

Analysis of the Reorganization of ST Zhangzi Island

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Abstract: As a matter of fact, ST Zhangzi Island is a Chinese company primarily engaged in marine aquaculture. However, in recent years, the company's stock price has fallen, and it has faced lots of difficulties from the perspectives of operation, financing as well as fraud. One of the main reasons leading to the decline in the company's stock price and its difficulties is its financial problems. This study provides an in-depth analysis of ST Zhangzi Island's financial situation. According to the analysis, it is found that the company has a large amount of inventory backlog and overdue payments. Additionally, there are certain issues in terms of equity structure and internal monitoring. Through a thorough study and analysis of this case, this research summarizes the lessons learned from its restructuring, providing reference and guidance for similar situations in other companies. Overall, these results shed light on guiding further exploration in terms of similar cases in different industries.

Keywords: ST Zhangzi Island, recombined, marine aquaculture

1. Introduction

Marine aquaculture is an agricultural production method that involves the cultivation of aquatic animals and plants in marine environments such as oceans or rivers. In recent years, global marine aquaculture has seen rapid development and has become an important means of food production and economic growth. Currently, marine aquaculture is mainly concentrated in the Asian region, with China being the largest marine aquaculture country in the world. China has vast sea areas and abundant aquatic resources. Since the 1980s, China's marine aquaculture industry has experienced rapid development and has become an integral part of the country's fisheries economy. China's marine aquaculture mainly consists of two categories: seawater aquaculture and freshwater aquaculture. Seawater aquaculture focuses on the cultivation of algae, shellfish, and fish such as kelp, nori, and various types of seafood, carrying out cultivation activities in the East China Sea, the Yellow Sea, the South China Sea, and other areas. Freshwater aquaculture primarily involves the cultivation of carp, catfish, grass carp, and other fish species in rivers such as the Yangtze River and the Pearl River.

ST Zhangzi Island, as a listed company, has attracted attention to its governance structure and regulatory mechanisms. By analyzing the internal control status of ST Zhangzi Island, Dahuling Group, and Good Dangjia, Xia pointed out that ST Zhangzi Island has certain issues in terms of equity structure and internal monitoring, and needs to strengthen its governance system [1]. The financial

problems of ST Zhangzi Island are one of the main reasons that have led the company into difficulties. In-depth research has also been conducted on its financial issues. For example, by analyzing ST Zhangzi Island's balance sheet, cash flow, and other financial data, Yang found significant flaws in the company's raw material procurement, inventory monitoring, and frequent changes in management, highlighting the operational risks of the company [2].

The marine aquaculture industry where ST Zhangzi Island operates has always been of great concern, with numerous related studies. Among them, Nie and Shen conducted calculations on the concentration of the marine aquaculture industry in northern China based on relevant data of our country's marine aquaculture industry, and explored issues such as the market size, industry development trends, and competition landscape in the marine aquaculture industry [3].

After the exposure of false sales, ST Zhangzi Island faced questioning and public pressure. The company experienced a major financial crisis, with a sharp decline in stock prices and a severe damage to investor confidence. This study aims to analyze the reasons, process, and impact of the ST Zhangzi Island restructuring case, and to summarize the management and regulatory experience of restructuring for listed companies. It provides valuable insights for promoting the healthy and stable development of China's capital market.

2. ST Zhangzi Island Restructuring Plan

ST Zhangzi Island is one of the largest fresh aquatic products breeding and processing enterprises in China, and its main business is oyster seedling production and breeding. In recent years, ST Zhangzi Island has encountered some problems in its operation and management, including financial problems and violations, leading to the company's stock price decline and difficulties. The company was caught in a scandal in 2015 and was suspended by the Shanghai Stock Exchange. In order to restructure and restore its reputation, ST Zhangzi Island has launched a series of reform measures.

ST Zhangzi Island will reduce the burden of the company and improve its profitability by stripping the assets that do not conform to the main business. In March 2022, Dalian Salt Chemical Group Co., Ltd., a subsidiary of Dalian State-owned Assets Supervision and Administration Commission, successfully won 110 million equities of ST Zhangzi Island (now ST Zhangzi Island) for 343 million yuan by participating in the judicial auction, thus becoming the new controlling shareholder of the company, and the actual controller of ST Zhangzi Island was changed to Dalian SasAC [4].

