

GMT Research Accounting Screen



Short Name	361 Degrees	Description:	Relevant GMT Research Reports (please go to our website and login):
GICS Ind Name	Textiles, Apparel & Luxury Goods	361 Degrees International Ltd. designs, develops, manufactures, markets and distributes sportswear products, including athletic footwear, apparel and accessories.	
GICS Industry	252,030		
Cntry of Dom	CN		
Most Recent Balance Sheet Period	2017 Y		
Ticker	1361 HK		
Latest Period	Y		Short-Seller's Report (for Asian companies only)
Current Fiscal Year	2017		
Well known auditor:	Kpmg		Summary of accounting risk for Y/FY17
Country of incorporation:	Country of incorporation (Cayman Islands) is different from domicile (China).		- Profit manipulation Normal
Country of financials:	Currency of financials (Yuan Renminbi) is same as country of risk (China).		- Financial position Normal
			- General accounting Problematic accounting with 19 red flags
			- Shenanigans Evidence: Fake Cash Flow. Excess Capital.
			= Accounting risk: High
			This spreadsheet expires on 31st Mar 2018, in 82 days.
Profit Manipulation		Latest financials complete	
Profit Manipulation: Beneish M-Score (See App 1)		Beneish M-Score of -2.57 in Y/FY17 suggests no profit manipulation.	
Cooking the Books: Montier's C-Score (App 2)		A C-Score of 3/6 is average but watch out for: Deteriorating Accruals Margin. Rising inventory. Rising OCA.	
Financial Position			
Strength of Financial Position: Piotroski F-Score (App 3)		An F-Score of 5/9 suggests financials are marginally improving.	
Risk of Default: Altman Z-Score (App 4)		An Altman Z-Score of 10.65 is in the Safe Zone: Financially sound.	
Accounting Shenanigans			
Acquisition Accounting (App 5)	Global screen	No evidence of acquisition accounting.	
Window Dressing (App 6)		No evidence of window dressing.	
Fake Cash Fraud: Overly profitable (App 7)	Global screen	Scores 3/4 in Y/FY17. Medium Fraud Alert: 23% of frauds score 3 points and 10% of all companies. Further investigation needed. Triggered Fake Cash Flow in last 5yrs?: FY17 FY16 FY15 FY14	
Excess Capital Raising (App 8)	Global screen	Net flows over 5yrs at 14% of Sales are in the 93%ile and unusually high suggesting too much external finance is being raised.	
Debt Reconciliation (App 9)	Global screen	Material unreconcilable change of debt in 1 of the last 5 years.	
Other Financial Items			
Number of Red Flags (Out of a possible 75)		Triggers 19 red flags in the last financial period which is high.	
Cash Balance		Cash & STI of CNY5.4bn is extremely high at 105% of sales, in the 98%ile relative to peers, which is a trait of fake cash flow frauds.	
Restricted Cash		Restricted Cash of CNY0.3bn is within normal range.	
Receivables		Large Receivables of CNY2.1bn are equal to 42% of Sales which is in the 98%ile relative to peers, can be a sign of channel stuffing.	
Doubtful Debts		Delinquency at 0% of total receivables are within normal range.	
Payables		Large Payables of CNY2.6bn equal to 47% of Sales are in the 99%ile relative to peers, have grown by 10ppts relative to Sales over the past year which can be a sign of hidden debt and manufactured cash flow.	
Inventory		Inventories of CNY0.8bn have been extended by 5ppts relative to Sales over the past year which can be a sign of channel stuffing.	
Profit Manipulation: Gross Working Capital		An increase in working capital at 17% of sales owing to higher Other ST Liabilities and Other ST Assets suggests inflated cash flows and/or profit over the past year.	
Cash Extraction Fraud: Prepaid Expenses		Prepaid Expenses of CNY0.7bn are large relative to sales (14.1%) and inventory (89.4%), raising the risk of illegal cash extraction fraud.	
Capitalisation of Expenses		Capitalised expenses relative to pre-tax profits (0%) are within normal range.	
Affiliate Investments		There are no investments in associates.	
Auditing Costs		Auditing expenses of 7.7bp of sales within normal range.	
Deferred Tax Assets		Deferred Tax Assets have increased by 0.6ppts relative to sales over the past year which can be a sign of losses at subsidiaries or of Acquisition Accounting.	
Deferred Tax Liabilities		Deferred Tax Liabilities/Sales of 0% are within normal range.	
Derivatives		Derivatives equal to 0% of equity within normal range.	
Other Large Curious Assets and/or Liabilities		Within normal range.	
Depn & Amort		Within normal range.	
Interest Cover		EBIT Interest Cover of 4x is within normal range.	
Leverage		Total Debt/Profit of 5.6x and assets to equity of 1.9x are within normal range.	
Related Party Fraud		No evidence of related party transactions.	
Other Tests:		Evidence of substantial losses at consolidated subsidiaries owing to high effective tax rate and rising deferred tax assets. No or new CFO. Other comprehensive income is 20% of income which is unusually high. An overly liquid balance sheet with high levels of debt and cash. Gross Margin volatility is unusually low at 1.9% in the 7%ile relative to peers which is sometimes a trait of frauds. Has a very large balance sheet with Assets at 210% of Sales in the 94%ile relative to peers.	

