

GMT Research Accounting Screen



Short Name	Fujian Nuoqi-H	Description:	Relevant GMT Research Reports (please go to our website and login):
GICS Ind Name	Specialty Retail	Fujian Nuoqi Co., Ltd. offers men's casual wear apparel. The Company produces and distributes men's fashionable casual wear products including jackets, sweaters, shirts, T-shirts, trousers, shoes and accessories. Fujian Nuoqi targets young and middle-aged men in the People's Republic of China.	
GICS Industry	255,040		
Cntry of Dom	CN		
Most Recent Balance Sheet Period	2017 Y		
Ticker	1353 HK		
Latest Period	Y		
Current Fiscal Year	2013		
Well known auditor:	Ernst & Youn		
Numbe of auditors in past 5yrs:	2	Ernst & Youn. Unnamed.	
Country of incorporation:	Country of incorporation (China) is same as domicile (China).		
Country of financials:	Currency of financials (Yuan Renminbi) is same as country of risk (China).		
Profit Manipulation		Latest financials complete	Summary of accounting risk for Y/FY13
Profit Manipulation: Beneish M-Score (See App 1)		Beneish M-Score of -2.54 in Y/FY13 suggests no profit manipulation.	- Profit manipulation Low risk: Montier.
Cooking the Books: Montier's C-Score (App 2)		A C-Score of 2/6 slightly better than average but watch out for: Rising OCA. High asset growth.	- Financial position Normal
Financial Position			- General accounting Problematic accounting with 23 red flags
Strength of Financial Position: Piotroski F-Score (App 3)		An F-Score of 5/9 suggests financials are marginally improving.	- Shenanigans Evidence: Window dressing. Fake Cash Flow. Excess Capital.
Risk of Default: Altman Z-Score (App 4)		An Altman Z-Score of 8.73 is in the Safe Zone: Financially sound.	= Accounting risk: High
Accounting Shenanigans			This spreadsheet expires on 30th June 2018, in 71 days.
Acquisition Accounting (App 5)	Global screen	No evidence of acquisition accounting.	
Window Dressing (App 6)		Possible debt window dressing owing to high debt churn and a high effective interest rate of 8.6% (<8% incidence rate). Further investigation needed.	
Fake Cash Fraud: Overly profitable (App 7)	Global screen	Scores 4/4 in Y/FY13. Major Fraud Alert: 73% of frauds score 4 points and 2.9% of all companies. Further investigation needed. Triggered Fake Cash Flow in last 5yrs?: FY13 FY12 FY11 FY10	
Excess Capital Raising (App 8)	Global screen	Net flows over 5yrs at 13% of Sales are in the 99%ile and unusually high suggesting too much external finance is being raised.	
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 23 red flags in the last financial period which is high.	
Cash Balance		Cash & STI of CNY0.4bn is extremely high at 40% of sales, in the 98%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 CNY0.1bn are equal to 11% of Sales which is in the 87%ile relative to peers, can be a sign of channel stuffing.	
Doubtful Debts		Delinquency at 0% of total receivables are within normal range.	
Payables		Payables of CNY0.1bn have been extended by 3ppts relative to Sales over the past year which can be a sign of manufactured cash flow.	
Inventory		Inventories of CNY0.1bn are equal to 17% of Sales which is within normal range.	
Profit Manipulation: Gross Working Capital		An increase in working capital at 10% of sales owing to higher Other ST Assets and Other ST Liabilities suggests inflated cash flows and/or profit over the past year.	
Cash Extraction Fraud: Prepaid Expenses		Prepaid Expenses of CNY0.2bn are large relative to sales (23.4%) and inventory (141.6%), 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 29.7bp of sales are unusually high in the 98%ile relative to peers, suggesting a problematic set of financials.	
Deferred Tax Assets		Deferred Tax Assets/Sales of 1% are within normal range.	
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		Large Other ST Assets of CNY0.2bn include Unspecified of CNY0.2bn. Large Other ST Liabilities of CNY0.1bn include Accrued Expenses and Other of CNY0.1bn.	
Depn & Amort		Within normal range.	
Interest Cover		EBIT Interest Cover of 7.1x is within normal range.	
Leverage		Total Debt/Profit of 2.9x and assets to equity of 1.8x are within normal range.	
Related Party Fraud		No evidence of related party transactions.	
Other Tests:		No or new CFO. An overly liquid balance sheet with high levels of debt and cash. Has a very large balance sheet with Assets at 111% of Sales in the 90%ile relative to peers.	

