

Profit compensation mechanism and interest protection of minority shareholders in merger and reorganization -- Taking the Jinyu Automobile City as an Example

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Abstract: In the process of merger and reorganization transaction, major shareholders often make use of information asymmetry and control advantage to damage the interests of minority shareholders. In addition, in order to promote the smooth development of mergers and acquisitions, many enterprises often adopt the signing of performance commitments and profit compensation agreements to protect the interests of minority shareholders. However, even if the commitment subject undertakes profit compensation, can it ensure that the interests of minority shareholders will not be harmed? The article takes Jinyu Automobile City as an example to study whether the profit compensation mechanism in the merger and reorganization can protect the interests of minority shareholders. The research results show that the profit compensation mechanism essentially does not play a role in protecting the interests of minority shareholders. This paper has certain policy enlightenment to explore the influence mechanism of profit compensation mechanism on the interest protection of minority shareholders and improve the relevant laws and regulations on the interest protection of minority shareholders.

Keywords: Merger & reorganization; Profit compensation mechanism; Interest protection of minority shareholders.

1. Introduction

With the development of China's capital market and the increase of the number of listed companies, for many enterprises for expansion development and industrial transformation and upgrading, mergers and acquisitions have become the best choice for many enterprises to achieve their goals at the fastest. As a result, mergers and acquisitions are also happening frequently in China's capital markets. [1] of Pan Min and others believe that in mergers and acquisitions, major shareholders often use information asymmetry and control advantage to damage the interests of minority shareholders. Zhu Baoxian and other [2] also believe that mergers and acquisitions will have an impact on the assets and equity of the enterprise, and will change the financial situation of the enterprise, which will directly affect the interests of minority shareholders.

In the process of merger and acquisition, many enterprises protect the interests of minority shareholders by signing performance commitments and profit compensation agreements. The shareholders' meeting of the target enterprise makes promises to the performance of the target enterprise, and both parties agree that if the performance of the target enterprise fails to reach the standard within the commitment period, the commitment subject shall compensate [3] to the investor. However, the unrealistic and amazing profit commitment, after the completion of the reorganization, with the announcement of the listed companies involved in the merger and acquisition of the annual report after the reorganization, many sky-high mergers and acquisitions commonly known as "three high" (high commitment, high valuation, high premium) shed their bright coat and revealed their original shape. In addition, the changes of the market situation, the probability of promised performance not to meet the standard is increasing, at this time, the change of compensation plan, refuse to fulfill the commitment and other chaos emerge in an endless stream. This will not only damage the reputation of the company, but also cause damage to the interests of minority shareholders.

Based on this, this paper discusses whether the profit compensation mechanism can play a role in protecting the interests of minority shareholders, and takes the merger case of Jinyu Automobile City as an example. Starting from the individual case, this paper explores the influence mechanism of the

profit compensation mechanism on the interest protection of minority shareholders, and has certain policy enlightenment to improve the relevant laws and regulations of the interest protection of minority shareholders. Secondly, this paper discusses the protection of the interests of minority shareholders from the perspectives of the change of the financial situation of the merger and acquisition and the reaction of the capital market, and enriches the related research on the profit compensation mechanism and the protection of the interests of minority shareholders.

2. literature review

2.1 Profit compensation mechanism

The essence of the profit compensation mechanism is a credit enhancement guarantee provided by the original shareholders of the target company for the merger and acquisition transaction. Dixit [4] believes that profit compensation agreements can reduce the risk due to information asymmetry. Caselli [5] also believes that the profit compensation agreement is an option, that is, an option of the acquisition party on the future operating performance of the underlying enterprise, and the future operating performance of the underlying enterprise determines its current value. Elmar and [6] pointed out that a scientific and effective profit commitment agreement needs to fully use the knowledge of options. Cadman and other [7] have found that profitable payment plans can have incentive effects, but there may also be risks. The reason is that in order to achieve the profit commitment standards, the target enterprises often ignore the long-term interests of the enterprise, and prefer the operation and investment decisions of the short-term interests of the enterprise.