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Ratios	Global/Sector/ Country	361 Degrees Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment
		Y/FY17	Y/FY16	Y/FY14	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY17	-1yr Chg	-3yr Chg	
Balance Sheet: Assets														
Av Cash & Equiv./Sales (%)	GICS Industry	104.7	91.6	86.4	+13.1	+18.4	3.2	10.4	24.0	379	98%	-45%	-41%	Av Cash & Equiv./Sales (%) high. Risen over 1yr. Risen over 3yrs.
Unrestricted Cash/COGS (%)	GICS Industry	59.3	98.9	92.2	-39.6	-32.9	5.1	16.6	40.3	314	88%	+37%	+30%	Unrestricted Cash/COGS (%) high. Fallen over 1yr. Fallen over 3yrs.
ST Investments/Sales FY (%)	GICS Industry	69.9	49.2	29.1	+20.7	+40.8	0.1	1.6	8.5	172	98%	+48%	+48%	ST Investments/Sales FY (%) present. Risen over 1yr. Risen over 3yrs.
Av. Trade & Notes Rec/Sales (%)	GICS Industry	42.4	44.5	45.7	-2.2	-3.4	7.2	12.1	20.0	356	98%	-42%	-39%	Av. Trade & Notes Rec/Sales (%) high.
Delinquent AR/AR (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.9	5.9	22.7	1,912	na	na	na	
Av. Inventory/Sales (%)	GICS Industry	15.8	10.8	14.6	+5.0	+1.2	13.0	19.6	29.8	375	32%	+40%	+6%	Risen over 1yr.
Inventory Days	GICS Industry	82	69	77	+14	+5	62	103	187	314	36%	+30%	-1%	Risen over 1yr.
Finished Goods/Inventory (%)	GICS Industry	91	89	80	+1.9	+11.2	33	60	89	417	81%	+12%	+31%	Finished Goods/Inventory (%) high. Risen over 3yrs.
Av. Other ST Assets/Sales (%)	GICS Industry	4.6	1.4	2.2	+3.2	+2.4	2.0	3.6	7.4	276	62%	+41%	+30%	Risen over 1yr. Risen over 3yrs.
PPE/Sales (%)	GICS Industry	24.8	26.1	28.4	-1.2	-3.6	9.2	22.8	45.7	360	53%	-23%	-26%	
Affiliate Inv/Equity (%)	Global	na	na	na	na	na	0.5	3.0	13.1	7,896	na	na	na	
LT Inv & Rec/Sales (%)	GICS Industry	0.1	0.1	0.3	+0.0	-0.2	0.2	1.5	10.0	249	15%	-3%	-26%	
Deferred Tax Assets/Sales FY (%)	GICS Industry	1.0	0.4	1.0	+0.6	+0.1	0.2	0.9	2.7	277	52%	+34%	-10%	Risen over 1yr.
Prepaid Expenses/Sales (%)	GICS Industry	14.1	13.3	22.8	+0.8	-8.7	0.3	1.3	3.4	167	97%	+37%	-50%	Prepaid Expenses/Sales (%) high. Risen over 1yr.
Prepaid Expenses/Inventory (%)	GICS Industry	89.4	123.5	156.5	-34.1	-67.1	1.2	3.7	10.7	99	97%	-49%	-50%	Prepaid Expenses/Inventory (%) high.
Intangibles/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.1	1.0	9.2	316	na	na	na	
Av. Other LT Assets/Sales FY (%)	GICS Industry	1.9	2.0	1.9	-0.1	-0.0	0.4	1.8	5.8	332	51%	-22%	-17%	
Av. Assets/Sales (%)	GICS Industry	210	192	200	+17.8	+9.3	65.5	95.1	139.4	380	94%	+36%	+9%	Av. Assets/Sales (%) high. Risen over 1yr.
Balance Sheet: Liabilities and Equity														
Av. Payables (Trade, Bills, Accr/Sales (%)	GICS Industry	46.8	36.3	31.4	+10.5	+15.4	5.3	10.0	15.5	379	99%	+49%	+49%	Av. Payables (Trade, Bills, Accr/Sales (%) high. Risen over 1yr. Risen over 3yrs.
Trade Payable Days	GICS Industry	71	89	85	-18.5	-13.8	24.5	45.6	81.5	348	74%	-46%	-40%	
ST Debt/Total Debt (%)	Global	0	3	35	-2.2	-34.5	13.0	44.2	88.3	13,723	2%	-14%	-42%	
Av. Other ST Liabs/Sales (%)	GICS Industry	1.7	1.3	0.3	+0.4	+1.3	3.8	6.8	10.9	380	4%	+12%	+21%	
Av. Deferred Tax Liab/Sales FY (%)	GICS Industry	0.1	0.1	0.3	-0.0	-0.2	0.7	3.6	12.1	256	4%	-13%	-32%	
Av. Other LT Liabs/Sales (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.4	1.8	5.1	298	na	na	na	
Preferred Equity/Equity (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.2	5.1	20.7	908	na	na	na	
