

GMT Research Accounting Screen



Short Name	China Hongxing	Description: China Hongxing Sports Ltd. designs, manufactures and markets athletic shoes, and markets sports apparel and accessories. The Company sells its products in the People's Republic of China.	Relevant GMT Research Reports (please go to our website and login):	
GICS Ind Name	Specialty Retail			
GICS Industry	255,040			
Cntry of Dom	CN			
Most Recent Balance Sheet Period	2017 Y			
Ticker	CHHS SP			
Latest Period	Y			
Current Fiscal Year	2009			
Very small auditor:	Foo Kon Tan			
Numbe of auditors in past 5yrs:	1			
Country of incorporation:	Country of incorporation (Bermuda) is different from domicile (China).			
Country of financials:	Currency of financials (Yuan Renminbi) is same as country of risk (China).			
Profit Manipulation		Lastest financials for 31/12/2017 incomplete		
Profit Manipulation: Beneish M-Score (See App 1)		Beneish M-Score of -145056.88 in Y/FY09 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: Rising receivables. 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 35.33 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 0/4 in Y/FY09. 64% of companies score similarly and just 2.4% of frauds. Rest easy. Triggered Fake Cash Flow in last 5yrs?: FY08 FY07 FY06 FY05		
Excess Capital Raising (App 8)	Global screen	Net flows over 5yrs at 35% of Sales are in the 100%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 13 red flags in the last financial period which is normal.		
Cash Balance		Cash & STI of CNY3bn is extremely high at 126% of sales, in the 99%ile relative to peers, which is a trait of fake cash flow frauds.		
Restricted Cash		Restricted Cash of CNY0bn is within normal range.		
Receivables		Large Receivables of CNY0.4bn are equal to 21% of Sales which is in the 95%ile relative to peers, have deteriorated by 5ppts relative to Sales over the past year which can be a sign of worsening terms of trade or channel stuffing.		
Doubtful Debts		Delinquency at 0% of total receivables are within normal range.		
Payables		Large Payables of CNY0.1bn are within normal range.		
Inventory		Inventories of CNY0.2bn 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 Inventories and suggests inflated cash flows and/or profit over the past year.		
Cash Extraction Fraud: Prepaid Expenses		Prepaid Expenses of CNY0.1bn are large relative to sales (5.7%) and inventory (69.3%), 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		No information available		
Deferred Tax Assets		Deferred Tax Assets/Sales of 0% are within normal range.		
Deferred Tax Liabilities		na		
Derivatives		Derivatives equal to 0% of equity within normal range.		
Other Large Curious Assets and/or Liabilities		Large Other ST Assets of CNY0.1bn include Unspecified of CNY0.1bn.		
Depn & Amort		Within normal range.		
Interest Cover		EBIT Interest Cover of 54.3x is within normal range.		
Leverage		Total Debt/Profit of 0.1x and assets to equity of 1x are within normal range.		
Related Party Fraud		No evidence of related party transactions.		
Other Tests:		No or new CFO. Has a very large balance sheet with Assets at 221% of Sales in the 98%ile relative to peers.		

