of the enterprise in order to achieve sustainable development.

## **4.4. Developing Manager Market**

Manager market refers to a market established for the optimal allocation of professional manager resources. In this market, a manager's personal reputation affects his or her career, so managers will pay attention to their long-term personal reputation and thus get position promotion. In order to promote the establishment and improvement of the manager market, this paper argues that a reasonable manager exit mechanism should be established to motivate managers to have a strong incentive to manage the enterprise to change the original appointment system to the appointment system, introduce social competition, and eliminate the fittest and the best; and to establish a reasonable stock option system for managers to guide the efforts towards the direction of long-term incentives. The establishment of a good market for professional managers will lead to managerial mobility and rotation, while there is a reputation record in the managerial market. If a manager puts pressure on an accountant, the manager's reputation will be affected and it will be difficult for him or her to gain a foothold in the industry. Therefore,

the development and improvement of the manager market will restrain the behaviour of managers and thus reduce the pressure on accountants.

#### 4.5. Enhancement of Ethics

It is necessary to make the accounting ethics course as the lifelong education of accounting practitioners. In practice, when accountants are subjected to inappropriate pressure from superiors, it will make the moral intention smaller, i.e. it will have a negative effect on the moral intention of accountants. "The key point here is to improve the moral quality of accountants and enhance their immunity against unethical behaviour. Develop the habit of learning and enterprising, know the responsibility of violating rules and regulations, know the law and improve the awareness of self-protection.

#### 4.6. Build a Good Enterprise Culture

Employees are the important inner resources of the enterprise. Unity, love and stability of the workforce is a strong guarantee of normal production and operation of the enterprise. Enhance the staff's sense of belonging and organizational cohesion, and should be good at motivating employees, stimulating personal sense of honour, collective sense of honour, professional sense of honour, understanding the needs of employees, caring for employees, and creating a smooth communication, optimistic environment. Many companies carry out the employee shareholding system will be the company's shares sold to employees at an internal price can enhance the sense of belonging to the staff, so that the interests of employees and shareholders to maintain the interests of the same, to attract a large number of talented people to join the enterprise, the formation of a virtuous cycle of the enterprise. As a unit in the personnel, will also have a strong sense of belonging needs. When they feel the sense of belonging to the unit, they will work hard and adhere to the professional ethics, which also confirms the conclusion of Wang Yarong [7].

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