As far as China is concerned, the profit compensation agreement was applied for the first time in the merger and reorganization of Mengniu Group in 2002, which opened the prelude to the application of profit compensation agreement in the merger and acquisition of Chinese enterprises. In terms of theoretical research, Li Yuchen [8] uses the Spence signaling model to find that the profit compensation agreement can send positive signals to the capital market. Chinese scholars Lv Changjiang [9] and others have found that the profit compensation mechanism can significantly enhance the synergistic effect. In addition, Zhao Guoqing [10] believes that the profit compensation agreement is a "performance insurance" issued by the listed company for the acquisition of the listed company because of the uncertainty of the future business performance of the target company. In addition, in terms of profit compensation methods, Gao Chuang and other [11] found that cash compensation and share compensation are usually adopted compensation methods. Compared with cash compensation, share compensation is more conducive to improve the operating performance and financial status of listed companies.

2.2 Protection of the interests of minority shareholders

As for the protection of the interests of minority shareholders, Claessens and other [12] believe that the encroachment of major shareholders is positively related to the degree of protection of the interests of minority shareholders, and in countries with the interests of poor degree of protection of minority shareholders, the encroachment of major shareholders is also more prominent. Chinese scholar Zhang Ye [13] also believes that the law plays an irreplaceable role in protecting the interests of minority shareholders. In addition, La Porta and other [14] proposed that in order to prevent corporate management from damaging the interests of investors, a set of effective rules must be established to unify incentives and constraints, so as to coordinate the interests of all parties and protect the interests of minority shareholders.

2.3 Profit compensation mechanism and the protection of the interests of minority shareholders

Zhang Bo and other [15] found through a large number of case studies that the moral hazard of the management of the target enterprise can be differentiated through the profit compensation agreement with the minimum incentive cost, so as to achieve the purpose of protecting the interests of minority

shareholders. Gao Chuang and other [11] believe that share compensation than cash compensation, can play a more binding role on both sides of the merger and reorganization, and can also avoid the high performance commitment of the target enterprise away from the reality. Jihua and other [16] also found that when the performance commitment of the target company is not realized, the major shareholders usually choose to use their control position to forcibly modify the profit compensation agreement, so as to achieve the purpose of reducing the responsibility.

Through the above literature combing, it is found that most scholars study the profit compensation mechanism or the interest protection of minority shareholders separately, and some scholars focus on the relationship between the profit compensation mechanism and the interest protection of minority shareholders. But they will focus on the different compensation way on the interests of minority shareholders, few research profit compensation mechanism itself and the relationship between the interests of minority shareholders, this article will be Jinyu Automobile City as a case, and from the financial situation changes before and after the merger and acquisition and capital market reaction two perspectives on the protection of the interests of minority shareholders.

3. Jinyu Automobile City case introduction

3.1 Jinyu Automobile City merger and acquisition background and reorganization process

This paper selects single case Jinyu Automobile City as the research object, mainly based on the following reasons: First, compared with multiple case studies, single case study can describe the process of event deduction more detailed, so as to explore new theoretical values and laws behind it. Second, as a listed company, Jinyu Automobile City has true, accurate and complete disclosure information, which can provide a lot of supporting evidence for the arguments of the article. Third, Jinyu Automobile City, as a large listed company on the main board of Shenzhen Stock Exchange, is engaged in the research and development and sales of new energy equipment, which has certain representativeness and representativeness, and can provide reference for other companies in the same industry.

Sichuan Jinyu Automobile City (Group) Co., LTD. (hereinafter referred to as Jinyu Automobile City), company stock code: 000803, the legal representative of the company is Kuang Zhiwei, the registered address is No.380 Yan'an Road, Shunqing District, Nanchong City, Sichuan Province. In 1988, the People's Government of Nanchong City formed the state-owned shares in the main means of production of Sichuan Nanchong Silk Factory, absorbed other corporate shares, and issued public shares. It established Sichuan American Asia Silk (Group) Co., Ltd. (hereinafter referred to as American Asia Shares) with a total share capital of 51.98 million yuan. The company's shares were successfully listed on the Shenzhen Stock Exchange on March 3, 1998. The Nanchong Finance Bureau was the largest shareholder of the company, with a shareholding ratio of 43.24%. In May 2003, Nanchong Municipal Party Committee and Municipal Government decided to restructure American Asia Shares by Jinyu Holdings. Jinyu Holding transferred 30.026 million state-owned shares, accounting for 29.62% of the total share capital of 101.3610 million shares, becoming the largest shareholder of American Asia Shares. In May 2004, the company officially changed its name to Sichuan Jinyu Automobile City (Group) Co., Ltd., referred to as Jinyu Automobile City. In August 2006, the company successfully completed the reform of non-tradable shares, the shareholding ratio structure changed, the total share capital of the company changed from 101,361,000 yuan to 127,730,900 yuan. In November 2017-December, BeiKong clean energy group co., LTD. (through five subsidiaries hold 17.72% shares of the company) and Nanchong state-owned assets investment management co., LTD. Action agreement, holding 29.86% shares, and through the reorganization of the board of directors and management team for actual control, become the controlling shareholder of the company.