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Ratios		Global/Sector/ Country			China Hongxing Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment
		Y/FY09	Y/FY08	Y/FY06	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY09	-1yr Chg	-3yr Chg				
															(0-100%)	(+/-50%)	(+/-50%)
Balance Sheet: Assets																	
Av Cash & Equiv./Sales (%)	GICS Industry	125.9	80.1	28.2	+45.7	+97.7	2.0	6.2	14.4	413	99%	-50%	-50%	Av Cash & Equiv./Sales (%) high. Risen over 1yr. Risen over 3yrs.			
Unrestricted Cash/COGS (%)	GICS Industry	241.7	113.0	61.2	+128.7	+180.5	2.8	9.1	23.0	390	99%	-43%	-42%	Unrestricted Cash/COGS (%) high. Risen over 1yr. Risen over 3yrs.			
ST Investments/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.1	1.0	6.3	95	na	na	na				
Av. Trade & Notes Rec/Sales (%)	GICS Industry	21.1	16.3	16.7	+4.8	+4.4	0.7	2.4	7.4	403	95%	+48%	+45%	Av. Trade & Notes Rec/Sales (%) high. Risen over 1yr. Risen over 3yrs.			
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	8.3	3.8	6.2	+4.5	+2.1	9.0	15.1	23.5	417	16%	+44%	+16%	Risen over 1yr.			
Inventory Days	GICS Industry	40	23	28	+16	+12	47	83	146	384	15%	+40%	+13%	Risen over 1yr.			
Finished Goods/Inventory (%)	GICS Industry	87	65	67	+21.7	+20.4	92	99	100	353	13%	+48%	+47%	Risen over 1yr. Risen over 3yrs.			
Av. Other ST Assets/Sales (%)	GICS Industry	31.9	24.9	0.8	+7.0	+31.1	1.1	2.5	5.3	406	98%	+47%	+48%	Av. Other ST Assets/Sales (%) high. Risen over 1yr. Risen over 3yrs.			
PPE/Sales (%)	GICS Industry	34.7	21.4	18.2	+13.3	+16.5	6.2	11.7	21.9	393	90%	+49%	+47%	PPE/Sales (%) high. Risen over 1yr. Risen over 3yrs.			
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	0.0	0.0	0.0	+0.0	+0.0	0.1	0.9	4.6	242	na	na	na				
Deferred Tax Assets/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.2	0.8	2.0	314	na	na	na				
Prepaid Expenses/Sales (%)	GICS Industry	5.7	40.1	0.0	-34.4	+5.7	0.5	1.3	2.8	214	92%	na	+47%	Prepaid Expenses/Sales (%) high. Risen over 3yrs.			
Prepaid Expenses/Inventory (%)	GICS Industry	69.3	1,064.8	0.6	-995.5	+68.7	1.9	6.1	16.8	146	98%	-50%	+50%	Prepaid Expenses/Inventory (%) high. Risen over 3yrs.			
Intangibles/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.3	1.5	9.3	356	na	na	na				
Av. Other LT Assets/Sales FY (%)	GICS Industry	1.1	0.0	0.0	+1.1	+1.1	0.2	1.5	7.0	359	42%	+37%	+27%	Risen over 1yr.			
Av. Assets/Sales (%)	GICS Industry	221	147	70	+74.2	+150.5	39.4	59.6	86.2	420	98%	+49%	+49%	Av. Assets/Sales (%) high. Risen over 1yr. Risen over 3yrs.			
Balance Sheet: Liabilities and Equity																	
Av. Payables (Trade, Bills, Accr/Sales (%)	GICS Industry	6.1	5.3	7.3	+0.8	-1.2	5.3	9.6	14.8	416	25%	+25%	-27%				
Trade Payable Days	GICS Industry	34	32	41	+1.4	-6.8	19.9	40.1	67.7	380	39%	+12%	-31%				
ST Debt/Total Debt (%)	Global	100	4	5	+95.8	+95.1	13.0	44.2	88.3	13,723	99%	+49%	+49%	ST Debt/Total Debt (%) high. Risen over 1yr. Risen over 3yrs.			
Av. Other ST Liabs/Sales (%)	GICS Industry	4.5	3.0	2.2	+1.5	+2.3	3.8	6.3	10.2	420	25%	+40%	+36%	Risen over 1yr. Risen over 3yrs.			
Av. Deferred Tax Liab/Sales FY (%)	GICS Industry	na	na	na	na	na	0.3	2.2	8.7	216	na	na	na				