Minority/Total Equity (%)	Global	2.1	2.1	1.4	+0.0	+0.7	0.3	2.4	11.4	9,628	47%	+8%	+20%	
Assets/Equity (x)	GICS Industry	1.9	1.9	1.7	-0.0	+0.2	1.4	1.8	2.6	373	55%	-6%	+26%	
Balance Sheet: Other														
Av. GFA/D&A (yrs)	GICS Industry	15.4	16.1	21.2	-0.7	-5.8	8.4	14.3	22.8	371	56%	-27%	-45%	
Restricted Cash/Equity (%)	GICS Industry	5.7	3.4	3.5	+2.3	+2.3	0.1	0.3	5.9	60	79%	+36%	+33%	Risen over 1yr. Risen over 3yrs.
Cash Conversion Cycle (Days)	GICS Industry	166	142	160	24	6	70.6	110.2	186.0	312	75%	+36%	+10%	Risen over 1yr.
Av. Gross Working Capital/Sales (%)	GICS Industry	125.8	109.1	113.7	+16.7	+12.1	40.4	53.6	72.2	379	97%	+41%	+28%	Av. Gross Working Capital/Sales (%) high. Risen over 1yr.
Contingent Liab/Equity (%)	GICS Industry	3.1	3.1	4.7	-0.1	-1.6	2.0	13.6	59.2	253	25%	+2%	-8%	
Pension Liabilities/Equity (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.7	2.8	10.0	7,570	na	na	na	
Net Derivatives/Equity (%)	Global	0.0	0.0	0.0	+0.0	+0.0	-1.4	0.0	1.1	2,405	na	na	na	
Return on Production Assets (%)	GICS Industry	44.1	47.8	46.9	-3.8	-2.9	4.5	14.9	33.7	382	86%	+16%	+4%	Return on Production Assets (%) high.
Non-Prod. Assets/COGS FY (%)	GICS Industry	301.7	287.0	14.7	+14.7	+287.0	34.6	67.1	132.2	299	95%	-27%	-48%	Non-Prod. Assets/COGS FY (%) high. Risen over 3yrs.
Gross Debt/Profit (x)	GICS Industry	5.6	6.4	5.0	-0.7	+0.6	0.9	4.0	13.7	306	58%	-21%	+7%	
Income Statement														
Sales/Employee (US\$)	GICS Industry	89,324	79,616	67,847	+9,708	+21,477	56,779	148,854	359,649	286	(0-100%)	(+/-50%)	(+/-50%)	
Gross Margin (%)	GICS Industry	41.8	42.0	40.9	-0	+1	15	30	52	322	65%	+9%	-4%	
GM Volatility 5yrs (%)	GICS Industry	1.9					2.9	6.3	20.0	303	7%			GM Volatility 5yrs (%) low.
Other Op Y/Op Y (%)	GICS Industry	11.0	4.2	5.4	+6.8	+5.7	1.8	6.4	20.7	119	65%	+35%	+22%	Risen over 1yr.
D&A/Sales T12M (%)	GICS Industry	2.3	2.2	1.7	+0.1	+0.6	1.4	2.8	4.7	376	60%	-12%	-22%	
Operating Margin T12M (%)	GICS Industry	16.6	17.6	16.9	-1.0	-0.3	2.8	7.2	14.9	374	83%	+13%	-1%	Operating Margin T12M (%) high.
Non-Op Y/Op Y (%)	GICS Industry	15.4	3.3	5.5	+12.1	+9.8	2.9	10.4	36.5	329	60%	+30%	+23%	Risen over 1yr.
EFF Int Rate less MLR (ppt)	Country	3.6	3.5	-1.8	+0.1	+5.4	-2.9	-0.5	1.1	2,032	92%	-6%	+45%	EFF Int Rate less MLR (ppt) high. Risen over 3yrs.
Cash Return less Policy Rate (ppt)	Country	0.1	0.2	-0.5	-0.1	+0.5	-2.2	-1.5	-0.2	2,145	83%	-7%	+5%	Cash Return less Policy Rate (ppt) high.
Affil Y/Op Y (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.3	2.2	11.9	6,391	na	na	na	
Eff Tax Rate (%)	Country	39.6	40.5	33.3	-0.9	+6.3	13.3	19.2	27.2	2,043	93%	-16%	+29%	Eff Tax Rate (%) high.
CF Tax/IS Tax (%)	GICS Industry	68.7	68.2	69.0	+0.4	-0.3	64.9	98.7	151.1	285	79%	+3%	+3%	
X Items/Op Y (%)	Global	0.0					0.8	6.2	37.4	1,297	na			
Minority Int/Profit B4 MI (%)	Global	2.3	4.3	1.9	-2.0	+0.4	-0.1	1.8	12.8	8,362	53%	-28%	+9%	
Net Income Margin (%)	GICS Industry	8.9	8.0	10.2	+0.8	-1.3	1.3	4.7	11.2	383	29%	-21%	+13%	
Capitalised Int/PTP (%)	Global	na	na	na	na	na	0.0	0.0	0.0	13,642	na	na	na	
Cap of Intang. Assets/PTP (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.9	4.0	16.7	728	na			
EBIT Interest Cover (x)	GICS Industry	4.0	4.8	10.5	-0.8	-6.5	1.7	7.4	41.1	351	63%	+11%	+26%	

