

Dissecting Systematic Fraud: Motivations, Methods and Regulatory Implications of the Six-Year Financial Fraud in the Jin Tong Ling Case

Xinyue Hu¹, Ming Yuan²

¹College of Business Administration, Shanghai Business School, Shanghai, China

²Shanghai Weiyu International School, Shanghai, 200231, China

Abstract. In recent years, frequent financial fraud incidents among listed companies have severely undermined the integrity foundation of the capital market and investor rights. Against this backdrop, the Jin Tong Ling company's financial fraud case, spanning six consecutive years, has emerged as one of the most notable financial fraud cases in recent times. Due to its prolonged duration, substantial fraudulent amounts, and concealed manipulation methods, it has become a primary subject for dissecting systematic fraud. This study employs the event study methodology, combined with the Fraud Triangle Theory, to conduct an in-depth analysis of the company's fraudulent techniques, motivations, and the consequences and impacts of the fraud. The company committed fraud through means such as fabricating Engineering, Procurement, and Construction (EPC) project progress and forging business documents. The motivations stemmed from delisting pressure and the dual failure of internal controls and auditing. This misconduct triggered severe consequences, including market value evaporation and criminal prosecution. The research conclusions emphasize that companies should strengthen internal control systems and introduce digital tools to track financial data; audit institutions must adhere to professional ethics; and investors need to remain vigilant against abnormal risk signals. This case provides critical implications for the governance of integrity in capital markets.

Keywords: Fraud Triangle Theory, Event Study Methodology, Financial Fraud, Jin Tong Ling Financial Fraud Case.

1. Introduction

Under the registration-based Initial Public Offering (IPO) system, the completeness and authenticity of information disclosure by listed companies are of paramount importance. However, the frequent occurrence of financial fraud incidents has disrupted the normal functioning of capital markets, severely damaging investor rights and exacerbating a crisis of confidence in regulatory authorities. Among these cases, the particularly notable and exceptional example is the six-year consecutive financial fraud perpetrated by Jin Tong Ling Technology Group Co., Ltd.

Jin Tong Ling became Nantong, Jiangsu's first company listed on the ChiNext Board on June 15, 2010. It operates as a manufacturing service enterprise specializing in EPC project contracting and the production of high-end fluid machinery such as industrial blowers. As Nantong's pioneering ChiNext-listed entity, evidence of Jin Tong Ling's financial misconduct dates back to the period between 2017 and 2022.

In June 2023, Jin Tong Ling received a Case Initiation Notice from the China Securities Regulatory Commission concerning suspected violations of information disclosure regulations. Subsequent investigations confirmed that the company had falsified revenue and profit data for six consecutive years. As documented in Table 1, Jin Tong Ling overstated revenue by RMB 1.135 billion and inflated profits by RMB 468 million, constituting egregious financial fraud. In November of the same year, the company and its executives were collectively fined RMB 5.7 million by the Jiangsu Securities Regulatory Bureau. Furthermore, implicated intermediaries were suspended from providing securities services for six months, with primary responsible individuals subjected to lifetime market entry bans [1]. By December 2024, Jin Tong Ling entered civil penalty proceedings, facing initial claims totaling RMB 756,400 from ten investors. These claims were subsequently

converted into a special representative action by month-end. As of January 2025, the number of affected investors had risen to approximately 50,000 [2].

In July 2025, Jin Tong Ling and three individuals—Jiwei, Yuanxueli, and Maoxinpeng were required to be investigated for criminal responsibility for the crime of fraudulent issuance of shares. The three were the then chairman and general manager, the Secretary to the board of directors, and the person in charge of finance at the stage of Jin Tong Ling's fraud. Additionally, these three executives and three other key personnel from the fraud period were charged with the crime of illegal disclosure of important information [3].

