## INDEX

Accounting games: about, 13-14 balance sheet, 48 corporate governance/related issues, 21 disclosures and, 143 identification of, 2 income statements and, 23-24 managing earnings, 20 overstating earnings, 14-15, 17, 18, 32 overstating financial position, 17–20 overstating operating cash flows, 20-21 Accounting manipulation. See also Cooked books financial statements and, 162 plural nature of, 88, 118, 146, 168 Accounting scandals. See olse Fraud cases capital markets and, 159 categories for, 14 Chinese stocks and, 97 global nature of, 2-3 Accounting system, double-entry, 2 Accounts receivable: aging of, 75 "cooking the books" and, 28-29 doubtful accounts and, 75-79 Accrual accounting: doubtful accounts and, 75 payments and, 107 Accruals: common, 13, 74 deferrals and, 12-13 earnings management and, 74 footnote disclosures and, 87 Accrued expenses, 13, 80-81

Accrued revenue. See Accounts receivable Accrued wages, 13 Acquisitions, 19, 11 Aggressive revenue recognition: about, 24-25) balance sheet impact and, 26 income statement and, 25 Longtop Financial and, 28 overstated revenue and, 26–27 overstating earnings and, 162 Satvam and, 27 Sino-Forest and, 28-29 Agricultural assets, 56. See also Biological assets AIs. See Authorized intermediaries (AIs) Amortization, 54 Amortized cost model, 56 APAI. See AP Apparel, Inc. (APAI) AP Apparel, Inc. (APAI): balance sheet, 81, 84 deferred tax liability, 84-85 depreciation schedules, 82 financial statements, 83 taxable income/taxes payable, 83 Arm's-length transactions: Asian companies and, xi case studies and, 38, 135 disclosure and, 140 Articulation of financial statements: accounting equation and, 8 balance sheet, extended version, 9-10 balance sheet and, 8, 9, 10, 11, 160, 161 cash flow statement and, 8, 9, 10, 160, 161 income statement and, 8, 9, 10, 11, 160, 161

Articulation of financial statements: (continued) increase in revenue/balance sheet impact, 11 interrelationships and, 7 quantitative factors and, 160 Asian equity indices, underperformance and, 3 Asia Pacific Region, 159, 160 Asset(s): agricultural/biological, 56, 59, 69-71 cash return on, 114 deferred, 81 deferred tax, 81, 85, 86 excluding from balance sheet, 49-53 expropriation of, 143 goodwill, 19, 67, 68 intangible, 56 off-balance-sheet (see Off-balance-sheet assets) overstating (see Overstating assets) personal use or expropriation of, 143 quantity of, on balance sheet, 58 "Asset sale," 147 Asset valuation, footnotes and, 57 Associated companies, 52 Audit committees, 68 Auditor(s). See also specific company Big Four, 95, 176 errors in audit, 124 evaluation of, 167 fraud and, 125 issues with, 142-143 resignation of, 152 Authorized intermediaries (AIs), 38, 39, 40

Bad debts: accrual accounting and, 75 doubtful accounts and, 75–78 at Harbin Electric, 78–79 "recoveries" of, 78 underaccrual of, 20 Baker & McKenzie, 125 Balance sheet: accounting equation and, 8, 48 accounting games, 48 accounting manipulations and, 162

articulation of financial statements and, 8, 9, 10, 11, 160, 161 common-size analysis of, 167 as core financial statement, 160 for Duoyuan Global Water, 126-127 extended version of, 9-10 increase in revenue and, 11, 26 overstating earnings and, 15, 26 overstating financial position on, 18 overstating quantity of assets on, 58 overstating value of assets on, 54-58 Bank of Communications, 102 BDASIA. See BEHRE DOLBEAR Asia (BDASIA) BDO Hong Kong, 123 BDO International, 101 BDO Limited, 101, 102 BEHRE DOLBEAR Acia (BDASIA), 173 - 174Big Four auditors, 95, 176 Biological assets, 59, 69–71 Board governance, 138–139 Bodisen biotech, 93 Bonuses, 142, 159 bre-X fraud, 3, 59 British Virgin Islands (BVI): company registered in, 149, 171 holding companies in, 121 Business, understanding, 163 Business model, transparency and, 135 **Buyout:** nonbinding announcement of, 152 proposals, 97 BVI. See British Virgin Islands (BVI)