The original main business of the company is silk trade, automobile sales and real estate development and operation. With the fierce market competition in traditional fields, the problems of fierce original business competition, environmental pollution and low profit margin are becoming

increasingly obvious. The industrial upgrading and transformation has become a topic in front of the company. In order to improve the company's operating conditions and enhance the sustainable development ability, Jinyu Automobile City began the external expansion road of industrial transformation.

3.2 Performance commitment of Jinyu Auto City merger and acquisition

Jinyu Automobile City on October 12, 2017 and dealing party Jiangsu BeiKong wisdom electric co., LTD. (the company is mainly engaged in new energy research and development sales and digital intelligent preloading business) (hereinafter referred to as the technology) signed the pay cash to buy assets agreement and the profit forecast compensation agreement, wisdom technology overall equity at 750 million yuan, after acquisition Jinyu Automobile City holds 55% of the equity. The book value assessed through audit was 494,142,600 yuan, up 51.78%. At the shareholders' meeting held by Zhilin Technology on September 24, 2017, Zhilin Technology paid a dividend of 53 million yuan to shareholders. After deducting the dividend, the overall equity of Zhilin Technology was valued at 697 million yuan, of which 55% equity was valued at 383.35 million yuan. As of November 17, 2017, according to the relevant provisions of the Agreement on Cash Purchase signed by both parties, Jinyu Automobile City pays 20% of the price to Zhang Xinmiao, Liu Shuliang, Cai Yuantong, Zhang Guoxin and Di Xiaodong. The transaction price is 76.67 million yuan, and the remaining 80% is paid respectively according to the agreement. In addition, the Company has the right to directly deduct the current compensation payable by the subject of the compensation obligation from the current purchase price payable. At the same time, to promote the smooth progress of merger and reorganization, wisdom technology shareholders Zhang Xinmiao, Liu Shuliang, Di Xiaodong, Zhang Guoxin and Cai Yuantong make the following commitment: wisdom technology in 2017, 2018 and 2019 audited after deducting non-recurring gains and losses attributable to the parent company owner net profit is not less than 60 million yuan, 90 million yuan, 120 million yuan. At the same time, both parties agree that the other party shall assume the corresponding compensation obligation for the difference in the agreed promised net profit within the compensation period and make compensation in accordance with the compensation method agreed herein.

This paper collects and arranges the net profit attributable to the owner of the parent company after deducting non-recurring gains and losses in 2017-2019 and draws the following table, as shown in Table 1.

Table 1. Performance Commitment from 2017-2019 Unit: ten thousand yuan

The target company	Net margin	2017	2018	2019
	Promise number	6,000.00	9,000.00	12,000
	actual number	6,478.86	36.96	-4417.11
Zhi Lin technology	Implementation rate	107.98%	0.41%	-36.81%
	Differential amount	—	8,963.04	16417.11
	Differential rate	—	99.59%	136.81%

As can be seen from Table 1 that Zhilin Technology overful filled the target of profit commitment in the year of merger and reorganization (2017), with a realization rate of 107.98%. However, in 2018 and 2019, in 2018, the realization rate was only 0.41% in 2018, and the difference rate was surprisingly 99.59%. In the new environmental background, new energy has become a trend to replace traditional energy, correspondingly with a large number of excellent enterprises into the new energy industry, is bound to further aggravate the market competition, the industry has become a "red sea" increasingly obvious. At the same time, with the tightening of the national dividend policy on the new energy market, in the face of the high performance commitment of 120 million yuan of Zhilin Technology in 2019, its realization rate is -36.81%, and the difference rate is as high as 136.81%.

