

GMT Research Accounting Screen



| | | | | |
|---|---|--|---|---|
| Short Name | China Dongxiang | Description: | China Dongxiang Group Co Ltd retails sportswear apparel products. | Relevant GMT Research Reports (please go to our website and login): |
| GICS Ind Name | Textiles, Apparel & Luxury Goods | | | |
| GICS Industry | 252,030 | | | |
| Cntry of Dom | CN | | | |
| Most Recent Balance Sheet Period | 2017 Y | | | |
| Ticker | 3818 HK | | | |
| Latest Period | Y | | | |
| Current Fiscal Year | 2017 | | | |
| Well known auditor: | Pricewaterho | | | |
| Numbe of auditors in past 5yrs: | 1 | | | |
| Country of incorporation: | Country of incorporation (Cayman Islands) is different from domicile (China). | | | |
| Country of financials: | Currency of financials (Yuan Renminbi) is same as country of risk (China). | | | |
| Profit Manipulation | | Latest financials complete | | |
| Profit Manipulation: Beneish M-Score (See App 1) | | Beneish M-Score of -2.54 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. Falling depreciation. | | |
| Financial Position | | | | |
| Strength of Financial Position: Piotroski F-Score (App 3) | | An F-Score of 4/9 suggests financials are slightly deteriorating owing to: ROA. OPCF less than Profit. Increase in Shares. Gross Margin. Asset Turnover. | | |
| Risk of Default: Altman Z-Score (App 4) | | An Altman Z-Score of 15.91 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 -17% of Sales are normal. | | |
| Debt Reconciliation (App 9) | Global screen | No material unreconcilable changes in debt in the last 5 years. | | |
| Other Financial Items | | | | |
| Number of Red Flags (Out of a possible 75) | | Triggers 30 red flags in the last financial period which is high. | | |
| Cash Balance | | Cash & STI of CNY1.3bn is extremely high at 123% of sales, in the 99%ile relative to peers, which is a trait of fake cash flow frauds. | | |
| Restricted Cash | | Restricted Cash of CNY0.4bn is within normal range. | | |
| Receivables | | Receivables of CNY0.2bn are equal to 18% of Sales which is in within normal range. | | |
| Doubtful Debts | | Delinquency at 0% of total receivables are within normal range. | | |
| Payables | | Large Payables of CNY0.5bn equal to 33% of Sales are in the 99%ile relative to peers, have grown by 4ppts relative to Sales over the past year which can be a sign of hidden debt and manufactured cash flow. | | |
| Inventory | | Inventories of CNY0.3bn have been extended by 7ppts relative to Sales over the past year which can be a sign of channel stuffing. | | |
| Profit Manipulation: Gross Working Capital | | A high level of gross working capital at 305% of sales suggests the company might have inflated profits and/or cash flow in the past. | | |
| Cash Extraction Fraud: Prepaid Expenses | | Prepaid Expenses of CNY2bn are large relative to sales (146.2%) and inventory (615.9%), raising the risk of illegal cash extraction fraud. | | |
| Capitalisation of Expenses | | Capitalised expenses relative to pre-tax profits (0.5%) are within normal range. | | |
| Affiliate Investments | | Investments in Associates of CNY0.1bn are equal to 1% of equity and 2% of OP, within normal range. | | |
| Auditing Costs | | Auditing expenses of 33bp of sales are unusually high in the 98%ile relative to peers, suggesting a problematic set of financials. | | |
| Deferred Tax Assets | | Large Deferred Tax Assets/Sales of 10% in the 99%ile relative to peers, have increased by 5.1ppts relative to sales over the past year which can be a sign of losses at subsidiaries or of Acquisition Accounting. | | |
| Deferred Tax Liabilities | | Large Deferred Tax Liabilities/Sales of 117% in the 98%ile relative to peers, have increased by 60ppts relative to sales over the past year which suggests that profits reported to shareholders are higher than those reported to tax authorities. | | |
| Derivatives | | Derivatives equal to 1% of equity within normal range. | | |
| Other Large Curious Assets and/or Liabilities | | Large Other ST Assets of CNY2.7bn include Unspecified of CNY2bn. Large LT Inv & Rec of CNY5.7bn include Available For Sale Secs of CNY4.9bn. | | |
| Depn & Amort | | Within normal range. | | |
| Interest Cover | | EBIT Interest Cover of 37.9x is within normal range. | | |
| Leverage | | Total Debt/Profit of 2.1x and assets to equity of 1.1x are within normal range. | | |
| Related Party Fraud | | Existence of related party balances which raises risk of round tripping. | | |
| Other Tests: | | Evidence of share price manipulation as 20 day MA Bid/Ask VWAP in excess of 60% for 4% of the time over last 6m. New CEO. No or new CFO. Other comprehensive income is 60% of income which is unusually high. Has a very large balance sheet with Assets at 815% of Sales in the 99%ile relative to peers. | | |