Av. Other LT Liabs/Sales (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.4	1.9	4.8	373	na	na	na				
Preferred Equity/Equity (%)	Global	0.0	0.0	13.4	+0.0	-13.4	0.2	5.1	20.7	908	na	na	na				
Minority/Total Equity (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.3	2.4	11.4	9,628	na	na	na				
Assets/Equity (x)	GICS Industry	1.0	1.1	1.8	-0.1	-0.7	1.5	2.1	3.3	399	2%	-19%	-38%				
Balance Sheet: Other																	
Av. GFA/D&A (yrs)	GICS Industry	14.0	14.3	28.4	-0.3	-14.4	6.6	11.3	19.5	410	64%	-26%	-50%				
Restricted Cash/Equity (%)	GICS Industry	0.0	0.1	0.5	-0.1	-0.5	0.4	3.4	35.6	33	na	na	na				
Cash Conversion Cycle (Days)	GICS Industry	83	51	48	32	34	21.8	54.0	115.7	358	68%	+45%	+45%	Risen over 1yr. Risen over 3yrs.			
Av. Gross Working Capital/Sales (%)	GICS Industry	70.5	53.5	32.0	+17.0	+38.5	26.5	37.7	54.5	402	92%	+46%	+48%	Av. Gross Working Capital/Sales (%) high. Risen over 1yr. Risen over 3yrs.			
Contingent Liab/Equity (%)	GICS Industry	1.5	17.1	41.6	-15.7	-40.2	13.7	62.8	180.8	321	5%	-32%	-35%				
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	18.4	72.9	85.2	-54.5	-66.8	5.6	15.5	32.6	415	56%	+49%	+49%	Fallen over 1yr. Fallen over 3yrs.			
Non-Prod. Assets/COGS FY (%)	GICS Industry	281.4	287.1	-5.7	-5.7	+287.1	15.2	33.2	81.4	375	98%	+39%	-49%	Non-Prod. Assets/COGS FY (%) high. Risen over 3yrs.			
Gross Debt/Profit (x)	GICS Industry	0.1	0.6	1.9	-0.6	-1.8	0.8	3.8	12.1	303	5%	-22%	-28%				
Income Statement											(0-100%)	(+/-50%)	(+/-50%)				
Sales/Employee (US\$)	GICS Industry	na	na	na	na	na	168,169	314,929	622,322	330	na	na	na				
Gross Margin (%)	GICS Industry	36.9	39.3	36.9	-2	-0	16	34	53	402	55%	+25%	-3%				
GM Volatility 5yrs (%)	GICS Industry	8.0					1.5	3.1	7.9	377	80%						
Other Op Y/Op Y (%)	GICS Industry	0.2	0.1	0.2	+0.2	+0.1	2.2	9.3	39.7	129	3%	-6%	-8%				
D&A/Sales T12M (%)	GICS Industry	2.9	1.7	0.7	+1.2	+2.3	0.9	2.1	3.3	420	28%	-48%	-48%				
Operating Margin T12M (%)	GICS Industry	7.7	18.4	17.2	-10.7	-9.5	1.7	4.7	10.1	408	67%	+49%	+46%	Fallen over 1yr. Fallen over 3yrs.			
Non-Op Y/Op Y (%)	GICS Industry	10.9	5.0	1.9	+5.9	+9.0	1.0	5.4	23.8	339	65%	+29%	+28%				
FFI Int Rate less MLR (ppt)	Country	-2.4	2.1	-0.7	-4.5	-1.8	-2.9	-0.5	1.1	2,032	23%	-47%	-36%				
Cash Return less Policy Rate (ppt)	Country	-1.0	-0.9	-1.8	-0.1	+0.8	-2.2	-1.5	-0.2	2,145	65%	-9%	+13%				
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	18.0	13.0	8.8	+5.0	+9.2	13.3	19.2	27.2	2,043	45%	+32%	+35%	Risen over 1yr. Risen over 3yrs.			
CF Tax/IS Tax (%)	GICS Industry	154.0	79.2	103.1	+74.9	+51.0	67.8	97.3	132.6	342	15%	-37%	-28%				
X Items/Op Y (%)	Global	0.0					0.8	6.2	37.4	1,297	na						
Minority Int/Profit B4 MI (%)	Global	0.0	0.0	0.0	+0.0	+0.0	-0.1	1.8	12.8	8,362	na	na	na				
Net Income Margin (%)	GICS Industry	6.6	15.5	15.2	-9.0	-8.6	0.7	2.9	6.7	421	21%	+48%	+45%	Fallen over 1yr. Fallen over 3yrs.			
Capitalised Int/PTP (%)	Global	0.0	na	0.0	na	+0.0	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	54.3	28.9	20.0	+25.4	+34.2	2.5	10.1	67.3	369	23%	-37%	-35%				

