Report Summaries

CARILLION (CLLN LN): Worrying parallels — July 2017

You might be wondering what a UK contractor's woes have to do with Asia. First, Carillion's has a similar supplier payment arrangement to Sinopharm but, unlike Sinopharm, it does not reclassify repayments as a financing activity which materially overstates Sinopharm's operating cash flow. This re-enforces the view presented in our recent report that Sinopharm's cash flow statement misrepresents its financial position. Second, Carillion's surprise share price collapse shows that subjective contract accounting can inflate reported profits and asset prices. It is only when banks want their money back that shareholders find out there's nothing left. The UK contractors might look bad, but they are pillars of virtue compared to the Chinese ones, as highlighted by our recent infrastructure report.

SINOPHARM (1099 HK): SELL: Not what it seems — July 2017

Sinopharm is not the lowly geared, cash generative company it seems. Operating cash inflows have been entirely manufactured through two methods: First, trade creditor repayments have been reclassified from operating cash flows to financing activities...an accounting first. Second, the company has sold ever greater quantities of receivables. Adjust for this and there are no operating cash inflows while leverage is worryingly high. Add into the mix the pursuit of growth through acquisitions, reduced financial disclosure, management's failure to address our concerns, and we believe that the stock is virtually uninvestable. For those wishing to short, there is likely at least 30% downside to HK$24/share.

THE DIRTY DOZEN: Stocks to avoid in Asian infrastructure — June 2017

Competition for infrastructure has grown, project returns fallen and policy interference is rife in Asia. However, against this backdrop, some Asian infrastructure companies have been able to offer strong growth and decent ROEs. Unfortunately for investors, most owe their superior financial performance to the aggressive application of accounting policies rather than infrastructure investment prowess.

ASIAN SHORT-SELLERS: The Bogeyman Is Coming... — June 2017

The number of anonymous short-seller reports targeting Hong Kong listed companies is likely to rise, primarily due to their low quality which is, in part, a result of regulatory shortcomings. While the win rate of short-sellers is very high, not all are equal. Investors should be particularly concerned with Emerson and Glaucus given the high quality of their research and level of success. However, there is some hope for investors: Companies accused by short-sellers of Fake Cash Flow Fraud all score poorly under our scoring system and we urge investors to check their stocks with our Accounting & Governance Screen. Within this report, we highlight some of Hong Kong's regulatory short-comings, assess short-sellers operating in Asia, providing links to their reports and our screens.

MAN WAH (1999 HK): Comfortably profitable or heavily padded? — June 2017

Sofa maker Man Wah has been targeted by short-seller Muddy Waters over its profitability, taxes, export sales and debt. So far, the main publically available accusations levelled (via twitter) concerning undisclosed debt appear to lack credibility. In management's favour, it has lifted the stock's suspension after issuing a speedy and robust rebuttal. Furthermore, the amounts of cash Man Wah has returned to shareholders via dividends and share buybacks are inconsistent with past frauds. However, our Accounting & Governance Screen reveals some fraud like traits within its financials, such as the build-up of non-production assets, window dressing of heavy trading activity, deteriorating working capital and a reliance on short term debt. Muddy Waters' accusations might not be particularly convincing at this stage, but there are some problems with financials.

COGOBUY (400 HK): Cause for Concern — May 2017

Blazing Research may be a newcomer to the anonymous short-selling game, but its report on CogoBuy has credibility in key areas. The company's founder has been accused of asset stripping his NASDAQ listed company, Viewtran, to the detriment of minorities, and then re-listing the assets in Hong Kong as CogoBuy. He is also accused of perpetuating Fake Cash Flow frauds at both CogoBuy and Viewtran. We have been able to verify the sequence of events that allowed Mr Kang to legally, if somewhat unethically, transfer these assets. The company's rebuttal failed to address concerns. What's to say he won't repeat it? Meanwhile, our analysis of CogoBuy's financials is less conclusive but still suggests that they share some common features with past frauds. Shareholders have reason to worry.

Report Summaries

AAC TECHNOLOGIES (2018 HK): Dissecting Gotham **May 2017**

Gotham Research has followed its initial teaser on AAC Technologies (May 11th) with a more detailed report (May 19th) alleging the use of undisclosed related parties to overstate profits, smooth earnings and evade Apple's labour standards. The evidence that AAC has overstated its profits is circumstantial and, in our view, not entirely convincing. Nonetheless, AAC needs to explain its relationship with these parties even if there is nothing untoward. We have found no major issues from our analysis of AAC's financials although certain items (such as loans to suppliers) require further explanation. The company announced that it will release a "clarification announcement" responding to the allegations as soon as practicable. Gotham's report is titled "Part I" suggesting further allegations or evidence may be forthcoming.