GMT Research Accounting Screen



| Ratios | | China Dongxiang Ratios | | | Ratio Change | | Peer Group Comparison Ratios | | | | Percentiles and Red Flags | | | Red Flag Comment |
|--|---------------|------------------------|---------|----------|--------------|----------|------------------------------|-----------|-----------|-------------|---------------------------|----------|----------|---|
| Global/Sector/ Country | | 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 | |
| | | | | | | | | | | | (0-100%) | (+/-50%) | (+/-50%) | |
| Balance Sheet: Assets | | | | | | | | | | | | | | |
| Av Cash & Equiv./Sales (%) | GICS Industry | 123.1 | 112.1 | 278.7 | +11.1 | -155.6 | 3.2 | 10.4 | 24.0 | 379 | 99% | -43% | +50% | Av Cash & Equiv./Sales (%) high. Risen over 1yr. Fallen over 3yrs. |
| Unrestricted Cash/COGS (%) | GICS Industry | 110.3 | 203.3 | 288.4 | -93.0 | -178.0 | 5.1 | 16.6 | 40.3 | 314 | 97% | +50% | na | Unrestricted Cash/COGS (%) high. Fallen over 1yr. |
| ST Investments/Sales FY (%) | GICS Industry | 47.0 | 53.1 | 36.2 | -6.0 | +10.8 | 0.1 | 1.6 | 8.5 | 172 | 97% | -45% | +42% | ST Investments/Sales FY (%) present. Risen over 3yrs. |
| Av. Trade & Notes Rec/Sales (%) | GICS Industry | 17.7 | 17.9 | 25.8 | -0.2 | -8.1 | 7.2 | 12.1 | 20.0 | 356 | 74% | -14% | -48% | |
| 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 | 23.7 | 17.0 | 16.4 | +6.7 | +7.4 | 13.0 | 19.6 | 29.8 | 375 | 65% | +43% | +39% | Risen over 1yr. Risen over 3yrs. |
| Inventory Days | GICS Industry | 175 | 136 | 122 | +40 | +53 | 62 | 103 | 187 | 314 | 77% | +44% | +41% | Risen over 1yr. Risen over 3yrs. |
| Finished Goods/Inventory (%) | GICS Industry | 132 | 142 | 146 | -10.1 | -14.1 | 33 | 60 | 89 | 417 | 99% | -45% | -48% | Finished Goods/Inventory (%) high. |
| Av. Other ST Assets/Sales (%) | GICS Industry | 218.5 | 239.7 | 121.1 | -21.2 | +97.4 | 2.0 | 3.6 | 7.4 | 376 | 99% | -50% | +49% | Av. Other ST Assets/Sales (%) high. Risen over 3yrs. |
| PPE/Sales (%) | GICS Industry | 6.9 | 5.5 | 7.2 | +1.4 | -0.2 | 9.2 | 22.8 | 45.7 | 360 | 12% | +18% | -3% | PPE/Sales (%) low. |
| Affiliate Inv/Equity (%) | Global | 1.3 | 1.4 | 0.2 | -0.2 | +1.1 | 0.5 | 3.0 | 13.1 | 7,896 | 33% | -16% | +21% | |
| LT Inv & Rec/Sales (%) | GICS Industry | 419.2 | 354.6 | 358.7 | +64.6 | +60.5 | 0.2 | 1.5 | 10.0 | 249 | 100% | +49% | +48% | LT Inv & Rec/Sales (%) high. Risen over 1yr. Risen over 3yrs. |
| Deferred Tax Assets/Sales FY (%) | GICS Industry | 10.2 | 5.1 | 6.7 | +5.1 | +3.5 | 0.2 | 0.9 | 2.7 | 277 | 99% | +49% | +46% | Deferred Tax Assets/Sales FY (%) high. Risen over 1yr. Risen over 3yrs. |
| Prepaid Expenses/Sales (%) | GICS Industry | 146.2 | 160.0 | 226.7 | -13.9 | -80.5 | 0.3 | 1.3 | 3.4 | 167 | 99% | -50% | -50% | Prepaid Expenses/Sales (%) high. |
