

An analysis of the financial fraud case of Pangda Group

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Abstract. In December 2023, the Hebei Securities Regulatory Bureau issued an administrative penalty decision to Pangda Group, confirming that the company had committed illegal acts such as false records in its annual reports for four consecutive years from 2019 to 2022, material omissions in its 2022 semi-annual report, and failure to disclose major litigation and arbitration matters in accordance with regulations, with a cumulative impact of 2.264 billion yuan on the total profit. As the first domestic automobile dealer group to list on the A-share market through an IPO, Pangda Group owned 1,429 4S stores at its peak, with a market value of up to 8.5 billion yuan. Its financial fraud acts included improper recognition of gains from debt restructuring, inflated gains from equity transfer, and failure to accrue provision for liabilities in accordance with regulations. The Hebei Securities Regulatory Bureau imposed a fine of 6.7 million yuan on Pangda Group and a total fine of 15.5 million yuan on 8 responsible persons, among whom the former chairman Huang Hong was fined 5 million yuan and subject to a lifelong securities market ban. This case exposed deep-seated problems such as defects in the company's internal governance and inadequate external supervision, which not only caused huge economic losses to investors but also seriously damaged the order of the capital market and the image of the automobile dealer industry. By in-depth analyzing the illegal facts, causes and impacts of Pangda Group's financial fraud case, this paper puts forward preventive countermeasures such as improving corporate internal governance, strengthening external supervision and enhancing investor protection, aiming to provide a reference for the prevention and governance of similar cases.

Keywords: financial fraud, information disclosure, automobile dealer, internal governance, investor protection

1. Introduction

In December 2023, the Hebei Securities Regulatory Bureau served an administrative penalty decision on Pangda Automobile Trade Group Co., Ltd. (hereinafter referred to as "Pangda Group" or the "Company") and the relevant responsible persons, imposing a fine of 6.7 million yuan on Pangda Group and a total fine of 15.5 million yuan on 8 responsible persons, with a total fine of up to 22.2 million yuan. At the same time, the clues of Pangda Group and the relevant responsible persons suspected of criminal offenses were transferred to the public security organs for criminal liability. This penalty decision marks the conclusion of the investigation into Pangda Group's financial fraud case that lasted for more than half a year, and also proclaims the official end of this once leading enterprise in China's automobile dealer industry.

Founded in 2003, Pangda Group was listed on the Shanghai Stock Exchange in April 2011, becoming the first domestic automobile trade group to land on the A-share market through an IPO. After the listing, Pangda

Group launched a large-scale expansion, with the number of outlets reaching 1,429 at its peak and its market value surging to 8.5 billion yuan. Its business scope once covered nearly 100 mainstream domestic and foreign automobile brands including FAW-Volkswagen, BAIC, BYD, Audi and Mercedes-Benz, and it was known as the "King of 4S Stores". However, blind expansion laid hidden dangers for Pangda Group, and its asset-heavy operation model put it under great operational pressure and cash flow burden. In September 2019, Pangda Group was ruled by the court to enter the bankruptcy reorganization procedure, and the reorganization plan was approved in December of the same year. A consortium composed of three Shenzhen enterprises including Shenshang Holding became the reorganization investor.

The research on Pangda Group's financial fraud case has important significance in many aspects. From a theoretical perspective, an in-depth analysis of the means, causes and consequences of financial fraud in this typical case of Pangda Group can further enrich and improve the relevant theoretical research on financial fraud, especially the research on the fraud characteristics of the special industry of automobile dealers. As an intermediate link connecting automobile manufacturers and consumers, the automobile dealer industry has the characteristics of capital intensiveness, fast inventory turnover and low gross profit margin, and its financial fraud acts show different characteristics from those of general manufacturing enterprises, which is worthy of in-depth research. From a practical perspective, this research can provide a reference for regulatory authorities to further improve regulatory policies and law enforcement methods, especially providing a useful reference for the continuous supervision of listed companies after bankruptcy reorganization; it can also provide a reference for investors to improve their ability to identify financial fraud acts, make more rational investment decisions and safeguard their legitimate rights and interests. At the same time, this research also has a certain warning significance for other listed companies, helping them strengthen internal governance and prevent the risk of financial fraud. In addition, this research has important practical significance for improving the legal construction of the capital market, protecting the legitimate rights and interests of investors and promoting the high-quality development of the capital market.

2. Literature review

Pangda Group's financial fraud case has attracted extensive attention from the academic community once it was exposed, and many scholars have conducted in-depth analysis of this typical case from different perspectives. In the research on the motivation of financial fraud, the GONE theory was put forward by American scholars G. Jack Bologna and Robert J. Lindquist in 1993, which holds that the occurrence of financial fraud is usually related to four factors: Greed, Opportunity, Need and Exposure. When these four factors appear at the same time and interact with each other, financial fraud is more likely to occur. Yang Shujie [1] conducted an in-depth study on the relationship between financial fraud and the internal and external governance structure of companies, and concluded that for the financial fraud acts of listed companies, prevention can be achieved by strengthening the supervision of the general meeting of shareholders, improving the governance mechanism of the board of directors and perfecting the information disclosure system.

