

GMT Research Accounting Screen



Short Name	Li Ning Co Ltd	Description:	Relevant GMT Research Reports (please go to our website and login):
GICS Ind Name	Textiles, Apparel & Luxury Goods	Li Ning Company Limited researches, designs, manufactures, distributes, and retails sports footwear, apparel and accessories for sport and leisure use.	
GICS Industry	252,030		
Cntry of Dom	CN		
Most Recent Balance Sheet Period	2017 Y		
Ticker	2331 HK		
Latest Period	Y		
Current Fiscal Year	2017		
Well known auditor:	Pricewaterhouse Coopers		
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		Lastest financials for 31/12/2017 incomplete	
Profit Manipulation: Beneish M-Score (See App 1)		Beneish M-Score of -3.15 in Y/FY17 suggests no profit manipulation.	
Cooking the Books: Montier's C-Score (App 2)		A C-Score of 1/6 implies strong financials and unlikely manipulating profit.	
Financial Position			
Strength of Financial Position: Piotroski F-Score (App 3)		An F-Score of 8/9 suggests are very strong and improving.	
Risk of Default: Altman Z-Score (App 4)		An Altman Z-Score of 9.12 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/FY17. 64% of companies score similarly and just 2.4% of frauds. Rest easy. Triggered Fake Cash Flow in last 5yrs?: None	
Excess Capital Raising (App 8)	Global screen	Net flows over 5yrs at 4% of Sales are normal.	
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 CNY2.5bn is extremely high at 25% of sales, in the 81%ile relative to peers, which is a trait of fake cash flow frauds.	
Restricted Cash		Restricted Cash of CNY0bn is within normal range.	
Receivables		Receivables of CNY1.1bn are equal to 14% of Sales which is in within normal range.	
Doubtful Debts		Delinquency at 0% of total receivables are within normal range.	
Payables		Large Payables of CNY2.1bn equal to 22% of Sales are in the 94%ile relative to peers, can be a sign of hidden debt.	
Inventory		Inventories of CNY1.1bn are equal to 12% of Sales which is within normal range.	
Profit Manipulation: Gross Working Capital		No evidence of profit/cash flow manipulation through working capital.	
Cash Extraction Fraud: Prepaid Expenses		Prepaid Expenses of CNY0.3bn are large relative to sales (3.8%) and inventory (30.8%), 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		Investments in Associates of CNY0.7bn are high at 14% of equity and 17% of OP, raising concerns over related party transactions, transparency and corporate governance.	
Auditing Costs		Auditing expenses of 6.4bp of sales within normal range.	
Deferred Tax Assets		Deferred Tax Assets/Sales of 3% are within normal range.	
Deferred Tax Liabilities		Deferred Tax Liabilities/Sales of 1% are within normal range.	
Derivatives		Derivatives equal to 0% of equity within normal range.	
Other Large Curious Assets and/or Liabilities		Within normal range.	
Depn & Amort		Within normal range.	
Interest Cover		EBIT Interest Cover of 26.4x is within normal range.	
Leverage		Total Debt/Profit of 0.1x and assets to equity of 1.4x are within normal range.	
Related Party Fraud		No evidence of related party transactions.	
Other Tests:		No or new CFO.	

Short-Seller's Report (for Asian companies only)

Summary of accounting risk for Y/FY17

- Profit manipulation	Low risk: Montier.
- Financial position	Strong: Piotroski.
- General accounting	Normal
- Shenanigans	No evidence

= Accounting risk: **Low**

This spreadsheet expires on 31st Mar 2018, in 82 days.