CAGR. See Compound annual growth rate (CAGR)
Capital asset base, 110
Capitalizing an expense, 30
Capital lease, 49
Capital raises, 59
Carryforward, 85
Case studies: Celltrion, Inc., 169–170
China Biotics, 101–105
Duoyuan Global Water, 123–131

Fibrechem Technologies Ltd., 175–177 Harbin Electric, 89–98 Longtop Financial, 28, 30, 33-37 Oceanus, 69–71 Olympus Corporation, 19, 66–69 Oriental Century (ORIC), 42-45 PUDA Coal, 149–153 Real Gold Mining, 170–174 RINO International Corp., 60-66 Sino-Environment Technology Group Limited, 153–157 Sino-Forest, 12, 37-41 West China Cement, 98-101 Winsway Coking Coal Holdings, 131-136 Cash account, "special," 28 Cash equivalents, 109-110 Cash flow: free, 116, 117 games (see Cash flow games) from investing, 151 manipulation of, 162-163 misclassifying, 20-21 negative free cash, 90 occurring later than reflected in earnings 13 operating (see Operating cash flows) overstating (see Overstating operating cash flows) statements (see Cash flow statements) Cash flow-based ratios, 113-114 Cash flow-earnings index, 114 Cash flow games: Duoyuan Global Water, 123–130 free cash flow and, 116 Rehne Commercial Holdings and, 118-123 Sino-Forest and, 117 typical activities, 116 warning signs, 118 Winsway Coking Coal Holdings, 131-136 Cash flow statements: analysis of, 167 articulation of financial statements and, 8, 9, 10, 160, 161

direct method format, 111, 112 for Duoyuan Global Water, 127-130 IFRS and U.S. GAAP rules and, 109–110 indirect format, 112 three sections of, 108, 109, 111, 113 understanding, 108-113 Catalist, 42, 44 Cayman Islands-registered company, 33, 171 CCIE. See China Construction Import Export Corp (CCIE) CDB. See China Development Bank (CDB) Celltrion, Inc., 169-170 Cement.com, 100 CFA Institute, xiii, 5, 137-138, 139 CHBT US. See China Biotics Chevron, 59 China. See also People's Republic of China (PRC) gross domestic product (GDP) and, 3 Sute Administration of Industry & Commerce (see State Administration of Industry and Commerce (SAIC)) China Biotics: background, 101-102 doubtful accounts and, 75-76 footnote disclosure, 87 key lessons, 105 tax payable, 103, 104 warning signs, 103-105 what happened, 102-103 China Construction Import Export Corp (CCIE), 92 China Development Bank (CDB), 93 China Economic Times, 174 China MediaExpress, 97 China Valves Tech: auditor issues and, 144 background, 146 key lessons, 148 warning signs, 148 what happened, 146-148 Citron Research: China MediaExpress and, 97 Harbin Electric and, 97–98 Longtop Financial and, 33, 34, 35, 36 COGS. See Cost of goods sold (COGS)

Commitments, 52 Commodity reserves, 48 Compensation, excessive, 142, 166 Complex maneuvers, 19 Complex structures, 143 Components, misclassifying, 164 Compound annual growth rate (CAGR), 37 Conflicts of interest, 21, 152 Consultancy fees, 141 Consulting Committee of China Healthcare Association, 103 Contingencies, 86-87 Contingent liability, 53 Controls, internal, 138, 144, 145, 166, 167, 177 Cooked books. See also Accounting manipulation detection of, 163-168 at Sino-Forest, 28-29 "Cookie jar reserves," 73, 86-87 Corporate culture, 68 Corporate governance. See also Related-party transactions about, 137-138 board governance, 138-139 compensation and, 142 evaluation of, 166-167 independent directors, 138-139 interlocking ownership or directorships, 140 personal use or expropriation of assets, 143 qualitative factors and, 160 raising standards of, 3 related issues and, 21 scrutiny of, 45, 122, 153 shareowner rights and, 139 transparency and, 143 warning signs and, 145 Corporate structure, discrepancies in, 152 Cost model of valuation, 55, 56 Cost of goods sold (COGS), 100 Current-period cash flows, fabrication of, 20 Customers: absence of verifiable, 95 controlled, 12, 28 phantom, 174 CVVT. See China Valves Tech