In the research on the means of financial fraud, scholars at home and abroad have conducted a lot of research. The COSO Committee found that inflating revenue and overvaluing assets, understating costs and expenses, and disclosing false accounting information in financial statements are the most commonly used financial fraud methods by listed companies. Wang Ling [2] pointed out that common fraud methods include incorrect determination of total income or expenses, virtual operation by using related transactions, and abuse of accounting policies. Peng Jinjun [3] found that false disclosure of liabilities and income, obtaining

government subsidies or policy support through false channels, and adjusting profit margins by reallocating assets are also important means. Chen Sizhe [4] proposed fraud methods such as fabricating daily business operations by using related parties, confusing settlement income and debts, and mutual guarantee for financing.

In the research on the automobile dealer industry, scholars have paid attention to the operational characteristics and financial risks of the industry. According to the data of the China Automobile Dealers Association, as high as 60% of 4S stores were in a loss state in 2022, and the continuous losses directly led many automobile dealers to be forced to withdraw from the market and even collapse. The sales volume of automobile dealers mainly comes from the payment for new car sales, but the average gross profit margin of actual new car sales is only about 1.5%. Although the sales volume of after-sales service accounts for only 10% of the total, its gross profit margin can reach about 50% to 60%, and the profit proportion can reach 50%. This special profit model makes automobile dealers more prone to financial difficulties when facing market fluctuations.

In the research on the governance of financial fraud, Huang Shizhong [5] put forward measures to prevent financial fraud, the core of which is to improve the entire supervision mechanism, including the adjustment of accounting standards, the strengthening of external audit, and the improvement of the quality of internal personnel. Li Haijun [6] suggested curbing financial fraud by strengthening the management of internal cash, inventory and accounts receivable. Luo Danglun et al. [7] suggested strengthening the governance mechanism of financial fraud from the perspective of increasing criminal detention and fines. The *Opinions on Further Improving the Comprehensive Prevention and Punishment of Financial Fraud in the Capital Market* [8] forwarded by the General Office of the State Council in 2024 clearly proposed to build a comprehensive prevention and punishment system, strengthen penetrating supervision, compact the gatekeeper responsibilities of intermediaries, and increase the all-round and three-dimensional accountability. The *Opinions* emphasized resolutely cracking down on and curbing financial fraud in key areas, optimizing the securities regulatory law enforcement system and mechanism, increasing all-round and three-dimensional accountability, strengthening inter-ministerial coordination and central-local coordination, and preventing and controlling financial fraud in a regular and long-term manner.

In the research on the relationship between bankruptcy reorganization and financial fraud, scholars have paid attention to the governance problems of listed companies after reorganization. Studies have found that some reorganization investors may whitewash performance through financial fraud for short-term interests to evade performance compensation obligations. Such acts not only damage the interests of listed companies and investors, but also undermine the credibility of the bankruptcy reorganization system. Therefore, strengthening the continuous supervision of listed companies after reorganization and establishing a performance commitment performance guarantee mechanism have become an important issue to prevent such financial fraud.

3. Overview of Pangda Group's financial fraud case

3.1. Company profile of Pangda Group

Pangda Automobile Trade Group Co., Ltd., formerly known as Tangshan Jidong Electromechanical Equipment Co., Ltd., was founded in 2003, and is a national automobile dealer group mainly engaged in automobile sales and after-sales service. In December 2007, the company was reorganized into a joint-stock company as a whole. On April 28, 2011, Pangda Group was successfully listed on the Shanghai Stock Exchange with the

stock code 601258, becoming the first domestic automobile trade group to land on the A-share market through an IPO.

After the listing, Pangda Group embarked on a road of rapid expansion. The company rapidly expanded its scale by purchasing land to build stores on its own, with the number of its 4S stores reaching 1,429 at its peak and its market value once surging to 8.5 billion yuan. Its business scope covers nearly 100 mainstream domestic and foreign automobile brands including FAW-Volkswagen, BAIC, BYD, Audi and Mercedes-Benz. In terms of regional layout, Pangda Group's distribution network spreads over many provinces and cities across the country, forming a relatively complete sales and service system. The company's main businesses include passenger car sales, commercial vehicle sales, after-sales service, automobile finance, used car transactions, etc., and it is a comprehensive automobile service group.

However, this asset-heavy operation model has laid huge financial hidden dangers for Pangda Group. According to the company's annual financial reports, the asset-liability ratio of Pangda Group exceeded 80% from 2011 to 2016, far higher than the industry average. The high asset-liability ratio made the company's ability to cope with risks drop sharply, and various irregular problems continued to emerge during this period. Since 2017, Pangda Group has begun to fall into operational difficulties and suffered a huge loss in 2018. In May 2019, due to its inability to repay the overdue debt of 17 million yuan to the creditor Jidongfeng Company, Pangda Group was applied for bankruptcy reorganization. On September 5, 2019, the Tangshan Intermediate People's Court of Hebei Province ruled to accept the reorganization application for Pangda Group.