| Prepaid Expenses/Inventory (%) | GICS Industry | 615.9 | 941.9 | 1,385.4 | -326.0 | -769.5 | 1.2 | 3.7 | 10.7 | 99 | 100% | na | na | Prepaid Expenses/Inventory (%) high. |
| Intangibles/Sales FY (%) | GICS Industry | 16.4 | 16.9 | 18.3 | -0.5 | -1.9 | 0.1 | 1.0 | 9.2 | 316 | 86% | -38% | -42% | Intangibles/Sales FY (%) high. |
| Av. Other LT Assets/Sales FY (%) | GICS Industry | 2.1 | 7.6 | 6.6 | -5.6 | -4.5 | 0.4 | 1.8 | 5.8 | 332 | 54% | -47% | -45% | |
| Av. Assets/Sales (%) | GICS Industry | 815 | 723 | 803 | +91.4 | +11.4 | 65.5 | 95.1 | 139.4 | 380 | 99% | +48% | +13% | Av. Assets/Sales (%) high. Risen over 1yr. |
| Balance Sheet: Liabilities and Equity | | | | | | | | | | | | | | |
| Av. Payables (Trade, Bills, Accr/Sales (%) | GICS Industry | 33.3 | 29.0 | 22.2 | +4.2 | +11.1 | 5.3 | 10.0 | 15.5 | 379 | 99% | +45% | +47% | Av. Payables (Trade, Bills, Accr/Sales (%) high. Risen over 1yr. Risen over 3yrs. |
| Trade Payable Days | GICS Industry | 87 | 87 | 92 | -0.3 | -5.2 | 24.5 | 45.6 | 81.5 | 348 | 82% | -8% | -25% | Trade Payable Days high. |
| ST Debt/Total Debt (%) | GICS Industry | 45 | 100 | No Debt | -54.6 | na | 37.0 | 69.8 | 100.0 | 342 | 27% | -47% | na | |
| Av. Other ST Liab/Sales (%) | GICS Industry | 5.8 | 4.3 | 27.4 | +1.5 | -21.5 | 3.8 | 6.8 | 10.9 | 380 | 39% | +35% | -49% | Risen over 1yr. |
| Av. Deferred Tax Liab/Sales FY (%) | GICS Industry | 116.5 | 56.7 | 21.4 | +59.8 | +95.1 | 0.7 | 3.6 | 12.1 | 256 | 98% | +49% | +50% | Av. Deferred Tax Liab/Sales FY (%) high. Risen over 1yr. Risen over 3yrs. |
| Av. Other LT Liab/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 | 0.1 | 0.2 | 0.2 | -0.0 | -0.0 | 0.3 | 2.4 | 11.4 | 9,628 | 15% | -8% | -5% | |
| Assets/Equity (x) | GICS Industry | 1.1 | 1.2 | 1.1 | -0.0 | +0.0 | 1.4 | 1.8 | 2.6 | 373 | 3% | -3% | +10% | |
| Balance Sheet: Other | | | | | | | | | | | | | | |
| Av. GFA/D&A (yrs) | GICS Industry | 8.2 | 7.2 | 10.0 | +1.0 | -1.7 | 8.4 | 14.3 | 22.8 | 371 | 18% | +5% | -35% | |
| Restricted Cash/Equity (%) | GICS Industry | 4.1 | 4.1 | 0.5 | -0.0 | +3.6 | 0.1 | 0.3 | 5.9 | 60 | 76% | -19% | +37% | Risen over 3yrs. |
| Cash Conversion Cycle (Days) | GICS Industry | 153 | 115 | 125 | 39 | 29 | 70.6 | 110.2 | 186.0 | 312 | 70% | +43% | +32% | Risen over 1yr. Risen over 3yrs. |
| Av. Gross Working Capital/Sales (%) | GICS Industry | 304.8 | 311.9 | 212.7 | -7.1 | +92.1 | 40.4 | 53.6 | 72.2 | 379 | 99% | -41% | +49% | Av. Gross Working Capital/Sales (%) high. Risen over 3yrs. |
| Contingent Liab/Equity (%) | GICS Industry | 1.1 | 3.4 | 1.8 | -2.3 | -0.7 | 2.0 | 13.6 | 59.2 | 253 | 13% | -20% | -3% | |
| 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 | 0.6 | 1.2 | 0.0 | -0.6 | +0.6 | -1.4 | 0.0 | 1.1 | 2,405 | 75% | -26% | +14% | |
| Return on Production Assets (%) | GICS Industry | 216.5 | 278.4 | 248.5 | -61.9 | -32.0 | 4.5 | 14.9 | 33.7 | 382 | 99% | +49% | +43% | Return on Production Assets (%) high. Fallen over 1yr. Fallen over 3yrs. |
