

THE CASE OF THE FRAUDULENT FINANCIAL
REPORTING OF WANFU BIOTECHNOLOGY (HUNAN)
AGRICULTURAL DEVELOPMENT CO., LTD.

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Abstract

The fraudulent financial reporting of Wanfu Biotechnology (Hunan) Agricultural Development Co., Ltd. is a representative one in China. The fraud scheme was committed by overstatement of profits and assets. But there are some early-warning signals of fraud existing in the company which are artificial earnings management, CEO duality, ownership structure, incentives for IPO and concealment of losses. The primary fraud presented in its financial statements are assets, unusual growth rate in comparison to the industry, out-of-logic financial and economic ratios' and, significant changes in short accounting periods without being reported.

Keywords: fraudulent financial reporting, fraud scheme, early-warning signals

JEL Codes: M410, M480

Resumo

Wanfu Biotechnology (Hunan) Agricultural Development Co., Ltd. é uma empresa chinesa que falsificou o relato financeiro. O esquema de fraude foi cometido através da sobrevalorização de activos e da criação de transacções fictícias, entre outras. Existem alguns sinais de pré-aviso de existência de fraude na empresa tais como criação artificial de lucros, dualidade CEO e gestão, estrutura accionista, incentivos financeiros para ir a IPO e ter medo de ser um insucesso. A primeira fraude apresentada nos relatórios financeiros são os activos, anormal taxa de crescimento da indústria, apresentação de rácios desproporcionais e a alterações significativas nas contas de curto prazo sem um suporte minimamente razoável.

Palavras-chave: relato financeiro fraudulento, esquema de fraude, Indicadores de fraude
JEL Códigos: M410, M480

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List of Abbreviation

ACFE	Association of Certified Fraud Examiners
AICPA	American Institute of Certificated Public Accountants
BDH	Bei Da’huang Co., Ltd.
CEO	Chief Executive Officer
CAS	Chinese Accounting Standards
CSRC	China Stock Regulatory Commission
FCF	Free cash flow
GEM	Growth Enterprises Market
IPO	Initial Public Offering
JJ	Jin’jian Co., Ltd.
WBAD	Wanfu Biotechnology (Hunan) Agricultural Development Co., Ltd.

1. Introduction

The incidence of financial fraud is becoming higher in China. The main reason is the rapid growth of the amount of listed companies. To detect fraudulent financial reporting is one of hot issues related to capital market in China because fraud is a significant problem in China's unique transition economy and immature corporate governance environment. China's Ministry of Finance issued the new Chinese Accounting Standards (CAS) on February 15, 2006 to strengthen regulatory effectiveness and enhance corporate governance (Habib, 2015). However, Liu (2013) points that some companies still commit financial fraud after the introduction of the new CAS in order to make their financials look better than they really are in their attempt to raise funds from stock exchanges like Wanfu Biotechnology (Hunan) Agricultural Development Co., Ltd. (WBAD).

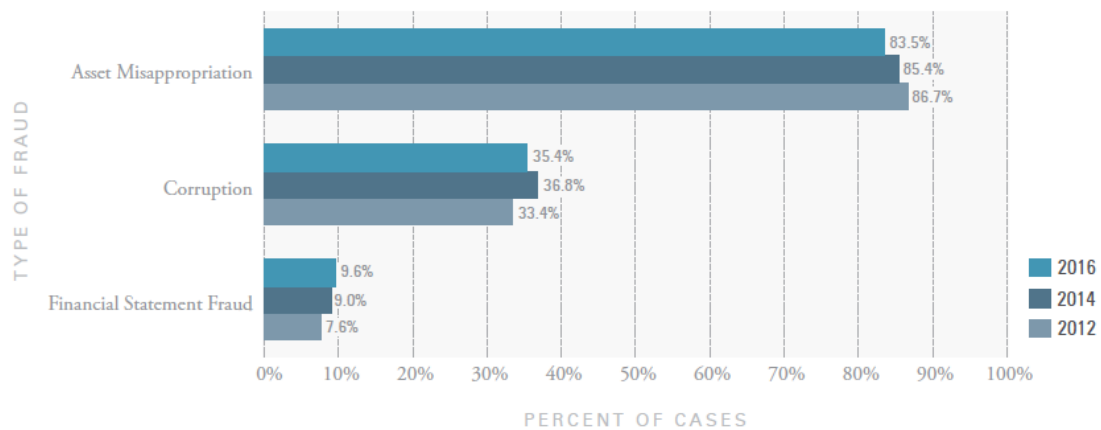
Since the Shanghai Stock Exchanges and the Shenzhen Stock Exchanges' establishment as the capital market in China in the early 1990s, the scale of the market has been growing as the relevant policies and regulations have been established. In the meanwhile, the problem of fraudulent financial reporting has become increasingly prominent (Aggarwal, Hu and Yang, 2015). China's fraudulent financial reporting amongst listed companies has been increasingly exponential. The frequent occurrence of such incidents has caused great damage to the stock exchanges and many investors, but also presents a serious threat to the sustainable development of the national economy (Zou, 2015).