4. The profit compensation mechanism of Jinyu Automobile City and Zhilin Technology protects the interests of minority shareholders

4.1 Analysis of the impact of the financial situation changes on the protection of the interests of minority shareholders

Financial indicators are a barometer reflecting the financial situation of an enterprise, which can measure the quality of the business performance to a certain extent. This paper mainly selects the data of the year before merger (2016), the year of merger (2017) and the two years after merger (2018,2018,2019) to analyze the impact of the financial changes of Jinyu Automobile City on the interest protection of the interests of minority shareholders from the perspectives of profitability and growth ability.

Table 2. Development capacity and profitability indicators of Jinyu Automobile City

Category	Financial indicators	2016	2017	2018	2019
Growth ability	Main business revenue growth rate	-28.65%	309.90%	64.20%	-92.27%
	net profit growth rate	-85.23%	127.30%	-51.67%	-267.10%
	Total asset growth rate	10.96%	146.82%	1.44%	-17.43%
	Net asset growth rate	-47.92%	27.42%	10.40%	-19.67%
	Return on equity	-70.90%	24.12%	9.89%	21.82%
profitability	Basic earnings per share	-0.48	0.13	0.06	-0.13
	net profit rate	-84.45%	12.89%	1.31%	-492.09%
	Earnings per share growth rate	84.62%	127.08%	-53.85%	-316.67%

As can be seen from Table 2, the indicators reflecting the growth ability and profitability of Jinyu Automobile City have been improved qualitatively in the acquisition year (2017) compared with the year before the acquisition (2016). Carefully, in terms of growth capacity, the growth rate of main business revenue was -28.65% before the acquisition (2016) and 309.90% in the acquisition year (2017). Net profit growth also jumped to 127.30% from -85.23% before acquisitions (2016). The growth rate of total assets increased from 10.96% to 146.82%, or more than 14 times. Net asset growth also rose to 27.42% from -47.92% before the merger. In terms of profitability, the return on equity before merger (2016) was -70.90%, the return on equity in the year (2017) rose to 24.12%, the basic earnings per share rose from -0.48 yuan / share to 0.13 yuan / share, the net profit ratio rose from -84.45% before merger (2016) to 12.89%, and the growth rate rose from 84.62% to 127.08%. The above changes show that the merger and reorganization can give full play to the business synergy of the two parties in the merger year, improve the financial situation of the merger party and enhance the sustainable profitability of the enterprise.

However, in the late mergers and acquisitions (after 2017) Jinyu Automobile City profitability and growth ability of the indicators outside a column are falling, which reflects the development ability of the main business revenue growth and net profit growth rate and reflect the profitability of net profit margin and earnings per share growth index as of 2019 even a cliff fall. The reason is that in the target company's profit commitment in 2018, the performance commitment realization rate is only 0.41%. According to the 2018 annual report disclosed by Jinyu Automobile City, the net profit attributable to the owner of the parent company after deducting non-recurring profits and losses in 2018 is only 8.1397 million yuan, down 99.96% from the previous period, which has brought great uncertainty to the continuous profit of Jinyu Automobile City. In addition, after receiving the performance compensation of the target company in 2018, it can be seen from Table 2 that the financial situation of Jinyu Automobile City in 2019 still shows no signs of improvement. This also

shows that Jinyu Automobile City did not fully and effectively use of profit compensation. The stock purchase behavior of small and medium investors is an investment behavior with expectations for the future development of the company. If the business performance of the enterprise is poor, it will eventually be transmitted to the stock price, resulting in the stock price decline and damage to the interests of minority shareholders.

The merger and reorganization case of Jinyu Automobile City is just a microcosm of high valuation, high premium and high commitment extension expansion and merger and reorganization. At the beginning of the merger, higher earnings commitments seemed to support high valuations, sending positive signals to investors to improve the company's financial indicators in the short term. However, once the target company's promised performance is not up to the standard or the commitment expires, the relatively inferior underlying assets are knocked back to the original shape, and the corresponding risk is transferred to the acquiring party. On the one hand, these inferior assets will affect the performance of the acquirer in the consolidated statement; on the other hand, the high goodwill confirmed by the acquirer at the beginning of the consolidated statement will also become a "time bomb" to "detonate" the income statement. According to the accounting standards, the goodwill formed by the merger should be impairment test at least every year, once the impairment signs are found, the impairment test and goodwill impairment provision, which should be included in the current profit and loss. The consequences are not only a serious decline in current profits, but also a negative signal to the capital market, leading to a decline in stock prices. For major shareholders, they can take advantage of the information advantage obtained by their control position to sell shares to cash out before the stock price falls. It is still minority shareholders who pay for this, and the interests of minority shareholders are damaged.

