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Combining Risk Factor Theory and GONE Theory on the Case Study of Financial Malpractice in F Coffee

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Abstract: With the rapid development of China's economy, more and more companies have embarked on the road of listing, and the financial fraud of listed companies is also prohibited, for the development of China's economy, financial fraud to a certain extent violates the principle of fairness and impartiality of the market, but also seriously affects the morale of China's market, and is likely to become an obstacle to China's economic development. This paper provides an in-depth analysis of the motivation, impact and governance strategy of financial fraud in F Coffee. Based on GONE and risk factor theory, it analyzes the moral, motivation, opportunity and exposure factors of fraud and reveals the root causes of F's fraud. Governance strategies such as improving moral quality, suppressing fraud motives, and improving internal governance and discovery mechanisms are proposed. The purpose of this paper is to deepen the understanding of financial fraud and provide a reference for the prevention and governance of similar problems.

1. Introduction

1.1 Background of the study

With the vigorous development of market economy, the global capitalist market economy system is becoming more and more prosperous, and its management system is becoming more and more perfect. Against this background, many enterprises have flocked to the capital market to raise capital by issuing shares and other means to rapidly become listed companies, thus further attracting investment and expanding their business scale. Effective capital raising by listed companies through the securities market has a significant impact on economic stability and global development, and has become an important part of the capital market. However, the problem of information asymmetry between listed companies and the public makes the quality of financial reporting a key measure of market transparency and efficiency. Therefore, the information released by listed companies must be timely, accurate and truthful.

Since the establishment of the capital market, financial fraud has always been the focus of attention in the capital markets of various countries. With the gradual acceleration of economic development, a variety of financial fraud incidents have been exposed one after another. From the

Enron scandal that caused a sensation in the entire capital market to the Asia Pacific Industrial fraud that lasted for five years, from the new type of financial fraud known as "Zhangzi Island" to the financial fraud incident of the overseas listed company "F Coffee" studied in this article, listed companies use various fraudulent means to whitewash financial statement information in order to protect themselves from delisting or pursue other interests, causing investors to make investment decisions based on the false information disclosed in the financial statements of listed companies, which may lead to significant losses and even affect the stability of the capital market.[1]

In recent years, countries have taken a variety of measures to deal with financial fraud, but the means of fraud have become increasingly complex, and the rapid development of the Internet and the geographical characteristics of companies have made fraud more insidious. Effective prevention of financial fraud has become a major challenge nowadays. Therefore, it is crucial to conduct an in-depth study of typical cases of listed companies in the capital market, which helps to maintain market order and promote stable economic growth.

Against this background, this paper takes the financial fraud incident of "F Coffee" as the research object, and explores the motivation behind it, the means and its impact on the capital market. Through in-depth analysis, this paper aims to put forward targeted strategies and suggestions to prevent financial fraud, in order to promote the healthy development of the capital market and the sound operation of enterprises. Meanwhile, this paper will also discuss the financial fraud in the new retail industry, as well as the performance and challenges faced by Chinese stocks in overseas markets, with a view to providing reference and inspiration for the internationalization of Chinese enterprises.

1.2 Purpose and significance of the study

1.2.1 Purpose of the study

Taking F Coffee as a case study, this paper adopts the method of combining GONE theory and risk factors to deeply explore the financial fraud of F Coffee under the new retail model. Explore the business model of F Coffee and its problems. By analyzing its market positioning, store type, transaction mode, marketing mode, etc., we summarize the characteristics of F's business model and some irrationalities. It is hoped that this part has some reference value for the management and governance of listed companies, so as to prevent financial fraud, purify the market environment, and maintain the healthy and orderly development of the market.[2]

1.2.2 Significance of the study

In the face of the deep development of economic globalization, more and more enterprises choose to go out of the country to seek wider sources of capital and financing markets. Taking the financial fraud issue of the Chinese stock F Coffee as the background, we make a comprehensive analysis of its counterfeiting means and motives, summarize the motivating factors of financial fraud under the new retail model, analyze the means and their hazards in view of the relevant motives, and put forward the corresponding measures and governance solutions based on this. This program plays an important role in maintaining the order of the capital market and improving the cross-border regulatory system.[3]