| Non-Prod. Assets/COGS FY (%) | GICS Industry | 1,689.4 | 1,754.3 | -64.9 | -64.9 | +1,754.3 | 34.6 | 67.1 | 132.2 | 299 | 99% | +50% | -50% | Non-Prod. Assets/COGS FY (%) high. Risen over 3yrs. |
| Gross Debt/Profit (x) | GICS Industry | 2.1 | 2.8 | No Debt | -0.7 | na | 0.9 | 4.0 | 13.7 | 306 | 32% | -21% | na | |
| Income Statement | | | | | | | | | | | | | | |
| | | | | | | | | | | | (0-100%) | (+/-50%) | (+/-50%) | |
| Sales/Employee (US\$) | GICS Industry | na | na | na | na | na | 56,779 | 148,854 | 359,649 | 286 | na | na | na | |
| Gross Margin (%) | GICS Industry | 55.7 | 56.9 | 54.0 | -1 | +2 | 15 | 30 | 52 | 322 | 84% | +16% | -8% | Gross Margin (%) high. |
| GM Volatility 5yrs (%) | GICS Industry | 3.6 | | | | | 2.9 | 6.3 | 20.0 | 303 | 28% | | | |
| Other Op Y/Op Y (%) | GICS Industry | 84.8 | 109.2 | 105.4 | -24.4 | -20.7 | 1.8 | 6.4 | 20.7 | 119 | 95% | -46% | -43% | Other Op Y/Op Y (%) high. |
| D&A/Sales T12M (%) | GICS Industry | 1.7 | 1.6 | 2.1 | +0.1 | -0.4 | 1.4 | 2.8 | 4.7 | 376 | 73% | -7% | +27% | |
| Operating Margin T12M (%) | GICS Industry | 60.0 | 60.0 | 56.1 | +0.1 | +3.9 | 2.8 | 7.2 | 14.9 | 374 | 99% | -5% | -35% | Operating Margin T12M (%) high. Risen over 3yrs. |
| Non-Op Y/Op Y (%) | GICS Industry | 37.8 | 18.0 | 42.6 | +19.8 | -4.8 | 2.9 | 10.4 | 36.5 | 329 | 80% | +35% | -24% | Non-Op Y/Op Y (%) high. Risen over 1yr. |
| FFI Int Rate less MLR (ppt) | Country | -0.9 | -1.2 | na | +0.3 | na | -2.9 | -0.5 | 1.1 | 2,032 | 41% | +2% | na | |
| Cash Return less Policy Rate (ppt) | Country | -0.2 | -0.7 | -2.6 | +0.5 | +2.3 | -2.2 | -1.5 | -0.2 | 2,145 | 79% | +19% | +38% | Risen over 3yrs. |
| Affil Y/Op Y (%) | Global | 2.2 | 0.5 | 0.0 | +1.7 | +2.1 | 0.3 | 2.2 | 11.9 | 6,391 | 49% | +25% | +22% | |
| Eff Tax Rate (%) | Country | 13.9 | 17.0 | 6.3 | -3.1 | +7.5 | 13.3 | 19.2 | 27.2 | 2,043 | 22% | -31% | +32% | Risen over 3yrs. |
| CF Tax/IS Tax (%) | GICS Industry | 93.0 | 108.2 | 137.3 | -15.2 | -44.3 | 64.9 | 98.7 | 151.1 | 285 | 57% | +19% | +31% | Fallen over 3yrs. |
| X Items/Op Y (%) | Global | 0.0 | | | | | 0.8 | 6.2 | 37.4 | 1,297 | na | | | |
| Minority Int/Profit B4 MI (%) | Global | -0.5 | -0.1 | -0.2 | -0.4 | -0.3 | -0.1 | 1.8 | 12.8 | 8,362 | 14% | -13% | -6% | |
| Net Income Margin (%) | GICS Industry | 59.5 | 58.0 | 72.5 | +1.5 | -13.1 | 1.3 | 4.7 | 11.2 | 383 | 1% | -29% | +46% | Net Income Margin (%) high. Fallen over 3yrs. |
| Capitalised Int/PTP (%) | Global | 0.0 | 0.0 | 0.0 | +0.0 | +0.0 | 0.0 | 0.0 | 0.0 | 13,642 | na | na | na | |
| Cap of Intang. Assets/PTP (%) | Global | 0.5 | 0.2 | 0.5 | +0.4 | +0.0 | 0.9 | 4.0 | 16.7 | 728 | 12% | | | |
| EBIT Interest Cover (x) | GICS Industry | 37.9 | 48.0 | #N/A N/A | -10.1 | na | 1.7 | 7.4 | 41.1 | 351 | 22% | +35% | na | Fallen over 1yr. |

