

GMT Research Accounting Screen



Short Name	Xtep Intl	Description:	Relevant GMT Research Reports (please go to our website and login):
GICS Ind Name	Textiles, Apparel & Luxury Goods	Xtep International Holdings Ltd. designs, manufactures, and markets sportswear. The Company produces footwear, apparel, and accessories.	IN BRIEF: HIDING BAD NEWS?: Sudden departures (4 Jan 2018)
GICS Industry	252,030		
Cntry of Dom	CN		
Most Recent Balance Sheet Period	2017 Y		
Ticker	1368 HK		
Latest Period	Y		
Current Fiscal Year	2017		
Well known auditor:	Ernst & Young		Short-Seller's Report (for Asian companies only)
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	Summary of accounting risk for Y/FY17
Profit Manipulation: Beneish M-Score (See App 1)		Beneish M-Score of -2.44 in Y/FY17 suggests no profit manipulation.	- Profit manipulation Normal
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 Strong: Piotroski.
Financial Position			- General accounting Problematic accounting with 20 red flags
Strength of Financial Position: Piotroski F-Score (App 3)		An F-Score of 6/9 suggests financials are improving.	- Shenanigans Evidence: Fake Cash Flow.
Risk of Default: Altman Z-Score (App 4)		An Altman Z-Score of 11.04 is in the Safe Zone: Financially sound.	= Accounting risk: Medium
Accounting Shenanigans			This spreadsheet expires on 31st Mar 2018, in 82 days.
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 FY13	
Excess Capital Raising (App 8)	Global screen	Net flows over 5yrs at 5% 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 20 red flags in the last financial period which is high.	
Cash Balance		Cash & STI of CNY4bn is extremely high at 73% of sales, in the 97%ile relative to peers, which is a trait of fake cash flow frauds.	
Restricted Cash		Restricted Cash of CNY0.1bn is within normal range.	
Receivables		Large Receivables of CNY1.8bn are equal to 38% of Sales which is in the 97%ile relative to peers, can be a sign of channel stuffing.	
Doubtful Debts		Delinquency at 0% of total receivables are within normal range.	
Payables		Large Payables of CNY1.6bn equal to 30% of Sales are in the 98%ile relative to peers, have grown by 3ppts relative to Sales over the past year which can be a sign of hidden debt and manufactured cash flow.	
Inventory		Inventories of CNY0.7bn have been extended by 6ppts 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 13% of sales owing to higher Inventories and Other ST Assets suggests inflated cash flows and/or profit over the past year.	
Cash Extraction Fraud: Prepaid Expenses		Prepaid Expenses of CNY0.6bn are large relative to sales (11.2%) and inventory (79.7%), 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		There are no investments in associates.	
Auditing Costs		Auditing expenses of 7.7bp of sales within normal range.	
Deferred Tax Assets		Deferred Tax Assets/Sales of 0% are within normal range.	
Deferred Tax Liabilities		Deferred Tax Liabilities/Sales of 8% 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 CNY0.9bn include Unspecified of CNY0.8bn.	
Depn & Amort		Low depreciation at 1.3% of sales suggests that the company might be inflating profit.	
Interest Cover		EBIT Interest Cover of 5.8x is within normal range.	
Leverage		Total Debt/Profit of 4.5x and assets to equity of 1.7x are within normal range.	
Related Party Fraud		No evidence of related party transactions.	
Other Tests:		Evidence of substantial losses at consolidated subsidiaries owing to high effective tax rate and rising deferred tax assets. Evidence of share price manipulation as 20 day MA Bid/Ask VWAP in excess of 60% for 22% of the time over last 6m. No or new CFO. Gross Margin volatility is unusually low at 1.7% in the 5%ile relative to peers which is sometimes a trait of frauds. Has a very large balance sheet with Assets at 167% of Sales in the 87%ile relative to peers.	

