

## Analysis on the consequences of information disclosure violation of Furen Pharmaceutical

Keyu Bian<sup>1,\*</sup>, Runxin Ge<sup>2,†</sup>, Zhitong Ren<sup>3,†</sup>

<sup>1</sup>School of Accounting, Nanjing University of Finance & Economics, 210046, Nanjing, China

<sup>2</sup>School of Economics and Management, Southeast University Chengxian College, 211800, Nanjing, China

<sup>3</sup>School of Accounting, Hunan University of Technology and Business, 410205, Changsha, China

\*Corresponding author: 18402224@masu.edu.cn

†These authors contributed equally.

**Keywords:** Furen Pharmaceutical, accounting information disclosure, stock price, event research method

**Abstract:** Information disclosure of listed companies is an important way for enterprises to communicate with investors and the public, and is the main channel to ensure information disclosure. Therefore, information disclosure is an important link in the development of enterprises. This paper focuses on the information disclosure violations of listed pharmaceutical companies in China and finally selects the information disclosure violations of Furen Pharmaceutical as the research object. Through the event study method, the paper first introduces its general situation and violation situation and analyzes the short-term impact of information disclosure violation of Furen Pharmaceutical on stock price volatility. Secondly, by analyzing the data of financial statements, it studies the long-term impact of irregularities on performance indicators. Through the study of short-term impact, it is found that the violation of information disclosure greatly affects the stock price and hurts the market. In terms of long-term impact, the company's performance declined significantly due to the violation of information disclosure of Furen Pharmaceutical, and several senior executives were punished by CSRC.

### 1. Introduction

Information disclosure is an important means of maintaining the order of the capital market, has an important status: investors investment decisions according to the disclosure of accounting information, enterprise management through the disclosure of accounting information enterprise operating performance, resource allocation, and financial risk, such as information, accounting information disclosure is also the only enterprise owners acquire information channels. If the information disclosure is illegal and the information is not accurately, truthfully, completely, and timely disclosed, the market trading order will be affected to a certain extent.

Information disclosure violations of listed companies refer to information disclosure behaviors of listed companies that violate relevant laws and regulations, prepare and provide false information externally, and conceal or delay the disclosure of important facts in the process of information disclosure. This behavior fundamentally affects the normal operation of the stock market, the effective allocation of social resources, and the legitimate rights and interests of investors.

Regulators' supervision of listed companies is influenced by public supervision as well as the quality of information disclosure of listed companies. In order to achieve a better synergistic governance effect, it is necessary to improve the supervision level, increase the punishment intensity, classify the listed companies accurately and guarantee the public's right to supervision [1].

This paper uses the event study method to analyze the influence of the information disclosure violation of Furen Pharmaceutical company on its stock price, all kinds of statement data, and performance indicators from different perspectives of short and long term. Finally, it is concluded that the information disclosure violation has a negative impact on the stock price, and the long-term

performance of the company has a significant decline.

This paper is composed of introduction, literature review, case overview, the short-term impact of information disclosure violation of Furen Pharmaceutical Industry, long-term impact of information disclosure violation of Furen Pharmaceutical industry, conclusion, and references.

## **2. Literature review**

### **2.1 Causes of information disclosure violation**

As a way for listed enterprises to convey information to investors, accounting information disclosure can fully reflect the operation and development of enterprises, which is of great significance for investors to make decisions. With the continuous development of the capital market, in order to improve the quality of accounting information disclosure, China is constantly improving the accounting information disclosure system and has made many phased achievements. However, influenced by a variety of factors such as unreasonable internal governance structure, low level of internal control, and inadequate external supervision, the quality of accounting information disclosure of different enterprises often varies greatly, and information disclosure violations occur from time to time [2].

Intuitively, by revealing a company's poorer quality and increasing its financial costs, more information ratings strengthen managers' incentives to extract resources from projects and default. We show that the supervision of credit rating agencies should be lenient in good times and strict in bad times [3].

### **2.2 The influence of information disclosure violation on stock price**

According to relevant research findings, analysts report negative information disclosure and stock prices present a negative relationship. When the information transparency of the tracked company is lower, the information content of the analyst report is higher, and investors pay more attention to the negative information, the negative relationship between the two is stronger. Reducing noise trading and inhibiting earnings management are important ways to reduce idiosyncratic volatility of stock price by the disclosure of negative information in analyst reports. Negative media coverage does not diminish the impact of negative analyst reports. The disclosure of negative information in analyst reports mainly provides the market with information about the future fundamentals of enterprises [4].

Negative disclosure of analyst research reports can reduce the risk of stock price slumps. The higher the information content and readability of the analyst research report, the more the institutional investors of the target company hold, the more significant the negative relationship between the two. When the optimism bias is more serious, the negative information disclosure can restrain the risk of stock price collapse more strongly, and also restrain the influence of optimism bias to aggravate the risk of stock price collapse. Negative information disclosure can not only cause a significant negative market reaction and higher investor attention but also restrain management's excessive investment behavior, reduce the hiding of negative information so that the company's stock price can reasonably reflect its fundamental information, and reduce the risk of stock price collapse. This paper has important theoretical and practical significance for understanding the role played by analysts in the capital market and how to prevent stock price slump and promote the stable development of the stock market [5].

We examine the effect of bank disclosure on optimal risk-sharing through the anti-run, signal-sustained demand-deposit contract. The results show that for utility functions showing non-increasing absolute risk aversion, more information disclosure improves the prior risk sharing provided by financial intermediaries [6].

### **2.3 The impact of information disclosure violation on financing**

The "bad news" released by the CSRC penalty announcement has the effect of risk warning, which may lead to a decline in bank debt financing of non-compliance companies. Analyst tracking may have an information effect and reputation effect, and affect the relationship between CSRC penalty

announcement and corporate bank debt financing. In the context of intensified supervision of China's capital market, this paper examines the economic consequences of CSRC penalties on non-public market financing of non-compliance companies. Our study found that the bank loan signing probability, bank loan signing rate, and new bank loan scale of the offending companies all declined after the CSRC punishment announcement. Moreover, the higher the penalty level, the more significant the decline. The increase in the information cost and default risk of the offending company, rather than the real deterioration of the company's financial position, is the main reason for the decline in corporate bank debt financing. In addition, the information effect tracked by analysts rather than the reputation effect alleviates the negative relationship between CSRC penalty announcements and corporate bank debt financing. This paper expands the research on the economic consequences of capital market punishment and analyst tracking on private market financing of companies, and also provides empirical evidence for capital market regulation in emerging market countries [7].