4.2 Analysis of the impact of market reaction on the protection of the interests of minority shareholders

This paper selects two key time points related to profit commitment to analyze the impact of short-term market reaction on the interests of minority shareholders. That is, the realization of the promised profit in 2018 during the commitment period, with the 2018 annual report date announced on April 13, 2019 as the first event date of 2019. The cash date of Jinyu Automobile City, that is, June 18, 2019, as the second event day. The stock yield (Rit) and market yield (Rmt) in the 10 trading days before the event were selected to analyze the impact of short-term market reaction on the interests of minority shareholders. The cumulative excess yield (CAR) in the 10 trading days before the event is calculated to judge the impact on the stock price.

1). Analysis of the impact of the commitment performance realization in 2018 on the interests of minority shareholders during the commitment period

Table 3. Stock return rate (Rit) information for the 10 trading days before and after the annual report

Market day	Rit	Market day	Rit	Market day	Rit	Market day	Rit
3.29	1.01%	4.8	0.79%	4.15	-0.33%	4.22	-1.36%
4.1	8.50%	4.9	2.68%	4.16	0.07%	4.23	-1.18%
4.2	-2.33%	4.10	-2.32%	4.17	2.02%	4.24	0.13%
4.3	-3.39%	4.11	-0.85%	4.18	-0.51%	4.25	4.91%
4.4	-1.56%	4.12	0.92%	4.19	-0.77%	4.26	2.22%

On April 13, 2019, Jinyu Automobile City released its 2018 annual report, According to the annual report, The net profit attributable to the owner of the parent company after deducting non-recurring gains and losses was only 8,139,700 yuan, Failing to meet the performance commitment standards of the shareholders of the target company, At this time, the shareholders of the target company also did not fulfill their commitments, Therefore, April 13, 2019 is selected as the market reaction event day for the realization of promised profitability, And manually collected and sorted out the changes of

stock yield, market yield and cumulative excess yield (CAR) in the 10 trading days before and after the annual report of Jinyu Automobile City, As shown in Table 3, Table 4 and Figure 1 and Figure 2 below.

Table 4. Market return rate (Rmt) information for the 10 trading days before and after the annual report

Market day	Rit	Market day	Rit	Market day	Rit	Market day	Rit
3.29	3.77%	4.8	-0.61%	4.15	-0.78%	4.22	-1.86%
4.1	3.64%	4.9	0.82%	4.16	2.33%	4.23	-0.97%
4.2	-0.07%	4.10	-0.02%	4.17	0.55%	4.24	1.10%
4.3	0.78%	4.11	-2.65%	4.18	-0.55%	4.25	-3.21%
4.4	0.73%	4.12	-0.26%	4.19	1.27%	4.26	-1.28%

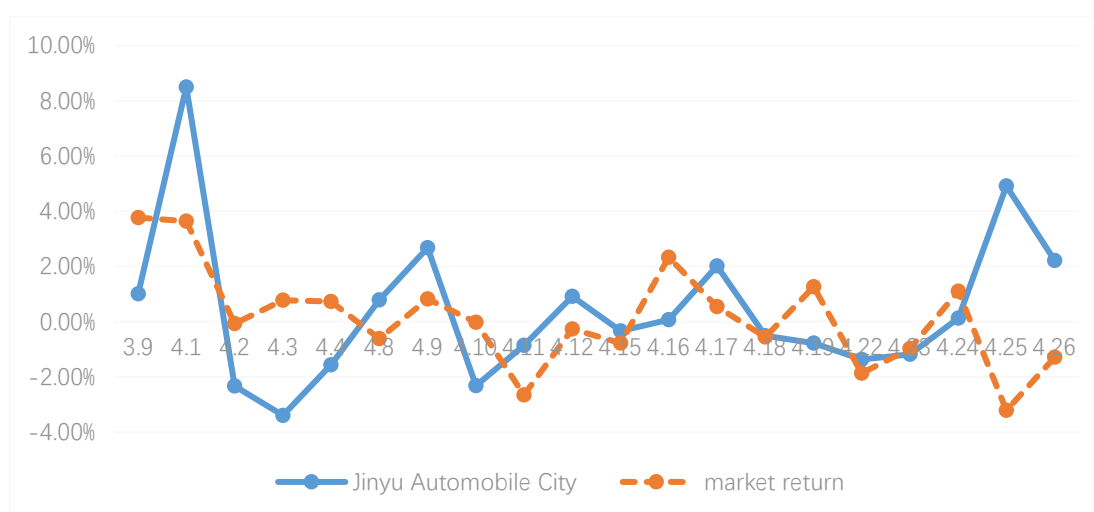


Figure 1. Stock yield and market yield changes in the 10 trading days before and after the annual report