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Ratios	Global/Sector/ Country	Xtep Intl 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											(0-100%)	(+/-50%)	(+/-50%)	
Av Cash & Equiv./Sales (%)	GICS Industry	72.9	66.9	76.0	+6.1	-3.1	3.2	10.4	24.0	379	97%	-38%	+30%	Av Cash & Equiv./Sales (%) high. Risen over 1yr. Fallen over 3yrs.
Unrestricted Cash/COGS (%)	GICS Industry	133.6	92.9	110.8	+40.7	+22.8	5.1	16.6	40.3	314	98%	-26%	-6%	Unrestricted Cash/COGS (%) high.
ST Investments/Sales FY (%)	GICS Industry	3.5	11.7	3.2	-8.2	+0.3	0.1	1.6	8.5	172	65%	-46%	+11%	ST Investments/Sales FY (%) present.
Av. Trade & Notes Rec/Sales (%)	GICS Industry	38.2	37.0	27.6	+1.2	+10.6	7.2	12.1	20.0	356	97%	+25%	+45%	Av. Trade & Notes Rec/Sales (%) high. 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	14.0	8.5	11.9	+5.5	+2.1	13.0	19.6	29.8	375	23%	+41%	+15%	Risen over 1yr.
Inventory Days	GICS Industry	75	51	71	+24	+4	62	103	187	314	30%	+38%	-4%	Risen over 1yr.
Finished Goods/Inventory (%)	GICS Industry	74	71	77	+3.0	-2.9	33	60	89	417	63%	+19%	-31%	
Av. Other ST Assets/Sales (%)	GICS Industry	8.9	0.6	2.7	+8.4	+6.3	2.0	3.6	7.4	376	83%	+46%	+40%	Av. Other ST Assets/Sales (%) high. Risen over 1yr. Risen over 3yrs.
PPE/Sales (%)	GICS Industry	16.9	15.2	16.4	+1.7	+0.5	9.2	22.8	45.7	360	39%	+20%	+3%	
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	1.8	1.6	0.9	+0.2	+0.9	0.2	1.5	10.0	249	53%	+15%	+15%	
Deferred Tax Assets/Sales FY (%)	GICS Industry	0.0	0.0	0.0	+0.0	+0.0	0.2	0.9	2.7	277	na	na	na	
Prepaid Expenses/Sales (%)	GICS Industry	11.2	7.6	8.9	+3.6	+2.3	0.3	1.3	3.4	167	96%	+47%	+40%	Prepaid Expenses/Sales (%) high. Risen over 1yr. Risen over 3yrs.
Prepaid Expenses/Inventory (%)	GICS Industry	79.7	88.7	74.5	-9.0	+5.3	1.2	3.7	10.7	99	97%	-47%	+41%	Prepaid Expenses/Inventory (%) high. Risen over 3yrs.
Intangibles/Sales FY (%)	GICS Industry	0.1	0.1	0.0	+0.0	+0.1	0.1	1.0	9.2	316	21%	+14%	+3%	
Av. Other LT Assets/Sales FY (%)	GICS Industry	1.3	0.5	1.3	+0.8	-0.0	0.4	1.8	5.8	332	41%	+27%	-17%	
Av. Assets/Sales (%)	GICS Industry	167	151	159	+16.4	+8.5	65.5	95.1	139.4	380	87%	+34%	+7%	Av. Assets/Sales (%) high. Risen over 1yr.
Balance Sheet: Liabilities and Equity														
Av. Payables (Trade, Bills, Accr/Sales (%)	GICS Industry	29.9	26.4	20.4	+3.4	+9.4	5.3	10.0	15.5	379	98%	+42%	+47%	Av. Payables (Trade, Bills, Accr/Sales (%) high. Risen over 1yr. Risen over 3yrs.
Trade Payable Days	GICS Industry	112	105	84	+7.4	+28.3	24.5	45.6	81.5	348	91%	+29%	+40%	Trade Payable Days high. Risen over 3yrs.
ST Debt/Total Debt (%)	Global	45	100	67	-55.1	-21.7	13.0	44.2	88.3	13,723	50%	-48%	-35%	
Av. Other ST Liabs/Sales (%)	GICS Industry	1.2	1.2	1.4	-0.0	-0.2	3.8	6.8	10.9	380	2%	-5%	-12%	
Av. Deferred Tax Liab/Sales FY (%)	GICS Industry	7.6	7.7	11.5	-0.1	-3.9	0.7	3.6	12.1	256	69%	-31%	-49%	
Av. Other LT Liabs/Sales (%)	GICS Industry	0.0	0.2	1.3	-0.2	-1.3	0.4	1.8	5.1	298	na	na	na	
Preferred Equity/Equity (%)	Global	0.0	0.0	0.0	+0.0	+0.0	0.2	5.1	20.7	908	na	na	na	