Debts. See Bad debts Deferrals: accruals and, 12-13 common, 13, 74 earnings management and, 74 expenses, 29-31, 80-81 footnote disclosures and, 87 revenue, 12, 80 Deferred asset, 81 "Deferred customer acquisition costs," 30 Deferred taxes, 81-86 Deloitte, 34, 97, 125, 171, 173 Deloitte & Touche, 175, 177 Depreciation: accruals and, 13 for APAI, 82 deferred taxes and, 82 overstating assets and, 54 valuation models u.d, 55 Derivative liability 87 Deutsche Bank, 33, 131 Digital Cement, 100 Direct n ethod format, cash flow statements, 11, 112Directorships, 140 Disclosures. See also Footnotes on 10-K, 87 contingencies and reserves, 86 high-quality, 143 opaque, 37 Dodd, David, 1 Dongguan Baisheng Investments Development, 42 Dongguan Oriental Dragon, 44 Double-entry accounting system, 2 Doubtful accounts, 20, 75-79 Due diligence: corporate governance and, 21, 144, 145, 166 initial public offering (IPO) and, 41 investors and, 21 non-arm's length transactions and, xi ownership and director structure, 140 related-party issues and, 163 revenue growth and, 16 reverse takeover and, 71

Duoyuan Global Water: background, 123 balance sheets, 126-127 corporate structure of, 130 key lessons, 125 statements of cash flows, 127-130 warning signs, 125 what happened, 123–125 Earnings: overstating (see Overstating earnings) quality of (see Quality of earnings) Earnings-based ratios, 114 Earnings before interest, taxes, depreciation, and amortization (EBITDA), 38, 175 Earnings before interest and taxes (EBIT), 177 Earnings management: about, 73-74 as accounting game, 20 accruals, deferrals and, 74 China Biotics and, 75-76, 101-105 contingencies and reserves, 86-87 deferred (unearned) revenue, 80 deferred taxes, 81-86 Harbin Electric and, 78–79, 82–93 manipulation and, 162 "saving up" earnings, 73, 78 warning signs/analysis techniques, 88, 164 West China Cement and, 98-101 EBIT. See Earnings before interest and taxes (EBIT) EBITDA. See Earnings before interest, taxes, depreciation, and amortization (EBITDA) 8-K reports, 146, 147 Embezzlement, 143 Emerson, 148 Enron, 117 Equity. See Owners' equity Equity method of accounting, 52 Ernst & Young, 69 Excessive compensation, 142, 166 Expenses: accrued and deferred (prepaid), 80-81 capitalizing, 30

deferral of, 29-31 exploration, 58-59 moving "down" in income statement, 18 shifting, on income statement, 32 "special" or "extraordinary," 17 understating, 15, 17, 29-31, 162 Exploration expenses, 58–59 Expropriation of assets, 143 External auditors, 143 "Extreme outsourcing," 37 Exxon, 59 Factoring, 51, 116, 118, 165 Fair value model of valuation, 55, 56, 57–58 "Father of value investing," 1-2 Fees: acquisitions and, 68 cash-up-front, 97 consult u.cy, 141 losses and, 19 FF&E. See Furniture, Fixtures, and Equipment (FF&E) FGD. See Flue-gas desulfurization (FGD) Fibrechem Technologies Ltd.: background, 175 key lessons, 177 warning signs, 176–177 what happened, 175–176 Financial leverage ratios, 48 Financial position. See Overstated financial position Financial ratios: balance sheet and, 48 management manipulation and, 47 understating assets and, 49 Financial results, off-the-charts, 95 Financial statements: accounting equation for, 8 accounting manipulations and, 162 articulation of (see Articulation of financial statements) footnotes to, 86, 163, 167 ratio analysis of, 168 three major, 8 warning signs/analysis techniques, 164-167 Financial Supervisory Services (FSS), 169

