

Business

# China Blacklists Six Executives Linked to \$4.2 Billion Fraud

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Kangmei Pharma ordered to pay maximum 600,000 yuan fine

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Punishment no deterrent to prevent future frauds: analyst

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China's securities regulator blacklisted six executives for their role in a \$4.2 billion accounting scandal at Kangmei Pharmaceutical Co., one of the country's biggest drugmakers.

The ban includes Kangmei's chairman at the time and five others, who won't be allowed to participate in the securities market or take positions as executives or board members at any listed company for at least 10 years, Kangmei said in a stock-exchange filing. The China Securities Regulatory Commission also ordered the company, a producer of traditional Chinese medicines, to pay a 600,000 yuan (\$84,510) fine.

CSRC Chairman Yi Huiman said the regulator would spare no efforts in cracking down on financial fraud at listed companies, according to a China Central Television report Friday.

After a months-long regulatory probe into its finances, Kangmei said in May last year that it had overstated its cash positions by 29.9 billion yuan using false documents and transaction records - an amount one lawyer said was unprecedented in China. The firm admitted to "serious" deficiencies in its corporate governance and internal controls.

Under China's previous securities law, the maximum fine for securities violations was 600,000 yuan. Penalties were increased significantly with a new law implemented in March: the maximum punishment for wrongful information disclosure at listed companies is now 10 million yuan, according to the CSRC's website.

The fine "is way to small compared with the massive amount of Kangmei's financial fraud and definitely not enough to deter any other company to do the same," said Jiang Liangqing, a fund manager at Beijing-based Ruisen Capital Management. "It is a loophole of the old securities law. He added the new maximum fine is also "not enough to deter financial fraud compared with the

benefit these firms can get. Kangmei's case just once again shows the lack of deterrence for financial fraud in the A-share market.”

Kangmei shares rose 4.8% Friday, the most they could climb as daily moves remain restricted. The stock has tumbled about 70% since the company told investors that it was under investigation in late 2018. Kangmei was removed from the MSCI China Index and a list of China Connect Securities almost a year ago.

In February, Kangmei failed to repay about 2.4 billion yuan of puttable bonds. Later that month, a majority of creditors accepted a debt workout proposal in which creditors holding no more than 500,000 yuan in face value would get full repayment. Those owning more would get paid in proportion to their positions.

— With assistance by Sharon Chen, Ken Wang, and Tongjian Dong