Minority/Total Equity (%)	Global	2.0	1.4	0.2	+0.6	+1.8	0.3	2.4	11.4	9,628	46%	+30%	+29%	Risen over 1yr.
Assets/Equity (x)	GICS Industry	1.7	1.6	1.7	+0.0	+0.0	1.4	1.8	2.6	373	42%	+17%	+5%	
Balance Sheet: Other														
Av. GFA/D&A (yrs)	GICS Industry	17.6	18.8	21.6	-1.2	-4.0	8.4	14.3	22.8	371	66%	-33%	-43%	
Restricted Cash/Equity (%)	GICS Industry	1.1	15.9	15.8	-14.8	-14.8	0.1	0.3	5.9	60	63%	-49%	-44%	
Cash Conversion Cycle (Days)	GICS Industry	102	82	88	20	14	70.6	110.2	186.0	312	44%	+33%	+20%	Risen over 1yr.
Av. Gross Working Capital/Sales (%)	GICS Industry	105.9	93.2	85.4	+12.7	+20.5	40.4	53.6	72.2	379	94%	+38%	+37%	Av. Gross Working Capital/Sales (%) high. Risen over 1yr. Risen over 3yrs.
Contingent Liab/Equity (%)	GICS Industry	6.2	7.0	7.1	-0.7	-0.9	2.0	13.6	59.2	253	35%	-10%	-4%	
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	0.1	0.3	-0.1	-0.3	-1.4	0.0	1.1	2,405	na	na	na	
Return on Production Assets (%)	GICS Industry	49.6	84.3	62.0	-34.7	-12.4	4.5	14.9	33.7	382	89%	+47%	+29%	Return on Production Assets (%) high. Fallen over 1yr.
Non-Prod. Assets/COGS FY (%)	GICS Industry	256.3	246.8	9.5	+9.5	+246.8	34.6	67.1	132.2	299	93%	-16%	-48%	Non-Prod. Assets/COGS FY (%) high. Risen over 3yrs.
Gross Debt/Profit (x)	GICS Industry	4.5	2.8	3.8	+1.7	+0.7	0.9	4.0	13.7	306	52%	+24%	+8%	
Income Statement											(0-100%)	(+/-50%)	(+/-50%)	
Sales/Employee (US\$)	GICS Industry	89,122	96,746	96,932	-7,624	-7,811	56,779	148,854	359,649	286	34%	+16%	+9%	
Gross Margin (%)	GICS Industry	43.9	43.2	40.8	+1	+3	15	30	52	322	68%	+2%	-13%	
GM Volatility 5yrs (%)	GICS Industry	1.7					2.9	6.3	20.0	303	5%			GM Volatility 5yrs (%) low.
Other Op Y/Op Y (%)	GICS Industry	14.1	6.3	4.8	+7.8	+9.3	1.8	6.4	20.7	119	72%	+36%	+32%	Risen over 1yr. Risen over 3yrs.
D&A/Sales T12M (%)	GICS Industry	1.3	1.1	1.0	+0.2	+0.4	1.4	2.8	4.7	376	81%	-18%	-14%	D&A/Sales T12M (%) low.
Operating Margin T12M (%)	GICS Industry	13.0	16.6	14.5	-3.6	-1.6	2.8	7.2	14.9	374	73%	+37%	+11%	Fallen over 1yr.
Non-Op Y/Op Y (%)	GICS Industry	19.2	13.3	23.0	+5.9	-3.7	2.9	10.4	36.5	329	67%	+22%	-22%	
EFF Int Rate less MLR (ppt)	Country	2.4	2.6	-0.8	-0.2	+3.2	-2.9	-0.5	1.1	2,032	89%	-15%	+37%	EFF Int Rate less MLR (ppt) high. Risen over 3yrs.
Cash Return less Policy Rate (ppt)	Country	-0.1	-0.1	-1.6	-0.0	+1.5	-2.2	-1.5	-0.2	2,145	81%	-5%	+31%	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	33.5	33.8	36.9	-0.4	-3.5	13.3	19.2	27.2	2,043	89%	-10%	-28%	Eff Tax Rate (%) high.
CF Tax/IS Tax (%)	GICS Industry	115.5	84.9	116.9	+30.6	-1.3	64.9	98.7	151.1	285	35%	-21%	+4%	
X Items/Op Y (%)	Global	0.0					0.8	6.2	37.4	1,297	na			
Minority Int/Profit B4 MI (%)	Global	8.6	7.9	1.6	+0.7	+6.9	-0.1	1.8	12.8	8,362	73%	+17%	+34%	Risen over 3yrs.
Net Income Margin (%)	GICS Industry	8.0	9.8	10.0	-1.8	-2.0	1.3	4.7	11.2	383	32%	+26%	+19%	
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	0.5	0.3	0.2	+0.2	+0.4	0.9	4.0	16.7	728	13%			
EBIT Interest Cover (x)	GICS Industry	5.8	8.3	8.5	-2.4	-2.7	1.7	7.4	41.1	351	56%	+22%	+18%	