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Ratios		Global/Sector/ Country	China Hongxing Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment
			Y/FY09	Y/FY08	Y/FY06	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY09	-1yr Chg	-3yr Chg	
Cash Flow												(0-100%)	(+/-50%)	(+/-50%)	
CFO/Net Profit (x)	GICS Industry		8.9	-0.8	0.2	+9.7	+8.7	0.6	1.3	2.5	1,802	4%	-48%	-47%	
Cash Interest Exp./CFO (%)	GICS Industry		0.0	-0.2	1.9	+0.2	-1.9	0.2	4.1	21.4	330	16%	+8%	-10%	
Capex/Sales (%)	GICS Industry		3.9	6.2	14.5	-2.3	-10.6	1.1	2.4	4.6	415	72%	-43%	-49%	
Decrease Investments/Sales (%)	GICS Industry		0.0	0.0	0.0	+0.0	+0.0	0.0	0.1	1.5	120	na			
Other Investing Activities/Sales (%)	GICS Industry		3.4	1.8	3.0	+1.6	+0.4	0.1	0.6	2.4	344	85%			Other Investing Activities/Sales (%) high.
Debt Repay/ST Debt -1FY (%)	Global		50	44	39	+5.6	+11.0	20.0	88.4	210.9	10,373	35%	+9%	+10%	
Free Cash Flow Margin (%)	GICS Industry		54.8	-18.0	-11.0	+72.9	+65.8	-1.8	1.8	6.2	411	0%	-49%	-49%	
FCF-Divs/Sales (%)	Global		53.4	-21.6	-12.7	+75.0	+66.1	-7.2	0.9	6.8	10,563	2%	-47%	-46%	
No. of Mat. Capital Inc -5yrs	Global		3					0.0	0.0	1.0	9,451	98%			No. of Mat. Capital Inc -5yrs high.
Other Fin. Activities/Sales (%)	GICS Industry		0.3	1.5	0.0	-1.2	+0.3	0.0	0.1	0.7	327	69%			
Corporate Governance												(0-100%)	(+/-50%)	(+/-50%)	
Auditing Exp/Sales (bp)	GICS Industry		na					2.1	5.2	10.0	204	na			
RPT Balances/Equity (%)	Global		0.0					0.3	1.9	11.0	1,434	na			
Number of Acq&Disp -5yrs	Global		0					0.0	3.0	5.0	12,251	na			
Acq&Disp Con./Sales Av. -5yrs (%)	Global		0.0					0.2	1.4	6.9	12,251	na			
Executive Comp/Sales (bp)	GICS Industry		na					9.5	28.5	68.8	133	na			
Executive Comp/PTP (bp)	GICS Industry		na					131.1	423.7	1,177.7	133	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/FY09