There is an important implication for accounting, greater disclosure can be produced at the same time (1) or more fully easier to detect the disclosure of the firm's earnings uncertainty, thus increasing new investor's expected utility, (2) to improve the market firm earnings parameters (mean value, variance, and covariance) estimates, to better achieve the opportunity to investors. Paradoxically, better information can be valuable to new investors by fully and accurately revealing risks in firm operations and outcomes -- new investors who maximize expected utility want both more risk and better information.

## 2.4 Information disclosure violations in the pharmaceutical industry

In particular, the information disclosure violations of the pharmaceutical industry, compared with other industries, the pharmaceutical industry has the characteristics of a long cycle, high investment, high rate of return, and high risk, resulting in the pharmaceutical industry information disclosure difficult, frequent violations of information disclosure. The pharmaceutical industry is closely related to people's life and health and has its particularity, so the timeliness, integrity, and authenticity of information disclosure of listed companies in the pharmaceutical industry are more stringent.

Based on the data of the last decade, the distribution of Figure 1 and Figure 2 is obtained by analyzing various violations in the pharmaceutical industry and specific subsectors.

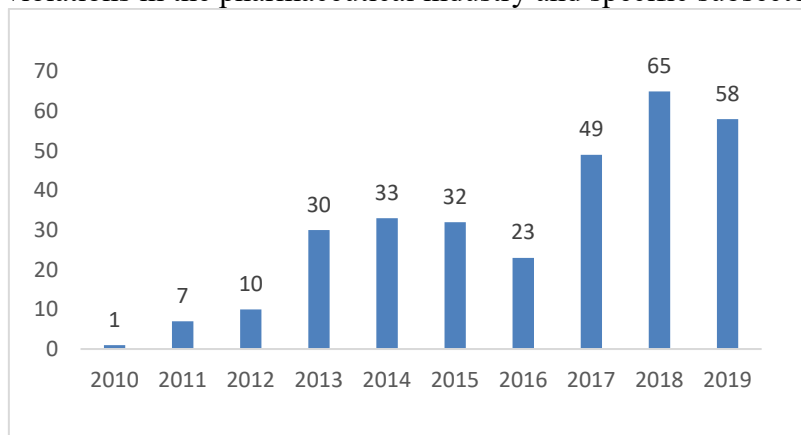


Figure 1. The number of violations in the pharmaceutical industry in the past decade  
(Data source: Flush, Zhong kang Industrial Capital Research Center)

Figure 1 describes the number of violations in the pharmaceutical industry in the past decade, which increased first and then decreased from 2010 to 2016. The number of violations was 33 at most in 2014, only 1 at least in 2010, and the number of rings decreased to 23 in 2016. In 2017, the number of violations increased significantly, reaching 49 violations. In 2018, the number peaked at 65 violations per year, and in 2019, it decreased slightly to 58 violations.

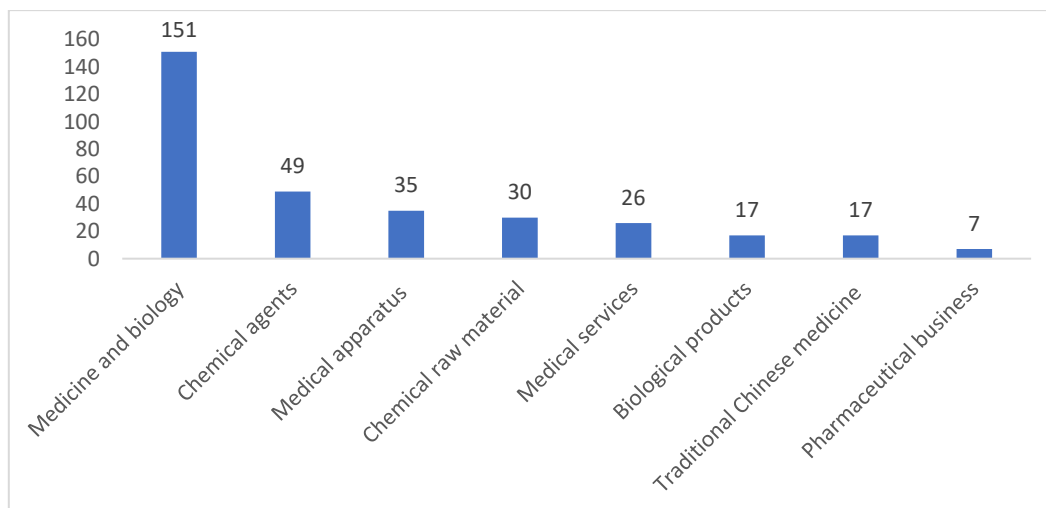


Figure 2. The number of violations in the pharmaceutical industry in recent ten years (Data source: Flush, Zhong kang Industrial Capital Research Center)

Figure 2 describes the industry breakdown distribution of the number of violations in the pharmaceutical industry in the past decade. It can be seen from the figure that the pharmaceutical and biological field accounts for the largest proportion and is the field with a high incidence of violations, with 151 violations belonging to the pharmaceutical and biological industry in the past decade. The chemical industry was second, with 49 violations over the decade. For the medical device industry, 35 times in 10 years, for the chemical raw material industry, 30 times in 10 years, for the medical service industry, 26 times in 10 years, and for the biological products and Traditional Chinese medicine industry, the same data, 17 times in 10 years. The number of commercial violations was the lowest, with seven in the decade.

## 2.5 The literature review

Through sorting out the causes of accounting information disclosure violations, the impact on stock prices, the impact on financing, and the industry violations, it is found that there is still a lack of specific analysis of a specific enterprise in this aspect, and there are few literatures on the research and analysis of information disclosure violations in the pharmaceutical industry. So, in summary analysis about the causes, consequences, the overall situation of the literature, this paper argues that the accounting information disclosure violations of listed companies separately case analysis of the literature is not rich, so the selection of the pharmaceutical industry is a typical information disclosure violations of enterprises as the research object, analyzes the information disclosure violations, both short-term and long-term effects of it, Enrich the existing literature on accounting information disclosure violations in the pharmaceutical industry.

## 3. Case overview

On July 20, 2019, Furen Pharmaceuticals announced that due to capital arrangements, the transfer of cash dividends could not be completed as required, and the dividends could not be implemented on schedule. The company applied for the stock suspension to prepare for related matters. July 24, 2009. On July 25, 2019, the company announced that the relevant funds were still not sufficiently prepared, and the cash dividends could not be distributed on schedule.