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Ratios		Global/Sector/ Country			Xtep Intl Ratios		Ratio Change		Peer Group Comparison Ratios				Percentiles and Red Flags			Red Flag Comment	
		Y/FY17	Y/FY16	Y/FY14	-1yr Chg	-3yr Chg	20th %ile	50th %ile	80th %ile	No of Peers	Y/FY17	-1yr Chg	-3yr Chg				
Cash Flow															(0-100%)	(+/-50%)	(+/-50%)
CFO/Net Profit (x)	GICS Industry	1.5	0.7	0.4	+0.8	+1.1	0.3	1.1	2.2	1,697	33%	-23%	-26%	Decrease Investments/Sales (%) high. Other Investing Activities/Sales (%) high.			
Cash Interest Exp./CFO (%)	GICS Industry	16.7	26.9	32.9	-10.2	-16.2	0.2	4.8	25.8	271	71%	-30%	-33%				
Capex/Sales (%)	GICS Industry	3.4	2.1	2.2	+1.3	+1.2	1.4	3.2	7.2	371	51%	+29%	+23%				
Decrease Investments/Sales (%)	GICS Industry	8.4	0.0	0.0	+8.4	+8.4	0.0	0.5	4.8	141	83%						
Other Investing Activities/Sales (%)	GICS Industry	7.5	9.2	11.4	-1.7	-3.9	0.1	1.1	4.4	292	87%						
Debt Repay/ST Debt -1FY (%)	Global	78	84	71	-5.8	+7.2	20.0	88.4	210.9	10,373	46%	-12%	+7%				
Free Cash Flow Margin (%)	GICS Industry	8.8	5.1	2.2	+3.7	+6.6	-4.2	2.4	8.7	377	20%	-17%	-25%				
FCF-Divs/Sales (%)	Global	3.5	-2.2	-3.9	+5.7	+7.4	-7.2	0.9	6.8	10,563	34%	-27%	-27%				
No. of Mat. Capital Inc -5yrs	Global	0					0.0	0.0	1.0	9,451	na						
Other Fin. Activities/Sales (%)	GICS Industry	0.1	0.4	0.0	-0.3	+0.1	0.0	0.3	1.4	329	29%						
Corporate Governance															(0-100%)	(+/-50%)	(+/-50%)
Auditing Exp/Sales (bp)	GICS Industry	7.7					2.5	6.3	13.2	179	58%						
RPT Balances/Equity (%)	Global	0.0					0.3	1.9	11.0	1,434	na						
Number of Acq&Disp -5yrs	Global	1					0.0	3.0	5.0	12,251	36%						
Acq&Disp Con./Sales Av. -5yrs (%)	Global	0.0					0.2	1.4	6.9	12,251	2%						
Executive Comp/Sales (bp)	GICS Industry	na					7.4	22.6	73.1	84	na						
Executive Comp/PTP (bp)	GICS Industry	na					67.6	188.6	669.0	84	na						
CEO Tenure (yrs)	Global	na					1.4	4.5	10.8	5,466	na						
CFO Tenure (yrs)	Global	na					1.1	3.3	8.3	716	na						
Av. Executive Tenure (yrs)	Global	na					4.1	7.4	11.9	3,291	na						
Av. Board Tenure (yrs)	Global	na					3.9	6.4	9.9	3,672	na						

