

# A Study on Financial Fraud in Listed Companies Based on the Fraud Triangle Theory: A Case Study of Jiangsu Shuntian

Xinyan Yang, Rui Ding\*

University of Shanghai for Science and Technology, Shanghai 200093, China

**Abstract:** Between 2009 and 2022, Jiangsu Shuntian conducted continuous and systematic financial fraud, inflating its revenue by up to 10.3 billion yuan. As a representative case of large-scale fraud in Chinese listed companies, it highlights serious governance failures. This paper applies the Fraud Triangle Theory — comprising pressure, opportunity, and rationalization — to analyze the motivations and methods behind the fraud. It examines both internal factors, such as weak internal controls and management incentives, and external factors like regulatory loopholes and market pressures. Based on this analysis, the paper proposes governance and regulatory recommendations to prevent similar misconduct in other listed firms. The goal is to offer insights for improving corporate oversight and strengthening financial supervision in capital markets.

**Keywords:** fraud triangle theory, financial fraud, causes of fraud

## 1. Introduction

In recent years, China's capital market has grown rapidly, but fierce industry competition and performance pressure have led some companies to commit financial fraud. Jiangsu Shuntian, a state-owned listed company, is a typical case. Despite tighter regulations, it conducted fraudulent circular transactions for 13 years. This paper uses the Fraud Triangle Theory to analyze the motives and methods behind the fraud, aiming to improve corporate internal controls and support better regulatory practices for market fairness and transparency.

## 2. Case Overview

### 2.1 Introduction to Jiangsu Shuntian

Jiangsu Shuntian Co., Ltd. was founded in 1979 and is a state-controlled enterprise with export trade as its core business. The company completed its shareholding reform in December 1993 and was listed on the Shanghai Stock Exchange in September 2000. It is currently a subsidiary of Jiangsu Guoxin Group, with its actual controller being the State-owned Assets Supervision and Administration Commission of the Jiangsu Provincial Government. The company's business scope covers a wide range of areas, including import and export trade, domestic trade, garment manufacturing, chemical storage, and equity investment. Its products are exported to nearly 100 countries and regions, including the United States, the European Union, and Canada.

### 2.2 Review of the Fraud Case

Starting in 2009, Jiangsu Shuntian began discussions with Sui Tianli to launch a "dedicated communication network" business, which referred to a self-circulating business scheme organized by Sui. Internally, the company referred to it as the "domestic trade in communication equipment."

From 2009 to 2021, Jiangsu Shuntian engaged in continuous financial fraud for 13 consecutive years. During this period, the company falsely inflated its operating revenue by 10.333 billion yuan, operating costs by 9.399 billion yuan, and total profit by 934 million yuan.

In April 2022, Jiangsu Shuntian issued a Notice on the Correction of Accounting Errors, changing the accounting method for the communication equipment business from a gross basis to a net basis. It retrospectively adjusted its financial reports for 2009 to 2020 but did not admit to committing fraud.

In November 2022, the China Securities Regulatory Commission (CSRC) launched an investigation into the company for suspected violations of information disclosure regulations.

In July 2023, the CSRC issued a Notice of Administrative Penalty and Market Ban, confirming that the company had long been involved in fictitious transactions.

In July 2024, the CSRC issued a formal penalty decision. Jiangsu Shuntian was fined 10 million yuan (the maximum penalty), and five senior executives, including Chairman Gao Song, were fined a total of 4.3 million yuan. Gao Song was

also banned from the securities market for three years.[1]

### 3. Specific Fraudulent Methods

#### 3.1 Fabricated "Dedicated Communication Network" Self-Circulating Business

Jiangsu Shuntian participated in the "dedicated communication network" business led by Sui Tianli, which in essence was a fictitious self-circulating scheme. This business involved closed-loop operations of contracts, funds, and invoices, without any actual flow of goods or services. The company earned profits by providing capital advances or acting as a financing channel, without bearing any product-related risks. Profit was generated based on the scale and duration of the capital advances.

Moreover, both upstream and downstream enterprises involved in the transactions were controlled by Sui Tianli or other entities under the same control. Companies controlled by Sui or affiliated parties alternated roles as both suppliers and customers of Jiangsu Shuntian.[2]

#### 3.2 Manipulation by Related Parties

In this process, Jiangsu Shuntian acted merely as an executor, while the transactions were fully directed and controlled by Sui Tianli. The contract templates, product specifications, models, purchase and sale prices, and logistics arrangements were all provided by Sui.

When Jiangsu Shuntian demanded the outstanding payments from the communication equipment business, companies controlled by Sui Tianli acted as guarantors and settled the payments through related parties. This approach concealed the true source of the funds.

