The Impact of Controlling Shareholder Interest Misappropriation on the Value of Shede Liquor Industry

Liu Weihang

Beijing Union University, Beijing, 100101, China

Abstract: This study uses Shede Winery as a case to reveal non-operational fund misappropriation and concealed related-party transactions at Tianyang Holdings. Findings indicate that such embezzlement has evolved from direct misappropriation to indirect transfers, rooted in failed internal governance and delayed external oversight. These actions not only trigger immediate stock price declines but also cause sustained erosion of long-term operational efficiency and strategic credibility. This case demonstrates that merely curbing direct misappropriation is insufficient. Restoring corporate value requires fundamentally improving equity checks-and-balances mechanisms, strengthening internal control systems, and enhancing external oversight mechanisms. This study provides important insights for elevating corporate governance standards and strengthening shareholder rights protection.

Keywords: Major shareholder misappropriation; ShuDe liquor; Corporate governance; Enterprise value; Tunnel effect

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1. Introduction

In recent years, the misappropriation of corporate assets by major shareholders has emerged as a critical governance issue undermining company value and investor confidence. This practice has evolved from direct fund diversion and related-party transactions to more covert forms of interest transfers. Taking ShuDe Liquor as a case study, this paper examines the manifestations of major shareholder misappropriation, its value erosion mechanisms, and the effectiveness of governance measures. Between 2019 and 2020, its indirect controlling shareholder, Tianyang Holdings, engaged in non-operational fund misappropriation totaling 475 million yuan, drawing market and regulatory scrutiny and exposing governance risks following control transfers. The case demonstrates that such misappropriation causes long-term and covert damage to corporate value. Unless governance structures undergo fundamental improvement, even if direct misappropriation is halted, the company may still face strategic distortions and sustained value erosion. This study aims to systematically uncover the causes and economic consequences of major shareholder interest encroachment, providing insights for enhancing corporate governance and investor protection.

2. Literature Review

Research indicates that major shareholder misappropriation of corporate assets frequently occurs in environments characterized by concentrated shareholding, sluggish growth, and weak investor protection. Financial pressures faced by controlling shareholders further intensify their motivation for misappropriation. Methods of misappropriation have evolved from early forms such as fund diversion and related-party

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About the Author

Liu Weihang (2000-), Female, Han, Baoding City, Hebei Province, Position/Title: None, Education: Graduate Student, Affiliation: Beijing Union University, Research Focus: Accounting.

transactions to more covert practices including dividend manipulation, improper incentives, and unfair asset swaps. Such practices not only directly erode corporate resources, elevate financial risks and financing costs, and undermine long-term corporate value, but also distort market signals at the macro level, reduce capital allocation efficiency, and accumulate systemic risks. Their negative impacts are persistent; even after misappropriation ceases, the damage inflicted on corporate governance ecosystems and strategic execution capabilities continues to impede development. Governance requires internal-external coordination: internally, optimizing equity structures and strengthening board oversight; externally, improving laws, enhancing regulation, and reinforcing market supervision. Despite increasingly stringent regulations in China, frequent misappropriation incidents reflect the need for deeper governance practices.

3. Analysis of the Misappropriation of Assets by Major Shareholders of ShuDe Liquor Co., Ltd.

(1) Overview of shede liquor company

Founded in Tuopai Town, Sichuan, Shede Liquor went public in 1996 as an early IPO company in the baijiu industry. It follows a dual-brand strategy of "Tuopai" and "Shede," focusing on aged liquor reserves and green production. However, its growth lags behind industry peers—with 2022 sales of RMB 2.7 billion, compared to Moutai's RMB 98 billion and Laobaigan's RMB 3.6 billion. In November 2015, Tianyang Investment acquired a stake in Tuopai Group, becoming Shede's indirect controlling shareholder and marking its transition to private ownership.