Financing, seller, 121 Financing lease, 49 Flue-gas desulfurization (FGD), 61 Footnotes. See also Disclosures; Specialpurpose entities of annual report, 122 asset valuation and, 48, 57 cash flow and, 116 to financial statements, 86, 163, 167 scrutiny of, 52, 71, 87 transparency and, 143 Forensic financial analysis, 2 Fraud cases. See also Accounting scandals Bre-X, 3, 59 Parmalat, 2, 159 Fraudulent activity: detection methods and, 22 most common case, 7-8 repetitive nature of, 15 Frazer Frost, 61, 95, 144, 146, 148 Free cash flow: cash flow games and, 16, 117 computation of, 114 FSS. See Financial Supervisory Services (FSS) Furniture, Fixtures, and Equipment (FF&E), 115-116, 118-119 GAAP. See Generally Accepted Accounting Principles (GAAP) Gains: moving "up" in income sustement, 17 overstating, 14 revenues and, 25 shifting, on income statement, 31 Games: accounting (see Accounting games) cash flow (see Cash flow games) Generally Accepted Accounting Principles (GAAP): cash flow statement and, 109-110 leasing and, 49 non-, 33, 35 Glaucus Research, 99, 100 Global financial crisis, 154 Goldman Sachs, 33, 93, 95, 131

Goodwill, 19, 67, 68 Governance. See Corporate governance Graham, Benjamin, 1-2 Grant Thornton Hong Kong, 123, 124 Greenheart Group, 140, 141 Gross domestic product (GDP), 3 Guarantees, 52 Gyrus, 68 Harbin Electric: background, 89-93 board of directors of, 93 case study, 89-98 cash flows and, 90-91 doubtful accounts and, 78key lessons, 97-98 subsidiaries of, 92 warning signs, 94-92 what happened, 33-94 HKEJ. See Hong Yong Economic Journal (HKEI) HKEX. See Hong Kong Stock Exchange (HKEX) Holding account, 55–56 Mong Kong Economic Journal (HKEJ), 121 Hong Kong Stock Exchange (HKEX), 122,

IFRS. See International Financial Reporting Standards (IFRS) Impairment loss, 19 Impairments: cost model and, 55, 56 financial condition and, 76 Income statement: accounting games and, 23-24 articulation of financial statements and, 8, 9, 10, 11, 160, 161 common-size analysis of, 167 increase in revenue and, 25 moving expenses "down," 18 moving gains "up," 17 overstating earnings on, 162 shifting expenses on, 32 shifting gains on, 31-32

131, 138 HRBN. *See* Harbin Electric

understating expenses or losses on, 29 warning signs/analysis techniques, 164 Independent auditors, 143 Independent directors, 138-139 Independent information, 168 Index, cash flow-earnings, 114 Indirect format, cash flow statements, 112 Initial public offering (IPO), 41, 119, 173, 174 Insurance, 81 Insurance industry, 17, 30, 81 Insurance-type contracts, 118, 165 Intangible assets, 56, 111 Interlocking ownership/directorships, 140 Internal controls, 138, 144, 145, 166, 167, 177 International Financial Reporting Standards (IFRS): cash flow statement and, 109-110 country standards and, 72 leasing and, 49 treatment of assets, 55 Inventory: abnormally low, 103 capital expenditures and, 117 as common assets, 9 overstatement of assets and, 8, 17, 29, 30, 58, 131 regulatory approvals and 170 turnover, 135, 168 Investment(s). See also Stock(s) cash flow from 151 recording of, 56 Investors: due diligence and, 21 well-known, 41 IPO. See Initial public offering (IPO) IT services companies, 1

Janney Montgomery Scott, 33 Japanese corporate culture, 68 Jefferies & Co., 33 Joint ventures, 52

Kaufman Bros., 33 *Keiretsu*, 140 Kreuger, Ivar, 3, 159 Land transactions, 95-96 "Laundering" funds, 117 Leasing: balance sheet, ratios and, 49-50 off-balance-sheet assets and, 50-51 retailing, airlines and, 50 LFT. See Longtop Financial Liabilities to Assets ratio, 18-19 Liability/liabilities: contingent, 53 deferred tax, 81, 84-85 derivative, 87 excluding from balance sheet, 49-53 failure to accrue, 30 hidden, 36, 52 Longtop Financial. See also Xiamen Longtop Human Resources (XLHRS) background, 33 cash ba'a. ces/"fake" cash, 28 key lessons, 37 share price, 35 unconsolidated affiliate, 31 warning signs, 35-37 what happened, 33-35 Losses: carried forward, 85, 86 contingent, 86-87 failure to record, 31 hidden, 68 impairment, 19 revenues and, 25 understating, 15, 29 LSE Alternative Investment Market, 98 Macquarie Capital Partners, 33 Mahindra Group, 1 Management. See also Corporate governance; Earnings management alignment of interest and, 45, 136, 153 chairman's interests and, 156 compensation and, 142 credibility of, 37 Managing earnings. See Earnings management Marketable securities, valuation of assets on