2. Basic concepts and fundamental theories

2.1 GONE Theory

Fraud motivation theory mainly includes iceberg theory, fraud triangle theory, GONE theory and fraud risk factor theory. The GONE theory is proposed by Bologna G. Jack et al. in 1993, and the name of the theory includes four perspectives of analyzing fraud motivation, which are composed of the initial letters of the four perspectives: G for Greed, O for Opportunity, N for Need, and E for Exposure. G is translated as Greed, O is translated as Opportunity, N is translated as Need, and E is translated as Exposure. This theory suggests that when the subject in the environment has a greedy mentality and a need for fraud, and there are low exposure costs and opportunities for fraud in the environment, the subject is likely to seize the opportunity to engage in fraud. That is to say, the simultaneous existence of all four conditions can lead to potential fraud risks in the environment.[4]

2.2 Risk factor theory

On the basis of GONE theory, Bologna and others improved and modified it, and then published the theory of fraud risk factors. This theory is the most perfect research theory on the risk factors of corporate fraud so far. It divides fraud risk factors into two categories: individual risk factors and general risk factors. Individual risk factors are influenced by individuals, including moral character and behavioral motives. General risk factors include the conditions of fraud, the probability of fraud detection, and the severity of punishment after detection. Moral character corresponds to G of the GONE theory, motivation corresponds to N, opportunity for fraud corresponds to O, and the probability of detection, as well as the punishment and degree of detection, corresponds to E. Fraud usually occurs when the fraudster combines these two types of factors and believes that the fraudulent behavior is advantageous to him or her, at which point the fraudulent behavior is likely to occur.[5]

2.3 Comparison of the two theories

2.3.1 Methods of analysis

Factor risk theory assesses fraud risk by identifying individual risk factors and general risk factors, and then develops targeted risk management and internal control measures. This approach is widely used in the area of fraud risk management and internal control.

The GONE theory, on the other hand, assesses the risk of fraud by analyzing the interactions among the four factors and focuses on the motivation, opportunity, need and exposure of fraudulent behavior. The theory is more often used in the analysis and prevention of corporate accounting fraud to help companies identify potential fraud risks and take appropriate preventive measures.

Table 1: Correspondence between Factor Risk Theory and GONE Theory

<table>
<tr><th colspan="2">factor risk theory</th><th>GONE Theory</th></tr>
<tr><td rowspan="2">Individual risk factors</td><td>moral character</td><td>G (greed) factor</td></tr>
<tr><td>locomotive</td><td>N (demand) factor</td></tr>
<tr><td rowspan="3">General risk factors</td><td>Opportunities for fraud</td><td>O (opportunity) factor</td></tr>
<tr><td>Potential for exposure</td><td rowspan="2">E (exposure) factor</td></tr>
<tr><td>Nature and extent of penalties faced</td></tr>
</table>

The correspondence between the two theories can be clearly understood from Table 1, both theories emphasize the prevention and control of fraud, and reduce the risk of fraud by identifying and analyzing fraud risk factors. The difference is that the factor risk theory focuses more on the classification and analysis of fraud risk factors, dividing them into individual risk factors and general risk factors, which helps to assess the fraud risk more comprehensively.The GONE theory, on the other hand, focuses more on the analysis of the four key factors of fraudulent behaviors, i.e., greed, opportunity, need, and exposure, and emphasizes the impact of their interactions on the fraud risk.

2.3.2 Areas of application

GONE theory is more often used in the analysis and prevention of corporate accounting fraud, the field of corporate governance and corporate ethics, especially in the analysis of corporate behavior in multinational corporations and different national contexts. Focusing on the motives, opportunities, needs and exposures of fraudulent behaviors, it helps enterprises to identify potential fraud risks and take preventive measures accordingly. And factor risk theory has a wider application in the field of fraud risk management and internal control. It can be used not only for the assessment of corporate accounting fraud, especially for assessing corporate fraud risk and formulating corresponding management strategies, but also for a wider range of risk management scenarios, such as the identification of risk factors and portfolio construction in financial institutions.