		Result: Scores within normal range. Number of red flags normal.	Explanation
Average Ratio Percentile Score (0 is good, 100 is bad)	51%	In Y/FY09, China Hongxing recorded an average percentile score (0 is good, 100 is bad) of 51% across all 75 financial ratios listed below. This places it in a percentile of 64 relative to around 413 GICS industry peers globally, which is a moderate result. The company triggered a total of 13 red flags out of 75 placing it in a percentile of 51 relative to our sample of 16,000 companies globally, which is a moderate 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)	64%		
Number of Red Flags (Out of a possible 75)	13		
- Percentile vs Global Peers (0% is good, 100% is bad)	51%		

Summary of change in financials over 1 year

		Result: High number of red flags.	Explanation
Number of Red Flags (Out of a possible 62)	18	Over the financial year prior to Y/FY09, China Hongxing triggered a total of 18 red flags out of 62 placing it in a percentile of 94 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)	94%		

Summary of change in financials over 3 yrs

		Result: High number of red flags.	Explanation
Number of Red Flags (Out of a possible 62)	18	Over the 3 financial years prior to Y/FY09, China Hongxing triggered a total of 18 red flags out of 62 placing it in a percentile of 96 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)	96%		

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Appendices

Appendix 1: Beneish M-Score

	Calculation	FY05	FY06	FY07	FY08	FY09	Y/FY09	Index Calculation	Comments on latest period
Days Sales in Receivables Index	$+(0.92 \times 1.29)$	na	0.45	1.16	0.84	1.29	1.29	$(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$	Receivables of 77 days have increased by 17 days YoY
Gross Margin Index	$+(0.528 \times 1.07)$	1.03	0.93	0.90	1.05	1.07	1.07	$[(\text{Sales}_{t-1} - \text{COGS}_{t-1}) / \text{Sales}_{t-1}] / [(\text{Sales}_t - \text{COGS}_t) / \text{Sales}_t]$	12m Trailing Gross Margin of 36.9% has deteriorated by 2.4ppts YoY
Asset Quality Index	#####	0.23	0.00	-1.98	0.31	-359,040.25	-359,040.25	$[1 - (\text{Curr Ass}_t + \text{PP\&E}_t + \text{Sec}_t) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$	Other LT Assets/Total Assets of 0.5% has fallen by 0.5ppts YoY
Sales Growth Index	$+(0.892 \times 0.69)$	0.45	4.67	1.45	1.41	0.69	0.69	$\text{Sales}_t / \text{Sales}_{t-1}$	12m Trailing Sales have fallen -31% YoY
Depreciation Index	$+(0.115 \times 0.86)$	8.74	0.38	0.40	0.92	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 7.6% has risen by 1.1ppts YoY
SG&A Index	$-(0.172 \times 0.72)$	1.22	0.85	1.09	0.87	0.72	0.72	$(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$	12m Trailing SG&A/Sales of 29.2% have risen by 8.3ppts YoY
Total Accruals to Total Assets	$-(4.679 \times 0.24)$	0.04	0.12	0.08	0.18	-0.24	-0.24	$\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$	Total Accruals (Net Profit less CFO)/Total Assets are -24%
Leverage Index	$-(0.327 \times 3.13)$	1.68	0.64	3.44	1.02	3.13	3.13	$[(\text{Curr Liab}_t + \text{Total LT Debt}_t) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$	LT Debt + Current Liabilities/Total Assets of 4% have fallen by 8.4ppts YoY
Beneish M-Score for Y/FY09	-4.84 =	na	0.50	-3.69	-1.67	-145,056.88	-145,056.88	An M-Score of >-2.22 signals that the company is likely to be a manipulator	Beneish M-Score of -145056.88 in Y/FY09 suggests no profit manipulation

Appendix 2: Montier C-Score

	FY05	FY06	FY07	FY08	FY09	Y/FY09	Point Calculation	Comments
Profit	1	1	1	1	0	0	A growing divergence between Profit and Operating Cash Flow (1 point)	12m Trailing Accruals Margin of 52.1% has improved from -27.4% YoY
Receivables	na	0	1	0	1	1	Receivable Days are increasing (1 point)	Receivables of 76 days have increased by 17 days YoY
Inventory	1	0	0	0	1	1	Inventory Days are increasing (1 point)	Inventory of 8 days has risen by 5 days YoY
Other current assets	1	0	1	1	1	1	Other Current Assets to Sales are increasing (1 point)	Other Current Assets/Sales of 32% have risen by 6.9ppts YoY
Depreciation	na	0	0	1	0	0	Depreciation relative to PPE jobs usfa bs	Depreciation of 14yrs has fallen by 0.3yrs YoY
Asset growth	1	1	1	0	0	0	High asset growth in excess of 10% (1 point)	Asset growth of 0% is below 10%
Montier's C-Score	na	2	4	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