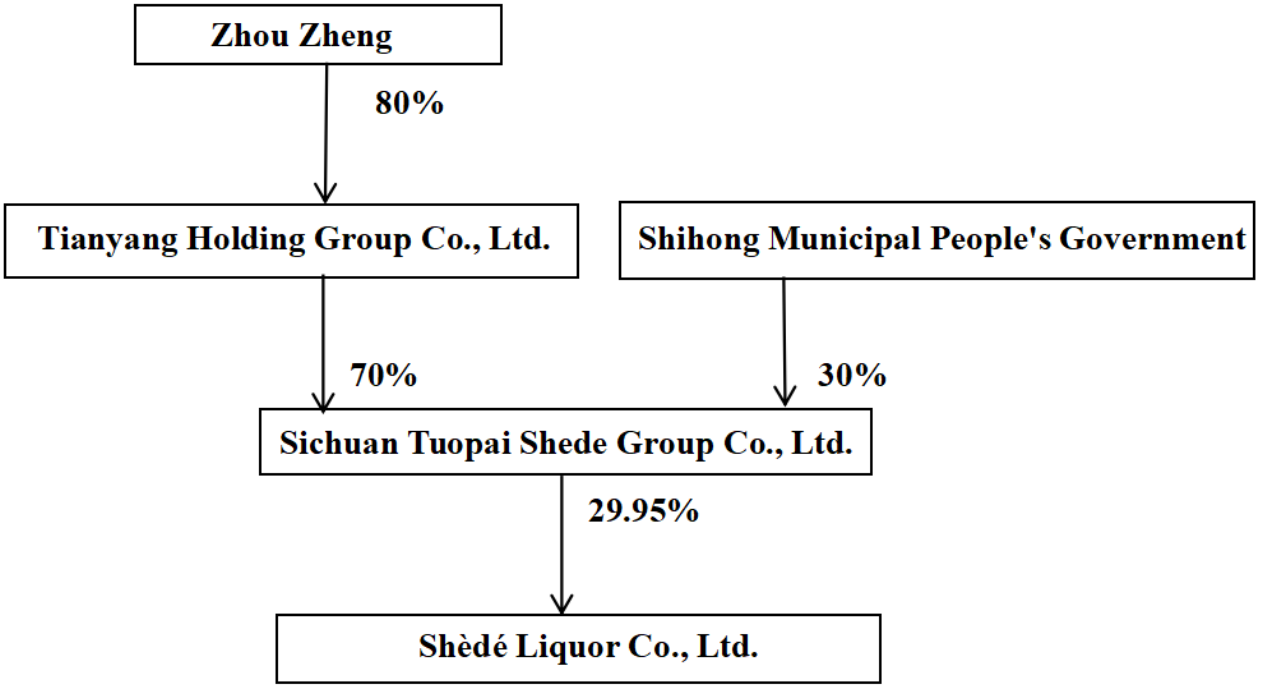


Figure 1: Schematic Diagram of Shareholding Structure Prior to the ShuDe Liquor Industry Incident

Tianyang Holdings was founded by Zhou Zheng, initially operating primarily in the audio-visual business in Qinhuangdao before relocating to Beijing and shifting focus to real estate. To expand its scale, the company acquired a Hong Kong-listed firm in 2013 and rebranded as "Dream East," extending its operations into the cultural tourism sector. In 2015, it gained control of Shede Liquor, establishing a dual-listed structure with companies in both domestic and international markets. However, this expansion momentum subsequently encountered a major setback.

(2) Review of the major shareholder misappropriation incident at Shede Liquor

On August 19, 2022, Shede Liquor disclosed that its controlling shareholder, Tianyang Holdings, had improperly occupied company funds totaling 475 million yuan. Further investigation revealed non-operational transfers of 4.01 billion yuan between 2021 and 2022 through related entities. Unable to repay, Tianyang's equity in Tuopai Shede Group was frozen. Following local government intervention, its 70% stake was judicially auctioned to Fosun International for 4.53 billion yuan, resulting in a change of actual control.

During the investigation, the company uncovered additional issues. Major shareholders were found to have used the listed company's resources for external investments under the guise of cooperation, resulting in losses of RMB 100 million. The damages caused by these non-operational uses and cooperative investments have been legally compensated through proceeds from stock sales. In August 2021, the Shanghai Stock Exchange announced disciplinary measures against Tuopai Group, Zhou Zheng, and their affiliated entities.