The company's 2019 first-quarter report shows that the balance of monetary funds is 1.816 billion yuan, which is much higher than the number of cash dividends to be distributed this time. However, the company's announcement in reply to the Shanghai Stock Exchange's inquiry letter stated that as of July 19, 2019, the company and its subsidiaries had total cash of only 127 million yuan, of which the restricted amount was 123 million yuan. Explain that Furen Pharmaceutical Group violated the rules of information disclosure in the event of issuing cash dividends. Furen Pharmaceuticals shall conduct a serious self-examination on the following monetary funds, liabilities, and capital

transactions with the controlling shareholder and its related parties, and make supplementary disclosures.

Regarding the company's main operating assets, the company's current main operating assets are Kaifeng Pharmaceutical (Group) Co., Ltd. (hereinafter referred to as Kaiyao Group), which was placed in the previous major asset reorganization. The market and investors have a lot of doubts about the prescription group, and the company should now disclose information based on relevant issues and doubts.

In the reply announcement issued by Furen Pharmaceutical Group Pharmaceutical Co., Ltd. on July 25, 2019 to the Shanghai Stock Exchange's "Inquiry Letter on Matters Concerning the Distribution of Equity to Furen Pharmaceutical Group Pharmaceutical Co., Ltd.", Furen Pharmaceuticals explained the reasons for the violation of information disclosure. In terms of capital preparation, the original plan was to pay dividends from the company's subsidiaries, and the chairman of the company will coordinate the financial personnel and capital arrangements of the company and its subsidiaries. Due to the current financial pressure of the company, in order to ensure the needs of daily operations, the capital arrangement was not in place in time, resulting in the failure to distribute cash dividends on schedule.

On May 14, 2019, Furen Pharmaceuticals disclosed the "Announcement on Supplementary Disclosure of Guarantee to Related Parties". According to the information provided by the handler, on January 11, 2018, Songhe Industry entrusted Zhengzhou Agricultural Guarantee Company to provide a guarantee for its financing loan in the Beihuan Branch of Zhengzhou Bank, and signed the Entrusted Guarantee Contract, which stipulated that Zhu Wenchen, Furen Group, and Furen Pharmaceutical would provide counter-guarantee to Zhengzhou Agricultural Guarantee Company. Based on the guarantee of Zhengzhou Agricultural Guarantee Company, Zhengzhou Bank and Songhe Wine Industry signed the "Working Capital Loan Contract", the contract amount is 30 million yuan, and the loan period is from January 12, 2018 to January 4, 2019. The above guarantee amount accounted for 0.56% of the company's net assets at the end of 2018. The above guarantees have not been made within the company's internal decision-making procedures, indicating that the company has capital occupation and illegal guarantees, and the company claims that the relevant information of this guarantee has not been disclosed in a timely manner.

Furen Pharmaceutical Group failed to complete the transfer of cash dividends in accordance with relevant regulations due to its failure to disclose the company's capital operation in a timely manner and was unable to distribute cash dividends as originally planned. The stock price has a short-term impact, and the company's stock price drops significantly in the short term. And it will have a long-term impact on the company's subsequent performance, profits, and operating income. The following table 1 is the main content of the reply announcement issued by Furen Pharmaceuticals on July 25, 2019.

Table 1. The main contents of the reply announcement of Furen Pharmaceutical Group Pharmaceutical Co., Ltd.

question	Reply
<p>1. Please verify and explain the specific process of handling the capital arrangement related to the equity distribution, as well as the specific reasons for failing to transfer cash dividends on time, and fully disclose the relevant risks to investors.</p>	<p>In terms of capital preparation, the original plan was to pay dividends from the company's subsidiaries, and the chairman of the board would coordinate the financial personnel and capital arrangements of the company and its subsidiaries. Due to the current financial pressure of the company, in order to ensure the needs of daily operations, the capital arrangement was not in place in time, resulting in the failure to distribute cash dividends on schedule. Up to now, due to the fact that the funds have not been raised in place, and the company's capital pressure is relatively large, the company's daily production and operation may be affected by this. Investors are reminded of investment risks. Due to the failure to distribute dividends as planned, the board of directors of the company apologizes again to all investors, please understand!</p>
<p>2. Your company should make relevant</p>	<p>The company has not yet made a firm funding arrangement plan.</p>

capital arrangements as soon as possible, clarify the specific time for subsequent equity distribution, disclose it to the outside world in a timely manner, and do a good job of explaining and explaining to investors.	Due to the problem of capital arrangement, the cash dividend could not be distributed on schedule. The board of directors of the company will try its best to raise funds and arrange the distribution as soon as possible. The company will make another arrangement for the 2018 annual equity distribution after sufficient funds are prepared, and the relevant progress will be announced in a timely manner.
3. The company's report for the first quarter of 2019 showed that the closing balance of the company's monetary funds was 1.816 billion yuan. Please verify and explain the company's current monetary capital situation, list the monetary capital balance of the company and its subsidiaries, their deposit methods, and restrictions, and explain whether there are liquidity difficulties.	According to the company's financial information, as of July 19, 2019, the company and its subsidiaries had a total cash of RMB 127,240,702.45, of which the restricted amount was RMB 123,461,985.09 and the unrestricted amount was RMB 3,778,717.36. The company's actual funds at the end of the first quarter and the changes and flow of funds so far need to be further verified. The company will conduct in-depth self-examination and make an announcement in a timely manner after verification.
4. Please verify and explain the capital transactions and guarantees with the controlling shareholder, actual controller, and its related parties, and whether there is capital occupation and illegal guarantees. The controlling shareholder and actual controller of the company shall issue a special explanation for this.	After the company communicated with the controlling shareholder, actual controller, and its related parties, since there are many companies involved, it is necessary to make an objective judgment on the substance and content of each transaction before drawing a conclusion. The above work still needs to be further verified. The company will further self-examine and comprehensively verify the company's capital situation, as well as the capital transactions and guarantees with the controlling shareholder, actual controller, and its related parties. people take it seriously.

#### 4. Short-term impact of information disclosure violations by Furen Pharmaceuticals

##### 4.1 Event research method defines events

This article uses the event study method to study the short-term impact of information disclosure violations by Furen Pharmaceuticals. The first step in the event study method is to define the relevant events and determine the event interval of the stock price movement of the particular company to be studied, also known as the event window. The determination of the event window is generally based on the event occurrence date, that is, the announcement date, and the event date is defined as 0. On this basis, the event window can be extended forward or backward according to the needs of the research. In addition, it is necessary to determine the pre-estimation period, also known as the cleaning period, whose function is to estimate the normal rate of return. The date of the announcement is 2019-7-25, so 2019-7-25 is selected as the event day, and the event window is [-15, 15], that is, the first 15 and the last 15 trading days from the event date, a total of 31 trading day. The cleaning (estimated) period selected in this paper is [-204, -31], that is, the first 204 to the first 31 trading days before the announcement.