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Ratios		Fujian Nuogei-H Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment
Country		Y/FY13	Y/FY12	Y/FY10	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY13	-1yr Chg	-3yr Chg	
											(0-100%)	(+/-50%)	(+/-50%)	
Av Cash & Equiv./Sales (%)	GICS Industry	40.2	33.2	24.8	+7.0	+15.4	2.0	6.2	14.4	413	98%	-46%	-47%	Av Cash & Equiv./Sales (%) high. Risen over 1yr. Risen over 3yrs.
Unrestricted Cash/COGS (%)	GICS Industry	95.5	0.8	1.1	+94.7	+94.3	2.8	9.1	23.0	390	98%	-42%	-35%	Unrestricted Cash/COGS (%) high. Risen over 1yr. Risen over 3yrs.
ST Investments/Sales FY (%)	GICS Industry	0.0	28.6	25.7	-28.6	-25.7	0.1	1.0	6.3	95	na	na	na	
Av. Trade & Notes Rec/Sales (%)	GICS Industry	11.0	11.1	na	-0.0	na	0.7	2.4	7.4	403	87%	-14%	na	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	16.5	19.4	18.9	-2.9	-2.4	9.0	15.1	23.5	417	57%	-43%	-41%	
Inventory Days	GICS Industry	111	112	0	-0	+111	47	83	146	384	66%	-17%	+48%	Risen over 3yrs.
Finished Goods/Inventory (%)	GICS Industry	96	95	98	+0.6	-2.2	92	99	100	353	30%	+29%	-41%	
Av. Other ST Assets/Sales (%)	GICS Industry	18.4	14.6	na	+3.8	na	1.1	2.5	5.3	406	95%	+46%	na	Av. Other ST Assets/Sales (%) high. Risen over 1yr.
PPE/Sales (%)	GICS Industry	22.9	18.5	na	+4.4	na	6.2	11.7	21.9	393	81%	+45%	na	PPE/Sales (%) high. Risen over 1yr.
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	0.8	0.6	0.1	+0.1	+0.7	0.2	0.8	2.0	314	49%	+21%	+31%	Risen over 3yrs.
Prepaid Expenses/Sales (%)	GICS Industry	23.4	15.9	16.0	+7.5	+7.5	0.5	1.3	2.8	214	99%	+49%	+49%	Prepaid Expenses/Sales (%) high. Risen over 1yr. Risen over 3yrs.
Prepaid Expenses/Inventory (%)	GICS Industry	141.6	81.8	84.3	+59.8	+57.3	1.9	6.1	16.8	146	99%	+49%	+50%	Prepaid Expenses/Inventory (%) high. Risen over 1yr. 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	0.0	0.0	0.0	+0.0	+0.0	0.2	1.5	7.0	359	na	na	na	
Av. Assets/Sales (%)	GICS Industry	111	95	87	+15.4	+23.9	39.4	59.6	86.2	420	90%	+44%	+41%	Av. Assets/Sales (%) high. Risen over 1yr. Risen over 3yrs.
Balance Sheet: Liabilities and Equity														
Av. Payables (Trade, Bills, Accr/Sales (%)	GICS Industry	5.3	2.2	0.7	+3.1	+4.6	5.3	9.6	14.8	416	20%	+44%	+43%	Risen over 1yr. Risen over 3yrs.
Trade Payable Days	GICS Industry	36	13	na	+22.4	na	19.9	40.1	67.7	380	42%	+47%	na	Risen over 1yr.
ST Debt/Total Debt (%)	Global	100	100	66	+0.0	+34.2	13.0	44.2	88.3	13,723	99%	-2%	+43%	ST Debt/Total Debt (%) high. Risen over 3yrs.
Av. Other ST Liabs/Sales (%)	GICS Industry	11.3	8.4	na	+3.0	na	3.8	6.3	10.2	420	85%	+45%	na	Av. Other ST Liabs/Sales (%) high. Risen over 1yr.
Av. Deferred Tax Liab/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	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	0.0	+0.0	+0.0	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	1.8	1.5	1.7	+0.3	+0.2	1.5	2.1	3.3	399	39%	+35%	+18%	Risen over 1yr.