In December 2019, the reorganization plan was approved. A consortium composed of Shenzhen Shenshang Holding Group Co., Ltd., Shenzhen National Capacity Technology Group Co., Ltd. and Shenzhen Yuanwei Asset Management Co., Ltd. became the reorganization investor. The original controlling shareholder Pang Qinghua and its associated natural persons gratuitously transferred 210,624,170 shares held by them. The reorganization investor will provide 700 million yuan for paying reorganization expenses, repaying debts and supplementing the company's working capital, and introduce China Minsheng Bank to provide Pangda Group with a common benefit debt financing of no more than 1 billion yuan. The reorganization investor promised that the net profit attributable to the owners of the parent company of Pangda Group in 2020, 2021 and 2022 will be no less than 700 million yuan, 1.1 billion yuan and 1.7 billion yuan respectively, or a total of 3.5 billion yuan in three years. If the above standards are not met, the reorganization investor shall make up in cash within three months after the announcement of the audit report for the 2022 fiscal year. After the completion of the reorganization, the actual controller of Pangda Group was changed to Huang Jihong, President of Shenshang Group. However, Pangda Group after the reorganization failed to reverse the operational difficulties, with a total net profit of only 41 million yuan in the three years from 2020 to 2022, far lower than the promised standard of 3.5 billion yuan, and the reorganization investor has not fulfilled the performance compensation obligation so far.

3.2. Illegal and irregular acts and their determination

According to the investigation results of the Hebei Securities Regulatory Bureau, Pangda Group had many serious information disclosure illegal and irregular acts from 2019 to 2022, mainly including the following three aspects:

3.2.1. False records in annual reports for four consecutive years

From 2019 to 2022, Pangda Group adjusted profits through improper recognition of investment income and accrual of provision for liabilities in the process of debt restructuring and equity transfer, resulting in false

records in its annual reports for four consecutive years, with a cumulative impact of 2.264 billion yuan on the total profit. The specific circumstances are as follows:

3.2.1.1. *Improper handling of debts to Cinda FAW Commercial Factoring Co., Ltd.*

Before the reorganization of Pangda Group, the enterprises actually controlled by it had a debt of 1.016 billion yuan to Cinda FAW due to factoring financing and other businesses. At the end of 2019, when the above debts did not meet the conditions for debt-to-equity swap, Pangda Group conducted debt-to-equity swap on them, confirming a total investment income of 775 million yuan, and did not recognize the interest expenses of the above debts from 2019 to 2022. This act caused Pangda Group to overstate the total profit by 801 million yuan, 67 million yuan, 43 million yuan and 27 million yuan in 2019, 2020, 2021 and 2022 respectively.

3.2.1.2. *Improper handling of debts to four financial institutions*

Pangda Group provided guarantees for the debts of four companies including Shenyang Hetai to financial institutions such as Shanghai Pudong Development Bank, Yingkou Bank and Bank of China. At the end of 2019, when the above debts did not meet the conditions for debt-to-equity swap, Pangda Group conducted debt-to-equity swap on them and confirmed investment income. This act caused Pangda Group to overstate the total profit by 54 million yuan, 10 million yuan and 12 million yuan in 2019, 2020 and 2021 respectively, and understate the total profit by 5 million yuan in 2022.

3.2.1.3. *Improper handling of debts to Langfang Jingyu Real Estate Development Co., Ltd.*

In September 2019, the court ruled in the first instance that Jilong Company, a subsidiary of Pangda Group, should pay 229 million yuan to Langfang Jingyu. At the end of 2019, when the court had made a first-instance judgment and the above debts did not meet the conditions for debt-to-equity swap, Pangda Group conducted debt-to-equity swap on the 235 million yuan debt and confirmed an investment income of 179 million yuan. This act caused Pangda Group to overstate the total profit by 179 million yuan in 2019 and understate the total profit by 115 million yuan in 2022.