By comparing and summarizing, we can see that there are certain differences and connections between factor risk theory and GONE theory in terms of theoretical background, classification of risk factors, analytical methods and applications, as well as summarization and generalization.

3. Overview of financial fraud at Rexchip Coffee

On January 31, 2020, Muddy Waters Research released an anonymous short-selling report exposing financial fraud at F Coffee. The report, based on 25,843 small tickets from stores and 11,260 hours of surveillance footage, pointed out in detail the fraudulent process of F Coffee. When the news broke, F Coffee's stock price and trading volume both fluctuated dramatically, although the company denied all the allegations and the market value was not affected too much.

However, on April 2, 2020, F Caffeine was forced to expose itself to financial fraud over its annual financial reporting, involving as much as RMB 2.2 billion. After the news was announced, the stock price plummeted, triggering multiple meltdowns. The China Securities Regulatory Commission (CSRC) quickly intervened and set up a task force to regulate the situation. After receiving two delisting notices from Nasdaq, F Coffee suspended its trading and delisted on June 29, 2020, ending its short 13-month listing.

F Coffee's financial fraud mainly includes inflating sales revenue, inflating costs and expenses and utilizing related party transactions. The company facilitated financial fraud by making cash flow shift to online form through online app sales and eliminating cash payments. F Coffee was also accused of financial fraud through inflated advertising costs and related party transactions.

The consequences of the financial fraud incident were disastrous. F Coffee's stock price spiraled downward and was eventually delisted, the company's credit was damaged, its future growth prospects were hampered, and financing became more difficult. Consumers' trust in F Coffee declined, and investors' investment confidence in F Coffee was shaken as their interests were jeopardized by the misinformation. In addition, the F Coffee incident negatively impacted the overall image of Chinese stocks, resulting in all Chinese stocks facing stricter regulation and scrutiny, and a higher threshold for listing.

In September 2020, the State Administration for Market Supervision and Administration (SAMSA) imposed administrative penalties on Rexchip Coffee for unfair competition, fining it RMB 2 million and fining the 43 third-party companies involved in the case a total of RMB 61 million. F Coffee said it respected and implemented the penalty decision and carried out corrective actions. At the end of the year, F Coffee agreed to pay a fine of US$180 million and settle with the SEC to resolve the financial fraud allegations. The incident not only had a significant impact on F Coffee itself, but also posed a serious challenge to the integrity and transparency of the entire capital market.

4. Analysis of the drivers of financial fraud in Rexall

4.1 Analysis of moral character and greed factors

Greedy behavior and lack of ethics at the top of the company were at the heart of the problems that led to the financial fraud at F Coffee. Information disclosed by the SEC revealed the leading role of Chairman Lu Zhengyao in the financial fraud, as well as the involvement of other executives, including Chief Operating Officer Liu Jian and the CFO. This incident highlights the serious lack of professional ethics and integrity among executives of listed companies.

From the company's inception, F Coffee has constantly faced questions about the moral character of its executives. Executives such as Lu Zhengyao and Qian Zhiya sought personal gain in the capital market through equity pledges, a tactic that was later used in the company's day-to-day operations. In this way, F Coffee received about $2.5 billion, roughly 49% of its stock value. While this means of financing relieved the company's financial pressure in the short term, it also increased the risk of stock price volatility, posing a potential threat to the interests of small and medium-sized shareholders and investors.

The background of Yang Fei, co-founder of F Coffee, is equally concerning, with a conviction for illegal business operations and complex connected transactions with the company. Questions have also been raised about the background of independent director Sean Shao, who has served on the boards of a number of tainted Chinese stock companies, all of which have incurred huge losses to public investors. These facts suggest that Rexchip Coffee's management has serious issues with integrity and ethics.