GMT Research Accounting Screen



| Ratios | | China Dongxiang 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 | 0.2 | 0.3 | 0.3 | -0.0 | -0.1 | 0.3 | 1.1 | 2.2 | 1,697 | 83% | +5% | +10% | CFO/Net Profit (x) low. |
| Cash Interest Exp./CFO (%) | GICS Industry | 11.5 | na | na | na | na | 0.2 | 4.8 | 25.8 | 271 | 65% | na | na | |
| Capex/Sales (%) | GICS Industry | 3.0 | 0.3 | 0.3 | +2.8 | +2.7 | 1.4 | 3.2 | 7.2 | 371 | 47% | +38% | +36% | Risen over 1yr. Risen over 3yrs. |
| Decrease Investments/Sales (%) | GICS Industry | 346.9 | 494.8 | 248.3 | -148.0 | +98.6 | 0.0 | 0.5 | 4.8 | 141 | 99% | | | Decrease Investments/Sales (%) high. |
| Other Investing Activities/Sales (%) | GICS Industry | 0.9 | 74.7 | 104.5 | -73.8 | -103.6 | 0.1 | 1.1 | 4.4 | 292 | 45% | | | |
| Debt Repay/ST Debt -1FY (%) | Global | 61 | 0 | na | +61.2 | na | 20.0 | 88.4 | 210.9 | 10,373 | 40% | +32% | na | Risen over 1yr. |
| Free Cash Flow Margin (%) | GICS Industry | 10.2 | 14.9 | 21.8 | -4.7 | -11.6 | -4.2 | 2.4 | 8.7 | 377 | 16% | +29% | +41% | Fallen over 3yrs. |
| FCF-Divs/Sales (%) | Global | -101.4 | -22.8 | 9.9 | -78.6 | -111.3 | -7.2 | 0.9 | 6.8 | 10,563 | 99% | +49% | +49% | FCF-Divs/Sales (%) low. Fallen over 1yr. 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 | 5.7 | 17.1 | 0.1 | -11.4 | +5.5 | 0.0 | 0.3 | 1.4 | 329 | 93% | | | Other Fin. Activities/Sales (%) high. |
| Corporate Governance | | | | | | | | | | | (0-100%) | (+/-50%) | (+/-50%) | |
| Auditing Exp/Sales (bp) | GICS Industry | 33.0 | | | | | 2.5 | 6.3 | 13.2 | 179 | 98% | | | Auditing Exp/Sales (bp) high. |
| RPT Balances/Equity (%) | Global | 0.4 | | | | | 0.3 | 1.9 | 11.0 | 1,434 | 25% | | | RPT Balances/Equity (%) low. |
| Number of Acq&Disp -5yrs | Global | 1 | | | | | 0.0 | 3.0 | 5.0 | 12,251 | 36% | | | |
| Acq&Disp Con./Sales Av. -5yrs (%) | Global | 0.8 | | | | | 0.2 | 1.4 | 6.9 | 12,251 | 41% | | | |
| Executive Comp/Sales (bp) | GICS Industry | 37.3 | | | | | 7.4 | 22.6 | 73.1 | 84 | 64% | | | |
| Executive Comp/PTP (bp) | GICS Industry | 54.3 | | | | | 67.6 | 188.6 | 669.0 | 84 | 16% | | | |
| CEO Tenure (yrs) | Global | 0.6 | | | | | 1.4 | 4.5 | 10.8 | 5,466 | 9% | | | CEO Tenure (yrs) low. |
| CFO Tenure (yrs) | Global | na | | | | | 1.1 | 3.3 | 8.3 | 716 | na | | | |
| Av. Executive Tenure (yrs) | Global | 4.5 | | | | | 4.1 | 7.4 | 11.9 | 3,291 | 23% | | | |
| 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

| | | Result: Very poor score. High number of red flags. | Explanation |
|--|-----|---|--|
| Average Ratio Percentile Score (0 is good, 100 is bad) | 61% | In Y/FY17, China Dongxiang recorded an average percentile score (0 is good, 100 is bad) of 61% across all 75 financial ratios listed below. This places it in a percentile of 95 relative to around 379 GICS industry peers globally, which is a very unusual result. The company triggered a total of 30 red flags out of 75 placing it in a percentile of 98 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. |
| - Percentile vs Industry Peers (0% is good, 100% is bad) | 95% | | |
| Number of Red Flags (Out of a possible 75) | 30 | | |
| - Percentile vs Global Peers (0% is good, 100% is bad) | 98% | | |

Summary of change in financials over 1 year

| | | Result: High number of red flags. | Explanation |
|--|-----|--|---|
| Number of Red Flags (Out of a possible 62) | 17 | Over the financial year prior to Y/FY17, China Dongxiang triggered a total of 17 red flags out of 62 placing it in a percentile of 92 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. |
| - Percentile vs Global Peers (0% is good, 100% is bad) | 92% | | |

Summary of change in financials over 3 yrs

| | | Result: High number of red flags. | Explanation |
|--|-----|---|---|
| Number of Red Flags (Out of a possible 62) | 22 | Over the 3 financial years prior to Y/FY17, China Dongxiang triggered a total of 22 red flags out of 62 placing it in a percentile of 99 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. |
| - Percentile vs Global Peers (0% is good, 100% is bad) | 99% | | |