This study analyzes Jin Tong Ling's fraudulent methods, motivations, consequences, and impacts to expose systemic failures in corporate governance, ineffective internal controls, and intermediary negligence. Based on these findings, it propose recommendations aimed at enhancing information disclosure supervision in capital markets and strengthening corporate compliance practices

Table 1. Statistics of financial fraud of annuity channeling in 2017-2022

Year	Overstated operating income (10000 yuan)	Understated operating income (10000 yuan)	Inflated profits (10000 yuan)	Understated profits (10000 yuan)	Proportion of profit fraud in disclosed profit(%)
2017	50,000.00	-	14,600.00	-	103.06
2018	55,000.00	-	14,800.00	-	133.10
2019	-	19,700.00	-	3852.77	31.35
2020	-	537.68	5730.08	-	101.55
2021	6893.07	-	7398.71	-	5,774.38
2022	15350.85	-	4332.71	-	11.83

2. Analysis of Financial Fraud Methods

First, inflate the progress of the project. Through fictitious EPC project revenue with high gross profit, introducing a third party to participate in capital flow, fictitious quantities or inflated unit prices in real projects, charging huge amounts of project funds in advance, reducing corresponding costs, and artificially raising the overall gross profit rate, to achieve the purpose of inflated profits. Second, reduce costs and expenses falsely and settle project costs less. "Delayed confirmation" or "deliberately underestimated" the cost of material procurement, subcontracted works, labor, etc., for real projects. At the same time, the management expenses and sales expenses that should be included in the current profit and loss will be included in the cost of construction in progress in violation of regulations, and the current expenses will be reduced while the assets are falsely increased. Second, delayed accrual of expenses: accrued liabilities such as quality assurance deposit and liquidated damages are not accrued, and the current expenses are deliberately reduced. Third, forge business vouchers. Jin Tong Ling and its wholly-owned subsidiary, Shanghai Yunneng, adjusted the completion schedule of the EPC project by forging the project image Schedule Confirmation Form and delivery note, and falsely increased or decreased the total operating revenue and profit of 12 companies.

The above three methods are linked layer by layer to complete the successful forgery of the cash flow closed loop, which makes Jin Tong Ling briefly break through the paradox put forward by Joseph t.wells, a forensic accounting expert: fraudsters are difficult to manipulate income, profit and cash flow at the same time for a long time, because cash flow needs the support of real bank transactions, which is the most vulnerable fulcrum in the fraud triangle. Therefore, the traces of Jin Tong Ling's artificial closed-loop cash flow fraud were still found by the regulatory authorities because they could not maintain the logical consistency for a long time, which also confirmed the binding force of this paradox.

3. Analysis of Jin Tong Ling's Motives for Fraud Based on the Fraud Triangle Theory

In 1986, Professor W. Steve Albrecht proposed the famous fraud triangle theory, which states that fraudulent behavior stems from three closely related factors: pressure, opportunity, and excuse. Specifically, financial fraud often begins when the fraudster experiences some kind of pressure. The opportunity for fraud often arises due to deficiencies in internal controls or poor implementation, making the fraud difficult to detect or, even if discovered, insufficiently punishable. When both pressure and opportunity are present, the fraudster will seek moral justifications for their actions to alleviate their guilt and ultimately carry out the fraud. These three factors are closely linked, forming a complete fraud logic triangle. The following analysis of Jin Tong Ling's motivations for fraud is based on this theory:

3.1. Analysis of the Pressure Factor

According to the China Securities Regulatory Commission (CSRC), listed companies that experience negative net profits for three consecutive fiscal years face delisting. By analyzing the company's financial data for six years, it was found that its fraudulent behavior was mainly manifested in profit manipulation. During the six years under study, profits were artificially inflated in five of those years. From the results of the financial data correction shown in Figure 1, it can be seen that after excluding the factors of inflated (decreased) profits, the company only achieved a positive profit of approximately 160 million yuan in 2019, and was in a loss-making state in the remaining years. The loss amount in 2022 was as high as 380 million yuan. It can be seen from this that if Jin Tong Ling Company did not adjust its profits through financial fraud, its actual operating conditions would have reached the delisting standard, and it should have initiated the delisting procedure in accordance with regulatory provisions [4]