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Ratios		Global/Sector/ Country			361 Degrees Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment	
		Y/FY17	Y/FY16	Y/FY14	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY17	-1yr Chg	-3yr Chg					
Cash Flow															(0-100%)	(+/-50%)	(+/-50%)	
CFO/Net Profit (x)	GICS Industry	1.6	2.5	2.4	-0.9	-0.8	0.3	1.1	2.2	1,697	32%	+31%	+27%	Fallen over 1yr.				
Cash Interest Exp./CFO (%)	GICS Industry	28.2	19.7	3.0	+8.6	+25.2	0.2	4.8	25.8	271	81%	+27%	+34%	Cash Interest Exp./CFO (%) high. Fallen over 3yrs.				
Capex/Sales (%)	GICS Industry	0.8	2.9	3.5	-2.1	-2.6	1.4	3.2	7.2	371	12%	-33%	-30%					
Decrease Investments/Sales (%)	GICS Industry	0.0	0.2	0.0	-0.2	+0.0	0.0	0.5	4.8	141	na							
Other Investing Activities/Sales (%)	GICS Industry	23.6	21.4	40.9	+2.2	-17.2	0.1	1.1	4.4	292	97%			Other Investing Activities/Sales (%) high.				
Debt Repay/ST Debt -1FY (%)	Global	82	367	412	-285.4	-330.2	20.0	88.4	210.9	10,373	47%	-43%	-43%					
Free Cash Flow Margin (%)	GICS Industry	13.0	17.1	20.8	-4.1	-7.8	-4.2	2.4	8.7	377	10%	+26%	+36%	Fallen over 3yrs.				
FCF-Divs/Sales (%)	Global	10.2	10.8	18.2	-0.7	-8.0	-7.2	0.9	6.8	10,563	14%	+6%	+34%	Fallen over 3yrs.				
No. of Mat. Capital Inc -5yrs	Global	0					0.0	0.0	1.0	9,451	na							
Other Fin. Activities/Sales (%)	GICS Industry	0.2	0.2	0.1	+0.0	+0.1	0.0	0.3	1.4	329	40%							
Corporate Governance															(0-100%)	(+/-50%)	(+/-50%)	
Auditing Exp/Sales (bp)	GICS Industry	7.7					2.5	6.3	13.2	179	58%							
RPT Balances/Equity (%)	Global	0.0					0.3	1.9	11.0	1,434	na							
Number of Acq&Disp -5yrs	Global	1					0.0	3.0	5.0	12,251	36%							
Acq&Disp Con./Sales Av. -5yrs (%)	Global	0.1					0.2	1.4	6.9	12,251	7%							
Executive Comp/Sales (bp)	GICS Industry	na					7.4	22.6	73.1	84	na							
Executive Comp/PTP (bp)	GICS Industry	na					67.6	188.6	669.0	84	na							
CEO Tenure (yrs)	Global	na					1.4	4.5	10.8	5,466	na							
CFO Tenure (yrs)	Global	na					1.1	3.3	8.3	716	na							
Av. Executive Tenure (yrs)	Global	na					4.1	7.4	11.9	3,291	na							
Av. Board Tenure (yrs)	Global	na					3.9	6.4	9.9	3,672	na							