3.2.1.4. *Inflated gains from equity transfer*

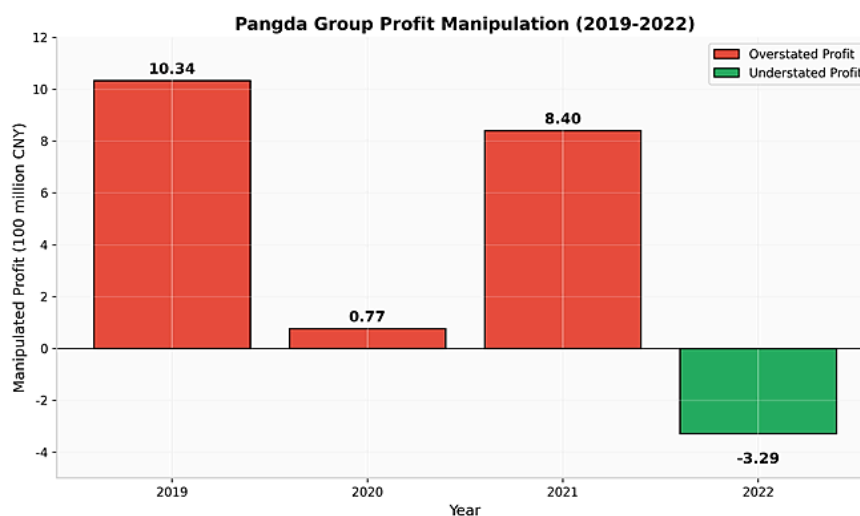


Figure 1. Profit manipulation of Pangda Group from 2019 to 2022

In June 2021, Pangda Group and its subsidiaries signed an equity transfer agreement with Changchun Ranran to transfer 100% equity of Zigong Automobile. Upon investigation, the 186 million yuan payment was actually funded by the related parties of the reorganization investor and transferred to Pangda Group through a

third-party account, and the transferee did not exercise effective management over the subject matter, which was still actually controlled by Pangda Group. Based on the above matters, Pangda Group confirmed an investment income of 707 million yuan in 2021, resulting in an overstatement of the total profit by 712 million yuan in 2021 and an understatement of the total profit by 241 million yuan in 2022. Figure 1 shows the profit manipulation of Pangda Group from 2019 to 2022.

3.2.2. Material omissions in the 2022 semi-annual report

In the semi-annual report disclosed by Pangda Group in August 2022, a major litigation involving the company with a case amount of 1.573 billion yuan was not disclosed. This major litigation has an important impact on investors' judgment of the company's operational status and financial risks, and the company's failure to disclose it in a timely manner in accordance with regulations constitutes a material omission in information disclosure.

3.2.3. Failure to disclose major litigation and arbitration in accordance with regulations

Pangda Group failed to timely disclose three major litigations and arbitrations involving the company in 2022, with a total case amount of 2.866 billion yuan. In accordance with the relevant provisions of the *Securities Law and the Measures for the Administration of Information Disclosure by Listed Companies*, listed companies shall timely disclose major litigation and arbitration matters that occur. The above acts of Pangda Group have seriously violated the timeliness principle of information disclosure.

3.3. Case investigation and penalty results

On May 22, 2023, the Hebei Securities Regulatory Bureau filed a case for investigation into Pangda Group's suspected information disclosure illegal and irregular acts. After investigation, Pangda Group had the above three serious illegal acts. In December 2023, the Hebei Securities Regulatory Bureau made an administrative penalty decision on Pangda Group and the relevant responsible persons. Figure 2 shows the penalty results of Pangda Group and the disciplinary measures for the responsible persons.

In view of the illegal acts of Pangda Group, the Hebei Securities Regulatory Bureau imposed a severe punishment in accordance with the law and severely punished the principal culprit. First, it imposed a heavier punishment on Pangda Group, ordering it to make corrections, giving it a warning and imposing a fine of 6.7 million yuan. Second, it imposed a top-tier punishment on the main responsible persons: the former chairman Huang Hong of the company was given a warning, a fine of 5 million yuan and a lifelong securities market ban; the former chairman Ma of the company was given a warning, a fine of 4 million yuan and a 10-year securities market ban. Third, it held other relevant responsible persons strictly accountable: 6 responsible persons including the company's general manager, chief financial officer, secretary of the board of directors and members of the audit committee were given a warning and fined between 500,000 yuan and 2 million yuan respectively. The total amount of fines reached 22.2 million yuan.

In accordance with the second paragraph of Article 197 of the Securities Law, if the reports disclosed by a listed company contain false records, the main responsible persons shall be fined not less than 500,000 yuan but not more than 5 million yuan. The *Provisions on Market Access Bans in the Securities Market* clearly stipulate that the term of market access ban on parties is generally divided into three grades: 3 to 5 years, 6 to 10 years and lifelong. Both in terms of the fine amount and the term of market access ban, the regulatory authorities imposed a top-tier punishment on the main responsible person Huang Hong within the limits prescribed by law, and a punishment close to the upper limit on the main responsible person Ma, which fully reflects the determination of the regulatory authorities to severely crack down on financial fraud in accordance with the law.

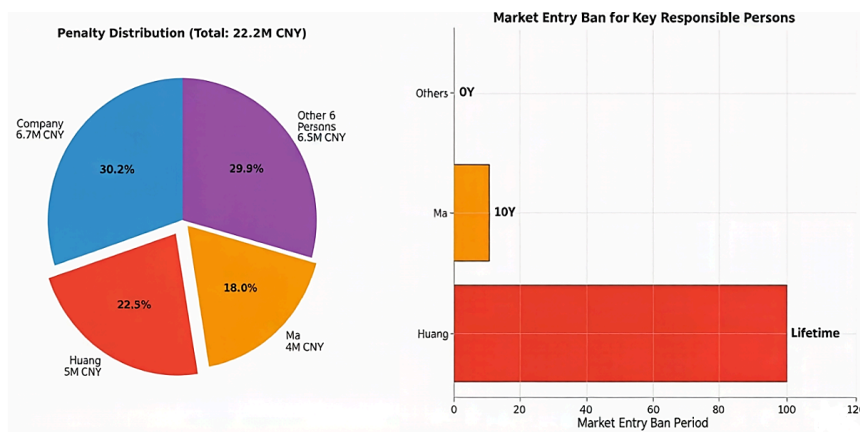


Figure 2. Punishment results and distribution of responsible personnel of Pangda Group