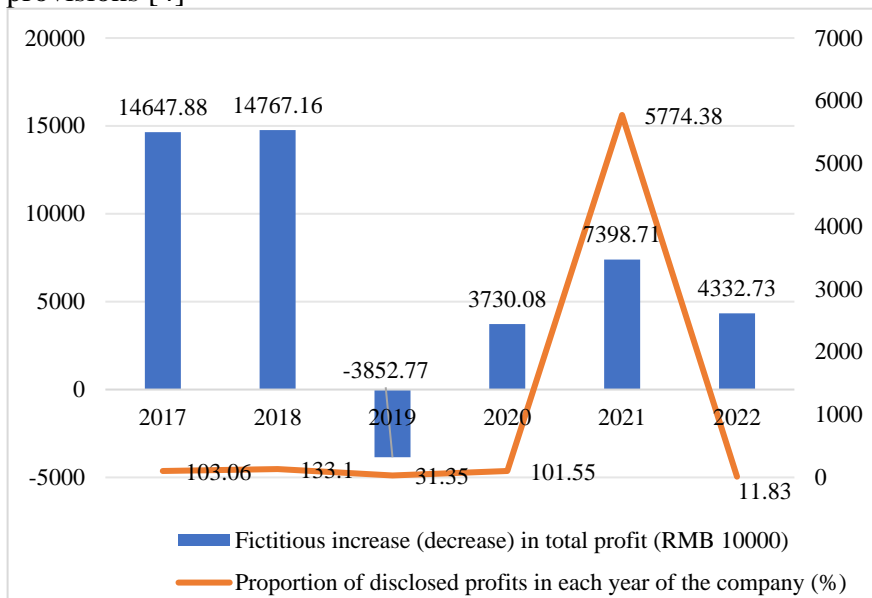


Fig. 1. Fictitious profit increase (decrease) of Jin Tong Ling from 2017 to 2022(Picture credit: Original)

3.2. Analysis of Opportunity Factors

After Jin Tong Ling Company shifted from product sales to engineering general contracting (EPC) business, the difficulty of project management increased while the internal control system failed to improve simultaneously, failing internal control. This allowed the company to artificially adjust the progress of project performance to inflate or reduce revenue, and the lack of internal control supervision allowed this fraud method to remain undetected for a long time [5]. At the same time, although Dahua Accounting Firm issued "unqualified opinion" audit reports from 2017 to 2022, there

were major flaws in the audit procedures, such as failure to fully verify the discrepancy between the actual progress of the EPC project and the book data, which further concealed the financial fraud. In addition, delayed supervision and light penalties also contributed to the fraud. The China Securities Regulatory Commission usually intervened many years after the fraud occurred, lacking an effective pre-warning mechanism. In addition, the current laws and regulations on fines and accountability for financial fraud were weak, and the cost of fraud was far lower than the benefits, leading the company to take risks [6].

3.3. Analysis of Excuse Factors

The motivation for Jin Tong Ling's financial fraud lies in the self-rationalization of the management for the violations [7]. Under pressure from business transformation, companies may view inflated profits as a "necessary means to maintain market confidence," using "common industry practices" to mitigate ethical burdens. Furthermore, the complexity of the EPC business provides a pretext for "reasonable estimation" of revenue manipulation, while the auditor's unqualified opinion is treated as "authoritative endorsement," further entrenching the "legitimacy" of the fraud. These excuses collectively lower management's psychological barriers, enabling long-term fraud [8].

4. Consequences and Impacts of Financial Fraud

First, Jin Tong Ling Technology Group's financial fraud had a severe negative impact on the company itself. Following the exposure of the fraud, the company's stock price plummeted in a short period, wiping out nearly half of its market value and significantly reducing its financing capacity. The resulting reputational damage was even more profound, prompting numerous financial institutions to reassess their relationships with the company, plunging it into serious operational difficulties [9]. Using December 25, 2023, the date the China Securities Regulatory Commission issued the "Administrative Penalty Decision" against Jin Tong Ling, a short-term event study method was used to calculate Jin Tong Ling's cumulative abnormal return during this period to be -3.05%.