The financial fraud of F Coffee is not just the responsibility of individual executives, but the collective behavior of the entire management. Lu Zhengyao's experience with Shenzhou Rent-a-Car also shows a pattern of behavior of cashing out in the capital market. In the case of Rexchip Coffee, he and other shareholders cashed out huge sums of money by pledging their equity, a behavior that poses a great risk to small and medium-sized investors. The failure of Shao Xiaoheng, an independent director of F Coffee, to effectively fulfill his duty of diligence, and his experience in serving in a number of companies which generally suffered from losses and internal control deficiencies, further demonstrates the inadequacy of F Coffee in monitoring and safeguarding the interests of small and medium-sized shareholders.

The management of Ruixiang Coffee, in the process of promoting the rapid expansion of the enterprise, caused financial fraud due to its overconfidence in the new retail model and neglect of the pressure on capital liquidity. The management believed that the new O2O retail model driven by big data could effectively reduce operating costs, improve productivity, and help the enterprise rapidly capture the market. Based on this belief, F Coffee has raised several rounds of financing in the capital market, especially in the Series A and Series B rounds of financing, which each received $200 million, and raised a total of $865 million in capital through issuing additional shares and issuing convertible bonds. This has fueled the company's rapid expansion. However, this market has not yet matured, and after obtaining a huge amount of financing, the number of F Coffee's stores grew rapidly, growing to 1,189 stores between the Series A and Series B rounds of financing, with the number of stores growing by 565 stores in a single quarter, and the number of stores opened in a single quarter after the Series B round of financing reached 884 stores. However, despite the smooth financing channels and speed, the profitability of F Coffee is not ideal, and the operating pressure is huge.In the first quarter of 2018, the operating cash flow of F Coffee was -124 million yuan, and with the increase in the number of stores, the operating cash flow loss is gradually expanding. By 2018, the operating cash flow loss reached a maximum of -72 million yuan, and the loss increased by 480.65%.

Ruixiang Coffee is facing huge pressure on liquidity, and the company is attracting customer traffic by offering a large number of preferential subsidies, which further aggravates the pressure on capital. Meanwhile, as the company is always in an expansion mode, the investment cash flow is always negative, indicating that the company's investment outflow is greater than the inflow, and it is facing huge investment pressure. Management's blind optimism about the profitability model and profitability rate resulted in insufficient financing to cover the shortage of funds for operation and investment, and the trend of positive cash flow from operation and cash flow from investment was not obvious.

At the same time, Yang Fei, the chief marketing officer of F Coffee, has a "track record" that casts doubt on the authenticity of the company's marketing messages. He has been paid to delete unfavorable information and publish inaccurate positive information, which is a serious violation of the principle of market integrity.

In the end, due to the lack of financing incentive, F Coffee could only cater to the expectations of investors at a later stage by falsifying financial data to ensure the viability of its profit model. This greedy desire of the management to seek great success did not help F Coffee achieve rapid growth, but instead led to financial fraud, which plunged the enterprise into a serious crisis. This incident highlights that while pursuing rapid expansion, companies must reasonably assess and manage their capital liquidity and profitability models to avoid similar risks and problems.

To summarize, the financial fraud incident of Rejuveno Coffee was driven by the greed and lack of professional ethics of the company's top management. This incident has not only caused significant losses to investors, but also seriously jeopardized the health and sustainability of the capital market. Therefore, strengthening corporate governance, enhancing transparency and strengthening regulation are key to maintaining the stability and healthy development of the capital market. At the same time, investors also need to be vigilant and scrutinize the financial reporting and management behavior of listed companies.

4.2 Analysis of motivational and demand factors

The financial malpractice incident of F Coffee is a typical case of a company's management caused by greed and blind pursuit of rapid expansion. After its IPO, the company adopted a rapid expansion strategy in order to maintain its market position and share price by opening a large number of new stores and attempting to quickly capture market share by attracting customers through coupons and promotions. However, this strategy did not bring the expected profitability, but instead led to huge financial pressure and losses.Between 2018 and 2020, while Rexchip Coffee's revenues grew from 841 million yuan to 4,033 million yuan, costs grew even more rapidly, soaring from 2,430 million yuan to 8,477 million yuan, resulting in a cumulative net loss of as much as 10,386 million yuan.