In addition, ST Zhangzi Island further integrates production lines, optimizes product structure, and improves production efficiency and product quality to improve market competitiveness. The company has reformed the production and processing processes, introduced more advanced technology and equipment, and improved the product quality and safety [5].

Moreover, ST Zhangzi Island will seek cooperation with other Marine aquaculture enterprises to expand the scale and realize resource sharing and risk sharing. ST Zhangzi Island has had extensive communication and communication with investors and shareholders. The company organized a series of investor presentations and shareholder meetings to introduce them about the company's reform and development plans [6]. Through these reforms, ST Zhangzi Island has successfully restructured and restored its reputation. Through the restructuring plan, ST Zhangzi Island hopes to realize the company's transformation and upgrading, improve its profitability and market competitiveness, and further consolidate its leading position in the field of Marine aquaculture.

3. Company Analysis

With the continuous development and expansion of China's capital market, the reorganization of listed companies as a common way of merger and acquisition has attracted wide attention. However, in the process of restructuring, the company is also increasingly involved in various risks, including

financial risk, operational risk, market risk etc. [7]. Since the ST Zhangzi Island financial violation were exposed, corporate governance has been the focus of scholars. Whether the enterprise decisions in asset stripping, business integration, strategic merger and acquisition involved in the restructuring plan are reasonable and whether they conform to the industry norms are all issues worthy of further study as shown in Table. 1 [8].

Table 1: Partial Financial Data of ST Zhangzi Island from 2020 to 2022.

	2022	2021	Variation	2020
Operating income (yuan)	2,020,579,208.99	2,082,837,515.23	-2.99%	1,926,660,964
Net profit attributable to shareholders of the listed company (yuan)	3,935,043.49	7,343,949.02	-46.42%	14,849,483.85
Net profit attributable to shareholders of the listed company after deducting non operating profit and loss (yuan)	95,067,598.73	-102,770,220.24	68.68%	-143,909,503.68
Net cash flow generated from operating activities (yuan)	95,067,598.73	118,477,466.70	-19.76%	210,851,292.76
Basic earnings per share (yuan/share)	0.0055	0.0103	-46.60%	0.0209
Diluted earnings per share (yuan/share)	0.0055	0.0103	-46.60%	0.0209
Weighted average return on equity	8.64%	32.46%	-23.82%	163.61%
	At the end of 2022	At the end of 2021	Variation	At the end of 2020
Total assets (yuan)	2,434,836,983.55	2,470,470,603.73	-1.44%	2,556,101,329.39
Net assets attributable to shareholders of the listed company (yuan)	65,383,957.99	43,553,280.43	50.12%	12,571,332.53

ST Zhangzi Island 's financial problems are one of the main reasons for the company's stock price decline and difficulties, so it is of great significance to conduct an in-depth analysis of its finance [9]. Whether the measures of asset divestiture and business integration in ST Zhangzi Island restructuring plan can effectively improve the company's profitability and reduce costs are also the issues that need to be further studied. The operating revenue is presented in Fig. 1. The competition in the Marine aquaculture industry is fierce. As a leading enterprise in the industry, the impact of its restructuring plan on the whole industry also needs to be further discussed. For example, whether the cooperation between it and other Marine breeding enterprises can drive the coordinated development of the whole industry and improve the overall competitiveness of the industry [10].