#### 3.3 Systematic Accounting Fraud

Jiangsu Shuntian inflated its revenue by applying the gross method, instead of the appropriate net method. Under the net method, only service fees should have been recognized as revenue; however, the company recorded the full transaction amounts. As a result, from 2009 to 2021, the company cumulatively overstated its operating revenue by 10.333 billion yuan, operating costs by 9.399 billion yuan, and total profit by 934 million yuan.

To conceal the issue, Jiangsu Shuntian retrospectively corrected the accounting error in 2022 by changing the revenue recognition method for the communication equipment business from the gross method to the net method. However, even after the adjustment, the revised financial statements still contained false information.

**Table 1. Comparison of Overstated Revenue, Cost, and Profit – Jiangsu Shuntian (Unit: RMB Yuan)**

Year	Operating Revenue		Operating Cost		Total Profit	
	Total Profit	Overstated Revenue as % of Reported	Overstated Cost	Overstated Profit	Overstated Profit as % of Reported	
2009	156,498,376.07	3.77%	151,597,880.30	4,900,495.77	8.69%	
2010	324,680,384.70	5.83%	307,117,384.62	17,563,000.08	52.52%	
2011	439,362,648.95	7.41%	401,183,581.47	38,179,067.48	51.12%	
2012	1,143,696,580.99	19.95%	1,051,275,717.43	92,420,863.56	132.86%	
2013	1,169,640,166.32	20.17%	1,096,542,042.37	73,098,123.95	18.26%	
2014	1,108,470,170.54	19.19%	1,038,223,035.03	70,247,135.51	55.38%	
2015	1,495,996,753.28	25.61%	1,367,440,895.74	128,555,857.54	88.68%	
2016	837,819,999.91	17.64%	696,192,478.97	141,627,520.94	110.51%	
2017	882,007,949.22	16.04%	777,011,141.34	104,996,807.88	74.24%	
2018	426,024,840.24	7.94%	380,149,826.73	45,875,013.51	29.20%	
2019	764,429,653.89	16.54%	723,449,307.48	40,980,346.41	10.13%	
2020	1,494,153,988.91	34.13%	1,408,813,344.24	85,340,644.67	32.49%	
2021	90,666,879.96	2.34%	-	90,666,879.96	16.23%	

### 4. Analysis of the Motivation Behind Jiangsu Shuntian's Fraud

#### 4.1 Fraud Triangle Theory

The Fraud Triangle Theory, proposed by American criminologist Donald Cressey, is a classical framework used to

explain the motivations and conditions underlying fraudulent behavior. According to this theory, three key elements must be present for fraud to occur. **Pressure:** This refers to financial or personal stressors such as economic hardship, external market conditions, debt issues, or other personal crises that create incentives to commit fraud. **Opportunity:** This involves the existence of internal or external conditions—such as weak internal controls or systemic loopholes—that enable an individual to commit fraud with a low risk of detection. **Rationalization:** This refers to the fraudster’s ability to justify or rationalize the dishonest behavior, thereby alleviating feelings of guilt or moral conflict.

## 4.2 Pressure

### 4.2.1 External Environment

In recent years, the global economic recovery has remained sluggish, with overall international trade showing weak performance. Diminished external demand has directly impacted the development of China’s foreign trade. The accelerated restructuring of global industrial and supply chains has further disrupted international trade flows.

From an international perspective, although global inflation has somewhat eased, it remains at a relatively high level. Geopolitical tensions continue to escalate, and the path to global economic recovery remains fragile. As a result, China’s foreign trade sector is expected to face an increasingly complex and challenging external environment.

### 4.2.2 Industry Downturn

Between 2009 and 2022, Jiangsu Shuntian inflated revenue by 10.3 billion yuan through long-term financial fraud. This paper applies the Fraud Triangle Theory to analyze key causes—pressure, opportunity, and rationalization—and proposes governance measures to help prevent similar cases in listed companies.[3][4]

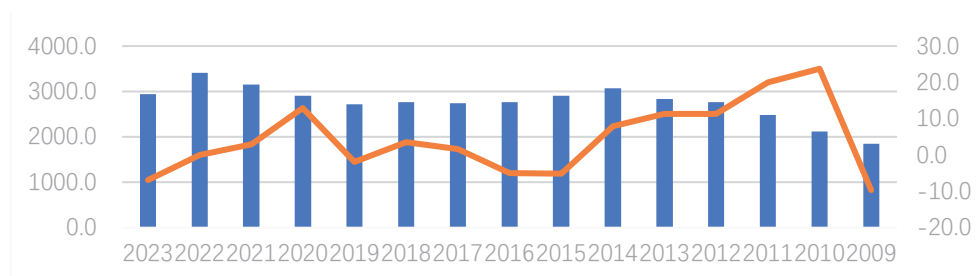


Figure 1. Annual Comparison of Textile and Apparel Export Values (Unit: USD 100 Million)