GMT Research Accounting Screen



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 | $+(0.92 \times 0.99)$ | 0.97 | 0.98 | 0.81 | 0.86 | 0.99 | 0.99 | $(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$ | Receivables of 64 days have fallen by 1 days YoY |
| Gross Margin Index | $+(0.528 \times 1.02)$ | 1.01 | 0.93 | 0.97 | 0.98 | 1.02 | 1.02 | $[(\text{Sales}_{t-1} - \text{COGS}_{t-1}) / \text{Sales}_{t-1}] / [(\text{Sales}_t - \text{COGS}_t) / \text{Sales}_t]$ | 12m Trailing Gross Margin of 55.7% has deteriorated by 1.2ppts YoY |
| Asset Quality Index | $+(0.404 \times 1.18)$ | 2.05 | 1.15 | 0.93 | 1.10 | 1.18 | 1.18 | $[1 - (\text{Curr Ass} + \text{PP\&E} + \text{Sec}) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$ | Other LT Assets/Total Assets of 56.7% has increased by 8.8ppts YoY |
| Sales Growth Index | $+(0.892 \times 0.90)$ | 0.80 | 0.89 | 1.16 | 1.02 | 0.90 | 0.90 | $\text{Sales}_t / \text{Sales}_{t-1}$ | 12m Trailing Sales have fallen -10% YoY |
| Depreciation Index | $+(0.115 \times 1.32)$ | 1.07 | 0.93 | 1.17 | 0.90 | 1.32 | 1.32 | $(\text{Depr}_{t-1} / (\text{PP\&E}_{t-1} + \text{Depr}_{t-1})) / (\text{Depr}_t / (\text{PP\&E}_t + \text{Depr}_t))$ | 12m Trailing Depreciation/Sales of 17.6% has fallen by 5.7ppts YoY |
| SG&A Index | $-(0.172 \times 1.34)$ | 1.03 | 0.85 | 1.17 | 0.78 | 1.34 | 1.34 | $(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$ | 12m Trailing SG&A/Sales of 46.6% have fallen by 15.8ppts YoY |
| Total Accruals to Total Assets | $+(4.679 \times 0.01)$ | -0.01 | 0.00 | -0.01 | 0.00 | 0.01 | 0.01 | $\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$ | Total Accruals (Net Profit less CFO)/Total Assets are 1% |
| Leverage Index | $-(0.327 \times 1.16)$ | 1.42 | 0.42 | 0.90 | 0.76 | 1.16 | 1.16 | $[(\text{Curr Liab} + \text{Total LT Debt}) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$ | LT Debt + Current Liabilities/Total Assets of 10% have fallen by 1.7ppts YoY |
| Beneish M-Score for Y/FY17 | -4.84 = | -2.43 | -2.38 | -2.57 | -2.44 | -2.54 | -2.54 | An M-Score of >-2.22 signals that the company is likely to be a manipulator | Beneish M-Score of -2.54 in Y/FY17 suggests no profit manipulation |

Appendix 2: Montier C-Score

| | FY13 | FY14 | FY15 | FY16 | FY17 | Y/FY17 | Point Calculation | Comments |
|--------------------------|----------|----------|----------|----------|----------|----------|---|---|
| Profit | 0 | 1 | 0 | 1 | 1 | 1 | A growing divergence between Profit and Operating Cash Flow (1 point) | 12m Trailing Accruals Margin of -46.3% has fallen from -42.8% YoY |
| Receivables | 0 | 0 | 0 | 0 | 0 | 0 | Receivable Days are increasing (1 point) | Receivables of 64 days have fallen by 1 days YoY |
| Inventory | 0 | 1 | 0 | 1 | 1 | 1 | Inventory Days are increasing (1 point) | Inventory of 24 days has risen by 7 days YoY |
| Other current assets | 0 | 1 | 1 | 1 | 0 | 0 | Other Current Assets to Sales are increasing (1 point) | Other Current Assets/Sales of 220.2% have fallen by 20.5ppts YoY |
| Depreciation | 1 | 0 | 0 | 0 | 1 | 1 | Depreciation relative to PPE jobs usfa bs | Depreciation of 8.2yrs has risen by 1yrs YoY |
| Asset growth | 1 | 1 | 0 | 0 | 0 | 0 | High asset growth in excess of 10% (1 point) | Asset growth of -2% is below 10% |
| Montier's C-Score | 2 | 4 | 1 | 3 | 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 2.2% |
| 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 13.2% |
| Return on Assets Score | 0 | 0 | 1 | 0 | 0 | 0 | Higher Return on Assets than previous year (1 point) | 12m Trailing ROA has fallen to 2.2% from 2.5% YoY |
| Quality of Earnings Score | 1 | 1 | 1 | 0 | 0 | 0 | Operating Cash Flow are greater than ROA (1 point) | 12m Trailing CFO Margin of 13.2% is below Net Profit Margin of 18.1% |
| Long-Term Debt to Assets Score | 0 | 0 | 0 | 0 | 1 | 1 | Lower ratio of Long Term Debt than previous year (1 point) | LT Debt/Total Assets has fallen to 5% from 7% YoY |
| Current Ratio Score | 1 | 0 | 0 | 0 | 1 | 1 | Higher Current Ratio this year compared to the previous year (1 point) | Current Ratio has risen to 5.35x from 4.24x YoY |
| Shares Outstanding Score | 0 | 1 | 1 | 1 | 0 | 0 | No new shares were issued in the last year (1 point) | Increased number of shares by 2.5% |
| 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 55.7% has deteriorated by 1.2ppts 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 0.12x from 0.14x YoY |
| Piotroski F-Score | 4 | 5 | 7 | 5 | 4 | 4 | Score 0-1 weak and deteriorating; 8-9 strong and improving | An F-Score of 4/9 suggests financials are slightly deteriorating |