Wang, Winton and Yu (2010) examine that the fraudulent financial reporting of listed companies has seriously interfered with the efficient allocation of market resources which curb the sustainable development of the stock exchanges in China. They also point out that the authenticity of the financial statements of listed

companies on the stock exchanges directly affects stock prices. Because financial statements provide references for policy formulation and implementation, and also provide information for investors to make investment decisions. Due to the reliance upon financial statements' information, the negative influence related to fraud on stock exchanges is a hot issue nowadays. WBAD's fraudulent financial reporting involved a huge amount of money that led investors to lose ¥300 of million (Yam, 2013). Investor protection in the current market environment has become extremely urgent. How regulators adhere to standards of professional integrity and ethics is a subject of great concern and of attention to the public. This paper presents an investigation and an analysis of the fraudulent financial reporting practices at WBAD.

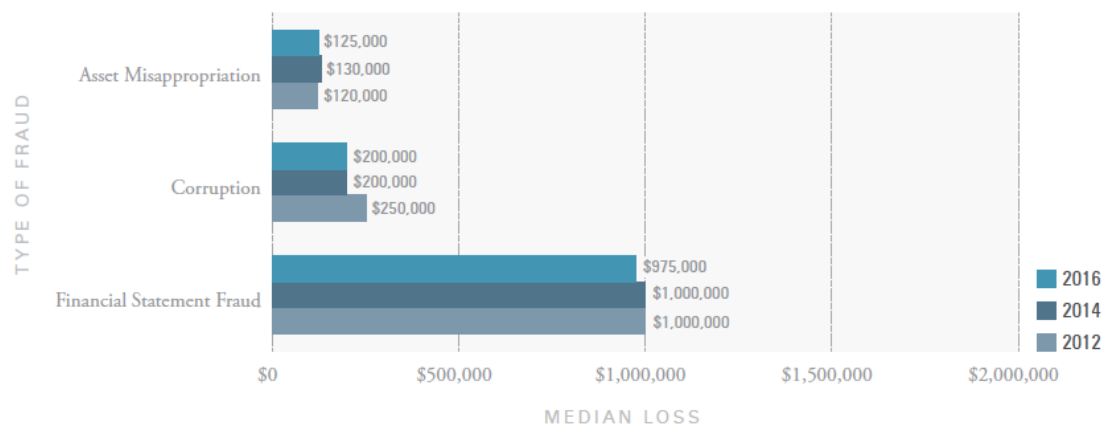
Fraudulent financial reporting usually plays a key role in rating organization's credit and for public confidence in stock exchanges. High frequency of fraudulent financial reporting raises concerns about the authenticity of the financial statements and requests the obligation of auditors, regulators and analysts who work with the financial statements process. The Association of Certified Fraud Examiners (ACFE) presents the analysis about a global-fraud study of how occupational fraud is committed, given an analysis of 2,410 cases of occupational fraud in 114 different. Fraudulent financial reporting is becoming increasingly prevalent. It shows that the total loss caused by those cases was more than \$6.3 billion, and the average loss was \$2.7 million. The longest median duration took 18 months with the highest loss of \$150,000 in a case, and cases that led loss of \$1 million or more takes 23.2% of total cases. This survey classified occupational frauds by three categories as asset misappropriation, corruption and financial statement fraud. Although fraudulent financial reporting presents the lowest frequency among them (Figure 1), it leads the highest median loss of these three categories (Figure 2). What's more, the incidence of fraudulent financial reporting has become increasingly common in recent years (Spathis, 2002).

Figure 1: Occupational Frauds by Category—Frequency



Source: AFCE 2016

Figure 2: Occupational Frauds by Category—Median Loss



Source: AFCE 2016

Fraudulent financial reporting seriously misleads regulators and investors, and undermines the integrity of the stock exchanges. The China Stock Regulatory Commission (CSRC) is not able to effectively prevent fraudulent activities or to reduce the market risk caused by such fraud to listed companies (Wu and Ye, 2008). The credibility of the accounting firms involved is also diminished by their mistake or poor capability of auditing financials so that their audit work is carried out under an unprecedented credit crisis: investors' decisions are distorted by making investment

decisions based upon incorrect and distorted information contained within fraudulent financial reporting of these listed companies. The significance of case study related to financial fraud is about improving the ability of the relevant regulators to address (He and Tang, 2016). The relevance of the study covers the following aspects:

(1) To enhance the regulators' capability.