Source: GMT Research, Bloomberg

Summary of financials in Y/FY17

Average Ratio Percentile Score (0 is good, 100 is bad)	58%	Result: Very poor score. High number of red flags.	Explanation
- Percentile vs Industry Peers (0% is good, 100% is bad)	90%	In Y/FY17, 361 Degrees recorded an average percentile score (0 is good, 100 is bad) of 58% across all 75 financial ratios listed below. This places it in a percentile of 90 relative to around 379 GICS industry peers globally, which is a very unusual result. The company triggered a total of 19 red flags out of 75 placing it in a percentile of 81 relative to our sample of 16,000 companies globally, which is a very unusual result.	Each of the 50 financial ratios listed below is percentile ranked relative to an appropriate peer group drawn from 16,000 companies globally between 2010 and 2015. In general, low percentile scores are good while high scores are poor. Red flags are mainly triggered when a company's ratio is above the 80th percentile; however, for certain ratios a red flag is triggered when it is below the 20th percentile. Red flags are highlighted below in red.
Number of Red Flags (Out of a possible 75)	19		
- Percentile vs Global Peers (0% is good, 100% is bad)	81%		

Summary of change in financials over 1 year

Number of Red Flags (Out of a possible 62)	16	Result: High number of red flags.	Explanation
- Percentile vs Global Peers (0% is good, 100% is bad)	90%	Over the financial year prior to Y/FY17, 361 Degrees triggered a total of 16 red flags out of 62 placing it in a percentile of 90 relative to our sample of 16,000 companies globally, which is a very unusual result.	Red flags are normally triggered by a score between +30 and +50 which suggests an aggressively deteriorating financial ratio. These are highlighted in red below.

Summary of change in financials over 3 yrs

Number of Red Flags (Out of a possible 62)	12	Result: High number of red flags.	Explanation
- Percentile vs Global Peers (0% is good, 100% is bad)	82%	Over the 3 financial years prior to Y/FY17, 361 Degrees triggered a total of 12 red flags out of 62 placing it in a percentile of 82 relative to our sample of 16,000 companies globally, which is a very unusual result.	Red flags are normally triggered by a score between +30 and +50 which suggests an aggressively deteriorating financial ratio. These are highlighted in red below.