FAKING CASH FLOWS: And How to Spot it **May 2017**

It's every fund manager's nightmare to discover that a holding has been targeted by a short-seller alleging fraud. Our analysis of over 80 previous fake cash flow frauds shows some recurring similarities, such as superb profitability combined with low levels of debt, and yet a stingy attitude towards dividends. In this report, we discuss our scoring system that correctly identifies 73% of historic frauds but is triggered by less than 1% of all listed companies globally – except for China and Hong Kong where it is 6-7%. Our short list of 25 potential Asian frauds (excluding A-Shares) discussed in this report includes SMC, Sino Biopharm, 51Job, Luye Pharma and others… Video summary

CHINA SHENGMU (1432 HK): More Spilt Milk **May 2017**

Organic dairy producer, China Shengmu, may be the next scandal unfolding in Hong Kong, and the second dairy producer to become embroiled this year. A joint announcement claimed that Yili's acquisition of Shengmu had fallen through owing to regulatory disapproval. Just a few days later, the regulator announced that this was not the case. Digging into Shengmu's newly released annual report and the auditor makes it clear that a material receivables problem has recently emerged. Furthermore, our Accounting & Governance Screen highlights a fake cash flow red flag, something that is triggered by less than 1% of all companies…

FULLSHARE HOLDINGS (607 HK): Manufactured Bubble? **April 2017**

Well, that was annoying. We had been planning to issue a brief note on Fullshare given the 200x increase in its market cap since its backdoor listing but were beaten to it. The well-known short-seller, Glaucus Research, issued a report on 25th April claiming that it is "one of the largest stock manipulation schemes…anywhere in the world". While we are in broad agreement with the conclusions, our view on the details is slightly different. Fullshare's shares have been suspended (at the company's request) pending a clarification announcement, giving it time to regroup. We thought it would be worthwhile giving our views on the report's key points, as well our own opinion on the stock. Our main concern is that the company's shareholder base has been controlled since its listing. We suspect that following the acquisition of China High Speed Transmission in 2016, it may be attempting to transition into a "normal" company. However, it remains significantly overvalued, trading on an estimated pro forma P/E of around 100x. Nonetheless, investors should be cautious about shorting the stock given the risk of share price manipulation.

MSCI CHINA A INDEX: How do its Constituents Stack Up? **April 2017**

For many investors, the emergence of China's A-Shares as an asset class is both a threat and an opportunity. How to get to grips with 1,800 additional companies which have almost no track record and limited coverage? To help address this, we have put the 115 non-financial constituents of the China A-Share Index through our Accounting and Governance Screen. To give some perspective, we grade the financials in terms of quality and then check for more specific criteria such as profit manipulation (Beneish, Montier, etc.), financial stress (Piotroski and Altman), abuse of acquisition accounting, possible fake cash flow frauds, obscure auditors and share price manipulation. We have provided links to individual companies. Believe it or not, there are fourteen companies with a pretty clean bill of health, but a few horror stories as well.

Report Summaries

CHINA GREENLAND (1253 HK): SELL: The Government's Unpaid Gardener — March 2017

Shares pledged by Huishan Dairy and Hanergy founders created an incentive to manipulate profits and share prices. We worry that this is also the case with landscaping company, China Greenland Broad Greenstate (CGBG). Either the company's business model is extremely poor or something more sinister is afoot. CGBG generates most of its profits from unbilled revenues, resulting in ballooning receivables and operating cash outflows. This subjective accounting might explain why it is nominally so profitable: Margins are far higher than competitors, and rising, whilst peers' are falling. Primarily dependent on the continued health of the property sector and with just two large customers, the stock is expensive on 26x trailing PER. Sell or Short with more than 50% downside.