After the events have been identified, the sample is determined and the specific companies selected for inclusion in the study. The sample selected in this paper is Furen Pharmaceutical. Taking Furen Pharmaceuticals as an example, this paper studies and analyzes the impact of information disclosure violations on abnormal stock price fluctuations. Since Furen Pharmaceuticals is listed on the Shanghai Stock Exchange, the data of the market part involved in the study of this event comes from the Shanghai Stock Exchange.

##### 4.2 Calculating normal returns and excess (abnormal) returns

The normal benefit is the expected benefit if the event did not occur, that is, the expected benefit if Furen Pharmaceutical had no information disclosure violation. First of all, we need to extract the data. The data source of this article is the daily closing price of the stock from 204 days before the event to 15 days after the event (excluding the date of suspension of trading) and the daily closing index of the Shanghai Stock Exchange during this period. The data mainly comes from <http://www.cninfo.com.cn>, Oriental Fortune Network and Choice financial terminal, import the

corresponding data into Excel. The specific data includes the daily closing price of Furen Pharmaceuticals from 2019-01-02 to 2019-12-31 and the daily closing index of the Shanghai Composite Index during this period. At the same time, the period from 2019-01-02 to 2019-06-24 is defined as -204, -203...-31, that is, the cleaning period [-204, -31], and 2019-07-10 - 2019-08 The period of -09 is defined as -15, -14...15, which is the event window [-15, 15]. After importing the data into Excel, you can start to calculate the return of the stock and the return of the market index (that is, calculate the change by the closing price). That is, the formula for calculating the rate of return ( $R_{it}$ ) of individual stocks of Furen Pharmaceuticals and the daily rate of return ( $R_{mt}$ ) of the market is:

(1):  $R_{it} = (P_t - P_{t-1}) \div P_{t-1}$  where  $P_t$  refers to the closing price of the stock on day t, and  $P_{t-1}$  refers to the closing price of the stock on day t-1

(2):  $R_{mt} = (\text{Today's Index} - \text{Previous Day's Index}) \div \text{Previous Day's Index}$

In order to measure the impact of events on stock prices, it is necessary to measure the excess (abnormal) return AR, which refers to the actual return minus the normal return within the entire event window. At present, there are mainly constant mean adjustment models, market adjustment models, and risk adjustment models (market models) for calculating excess returns.

This paper adopts the market model. The market model is a linear model that assumes a certain linear relationship between market returns and the returns of a particular security. The form of its market model is as follows:  $R_{it} = \alpha + \beta_i R_{mt} + u_{it}$ , Through this formula, a regression equation is established for the actual rate of return ( $R_{it}$ ) of Furen Pharmaceuticals and the daily rate of return ( $R_{mt}$ ) of the market. The specific method is: to select the estimation window before the event window and use the market model to estimate the company's beta value, that is, to establish a regression equation between the individual stock returns of Furen Pharmaceuticals and the market rate of return, and then use it to estimate the "normal rate of return ( $R'_{it}$ )" of Furen Pharmaceuticals within the event window. Figure 3 below shows the correlation between  $R_{it}$  and  $R_{mt}$ .

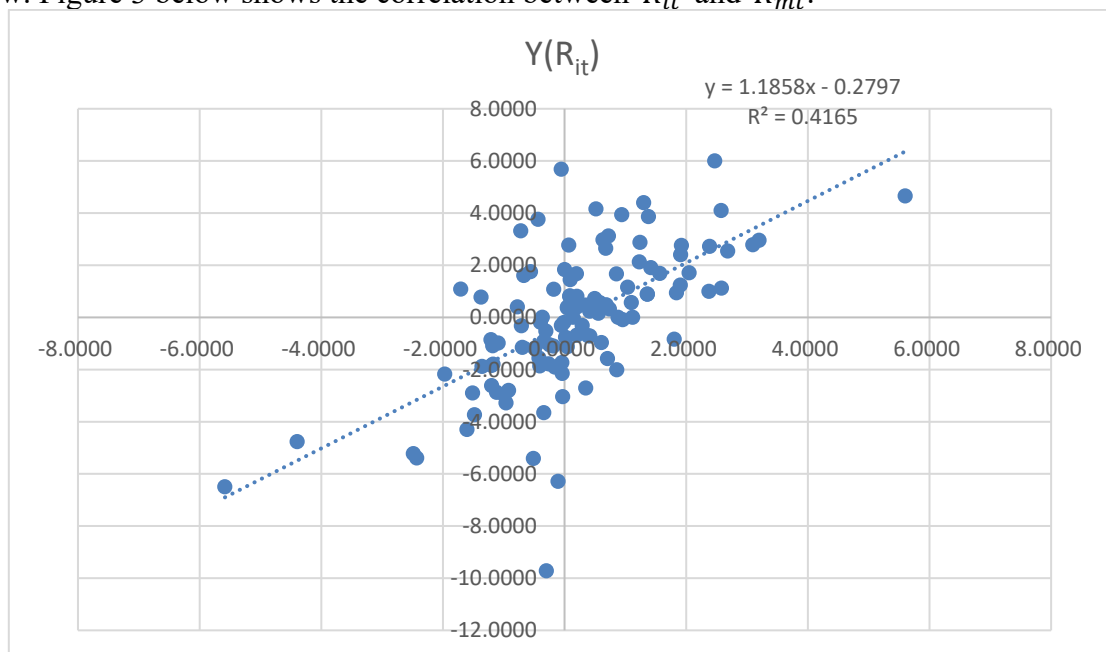


Figure 3. Correlation between  $R_{it}$  and  $R_{mt}$

The regression equation derived based on the estimated period is:  $y = 1.1858x - 0.2797$  where  $\beta$  is 1.1858 and intercept is 0.2797

That is, the normal rate of return under the market model  $R'_{it} = 1.1858R_{mt} - 0.2797$

Excess (abnormal) rate of return  $AR_{it} = R_{it} - R'_{it}$

The following table 2 substitutes the daily rate of return ( $R_{mt}$ ) of the market into the regression equation  $R'_{it} = 1.1858R_{mt} - 0.2797$  under the market model to calculate the normal rate of return  $R'_{it}$ , and then passes  $AR_{it} = R_{it} - R'_{it}$ , Calculate the excess (abnormal) rate of return  $AR_{it}$ .