Balance Sheet: Other														
Av. GFA/D&A (yrs)	GICS Industry	14.3	15.0	10.3	-0.7	+4.0	6.6	11.3	19.5	410	66%	-31%	+9%	
Restricted Cash/Equity (%)	GICS Industry	1.8	0.1	1.6	+1.7	+0.2	0.4	3.4	35.6	33	40%	+31%	+18%	Risen over 1yr.
Cash Conversion Cycle (Days)	GICS Industry	116	139	#N/A	-23	na	21.8	54.0	115.7	358	80%	-47%	na	Cash Conversion Cycle (Days) high.
Av. Gross Working Capital/Sales (%)	GICS Industry	63.1	53.0	28.8	+10.1	+34.3	26.5	37.7	54.5	402	88%	+42%	+47%	Av. Gross Working Capital/Sales (%) high. Risen over 1yr. Risen over 3yrs.
Contingent Liab/Equity (%)	GICS Industry	50.7	7.9	29.2	+42.7	+21.5	13.7	62.8	180.8	321	44%	+43%	+34%	Risen over 1yr. Risen over 3yrs.
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	48.7	64.2	145.7	-15.6	-97.1	5.6	15.5	32.6	415	92%	+41%	+50%	Return on Production Assets (%) high. Fallen over 1yr. Fallen over 3yrs.
Non-Prod. Assets/COGS FY (%)	GICS Industry	173.2	98.9	74.3	+74.3	+98.9	15.2	33.2	81.4	375	94%	-48%	-46%	Non-Prod. Assets/COGS FY (%) high. Risen over 1yr. Risen over 3yrs.
Gross Debt/Profit (x)	GICS Industry	2.9	1.9	1.6	+0.9	+1.2	0.8	3.8	12.1	303	42%	+21%	+14%	
											(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	46.2	45.3	39.5	+1	+7	16	34	53	402	70%	-15%	-34%	Risen over 3yrs.
GM Volatility 5yrs (%)	GICS Industry	na					1.5	3.1	7.9	377	na			
Other Op Y/Op Y (%)	GICS Industry	14.4	6.8	5.0	+7.6	+9.4	2.2	9.3	39.7	129	59%	+30%	+27%	Risen over 1yr.
D&A/Sales T12M (%)	GICS Industry	1.8	1.4	1.6	+0.4	+0.2	0.9	2.1	3.3	420	58%	-39%	-10%	
Operating Margin T12M (%)	GICS Industry	17.9	20.4	21.0	-2.5	-3.1	1.7	4.7	10.1	408	95%	+37%	+30%	Operating Margin T12M (%) high. Fallen over 1yr. Fallen over 3yrs.
Non-Op Y/Op Y (%)	GICS Industry	4.9	4.5	1.6	+0.4	+3.4	1.0	5.4	23.8	339	47%	+9%	+18%	
EFF Int Rate less MLR (ppt)	Country	4.3	6.6	na	-2.3	na	-2.9	-0.5	1.1	2,032	94%	-42%	na	EFF Int Rate less MLR (ppt) high.
Cash Return less Policy Rate (ppt)	Country	1.6	1.7	-2.0	-0.0	+3.6	-2.2	-1.5	-0.2	2,145	91%	-6%	+43%	Cash Return less Policy Rate (ppt) high. Risen over 3yrs.
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	26.3	24.9	26.4	+1.3	-0.1	13.3	19.2	27.2	2,043	76%	+14%	-6%	
CF Tax/IS Tax (%)	GICS Industry	57.6	114.7	94.5	-57.2	-36.9	67.8	97.3	132.6	342	86%	+37%	+31%	CF Tax/IS Tax (%) low. Fallen over 1yr. 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	0.0	0.0	0.0	+0.0	+0.0	-0.1	1.8	12.8	8,362	na	na	na	
Net Income Margin (%)	GICS Industry	12.0	14.3	14.2	-2.3	-2.2	0.7	2.9	6.7	421	7%	+38%	+26%	Net Income Margin (%) high. Fallen over 1yr.
Capitalised Int/PTP (%)	Global	0.0	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	7.1	9.0	15.0	-1.9	-7.9	2.5	10.1	67.3	369	57%	+20%	+27%	