In the face of financial difficulties, the management of F Coffee chose to cover up the real operating situation through financial fraud to attract more investors and capital. They inflated revenue by 2.119 billion yuan as a way to whitewash the financial statements and mislead investors, so as to obtain more financial support in the capital market. The management also disguised their cash by pledging their shares. Lu Zhengyao, Qian Zhiya and Wang Sunying pledged a large number of shares and have actually obtained huge amounts of capital in this way.

Ruihou Coffee's rapid expansion strategy, including the total number of stores reached 1,189 in 2018, and the number of stores has reached 4,910 at the end of 2019, with a year-on-year growth of 312.95%, surpassing the number of Starbucks stores of 4,310 in the same period. Despite the rapid expansion of stores and the rapid growth of revenues and costs, the amount of growth in revenues was not equal to the increase in costs, and the gap showed a widening trend, resulting in the operation of the business always at a loss.

F Coffee's management pursued profit before the company landed on Nasdaq in the United States, almost all of its financing came from Shenzhou system investors. Shenzhou Rent-a-Car went public in the U.S. in 2012 and then eventually declared bankruptcy after its business expanded too rapidly and its financial statements did not match the reality. F Coffee raised a total of $1.5 billion in its May 2019 initial public offering and subsequent January 2020 IPO, but that's not even close to the $2.5 billion amount of shares F Coffee managed to pledge out.

In order to maintain the image of positive development of F Coffee, and to maintain the domestic and international popularity, it adopts the method of financial fraud to make a "beautiful" financial statement, so as to occupy the coffee market more quickly and increase the share of the market. The company is famous for its price wars, but since it needs a lot of financial support, it is difficult to sustain such a strong discount for a long time, and the large number of coupons issued is actually a loss borne by the company.

The management of F Coffee claims that it has not resold the company's shares to the public, but Lu Zhengyao, Qian Zhiya and Wang Sunying have already pledged 30%, 47% and 100% of the company's shares, pledging nearly fifty percent of all its shares, and have in fact already cashed out by way of equity pledges. This behavior bears a striking resemblance to the case of Shenzhou Rent-A-Car, which involved management attracting investors by creating an image of good performance after the company's IPO, and then cashing out when the stock price was high.

4.3 Analysis of opportunities for fraud and opportunity factors

F Coffee's financial fraud incident is the result of a combination of factors such as the company's internal governance deficiencies, concentrated shareholding structure, loopholes in the business model and the difficulty of external regulation.

The new retail model adopted by F Coffee utilizes big data and artificial intelligence technology to realize online ordering and offline pickup through mobile apps as a way to reduce transaction costs and enhance the consumer experience. However, the drawback of this model is that all sales data are stored in the company's big data system, and problems such as imperfections in the system and irregularities in the operation of technicians may lead to enhanced manipulability of data and hidden means of tampering. In addition, in order to improve non-financial indicators such as user scope and repurchase rate, F Coffee issued a large number of coupons, leading to high volatility in operating results and differences in the price of goods for different users, which increased the difficulty of revenue recognition and provided an opportunity for financial fraud.

In terms of shareholding structure, the Shenzhou system team controls the corporate decision-making voting rights with absolute advantage. Lu Zhengyao and his sister have 55.01% of the voting rights and 51.83% of the voting rights in the board of directors, and Qian Zhiya has become the second largest shareholder of the company with 25.22% of the number of shares and 23.76% of the voting rights. Although this shareholding structure is conducive to improving decision-making efficiency, it is also prone to proxy conflicts of interest, and the majority shareholder may sacrifice the interests of minority shareholders. The management of F Coffee emphasized the maintenance of high-speed expansion of stores, but the net profit for 2018 and 2019 is -1.619 billion yuan and -3.159 billion yuan, respectively, with a loss growth of 95.12%. This suggests that the management may be engaging in financial fraud in order to inflate the company's share price, ignoring the interests of small and medium-sized shareholders.