In addition, the Hebei Securities Regulatory Bureau transferred the clues of Pangda Group and the relevant responsible persons suspected of criminal offenses to the public security organs for criminal liability. In accordance with the relevant legal provisions, if a listed company discloses a false financial report and the overstated or understated profit accounts for more than 30% of the total profit disclosed in the current period, a case shall be filed for prosecution in accordance with the law. The proportion of the overstated profit of Pangda Group in 2019 to 2021 in the total profit disclosed in the current period all exceeded 30%, which has met the criminal prosecution standard. Investors may claim compensation for losses from the company and the relevant responsible persons in accordance with the law, and the Hebei Securities Regulatory Bureau actively supports investors to file corresponding civil compensation lawsuits with the court. According to statistics, there were still 253,500 shareholders of Pangda Group before its delisting, and all these investors may become plaintiffs in civil compensation lawsuits.

Regarding the failure of the reorganization investor to fulfill the performance compensation commitment, the Hebei Securities Regulatory Bureau has taken administrative supervision measures of ordering corrections against the three reorganization investors, requiring the reorganization investor to fulfill the commitment as soon as possible, and ordering the company to recover the performance compensation from the reorganization investor through judicial procedures. According to the annual report data disclosed by Pangda Group, the net profit attributable to the owners of the parent company achieved by the company in 2020, 2021 and 2022 was 580 million yuan, 902 million yuan and -1.441 billion yuan respectively, with a total of 41 million yuan, far lower than the promised standard of 3.5 billion yuan. In accordance with the commitment, the reorganization investor should compensate Pangda Group with 3.459 billion yuan in cash before July 28, 2023, but as of 2025, the reorganization investor still has not fulfilled this obligation. Pangda Group has filed a lawsuit with the court, requiring the reorganization investor to pay the performance compensation.

4. Analysis of the causes of Pangda Group's financial fraud case

4.1. Defects in internal governance

4.1.1. Concentrated equity structure and control power

The equity structure of Pangda Group is highly concentrated. As of September 30, 2019, Pang Qinghua, the company's controlling shareholder and actual controller, held 1,362,900,000 shares of Pangda Group, accounting for 20.84% of the total share capital; the controlling shareholder and its associated natural persons

held a total of about 2,106,241,700 shares of Pangda Group, accounting for as high as 32.21% of the total share capital. This highly concentrated equity structure makes the controlling shareholder have absolute control over the company's operational decisions, and other shareholders are difficult to form an effective check and balance.

After the completion of the reorganization, although the equity structure has changed, the new actual controller still maintains absolute control over the company through the form of a consortium. The three reorganization investors including Shenshang Holding, as concerted actors, jointly control Pangda Group, and the actual controllers of the three companies are all Huang Jihong. This kind of "dominant shareholder" equity structure provides convenient conditions for financial fraud acts. When the actual controller has absolute speaking rights, the company's decision-making process tends to favor the will of the actual controller, ignoring the rights and interests of other shareholders and the long-term development of the company as a whole.

4.1.2. Dereliction of duty by the board of directors and the board of supervisors

The board of directors and the board of supervisors of Pangda Group failed to give full play to their due supervision functions. From the perspective of the composition of the board of directors, independent directors failed to effectively perform their supervision duties and lacked independent judgment on the company's major financial decisions. In major matters such as debt restructuring and equity transfer, the board of directors failed to identify the financial and legal risks involved and failed to prevent the occurrence of improper accounting treatment acts. The board of supervisors also failed to effectively play its supervisory role and lacked the necessary review of the authenticity and accuracy of the company's financial information. When signing the confirmation opinions, the members of the audit committee failed to effectively perform their duties as members of the audit committee and failed to discover or report the false records in the company's annual reports.

4.1.3. Weak internal control system

The internal control system of Pangda Group has serious defects. First of all, in the financial reporting process, there is a lack of an effective internal review mechanism, and the compliance review of major accounting treatments is insufficient. When conducting complex transactions such as debt restructuring and equity transfer, the company failed to conduct accounting treatment in strict accordance with the requirements of accounting standards, and did not go through sufficient internal demonstration and approval procedures. Secondly, in the information disclosure process, there is a lack of a timely identification and reporting mechanism for major litigation, arbitration and other matters, resulting in the failure to timely disclose a number of major information. In addition, the independence and authority of the company's internal audit department are insufficient, making it difficult to effectively supervise the authenticity of financial reports.