### 4.2.3 Financing Needs

After the 2009 market boom, Jiangsu Shuntian pursued a growth strategy, expanding production and investing in new sectors, which increased its financing pressure. In 2007, it entered mining by forming a joint venture with Chongqing Xintianze. By 2009, it had also expanded into real estate through Huai’an Shuntian Real Estate and an equity stake in Jiangsu Shuntian International Group. That year, Huai’an Shuntian secured a RMB 70 million loan, while the International Group raised RMB 200 million via trust financing, showing heavy reliance on external funding.[5]

## 4.3 Opportunity

### 4.3.1 Regulatory Blind Spots

Jiangsu Shuntian should leverage its strong supply chain and global partnerships to shift from low-end manufacturing to high-value design. By adopting IoT, blockchain, and automation, the company can build a digital supply chain, reduce costs, and improve efficiency.

### 4.3.2 Internal Control Failure

Jiangsu Shuntian’s ability to commit financial fraud over an extended period reveals serious deficiencies in its internal control system. In some years, fictitious transactions accounted for as much as 40% of its annual revenue. For instance, in 2016, revenue from the private network communication business reached RMB 2.235 billion, comprising 42% of the company’s total revenue. Despite this abnormality, no risk alerts were triggered, indicating that the company’s internal audit mechanisms failed to function effectively. From 2009 to 2022, six successive chairpersons were allegedly involved in the fraud, yet independent directors failed to question the unusually high gross margin of 25% in this segment—vastly exceeding the 5% margin typical of the company’s core apparel business.[6]

### 4.3.3 External Audit Failure

From 2009 to 2021, Lixin Certified Public Accountants repeatedly issued unqualified opinions on Jiangsu Shuntian despite clear financial anomalies. Over 80% of the company’s notes receivable came from “closed-loop commercial paper”—far above industry norms. Although such high-risk items require tracing verification, Lixin only sampled 12% of RMB

4.2 billion in notes (2018–2020) for external confirmation and failed to obtain logistics records to track their circulation.[7]

#### **4.3.4 Imbalanced Cost of Fraud**

In 2024, Jiangsu Shuntian was fined the maximum statutory amount of RMB 10 million, while Chairman Gao Song and four other senior executives were collectively fined RMB 4.3 million. Gao was also banned from participating in the securities market for three years. However, when compared to the company's RMB 10.333 billion in fraudulently inflated revenue, the cost of the violation amounted to only 0.97%.

In contrast to the 20-year criminal penalties stipulated under the U.S. Sarbanes-Oxley Act, China's current securities laws lack sufficient deterrent power against systemic fraud. The total fines imposed on Gao Song and the other executives represented less than 5% of the cumulative management compensation during the fraud period (2010–2020), which exceeded RMB 120 million.

### **4.4 Rationalization**

#### **4.4.1 The Need to Maintain Market Position**

Driven by the inertia associated with a period of rapid growth, the company continued to pursue performance "targets" even as actual business results declined. In order to maintain its stock price and credit rating, Jiangsu Shuntian attempted to create the illusion of stable operations by inflating revenues. To this end, the company used its "Private Network Communication" business as a facade, fabricating a narrative of high-growth potential in a new strategic sector. This tactic was intended to divert investors' attention from the weakening performance of its traditional core business.

#### **4.4.2 Responding to Performance Evaluations**

The "Private Network Communication" fraud orchestrated by Sui Tianli involved multiple listed companies, such as ST Zhongli, many of which were state-owned enterprises (SOEs) or had state-owned capital participation. Given the emphasis that SOEs place on scale-based performance indicators, it is likely that Jiangsu Shuntian resorted to financial fraud—artificially inflating revenue and profits—to meet the performance evaluation criteria set by the Jiangsu Provincial State-owned Assets Supervision and Administration Commission (SASAC). This was done to avoid the risk of failing internal assessments and to maintain the company's standing within the state-owned asset system.

## **5. Governance Recommendations**

### **5.1 Addressing Pressure**

#### **5.1.1 Product Upgrading and Cost Optimization**

As a leading enterprise in Jiangsu, Jiangsu Shuntian has a strong supply chain, global trade experience, and brand partnerships. It should upgrade from low-end manufacturing to mid-to-high-end design to boost product value. By adopting IoT and blockchain, it can build a digital supply chain to improve efficiency and cut costs. Investing in automation will further reduce labor expenses and enhance productivity.[8]

#### **5.1.2 Risk Management**

Given that the apparel foreign trade business involves multi-currency settlements, Jiangsu Shuntian should consider using financial derivatives, such as forward foreign exchange contracts, to hedge against exchange rate risks and mitigate the impact of currency fluctuations on profits. In light of increasing uncertainty in the global trade environment, the company should closely monitor changes in the international political and economic landscape and proactively develop contingency plans. Additionally, it should actively seek policy support from national and local governments—such as export tax rebates and preferential credit policies—to alleviate financial pressure.

