

TARGET

Intelligence Report

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HANSO PHARMACEUTICAL GROUP COMPANY LTD:

THE IPO WAS A RIP-ROARING SUCCESS – FROM

THE POINT OF VIEW OF THE SINGLE, CONTROLLING SHAREHOLDER

The Global Offering of Shares in the Issued and Fully Paid-Up Share Capital of Hansoh Pharmaceutical Group Company Ltd () (Code: 3692, Main Board, The Stock Exchange of Hongkong Ltd) on the premier equity market of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) must have been considered a roaring success as far as the single Controlling Shareholder was concerned because, inter alia, the Company bagged at least \$HK7,640,000,000.00 in this cash-raising exercise.

But **TARGET** () ponders whether or not many prospective shareholders, who were hot to trot in subscribing for some of the 551,280,000 Shares on Offer, scanned the Global Offering Prospectus, dated May 31, 2019, and took special note of Appendix I-64, under the heading, '*Financial Liabilities*'.

If they had taken note of these financial liabilities, they might have been taken aback to learn that 4,000,000,000.00 renminbi (about \$HK4,531,480,000.00) were '*Dividends payable*' in respect of the Financial Year, ended December 31, 2018.

The term, '*Dividends payable*', has to mean to any right-minded person that the dividends were due and owing, but, as at December 31, 2018, they had not been paid.

At Pages 287 and 288 of the Global Offering Prospectus, under the heading, ‘**DIVIDEND**’, one was informed:

‘We paid dividends of RMB3,474.6 million, RMB404.1 million, and RMB nil to our then shareholders in 2016, 2017 and 2018, respectively. In 2016, 2017 and 2018, we declared dividends of RMB nil, RMB nil, and RMB4,000.0 million, respectively. Pursuant to a resolution of the Board of our Company and a resolution of the shareholders of our Company dated May 27, 2019, we declared special dividends, or the Second Unpaid Dividends, to our existing shareholders. The Second Unpaid Dividends are declared out of, and expected to represent, approximately 90% of our cumulative distributable profits as of April 30, 2019. In that connection, we will engage our auditor to perform the Special Audit of our accounts for the period from January 1, 2019 to April 30, 2019, which is currently expected to be completed by the end of August 2019, and we will announce the amount of the Second Unpaid Dividends payable determined by the Special Audit. A majority of the Unpaid Dividends were not settled as of the Latest Practicable Date (May 24, 2019).

‘We expect to settle the majority of the Unpaid Dividends in installments within two years after Listing with our financial resources and cash flow from operations. In May 2019, we paid the first installment of RMB600 million of the Unpaid Dividends to our existing shareholders. Based on available information and our best estimate, we expect to make the payments of approximately RMB1,100 million after Listing by the end of the third quarter of 2019, approximately RMB1,100 million around December 2019, and the remaining balance of the Unpaid Dividends in 2020, subject to our then available fund resources, financial position, business prospects and anticipated capital requirements.

‘The preliminary payment schedule was estimated by the Company taking into account various factors, including our available financial resources, cash flows forecast, potential savings in interest expenses and other financial costs (which may be incurred if the Unpaid Dividends were to be paid immediately), and administrative procedures and related processing time for capital movements and dividend payments. The Unpaid Dividends are not payable upon demand and no interest will be charged on any unsettled balance.

‘Although we expect to settle the majority of the Unpaid Dividends after Listing, our Directors consider we will (i) have sufficient funds to make payment of the Unpaid Dividends, (ii) record retained profits after declaration of the Unpaid Dividends, and (iii) continue to have sufficient working capital upon the full payment of the Unpaid Dividends without using any of the net proceeds from the Global Offering. As of March 31, 2019, we had cash and cash equivalent of RMB1,482.8 million, financial assets at fair value through profit or loss of RMB2,456.4 million, other financial assets of RMB1,379.4 million, bills receivable of RMB1,090.2 million, and unutilized bank facilities of RMB3,900.0 million.

‘After taking into account the declaration of the Second Unpaid Dividends, there will be (i) a decrease in our unaudited pro forma consolidated net tangible assets per Share as of December 31, 2018 taking into account the Second Pre-IPO Investment; and (ii) a significant increase in our consolidated non-current liabilities, while our consolidated current liabilities and consolidated net current assets will not be affected. We confirm that the payment of the Unpaid Dividends will not affect the sufficiency of our working capital taken as a whole having considered that we have sufficient cash surplus to

finance our operations from internally generated cash flows and to maintain a satisfactory financial position derived from our business growth. In addition, we do not expect any impairment to our ability to pay dividends to public shareholders after the Listing as a result of the settlement of the Unpaid Dividends, and the future dividend payment to public shareholders is not conditional upon the full settlement of the Unpaid Dividends...

‘Our future declarations of dividends may not reflect our historical declaration of dividends and will be at the absolute discretion of our Directors. There is no assurance that we will be able to distribute dividends of any amount each year or in any year. In addition, declaration and/or payment of dividends may be limited by legal restrictions and/or by financing agreements that we may enter into in the future.’

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