FOREIGN DEBT: Chinese Currency Manipulators — March 2017

A large number of overseas-listed Chinese companies have been able to avoid recognising foreign exchange losses on their foreign debt by adopting what we think are inappropriate functional currencies. The culprits include major tech stocks, such as Alibaba, Baidu, Tencent and Ctrip. Based on our analysis, 80% of Hong Kong and US-listed Chinese companies have some form of foreign currency debt. Of those that do, for nearly a quarter it represented more than 90% of their total borrowings. A significant minority have foreign currency debt greater than their market value which makes them extremely vulnerable to even a moderate decline in the renminbi. These are mainly property developers and airlines, including Shui On Land and China Southern. Other companies have a potentially toxic combination of high leverage and large amounts of foreign debt, including China Eastern, Yanzhou Coal and Biostime. Video summary

ZTO EXPRESS (ZTO US): SELL: Damaged Goods — February 2017

Parcel company, ZTO Express, delivers supernormal returns despite no apparent competitive advantage in an intensely challenging and commoditised industry. Alibaba accounts for 75% of its business but is building out its own delivery network and has invested in competitor YTO Express, which threatens longer-term prospects. Meanwhile, three-quarters of the delivery value chain is operated by ZTO's related partnership networks that we think are barely profitable. Finally, a third of its trucking fleet is held by ZTO appointed employees but not consolidated. Overpriced at 32x 2016e PER, our conservative target price of US$10/share implies downside of 29%. Sell or Short. Video summary

GRADING FINANCIALS: Is Hong Kong Asia's ticking time bomb? — February 2017

Where globally are you likely to find the most problematic financial statements and where will you find the best…and which companies are they? Where are companies most likely to be manipulating profits, or least likely? In which markets are companies looking the most financially distressed? In developing our newly launched Accounting Screen, we scored 3,000 companies in Asia and 16,000 globally using traditional mathematical models such as Beneish's M-Score, Altman's Z-Score, etc. It may be surprising that Hong Kong scores the worst globally, closely followed by China. Of greater comfort is that Japan, Thailand and Indonesia all score well. Video summary

ACCOUNTING SCREEN: Launching of our βeta model — January 2017

We are pleased to launch the βeta version of our Accounting and Governance Screen which is an Excel-based spreadsheet linked into Bloomberg. This means our subscribers can now check any company globally for more than 60 potential accounting and corporate governance red flags. Importantly, it not only quantifies whether a ratio is unusual relative to its global industry peer group, but whether the one or three year change in that ratio is unusual. After all, incremental changes are arguably more important than the outstanding number. It incorporates well-known mathematical models aimed to highlight profit manipulation, such as Beneish's M-Score and Altman's Z-Score, plus a few of our own. Video summary

Report Summaries

MANIPULATING PROFITS: Pou Sheng: Risks lie to the downside **January 2017**

Pou Sheng has revealed that its CFO was caught inflating December's sales and has fired him. Subsequently, the company's CEO has resigned. It is unlikely the CFO was acting alone especially as he had no disclosed shareholding in the firm, unlike its CEO who has a relatively small holding. The company's auditors, Deloitte, have been asked to conduct a thorough review of the accounts which must raise concerns that more gremlins are uncovered. Our accounting scan not only suggests that profit manipulation was possible before December's incident in 1H16, but raises concerns over the possibility of cash being extracted through prepayments. We think risks still lie to the downside for Pou Sheng's share price.

GUEST SERIESS: A Trifecta of Three Small Banks **January 2017**

We've taken a detour from our usual accounting research to high three under-loved and overlooked small banks in this Guest Series report from Daniel Tabbush. BTPN in Indonesia and Heartland in New Zealand dominate niche markets, resulting in super-profitable net interest margins with low credit costs. Meanwhile, PNB in the Philippines is a turnaround story with improving growth prospects. Although market capitalisation only ranges from US$500m up to US$1.4bn, there is 40-90% upside.

MANIPULATING PROFITS: Huishan Dairy and SMC **January 2017**

We've put SMC and Huishan Dairy though our new accounting screen following the publication of recent short-sellers' reports that allege fraud. Both companies trigger an alarmingly high number of red flags which suggests profitability could be over-stated and cash is fake. As such, there would appear to be merit in both reports. Our accounting screen can check any company globally, for any accounting period, anywhere, so feel free to send us a short list of tickers that you would like checked. The good news is that by the end of January we will be able to provide you with your own version of this tool.