Table 2. Calculate  $R'_{it}$  and  $AR_{it}$ 

			Closing price	$R_{it}$ (actual)	$R_{mt}$ (market)	$R'_{it}$ (normal)	$AR_{it}$ (excess)
600781-SHE	Furen Pharmaceuticals	2019/7/10	9.97	-2.062868369	-0.441495374	-0.80	-1.26
600781-SHE	Furen Pharmaceuticals	2019/7/11	10.09	1.203610832	0.084348037	-0.18	1.38
600781-SHE	Furen Pharmaceuticals	2019/7/12	10.04	-0.495540139	0.438178453	0.24	-0.74
600781-SHE	Furen Pharmaceuticals	2019/7/15	10.13	0.896414343	0.397161485	0.19	0.71
600781-SHE	Furen Pharmaceuticals	2019/7/16	10.53	3.948667325	-0.155258762	-0.46	4.41
600781-SHE	Furen Pharmaceuticals	2019/7/17	10.37	-1.519468186	-0.201660053	-0.52	-1.00
600781-SHE	Furen Pharmaceuticals	2019/7/18	10.08	-2.796528447	-1.040900258	-1.51	-1.28
600781-SHE	Furen Pharmaceuticals	2019/7/19	10.08	0	0.793608939	0.66	-0.66
600781-SHE	Furen Pharmaceuticals	2019/7/22	10.08	0	-1.273065702	-1.79	1.79
600781-SHE	Furen Pharmaceuticals	2019/7/23	10.08	0	0.449293967	0.25	-0.25
600781-SHE	Furen Pharmaceuticals	2019/7/24	10.08	0	0.804601467	0.67	-0.67
600781-SHE	Furen Pharmaceuticals	2019/7/25	9.07	-10.01984127	0.481719494	0.29	-10.31
600781-SHE	Furen Pharmaceuticals	2019/7/26	8.16	-10.03307607	0.244471226	0.01	-10.04
600781-SHE	Furen Pharmaceuticals	2019/7/29	7.34	-10.04901961	-0.120018706	-0.42	-9.63
600781-SHE	Furen Pharmaceuticals	2019/7/30	6.95	-5.313351499	0.3852864	0.18	-5.49
600781-SHE	Furen Pharmaceuticals	2019/7/31	6.55	-5.755395683	-0.671755672	-1.08	-4.68
600781-SHE	Furen Pharmaceuticals	2019/8/1	6.36	-2.900763359	-0.809539746	-1.24	-1.66
600781-SHE	Furen Pharmaceuticals	2019/8/2	6.03	-5.188679245	-1.407070902	-1.95	-3.24
600781-SHE	Furen Pharmaceuticals	2019/8/5	6.27	3.980099502	-1.615917861	-2.20	6.18
600781-SHE	Furen Pharmaceuticals	2019/8/6	6.07	-3.189792663	-1.557322948	-2.13	-1.06
600781-SHE	Furen Pharmaceuticals	2019/8/7	5.89	-2.965403624	-0.319575926	-0.66	-2.31
600781-SHE	Furen Pharmaceuticals	2019/8/8	5.94	0.848896435	0.934481582	0.83	0.02
600781-SHE	Furen Pharmaceuticals	2019/8/9	5.69	-4.208754209	-0.708489156	-1.12	-3.09

The excess (abnormal) return AR can better reflect the impact of the event on the stock price of each day during the window period. If you want to understand the impact of the event on the stock price of consecutive days, you need to calculate the cumulative abnormal return CAR (Cumulated Abnormal Return), its formula is:  $CAR = \sum AR$ .

The abnormal return AR and cumulative abnormal return CAR calculated in this paper are shown in Table 3.

Table 3. Furen Pharmaceuticals AR and CAR

date	event day /d	Furen Pharmaceutical's cumulative abnormal return CAR value	The abnormal return of Furen Pharmaceuticals AR
2019/7/10	-15	-1.26	-1.26
2019/7/11	-14	0.12	1.38
2019/7/12	-13	-0.61	-0.74
2019/7/15	-10	0.09	0.71
2019/7/16	-9	4.51	4.41
2019/7/17	-8	3.51	-1.00
2019/7/18	-7	2.22	-1.28
2019/7/19	-6	1.56	-0.66
2019/7/22	-3	3.35	1.79
2019/7/23	-2	3.10	-0.25
2019/7/24	-1	2.42	-0.67
2019/7/25	0	-7.89	-10.31
2019/7/26	1	-17.93	-10.04
2019/7/29	4	-27.56	-9.63
2019/7/30	5	-33.05	-5.49
2019/7/31	6	-37.73	-4.68
2019/8/1	7	-39.39	-1.66
2019/8/2	8	-42.63	-3.24
2019/8/5	11	-36.45	6.18
2019/8/6	12	-37.52	-1.06
2019/8/7	13	-39.82	-2.31
2019/8/8	14	-39.80	0.02
2019/8/9	15	-42.89	-3.09



Note: 0 in the event day means the announcement day, -15~-1 means 15 days before the announcement day, 1~15 means 15 days after the announcement day

From this, it can be concluded that the impact of Furen Pharmaceuticals' violation of information disclosure on the stock price is shown in Figure 2 below:

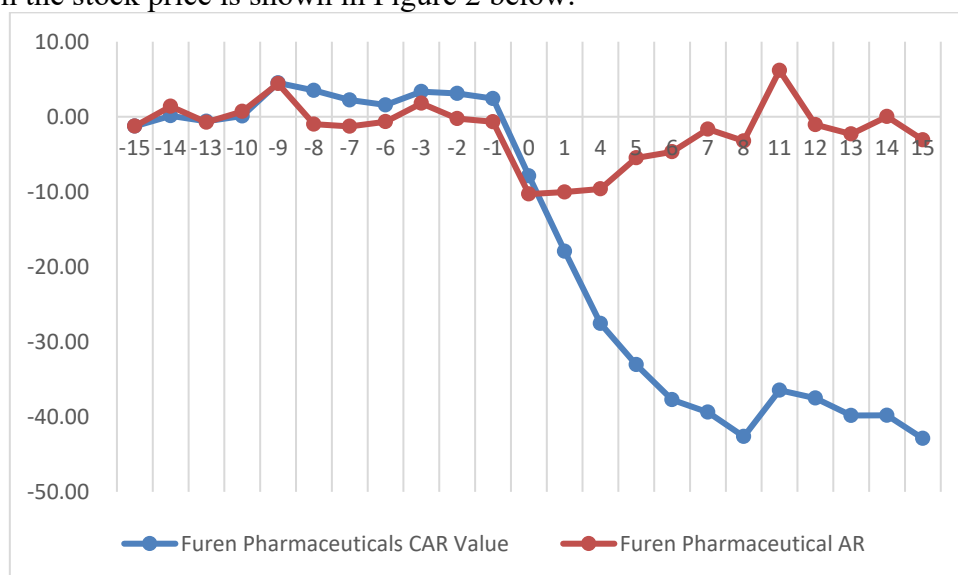


Figure 4. The impact of information disclosure violations by Furen Pharmaceuticals on the stock price