In terms of internal governance, the board of directors of Rexchip Coffee is highly overlapping with the number of major shareholders, and the proportion of independent directors is relatively small, accounting for only 25%, which is far lower than the proportion of independent directors in the Standard & Poor's 500 constituent companies, which accounts for 85% of the total. This results in the board of directors failing to effectively supervise executives, and the small number and limited power of independent directors hinders the fulfillment of their supervisory functions. Rejuvenate Coffee suffers from a shortage of professional financial reporting personnel and disorganized internal controls, which provide internal opportunities for fraud.

In terms of external regulatory difficulties, F Coffee adopts a VIE structure, leading to difficulties in regulatory scope and governance. The regulatory authority between China and the U.S. is not equal, and the China Securities Regulatory Commission (CSRC) has less authority to cooperate with the U.S. Securities and Exchange Commission (SEC) in its administrative and enforcement work. In addition, because the U.S. and China have not signed extradition provisions for criminal offenses, U.S. law makes it difficult to convict and punish F Coffee executives. Although China's Securities Law grants extraterritorial jurisdiction to the CSRC, it is difficult to apply extraterritorial jurisdiction because F Coffee is listed in the U.S., and the impact of Chinese law on domestic investors is not established.

4.4 Analysis of the likelihood of exposure, the extent and nature of the penalties faced and exposure factors

The financial fraud at Rexchip Coffee reveals serious flaws in the company's internal governance and inadequate external regulation. The company's business model, despite innovations driven by big data and artificial intelligence, had obvious loopholes that provided opportunities for fraudulent behavior. Rexchip Coffee's new retail model relies heavily on internet technology, making all sales data easy to manipulate and tamper with, which, coupled with the failure of the Company's internal controls, facilitates systematic fraud by management. The concentration of shareholding and control by major shareholders such as Lu Zhengyao makes it difficult for small and medium shareholders to monitor and increases the risk of proxy conflicts. In addition, although Rexchip Coffee has hired authoritative intermediaries in the industry, the role of these institutions in exposing financial fraud is limited, and they have not been able to effectively play the role of the "gatekeeper" of the capital market.

The heightened attention paid to F Coffee by short-selling institutions such as Muddy Waters and the short-selling reports it has released have provided important clues to expose F Coffee's financial problems. However, as F Coffee adopts a VIE structure, registered in the Cayman Islands and listed in the United States, while its business and assets are in China, it creates a blind spot in cross-border regulation, making it difficult for U.S. regulators to regulate it effectively. The China Securities Regulatory Commission (CSRC) also has difficulty in obtaining timely information such as audit transcripts due to geographic location and legal restrictions, limiting the effectiveness of its supervision.

In terms of the level of punishment faced, the administrative penalties imposed on Rexchip Coffee in China were relatively light, with fines totaling RMB 61 million, and the fines imposed on Rexchip Coffee (China) and five other companies amounted to a mere RMB 2 million, which is almost negligible when compared to the benefits gained through the malpractice. In addition, the lack of an extradition agreement between China and the U.S. makes it difficult for U.S. law to impose criminal penalties on the executives of F Coffee, further diminishing the deterrent effect of the law.

Overall, the financial fraud incident of F Coffee is the result of a combination of factors such as the company's internal governance deficiencies, concentrated shareholding structure, loopholes in the business model and the difficulty of external supervision. This incident highlights the importance of establishing a sound internal control system, maintaining the rationality of the equity structure, and strengthening external supervision to ensure the healthy development of enterprises and the fairness of the market. At the same time, it is necessary to improve the legal system, increase penalties, and improve the probability of exposure and prosecution of fraud, so as to effectively curb financial fraud.

5. F Coffee Financial Fraud Governance Strategy

5.1 Improving moral character and curbing management's need for greed

Corporate culture has a long-term and far-reaching impact on the business activities of enterprises. Shaping the corporate integrity culture has a significant role in the development of enterprises, and can prevent the financial fraud of enterprises from the moral level.[6] First of all, the ideological concepts of managers play a decisive role in influencing the moral level and cultural atmosphere of the whole company, and it is necessary to strengthen the legal awareness of the company's managers, and even to carry out warning education. Secondly, with the system as a guarantee, establish a long-term mechanism for integrity construction. By strictly regulating employee behavior to establish a sense of integrity, ensure that employees do not have the intention of taking shortcuts or violating laws and regulations; Finally, companies can conduct moral and legal education and training through online courses, research seminars, and knowledge competitions, to enhance professional ethics awareness and legal awareness among employees.[7]