GMT Research Accounting Screen



Ratios		Global/Sector/ Country	Li Ning Co Ltd Ratios			Ratio Change		Peer Group Comparison Ratios			Percentiles and Red Flags			Red Flag Comment	
			Y/FY17	Y/FY16	Y/FY14	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY17	-1yr Chg		-3yr Chg
Balance Sheet: Assets															
Av Cash & Equiv./Sales (%)		GICS Industry	25.3	23.5	19.1	+1.8	+6.1	3.2	10.4	24.0	379	81%	-20%	-27%	Av Cash & Equiv./Sales (%) high.
Unrestricted Cash/COGS (%)		GICS Industry	53.8	45.3	31.0	+8.5	+22.9	5.1	16.6	40.3	314	86%	-6%	-6%	Unrestricted Cash/COGS (%) high.
ST Investments/Sales FY (%)		GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.1	1.6	8.5	172	na	na	na	
Av. Trade & Notes Rec/Sales (%)		GICS Industry	14.1	17.5	21.8	-3.4	-7.6	7.2	12.1	20.0	356	60%	-46%	-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	12.4	12.0	21.3	+0.4	-8.9	13.0	19.6	29.8	375	18%	+4%	-44%	
Inventory Days		GICS Industry	80	82	122	-1	-42	62	103	187	314	35%	-17%	-44%	
Finished Goods/Inventory (%)		GICS Industry	111	114	115	-2.9	-3.4	33	60	89	417	99%	-32%	-33%	Finished Goods/Inventory (%) high.
Av. Other ST Assets/Sales (%)		GICS Industry	3.9	10.2	6.2	-6.2	-2.2	2.0	3.6	7.4	376	54%	-48%	-36%	
PPE/Sales (%)		GICS Industry	10.3	10.8	19.6	-0.5	-9.4	9.2	22.8	45.7	360	23%	-11%	-41%	Fallen over 3yrs.
Affiliate Inv/Equity (%)		Global	13.6	15.6	1.0	-2.1	+12.6	0.5	3.0	13.1	7,896	80%	-39%	+44%	Affiliate Inv/Equity (%) high. Risen over 3yrs.
LT Inv & Rec/Sales (%)		GICS Industry	0.2	0.2	0.3	+0.0	-0.1	0.2	1.5	10.0	249	17%	-3%	-23%	
Deferred Tax Assets/Sales FY (%)		GICS Industry	2.6	2.3	3.5	+0.3	-0.9	0.2	0.9	2.7	277	79%	+22%	-42%	
Prepaid Expenses/Sales (%)		GICS Industry	3.8	4.5	6.3	-0.7	-2.4	0.3	1.3	3.4	167	82%	-38%	-45%	Prepaid Expenses/Sales (%) high.
Prepaid Expenses/Inventory (%)		GICS Industry	30.8	37.3	29.4	-6.5	+1.4	1.2	3.7	10.7	99	93%	-45%	+25%	Prepaid Expenses/Inventory (%) high.
Intangibles/Sales FY (%)		GICS Industry	2.9	3.2	5.0	-0.3	-2.1	0.1	1.0	9.2	316	63%	-35%	-42%	
Av. Other LT Assets/Sales FY (%)		GICS Industry	1.1	1.1	0.4	+0.1	+0.7	0.4	1.8	5.8	332	38%	+1%	+11%	
Av. Assets/Sales (%)		GICS Industry	79	85	100	-5.9	-20.2	65.5	95.1	139.4	380	34%	-33%	-41%	
Balance Sheet: Liabilities and Equity															
Av. Payables (Trade, Bills, Accr/Sales (%)		GICS Industry	21.8	21.3	29.5	+0.5	-7.7	5.3	10.0	15.5	379	94%	+16%	-48%	Av. Payables (Trade, Bills, Accr/Sales (%) high.
Trade Payable Days		GICS Industry	83	87	93	-3.9	-9.9	24.5	45.6	81.5	348	80%	-27%	-36%	Trade Payable Days high.
ST Debt/Total Debt (%)		Global	46	95	37	-48.8	+8.9	13.0	44.2	88.3	13,723	51%	-48%	+24%	
Av. Other ST Liabs/Sales (%)		GICS Industry	0.5	3.0	2.0	-2.5	-1.5	3.8	6.8	10.9	380	1%	-43%	-29%	
Av. Deferred Tax Liab/Sales FY (%)		GICS Industry	0.6	0.5	5.0	+0.1	-4.5	0.7	3.6	12.1	256	17%	+11%	-50%	
Av. Other LT Liabs/Sales (%)		GICS Industry	0.6	0.6	0.7	+0.0	-0.1	0.4	1.8	5.1	298	26%	-17%	-21%	