### **5.2 Addressing Opportunity**

#### **5.2.1 Strengthening Internal Controls**

To enhance internal control and risk management, the company should take several measures: improve the independence and scope of internal audits, extending them beyond financial compliance to include procurement, production, and sales, thereby enabling holistic risk identification and process improvement. A closed-loop monitoring mechanism should be established to ensure the effective execution of internal controls.

Moreover, the roles of the board of directors and the board of supervisors should be reinforced to effectively oversee executive management. A robust compliance and ethical framework must also be implemented to ensure transparency, legality, and accountability in decision-making, thereby improving overall corporate governance.

#### **5.2.2 Improving the Disclosure and Regulatory System**

The financial fraud scandal at Jiangsu Shuntian revealed systemic weaknesses in the information disclosure framework.

Regulatory authorities must further strengthen oversight of financial disclosures by listed companies. Specifically, firms should be required to provide more detailed financial information in both quarterly and annual reports. For companies exhibiting financial risks, stricter surveillance mechanisms should be implemented. In particular, companies that display abnormal growth during industry downturns should be subject to in-depth investigation aligned with sector-specific cycles.

## 5.3 Addressing Rationalization

### 5.3.1 Ethical Education

Firstly, senior executives and financial personnel should receive regular training in professional ethics and applicable laws and regulations, emphasizing the serious consequences and legal liabilities associated with financial fraud. Such training may be jointly organized by universities, accounting associations, and other professional institutions to raise management's awareness of compliance-oriented operations. Secondly, ethical and competency assessments should be conducted not only for financial staff but also for senior management, evaluating their adherence to professional conduct and ethical standards.

### 5.3.2 Increasing Penalties

Between 2009 and 2021, Lixin Certified Public Accountants issued unqualified audit opinions for Jiangsu Shuntian despite clear irregularities. Over 80% of its notes receivable came from “closed-loop commercial paper,” far above industry norms. For RMB 4.2 billion in such notes (2018–2020), Lixin sampled only 12% for confirmation and failed to trace their circulation with logistics records, violating standard audit procedures.

## 6. Conclusion and Future Outlook

This study takes the financial fraud case of Jiangsu Shuntian as its subject and, based on the Fraud Triangle Theory, analyzes in depth the motivations, mechanisms, and governance recommendations for financial fraud from the three dimensions of pressure, opportunity, and rationalization. The research demonstrates that the long-term implementation of fraudulent activities at Jiangsu Shuntian resulted not only from the failure of internal controls and inadequate external audit oversight, but also from low legal costs and a widespread sense of impunity within the organization.

In response to these root causes, this paper proposes a set of targeted governance recommendations. Looking ahead, enterprises must proactively adapt to market changes, enhance their competitiveness through transformation, upgrading, and risk management, and thereby reduce the intrinsic motivation for fraudulent behavior.

Ultimately, the effective prevention of financial fraud requires coordinated efforts among enterprises, regulators, auditors, and investors. Only through such collective action can financial misconduct be curbed, and the sustainable development of capital markets be ensured.

## References

---

- [1] China Securities Regulatory Commission (CSRC). (2024, April 24). Administrative Penalty Decision on Jiangsu Shuntian and Relevant Responsible Personnel ( [ 2024 ] No. 41). Retrieved from: <http://www.csrc.gov.cn/csrc/c101928/c7491450/content.shtml>.
- [2] China Securities Regulatory Commission (CSRC). (2025, January 17). Administrative Penalty Decision ( [ 2025 ] No. 8). Retrieved from: <http://www.csrc.gov.cn/csrc/c101928/c7540532/content.shtml>.
- [3] China National Textile and Apparel Council. (2022). Analysis of China's Textile and Apparel Export Data in 2022.
- [4] McKinsey & Company. (2022). Global Fashion Market Trends and Consumer Behavior Analysis.
- [5] Wu, C., & Sun, W. (2024). Research on Financial Fraud of Listed Companies Based on the Fraud Triangle Theory: A Case Study of Tongjitang. *Finance and Accounting*, (08), 48–50. (In Chinese).
- [6] Li, D. (2023). Analysis of Financial Statement Fraud in Listed Companies Based on the Fraud Triangle Theory. *Modern Business*, (20), 173–176. <https://doi.org/10.14097/j.cnki.5392/2023.20.026> (In Chinese).
- [7] Li, Y. W. (2022). Research on Systematic Fabrication of Economic Transactions and Audit Strategies (Master's thesis, Lanzhou University of Finance and Economics). <https://doi.org/10.27732/d.cnki.gnzsx.2022.000189> (In Chinese).
- [8] Hogan, T. E., Smith, E., & Stewart, A. J. (2022). Under the Radar: A Conversation About Evidence Circumvention, Manipulation, and Fabrication. *Journal of Accounting Education*, 60, 100777.