4.2. Inadequate external supervision

4.2.1. Loopholes in the supervision system

In the field of bankruptcy reorganization, the relevant laws and regulations have deficiencies in the qualification review of reorganization investors and the binding force of performance commitments. Although the three reorganization investors such as Shenshang Holding have promised high performance targets, there is no effective performance guarantee mechanism. When the performance commitments are not fulfilled, the reorganization investors can delay or evade the performance of obligations through various means, and the existing legal framework lacks effective restrictive means for such acts. In addition, there are weak links in the continuous supervision of listed companies after reorganization, failing to timely discover and correct financial fraud acts.

4.2.2. Failure of intermediaries to perform their duties with diligence

Intermediaries such as accounting firms failed to give full play to their gatekeeper role in Pangda Group's financial fraud case. From 2019 to 2022, the accounting firm providing audit services for Pangda Group failed to identify the major accounting treatment problems existing in the company, failed to effectively implement the audit procedures for complex transactions such as debt restructuring and equity transfer, and failed to obtain sufficient and appropriate audit evidence. For the false records existing in the company for four consecutive years, the audit institution issued a standard unqualified audit report, failing to timely discover and report financial fraud acts, which seriously damaged the independence and credibility of the audit.

4.3. Industry environmental factors

The particularity of the automobile dealer industry is also an important factor leading to Pangda Group's financial fraud. The automobile dealer industry is a capital-intensive industry that requires a lot of funds for purchasing vehicles and building sales networks. In recent years, with the intensification of competition in the automobile market and the impact of new energy vehicles, traditional automobile dealers are facing huge operational pressure. The gross profit margin of new car sales has continued to decline, and although after-sales service has high profits, it is difficult to make up for the losses of new car sales. Against this background, Pangda Group had a strong motivation to whitewash its performance through financial fraud in order to maintain its listing status and financing capacity. In addition, there are a large number of related transactions and complex financing arrangements in the automobile dealer industry, which provide convenient conditions for financial fraud. The automobile brands represented by Pangda Group are mainly concentrated in the mid-low end market, with few high-end luxury brands, which makes the company more vulnerable to the impact of market fluctuations. In 2013, Pangda Group established a joint venture with the parent company of Subaru and obtained the exclusive sales right of Subaru automobiles in China, which was once an important profit source of the company. However, the sales volume of Subaru automobiles in China has been declining continuously. In 2022, Pangda Group transferred its equity in Subaru China at a price of 265 million yuan, which further weakened the company's profitability. Figure 3 shows the change trend of Pangda Group's asset-liability ratio from 2011 to 2022.

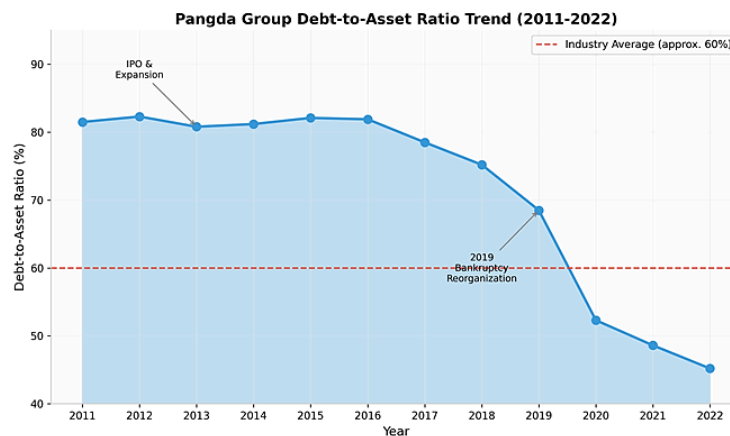


Figure 3. Trend of asset liability ratio changes of Pangda Group from 2011 to 2022

5. Analysis of the impacts of Pangda Group's financial fraud case

5.1. Impacts on investors

5.1.1. *Inflicting substantial economic losses*

Pangda Group's financial fraud case has caused huge economic losses to investors. According to the data disclosed by the company, there were still 253,500 shareholders of Pangda Group before its delisting. From the perspective of stock price performance, the stock price of Pangda Group once exceeded 5 yuan per share at the highest in 2017, but with the gradual exposure of financial fraud acts and the deterioration of the company's operational status, the stock price continued to fall. When the company's stock was delisted on June 30, 2023, the stock price had fallen to about 0.4 yuan per share. Investors' assets have shrunk sharply as a result, and many small and medium-sized investors have not only failed to obtain investment income, but also suffered serious losses of principal. Investors who purchased the company's bonds also suffered heavy losses. Due to the deterioration of the company's financial condition, the bonds could not be redeemed on time with principal and interest, and the investors lost all their investment.

5.1.2. *Severely undermining investment confidence*

Pangda Group's financial fraud incident has greatly hit investors' investment confidence and damaged investors' trust in the capital market. In the capital market, investors invest funds based on the trust that the information disclosed by listed companies is true, accurate and complete. Pangda Group's illegal acts have broken this trust, triggering investors to doubt the authenticity of information disclosed by listed companies, thus questioning the integrity environment of the entire capital market. After this incident, investors have become more cautious about the information disclosure of listed companies in the automobile dealer industry and even other industries, and will invest more time in verifying information when making investment decisions, which not only increases the difficulty of decision-making but also raises the decision-making cost. Some investors choose to cut their investment amount or even leave the capital market completely for fear of encountering similar illegal and irregular acts again.