(3) Methods of appropriation by major shareholders of Shede Liquor

1) Related-party appropriation

Since late 2018, Tianyang Holdings has been occupying funds from Shede Liquor. After 2021, the scale of fund occupation significantly expanded, accumulating non-operational principal occupation of 440 million yuan and fund occupation fees of 35 million yuan. Funds circulated through complex multi-tiered related-party transactions with concealed pathways to evade regulatory scrutiny. Additionally, to address audits, the major shareholder temporarily transferred funds via fictitious transactions at quarter-end and year-end to balance financial statements, involving 2.95 billion yuan, most of which lacked proper approval procedures. From 2020 to 2022, cumulative fund misappropriation reached RMB 4.01 billion, representing 123.8% and 106.1% of the company's net assets in 2021 and 2022 respectively.

Frequent and substantial capital transactions occurred between ShuDe Liquor and its major shareholders. Particularly between April 2021 and May 2022, both payment and recovery amounts remained at elevated levels, reflecting the persistent and systematic nature of capital occupation. Notably, the timing of fund recoveries often coincided with quarter-end and year-end periods, such as March, June, September, and December 2021, suggesting potential temporary fund transfers to balance accounts. This pattern of capital flow not only complicates regulatory oversight but also exposes serious deficiencies in the company's internal financial controls.

2) Funds misappropriated through joint venture investments with listed companies

During investigations into major shareholder misappropriation, listed companies uncovered another issue: major shareholders indirectly diverted company funds via joint venture investments. Upon investigation, it was found that Tianying Chain was originally wholly owned by Tianyang Holdings. In 2020, Shede Liquor, Tianyang Investment, and Tuopai Group jointly injected 350 million yuan into Tianying Chain, with the listed company contributing 100 million yuan. Following the capital increase, Tianying Chain's registered capital rose to 400 million yuan, with the listed company holding a 25% stake and the Tianyang group collectively holding 75%.

Although Tianying Chain is jointly held by Shede Liquor, Tianyang Investment, and Tuopai Group, Tianyang Holdings retains actual control. While nominally conducting supply chain factoring to enhance capital efficiency, the company has effectively become a new channel for major shareholders to appropriate listed company funds. As Table 2 illustrates, Tianying Chain provided multiple factoring financing facilities to Tianyang Holdings and its affiliates, creating a capital transfer mechanism that resulted in a ¥100 million investment loss for Shede Liquor. Despite the company's stated aim of supporting supply chains and improving capital utilization through accounts receivable factoring, the actual operations failed to meet expectations. Instead, all funds were appropriated by the Tianyang Group. Fortunately, this loss was fully recovered in 2021.

The following table details related-party transactions between Tianying Chain and Tianyang Holdings and its affiliates:

Table 1: Related Party Transactions Between Tianying Chain Factoring Company and Tianyang Holdings and Its Affiliates

Fund Transfer Recipient	Contract Date	Maturity Date	Principal (RMB 10,000)	Interest Rate
Tianyang Holdings	2022.05.01	2021.07.10	14800.00	8%
Tianyang Electric	2020.10.19	2023.10.18	9326.85	8%
Tianyang Electric	2020.10.19	2023.10.18	4937.94	8%
Tianyang Trading	2020.10.19	2023.10.18	915.21	8%

4. Analysis of the Causes Behind the Major Shareholder's Misappropriation of Assets at ShuDe Liquor

This chapter aims to conduct an in-depth analysis of the causes behind the major shareholder's appropriation of corporate assets at Shede Liquor. These causes are both phased and complex, encompassing not only the historical conditions that triggered direct appropriation during the Tianyang Holdings period, but also the governance dilemmas faced by the company after Fosun Group's takeover and the resulting risks of disguised benefit transfers. Therefore, this section will conduct a systematic analysis from two levels: the causes of direct appropriation and the causes of subsequent governance failure.

(1) Deficiencies in internal control governance

On August 20, 2022, Shede Liquor publicly disclosed that its controlling shareholder Tianyang Holdings and related parties had illegally appropriated funds amounting to 4.01 billion yuan, exposing severe deficiencies in the company's internal controls. The Shanghai Stock Exchange issued an inquiry letter regarding this matter. After multiple delays in responding, ShuDe Liquor's stock was placed under special treatment (ST) due to capital issues. This incident reflects the company's failure to adhere to internal approval procedures and timely information disclosure. Key executives, including Chief Financial Officer Li Fuquan, were subjected to compulsory measures on suspicion of breach of trust and harming the interests of the listed company.