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	0.1	10.0	-0.0	-10.0	0.3	2.4	11.4	9,628	10%	-4%	-46%	
Assets/Equity (x)		GICS Industry	1.4	1.7	2.8	-0.3	-1.3	1.4	1.8	2.6	373	26%	-37%	-46%	
Balance Sheet: Other															
Av. GFA/D&A (yrs)		GICS Industry	4.7	5.1	9.4	-0.4	-4.7	8.4	14.3	22.8	371	5%	-22%	-44%	
Restricted Cash/Equity (%)		GICS Industry	0.0	0.0	0.1	-0.0	-0.1	0.1	0.3	5.9	60	5%	-11%	-23%	
Cash Conversion Cycle (Days)		GICS Industry	49	59	109	-10	-60	70.6	110.2	186.0	312	9%	-33%	-46%	
Av. Gross Working Capital/Sales (%)		GICS Industry	52.0	64.0	77.9	-12.0	-25.9	40.4	53.6	72.2	379	46%	-45%	-46%	
Contingent Liab/Equity (%)		GICS Industry	0.0	20.6	25.8	-20.6	-25.8	2.0	13.6	59.2	253	na	na	na	
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	0.1	0.0	0.0	+0.1	+0.1	-1.4	0.0	1.1	2,405	64%	+5%	+0%	
Return on Production Assets (%)		GICS Industry	22.9	21.1	-28.0	+1.8	+50.9	4.5	14.9	33.7	382	66%	-19%	-48%	Risen over 3yrs.
Non-Prod. Assets/COGS FY (%)		GICS Industry	107.9	100.1	7.8	+7.8	+100.1	34.6	67.1	132.2	299	73%	-12%	-43%	Risen over 3yrs.
Gross Debt/Profit (x)		GICS Industry	0.1	Loss	Loss	na	na	0.9	4.0	13.7	306	4%	na	na	
Income Statement															
												(0-100%)	(+/-50%)	(+/-50%)	
Sales/Employee (US\$)		GICS Industry	602,491	611,142	262,790	-8,651	+339,701	56,779	148,854	359,649	286	90%	+18%	-47%	Sales/Employee (US\$) high. Risen over 3yrs.
Gross Margin (%)		GICS Industry	47.1	46.2	44.9	+1	+2	15	30	52	322	73%	+0%	-9%	
GM Volatility 5yrs (%)		GICS Industry	7.6					2.9	6.3	20.0	303	53%			
Other Op Y/Op Y (%)		GICS Industry	9.8	19.1	na	-9.3	na	1.8	6.4	20.7	119	61%	-41%	na	
D&A/Sales T12M (%)		GICS Industry	4.2	4.0	3.3	+0.2	+0.9	1.4	2.8	4.7	376	27%	-16%	-28%	
Operating Margin T12M (%)		GICS Industry	5.0	4.8	-10.6	+0.2	+15.7	2.8	7.2	14.9	374	36%	-8%	-47%	Risen over 3yrs.
Non-Op Y/Op Y (%)		GICS Industry	7.8	6.0	na	+1.8	na	2.9	10.4	36.5	329	42%	+8%	na	
FFI Int Rate less MLR (ppt)		Country	-0.7	3.2	2.4	-3.9	-3.1	-2.9	-0.5	1.1	2,032	45%	-46%	-42%	
Cash Return less Policy Rate (ppt)		Country	-0.2	-1.1	-2.3	+0.9	+2.1	-2.2	-1.5	-0.2	2,145	80%	+32%	+37%	Cash Return less Policy Rate (ppt) high. Risen over 1yr. Risen over 3yrs.
Affil Y/Op Y (%)		Global	16.6	2.5	na	+14.0	na	0.3	2.2	11.9	6,391	84%	+43%	na	Affil Y/Op Y (%) high. Risen over 1yr.
Eff Tax Rate (%)		Country	4.2	11.3	na	-7.1	na	13.3	19.2	27.2	2,043	3%	-41%	na	
CF Tax/IS Tax (%)		GICS Industry	na	197.3	87.5	na	na	64.9	98.7	151.1	285	na	na	na	
X Items/Op Y (%)		Global	0.0					0.8	6.2	37.4	1,297	na			
Minority Int/Profit B4 MI (%)		Global	0.0	22.5	na	-22.5	na	-0.1	1.8	12.8	8,362	na	na	na	
Net Income Margin (%)		GICS Industry	5.8	8.0	-12.9	-2.2	+18.7	1.3	4.7	11.2	383	44%	+30%	-48%	Fallen over 1yr.
Capitalised Int/PTP (%)		Global	na	na	na	na	na	0.0	0.0	0.0	13,642	na	na	na	
Cap of Intang. Assets/PTP (%)		Global	0.0	32.4	Loss making	-32.4	na	0.9	4.0	16.7	728	na			
EBIT Interest Cover (x)		GICS Industry	26.4	4.6	-5.5	+21.8	+31.9	1.7	7.4	41.1	351	26%	-40%	-39%	