5.2 Suppressing the incentives for and reducing the opportunities for fraud

5.2.1 Increasing penalties for financial fraud in listed companies

First of all, it is necessary to promote the revision of basic laws related to the capital market. Under the influence of the actual factor of the market economy environment changing constantly, it is obviously no longer feasible to continue to use the traditional laws and regulations to restrain and manage the capital market, and it is necessary to realize the modification and revision of the basic laws as soon as possible in order to further promote the rapid development of the society and the economy. Combined with the current capital market financial fraud corresponding to the legal control of the treaty point of view, a serious lack of innovation, from the point of view of the penalty and the way, completely unable to suppress the market financial fraud this thorny problem. Therefore, while increasing penalties, it is also necessary to take into account the harmonization of laws.

Secondly, for financial fraud issued a special law to combat and constraints. Huang Shizhong (2019) advocates that, when solving the problem of financial fraud in the capital market, China's laws can refer to the actual performance of "Sarbanes-Oxley Answer", not only to increase the intensity of punishment for financial fraud, so that it is afraid, at the same time, the illegal behavior of the fraudsters should also have a good ability to judge the case, accurately distinguish between the principal and the accessory in the case, different levels of crime correspond to different sentencing guidelines. At the same time, we should be able to accurately differentiate between principals and accomplices in a case, and different levels of crime correspond to different sentencing guidelines. However, advocating the reference does not mean that it can be copied completely, we should be practical, take the most suitable advanced content, and introduce a law applicable to China's capital market to deal with financial fraud.[8]

5.2.2 Improvement of the internal corporate governance system

In order to eradicate the financial fraud faced by F Coffee, a series of comprehensive governance measures must be taken. First, the company needs to optimize its shareholding structure, reduce the controlling proportion of a single shareholder, and implement shareholding decentralization, so as to break the highly concentrated shareholding situation and enhance the protection of the rights and interests of small and medium-sized shareholders. At the same time, strategic partners, especially those with strength in the industry, should be introduced to enhance the quality of decision-making and corporate transparency.

Further, the company's decision-making mechanism needs to be standardized to ensure that all major decisions are collectively discussed and voted on at the general meeting of shareholders. The composition of the board of directors and the supervisory board should be more representative to ensure that the interests of multiple parties are balanced. In addition, the group decision-making method should be implemented to promote the democratization and standardization of the decision-making process.

In terms of the internal control system, F Coffee needs to establish a strict internal control system covering all business processes, and set up a risk assessment mechanism, utilizing big data technology to conduct real-time monitoring to identify and deal with potential risks in a timely manner. Separation of departmental authority and responsibility is also key to ensure the independence of management and governance rights and enhance the effectiveness of corporate governance.

Financial transformation is equally important, and Rejuveno Coffee needs to strengthen the integration of business and finance, break down the barriers between finance and business departments, so that finance staff can go deep into the business and provide management with timely analysis of business risks and prospects. Strengthening accounting supervision and internal communication, establishing a regular reporting system, ensuring the comprehensiveness and transparency of financial information, can effectively curb the risk of fraud.

5.3 Improve financial fraud detection mechanisms to increase the likelihood of fraud exposure

5.3.1 Enhancing investors' awareness of their rights

In order to raise investors' awareness of their rights and enhance the effectiveness of their actions, a series of comprehensive measures need to be taken. Firstly, a network rights defense platform should be established through Internet technology, so that investors can conveniently submit materials online and participate in video trials, thus improving the efficiency of rights defense and saving time costs. Secondly, the cultivation of investors' legal awareness should be emphasized, not only teaching them legal knowledge, but also guiding them to master scientific legal logic, so that they can correctly safeguard their legitimate rights and interests in the face of financial malpractice and other problems. In addition, the relevant departments of the society should actively provide civil compensation for investors after confirming the existence of financial fraud, simplify the litigation process, reduce the cost of defending rights and interests, and help the victimized groups to safeguard their rights and interests. Through these measures, investors' confidence in defending their rights can be enhanced, the success rate of defending their rights can be improved, and a fairer and more transparent investment environment can be built.