GMT Research Accounting Screen



Ratios		Global/Sector/ Country	Fujian Nuoqi-H Ratios			Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment
			Y/FY13	Y/FY12	Y/FY10	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY13	-1yr Chg	-3yr Chg	
Cash Flow												(0-100%)	(+/-50%)	(+/-50%)	
CFO/Net Profit (x)	GICS Industry		1.5	0.3	0.5	+1.2	+1.0	0.6	1.3	2.5	1,802	43%	-34%	-24%	
Cash Interest Exp./CFO (%)	GICS Industry		14.0	56.8	18.1	-42.8	-4.1	0.2	4.1	21.4	330	72%	-40%	-18%	
Capex/Sales (%)	GICS Industry		6.8	13.8	12.9	-7.0	-6.1	1.1	2.4	4.6	415	90%	-49%	-47%	Capex/Sales (%) high.
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		1.2	0.0	5.4	+1.2	-4.2	0.1	0.6	2.4	344	66%			
Debt Repay/ST Debt -1FY (%)	Global		177	422	na	-245.5	na	20.0	88.4	210.9	10,373	76%	-42%	na	Debt Repay/ST Debt -1FY (%) high.
Free Cash Flow Margin (%)	GICS Industry		11.2	-9.8	-5.1	+21.0	+16.3	-1.8	1.8	6.2	411	6%	-49%	-47%	
FCF-Divs/Sales (%)	Global		na	-11.5	na	na	na	-7.2	0.9	6.8	10,563	na	na	na	
No. of Mat. Capital Inc -5yrs	Global		2					0.0	0.0	1.0	9,451	95%			No. of Mat. Capital Inc -5yrs high.
Other Fin. Activities/Sales (%)	GICS Industry		0.0	0.0	0.0	+0.0	+0.0	0.0	0.1	0.7	327	na			
Corporate Governance												(0-100%)	(+/-50%)	(+/-50%)	
Auditing Exp/Sales (bp)	GICS Industry		29.7					2.1	5.2	10.0	204	98%			Auditing Exp/Sales (bp) high.
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/FY13

Average Ratio Percentile Score (0 is good, 100 is bad)	70%	Result: Very poor score. High number of red flags.	Explanation
- Percentile vs Industry Peers (0% is good, 100% is bad)	100%	In Y/FY13, Fujian Nuoqi-H recorded an average percentile score (0 is good, 100 is bad) of 70% across all 75 financial ratios listed below. This places it in a percentile of 100 relative to around 413 GICS industry peers globally, which is a very unusual result. The company triggered a total of 23 red flags out of 75 placing it in a percentile of 92 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)	23		
- Percentile vs Global Peers (0% is good, 100% is bad)	92%		

Summary of change in financials over 1 year

Number of Red Flags (Out of a possible 62)	20	Result: High number of red flags.	Explanation
- Percentile vs Global Peers (0% is good, 100% is bad)	96%	Over the financial year prior to Y/FY13, Fujian Nuoqi-H triggered a total of 20 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.