Source: GMT Research, Bloomberg

Summary of financials in Y/FY17

		Result: Very poor score. High number of red flags.	Explanation
Average Ratio Percentile Score (0 is good, 100 is bad)	59%	In Y/FY17, Xtep Intl recorded an average percentile score (0 is good, 100 is bad) of 59% across all 75 financial ratios listed below. This places it in a percentile of 90 relative to around 379 GICS industry peers globally, which is a very unusual result.	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)	90%		
Number of Red Flags (Out of a possible 75)	20	The company triggered a total of 20 red flags out of 75 placing it in a percentile of 84 relative to our sample of 16,000 companies globally, which is a very unusual result.	
- Percentile vs Global Peers (0% is good, 100% is bad)	84%		

Summary of change in financials over 1 year

		Result: High number of red flags.	Explanation
Number of Red Flags (Out of a possible 62)	13	Over the financial year prior to Y/FY17, Xtep Intl triggered a total of 13 red flags out of 62 placing it in a percentile of 81 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)	81%		

Summary of change in financials over 3 yrs

		Result: High number of red flags.	Explanation
Number of Red Flags (Out of a possible 62)	13	Over the 3 financial years prior to Y/FY17, Xtep Intl triggered a total of 13 red flags out of 62 placing it in a percentile of 86 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)	86%		

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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	$+(0.92 \times 1.03)$	1.25	1.10	1.16	1.16	1.03	1.03	$(\text{Net Receivables}_t / \text{Sales}_t) / (\text{Net Receivables}_{t-1} / \text{Sales}_{t-1})$	Receivables of 140 days have increased by 4 days YoY
Gross Margin Index	$+(0.528 \times 0.98)$	1.01	0.99	0.96	0.98	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 43.9% has improved by 0.7ppts YoY
Asset Quality Index	$+(0.404 \times 1.34)$	3.31	0.57	2.20	0.42	1.34	1.34	$[1 - (\text{Curr Ass}_t + \text{PP\&E}_t + \text{Sec}_t) / \text{Assets}_t] / [1 - ((\text{Curr Ass}_{t-1} + \text{PP\&E}_{t-1} + \text{Sec}_{t-1}) / \text{Assets}_{t-1})]$	Other LT Assets/Total Assets of 1.9% has increased by 0.5ppts YoY
Sales Growth Index	$+(0.892 \times 0.95)$	0.78	1.10	1.11	1.02	0.95	0.95	$\text{Sales}_t / \text{Sales}_{t-1}$	12m Trailing Sales have fallen -5% YoY
Depreciation Index	$+(0.115 \times 0.92)$	1.00	1.11	0.80	1.02	0.92	0.92	$(\text{Depr}_{t-1} / (\text{PP\&E}_{t-1} + \text{Depr}_{t-1})) / (\text{Depr}_t / (\text{PP\&E}_t + \text{Depr}_t))$	12m Trailing Depreciation/Sales of 7.1% has risen by 0.6ppts YoY
SG&A Index	$-(0.172 \times 0.84)$	0.92	0.86	0.98	1.00	0.84	0.84	$(\text{SG\&A Expense}_t / \text{Sales}_t) / (\text{SG\&A Expense}_{t-1} / \text{Sales}_{t-1})$	12m Trailing SG&A/Sales of 32.8% have risen by 5.1ppts YoY
Total Accruals to Total Assets	$-+(4.679 \times 0.02)$	-0.02	0.03	-0.03	0.02	-0.02	-0.02	$\text{Profit from Continuing Ops}_t - \text{Cash Flows from Ops}_t / \text{Total Assets}_t$	Total Accruals (Net Profit less CFO)/Total Assets are -2%
Leverage Index	$-(0.327 \times 0.94)$	0.88	0.92	0.99	1.03	0.94	0.94	$[(\text{Curr Liab}_t + \text{Total LT Debt}_t) / \text{Total Ass}_t] / [(\text{Curr Liab}_{t-1} + \text{Total LT Debt}_{t-1}) / \text{Total Ass}_{t-1}]$	LT Debt + Current Liabilities/Total Assets of 39% have risen by 2.2ppts YoY
Beneish M-Score for Y/FY17	-4.84 =	-1.55	-2.26	-1.94	-2.49	-2.44	-2.44	An M-Score of >-2.22 signals that the company is likely to be a manipulator	Beneish M-Score of -2.44 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 4.2% has improved from -2.6% YoY
Receivables	1	1	1	1	1	1	Receivable Days are increasing (1 point)	Receivables of 138 days have increased by 4 days YoY
Inventory	1	0	0	1	1	1	Inventory Days are increasing (1 point)	Inventory of 14 days has risen by 6 days YoY
Other current assets	1	0	0	0	1	1	Other Current Assets to Sales are increasing (1 point)	Other Current Assets/Sales of 25% have risen by 4.6ppts YoY
Depreciation	1	1	0	1	0	0	Depreciation relative to PPE jobs usfa bs	Depreciation of 17.6yrs has fallen by 1.2yrs YoY
Asset growth	1	0	0	0	0	0	High asset growth in excess of 10% (1 point)	Asset growth of 9% is below 10%
Montier's C-Score	6	3	1	4	3	3	Score 0-1 is good; 2-4 is average, 5-6 is bad	A C-Score of 3/6 is average

