

Defaults on \$340 Million of Bonds

By Wang Juanjuan and Denise Jia



Kangmei Pharmaceutical is scrambling for cash to repay debt. Photo: IC Photo

Kangmei Pharmaceutical Co. Ltd., the Chinese drugmaker marred by a financial fraud scandal, became the first listed company to default on a bond issue when the market reopened Monday after the extended Lunar New Year holiday.

The supplier of traditional Chinese medicines said in a statement Sunday night that it couldn't make principal and interest payments and on 2.4 billion yuan (\$340 million) of bonds because of tight liquidity. The bonds were issued in 2015 and due in 2022, but the issuer had an option to raise the coupon rate and investors had an option to sell back the bonds at the end of the fifth year.

Kangmei was scheduled to buy back part of the bonds and pay interest Jan. 31 when the market was originally set to reopen after the holiday, but China extended the market closure till Monday amid a coronavirus outbreak that has infected more than 17,000 people and killed more than 360.

The company said Monday that it raised 1.13 billion yuan to make the buyback payment and interest on the bonds. Kangmei raised the 1.13 billion yuan through selling property assets, and the

money will be used to pay individual bondholders first, according to several people close to GF Securities, the underwriter of the bonds.

The drugmaker said it's working on a tiered payment plan and will continue to raise funds to fill the gap, but there is risk of not being able to pay in full. To do so, Kangmei would need to raise an additional 1.36 billion yuan.

Kangmei said Jan. 23 that a subsidiary planned to sell project land in Guangzhou to a company affiliated with GF Securities for no more than 1.13 billion yuan.

The underwriter recently received a **warning letter** from the securities regulator saying its compliance practices violate regulations.

Kangmei currently has a total of 16.9 billion yuan of outstanding bonds due 2020 to 2022, mostly with buyback options.

Since Kangmei was exposed for financial reporting fraud in May, the company faces a credit downgrade and liquidity crunch. It has been selling assets and borrowing money from related parties to pay debts.

The fraud involved 88.6 billion yuan of overstatements between 2016 and 2018. In a months-long investigation into Kangmei, China's securities regulator **found** that the company used fake bank deposit slips to inflate cash reserves, forged documents for nonexistent business activities, and transferred company funds to related parties to trade in its own stock.

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