CHINA EVERGRANDE: Auditors Asleep **December 2016**

Failed projects, abandoned hotels, empty car parking spaces, deserted shops…the list goes on. Evergrande adopted a "build it and they will come" business model – except that they didn't come. Indeed, nearly a fifth of properties ever completed remain unsold, while dead assets account for around a third of total assets excluding cash, a consequence of management's lack of investment discipline. And yet Evergrande's financial statements show no evidence of ever taking any write-downs. Are its auditors asleep? Current attempts to outgrow its problems will only compound them. Our calculations suggest asset write-downs of RMB150bn (US$23bn) are needed, 3x shareholders' equity. The company is insolvent by our reckoning and its equity worth nothing. Still, the offshore debt may be a better short than its equity. Video summary

GOODWILL HUNTING: Using acquisition accounting to inflate earnings **November 2016**

We estimate that CKH Holdings (CKHH) has inflated profits by 20-25% through its uniquely aggressive use of acquisition accounting. Although permissible, the degree to which it has utilised these loopholes is unprecedented and undermines the understanding of reported profit. But CKHH is not alone. Our scan of 1,700 Asian companies highlights two others employing aggressive acquisition accounting, namely, Lenovo and SoftBank. Meanwhile, companies which should arguably impair their goodwill include Li & Fung, Takeda Pharmaceutical, GMR Infrastructure and China National Building. Video summary

GLOBAL EVALUATION: Suspended Disbelief **October 2016**

It's not the recently failed military coup that makes Turkey the world's riskiest corporate sector but its high capex, large free cash outflows and rising leverage. A major shorting opportunity could arise. After Turkey, China and India is where we are most concerned. The corporate sector will be unable to facilitate an investment upcycle in either market for a number of years. Investors are in a state of suspended disbelief. Recent trends in Vietnam and Singapore are also of concern. However, our analysis of 40,000 companies across 41 markets over the past ten years suggests that there's little to be worried about. Closer to home and the ASEAN-4 look fine while Korea has posted a remarkable recovery. Video summary

Report Summaries

BENEFITS STREET: Subsidies to Chinese companies are ballooning **September 2016**

Benefits Street – a notorious UK TV show – depicted a street in Britain where residents had become dependent on government handouts. Our research into Chinese corporates shows an increasingly similar picture. We estimate almost a quarter of Chinese companies (ex-financials, property) derived at least 20% of profit from direct subsidies. Hidden subsidies mean we are likely underestimating the full impact. Shareholders should not pay demanding valuations for companies reliant on government largesse. Spring Airlines, ZTE, Beijing Capital Int'l Airport and Geely Autos are some of the companies highlighted in our report. Video summary

SINGAPORE BANKS: Safe haven no longer **August 2016**

The Singaporean banking sector is not the safe-haven it used to be. Material exposure to rising defaults from the Singaporean energy sector will lead to higher provisions. Aggressive expansion into China and India has yielded sub-par returns and is now beginning to manifest itself in rising NPLs. Meanwhile, the banks have far greater exposure to off-balance sheet liabilities and market risk than most regional peers. Despite all of this, provisions are below long-term historic averages. Instead of being conservative, the banks look to have been reckless. Significant earnings and capital risk exist. Underweight the sector and Sell DBS with 35% downside to S$9.9/share. Video summary

RELATED PARTY TRANSACTIONS: Family Games in ASEAN **August 2016**

Around 95% of all companies1 in ASEAN recorded some form of related party transaction in 2015, including every Thai company. In this report, we detail each transaction and then delve into 11 companies with the greatest exposure. We find Indonesian consumer companies with exclusive distribution agreements with their unlisted parents (Mayora), Malaysian conglomerates trading assets between listed and unlisted divisions (Hap Seng C) and some questionable transactions in the Philippines (Starmalls). However, it is CK Group in Thailand where we have the greatest concerns that related party transactions have masked weak underlying financials. Video summary

HONG KONG AUDITORS: Acting in your best interests? **August 2016**

With the depreciation of the renminbi accelerating over the last twelve months, Chinese property developers have suffered substantial exchange losses on their foreign currency debt. A number of companies, all audited by PWC, have started to capitalise these losses as part of borrowing costs. In our view, this accounting treatment is highly questionable. Having booked substantial profits in previous years when the renminbi was appreciating, the companies are capitalising losses now it is falling. It also highlights the role played by the companies' auditors, enabling them to present their financial statements in the most flattering light. Video summary

CHINESE PROPERTY DEVELOPERS : Weak Foundations **July 2016**

The report exposes many of the accounting tricks being used to understate leverage in this sector ....and even then it remains one of the most highly leveraged sectors globally. Deteriorating terms of trade suggest that the sector is in the later stages of the cycle. It is, therefore, worrying that an almost tripling of assets over the past five years has been almost entirely debt financed. Balance sheets are not structured to weather an economic downturn but are positioned for aggressive growth that is already beginning to wane Many Chinese property developers have significant quantities of hidden debt, which means that gearing is materially higher than reported, as became clear with Kaisa following its default. While most investors recognise that the developers are heavily indebted, this tells only half the story. Companies are inflating equity and reducing leverage through investment property revaluations, the accumulation of capitalised interest and "dead" assets that have not been written down. **Video summary**