Source: GMT Research, Bloomberg

Summary of financials in Y/FY17		Result: Scores within normal range. Number of red flags normal.	Explanation
Average Ratio Percentile Score (0 is good, 100 is bad)	48%	In Y/FY17, Li Ning Co Ltd recorded an average percentile score (0 is good, 100 is bad) of 48% across all 75 financial ratios listed below. This places it in a percentile of 38 relative to around 379 GICS industry peers 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)	38%	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.	
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: Few red flags.	Explanation
Number of Red Flags (Out of a possible 62)	3	Over the financial year prior to Y/FY17, Li Ning Co Ltd triggered a total of 3 red flags out of 62 placing it in a percentile of 10 relative to our sample of 16,000 companies globally, which is a very good 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)	10%		
Summary of change in financials over 3 yrs		Result: Number of red flags normal.	Explanation
Number of Red Flags (Out of a possible 62)	7	Over the 3 financial years prior to Y/FY17, Li Ning Co Ltd triggered a total of 7 red flags out of 62 placing it in a percentile of 52 relative to our sample of 16,000 companies globally, which is a moderate 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)	52%		

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Appendices

Appendix 1: Beneish M-Score

	Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Index Calculation	Comments on latest period
Days Sales in Receivables Index	$+(0.92 \times 0.81)$	0.91	0.89	0.88	0.92	0.81	0.81	$(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$	Receivables of 52 days have fallen by 12 days YoY
Gross Margin Index	$+(0.528 \times 0.98)$	0.85	0.99	1.00	0.97	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 47.1% has improved by 0.8ppts YoY
Asset Quality Index	$+(0.404 \times 0.98)$	1.02	0.92	0.62	2.10	0.98	0.98	$[1 - (\text{Curr Ass}_t + \text{PP\&E}_t + \text{Sec}_t) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$	Other LT Assets/Total Assets of 17.7% has fallen by 0.3ppts YoY
Sales Growth Index	$+(0.892 \times 1.11)$	0.87	1.04	1.17	1.13	1.11	1.11	$\text{Sales}_t / \text{Sales}_{t-1}$	12m Trailing Sales have risen 11% YoY
Depreciation Index	$+(0.115 \times 0.90)$	1.08	1.04	0.59	0.91	0.90	0.90	$(\text{Depr}_{t-1} / (\text{PP\&E}_{t-1} + \text{Depr}_{t-1})) / (\text{Depr}_t / (\text{PP\&E}_t + \text{Depr}_t))$	12m Trailing Depreciation/Sales of 28.8% has risen by 2.8ppts YoY
SG&A Index	$-(0.172 \times 1.00)$	1.28	0.89	1.30	1.02	1.00	1.00	$(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$	12m Trailing SG&A/Sales of 42.5% have risen by 0.2ppts YoY
Total Accruals to Total Assets	$-+(4.679 \times 0.09)$	-0.06	-0.06	-0.10	-0.14	-0.09	-0.09	$\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$	Total Accruals (Net Profit less CFO)/Total Assets are -9%
Leverage Index	$-(0.327 \times 1.35)$	1.36	0.80	1.25	1.23	1.35	1.35	$[(\text{Curr Liab}_t + \text{Total LT Debt}_t) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$	LT Debt + Current Liabilities/Total Assets of 30% have fallen by 10.5ppts YoY
Beneish M-Score for Y/FY17	-4.84 =	-3.18	-2.76	-3.25	-2.77	-3.15	-3.15	An M-Score of >-2.22 signals that the company is likely to be a manipulator	Beneish M-Score of -3.15 in Y/FY17 suggests no profit manipulation