Appendix 4: Altman Z-Score

| | FY13 | FY14 | FY15 | FY16 | FY17 | Y/FY17 | Altman Z-Score for a company in emerging markets | Comments |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--|---|
| Solvency | 2.82 | 2.60 | 3.11 | 2.63 | 2.30 | 2.30 | Working Capital (Current Assets less Current Liabilities)/Tangible Assets | Ability to meet short term obligations |
| Cumulative profitability | 1.96 | 1.82 | 2.20 | 2.25 | 2.09 | 2.09 | Retained Earnings/Tangible Assets | Determines cumulative historic profitability |
| Profitability | 0.04 | 0.43 | 0.38 | 0.55 | 0.51 | 0.51 | 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 | 26.29 | 11.45 | 9.71 | 6.91 | 7.75 | 7.75 | Book Value of Equity/Total Liabilities | Leverage |
| Altman Z-Score for Y/FY17 | 34.36 | 19.54 | 18.65 | 15.59 | 15.91 | 15.91 | Anything <1.81 for a manufacturer or <1.11 for other companies is problematic | Safe Zone: Financially sound |

Appendix 5: Acquisition Accounting

[Get global screen](#)

| | 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 material acquisitions (>5% sales) |
| 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? | | 1 | 1 | 1 | 1 | 1 | 1 | Or Intangibles are >=50%ile relative to peers | Intangible Assets/Sales of 16% are in the 86%ile |
| 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 5.1% of sales to 10.2% of sales |
| Large deferred tax assets | | 1 | 1 | 1 | 1 | 1 | 1 | Or a large Deferred Tax Asset in the 80%ile relative to industry peers | DTA/Sales of 10.2% is in the 99%ile relative to industry peers |
| Acquisition Accounting | | 2 | 2 | 2 | 2 | 2 | 2 | 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 | 0 | 0 | 0 | 0 | 0 | Debt Repayment relative to the ST Debt one year prior is in excess of 130% | Debt Repayment/ST Debt -1FY of 61% is in the 40%ile relative to global peers |
| Has high effective interest rate? | 0 | 0 | 0 | 1 | 1 | 1 | Effective Interest Rate is in excess of the 80%ile relative to country peers | Effective Int Rate of 3.4% is in the 86%ile relative to country peers |
| Has moderate debt? | 0 | 0 | 1 | 1 | 1 | 1 | If Debt to Sales >15%ile of industry peers | Debt/Sales of 37% is in the 71%ile relative to industry peers |
| Window Dressing | 0 | 0 | 1 | 2 | 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 | 1 | 1 | 1 | 1 | 1 | If Invest Repay/Sales in excess of the 80%ile relative to industry peers | Inv. Repayment/Sales of 347% is in the 99%ile relative to industry peers |
| High inv. repay./investments -1FY? | 0 | 0 | 0 | 1 | 0 | 0 | If Invest Repay in excess of 100% of previous year's Investments | Investment Repayment/Investment -1FY of 90% |
| Window Dressing Investments | 0 | 0 | 0 | 2 | 0 | 0 | A score of 2 suggests a strong possibility of window dressing | Unlikely to be window dressing investments |

Appendix 7: Fake Cash Flow

[Get global screen](#)

| | Point Calculation | FY13 | FY14 | FY15 | FY16 | FY17 | Y/FY17 | Point Calculation | Comments |
|-------------------------------------|----------------------------|----------|----------|----------|----------|----------|----------|--|--|
| 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 60% is in the 99%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 216% is in the 99%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 1726% is in the 99%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 67% over 1 year |
| Low dividends and buybacks | 1 point | 0 | 0 | 0 | 0 | 0 | 0 | Dividends and Buybacks are less than 30% profit | Dividends and buybacks of 617% |
| A relatively unknown auditor | | 0 | 0 | 0 | 0 | 0 | 0 | Relatively obscure auditor | Well known auditor: Pricewaterhouse |
| 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 | | 1 | 1 | 1 | 1 | 0 | 0 | If Short Term Debt >75% Total Debt, or no debt at all | Short term debt is 45% 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 | 3 | 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