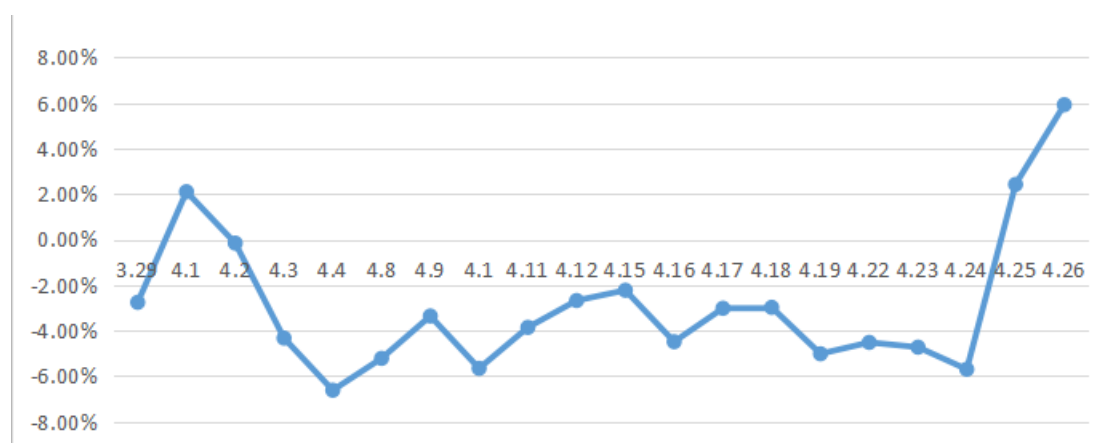


Figure2. Cumulative excess return rate (CAR) in 10 trading days before and after the announcement of Jinyu Car City

As can be seen from Table 3 and Figure 1, under the narrow range of Shenzhen Cheng Index, the stock yield of Jinyu Automobile City was affected by the delay of disclosing the 2018 annual report announcement on April 2, showing a cliff decline. There may be the news that the target company promised profit did not meet the standard. In addition, Jinyu Automobile City released its 2018 annual report on April 13, 2019, which is a Saturday non-trading day. After the announcement of the annual report, investors learned that the target company had not completed the promised performance and the operating performance of Jinyu Automobile City was affected, on the first trading day of April 15, 2019, the stock yield of Jinyu Automobile City was "retaliatory" compared with the previous

trading day. The drop is higher than the Shenzhen Cheng index. In addition, it can be intuitively found from Figure 2 that the cumulative excess return rate in the 10 trading days before and after the announcement of the annual report of Jinyu Automobile City is basically negative. On April 4, due to the delayed disclosure of the 2018 annual report announcement, its cumulative excess return rate once bottomed out. All this shows that the commitment to earnings are not up to standard to the capital markets. After in addition to April 25 by the Jinyu Automobile City major litigation announcement positive impact, Jinyu Automobile City stock yield against the trend, its overall is basically around Shenzhen into a narrow range of shock. Thus it can be seen that once the high profit commitment brought by high premium merger and reorganization cannot be fulfilled, it will cause the capital market to worry about the asset quality of the underlying asset and the future sustainable profitability of the acquirer, thus sending a negative signal to the capital market and leading to the decline of the company's share price. Specific to Jinyu Car City, after Jinyu Automobile City released the annual report, investors found that the target company did not complete the promised performance, and far lower than the promised performance. As a result, its stock price falls and the stock yield continues to fall, and the cumulative excess return rate continues to be negative, and the interests of minority shareholders are damaged.