balance sheet, 57

Master checklist, warning signs/analysis techniques, 164-167 Merger agreement, signed definitive, 97 Merger-and-acquisition fee, 68 Merrill Lynch, 131 Mine safety license, 174 Misclassifying cash flows, 20-21 Moody's Investor Service, 98–99, 122, 134 Moore Stephens, 149 Morgan Stanley, 33, 94, 95 Muddy Waters Research: Duoyuan Global Water and, 123-124, 125 report in Sino-Forest, 38, 39 RINO International Corp. and, 52-53, 61,97 Multiyear manipulation, 73 Nanchang Oriental, 44, 45 Natural resources, 153. See also Biological assets Needham & Co., 33 News articles, 52 New York Stock Exchange (NYSE), 33, 34, 123, 142, 147, 149, 150 Non-binding proposal, 93 Nonconsolidated entities, 52 Non-generally accepted accounting principles (GAAP), 33, 35 Non-operating expenses, classification of, 31 - 32Non-operating income, classification of, 31 Note, convertible feature of, 87 NYSE. See New York Stock Exchange (NYSE) Oceanus: annual report data, 71 background, 69 key lessons, 71

key lessons, 71 overstating assets and, 56–57 warning signs, 71–72 what happened, 70 ODM. See Oriental Dragon Management (ODM) Off-balance-sheet assets: commodity reserves as, 48 leasing and, 50-51 overstating, 58-59 Off-balance-sheet financing/liabilities: leasing and, 49 losses and, 48 Olympus Corporation and, 53, 54 other, 53-54 Offshore auditors, 176 Offshore ownership structure, 152 Offshore transactions, 121 Olympus Corporation: background, 66-67 case study, 66-69 financial data, 69 key lessons, 68-70 off-balance-sheet loss, 53, 54 overstating mancial position, 19 warning signs, 68 what happened, 67-68 On ario Securities Commission (OSC), 38, 40, 141 Operating activities, 110 Operating cash flows: cash flow games and, 116 overstating (see Overstating operating cash flows) Operating lease, 49, 50–51 Organization of book, 4–5 ORIC. See Oriental Century (ORIC) Oriental Century (ORIC): background, 42-43 corporate governance, 45 key lessons, 45 payments/receipts for unknown purposes, 45 warning signs, 44 Oriental Dragon Management (ODM), 42, 44, 45 Oriental Pearl College, 42, 43, 44, 45 OSC. See Ontario Securities Commission (OSC)

Outsourcing, "extreme," 37 Overstated financial position: about, 17-20, 47-48 balance sheet accounting equation, 48 excluding assets and liabilities, 49-53 Oceanus, 69-71 Olympus Corporation, 66–69 owners' equity and, 48, 49 RINO International Corp., 52-53, 60-66 warning signs/analysis techniques, 60, 164 ways to overstate, 162 Overstatement of forest reserves, 39 Overstatement of profits, 7-8 Overstating assets: Bre-X and, 59 goodwill and, 68 IFRS and, 55 inventory and, 8, 17, 29, 30, 58, 131 off-balance-sheet assets, 58-59 quantity of, on balance sheet, 58 valuation of assets on balance sheet, 54 - 58Overstating earnings: about, 14-15, 17 balance sheet and, 26 expenses and, 29-31, 31-32 income statements and, 162 Longtop Financial and, 33-37 motivation for, 23. moving "down" in income statement, 17, 18 non-operating income and, 31 Oriental Century and, 42–45 revenue recognition and, 24-29 Sino-Forest and, 37-41 warning signs/analysis techniques, 32, 164 Overstating operating cash flows: about, 20-21, 107-108 cash flow games and, 116–118 cash flow statement and, 108-113 quality of earnings and, 113-116 warning signs/analysis techniques, 165-166