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Appendices

Appendix 1: Beneish M-Score

	Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Index Calculation	Comments on latest period
Days Sales in Receivables Index	$+(0.92 \times 0.95)$	1.51	0.81	0.96	1.02	0.95	0.95	$(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$	Receivables of 155 days have fallen by 8 days YoY
Gross Margin Index	$+(0.528 \times 1.00)$	1.01	0.97	1.00	0.97	1.00	1.00	$[(\text{Sales}_{t-1} - \text{COGS}_{t-1}) / \text{Sales}_{t-1}] / [(\text{Sales}_t - \text{COGS}_t) / \text{Sales}_t]$	12m Trailing Gross Margin of 41.8% has deteriorated by 0.2ppts YoY
Asset Quality Index	$+(0.404 \times 1.12)$	1.06	0.59	0.82	0.79	1.12	1.12	$[1 - (\text{Curr Ass}_t + \text{PP\&E}_t + \text{Sec}_t) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$	Other LT Assets/Total Assets of 1.4% has increased by 0.2ppts YoY
Sales Growth Index	$+(0.892 \times 1.03)$	0.72	1.09	1.14	1.13	1.03	1.03	$\text{Sales}_t / \text{Sales}_{t-1}$	12m Trailing Sales have risen 3% YoY
Depreciation Index	$+(0.115 \times 0.86)$	1.19	1.07	1.13	0.64	0.86	0.86	$(\text{Depr}_{t-1} / (\text{PP\&E}_{t-1} + \text{Depr}_{t-1})) / (\text{Depr}_t / (\text{PP\&E}_t + \text{Depr}_t))$	12m Trailing Depreciation/Sales of 8.9% has risen by 1.2ppts YoY
SG&A Index	$-(0.172 \times 0.93)$	0.75	1.29	1.02	0.97	0.93	0.93	$(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$	12m Trailing SG&A/Sales of 27% have risen by 1.9ppts YoY
Total Accruals to Total Assets	$-+(4.679 \times 0.02)$	-0.02	-0.06	0.03	-0.05	-0.02	-0.02	$\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$	Total Accruals (Net Profit less CFO)/Total Assets are -2%
Leverage Index	$-(0.327 \times 1.01)$	1.03	0.81	1.05	0.81	1.01	1.01	$[(\text{Curr Liab}_t + \text{Total LT Debt}_t) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$	LT Debt + Current Liabilities/Total Assets of 48% have fallen by 0.7ppts YoY
Beneish M-Score for Y/FY17	-4.84 =	-2.26	-3.00	-2.31	-2.68	-2.57	-2.57	An M-Score of >-2.22 signals that the company is likely to be a manipulator	Beneish M-Score of -2.57 in Y/FY17 suggests no profit manipulation

Appendix 2: Montier C-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Profit	1	0	1	0	1	1	A growing divergence between Profit and Operating Cash Flow (1 point)	12m Trailing Accruals Margin of 5% has fallen from 12% YoY
Receivables	1	0	0	1	0	0	Receivable Days are increasing (1 point)	Receivables of 153 days have fallen by 8 days YoY
Inventory	1	1	0	0	1	1	Inventory Days are increasing (1 point)	Inventory of 16 days has risen by 5 days YoY
Other current assets	1	1	0	0	1	1	Other Current Assets to Sales are increasing (1 point)	Other Current Assets/Sales of 21.8% have risen by 5.7ppts YoY
Depreciation	1	1	1	0	0	0	Depreciation relative to PPE jobs usfa bs	Depreciation of 15.4yrs has fallen by 0.7yrs YoY
Asset growth	0	1	0	1	0	0	High asset growth in excess of 10% (1 point)	Asset growth of 6% is below 10%
Montier's C-Score	5	4	2	2	3	3	Score 0-1 is good; 2-4 is average, 5-6 is bad	A C-Score of 3/6 is average

Appendix 3: Piotroski F-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Net Income Score	1	1	1	1	1	1	Positive Return on Assets in the current year (1 point)	12m Trailing Return on Assets of 4.2%
Operating Cash Flow Score	1	1	1	1	1	1	Positive Operating Cash Flow in the current year (1 point)	12m Trailing CFO Margin of 13.9%
Return on Assets Score	0	1	1	0	0	0	Higher Return on Assets than previous year (1 point)	12m Trailing ROA has fallen to 4.2% from 4.5% YoY
Quality of Earnings Score	1	1	0	1	1	1	Operating Cash Flow are greater than ROA (1 point)	12m Trailing CFO Margin of 13.9% is above Net Profit Margin of 8.9%
Long-Term Debt to Assets Score	1	0	1	0	1	1	Lower ratio of Long Term Debt than previous year (1 point)	LT Debt/Total Assets has fallen to 23% from 27% YoY
Current Ratio Score	1	0	1	1	0	0	Higher Current Ratio this year compared to the previous year (1 point)	Current Ratio has fallen to 3.55x from 3.86x YoY
Shares Outstanding Score	1	1	1	1	1	1	No new shares were issued in the last year (1 point)	Number of shares remains unchanged
Gross Margin Score	0	1	1	1	0	0	A higher Gross Margin compared to the previous year (1 point)	12m Trailing Gross Margin of 41.8% has deteriorated by 0.2ppts YoY
Asset Turnover Score	0	0	1	1	0	0	A high Asset Turnover ratio compared to the previous year (1 point)	Asset turnover has fallen to 0.48x from 0.52x YoY
Piotroski F-Score	6	6	8	7	5	5	Score 0-1 weak and deteriorating; 8-9 strong and improving	An F-Score of 5/9 suggests financials are marginally improving

