

Analysis of current situation of information disclosure of listed companies on GEM

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ABSTRACT: In the afternoon on October 23th, 2009, GEM was officially launched in our country. Due to the lack of experience in the market supervision, information disclosure violations frequently occurred. In April 2015, Shenzhen Stock Exchange puts forward morning information disclosure system to strengthen the reform of information disclosure system. Therefore, this paper deeply focuses on the current situation of information disclosure violations on GEM for the purpose of attracting more attention to the problems. Through studying the information disclosure violations of the listed companies on GEM from 2011 to September 30th, 2015, this paper divides the violations into the following four types: false record, misleading statement, material misstatement and delayed disclosure. On the other hand, we find that these types of violations are concurrent. From this discussion, we may safely draw the conclusion that the information disclosure of listed companies on GEM has the problem of untruthfulness, incorrectness, incompleteness and delay.

Keywords: GEM; information disclosure; violations

1 INTRODUCTION

GEM is a market emerging in response to the development requirement of independent innovation enterprises and other growth pioneering enterprises. The launch of GEM has made great contributions to the development of independent innovation enterprises and growth pioneering enterprise. However, since GEM of our country is short in establishment time and lack of experience in the market supervision, operating practice of listed companies is far from the existing rules, particularly the financial fraud like Wanfu Biotechnology and Hirisun in recent years. Such financial fraud behavior undoubtedly violates the honest management rules in the market, raises the market doubts about the authenticity and reliability of listed companies on GEM, and seriously damages the credibility of GEM^[1].

Shenzhen Stock Exchange launched the *Notice of Implementing the Information Disclosure Express Practice during Morning Sessions of Trading Days and Non-trading Days* in April 2015. It proposes to add the information disclosure at a.m. (6:00-8:00) on morning sessions of trading days and p.m.

(12:00--16:00) on the non-trading days. This move will further strengthen information disclosure system reform, and push the strict supervision of information disclosure. Therefore, this paper more deeply discusses the current situation and problems of information disclosure violations on GEM, for the purpose of attracting more attention from supervision departments and investors to the information disclosure violations and thus making them adopt corresponding governance and punitive measures. This will slightly promotes the continuous and sound development of stock market and maintenance of the interest of investors.

2 CURRENT SITUATION OF INFORMATION DISCLOSURE VIOLATIONS OF LISTED COMPANIES ON GEM

Shenzhen Stock Exchange's statistical materials about GEM show that with the expansion of GEM, the number of listed companies increases year by year. As of the September 30, 2015, the total number of listed companies was 484, among which the total number of manufacturing companies was 351; accounting for 72.52% of the total GEM companies, and this number is followed by information technology industry with

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81 companies, accounting for 16.74% of the total GEM companies. Meanwhile, the aggregate market value and circulation market value also increase remarkably. As of the September 30, 2015, aggregate market value of GEM was 3762.2 billion yuan, and circulation market value was 2259.9 billion yuan, respectively 22.37 and 74.58 times of those at the end of 2009. It can be seen that the development speed and potential of GEM are great, thus the damage caused by information disclosure violations to the market and investors cannot be ignored.

As to the basic principle for the information disclosure, Article 63 of Security Law stipulates: "the information disclosed by issuer or listed companies must be true, correct and complete, which shall not have false record, misleading statement or material misstatement." As the listed companies on GEM were launched until October 2009, the discovery of information disclosure violations needs a certain time. In order to guarantee the authenticity and comparability of sample data, the period selected for the study is the period between 2011 and September 30, 2015 when this paper analyzes the information disclosure violations of listed companies on GEM, and the data is sorted out from the CSMAR.

2.1 Overall situation of the information disclosure violations

During the study, for the company with a single violation, the violation year is set as the year when it is punished; for the company with violations in continuous 2 years (or 2 times), the violation year is set as the first year (or the year for the first violation) when it is punished. As some companies are repeatedly punished due to several violations in the same year, the number of the sample companies is less than the times of punishment. The distribution of years with violation sample is shown in Table 1.

As it can be seen from Table 1, the number of

companies with information disclosure violations (repetition) was 116 during the study, accounting for 65.91% of the total number of companies with violations (repetition), indicating that information disclosure violation problem still majors in the company violations. During the initial launch of GEM between 2010-2011, information disclosure violations were small in number with less than 10 companies; then between 2012-2013, the number of companies with violations and punishment frequency increased substantially, which involved over 30 companies, accounting for about 10% of total number of companies of the year, and the punishment frequency also reached to 34 times; with the gradually strengthened supervision by Shenzhen Stock Exchange and the deep standardization construction, the violations of listed companies on GEM dropped greatly in the past 2014, which involved 11 companies, accounting for 2.71% of the total number of the companies. This indicates that the control of information disclosure violations has achieved initial success, but we cannot slack off in the improvement of information disclosure system, and cannot realize the achievements without the close cooperation of supervision departments.