	FY05	FY06	FY07	FY08	FY09	Y/FY09	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 3%
Operating Cash Flow Score	1	1	1	0	1	1	Positive Operating Cash Flow in the current year (1 point)	12m Trailing CFO Margin of 58.7%
Return on Assets Score	0	1	0	0	0	0	Higher Return on Assets than previous year (1 point)	12m Trailing ROA has fallen to 3% from 10.6% YoY
Quality of Earnings Score	0	0	0	0	1	1	Operating Cash Flow are greater than ROA (1 point)	12m Trailing CFO Margin of 58.7% is above Net Profit Margin of 6.6%
Long-Term Debt to Assets Score	1	0	1	1	1	1	Lower ratio of Long Term Debt than previous year (1 point)	LT Debt/Total Assets has fallen to 0% from 6% YoY
Current Ratio Score	1	1	1	0	1	1	Higher Current Ratio this year compared to the previous year (1 point)	Current Ratio has risen to 21.33x from 13.78x YoY
Shares Outstanding Score	0	1	0	1	0	0	No new shares were issued in the last year (1 point)	Increased number of shares by 10.2%
Gross Margin Score	0	1	1	0	0	0	A higher Gross Margin compared to the previous year (1 point)	12m Trailing Gross Margin of 36.9% has deteriorated by 2.4ppts YoY
Asset Turnover Score	0	1	0	0	0	0	A high Asset Turnover ratio compared to the previous year (1 point)	Asset turnover has fallen to 0.45x from 0.68x YoY
Piotroski F-Score	4	7	5	3	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

	FY05	FY06	FY07	FY08	FY09	Y/FY09	Altman Z-Score for a company in emerging markets	Comments
Solvency	35.66	16.91	5.28	5.14	5.23	5.23	Working Capital (Current Assets less Current Liabilities)/Tangible Assets	Ability to meet short term obligations
Cumulative profitability	0.23	0.57	0.52	0.81	0.89	0.89	Retained Earnings/Tangible Assets	Determines cumulative historic profitability
Profitability	0.55	1.22	0.78	0.81	0.23	0.23	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	2.75	1.38	7.31	7.49	25.73	25.73	Book Value of Equity/Total Liabilities	Leverage
Altman Z-Score for Y/FY09	42.44	23.33	17.14	17.51	35.33	35.33	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	FY05	FY06	FY07	FY08	FY09	Y/FY09	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?		na	na	na	na	na	na	Or Intangibles are >=50%ile relative to peers	na
Rise in deferred tax assets -1yr?	1 point	0	0	0	0	0	0	Either a rise in Deferred Tax Asset over 1 year	na
Large deferred tax assets		na	na	na	na	na	na	Or a large Deferred Tax Asset in the 80%ile relative to industry peers	na
Acquisition Accounting		0	0	0	0	0	0	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

	FY05	FY06	FY07	FY08	FY09	Y/FY09	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 50% is in the 35%ile relative to global peers
Has high effective interest rate?	0	1	1	1	0	0	Effective Interest Rate is in excess of the 80%ile relative to country peers	Effective Int Rate of 1.9% is in the 68%ile relative to country peers
Has moderate debt?	1	1	1	1	0	0	If Debt to Sales >15%ile of industry peers	Debt/Sales of 0% is in the 5%ile relative to industry peers
Window Dressing	1	2	2	2	0	0	A score of 3 suggests strong likelihood of window dressing	Unlikely to be debt window dressing

Appendix 6a: Investment Window Dressing

	FY05	FY06	FY07	FY08	FY09	Y/FY09	Point Calculation	Comments
High level of investment repayment/sales?	0	0	0	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	na
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	FY05	FY06	FY07	FY08	FY09	Y/FY09	Point Calculation	
High operating margin	Critical criteria: 1 point	1	1	1	1	0	0	Operating Margin >80%ile relative to industry peers	A 12m Trailing Operating Margin of 8% is in the 67%ile
High return on production assets		1	1	1	1	0	0	Op Profit/(PPE + Inv) in the >80%ile relative to industry peers	A 12m Return on Production Assets of 18% is in the 56%ile
High level of non-production assets	1 point	1	0	1	1	1	1	(Total Assets-Production Assets)/(COGS or Sales) >80%ile versus peers	Non Production Assets/COGS (or Sales) of 281% is in the 98%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 75% over 1 year
Low dividends and buybacks	1 point	1	1	1	1	1	1	Dividends and Buybacks are less than 30% profit	Dividends and buybacks of 21%
A relatively unknown auditor		1	1	1	1	1	1	Relatively obscure auditor	Very small auditor: Foo Kon Tan
Incorporation and Domicile	1pt if >1	1	1	1	1	1	1	Different country of incorporation vrs domicile	Country of incorporation (Bermuda) is different from domicile (China).
Debt structure		1	0	0	0	1	1	If Short Term Debt >75% Total Debt, or no debt at all	Short term debt is 100% of total debt
Sector		1	1	1	1	1	1	Operates in sector prone to fraud	Specialty Retail industry is prone to fraud.
Fake Cash Flow Fraud	Max 4pts	4	4	4	4	0	0	A score of 3 or 4 is problematic and requires further investigation	64% of companies score similarly and just 2.4% of frauds