## 5. Long-term Impact of information disclosure violations by Furen Pharmaceuticals

### 5.1 The company's performance

#### 5.1.1 Assets of Furen

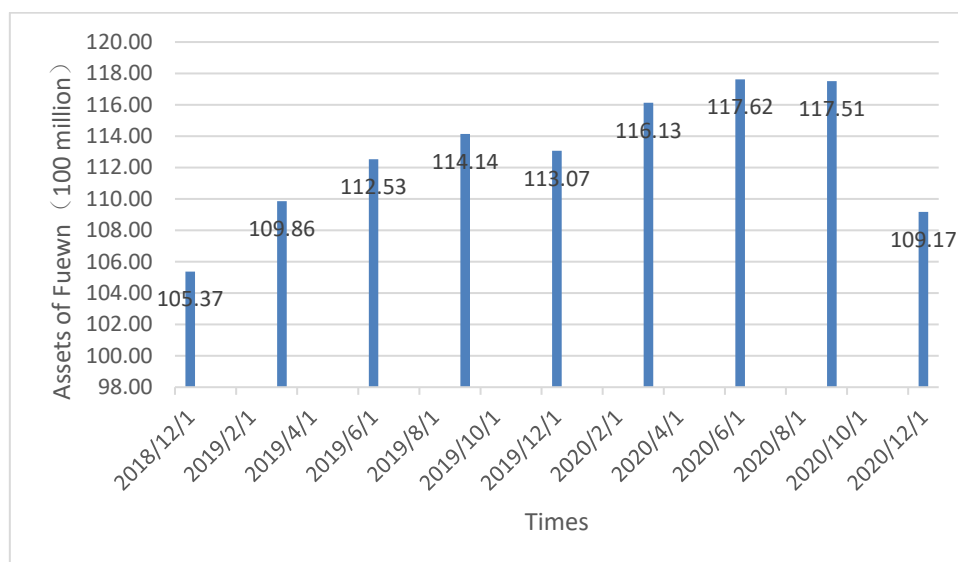


Figure 5. Assets of Furen  
(Data source: Financial indicators from Flush)

As can be seen from Figure 5, the assets of Furen Group Pharmaceutical Co.,Ltd fluctuated greatly. Under the influence of punishment for violation of information disclosure and the overall situation of the epidemic, the assets of Furen experienced two declines in year 19 and 20, and the company's assets were unstable.

#### 5.1.2 Liabilities of Furen

As can be seen from Figure 6, the liabilities of Furen increased steadily and reached a peak in

December 2020. The company's liquidity weakened and its debt-paying ability declined. The ratio of current liabilities to current assets is large and the leverage ratio is high.

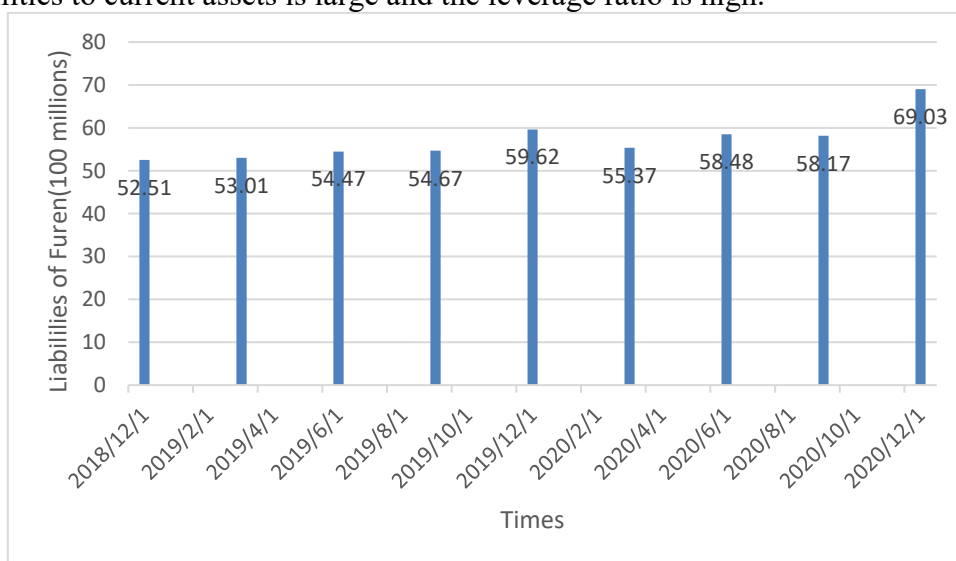


Figure 6. Liabilities of Furen  
(Data source: Financial indicators from Flushing)

### 5.1.3 Business income of Furen

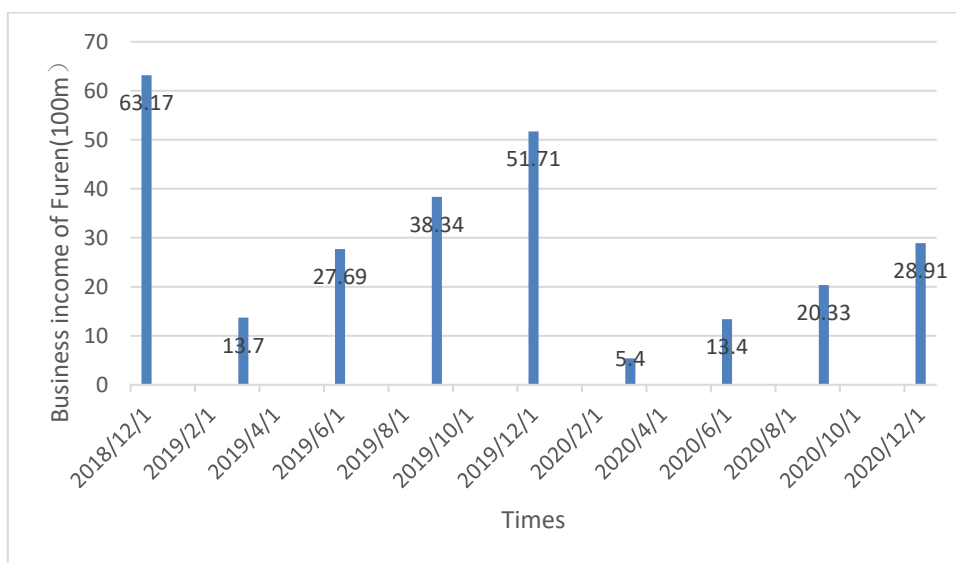


Figure 7. Operating revenue of Furen  
(Data source: Financial indicators from Flush)