Secondly, this case caused particularly severe harm to small and medium-sized investors. False financial reports drove up stock prices, which then plummeted, resulting in direct losses for investors. Although injured investors can seek legal compensation, the high costs and time required to defend their rights make actual compensation difficult. Finally, this financial fraud incident had a profound negative impact on the capital market. On the one hand, it directly led to a crisis of trust in the entire energy conservation and environmental protection sector. On the other hand, the incident exposed the poor performance of the auditing firm, Dahua Certified Public Accountants, triggering a new round of regulatory crackdowns on intermediary institutions. This case, combined with other financial fraud cases that occurred during the same period, caused the A-share market's integrity index to plummet to a historical low, significantly suppressing the market's financing capabilities [10]. In the long term, such incidents exacerbate the "lemon market" effect in the capital market, with high-quality companies facing higher financing costs. The increased regulatory costs will ultimately be borne by all market participants.

5. Conclusion

The six-year financial fraud case of Jin Tong Ling Technology Group Co., Ltd. is a typical example of a malicious incident in the capital market in recent years. The company falsely inflated its operating revenue by 1.135 billion yuan and its profits by 468 million yuan, severely undermining market integrity. The motivations for fraud can be analyzed using the fraud triangle theory: pressure stems from the risk of delisting; opportunity arises from ineffective internal controls, negligent audits, and lagging supervision; and excuses are management's self-justification for violations. Fraudulent behavior not only causes a sharp drop in company market value but also harms investor interests and triggers a crisis of confidence in the energy conservation and environmental protection sector in the

capital market. This case exposes multiple issues, including flawed corporate governance, negligent intermediaries, and an inadequate regulatory system, serving as a wake-up call for all parties in the capital market.

Moving forward, companies should strengthen internal control systems, introduce digital tools to achieve full traceability of financial data, and optimize executive incentive mechanisms to avoid single-performance measures that encourage fraud. Audit firms should enhance their professional quality, strengthen scrutiny of high-risk businesses, and eliminate perfunctory audit procedures. Regulators should improve industry revenue recognition standards, establish a cross-verification mechanism for financial and non-financial data, increase penalties for fraud, and promote the principle of "presumption of fault" to enhance deterrence. Investors should enhance risk awareness, pay attention to financial anomalies, and effectively use legal means to protect their rights. Only through collaboration among enterprises, intermediaries, regulators, and investors can a healthier and more transparent capital market ecosystem be built.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

References

- [1] Cui, W., Zhang, C.: Jin Tong Ling is suspected of two crimes and six "ringleaders" will be tried. 21st Century Business Herald, 10(02), 19-21 (2025).
- [2] Wells, J.T.: Corporate fraud handbook: prevention and detection 10(3), 29-31 (2007).
- [3] Liang, Y.: Case study of financial fraud based on the fraud triangle theory - taking Jin Tong Ling as an example. Time-honored Brand Marketing 16(23), 119-121 (2024).
- [4] Fang, J., Jin, H.: Case study of accounting fraud based on the fraud triangle theory - taking Guangdong Rongtai Company as an example. Journal of Hubei University of Economics (Humanities and Social Sciences Edition) 20(8), 55-58 (2023).
- [5] Wang, M., Li, X.: Fraud triangle and identification of financial fraud - empirical evidence from listed companies in my country. Accounting Monthly 22(30), 76-80 (2011).
- [6] Xiong, F., Zhang, L., Han, Y.: Research on the risk identification and governance countermeasures of financial fraud in listed companies - taking Luckin Coffee as an example. Accounting Friends 45(3), 55-61 (2022).
- [7] Zhang, J.: Case study of financial fraud of science and technology innovation board listed companies based on the fraud triangle theory fraud analysis - taking Zijing Storage as an example. International Business Accounting 55(13), 63-66 (2023).
- [8] Wu, C., Sun, W.: Research on financial fraud in listed companies based on fraud triangle theory - taking Tongjitang as an example. Finance and Accounting 42(8), 48-50 (2024).
- [9] China Securities Regulatory Commission: Administrative penalty decision of Jiangsu Regulatory Bureau (Jin Tong Ling) 16(13), 69-71 (2023).
- [10] Meng, Q., Li, X., Cai, X.: Does corporate strategy affect corporate violations? Nankai Management Review 21(3), 116-129 (2018).