Appendix 8: Excess Capital Raising

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(CNYm)	FY05	FY06	FY07	FY08	FY09	FY05-09
Sales	+302	+1,412	+2,046	+2,889	+1,999	+8,648
- OPCF	+19	+49	+83	(342)	+1,173	+982
- Capex	+0	(204)	(212)	(178)	(76)	(671)
- Dividends (incl MI at subs)	+0	(24)	(80)	(104)	(28)	(236)
- Buybacks	+0	+0	+0	+0	+0	+0
- (Acquisitions)/disposals	+0	+0	+0	+0	+0	+0
= Net internal cash generation	+19	(179)	(209)	(624)	+1,069	+75
Externally generated cash flows						
- Debt issuance, net	(10)	(21)	(2)	(2)	+2	(33)
- Equity issuance	+176	+481	+2,312	+0	+0	+2,969
= Net external financing	+166	+459	+2,310	(2)	+2	+2,936
Net surplus/(deficit)	+185	+280	+2,101	(626)	+1,071	+3,011
Net flows/Sales (%)	+61	+20	+103	(22)	+54	35
Relative to Global Sector (%ile):						100%
Av. cash balance/sales (%)	43	28	78	80	126	
Relative to Global Sector (%ile)	98%	94%	99%	99%	99%	
Core cash required (6% of Sales):					189	
Surplus cash at year end (cash balance less core cash):					2,861	
Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero):					3,011	
Possible fake cash/excess cash balance (%):					105	
Unable to reconcile FCF equal to CNY3bn over 5yrs which equates to 105% of surplus cash balance at YE; this is a trait of frauds.						

Appendix 9: Debt Reconciliation

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(CNYm)	FY05	FY06	FY07	FY08	FY09	FY05-09
Balance sheet (BS) debt YE	81	410	289	284	8	
Change in debt: BS	(10)	+329	(121)	(5)	(276)	(83)
Change in debt: Cash flow (CF)	(10)	(21)	(2)	(2)	2	(33)
Unrec chg BS and CF debt	(0)	+351	(119)	(3)	(278)	(49)
Unrec chg/total debt (%)	(0)	+86	(41)	(1)	(3,473)	(617)
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	65	Free Float (%)	84
Investment Advisor	34	No. Instit. Owners	26
Pension Fund (ERISA)	2	Institutional (%)	9
0	0	- Passive Instit. (ETFs) (%)	2
0	0	- Active Instit. (%)	6
Other	0		

Appendix 11: Insiders (latest Bloomberg data)

		Comment
Insider Shares O/S (%)	16.46	
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 SGD#N/A N/A
Average Sell Price of Insider Shares	0.00	
Shares Outstanding (m)	2,800	
Insider Shares Traded -6m/Total Shares (%)	0.00	

Appendix 12: Comprehensive Income (latest Bloomberg data)

	(CNYm)	Comment
Comprehensive Income	128	
Less:		
Net Income/Net Profit (Losses)	131	
<i>Other comprehensive income comprised of:</i>		
Foreign Currency Trans. Adj.	(3)	Other comprehensive income is -2% of income which is within normal range. Able to fully reconcile other comprehensive income.
na	na	
na	na	
na	na	
na	na	
na	na	
na	na	
Amount unable to reconcile:	0	