As can be seen from Figure 7, the operating income of Furen fluctuates greatly and is unstable. The highest operating income is 6.317 billion yuan, and the lowest is only 540 million yuan. The operating income is low at the beginning of each year, and gradually increases within a year. Compared with the overall annual operating income, the overall operating income in 20 years was lower than that in 19 years, and the profitability declined.

### 5.1.4 Operating profit of Furen

As can be seen from Figure 8, the operating profit of Furen decreased significantly, and decreased significantly and showed negative growth at the end of 2020. The company's operating profit was in a state of loss, and the company's profitability needed to be improved.

According to the 2020 semi-annual report released by Furen Group Pharmaceutical Co., Ltd, the company's revenue and net profit declined significantly, with a decline rate of 51.62% and 82.93% respectively, and its liabilities exceeded 5.848 billion yuan, most of which were current liabilities.

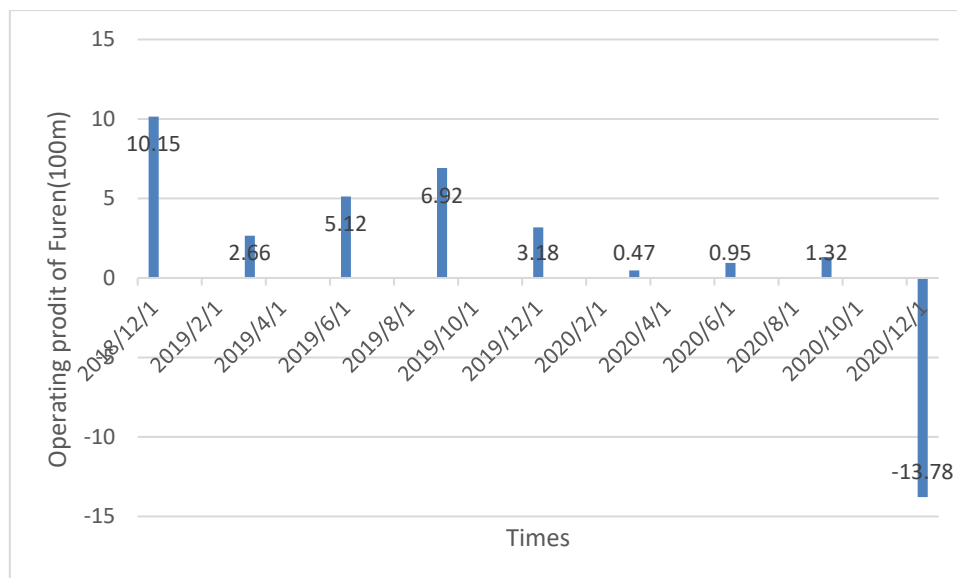


Figure 8. operating profit of Furen  
(Data source: Financial indicators of Flush)

## 5.2 Senior management Survey

\*ST Furen announced on September 16 that it received the CSRC's administrative punishment and advance notice of market prohibition. After investigation, \*ST Furen was suspected of false records and major omissions in the annual report of 2015 to 2018, false records were found in the company's material assets reorganization documents, and the controlling shareholder Furen Group provided false information in the material assets reorganization, and did not disclose in time in 2018 and did not disclose related party guarantee in the 2018 annual report and other illegal facts.

The CSRC decided to order. The correction of Furen pharmaceutical warning, fined 1.2 million yuan; Furen Group was warned and fined 600,000 yuan; Zhu wenchen was given a warning and fined 1.5 million yuan. The other 13 responsible persons, including Zhu Chenggong, Zhu Wenliang, Zhu Xueju and Zhu Wenyu, were warned and fined up to 350,000 yuan and down to 60,000 yuan respectively. The proposed fine totals 5.9 million yuan.

CSRC also decided that the decision-making, arrange the ricci group, furen holdings (ricci group parent company) take up the funds of listed companies and guarantee, the ricci group, fu jen holding a merger with Furen group pharmaceutical co and its scope had signed the agreement on the company's borrowing, furen holding capital takes up the issue, the biggest beneficiaries of the involved time is long, The amount involved is huge, and has not been disclosed, and the occupied funds have not been returned, the illegal behavior is seriously damaged the interests of investors, the CSRC plans to decide to take 10 years of market banning measures against Zhu Wenchen.

## 5.3 Become ST and \*ST enterprises

On August 30, 2019, the Shanghai fu ren pharmaceutical controlling shareholders non-operating capital takes up and illegal guarantees issued emergency information letter and as furen pharmaceutical is touched the Shanghai stock exchange "stock listing rules". In accordance with the relevant provisions of the Stock Listing Rules, Furen Applied to Shanghai Stock Exchange for "other risk warning" for its shares. At the same time, SSE believes that the appropriation of funds and illegal guarantees reflect the serious defects in the internal governance of FuRen Group Pharmaceutical Co., LTD., and the disclosure of information of FuRen may still be in violation of regulations. Require Furen Pharmaceutical, Furen Group and their affiliated parties to further verify and disclose the specific situation of relevant illegal lending of funds and illegal guarantee, and whether there are other undisclosed occupations of non-operating funds and illegal guarantee matters; Furen Pharmaceutical Co., LTD., Furen Group, and their affiliated parties shall verify and disclose the occurrence process, decision-makers and relevant responsible persons of relevant illegal fund lending and illegal

guarantee; Furen Group shall raise funds as soon as possible to repay illegally occupied funds and eliminate illegal guarantee situations. According to the announcement of Furen Pharmaceutical, September 2, 2019, Furen pharmaceutical will be suspended for one day, September 3, 2019, Furen pharmaceutical implementation of another risk warning, the stock referred to as "Furen pharmaceutical" changed to "ST Furen", daily rise or fall is limited to 5%.