2.2 Main types of illegal information disclosure

According to the related provisions on stock listing rules of GEM, behaviors that a listed company violates related laws and regulations during information disclosure and discloses false information or conceals, omits or delays the disclosure of major matters are identified as illegal information disclosure, which specifically include the following four types: false record, misleading statement, major omission or delayed disclosure. False record means to make records on the information disclosure files which disagree with the truth, namely matters that have not occurred objectively are fabricated in or the matters have occurred are removed from the information disclosure

Table 1. Annual distribution of information disclosure violation samples

Year	2010	2011	2012	2013	2014	2015	Total
Number of companies with violations (repetition)	4	10	41	60	29	36	176
Number of companies with information disclosure violations (repetition)	0	7	33	40	18	18	116
Punishment frequency (repetition)	0	7	34	50	22	20	133
Number of samples studied (without repetition)	0	7	32	36	11	11	97
Total number of listed companies	281	281	355	355	406	484	-
Proportion of samples studies (%)	0	2.49	9.01	10.14	2.71	2.27	-

Note: As of the September 30th,2015

Table 2. 2011~2015 type distribution of illegal information disclosure

Illegal type	Annual occurrence frequency of illegal type					Total	Percentage (%)	Accumulated percentage (%)
	2011	2012	2013	2014	2015			
False record	5	13	19	13	7	57	32.57	32.57
Misleading statement	3	10	24	9	6	52	29.71	62.28
Major omission	3	13	13	6	5	40	22.86	85.14
Delayed disclosure	2	5	9	4	6	26	14.86	100
Total	13	41	65	32	24	175	100	100

files, which, if further divided, can be divided into fictitious profit, fictitious asset and false narration; misleading statement means that though the record of a matter in the information disclosure is true, it can be easily misunderstood due to defects in the statement and investors fail to acquire clear and correct understanding; major omission means that the information disclosure files fail to record the matters that should have been recorded^[2]; delayed disclosure means that a listed company fails to disclose the information within the time specified by CSRC^[3]. This article separately researches on these four types, and since no company had illegal information disclosure in 2010, the research period is from 2011 to September 2015. The statistical result is as shown in Table 2.

It is worth noticing that the total number of the four types of illegal information disclosure in Table 2 was larger than the punishment times of the companies in Table 1, which was because some illegal companies violated more than one kind of specifications at the same time. It can be seen from the types of illegal information disclosure in Table 2 that, there were totally 175 times of illegal behaviors from 2011 to September 2015, among which false record was the main type, a total of 57 cases, taking 32.57% of all illegal behaviors; the second was misleading statement, a total of 52 cases, taking 29.71%; horizontally, the number of illegal behaviors during the research period was on the rise and reached its peak in 2013, a total of 56 cases, taking 37.14% of all illegal behaviors over the 5 years, however, the growth momentum was somewhat restrained during the past two years, which agreed with the above conclusion of Table 1.

According to Table 2, chi-square test was conducted on the distribution of the four illegal types of listed companies at GEM during the research period from 2011 to September 2015 by SPSS17.0 statistical software to test whether the types of illegal information disclosure of the sample companies were uniformly distributed, that is, whether the occurrence frequency of the four illegal types were equally based on the statistical significance. The result is as shown in the Table 3:

Table 3. Chi-square test of illegal types

Observed number	Observed number	Expected number	Residual error
False record	57	43.8	13.3
Misleading statement	52	43.8	8.3
Major omission	40	43.8	-3.8
Delayed disclosure	26	43.8	-17.8
Total	175	-	-

Table 4. Chi-square test statistics

	Chi-square	df	Approximation significance
Illegal type	13.091 ^a	3	0.004

Note: (1)0 unit (0%) has an expected frequency below 5; (2) Minimum expected frequency of unit is 43.8.

The test result in Table 4 shows that, the approximation significance = 0.004 (P<0.05), and it can be further concluded that the types of illegal information disclosure have obvious influence on the illegal information disclosure of listed companies at GEM and their occurrence frequency vary, among which false record and misleading statement have relatively higher frequency.