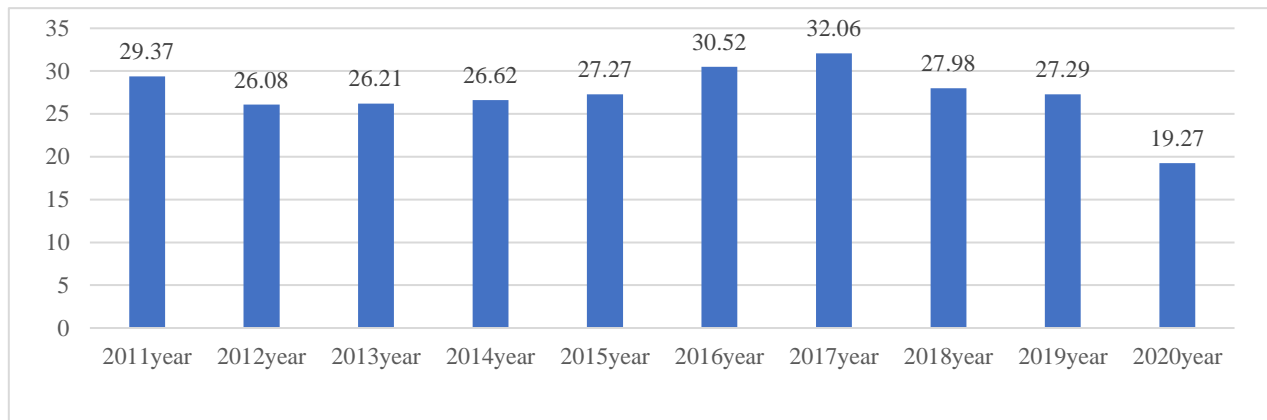


Figure 1: Operating revenue of ST Zhangzi Island from 2011 to 2020 (100 million yuan).

4. Results & Discussion

The reorganization event of ST Zhangzi Island is one of the most controversial cases in China's capital market in recent years. In this event, the company faced the risk of delisting due to financial irregularities such as falsely increasing income and concealing losses, and finally restructured by issuing shares to purchase assets, and successfully avoided being dealt with by ST [11]. Therefore, the in-depth study of the reorganization event of ST Zhangzi Island can not only help us better understand the process and risk of the reorganization of listed companies, but also help to improve the supervision and governance capacity of China's capital market. As a listed company, ST Zhangzi Island's governance structure and supervision mechanism have attracted much attention. Relevant studies show that ST Zhangzi Island has some problems in equity structure, internal control and other aspects, and needs to strengthen the construction of governance system [12].

The financial problem of ST Zhangzi Island is one of the main reasons that lead to the company's predicament, and the research on its financial problem is quite in-depth [13]. For example, some studies through the analysis of the balance sheet, cash flow and other financial data of ST Zhangzi Island found that the company has a large number of inventory overhang and overdue payments and other problems. The operating income is shown in Fig. 2.

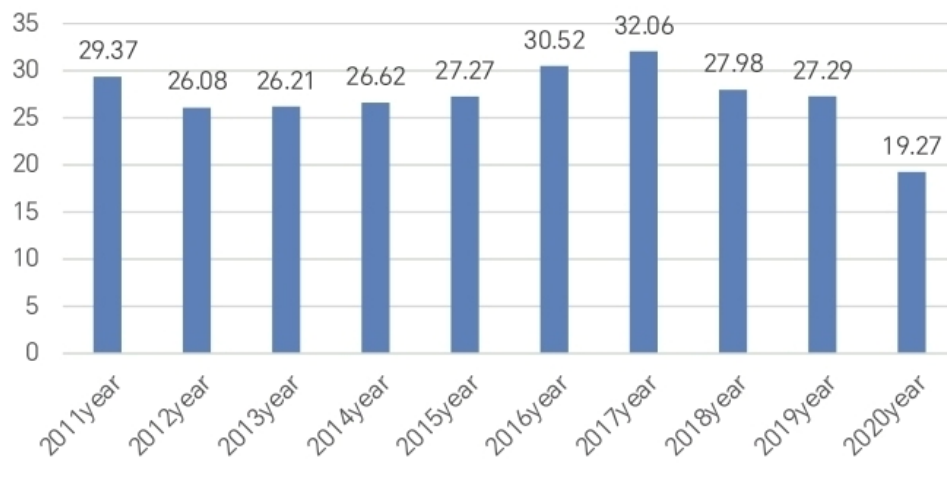


Figure 2: Operating income of ST Zhangzi Island from 2011 to 2020 (RMB 100 million).