(2) Inefficient external oversight

In the case of Tianyang Holdings' fund diversion, its failure to repay bank loans resulted in the judicial freezing of its 70% stake in Tuopai Shede Group. This not only intensified its financial strain but also exposed the risk of control changes at Shede Liquor. This illegal activity began in 2019 but was not disclosed until 2020, with penalties only imposed in 2021. This sequence reflects deficiencies in regulatory early warning and response efficiency, highlighting the ongoing challenges facing market oversight.

(3) Controlling shareholder burdened by heavy debt

Following reforms in 2016, Shede Liquor's performance has shown sustained growth, with revenue rising from RMB 1.156 billion to RMB 2.650 billion in 2022, and net profit increasing from RMB 7 million to RMB 508 million. Its advantage in aged liquor reserves underpinned operational resilience amid pandemic disruptions and competitive pressures. However, its controlling shareholder, Tianyang Holdings, became mired in debt and litigation, while its subsidiary Dream Oriental shifted from profit to loss. To sustain its own operations, Tianyang Holdings misappropriated funds from ShuDe Liquor, ultimately leading to the listed company being placed under ST status.

(4) Open and covert battles for shareholding control

Tianyang Holdings' acquisition of Shede Liquor was primarily driven by the high profitability and stable cash flow expectations of the baijiu industry, which initially had a positive impact on the company's development.

However, as its own operations deteriorated and its capital chain tightened, the occupied funds became difficult to repay. Compounded by legal disputes and equity freezes, this further exacerbated debt risks. Although the occupied 440 million yuan has not significantly impacted the company's daily operations, should Tianyang Holdings' debt enter judicial proceedings, it could still disrupt the company's normal operations and strategic implementation. The market also worries about potential control disputes with local governments. If the fund occupation persists or the equity is disposed of, the company's actual control may face a change.

5. Study on the Impact of Major Shareholder Misappropriation on the Value of ShuDe Liquor Co.

(1) Impact on the financial performance of listed companies

To assess the substantive damage caused by major shareholder misappropriation to Shede Liquor, this study conducts a longitudinal comparison of key financial indicators from 2018 to 2023. Specific data is presented in Table 4. Analysis indicates that misappropriation not only deteriorates the company's short-term financial condition but also triggers governance-related consequences that pose persistent challenges to long-term operational efficiency and financial health.

Table 2: Changes in Key Financial Indicators Before and After the Incident

Indicator Dimension	Specific Indicator	2018	2019	2020	2021 (Event Period)	2022	2023
Profitability	Operating Profit Margin (%)	14.67	22.60	21.75	23.70	40.76	25.51
	Net Profit Margin (%)	7.09	16.29	15.19	16.00	30.76	23.71
	Net Profit Growth Rate (%)	169.00	166.05	11.81	-11.45	347.94	-12.79
	Return on Equity (%)	2.66	6.04	7.12	5.24	18.58	25.34
Operating capacity	Inventory Turnover Days (days)	1698.11	1341.28	373.05	1735.78	931.20	1039.60
	Accounts Receivable Turnover Days (days)	6.08	11.15	19.32	21.41	13.17	17.02
Debt Repayment and Cash Flow	Cash and Cash Equivalents (RMB 10,000)	160,083	134,754	97,252	244,801	526,659	499,341
	Gross Profit Margin (%)	76.20	75.87	77.81	77.72	78.65	77.62

1) Profitability analysis

Following the cessation of illegal fund transfers by the controlling shareholder in May 2022, ShuDe Liquor's profit margin and net profit margin both rebounded rapidly, reflecting the significant suppression of profitability caused by the misappropriation. However, net profit growth turned negative again in 2023, indicating that despite the end of direct misappropriation, strategic internal friction and operational efficiency issues stemming from governance challenges continue to undermine the company's profit growth momentum.