Ruihua Accounting Firm (special general partnership) has issued an audit opinion that cannot express opinions on the company's 2019 financial report. According to The Relevant provisions of Article 13.2.1 and 13.2.4 of the Listing Rules of Shanghai Stock Exchange, the company's stock transaction will be subject to delisting risk warning. The board of directors of the company submitted an application to the Shanghai Stock Exchange, and the shares of Furen Pharmaceutical Company were suspended from trading for one day on June 24, 2020, and resumed trading on June 29, 2020, and the delisting risk warning was implemented on June 29, 2020. After the implementation of the delisting risk warning, the abbreviation of A-share stock is changed from "ST Furen" to "\*ST Furen", the stock code remains unchanged, and the daily rise or fall limit of stock price is still 5%.

## 6. Conclusion

Information disclosure of listed companies frequently violates laws and regulations, which has a negative impact on the economic market and society, especially on the pharmaceutical industry. Based on the public data and data analysis results, this paper analyzes the consequences of information disclosure violation of Furen.

The following conclusions can be drawn from the study of the short-term impact of information disclosure violation of Furen by the event study method: On the event day, the abnormal returns of 10.31%, the cumulative abnormal returns of 7.89%, Furen information of Shanghai stock exchange on the dispatch for Furen group pharmaceutical co., LTD. Relevant matters of inquiry letter reply announcement out definitely have had an impact on stock prices in the day, Furen exists the possibility of information disclosure violations. During the event period [-15, 15], the abnormal return rate (AR) of Furen stock price was negative for 17 trading days, and the cumulative abnormal return rate (CAR) was negative for all but one day. The cumulative abnormal return rate (CAR) during the event window period was -42.89%. It can be seen that the information disclosure violation of Furen greatly affected the stock price. It has a negative effect on the market.

In addition, the violation of information disclosure of Furen Pharmaceutical has a long-term impact on the company's performance, the tenure of senior executives, and the stock listing. China Securities Regulatory Commission confirmed that Furen Pharmaceutical information disclosure violations, the company's performance declined significantly, A number of company executives were punished by China Securities Regulatory Commission, and a-share shares were changed from "Furen Pharmaceutical" to "ST Furen" on September 3, 2019, and from "ST Furen" to "\*ST Furen" on June 29, 2020.

In this paper, information disclosure of Fu Ren was selected for research and analysis, and short-term or long-term impacts caused by information disclosure violations of Fu Ren were listed. The study proved that the impacts were mainly adverse, which served as a warning for information disclosure violations of listed companies in the pharmaceutical industry, and also provided more information disclosure reference information for the market. Based on the case analysis of information disclosure violation of Furen, this paper puts forward the following suggestions for standardizing information disclosure of listed companies: First of all, strengthen the external supervision mechanism of information disclosure of listed companies, formulate more strict information disclosure system by the state, strictly implement the Shanghai Stock Exchange and Shenzhen Stock Exchange, and strictly investigate the information disclosure violations. Secondly, strengthen the internal supervision mechanism of listed companies, make true, accurate, and timely disclosure of company performance and senior management, and consciously abide by relevant laws and regulations. Since this paper studies the information disclosure violations of Furen Pharmaceutical, the pertinence of the research object determines that the research content of this paper is limited and only serves as a reference for the information disclosure related issues of listed

companies on the market. Future research directions will focus more on universal research.

## References

- [1] Kaiwen Xue. An Empirical Analysis of Accounting Information Disclosure Behavior of Listed Companies Based on Logit Model[J]. *Journal of Innovation and Social Science Research*, 2021, 8 (5).
- [2] Li XINYing. Analysis on violation of accounting information disclosure of listed companies -- taking Taihua As an example [J]. *Finance and Accounting Newsletter*, 2019 (31).
- [3] Terovitis Spyros. Information Disclosure and the Feedback Effect in Capital Markets [J]. *Journal of Financial Intermediation*, 2020, 49 (prepublish).
- [4] Zhu Lin, Chen Yan-yu, YI Zhihong. Negative information disclosure in analyst reports and idiosyncrasies of stock price volatility: A textual analysis [J]. *Nankai Management Review*.
- [5] Yi Zhihong, Zhu Lin, Chen Qinyuan. Negative information disclosure and the risk of stock price collapse in analyst research reports [J]. *Nankai management review*, 2019, 22 (05).
- [6] Yi Chen, Kai Du. The role of information disclosure in financial intermediation with investment risk [J]. *Journal of Financial Stability*, 2020, 46 (C).
- [7] Liu X, Chen X C. Csrc punishment, analyst tracking and corporate bank debt financing: empirical evidence from information disclosure violations [J]. *Accounting Research*, 2018 (01): 60 - 67.
- [8] Sun Mengfan. Study on accounting information disclosure violations of pharmaceutical enterprises from the perspective of corporate Governance -- taking \*ST Furen as an example [D]. Beijing: Beijing Jiaotong University, 2021.
- [9] Wu Guo-ping. Types and Main Characteristics of information disclosure violations of listed companies [J]. *Contemporary Economic Research*, 2009 (07): 68 - 71.
- [10] Li Wei, Xu Xinqiang. Analysis on information Disclosure Violation of Listed Companies [J]. *Finance and Accounting Bulletin*, 2004 (18): 61 - 64+84.
- [11] Zeng Li, Tan Lichuan, You Binjie. Analysis of market reaction to punishment of violation of information disclosure [J]. *Monthly Journal of Finance and Accounting*, 2008.6: 79 - 81.
- [12] Zhu Lin, Chen Yan-yu, YI Zhihong. Negative information disclosure in analyst reports and idiosyncrasies of stock price volatility: A textual analysis [J]. *Nankai Management Review*.
- [13] Zou Guoqing. A study on information Disclosure of Listed Companies in China [J]. *Journal of Finance and Economics*, 2007 (04): 78 - 79.
- [14] Johnstone D. J. Accounting information, disclosure, and expected utility: Do investors really abhor uncertainty [J]. *Journal of Business Finance & Accounting*, 2021, 48 (1-2).
- [15] Chen Jing. Empirical research on the impact of information disclosure violation punishment on stock price of listed companies [D]. Chengdu: Southwestern University of Finance and Economics, 2009.
- [16] Hu Yan, BIAN Yan, LI Jianlin. Discussion on information disclosure violations of Listed Companies in China [J]. *Finance & Accounting*, 2011 (10): 33 - 34.
- [17] He J. Research on information disclosure violations of listed pharmaceutical companies -- A case study of Erkang Pharmaceutical [D]. Shenyang: Jinan University.