Appendix 3: Piotroski F-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Net Income Score	1	1	1	1	1	1	Positive Return on Assets in the current year (1 point)	12m Trailing Return on Assets of 4.8%
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 12.2%
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 4.8% from 6.5% YoY
Quality of Earnings Score	1	0	1	0	1	1	Operating Cash Flow are greater than ROA (1 point)	12m Trailing CFO Margin of 12.2% is above Net Profit Margin of 8%
Long-Term Debt to Assets Score	0	0	1	1	0	0	Lower ratio of Long Term Debt than previous year (1 point)	LT Debt/Total Assets has risen to 21% from 18% YoY
Current Ratio Score	0	1	0	1	1	1	Higher Current Ratio this year compared to the previous year (1 point)	Current Ratio has risen to 3.17x from 2.38x YoY
Shares Outstanding Score	1	1	0	0	1	1	No new shares were issued in the last year (1 point)	Increased number of shares by 0.2%
Gross Margin Score	0	1	1	1	1	1	A higher Gross Margin compared to the previous year (1 point)	12m Trailing Gross Margin of 43.9% has improved by 0.7ppts YoY
Asset Turnover Score	0	1	1	0	0	0	A high Asset Turnover ratio compared to the previous year (1 point)	Asset turnover has fallen to 0.6x from 0.66x YoY
Piotroski F-Score	4	6	7	5	6	6	Score 0-1 weak and deteriorating; 8-9 strong and improving	An F-Score of 6/9 suggests financials are improving

Appendix 4: Altman Z-Score

	FY13	FY14	FY15	FY16	FY17	Y/FY17	Altman Z-Score for a company in emerging markets	Comments
Solvency	4.84	3.49	3.30	3.36	3.96	3.96	Working Capital (Current Assets less Current Liabilities)/Tangible Assets	Ability to meet short term obligations
Cumulative profitability	1.82	1.77	1.84	1.88	1.77	1.77	Retained Earnings/Tangible Assets	Determines cumulative historic profitability
Profitability	0.73	0.59	0.69	0.74	0.50	0.50	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	1.69	1.57	1.58	1.67	1.55	1.55	Book Value of Equity/Total Liabilities	Leverage
Altman Z-Score for Y/FY17	12.34	10.68	10.66	10.91	11.04	11.04	Anything <1.81 for a manufacturer or <1.11 for other companies is problematic	Safe Zone: Financially sound

Appendix 5: Acquisition Accounting

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	Point Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	Comments
Material acquisition?	1 point	0	0	0	0	0	0	An acquisition in excess of 5% of sales.	No recent acquisitions
Rise in intangible assets -1yr?	1 point	0	1	1	1	1	1	Either a rise in Intangible Assets over 1 year	Intangibles Assets have risen by 0ppts of sales to 0% of sales
Material intangibles on balance sheet?		0	0	0	0	0	0	Or Intangibles are >=50%ile relative to peers	Intangible Assets/Sales of 0% are in the 21%ile
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	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

	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 78% is in the 46%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 6.8% is in the 95%ile relative to country peers
Has moderate debt?	1	1	1	1	1	1	If Debt to Sales >15%ile of industry peers	Debt/Sales of 36% is in the 70%ile relative to industry peers
Window Dressing	2	2	2	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?	0	0	1	0	1	1	If Invest Repay/Sales in excess of the 80%ile relative to industry peers	Inv. Repayment/Sales of 8% is in the 83%ile relative to industry peers
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 63%
Window Dressing Investments	0	0	0	0	0	0	A score of 2 suggests a strong possibility of window dressing	Unlikely to be window dressing investments