Summary of change in financials over 3 yrs

Number of Red Flags (Out of a possible 62)	17	Result: High number of red flags.	Explanation
- Percentile vs Global Peers (0% is good, 100% is bad)	95%	Over the 3 financial years prior to Y/FY13, Fujian Nuoqi-H triggered a total of 17 red flags out of 62 placing it in a percentile of 95 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	FY09	FY10	FY11	FY12	FY13	Y/FY13	Index Calculation	Comments on latest period
Days Sales in Receivables Index	$+(0.92 \times 1.00)$	na	na	na	1.14	1.00	1.00	$(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$	Receivables of 40 days have fallen by 0 days YoY
Gross Margin Index	$+(0.528 \times 0.98)$	na	na	0.91	0.96	0.98	0.98	$[(\text{Sales}_{t-1} - \text{COGS}_{t-1}) / \text{Sales}_{t-1}] / [(\text{Sales}_t - \text{COGS}_t) / \text{Sales}_t]$	12m Trailing Gross Margin of 46.2% has improved by 1ppts YoY
Asset Quality Index	$+(0.404 \times 0.77)$	na	na	1.45	0.84	0.77	0.77	$[1 - (\text{Curr Ass}_t + \text{PP\&E}_t + \text{Sec}_t) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$	Other LT Assets/Total Assets of 0.8% has fallen by 0.2ppts YoY
Sales Growth Index	$+(0.892 \times 1.19)$	na	na	1.45	1.22	1.19	1.19	$\text{Sales}_t / \text{Sales}_{t-1}$	12m Trailing Sales have risen 19% YoY
Depreciation Index	$+(0.115 \times 0.81)$	na	na	1.16	1.60	0.81	0.81	$(\text{Depr}_{t-1} / (\text{PP\&E}_{t-1} + \text{Depr}_{t-1})) / (\text{Depr}_t / (\text{PP\&E}_t + \text{Depr}_t))$	12m Trailing Depreciation/Sales of 6.7% has risen by 1.3ppts YoY
SG&A Index	$-(0.172 \times 0.85)$	na	na	0.82	0.91	0.85	0.85	$(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$	12m Trailing SG&A/Sales of 30.9% have risen by 4.7ppts YoY
Total Accruals to Total Assets	$-+(4.679 \times 0.04)$	na	0.08	0.10	0.10	-0.04	-0.04	$\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$	Total Accruals (Net Profit less CFO)/Total Assets are -4%
Leverage Index	$-(0.327 \times 0.77)$	na	na	1.37	0.85	0.77	0.77	$[(\text{Curr Liab}_t + \text{Total LT Debt}_t) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$	LT Debt + Current Liabilities/Total Assets of 46% have risen by 10.5ppts YoY
Beneish M-Score for Y/FY13	-4.84 =	na	na	na	-1.65	-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/FY13 suggests no profit manipulation

Appendix 2: Montier C-Score

	FY09	FY10	FY11	FY12	FY13	Y/FY13	Point Calculation	Comments
Profit	na	na	1	1	0	0	A growing divergence between Profit and Operating Cash Flow (1 point)	12m Trailing Accruals Margin of 6% has improved from -10.3% YoY
Receivables	na	na	na	1	0	0	Receivable Days are increasing (1 point)	Receivables of 40 days have fallen by 0 days YoY
Inventory	na	na	0	1	0	0	Inventory Days are increasing (1 point)	Inventory of 17 days has fallen by 3 days YoY
Other current assets	na	na	0	1	1	1	Other Current Assets to Sales are increasing (1 point)	Other Current Assets/Sales of 19.1% have risen by 4.4ppts YoY
Depreciation	na	na	na	1	0	0	Depreciation relative to PPE jobs usfa bs	Depreciation of 14.3yrs has fallen by 0.7yrs YoY
Asset growth	na	na	1	1	1	1	High asset growth in excess of 10% (1 point)	Asset growth of 44% YoY is in excess of 10%
Montier's C-Score	na	na	na	6	2	2	Score 0-1 is good; 2-4 is average, 5-6 is bad	A C-Score of 2/6 slightly better than average