Appendix 2: Montier C-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Profit	1	1	0	1	0	0	A growing divergence between Profit and Operating Cash Flow (1 point)	12m Trailing Accruals Margin of 7.9% has improved from 3.8% YoY
Receivables	0	0	0	0	0	0	Receivable Days are increasing (1 point)	Receivables of 51 days have fallen by 12 days YoY
Inventory	1	1	0	0	1	1	Inventory Days are increasing (1 point)	Inventory of 12 days has risen by 0 days YoY
Other current assets	1	1	1	0	0	0	Other Current Assets to Sales are increasing (1 point)	Other Current Assets/Sales of 4% have fallen by 6.2ppts YoY
Depreciation	1	1	0	0	na	na	Depreciation relative to PPE jobs usfa bs	na
Asset growth	0	0	1	0	0	0	High asset growth in excess of 10% (1 point)	Asset growth of 8% is below 10%
Montier's C-Score	4	4	2	1	1	1	Score 0-1 is good; 2-4 is average, 5-6 is bad	A C-Score of 1/6 implies strong financials and unlikely manipulating profit

Appendix 3: Piotroski F-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Net Income Score	0	0	0	0	1	1	Positive Return on Assets in the current year (1 point)	12m Trailing Return on Assets of 7.4%
Operating Cash Flow Score	0	0	1	1	1	1	Positive Operating Cash Flow in the current year (1 point)	12m Trailing CFO Margin of 13.7%
Return on Assets Score	1	0	1	1	1	1	Higher Return on Assets than previous year (1 point)	12m Trailing ROA has risen to 7.4% from -0.5% YoY
Quality of Earnings Score	1	1	1	1	1	1	Operating Cash Flow are greater than ROA (1 point)	12m Trailing CFO Margin of 13.7% is above Net Profit Margin of 5.8%
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 1% from 13% YoY
Current Ratio Score	1	0	1	0	1	1	Higher Current Ratio this year compared to the previous year (1 point)	Current Ratio has risen to 2.4x from 1.74x YoY
Shares Outstanding Score	0	0	0	0	0	0	No new shares were issued in the last year (1 point)	Increased number of shares by 2%
Gross Margin Score	1	1	1	1	1	1	A higher Gross Margin compared to the previous year (1 point)	12m Trailing Gross Margin of 47.1% has improved by 0.8ppts YoY
Asset Turnover Score	0	1	1	1	1	1	A high Asset Turnover ratio compared to the previous year (1 point)	Asset turnover has risen to 1.26x from 1.17x YoY
Piotroski F-Score	5	3	7	6	8	8	Score 0-1 weak and deteriorating; 8-9 strong and improving	An F-Score of 8/9 suggests are very strong and improving

Appendix 4: Altman Z-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Altman Z-Score for a company in emerging markets	Comments
Solvency	3.47	2.32	2.98	2.00	2.77	2.77	Working Capital (Current Assets less Current Liabilities)/Tangible Assets	Ability to meet short term obligations
Cumulative profitability	0.34	-0.12	-0.09	0.23	0.31	0.31	Retained Earnings/Tangible Assets	Determines cumulative historic profitability
Profitability	-0.20	-0.77	0.16	0.40	0.42	0.42	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	0.97	0.59	1.03	1.51	2.37	2.37	Book Value of Equity/Total Liabilities	Leverage
Altman Z-Score for Y/FY17	7.83	5.27	7.32	7.38	9.12	9.12	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 acquisitions
Rise in intangible assets -1yr?	1 point	0	1	0	1	0	0	Either a rise in Intangible Assets over 1 year	na
Material intangibles on balance sheet?	1 point	1	1	1	1	1	1	Or Intangibles are >=50%ile relative to peers	Intangible Assets/Sales of 3% are in the 63%ile
Rise in deferred tax assets -1yr?	1 point	0	0	0	0	1	1	Either a rise in Deferred Tax Asset over 1 year	DTAs have risen by 0.3% of sales to 2.6% of sales
Large deferred tax assets	1 point	1	1	1	0	0	0	Or a large Deferred Tax Asset in the 80%ile relative to industry peers	DTA/Sales of 2.6% is in the 79%ile relative to industry peers
Acquisition Accounting		2	2	2	1	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?	1	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 25% is in the 22%ile relative to global peers
Has high effective interest rate?	1	1	1	1	1	1	Effective Interest Rate is in excess of the 80%ile relative to country peers	Effective Int Rate of 3.6% is in the 87%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 1% is in the 3%ile relative to industry peers
Window Dressing	3	2	2	2	1	1	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?	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	1	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