2) Operational efficiency analysis

Analysis of ShuDe Liquor's operational capabilities before and after the incident reveals that its inventory

turnover days improved significantly in 2019 but rebounded between 2021 and 2022, exceeding previous levels. Following resolution of the issues, these days declined rapidly, indicating that inventory management was significantly impacted by the incident. Concurrently, the days sales outstanding (DSO) continued to lengthen from 2018 to 2021, indicating declining capital recovery efficiency. Related issues gradually improved after 2021. The three companies are Jiugui Liquor, Yili Liquor, and Yingjia Gong Liquor.

Table 3 ShuDe Liquor vs. Peer Companies: 2022 Operating Efficiency Comparison (Unit: Days)

	Shèdé Liquor Co.	Jiuguijiu	Yilite	Yingjia Gongjiu
Inventory Turnover Days	1735.78	1184.99	353.15	1084.34
Accounts Receivable Turnover Days	21.41	1.33	6.78	5.61

As shown in Table 3, in 2022, ShuDe Liquor's inventory turnover days (1,735.78 days) and accounts receivable turnover days (21.41 days) were both significantly higher than comparable companies in the same industry, indicating that its operational efficiency was markedly below the industry average. This not only reflects systemic deficiencies in the company's inventory and accounts receivable management but also suggests that fundamental improvements in internal operational mechanisms have yet to materialize following the exposure of the misappropriation incident. Compared to peers, excessively long inventory cycles tie up substantial capital, while slow accounts receivable collection severely hampers capital utilization efficiency. Although relevant metrics improved in 2022 relative to the incident period, inventory turnover days rose again in 2023. This further reveals that the company's operational management has yet to enter a stable and efficient track, with deep-seated governance issues continuing to exert negative impacts.

3) Solvency analysis

As a baijiu producer with stable profitability, Shede Liquor should possess ample liquidity. However, its financial statements reveal anomalies. As shown in Table 4, the company's cash and cash equivalents increased from RMB 1.973 billion in 2021 to RMB 2.448 billion in 2022—a rise of approximately 40%. Its operating profit margin has remained consistently above 77% for three consecutive years. Nevertheless, operating cash flow exhibited significant volatility, plummeting from RMB 2.227 billion in 2021 to RMB 1.041 billion in 2022—a discrepancy inconsistent with its high profitability. This contradiction suggests that major shareholders may have artificially inflated cash balances through financial maneuvers to conceal substantial fund misappropriation. This practice likely deteriorated the company's actual liquidity, forcing reliance on external financing. Following the cessation of direct misappropriation, cash flow temporarily recovered in 2022. Yet 2023 saw a recurrence of abnormal conditions—high deposits, low cash flow, and negative profit growth—with net cash flow from operating activities dropping to RMB 1.03 billion. This indicates that the current governance crisis may have impaired strategic execution and cost control, weakening the core business's self-sustaining capacity. Consequently, funds on the books struggle to translate into sustained cash flow, exposing new financial risks.

(2) Impact on firm value

To quantify the impact of major shareholder misappropriation on corporate market value, this study employs an event study methodology. The misappropriation announcement released by ShuDe Liquor on August 19, 2022, serves as the event date, with the subsequent trading day (August 22) designated as the event day (t=0). An event window of [-8, 8] spanning 17 trading days is established to capture the overall market reaction.

Expected returns are estimated using a market model defined as:

$R_t = \alpha + \beta R_mt + \varepsilon_t$

where R_t represents the actual daily stock return, R_mt denotes the daily market portfolio return, α and β are parameters to be estimated, and ε_t is the random error term. The estimation window spans 245 to 16 trading days prior to the event date ([-245, -16]). OLS regression yields parameter estimates, enabling calculation of the

expected normal return E(Rt) for each day within the event window.

The formulas for excess return ARt and cumulative excess return CAR are as follows:

$ARt = Rt - E(Rt)$, $CAR = \sum ARt$

Empirical results indicate that the excess return on the event date was −3.25%, with sustained negative abnormal returns already emerging in the early phase of the event window, suggesting market anticipation prior to the announcement. The cumulative abnormal returns within the event window were CAR[−8,0] = −11.38% and CAR[−3,3] = −14.25%, both significantly negative, reflecting a pronounced negative impact of the embezzlement announcement on the company's market value. Even eight trading days after the event date, CAR[0,8] remained at −5.72%, indicating the persistence of negative effects.

In summary, the event study findings demonstrate that the disclosure of major shareholder interest encroachment significantly harmed ShuDe Liquor's market value, underscoring the importance of improving corporate governance and investor protection.