5.3.2 Improvement of governmental supervision and management mechanisms

On the one hand, China's regulatory authorities should take into account China's basic national conditions, improve the relevant policies and systems in accordance with the current market environment, and set up a structure to make up for the relevant legal deficiencies. The case of F Coffee in the article also took advantage of the difference in information between China and abroad, inadequate supervision, and the gap in the law to engage in fraudulent behavior. To address this situation, the Chinese government can require enterprises that meet the requirements for overseas futures trading to open trading accounts with domestic futures brokers selected by the CSRC, so that the regulator can carry out real-time supervision of the trading accounts. On the other hand, the CSRC should assist companies and domestic futures trading enterprises in selecting or deciding on foreign futures trading agents, and at the same time inquire about the trading situation of the agents from time to time and effectively supervise undesirable phenomena such as intentionally enlarging the amount of credit and inducing trade. When the government detects the emergence of such malpractices, it will firmly penalize them and, depending on the seriousness of the situation, withdraw the company's qualification to act as an agent for domestic companies in foreign futures trading if necessary.

6. Conclusions and outlook of the study

6.1 Conclusions of the study

Through the in-depth study of the financial fraud case of F Coffee, combined with the risk factor theory and GONE theory, we can draw the following conclusions:

(1) The financial fraud of Rexchip Coffee is the result of a combination of factors. From the viewpoint of moral quality and greed factors, some of the management and employees within the company have weak moral concepts and pursue the maximization of personal interests, which led to the occurrence of fraud. From the viewpoint of motivation and demand factors, the company's performance pressure, fierce market competition and other factors contribute to the motivation of fraud. From the viewpoint of fraud opportunity and opportunity factors, the company's internal governance structure is not perfect, internal control system has loopholes and other factors provide the possibility of fraud. From the perspective of exposure possibilities, the degree and nature of punishment faced and exposure factors, the company's insufficient monitoring and punishment mechanism for fraudulent behavior allows fraudulent behavior to exist for a long time.

(2) The financial malpractice of Rexchip Coffee has caused serious damage to the company's reputation and long-term development. Once the fraudulent behavior is revealed, the company's market image will suffer a serious blow, and investor confidence will be damaged, which in turn will affect the company's share price and market value. At the same time, the fraud will also affect the company's credibility and reputation, which will put the company in a disadvantageous position in the cooperation with suppliers, partners and other business partners.

(3) The financial fraud case of F Coffee has also exposed some general problems in the financial management and internal control of current enterprises. For example, the corporate governance structure is not perfect, there are loopholes in the internal control system, and the supervision mechanism is not sound. These problems will not only affect the enterprise's financial management and internal control effect, but also increase the enterprise's financial risk and fraud risk.

6.2 Research Outlook

In view of the problems exposed by the financial fraud case of F Coffee, we can look forward and improve in the following aspects:

(1) Enterprises should strengthen their financial management and internal control systems. By improving the corporate governance structure, strengthening the construction of the internal control system, and improving the level of financial management and other measures, enterprises can

reduce the financial risk and fraud risk. At the same time, enterprises should also establish a sound supervision and punishment mechanism to detect and crack down on fraudulent behavior in a timely manner.

(2) Supervisory authorities should strengthen their supervision of enterprises. Once fraudulent behavior is exposed, the company's market image will be severely affected, investor confidence will be damaged, and thus the company's stock price and market value will be affected. At the same time, the regulatory authorities should also increase the penalty for fraud, improve the cost of fraud, and reduce the motivation of corporate fraud.

(3) Investors and the public should strengthen their supervision and attention to enterprises. By paying attention to the financial statements of the enterprise, understanding the operation status of the enterprise, and participating in the shareholders' meeting of the enterprise, the financial fraud of the enterprise will be discovered and exposed in time. At the same time, investors and the public should also actively participate in the social supervision of enterprises to promote the establishment of a more transparent, fair and honest financial management system.

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