Appendix 3: Piotroski F-Score

	FY09	FY10	FY11	FY12	FY13	Y/FY13	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 11.1%
Operating Cash Flow Score	na	1	1	1	1	1	Positive Operating Cash Flow in the current year (1 point)	12m Trailing CFO Margin of 18%
Return on Assets Score	na	na	1	0	0	0	Higher Return on Assets than previous year (1 point)	12m Trailing ROA has fallen to 11.1% from 15.2% YoY
Quality of Earnings Score	na	0	0	0	1	1	Operating Cash Flow are greater than ROA (1 point)	12m Trailing CFO Margin of 18% is above Net Profit Margin of 12.3%
Long-Term Debt to Assets Score	na	na	1	0	0	0	Lower ratio of Long Term Debt than previous year (1 point)	LT Debt/Total Assets has risen to 27% from 26% YoY
Current Ratio Score	na	na	1	0	0	0	Higher Current Ratio this year compared to the previous year (1 point)	Current Ratio has fallen to 1.74x from 2.16x YoY
Shares Outstanding Score	na	na	0	0	1	1	No new shares were issued in the last year (1 point)	Number of shares remains unchanged
Gross Margin Score	0	0	1	1	1	1	A higher Gross Margin compared to the previous year (1 point)	12m Trailing Gross Margin of 46.2% has improved by 1ppts YoY
Asset Turnover Score	na	na	1	0	0	0	A high Asset Turnover ratio compared to the previous year (1 point)	Asset turnover has fallen to 0.9x from 1.05x YoY
Piotroski F-Score	na	na	7	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

	FY09	FY10	FY11	FY12	FY13	Y/FY13	Altman Z-Score for a company in emerging markets	Comments
Solvency	na	5.95	3.70	2.69	2.24	2.24	Working Capital (Current Assets less Current Liabilities)/Tangible Assets	Ability to meet short term obligations
Cumulative profitability	na	0.75	0.87	0.99	1.08	1.08	Retained Earnings/Tangible Assets	Determines cumulative historic profitability
Profitability	na	1.63	1.46	1.27	0.92	0.92	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	na	1.52	2.46	1.93	1.24	1.24	Book Value of Equity/Total Liabilities	Leverage
Altman Z-Score for Y/FY13	na	13.10	11.75	10.12	8.73	8.73	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	FY09	FY10	FY11	FY12	FY13	Y/FY13	Point Calculation	Comments
Material acquisition?	1 point	na	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	na	na	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	na	1	1	1	1	1	Either a rise in Deferred Tax Asset over 1 year	DTAs have risen by 0.1% of sales to 0.8% of sales
Large deferred tax assets		na	0	0	0	0	0	Or a large Deferred Tax Asset in the 80%ile relative to industry peers	DTA/Sales of 0.8% is in the 49%ile relative to industry peers
Acquisition Accounting		0	1	1	1	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

	FY09	FY10	FY11	FY12	FY13	Y/FY13	Point Calculation	Comments
Has high debt repayment/ST debt?	0	0	1	1	1	1	Debt Repayment relative to the ST Debt one year prior is in excess of 130%	Debt Repayment/ST Debt -1FY of 177% is in the 76%ile relative to global peers
Has high effective interest rate?	0	0	1	1	1	1	Effective Interest Rate is in excess of the 80%ile relative to country peers	Effective Int Rate of 8.6% is in the 97%ile relative to country peers
Has moderate debt?	0	1	1	1	1	1	If Debt to Sales >15%ile of industry peers	Debt/Sales of 35% is in the 83%ile relative to industry peers
Window Dressing	0	1	3	3	3	3	A score of 3 suggests strong likelihood of window dressing	Possible debt window dressing