The Marine aquaculture industry in which ST Zhangzi Island is located has attracted much attention, and there are many related researches. Among them, some studies have explored the market size, industry development trends, and competitive landscape of the Marine aquaculture industry. The company gradually recovered its position in the market and went public again. This case shows ST Zhangzi Island Company's ability to actively cope with the crisis, carry out internal reform and cooperate with the outside world, and provides a useful reference for other enterprises facing similar problems [14]. Although ST Zhangzi Island pays attention to the fulfillment of corporate social responsibility in its reorganization plan, further research and evaluation are needed to determine whether the fulfillment of specific social responsibilities meets expectations [15]. In addition, the Marine aquaculture industry has long had the problem of low technical level and low added value of products. As a leading enterprise in the industry, ST Zhangzi Island's exploration and practice in technological innovation and industrial upgrading are also worthy of further study.

5. Suggestions & Implications

According to the analysis, following suggestions and implications are given. First of all, the lack of proper internal control environment, control and checks and balances between ST Zhangzi Island's administrative department and the board of directors is mainly due to excessive emphasis on capital. Although Mr. Chairman of the company has limited shares, he colludes with some major shareholders, arranges his relatives to hold important positions in the company, and controls the power of the company, which no one can challenge, thus defrauding the company and seriously damaging the interests of minority shareholders [16]. It is necessary to change this situation, improve the internal control environment, enhance the effectiveness of internal control, introduce long-term strategic investors, diversify stocks, and improve the corporate governance structure. Secondly, training and education should also be strengthened to gradually eliminate staff and managers who lack integrity and ethical standards, raise the importance of corporate integrity and ethics, and establish a sound organizational environment culture.

For agricultural production institutions that are highly dependent on the natural environment and climate conditions, the monitoring and early warning of natural disasters are crucial, and risk assessment and scientifically effective early warning mechanisms can determine and predict risks in advance [17]. The Panel may consider working with sectors such as fisheries, oceans, meteorology, research institutes and universities to draw on the technical and professional strengths of external institutions and experts to analyze the state of the environment and climate and to arrive at more scientific conclusions. In addition, the enterprise should also improve the quality and cultural level of the company's management personnel, as ST Zhangzi Island is an agricultural production enterprise, the company should pay attention to improving the quality and level of employees, especially the overall quality of senior executives, in order to be competent for the analysis and evaluation of complex market environment and industry conditions. Establish a scientific risk assessment mechanism to help enterprises make more scientific decisions [18].

The frequent "escape" and "failure" of ST Zhangzi Island bottom scallop resulted in large inventory impairment. In addition to financial fraud and whitewashing of financial statements by the management for profit, the inventory loss was also greatly different from the book due to the control defects of business activities [19]. Mr. Chairman arranged his relatives to serve as important departments such as procurement and aquaculture, and the heads of each department arranged their own personnel to participate in various business activities, resulting in the fact that business activities could not be effectively supervised, and the rules and systems became a formality [20]. There is therefore a need to prevent participation in private gain through the replacement of staff, thereby providing for mutual monitoring of operational activities, particularly procurement activities. Similarly, responsibility and accountability between internal functions must be clarified,

accountability for breaches of business rules, inadequate oversight, and inclusion of performance evaluation criteria [21]. In addition, in production activities such as fishing, professional supervision can be employed to ensure that grassroots staff strictly follow rules and business processes and avoid significant losses.

6. Conclusion

In summary, this study discusses the reorganization processes, reasons as well as solving approaches of a certain company in Marine food industry. To be specific, this study selects ST Zhangzi Island as a typical example with serious financial issue. According to the analysis, it is noticed that the origination of the reorganization is the financial issues and fraud measurements taken by the company. Based on the evaluations, corresponding suggestions are given to the industry. Nevertheless, some of the first-hand data is difficult to retrieve and the open-access data of financial statement might be fraud. Further studies ought to collect more direct information accurately. Overall, these results offer a guideline for industry analysis of reorganization companies.

Authors Contribution

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

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