[Get global screen](#)

| (CNYm) | FY13 | FY14 | FY15 | FY16 | FY17 | FY13-17 |
|--|-------------|-------------|--------------|--------------|----------------|----------------|
| Sales | +1,414 | +1,262 | +1,469 | +1,501 | +1,353 | +6,999 |
| - OPCF | +305 | +279 | +620 | +227 | +178 | +1,609 |
| - Capex | (10) | (8) | (17) | (5) | (46) | (85) |
| - Dividends (incl MI at subs) | (120) | (150) | (776) | (565) | (1,509) | (3,121) |
| - Buybacks | +0 | +0 | +0 | +0 | +0 | +0 |
| - (Acquisitions)/disposals | +0 | +0 | (62) | +0 | +0 | (62) |
| = Net internal cash generation | +176 | +121 | (236) | (343) | (1,377) | (1,659) |
| Externally generated cash flows | | | | | | |
| - Debt issuance, net | +0 | +0 | +455 | +280 | (231) | +504 |
| - Equity issuance | +0 | +0 | +0 | +0 | +0 | +0 |
| = Net external financing | +0 | +0 | +455 | +280 | (231) | +504 |
| Net surplus/(deficit) | +176 | +121 | +219 | (63) | (1,607) | (1,155) |
| Net flows/Sales (%) | +12 | +10 | +15 | (4) | (119) | -17 |
| Relative to Global Sector (%ile): | | | | | | na |
| Av. cash balance/sales (%) | 334 | 279 | 128 | 112 | 123 | |
| Relative to Global Sector (%ile) | 99% | 99% | 99% | 99% | 99% | |
| Core cash required (10% of Sales): | | | | | | 135 |
| Surplus cash at year end (cash balance less core cash): | | | | | | 1,162 |
| Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero): | | | | | | None |
| Possible fake cash/excess cash balance (%): | | | | | | None |
| Maintains unusually high Cash Balance at 123% of Sales but otherwise OK. | | | | | | |

Appendix 9: Debt Reconciliation

[Get global screen](#)

| (CNYm) | FY13 | FY14 | FY15 | FY16 | FY17 | FY13-17 |
|--|-----------|-----------|-----------|------------|-------------|------------|
| Balance sheet (BS) debt YE | 0 | 0 | 455 | 751 | 503 | |
| Change in debt: BS | +0 | +0 | +455 | +296 | (248) | +503 |
| Change in debt: Cash flow (CF) | 0 | 0 | 455 | 280 | (231) | +504 |
| Unrec chg BS and CF debt | +0 | +0 | +0 | +16 | (17) | (1) |
| Unrec chg/total debt (%) | +0 | +0 | +0 | +2 | (3) | (0) |
| Possible reason: | ok | ok | ok | ok | ok | |
| No material unreconcilable changes in debt in 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 | |
|-----------------------|-----|-------------------------------------|-----------|
| Venture Capital | 57 | Free Float (%) | 58 |
| Investment Advisor | 31 | No. Instit. Owners | 87 |
| Hedge Fund Manager | 7 | Institutional (%) | 67 |
| Individual | 3 | - Passive Instit. (ETFs) (%) | 10 |
| Sovereign Wealth Fund | 2 | - Active Instit. (%) | 57 |
| Other | 0 | | |

Appendix 11: Insiders (latest Bloomberg data)

| | | Comment |
|--|-------|---|
| Insider Shares O/S (%) | 2.06 | |
| 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 HKD1.4 |
| Average Sell Price of Insider Shares | 0.00 | |
| Shares Outstanding (m) | 5,675 | |
| Insider Shares Traded -6m/Total Shares (%) | 0.00 | |

Appendix 12: Comprehensive Income (latest Bloomberg data)

| | (CNYm) | Comment |
|---|--------|---|
| Comprehensive Income | 1,289 | |
| Less: | | |
| Net Income/Net Profit (Losses) | 805 | |
| Other comprehensive income comprised of: | | |
| Unrealized Gain (Loss) On Securities | 598 | Other comprehensive income is 60% of income which is unusually high. Able to fully reconcile other comprehensive income. |
| Foreign Currency Trans. Adj. | (114) | |
| na | na | |
| na | na | |
| na | na | |
| na | na | |
| na | na | |
| Amount unable to reconcile: | (0) | |