Appendix 6a: Investment Window Dressing

	FY09	FY10	FY11	FY12	FY13	Y/FY13	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	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	FY09	FY10	FY11	FY12	FY13	Y/FY13	Point Calculation	
High operating margin	Critical criteria: 1 point	na	1	1	1	1	1	Operating Margin >80%ile relative to industry peers	A 12m Trailing Operating Margin of 18% is in the 95%ile
High return on production assets		na	1	1	1	1	1	Op Profit/(PPE + Inv) in the >80%ile relative to industry peers	A 12m Return on Production Assets of 49% is in the 92%ile
High level of non-production assets	1 point	0	0	1	0	1	1	(Total Assets-Production Assets)/(COGS or Sales) >80%ile versus peers	Non Production Assets/COGS (or Sales) of 173% is in the 94%ile
Build-up of non-production assets		0	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 57% 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 0%
A relatively unknown auditor		1	0	0	0	0	0	Relatively obscure auditor	Well known auditor: Ernst & Youn
Incorporation and Domicile		0	0	0	0	0	0	Different country of incorporation vrs domicile	Country of incorporation (China) is same as domicile (China).
Debt structure	1pt if >1	1	0	1	1	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	0	3	4	4	4	4	A score of 3 or 4 is problematic and requires further investigation	Major Fraud Alert: 73% of frauds score 4 points and 2.9% of all companies

Appendix 8: Excess Capital Raising

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(CNYm)	FY09	FY10	FY11	FY12	FY13	FY09-13
Sales	#N/A N/A	+322	+468	+572	+682	+2,045
- OPCF	#N/A N/A	+25	+21	+23	+123	+191
- Capex	+0	(41)	(32)	(79)	(46)	(199)
- Dividends (incl MI at subs)	+0	+0	+0	(10)	+0	(10)
- Buybacks	#N/A N/A	+0	+0	+0	+0	+0
- (Acquisitions)/disposals	+0	+0	+0	+0	+0	+0
= Net internal cash generation	+0	(16)	(11)	(66)	+76	(18)
Externally generated cash flows						
- Debt issuance, net	#N/A N/A	+8	+15	+82	+84	+190
- Equity issuance	#N/A N/A	+0	+96	+0	+0	+96
= Net external financing	+0	+8	+111	+82	+84	+286
Net surplus/(deficit)	+0	(8)	+100	+16	+161	+268
Net flows/Sales (%)	na	(3)	+21	+3	+24	13
Relative to Global Sector (%ile):						99%
Av. cash balance/sales (%)	na	25	28	33	40	
Relative to Global Sector (%ile)	na	92%	94%	96%	98%	
Core cash required (6% of Sales):						22
Surplus cash at year end (cash balance less core cash):						329
Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero):						268
Possible fake cash/excess cash balance (%):						82
Unable to reconcile FCF equal to CNY0.3bn over 5yrs which equates to 82% of surplus cash balance at YE; this is a trait of frauds.						

Appendix 9: Debt Reconciliation

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(CNYm)	FY09	FY10	FY11	FY12	FY13	FY09-13
Balance sheet (BS) debt YE	#N/A N/A	79	78	160	239	
Change in debt: BS	na	na	(1)	+82	+79	+160
Change in debt: Cash flow (CF)	#N/A N/A	8	15	82	84	+190
Unrec chg BS and CF debt	na	na	(16)	(1)	(5)	(30)
Unrec chg/total debt (%)	+0	+0	(20)	(0)	(2)	(13)
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	
Individual	53	Free Float (%)	38
Other	29	No. Instit. Owners	2
Venture Capital	18	Institutional (%)	29
0	0	- Passive Instit. (ETFs) (%)	0
0	0	- Active Instit. (%)	29
Other	0		

Appendix 11: Insiders (latest Bloomberg data)

	Comment
Insider Shares O/S (%)	0.00
Chg Insider Hldgs -6m (%)	0.00
Number of Insider Shares Purchased (m)	+0.0
Number of Insider Shares Sold (m)	+0.0
Average Purchase Price of Insider Shares	0.00
Average Sell Price of Insider Shares	0.00
Shares Outstanding (m)	90
Insider Shares Traded -6m/Total Shares (%)	0.00
Changes in insider holdings can be due to options, etc. as opposed to actively buying or selling shares	
Current share price is HKD1	

Appendix 12: Comprehensive Income (latest Bloomberg data)

	(CNYm)	Comment
Comprehensive Income	82	
Less:		
Net Income/Net Profit (Losses)	82	
<i>Other comprehensive income comprised of:</i>		
na	na	Other comprehensive income is zero. Able to fully reconcile other comprehensive income.
na	na	
na	na	
na	na	
na	na	
na	na	
Amount unable to reconcile:	0	