BANKS: Interest cover in India and China **June 2016**

Around half of the debt in our Indian and Chinese samples is held by companies that are barely able to service interest expenses. This combined with weakening economic indicators suggests that NPLs have to rise further in both markets. While the solvency characteristics of these markets appear similar, reported NPLs of 1.6% in China are just a fraction of India's 6%. It is also contradictory that not one listed Chinese bank reported a profit decline in 2015, compared to widespread declines and losses at the Indian banks. NPLs have far more to rise and profits much further to fall. **Video summary**

Report Summaries

ASIAN AIRCRAFT LEASING: Why returns are uncertain and risks rising **June 2016**

Recent IPOs might have put aircraft leasing back on investors' radars but it's a highly commoditised business for which it is difficult to justify paying above book value. This explains why there are only a handful of listed peers globally. How then can China Aircraft Leasing (CALC) trade at 1.8x compared to 1.1x for BOC Aviation? Well, it's all down to the accounting. True profit levels are uncertain in the short-term and dependent on subjective accounting estimates. Risks are rising due to the threat of global aircraft oversupply. China Aircraft Leasing (CALC) is a SELL with at least 40% downside. Video summary

HIDDEN DEBT: And Manufactured Cash Flow **May 2016**

Companies can manufacture cash flows and hide debt by manipulating working capital. In this report we shed light on how companies can generate fake operating cash inflows and hide debt through the manipulation of their working capital. We then scan through 2,500 companies to see where the greatest abuses might be taking place. Of the 20 or so companies that we delve into, we highlight eight where there are possible liquidity issues, including Sembcorp Marine, Chongqing Iron & Steel and Mangalore Refinery. However, it is at Fosun that we have our greatest concern. Video summary

RELATED PARTIES - Family Games in HK and SG **May 2016**

Given that related party transactions are somewhat of a national sport in Asia and a key component of most accounting frauds, it is somewhat surprising that no-one's gone through and detailed each company's involvement in them. Well, that is until now. Yes, we locked two analysts in a room and told them to download the annual reports of every company with a market capitalisation over US$1bn in Hong Kong and Singapore, around 360 of them. They were then instructed to trawl through each annual report and calculate related party transactions as a percentage of sales and expenses. Video summary

CAR Inc.: SELL: Chinese Inversion **May 2016**

In just over a year, CAR's founder and Chairman has transformed a minority shareholding in CAR into a controlling interest in UCAR. He recently resigned as Chief Executive of CAR to take up the same position at UCAR, which immediately filed for a listing that will probably give it a market value higher than CAR's. Recent events provide more evidence that minority investors in CAR are likely to get a raw deal. CAR's new CEO also has a significant shareholding in UCAR. We think CAR's main role will be to finance UCAR's fleet expansion. Video summary

CHINESE BANKS: A Day Of Reckoning **April 2016**

That Chinese NPLs are just 1.4% is somewhat of a moot point when loans are only 44% of assets. Securities Investments contain considerable risk and these account for 36% of assets, but banks don't make any provisions against these investments. Canaries are beginning to warble: impairments are on the rise, off-balance sheets items are crystallising and speciality lenders are in distress. Trouble never starts at the core of a banking system, but at its fringes. Our scenario analysis reveals that smaller banks will bear the initial brunt.... Video summary

INDIA'S FINANCIAL STRESS: Follow the Free Cash Flows **April 2016**

Updated Indian financials show that companies remain worryingly over-leveraged and are still reporting free cash outflows, although these are beginning to abate. While we are approaching the end of capex cuts needed to get the corporate sector into free cash inflow territory, balance sheets will still have to de-lever. It is unlikely that the corporate sector can sustain an investment upcycle until 2018 at the earliest. As such, profits will disappoint as, most likely, will the stock market. Meaningful outperformance has been achieved by focusing on companies with improving financials, in particular as they begin to generate free cash inflows. Our stress index (which clients can download) has highlighted 30 companies of potential interest... Video summary