	Point Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
High operating margin	Critical criteria: 1 point	0	0	0	0	0	0	Operating Margin >80%ile relative to industry peers	A 12m Trailing Operating Margin of 5% is in the 36%ile
High return on production assets		0	0	0	0	0	0	Op Profit/(PPE + Inv) in the >80%ile relative to industry peers	A 12m Return on Production Assets of 23% is in the 66%ile
High level of non-production assets	1 point	1	0	1	0	0	0	(Total Assets-Production Assets)/(COGS or Sales) >80%ile versus peers	Non Production Assets/COGS (or Sales) of 108% is in the 73%ile
Build-up of non-production assets		0	0	0	0	0	0	Increase in Non Prod Assets rel to Sales or COGS >80%ile peers	Non Production Assets/COGS (or Sales) changed by -1% over 1 year
Low dividends and buybacks	1 point	1	1	1	0	1	1	Dividends and Buybacks are less than 30% profit	Dividends and buybacks of 0%
A relatively unknown auditor		0	0	0	0	0	0	Relatively obscure auditor	Well known auditor: Pricewaterhouse Coopers
Incorporation and Domicile	1pt if >1	1	1	1	1	1	1	Different country of incorporation vrs domicile	Country of incorporation (Cayman Islands) is different from domicile (China).
Debt structure		0	0	0	1	0	0	If Short Term Debt >75% Total Debt, or no debt at all	Short term debt is 46% 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	0	0	0	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

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Appendix 8: Excess Capital Raising

(CNYm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Sales	+5,824	+6,047	+7,089	+8,015	+8,874	+35,850
- OPCF	(102)	(489)	+611	+948	+1,212	+2,180
- Capex	(224)	(326)	(370)	(470)	(424)	(1,814)
- Dividends (incl MI at subs)	(24)	(28)	(34)	(42)	+0	(128)
- Buybacks	+0	(2)	+0	(53)	+0	(55)
- (Acquisitions)/disposals	(4)	+0	+0	(2)	+0	(6)
= Net internal cash generation	(353)	(845)	+206	+380	+788	+177
Externally generated cash flows						
- Debt issuance, net	(1,045)	+602	(449)	(365)	(200)	(1,458)
- Equity issuance	+1,482	+3	+1,230	+7	+0	+2,723
= Net external financing	+437	+605	+781	(358)	(200)	+1,266
Net surplus/(deficit)	+84	(240)	+988	+22	+588	+1,442
Net flows/Sales (%)	+1	(4)	+14	+0	+7	4
Relative to Global Sector (%ile):						69%
Av. cash balance/sales (%)	22	19	20	23	25	
Relative to Global Sector (%ile)	76%	72%	74%	79%	81%	
Core cash required (10% of Sales):						263
Surplus cash at year end (cash balance less core cash):						2,266
Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero):						1,442
Possible fake cash/excess cash balance (%):						64
Maintains unusually high Cash Balance at 25% of Sales but otherwise OK.						

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

(CNYm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Balance sheet (BS) debt YE	2,375	1,235	1,673	1,380	854	73
Change in debt: BS		(1,140)	+438	(293)	(526)	(781)
Change in debt: Cash flow (CF)		(1,045)	602	(449)	(365)	(200)
Unrec chg BS and CF debt	(95)	(163)	+156	(161)	(581)	(845)
Unrec chg/total debt (%)	(8)	(10)	+11	(19)	(801)	(1,164)
Possible reason:	ok	ok	CB?	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.						

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Appendix 10: Ownership Type (latest Bloomberg data)

	(%)	Active Versus Passive	
Investment Advisor	61	Free Float (%)	80
Corporation	19	No. Instit. Owners	168
Other	9	Institutional (%)	57
Hedge Fund Manager	9	- Passive Instit. (ETFs) (%)	8
Sovereign Wealth Fund	1	- Active Instit. (%)	49
Other	2		

Appendix 11: Insiders (latest Bloomberg data)

	Comment
Insider Shares O/S (%)	0.40
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)	2,033
Insider Shares Traded -6m/Total Shares (%)	0.00

Appendix 12: Comprehensive Income (latest Bloomberg data)

	(CNYm)	Comment
Comprehensive Income	511	
Less:		
Net Income/Net Profit (Losses)	515	
Other comprehensive income comprised of:		
Foreign Currency Trans. Adj.	(4)	Other comprehensive income is -1% 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	