Owners' equity: balance sheet and, 8, 9, 10, 11, 15, 18, 167 cash flow statement and, 111 financial statements and, 161 net income increase and, 160 overstatement of, 48, 53, 68 retained earnings section, 108 revaluation model and, 55 understatement of, 26 Ownership structure: control and, 159 interlocking or directorship, 140 Pacioli, Luca, 2 Parmalat, 2, 159 "Penny" stock, 5? People's Republic of China (PRC), 61, 64. See also China Phantom customers, 174 Piper Jaffrey China, 148 PP&E. See Property, plant, and equipment (PP&E)PRC. See People's Republic of China (PRC) Prepaid expenses, 80-81 Press releases, 143 PricewaterhouseCoopers (PwC), 43, 46, 101, 125, 154, 176 Princelings, 153 Privatization process, 94 Probiotics. See China Biotics Profitability ratios, 4, 47 Profits: overstatement of, 7-8, 103, 104 recurring operations and, 17, 31 Property, plant, and equipment (PP&E): assets composed of, 28 cash flow and, 13 cash flow statement and, 111, 112 equity method of accounting and, 52 misclassification of expense as, 30 recording of, 55 PUDA Coal: alignment of interests and, 170 background, 149

PUDA Coal: (continued) key lessons, 153 related-party transactions and, 142, 151 timeline of events for, 150-151 warning signs, 151-153 what happened, 149-151 PwC. See PricewaterhouseCoopers (PwC) Quality of earnings: cash flow and, 107 cash flow-based ratios and, 113-114 Renhe Commercial Holdings and, 115 - 116Quantity of assets, 58 Raffles Education, 42, 45 Ratio analysis, 168 Ratios: cash flow-based, 113-114 common, 18 financial, 47, 48, 49 financial leverage, 48 profitability, 4, 47 Real Gold Mining: background, 170-172 key lessons, 173-174 warning signs, 173 what happened, 172-173 Reasonableness tests, 58 Reconciliation items, 116 "Red flags." See also Warning signs disclosure and, 37 in hindsight, 41 looking out for, 5, 23, 160 ownership/governance and, 37, 138 related-party transactions and, 170 transparency and, 135, 156 Regulatory filings, 125 Rehne Commercial Holdings: application, 115-116 background, 118-120 key lessons, 122-123 warning signs, 120-121 what happened, 121-122 Related-party issues: about, 137-138

evaluation of, 166 warning signs and, 145 Related-party transactions. See also Corporate governance Celltrion, Inc. and, 170 China Valves Tech and, 146-148 described, 140 personal use or expropriation of, 143 PUDA Coal and, 142, 149-153 at Sino-Forest, 140-141 Winsway Coking Coal Holdings and, 131, 134, 135 Renhe Commercial Holdings, 115–116 Rent, 81 Reserves, 86-87 Retailing: leasing and, 50-51 number of outlets 103 Return on assets ratio, 18, 19 Revaluation model, 55, 56 Revenue(a): accrued (see Accounts receivable) accrucd, doubtful accounts and, 75-79 valance sheet and, 26 deferred (unearned), 80 exaggerated, 103, 104 fictitious, 15 gains and, 25 growth of, 16 increase in/balance sheet impact, 11 overstating, 14, 16, 27, 39 recognition (see Aggressive revenue recognition) reporting fraudulent, 27-28 unearned or deferred, 12 Reverse takeover, 37, 41, 64, 69, 71, 97, 149 **RINO International Corp.:** background, 60-61 consolidated balance sheets, 64-66 Frazer Frost and, 95 key lessons, 66 Muddy Waters Research and, 52-53 organizational chart, 62 warning signs, 64 what happened, 61-64

Ripley Capital, 122 Rodman & Renshaw, LLC, 63 SAIC. See State Administration of Industry and Commerce (SAIC) Sale without recourse, 117 Satyam Computer Services Limited: accounting games and, 2 cooking the books at, 1 overstating earnings and, 16 Scandals. See Accounting scandals S-chips. See Sino-Environment Technology Group Limited SEC. See Securities and Exchange Commission (SEC) Securities and Exchange Commission (SEC): 10-Q and 10K filings and, 147 Longtop Financial and, 30 SAIC filings and, 94-95 Satvam and, 16 Securities and Financial Commission (SFC), 172 Security Analysis (Graham and Dodd), 1 Seller financing, 121 SFC. See Securities and Financial Commission (SFC) SGX. See Singapore Stock Exchange (SGX) SGX-SESDAQ, 42 Shanghai Composite Index, 3 Shareholders: alignment of interest and, 45, 134, 153, 156 dividend payouts and, 152 rights of, 166 Shareowner rights, 139 Shell company, 37, 62, 63, 64, 69, 89, 150 Shell Oil, 59 Short sale opportunity, 2 Singapore Stock Exchange (SGX), 69, 175 Sino-Environment Technology Group Limited: alignment of interest and, 170 background, 153-154 key lessons, 156-157 warning signs, 156 what happened, 154-156