2). The impact of the market reaction after the profit commitment on the interests of minority shareholders

On June 18, 2019, Jinyu Automobile City announced the "Description and apology Announcement on the Acquisition of The Performance Commitment of Jiangsu Beikong Zhilin Electric Co., Ltd.". The announcement shows that the completion rate of the target company's profit commitment is only 0.41%, and according to the agreement of both parties: the other party shall bear the corresponding compensation obligation for the difference of the agreed promised net profit within the compensation period. The merger and acquisition transaction price is RMB 76,6700 yuan, and the remaining 80% shall be paid respectively according to the agreement, and the Company has the right to directly deduct the compensation payable by the subject of the compensation obligation in the current period. Therefore, this article selects June 18, 2019 as the event day. The stock yield (Rit), market yield (Rmt) and cumulative excess yield (CAR) in the 10 trading days before the event were selected to analyze the impact of the short-term market reaction on the interests of minority shareholders, and make Table 5, Table 6, Figure 3 and Figure 4.

Table 5. Stock yield (Rit) information for 10 trading days before and after Jinyu Automobile City performance commitment

Market day	Rit	Market day	Rit	Market day	Rit	Market day	Rit
6.3	-1.20%	6.11	0.77%	6.18	4.84%	6.25	-3.18%
6.4	1.15%	6.12	0.06%	6.19	-2.75%	6.26	-1.47%
6.5	0.07%	6.13	-2.11%	6.20	-3.67%	6.27	0.18%
6.6	1.87%	6.14	3.14%	6.21	0.29%	6.28	1.01%
6.10	1.44%	6.17	10.01%	6.24	2.92%	7.1	-1.71%
						7.2	-2.22%

Table 6. Market return rate (Rit) information of the 10 trading days before and after the fulfillment

Market day	Rit	Market day	Rit	Market day	Rit	Market day	Rit
6.3	-0.74%	6.11	3.74%	6.18	0.27%	6.25	-1.02%
6.4	-1.23%	6.12	-0.92%	6.19	1.38%	6.26	0.05%
6.5	-0.03%	6.13	-0.04%	6.20	2.34%	6.27	1.28%
6.6	-1.84%	6.14	-1.58%	6.21	0.87%	6.28	-0.66%
6.10	1.48%	6.17	-0.03%	6.24	-0.02%	7.1	3.84%
						7.2	0.16%

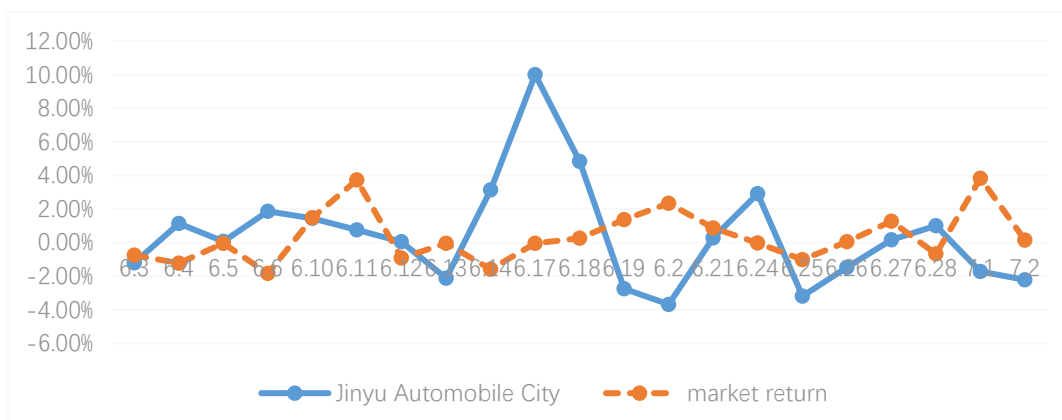


Figure 3. Jinyu Automobile City performance commitment before and after the 10 trading days of stock yield and market yield changes