2.3 Concurrency characteristic of illegal information disclosure

The means employed by the listed companies at GEM for illegal information disclosure are usually the result of the synergistic effect of two or more illegal disclosure modes, which is called the concurrency of information disclosure behavior^[3]. Concurrency statistics of illegal information disclosure of sample companies from 2011 to September 2015 is as shown in Table 5:

Table 5. Concurrency statistics of illegal information disclosure

Illegal type	1 type	2 types	3 types	4 types
False record	18	23	11	4
Misleading statement	21	23	9	4
Major omission	9	16	11	4
Delayed disclosure	6	10	5	4
Total	54	72	36	16
Percentage (%)	30.34	40.45	20.22	8.99

The meaning of each column in Table 5 is the four illegal types mentioned above and the meaning of each column is the occurrence of one illegal type or the concurrency times with several types of other three. Taking the 3rd row for example, the single occurrence of misleading statement in “1 type” column is 21 times; the concurrency with another illegal type in “2 types” column is 23 times; the concurrency with another two illegal types in “3 types” column is 9 times; by parity of reasoning, the concurrency with other three types in “4 types” column is 4 times. The meaning of total is the total concurrency times of illegal information disclosure of the sample companies during the research period and the percentage means the percentage of the types of illegal behavior in total times. Since the false record contains several forms of performance and there may be repeated occurrence of each type, the total number in Table 5 doesn't agree with the data in Table 2. As it can be seen from Table 1, 30.34% illegal information disclosure is single type, while 69.66% of which contains two or more types. The concurrency of 2 or 3 types has a relatively higher frequency, totally accounting for 60.67% (40.45% + 20.22%); And the concurrency of 4 types is in rela-

tively lower frequency, taking only 8.99%. It can be easily concluded that most illegal information disclosure behaviors are the combination of 2 or 3 illegal types.

3 PROBLEMS IN INFORMATION DISCLOSURE VIOLATIONS OF LISTED COMPANIES ON GEM

3.1 *The information disclosure of listed companies is not authentic*

Authenticity means that the information disclosed by a listed company or an obligor for related information disclosure shall faithfully represent the objective circumstances based on facts or fact-based judgment and opinions rather than make false records or unauthentic statements. In order to make the company performance look good, listed companies at GEM usually make financial reports by means of fictitious asset or inflated profits^[4]. It can be seen from Table 2 that, false record has the highest frequency, taking about 32.57% of all disclosure violations. Besides, it is shown in Table 5 that false record has relatively high frequency both in single occurrence and concurrency with other illegal types. Taking the listed company at GEM Shenzhen Hirisun Technology Incorporated for example, CSRC investigated in this company on March 21, 2013, stating that its report was suspected of violation of securities related laws and regulations, and that April, Hirisun published Announcement on Correction and Retroactive adjustment of Significant Accounting Errors in the Previous Year, admitting that there were significant accounting errors in 2010 and 2011. Correction of related accounting errors in financial statement is as shown in Table 6^[5].

It can be seen from Table 6 that, the business profit of Hirisun in the very year of being listed, i.e., 2011, was adjusted from RMB63.1 million to RMB40.44 million, the inflated RMB22.66 million took 56.03% of the actual business profit, and the net margin was also adjusted from original RMB62.73 million to RMB39.94 million, the inflated RMB22.79 million took 57.06% of the actual net margin. Meanwhile, in order to conceal its false record, the company inputs large amount of capital from non-customers to charge against and reduce the book receivables, and the re-

ceivables was adjusted from RMB115.48 million to RMB212.86 million. Such illegal behavior of willful adjustment of profit calculation, distribution method, undisguised fictitious asset and fictitious profit by Hirisun at the preliminary stage seriously influenced the authenticity of information, which may easily cause decision-making mistakes of investors and do harm to the capital market.

3.2 *The information disclosure of listed companies is not accurate*

Accuracy refers to that the information disclosed by the listed company and related information disclosure obligor shall be made of clear and appropriate language and concise and easy-to-read text. The content should be easy to understand, and should not contain any words with the nature of publicity, advertising, compliment or exaggeration, or any misleading statements. According to Table 2, the probability of the violations in the form of misleading statements is just second to the false records, which is about 29.71%. Although misleading statements have no such direct effect on the data in the table as the false records, more and more companies choose to gloss over the financial situation in this way. Professor Jiashu Ge pointed out "the management of listed companies is self-interested, clever and cunning economic man. They are always trying to maximize the extent of turning the disadvantage into advantage when they perform the obligation of information disclosure" in the series of books *The Listed Company Financial Fraud Case Analysis Series*^[6]. In other words, the management of listed companies hopes to maximize the use of information disclosure for their benefit. In this case, it would be difficult to avoid misleading disclosure. Therefore, the listed companies are more and more obvious in taking advantage of the information disclosure "tricks" to improve the way of information disclosure. These "tricks" is broadly divided into two forms. One is to use a large number of professional technical vocabularies to confuse the information users, reducing the use efficiency of information. This behavior occurs mostly in high-tech enterprises. The other one is to disclose the long passages without substantial description, and have no relations to the financial information; listed companies are more inclined to disclose the non-financial infor-

Table 6. Correction of accounting errors in financial statement by Hirisun in 2011(Unit: RMB 10 thousand)