Report Summaries

CAR Inc: Car-jacked — **March 2016**

CAR's Chairman has cashed out of his stake in CAR (a car rental business) and is left controlling its sister company and largest customer, UCAR (a car hailing business), which will likely list in the near future. CAR's minority shareholders are on the wrong end of this relationship. Recent results show that CAR's core business has gone ex-growth excluding related party transactions with UCAR, which accounted for close to 40% of sales in 2015. Deterioration has been further masked by changes in CAR's depreciation rate. Video summary

RELATED PARTY TRANSACTIONS: Family Games In HK & Singapore — **February 2016**

Chances are that if you've owned a company accused of profit shifting through related party transactions, you've lost a ton of money. The problem is that this is somewhat of a national sport in Hong Kong and Singapore with over 90% of large listed companies engaged in it. So at what level should investors become concerned? To answer this, we've downloaded the financials of 360 companies and derived a shortlist of 15 private ones where related party transactions exceed 20% of combined sales and expenses. Video summary

JAPANESE TRADING COMPANIES: The Season of Goodwill Is Over — **February 2016**

Japan's trading houses have made large commodity investments that are unlikely to generate their modelled returns and should be written-down. Their financial statements also contain a host of questionable items that suggest profits and book value have been materially over-stated. The Toshiba accounting scandal and changing accounting standards should mean extra auditor scrutiny this year. We think equity book values could be cut by 20-80%. Video summary

ASIAN BANKS: Impairment Perspective — **January 2016**

Our analysis of impairments over 20 years from 20 banks in Asia reveals that Japanese banks face the biggest potential earnings shock from rising impairment charges. Chinese banks have begun to raise impairment charges but they may still have to triple from here. In India, HDFC Bank is recording an undeservedly low level of impairments relative to its own historical numbers and its peers. Meanwhile, Metrobank in the Philippines has been reassuringly conservative with its impairments, suggesting there is upside to earnings. Video summary

BJ ENTERPRISES WATER: Hiding Behind the Accounting — **December 2015**

Strip away questionable concession accounting and Beijing Enterprises Water (BEW) is barely able to generate a profit. Even reported headline growth has been driven by accounting changes, the treatment of acquisitions, one-off gains and a host of other doubtful items. The stock is over-valued on 22x 2015 PER and 3x price to book. Video summary

QUNAR: This Ticket Has Expired — **December 2015**

Baidu and the employees have switched out of Qunar into Ctrip. Ten years after launch, marketing and operating costs at Qunar still exceed revenues. Ctrip, Qunar's largest competitor, has every incentive to hamper Qunar's growth. Add in accounting issues, the need to raise more capital and it is time to follow the insiders and SELL or SHORT. Video summary

SPECULATIVE BALANCE SHEETS: Borrowing to Bet? — **November 2015**

Six US-listed Chinese internet stocks have made large leveraged bets on the US dollar carry trade, with the biggest being Ctrip and VIPShop. It doesn't seem like a good time to be playing this trade. We unearth companies speculating in all sorts of assets from currencies and stock markets to wealth management products and real estate. Video summary

ASIAN BANKS: Gaming the Numbers? — **October 2015**

Rolling over a non-performing loan (NPL) is a sure sign that a bank has problems. When this becomes systemic, the country is in trouble. NPLs could explode in China where there appears to be clear evidence of ever-greening. In India, even quality banks like HDFC Bank are showing worrying trends. Fortunately, credit trends remain benign in ASEAN . Video summary

Report Summaries

GLOBAL EVALUATION: Uncomfortable Truths — **September 2015**

Only Croatia and Greece have higher corporate leverage than China and India. China and India are also the world's most expensive stock markets and yet there is no EPS growth; a combination of leverage, slow growth and expensive markets creates a volatile situation and will lead to a higher incidence of fraud. Video summary

AUDITING FRAUD 2015: Relationship Problems — **August 2015**

An alarmingly high number of companies shortlisted in last year's Auditing Fraud reports have since become involved in accounting scandals. This year list of 20 companies includes some well-known offenders such as Noble Group and ZTE but there are many others with cause for concern including China Rail, Sharp, BYD and Alliance Global. Video summary

EVALUATING ASIA: Elephants in the Room — **July 2015**

China's corporate sector is one of the most over-leveraged in Asia, but India's is the most over-leveraged BY FAR. Indian companies also have the highest exposure to foreign debt making its capital structure unstable. Both China and India will disappoint for some years to come. Video summary

TELECOM TOWERS: Dreams of Babel — **July 2015**

National tower populations are mature and total tower numbers may actually fall in the coming years, even as the towercos expand. To generate value, towercos need to improve tower tenancies. Our BUYs are Inwit in Italy and Cellnex in Spain. SELLs are Bharti Infratel in India, Tower Bersama in Indonesia and SBA Communications in the US. Video summary