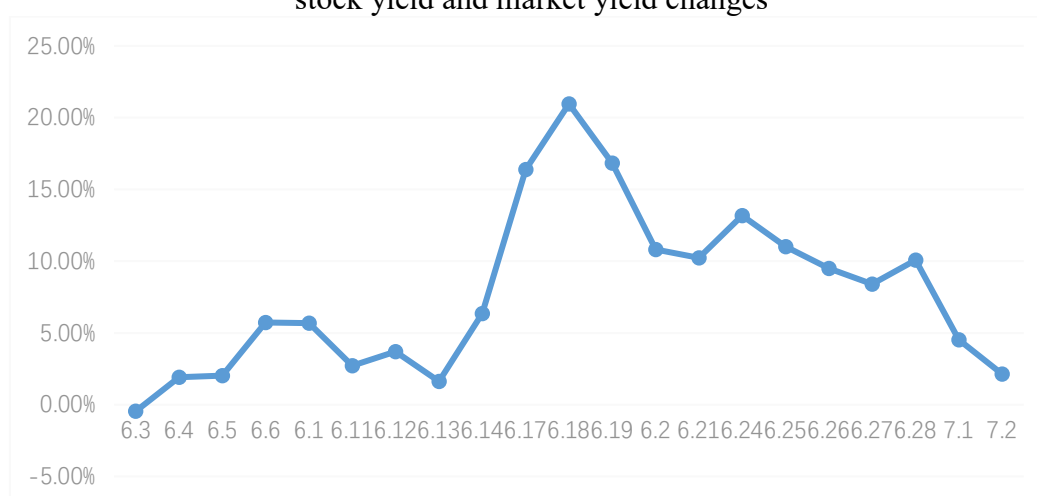


Figure 4. Cumulative excess return rate (CAR) of 10 trading days before and after Jinyu Automobile City performance commitment

As can be seen from Table 5, Table 6 and Figure 3 and Figure 4, the stock yield of Jinyu Automobile City turned down after reaching its peak on June 17. And in the overall show a falling trend, and the shock amplitude compared with the Shenzhen cheng index is wider. Although the cumulative excess return rate of the 10 trading days before and after the performance promise of Jinyu Automobile City is positive, it has shown a downward trend since the event day (June 18). It can be seen that the impact of the target company's unfinished promised performance has always existed, and the profit compensation announcement has also sent a negative signal to the capital market. Through the above analysis, it can be found that the investors in the capital market have a negative investment attitude towards Jinyu Car City, and then transmit it to the stock price, leading to the decline of the stock price and the damage to the interests of minority shareholders.

5. Conclusion and enlightenment

In the year of high profit, the target company improved the financial indicators and sent a positive signal to the capital market to promote the stock price; however, when the target company failed to realize the promised profit, the capital market doubted the quality of the underlying assets. At the same time, the operating performance of the listed companies was also dragged down, and the financial indicators of Jinyu Automobile City began to deteriorate, increasing the suspicion to the stock price, which damages the interests of minority shareholders. When the profit compensation promise is fulfilled, although the cumulative excess yield of Jinyu Automobile City is positive, it does not boost the confidence of investors in the capital market. To sum up, the profit compensation mechanism essentially cannot play a role in protecting the interests of minority shareholders.

Therefore, based on the above research conclusions, this paper draws the following enlightenment:

At the regulatory level, due to the information asymmetry, the securities regulatory authorities are easy to be deceived by the high performance commitment of the target company, and it is difficult to accurately grasp whether the asset quality of the target company is good or not, thus leading to high valuation and high premium. When reviewing the application for merger and reorganization, the securities regulatory authorities should focus on whether the evaluation method of the target company's assets is appropriate, whether the evaluation value is accurate, and whether the forecast of the future operating performance of the target company is reasonable. After the merger and reorganization, the regulatory authorities shall continue to supervise the board of supervisors of the target company and the external authentication institutions to pay attention to the growth ability and sustainable profitability of the acquisition target, and strengthen the accountability mechanism of the intermediary institutions. In addition, for high-profit commitments seriously substandard restructuring, regulators can limit them from applying for restructuring for a certain period.

At the level of small and medium investors, they should invest rationally, improve their investment risk awareness, and rationally treat the high profit commitment of the target companies winning in mergers and acquisitions. If the outrageous high profit promise cannot be fulfilled, the interests of small and medium investors will be most directly damaged. Therefore, while paying attention to the performance commitment of the underlying company, minority shareholders should pay more attention to the quality of the underlying assets and the sustainable growth ability and profitability of the underlying assets.

At the legal level, we will improve the class action litigation system and the shareholder representative litigation system. In the current national conditions of China, minority shareholders are difficult in both the economic strength of rights and the litigation ability to protect rights. When major shareholders "willfully" damage the interests of minority shareholders for their own interests, it is often shown that minority shareholders can only eat "consequences". We will improve the class action litigation system and the litigation system for shareholder representatives to provide institutional guarantee for minority shareholders to protect their own interests.

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