Table 4: Descriptive Statistics for ShuDe Wine Industry Stock

Indicator	Pre-event window period [-15, -6]	Event period [-5, 5]	Post-event window period [6, 15]
Average Daily Trading Volume (Shares)	9,331,158	40,625,036	13,197,463
Average Daily Turnover Rate (%)	1.25	5.42	1.76
Cumulative Return Over Period (%)	-5.21	-27.83	11.39
Excess Return Over Period (%)	-3.05	-22.61	6.22

Table 4 shows that prior to the disclosure of the major shareholder embezzlement incident, Shede Liquor's stock had already experienced negative excess returns to some extent, with daily trading volume slightly increasing, indicating market anticipation of negative rumors. During the event period following the announcement, the stock suffered a severe decline, accumulating an excess loss of 22.61%. The average daily turnover rate and trading volume surged significantly, reflecting investors' risk-averse sentiment toward corporate governance issues. In the subsequent recovery phase, the negative impact gradually dissipated, the stock price resumed its upward trend, and trading activity gradually returned to normal.

Table 5: AR and CAR Data for ShuDe Liquor Co., Ltd. Stock

Trading Day	Actual Yield (%)	Expected Yield (%)	AR(%)	CAR(%)
-8	-2.15	-0.76	-1.39	-1.39
-7	-0.86	0.38	-1.24	-2.63
-6	-2.34	-0.89	-1.45	-4.08
-5	1.24	0.81	0.43	-3.65
-4	-1.36	0.22	-1.58	-5.23
-3	-2.21	-0.47	-1.74	-6.97
-2	-0.95	-0.12	-0.83	-7.80
-1	-1.73	-0.69	-1.04	-8.84
0	-7.26	-0.52	-6.74	-15.58
1	-2.52	-1.59	-0.93	-16.51
2	-2.79	-0.74	-2.05	-18.56
3	-3.28	-1.03	-2.25	-20.81
4	-1.02	0.93	-1.95	-22.76
5	0.76	1.12	-0.36	-23.12
6	3.42	0.85	2.57	-20.55
7	1.89	1.09	0.80	-19.75
8	0.44	-0.27	0.71	-19.04

Using the CSI 300 Index as the market portfolio, the estimation window spans 240 trading days preceding the event date. After excluding data from the event window period, the market model estimates the expected return as $E(R_t) = 0.0085 + 1.3794R_{mt}$, with an R^2 value of 0.54.The AR and CAR values in Table 7 largely align with the trend. Significant negative excess returns emerged on the event date and surrounding periods, accumulating over an extended timeframe. This further corroborates the earlier analysis conclusion: the major shareholder misappropriation incident severely undermined ShuDe Liquor's market value, triggering a strong negative investor reaction.

6. Research Findings and Countermeasures

(1) Research findings

This study finds that major shareholders' interest encroachment evolves dynamically from direct asset stripping to indirect transfers, rooted in dual failures in internal governance and external oversight. Such acts cause immediate market value loss through stock declines and worsen long-term operational efficiency and strategic stability, forming a "behavior-performance-value" negative loop. Thus, preventing such structural harm requires systematic governance improvements in equity checks, internal controls, and regulatory coordination.

(2) Countermeasures

1) Enhancing internal governance mechanisms

To address governance issues under concentrated ownership, the equity structure should be optimized by introducing counterbalancing shareholders to create internal oversight, while guarding against collusion or control disputes. Corporate governance should be refined through institutional arrangements that clearly define rights and responsibilities in key decision-making areas. Additionally, the supervisory role of minority shareholders should be strengthened, enabling them to act as an effective check on controlling shareholders through legal channels such as proposals and inquiries.

2) Strengthening the external oversight system

The current external regulatory framework requires strengthening, as excessively low penalties for violations undermine deterrence. The cost of noncompliance should be raised systematically by strictly enforcing the Securities Law, enhancing criminaljudicial coordination, improving the delisting mechanism, and establishing integritybased credit constraints. Regulation should also focus on newer forms of interest transfer, such as complex relatedparty transactions, by boosting transparency and exploring mechanisms like classified voting to empower minority oversight.

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