AIRASIA (AIRA MK): Sell: New Dog, Old Tricks — **June 2015**

We estimate that AirAsia has managed to inflate profits by 39% over the past five years through related party transactions with associates. These associates have not only stopped paying their bills but require AirAsia's financial support. AirAsia now needs a recapitalisation that will dilute existing shareholders. We see at least a 42% downside. Video summary

YEN DEBASEMENT: To Infinity and Beyond — **June 2015**

Abenomics is failing. Domestic consumption has slumped, exporters are unable to capitalise on a weaker yen and corporate profit margins have barely moved. Tax revenues are rising but nowhere near enough to bridge the budget deficit. And yet future spending will still outstrip growth in taxes. In this report, we have produced a list of 25 top winners and losers. Video summary

DEBT WINDOW DRESSING: Adding a Global Perspective — **April 2015**

While Chinese property developers are still working to massage their financials, they are not the only property sector with lots of inventory and certainly not the only companies managing their financials. Furthermore, the preponderance of Oil & Gas Storage companies on our vulnerable list would also suggest that the oil contango trade is crowded. Video summary

NOBLE GROUP 2: Turning Tax Losses into Accounting Profits — **April 2015**

Whilst Noble Group appears to be reporting accounting profits, there is evidence of significant tax losses – about US$1.8bn of them. In the income statement, these have been masked by US$4-5bn in asset revaluations and fair value gains over the past five years. Should these losses have been made public, we can but presume... Video summary

NOBLE GROUP 1: Cashless Profits And Overvalued Investments — **March 2015**

The majority of Noble's profit comes from capitalising, or front loading, the income streams from future off-take and supply contracts. Since 2009, the nature of these cashless profits has been hidden by a US$4bn rise in payables. We use an adjusted net asset value and come to just S$0.62/share, well below the current share price. Video summary

Report Summaries

CURIOUS ASSETS: And Dubious Profits **February 2015**
Based on our analysis of past accounting scandals, we highlight six Asian companies where we think there are curious assets and dubious profits: Reliance Infrastructure, Wilmar International, China Everbright International, Beijing Enterprises Water, CP All and Youku. P&G H&H and Larsen & Toubro also get a dishonourable mention. Video summary

THE RELUCTANT CONSUMER: Japan's Expanding Deficit **January 2015**
Government spending is 1.5x revenues and will double by 2023. By then, the Bank of Japan will either own 80% of outstanding JGBs or be suffering under huge losses. We suggest shorting the yen, avoiding domestic plays and looking for yen weakness winners highlighted in our spreadsheet. Seiko and Sumitomo Chemical score the highest due to their foreign revenues, sensitivity to the Yen and valuations; McDonald's and Hokkaido the worst. Video summary

ASIAN REVOLVERS: Looking for the Smoking Gun **January 2015**
Kaisa Group (1638 HK) has been downgraded by Moody's from Ba3 to default. In addition to the flags we raised, Kaisa was window-dressing its accounts by manipulating gearing. We have looked for other investment grade companies employing similar tricks. Origin, Amcor, Noble and Sino Ocean stand out needing investigation. Video summary

GETTING PAID? Receivables in Asia **December 2014**
How large should receivables be in a specific industry? We answer this and also highlight those at the extreme; we also look at trends in receivables, and in particular those companies where receivable days have ballooned. Finally, we draw conclusions by tracking receivable trends. Video summary

ABENOMICS 3: Halloween Shocker **November 2014**
Japan is too scared to cut spending, too old to be dynamic and too poor to pay its debts. It is time to sell the yen and adjust your portfolio. Our top picks now include Mitsubishi Heavy, Calsonic, JTEKT and Hoya; top sells are Duskin, McDonalds, Hokkaido and Dena. Video summary

SUSPICIOUS BEHAVIOUR: The Lone Auditor **November 2014**
There are 62 auditors across Asia which audit just ONE listed company with a market capitalisation exceeding US$1bn. Most get paid very little, raising concerns over the quality of audit. It is Jaiprakash Associates over which we have the greatest concerns given obscure auditors, a large number of accounting red flags and deteriorating financials. Red flags were also raised at Toda, Nisshinbo and Tokuyama. Video summary