Appendix 4: Altman Z-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Altman Z-Score for a company in emerging markets	Comments
Solvency	6.45	5.14	4.05	4.18	4.12	4.12	Working Capital (Current Assets less Current Liabilities)/Tangible Assets	Ability to meet short term obligations
Cumulative profitability	1.85	1.70	1.80	1.61	1.60	1.60	Retained Earnings/Tangible Assets	Determines cumulative historic profitability
Profitability	0.28	0.52	0.60	0.57	0.52	0.52	EBIT/Tangible Assets	Measures earnings away from the effects of taxes and leverage
Market confidence	na	na	na	na	na	na	Market Capitalisation/Total Liabilities	Whether a firm's value able to cover liabilities
Efficiency	na	na	na	na	na	na	Sales/Tangible Assets	An asset turnover metric to measure efficiency
Leverage	2.09	1.51	1.65	1.12	1.15	1.15	Book Value of Equity/Total Liabilities	Leverage
Altman Z-Score for Y/FY17	13.92	12.12	11.35	10.73	10.65	10.65	Anything <1.81 for a manufacturer or <1.11 for other companies is problematic	Safe Zone: Financially sound

Appendix 5: Acquisition Accounting

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	Point Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Material acquisition?	1 point	0	0	0	0	0	0	An acquisition in excess of 5% of sales.	No recent acquisitions
Rise in intangible assets -1yr?	1 point	0	0	0	0	0	0	Either a rise in Intangible Assets over 1 year	na
Material intangibles on balance sheet?		na	na	na	na	na	na	Or Intangibles are >=50%ile relative to peers	na
Rise in deferred tax assets -1yr?	1 point	1	0	0	0	1	1	Either a rise in Deferred Tax Asset over 1 year	DTAs have risen by 0.6% of sales to 1% of sales
Large deferred tax assets		0	0	0	0	0	0	Or a large Deferred Tax Asset in the 80%ile relative to industry peers	DTA/Sales of 1% is in the 52%ile relative to industry peers
Acquisition Accounting		1	0	0	0	1	1	A score of 3 suggests possibility of acquisition accounting to inflate profits	No evidence of acquisition accounting.

GMT Research Accounting Screen



Appendix 6: Debt Window Dressing

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Has high debt repayment/ST debt?	0	1	0	1	0	0	Debt Repayment relative to the ST Debt one year prior is in excess of 130%	na
Has high effective interest rate?	1	1	1	1	1	1	Effective Interest Rate is in excess of the 80%ile relative to country peers	Effective Int Rate of 7.9% is in the 96%ile relative to country peers
Has moderate debt?	1	1	1	1	1	1	If Debt to Sales >15%ile of industry peers	Debt/Sales of 50% is in the 83%ile relative to industry peers
Window Dressing	2	3	2	3	2	2	A score of 3 suggests strong likelihood of window dressing	Unlikely to be debt window dressing

Appendix 6a: Investment Window Dressing

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
High level of investment repayment/sales?	1	0	1	0	0	0	If Invest Repay/Sales in excess of the 80%ile relative to industry peers	na
High inv. repay./investments -1FY?	0	0	0	0	0	0	If Invest Repay in excess of 100% of previous year's Investments	Investment Repayment/Investment -1FY of 0%
Window Dressing Investments	0	0	0	0	0	0	A score of 2 suggests a strong possibility of window dressing	Unlikely to be window dressing investments

Appendix 7: Fake Cash Flow

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	Point Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	
High operating margin	Critical criteria: 1 point	0	1	1	1	1	1	Operating Margin >80%ile relative to industry peers	A 12m Trailing Operating Margin of 17% is in the 83%ile
High return on production assets		0	1	1	1	1	1	Op Profit/(PPE + Inv) in the >80%ile relative to industry peers	A 12m Return on Production Assets of 44% is in the 86%ile
High level of non-production assets	1 point	1	1	1	1	1	1	(Total Assets-Production Assets)/(COGS or Sales) >80%ile versus peers	Non Production Assets/COGS (or Sales) of 302% is in the 95%ile
Build-up of non-production assets		1	1	1	1	1	1	Increase in Non Prod Assets rel to Sales or COGS >80%ile peers	Non Production Assets/COGS (or Sales) changed by 6% over 1 year
Low dividends and buybacks	1 point	0	1	0	0	0	0	Dividends and Buybacks are less than 30% profit	Dividends and buybacks of 32%
A relatively unknown auditor		0	0	0	0	0	0	Relatively obscure auditor	Well known auditor: Kpmg
Incorporation and Domicile	1pt if >1	1	1	1	1	1	1	Different country of incorporation vrs domicile	Country of incorporation (Cayman Islands) is different from domicile (China).
Debt structure		0	0	0	0	0	0	If Short Term Debt >75% Total Debt, or no debt at all	Short term debt is 0% of total debt
Sector		1	1	1	1	1	1	Operates in sector prone to fraud	Textiles, Apparel & Luxury Goods industry is prone to fraud.
Fake Cash Flow Fraud	Max 4pts	0	4	3	3	3	3	A score of 3 or 4 is problematic and requires further investigation	Medium Fraud Alert: 23% of frauds score 3 points and 10% of all companies