Item		December 31th, 2011			
		Before adjustment	Adjusted number	After adjustment	Percentage of adjusted Number in actual number
Balance sheet	Accounts receivable	11548	9738	21286	45.75%
	Deferred income tax	155	201	356	56.46%
	Other payables	145	13307	13452	98.92%
	Total liability	8302	14701	23003	63.91%
Profit statement	Business income	35537	-1592	33945	-4.69%
	Business profit	6310	-2266	4044	-56.03%
	Total profit	7017	-2347	4670	-50.26%
	Net margin	6273	-2279	3994	-57.06%

mation. For example, the words such as "will", "may", "expect" and "try" often appear in the reports of listed companies to express the company's outlook. It is unable to confirm the rationality of such disclosure^[7]. Although the use of the above "tricks" to ensure the disclosure of information is not inconsistent with the facts, which conforms to the requirements of authenticity, there are defective or improper points in the expression, and easy to cause misunderstanding of information users on the disclosed information, thus affecting the objectivity and accuracy of investment decisions.

3.3 *The information disclosure of listed companies is not complete*

Integrity refers to that the information disclosed by the listed companies and related information disclosure obligor shall be complete in the content, well-documented, conform to the specified requirements of the format, and have no major omissions. According to table 2, the probability of the violations in the form of major omissions is about 22.86%. Take Wanfu Biotechnology (Hunan) Agricultural Development Co., Ltd., a listed company on GEM, for example. In the first half of 2012, Wanfu Biotechnology made the decision to suspend the production of polished rice and ordinary rice due to the technical improvements of deep processing production line. As the main business, the decision had a significant impact on the company's profits, but the company neither fulfills its obligations of interim report nor discloses it in the 2012 semi-annual report, so it was identified as a major omission. Later, Wanfu Biotechnology made an explanation and acknowledged that the company's equity investment project (i.e. "The recycling economy type rice deep processing production line project") stopped production because of technological transformation in the first half of the year. To meet the integrity requirements, the listed company's information disclosure should be as detailed as possible. However, if the information disclosure is too much, it will increase the burden of the listed company to provide information, but also easy to reduce the use efficiency of the information when the information users have to face a lot of information. Therefore, the key for the occurrence of major omission lies in how to define the standard of "major". It is an open and abstract word. If the listed company thinks the undisclosed information is not significant, then it did not violate relevant laws and regulations. This to a certain extent increases the difficulty and cost of the regulators to perfect the information disclosure system.

3.4 *The information disclosure of listed companies is not timely*

Timeliness refers to that the listed companies and related information disclosure obligor shall disclose

the major information within the specified time limit. According to Table 2, the probability of the violations in the form of delayed disclosure is about 14.86%, the lowest proportion. It should be noted that even if the disclosure of information satisfies the truthfulness, accuracy and completeness requirements, lack of timeliness still can make the timeliness value of information greatly reduced. To achieve an accurate understanding of the timeliness, we should focus on the provision of "within the specified time limit". Both premature disclosure and delayed disclosure are beyond the scope of timely disclosure of information. Delayed disclosure may lead to the delay or even failure of the investor's decision and reduce the utilization of information resources, while premature disclosure is prone to increase the possibility that the value of the company is undervalued and boost the opportunity of insider trading and market manipulation due to the information disclosure^[8]. According to the existing researches, a consistent conclusion was drawn, that is, the company with good news tends to disclose in a timely manner, while the company with bad news tends to postpone the disclosure so as to avoid questions and risks^[6]. That is to say, listed companies tend to choose "the best" time point for information disclosure or disclose the information gradually. At present, China's information disclosure management approach only have specific provision on the disclosure time of periodic reports of listed companies. For instance, the time limit for the preparation and disclosure of the annual report is 4 months from the date of the end of each fiscal year. From the concrete manifestation, periodic report disclosure of listed companies on GEM can basically comply with the provision, but the disclosure time of most companies is just a few days in advance of the deadline. The lack of timeliness in the information disclosure of listed companies is more reflected in the major events and other temporary disclosure reports.

4 CONCLUSION

The findings of this paper show that the information disclosure violation still majors in the company's violations. As Shenzhen Stock Exchange strengthens the supervision and deepens the standardized construction, during the period from 2011 to September 2015, the number of listed companies on GEM with information disclosure violations presented a growth trend followed by a decrease. The main types of the violations were divided into false records, misleading statements, significant omissions and delayed disclosure, in which false records had the highest proportion, accounting for 32.57% of all violations. At the same time, the violation behaviors showed concurrency. In most cases, 2 to 3 kinds of violation forms occurred in combination. In the final analysis, information is the reflection of the economic activities. The

true, accurate, complete and timely disclosure of information is the basis of safeguarding the interests of the investors. The GEM information disclosure violations reflect that there are loopholes in the internal governance of listed companies and the defense line of accounting audit is unfair, so there is an urgent need for a sound market regulation to promote the normal operation of the capital market.

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