ABENOMICS II: Looking to Score in Japan **October 2014**
We recommend investors avoid the corporate equivalent of the 'Hikikomori'; the Japan-focused, shareholder indifferent, value destroyers, like Kamigumi and Dena. Look for companies with debt and prudent capital management that will profit from a weakening yen. The best large stocks are Topcon, Showa Denko, Mitsui Mining & Toyo Ink. Video summary

CHINA LONG & SHORT: The Tyranny of Numbers **October 2014**
To maintain GDP growth at the current 7.5%, China needs to create new credit equivalent to replicating the entire US-listed financial system. By 2018, it will have built enough new apartments to potentially rehouse 55% of its population over the previous 15 years, will command 65% of the world's cement production and 59% of its steel. The tyranny of numbers suggests it can't be done. Video summary

ABENOMICS: Perspiration Not Inspiration **September 2014**
By FY2012, weak corporate profits and low tax receipts combined with increased government spending meant the budget deficit was set to grow. Years of misguided incentives have created a low return, activity-driven economy and an ageing workforce, both of which are hard to change, making it near impossible to narrow the deficit. Abenomics is not the solution. Video summary

Report Summaries

FOREIGN DEBT IN ASIA: Where Monsters Lie — **August 2014**

There is at least US$1.0trn of foreign debt in Asia. Almost half resides in just two locations, China's property sector and India's corporate sector. Unhedged US dollar debt is just another reason to steer clear of the Chinese property sector, Asia's most over-leveraged sector. Elsewhere, foreign debt levels are low but trends are worrying. Video summary

CORPORATE HEALTH: Global Perspective — **July 2014**

Most markets outside of Asia are in fine fettle; even southern Europe appears to be on the mend. China and India are alone in generating large free cash outflows and achieving such high leverage – the highest in the 20 years since our records began. Remain UNDERWEIGHT. Indonesia is on a similar trajectory but with a few years to run. Video summary

AUDITING FRAUD III: Baffling Banks — **July 2014**

Banks that raised four or more of our audit red flags underperformed their peers over the last 1, 3 and 5 years, underscoring the importance of credible accounts to the investor. This report highlights some of Asia's main offenders including the likes of China CITIC Bank, China Minsheng Bank and IDBI Bank. Video summary

EVALUATING INDIA: Rotten to the Core — **June 2014**

Indian companies have flattered their financial positions by sourcing nominally cheap funding, aided by regulations to obfuscate disclosure, expenses and losses. The stock market clearly thinks differently and it is now the best performing and most expensive in Asia. Too much is expected of it and investors should be UNDERWEIGHT. Video summary

AUDITING FRAUD II: Property Problems — **June 2014**

Our analysis of subjective accounting standards and auditing costs shows that many property companies have weak balance sheets. China Vanke, Carnival, Hopson and Shenzhen Investment stand out as the worst offenders. Several others also attract attention, including Lippo Karawaci, NTT Urban, CapitaMalls and Tokyu Fudosan. Video summary

EVALUATING ASIA: Growing Pains — **May 2014**

Our annual evaluation of Asia's corporate financial health reveals the extent of balance sheet deterioration and insolvency in China and India. Growth will slow further. Encouragingly, the investment upcycle should continue elsewhere in ASEAN as markets generate free cash inflows and leverage remains moderate. The groundwork is being laid for a sustainable investment upswing. Video summary

AUDITING FRAUD: Tomorrow's Scandals? — **May 2014**

To see where the next scandal might be or at least where investors should be concerned, we have cross checked audit costs, a proxy for time spent on due diligence, against companies with problematic accounts. Several well-known names such as Toshiba, China Coms Construction and Venture Manufacturing are on our shortlist. Video summary

PROFIT MANIPULATION: Deferred Tax Liabilities — **April 2014**

In the property sector, we have found that those with the highest deferred taxation, normally stemming from asset revaluations, also have the highest adjusted leverage, suggesting an attempt to flatter standard solvency ratios (Shui On Land/Hulic). Outside the property sector, China Everbright International and Beijing Enterprises Water have a high level of deferred tax which suggests that underlying subsidiaries are far smaller than disclosed to shareholders. Video summary

Report Summaries

CHINA'S DILEMMA: Unpalatable Choices **April 2014**

With an over-leveraged corporate sector, a banking system with lending constraints and interest rates rising, the end could be in sight. China's policy makers face a stark choice: choke off new credit and cause a relatively short recession, or go for broke in the pursuit of growth. The recent clampdown on grey market financing suggests they will pursue the more sensible former option in which case we estimate "only" a 50% downside in the CSI300 index.

Video summary