Sino-Forest Corporation: accounting games and, 117, 168 application, 117 background, 37 board governance and, 138 "cooking the books" at, 28-29 increase in revenue and, 12 key lessons, 41-42 Muddy Waters report on, 38, 39 related-party transactions at, 140 - 141warning signs, 40-41 what happened, 38-40, 43 Special-purpose entities: consolidation and,72 Enron and, 117 footnote disclosures and, 52 Olympu: Corporation and, 67-68 transfer of assets/liabilities to, 18 Standard & Poor's, 122 Stark Investments, 154 State Administration of Industry and Commerce (SAIC): accounts filed with, 172 Duoyuan Global Water and, 125 RINO and, 61 SEC filings and, 94–95 Statements of cash flows. See Cash flow statements Stock exchange. See Hong Kong Stock Exchange (HKEX); New York Stock Exchange (NYSE); Singapore Stock Exchange (SGX); Toronto Stock Exchange (TSE) Stock option packages, 142 Stock(s): convertible note and, 87 "extreme outsourcing" and, 37 "penny," 59 treasury, 111 undisclosed "tail" and, 36 "Swedish Match King," 3, 159 Takeovers: ownership structure and, 140 reverse, 37, 41, 64, 69, 71, 97, 149

Taxes: deferred, 81-86 value-added (VAT), 61, 105 Tech Mahindra Limited, 1 10-K report, 76, 102, 147 10-Q reports, 96, 147 Third-party verification, 40 Toronto Stock Exchange (TSE), 37, 67 Transactions: arm's-length, 135 complex, 143 falsification of, 134 related-party, 133, 134, 135 Transfer with recourse, 117 Transparency: business model and, 134 lack of, 37, 97, 143, 156 TSE. See Toronto Stock Exchange (TSE) Underground shopping centers. See Rehne Commercial Holdings Understatement of expenses, 15, 17, 29-31, 162 Unearned revenue, 12, 80 United States Securities and Exchange Commission (SEC), 16 U.S. GAAP rules. See Generally Accepted Accounting Principles (GAAP) Valuation allowance, 85 Valuation models: about, 55-56 future cash flows and, 107 Value-added tax (VAT), 61, 105 Value investing, "father of," 1-2 Variable-interest entity (VIE), 62-63, 66 VIE. See Variable-interest entity (VIE) Warning signs: balance sheet and, 160

cash flow and, 118, 120–121 corporate governance and, 145 at Duoyuan Global Water, 125 earnings management, 88

at Longtop Financial, 35-37 master checklist of, 164-167 at Oceanus, 71-72 at Oriental Century, 44 overstated earnings, 32 overstating financial position, 60 at PUDA Coal, 151-153 related-party issues and, 145 related-party transactions and, 148 at RINO International Corp., 64 at Sino-Forest, 40-41 WCC. See West China Cement Wellington Management, 101 West China Cement: background, 98 deferred taxes and, 86 Deutsche Bank and, 100 100 Glaucus Restarth and, 99, 100 key financiais, 98 key lessons, 101 warning signs, 100-101 what happened, 98–99 White shoe" bankers, 95 William Blair & Co., 33 Winsway Coking Coal Holdings: background, 131-133 corporate structure of, 131 key lessons, 135 warning signs, 134 what happened, 131-134 Work-in-process at year-end, 124, 125 Worldcom, 3, 117, 159

XDCC. See Xiamen Dongnan Computer Col (XDCC)
Xiamen Dongnan Computer Col (XDCC), 36
Xiamen Longtop Human Resources (XLHRS), 30, 35–36. See also Longtop Financial
XLHRS. See Longtop Financial; Xiamen Longtop Human Resources (XLHRS)