5.1.3. *Numerous difficulties in investors' rights protection*

Investors are faced with numerous difficulties in protecting their rights in Pangda Group's financial fraud case. First of all, the legal litigation procedure is complex and costly. Investors need to hire professional lawyers and collect a lot of evidence to prove the causal relationship between illegal acts and damage results, which is time-consuming and laborious, and requires paying high attorney fees and litigation costs. Small and medium-sized investors are often unable to afford them and have to give up their rights protection. Secondly, evidence collection is also a difficult problem. The financial and operational information of listed companies is very complex, and some information is deliberately concealed or altered. It is difficult for investors to obtain key evidence needed to prove the non-disclosure of related transactions and the misappropriation of funds. Even if they win the lawsuit after prosecution, the litigation takes a long time, which may take several years from case filing to judgment, and investors' legitimate rights and interests cannot be protected in a timely manner.

5.2. Impacts on the capital market

5.2.1. *Triggering a crisis of confidence in the capital market*

Pangda Group's financial fraud case has caused a crisis of confidence in the capital market. Information disclosure is the cornerstone of trust in the capital market. This incident has made investors question the authenticity and reliability of the information of listed companies, and the confidence of the capital market has been hit. This case has not only dealt a heavy blow to Pangda Group's own stock price and financing capacity,

but also implicated the entire automobile dealer industry and other listed companies. The investment enthusiasm of the automobile dealer industry has decreased, the financing difficulty of relevant enterprises has increased, and other listed companies are also facing more stringent scrutiny with a significant increase in financing costs, thus causing the obstruction of the capital intermediation function of the capital market. In addition, this case also exposed the problems existing in the bankruptcy reorganization system, affecting the market's confidence in listed companies after reorganization.

5.2.2. Damaging the image of the automobile dealer industry

As a leading enterprise in China's automobile dealer industry, Pangda Group's financial fraud act has brought a bad impact on the entire industry. Investors have begun to doubt the operational status, financial status and information disclosure quality of other enterprises in the industry, resulting in damage to the industry's reputation. Investors have reduced their investment in the automobile dealer industry, resulting in a lack of financial support for enterprise project construction and technological research and development. Suppliers and partners will also reduce cooperation or raise cooperation thresholds for fear of damaging their own reputation, increasing the operational and development difficulties of enterprises in the industry. This case has also triggered social doubts about the business model of the automobile dealer industry and accelerated the industry reshuffle process. According to statistics, as high as 60% of 4S stores were in a loss state in 2022, and about 4,000 dealers withdrew from the market in 2024, making the industry face severe challenges. At the beginning of 2024, Yong'ao Group, the largest automobile dealer in Guangdong, collapsed due to capital chain rupture, and more than 80 4S stores under it closed overnight; in June 2024, China Grand Automotive Services Group, the largest automobile dealer group in China, also faced the risk of delisting because its stock price was continuously lower than 1 yuan per share. The Pangda Group case has become a microcosm of the crisis in the automobile dealer industry, warning the industry that it must carry out profound transformation and upgrading.

6. Countermeasures and suggestions for preventing information disclosure illegal and irregular acts

6.1. Improving corporate internal governance

Optimizing the equity structure is the focus of improving corporate internal governance. In view of the problems caused by the excessive concentration of equity in Pangda Group, measures such as introducing strategic investors and implementing employee stock ownership plans can be adopted to realize the appropriate dispersion of equity and avoid the situation of single shareholder control. Introducing strategic investors can bring various resources to the company and implement external supervision, and the employee stock ownership plan can enhance employees' supervision awareness and form an internal mutual restriction mechanism. Improving the corporate governance structure requires strengthening the independence of the board of directors and the board of supervisors. For the board of directors, the proportion of independent directors should be increased, persons with professional backgrounds such as finance and law should be selected as independent directors, and an independent selection and appointment mechanism should be established to ensure that they can perform their duties independently. The powers and responsibilities of the board of directors should be clarified, the supervision in the decision-making process should be strengthened, and the adverse impact on the compliance of information disclosure caused by short-sighted decision-making should be avoided. For the board of supervisors, it is necessary to optimize the independence of the members of the board of supervisors, expand the proportion of external supervisors, endow it with supervisory powers

such as hiring external audits, and strengthen the whole-process review of finance, operation and information disclosure.

Strengthening the construction of internal control and risk management system is an important guarantee. It is necessary to improve the independence of the internal audit department, make it report directly to the board of directors or the board of supervisors, expand the audit scope, and focus on auditing the compliance of related transactions and the effectiveness of major investments. Improve the risk control system, use scientific methods to assess the risks of information disclosure, formulate corresponding response measures, and establish an audit and early warning system. Strengthen the training of employees' risk awareness to prevent the occurrence of information disclosure irregularities. At the same time, establish and improve an internal reporting mechanism, encourage employees to report illegal and irregular acts such as financial fraud, and protect the legitimate rights and interests of whistleblowers.