Appendix 8: Excess Capital Raising

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(CNYm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Sales	+3,583	+3,906	+4,459	+5,023	+5,158	+22,129
- OPCF	+332	+948	+224	+1,008	+715	+3,226
- Capex	(44)	(135)	(253)	(147)	(44)	(623)
- Dividends (incl MI at subs)	(227)	(103)	(165)	(316)	(147)	(959)
- Buybacks	+0	+0	+0	+0	+0	+0
- (Acquisitions)/disposals	+0	+0	+0	+15	+0	+15
= Net internal cash generation	+61	+710	(195)	+558	+524	+1,659
Externally generated cash flows						
- Debt issuance, net	(26)	+519	(1)	+1,106	(62)	+1,536
- Equity issuance	+0	+0	+0	+12	+0	+12
= Net external financing	(26)	+519	(1)	+1,119	(62)	+1,548
Net surplus/(deficit)	+35	+1,228	(196)	+1,677	+462	+3,206
Net flows/Sales (%)	+1	+31	(4)	+33	+9	14
Relative to Global Sector (%ile):						93%
Av. cash balance/sales (%)	77	86	87	92	105	
Relative to Global Sector (%ile)	97%	98%	98%	98%	98%	
Core cash required (10% of Sales):					561	
Surplus cash at year end (cash balance less core cash):					4,826	
Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero):					3,206	
Possible fake cash/excess cash balance (%):					66	
Unable to reconcile FCF equal to CNY3.2bn over 5yrs which equates to 66% of surplus cash balance at YE; this is a trait of frauds.						

Appendix 9: Debt Reconciliation (based on latest annual data)

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(CNYm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Balance sheet (BS) debt YE	1,287	997	2,284	1,912	2,803	2,578
Change in debt: BS	(290)	+1,287	(372)	+891	(225)	+1,292
Change in debt: Cash flow (CF)	(26)	519	(1)	1,106	(62)	+1,536
Unrec chg BS and CF debt	(263)	+768	(371)	(215)	(162)	(244)
Unrec chg/total debt (%)	(26)	+34	(19)	(8)	(6)	(9)
Possible reason:	ok	None.	ok	ok	ok	
Material unreconcilable change of debt in 1 of the last 5 years.						
Reasons:						
- Assets paid with debt (such as operating leases) is a non-cash item. Capex should be restated.						
- Proceeds raised from convertible bonds (CBs) are sometimes regarded as equity, not debt.						
- Large acquisitions can lead to difficulties in reconciling debt.						
- If no reason is found, further work is needed.						

Appendix 10: Ownership Type (latest Bloomberg data)

	(%)	Active Versus Passive	
Individual	85	Free Float (%)	44
Investment Advisor	13	No. Instit. Owners	59
Sovereign Wealth Fund	2	Institutional (%)	10
Pension Fund (ERISA)	0	- Passive Instit. (ETFs) (%)	4
Government	0	- Active Instit. (%)	6
Other	0		

Appendix 11: Insiders (latest Bloomberg data)

		Comment
Insider Shares O/S (%)	55.96	
Chg Insider Hldgs -6m (%)	0.00	Changes in insider holdings can be due to options, etc. as opposed to actively buying or selling shares
Number of Insider Shares Purchased (m)	+0.0	
Number of Insider Shares Sold (m)	+0.0	
Average Purchase Price of Insider Shares	0.00	Current share price is HKD2.5
Average Sell Price of Insider Shares	0.00	
Shares Outstanding (m)	2,068	
Insider Shares Traded -6m/Total Shares (%)	0.00	

Appendix 12: Comprehensive Income (latest Bloomberg data)

	(CNYm)	Comment
Comprehensive Income	550	
Less:		
Net Income/Net Profit (Losses)	457	
Other comprehensive income comprised of:		
Foreign Currency Trans. Adj.	93	Other comprehensive income is 20% of income which is unusually high. Able to fully reconcile other comprehensive income.
na	na	
na	na	
na	na	
na	na	
na	na	
na	na	
Amount unable to reconcile:	0	