Appendix 7: Fake Cash Flow

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	Point Calculation	FY13	FY14	FY15	FY16	FY17	Y/FY17	Point Calculation	
High operating margin	Critical criteria: 1 point	1	0	1	1	0	0	Operating Margin >80%ile relative to industry peers	A 12m Trailing Operating Margin of 13% is in the 73%ile
High return on production assets		1	1	1	1	1	1	Op Profit/(PPE + Inv) in the >80%ile relative to industry peers	A 12m Return on Production Assets of 50% is in the 89%ile
High level of non-production assets	1 point	1	1	1	0	1	1	(Total Assets-Production Assets)/(COGS or Sales) >80%ile versus peers	Non Production Assets/COGS (or Sales) of 256% is in the 93%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 25% 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 66%
A relatively unknown auditor		0	0	0	0	0	0	Relatively obscure auditor	Well known auditor: Ernst & Young
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	0	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	3	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

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(CNYm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Sales	+4,343	+4,778	+5,295	+5,397	+5,113	+24,926
- OPCF	+757	+210	+873	+388	+623	+2,851
- Capex	(202)	(108)	(80)	(114)	(177)	(681)
- Dividends (incl MI at subs)	(428)	(288)	(317)	(394)	(271)	(1,697)
- Buybacks	+0	+0	(120)	+0	+0	(120)
- (Acquisitions)/disposals	+4	+0	+0	+0	+0	+4
= Net internal cash generation	+131	(186)	+356	(120)	+175	+356
Externally generated cash flows						
- Debt issuance, net	+503	+301	(308)	(228)	+421	+689
- Equity issuance	+1	+2	+36	+62	+7	+109
= Net external financing	+504	+303	(272)	(165)	+428	+798
Net surplus/(deficit)	+635	+117	+84	(286)	+603	+1,154
Net flows/Sales (%)	+15	+2	+2	(5)	+12	5
Relative to Global Sector (%ile):						70%
Av. cash balance/sales (%)	78	76	71	67	73	
Relative to Global Sector (%ile)	97%	97%	97%	96%	97%	
Core cash required (10% of Sales):						418
Surplus cash at year end (cash balance less core cash):						3,595
Possible fake cash flow over past 5yrs (only if 5yr surplus is greater than zero):						1,154
Possible fake cash/excess cash balance (%):						32
Maintains unusually high Cash Balance at 73% of Sales but otherwise OK.						

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

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(CNYm)	FY13	FY14	FY15	FY16	FY17	FY13-17
Balance sheet (BS) debt YE	1,045	1,529	1,849	1,611	1,502	1,850
Change in debt: BS	+484	+320	(238)	(109)	+348	+805
Change in debt: Cash flow (CF)	503	301	(308)	(228)	421	+689
Unrec chg BS and CF debt	(20)	+19	+69	+119	(72)	+115
Unrec chg/total debt (%)	(1)	+1	+4	+8	(4)	6
Possible reason:	ok	ok	ok	None.	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	
Investment Advisor	96	Free Float (%)	40
Individual	1	No. Instit. Owners	75
Holding Company	1	Institutional (%)	74
Sovereign Wealth Fund	1	- Passive Instit. (ETFs) (%)	6
Pension Fund (ERISA)	0	- Active Instit. (%)	68
Other	0		

Appendix 11: Insiders (latest Bloomberg data)

		Comment
Insider Shares O/S (%)	1.12	
Chg Insider Hldgs -6m (%)	38.82	Changes in insider holdings can be due to options, etc. as opposed to actively buying or selling
Number of Insider Shares Purchased (m)	+7.0	shares
Number of Insider Shares Sold (m)	+0.0	
Average Purchase Price of Insider Shares	2.92	Current share price is HKD4.43
Average Sell Price of Insider Shares	0.00	
Shares Outstanding (m)	2,223	
Insider Shares Traded -6m/Total Shares (%)	0.00	

Appendix 12: Comprehensive Income (latest Bloomberg data)

	(CNYm)	Comment
Comprehensive Income	486	
Less:		
Net Income/Net Profit (Losses)	408	
Other comprehensive income comprised of:		
Foreign Currency Trans. Adj.	77	Other comprehensive income is 19% 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)	