6.2. Strengthening external supervision

Regulatory authorities should further improve the information disclosure supervision system and strengthen the continuous supervision of listed companies, especially listed companies after bankruptcy reorganization. For the field of bankruptcy reorganization, it is necessary to improve the qualification review system for reorganization investors, establish a performance commitment performance guarantee mechanism, and ensure that reorganization investors can effectively perform their commitment obligations. Strengthen the supervision of complex accounting treatments, formulate more detailed regulatory guidelines for areas prone to accounting treatment problems such as debt restructuring and equity transfer, and clarify the compliance standards for accounting treatments. At the same time, it is necessary to strengthen the supervision of intermediaries such as accounting firms, urge them to perform their duties with diligence, and give full play to their gatekeeper role. Intermediaries that fail to perform their duties with diligence shall be severely punished in accordance with the law to increase their illegal and irregular costs.

6.3. Enhancing investor protection

Improving the investor protection mechanism can reduce the losses caused by information disclosure illegal and irregular acts to investors. It is necessary to further improve the special representative litigation system for securities disputes, reduce the cost of investors' rights protection and improve the efficiency of rights protection. Explore the establishment of a securities public interest litigation system to provide more powerful support for investors to obtain compensation and relief. Comprehensively use a series of investor compensation and relief systems and mechanisms such as advance compensation, supportive litigation, subrogation litigation and administrative law enforcement parties' commitments to further increase the illegal costs and effectively safeguard the legitimate rights and interests of investors. At the same time, it is necessary to strengthen investor education and improve investors' ability to identify risks and awareness of self-protection. Publicize capital market knowledge and regulations through training courses and lectures, teach skills such as financial statement analysis and fraud identification, and urge investors to make more rational investment decisions. In addition, it is necessary to improve the investor appropriateness management system to ensure that investors purchase products matching their risk bearing capacity and avoid excessive participation of small and medium-sized investors in high-risk investments.

From the industry perspective, the automobile dealer industry should accelerate transformation and upgrading to meet the challenges brought by market changes. The traditional 4S store model is facing the impact of the direct sales model of new energy vehicles, and it is necessary to explore new business models and profit methods. Industry associations should play their self-regulatory role, formulate industry norms and

guide enterprises to operate in compliance with the law. At the same time, it is necessary to strengthen industry information sharing, establish a credit evaluation system, implement industry access bans on enterprises with serious illegal and irregular acts, and form an effective industry restriction mechanism. Automobile dealers should actively embrace digital transformation, use big data, artificial intelligence and other technologies to improve operational efficiency, develop a new retail model integrating online and offline, expand value-added businesses such as after-sales service, automobile finance and used car transactions, reduce dependence on the profit of new car sales, build a diversified profit structure, and enhance anti-risk capabilities.

7. Conclusion

Pangda Group's financial fraud case is a typical case of financial fraud in China's capital market. Its illegal and irregular acts include false records in annual reports for four consecutive years, material omissions in semi-annual reports, and failure to disclose major litigation and arbitration in accordance with regulations, with a cumulative impact of 2.264 billion yuan on the total profit. In the end, it was severely punished by the regulatory authorities, and the relevant responsible persons were also held accountable. In terms of causes, the defects in the company's internal governance (concentrated equity, dereliction of duty by the board of directors, supervisors and senior management, and weak internal control) are the fundamental reasons, the inadequate external supervision (loopholes in the system and dereliction of duty by intermediaries) provides an opportunity for irregular acts, and the particularity of the automobile dealer industry has aggravated the company's financial difficulties and fraud motivation. This incident has not only brought huge economic losses to investors, undermined investment confidence and led to numerous difficulties in rights protection, but also triggered a crisis of confidence in the capital market and damaged the image of the automobile dealer industry. The countermeasures put forward in view of this case, such as improving corporate internal governance, strengthening external supervision and enhancing investor protection, can provide a reference for preventing similar information disclosure illegal and irregular acts, help maintain the order and confidence of the capital market, and promote the healthy and stable development of the capital market. At the same time, this case also warns other listed companies that they should strictly abide by the information disclosure rules, strengthen internal governance, and not take the risk of breaking the law, otherwise they will be severely punished by the law. Looking forward to the future, with the in-depth advancement of the reform of the capital market and the continuous improvement of the supervision system, financial fraud acts will face increasingly severe crackdowns. The new *Securities Law* has greatly increased the illegal costs of financial fraud, raising the upper limit of fines for illegal information disclosure companies and responsible persons from 600,000 yuan and 300,000 yuan to 10 million yuan and 5 million yuan respectively. The *Amendment (XI) to the Criminal Law* has raised the upper limit of the prison term for illegal disclosure from 3 years to 10 years. Listed companies should establish the concept of compliant operation, establish and improve the internal control system, disclose information truly, accurately, completely and timely, effectively safeguard the legitimate rights and interests of investors, and jointly promote the high-quality development of the capital market.

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