The CSRC did not identify the fraud relating to WBAD at the time its stock was issued which represents the most significant factor and it can be seen that similar oversights probably also occurred in the case of other companies where fraudulent financial reporting was also present. This article seeks to address these oversights and to propose possible solutions for future regulators in this area.

(2) To improve investors' ability of making decisions.

By analyzing the case of WBAD investors are able to learn useful lessons regarding this type of fraudulent financial reporting and to prevent being exposed to a risk of losing their investment capital in companies' guilty of that type of behavior.

(3) To improve the rules and regulations of the stock exchanges.

WBAD was the first company which issued its stock with fraudulent financial reporting in the Growth Enterprises Market (GEM) of the Chinese stock exchanges in 2012. GEM was launched in 2009 which is for small and medium companies (Patti, 2009), so it is more tolerant to new companies which plan to be launched there.

The previous studies of Chinese fraudulent financial reporting only took those companies which were listed on the Main-Board Market or the Small and Medium Enterprise Board as their research objects, while this thesis is a study of the first company that presented with fraudulent financial reporting in GEM. This is the innovative part of this thesis and it will assist the relevant regulators to prevent the GEM from this kind of problem in the future.

The final aim of the paper is to offer the appropriate and informed advice to the parties who are involved in such transactions including the companies themselves, their auditors and the relevant regulators from the extensive and detailed study of the case related to WBAD's fraudulent financial reporting.

2. Literature review

2.1 Definition of fraudulent financial reporting

Fraudulent financial reporting is defined: *"This type of fraud is committed by company managers who make false and misleading entries in the books, making financial results of the company appear to be better than they actually are. The purpose of this type of fraud is to deceive investors and creditors into investing or loaning money to the company that they might not otherwise have invested or loaned"* (Harrison, Horngen & Thomas, 2012: 233). Fraudulent financial reporting is committed with the purpose to beautify the financial performance. It is usually appearing with overstated assets and revenue or misreported debts.

2.2 The features of fraudulent financial reporting

The research of features of fraudulent financial reporting is a continuous study for scholars and professional workers related to the area of accounting and auditing over the world when the global economy is developing fast and there are more fraudulent problems occurring in various ways. Since 1980s, many researches find the features from fraudulent financial reporting by descriptive analysis and statistical analysis method in the survey.

Beasley (1996) finds the results from logistic regression analysis in which there

are 150 companies chosen as samples with half of them had committed fraud: (1) an audit committee doesn't significantly affect financial fraud; (2) financial fraud decreases when the percentage of outsider members of board is increasing.

Lee, Ingram and Howard (1999) conclude that the relation of earnings and operating cash flow indicates fraudulent financial reporting, especially when analyzed with other factors related to fraud risk. They test a logistic regression model which shows that the probability of committing fraud is highly related to the excess of earnings over operating cash flow.

Beneish (1999) and Wells (2001) claim that companies commit fraud by falsifying the increase of accounts receivable, gross margin and sales growth. Beneish (1999) tests profit models by a sample of 74 fraud-committed companies that manipulated earnings to analyze. He finds some accounting variables can be applied to identify if earnings are manipulated. Earnings manipulation's increase is highly related to companies that declare growth as well as companies that have less-than-adequate cash.

ACFE (2016) presents the analysis as aforementioned, which offers a clear overview of the features of financial statement fraud. The main result of this analysis was conducted with two misstatements:

(1) Net worth/ net income overstatements

The main processes of net worth/ net income overstatements are:

- a) Timing differences;
- b) Fictitious revenues;
- c) Concealed liabilities and expenses
- d) Improper assets valuations
- e) Improper disclosures

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Regarding common features of financial fraud committed by listed companies in China, some Chinese researchers (Liang and Ren, 2009; Wu and Ye, 2008; He and Tang, 2016) agree as following:

(1) Perpetrators are generally senior managers.

Even though fraudulent financial reporting can take place in different departments, it usually happens in high-level departments. Low-level staffs don't usually have the opportunity to engage in this type of fraud owing to controls over them arising from examinations conducted by supervisory departments, whilst high-level staffs or senior managers have the authority to access many departments to falsify figures and have the capacity to circumvent examinations carried out by regulators and other regulatory bodies.

(2) Overstatement of operating profit

Fraudulent financial reporting is committed by falsifying figures in financial statements, so it has no influence on the true profitability. Sometimes, the managers who get involved in such fraud spend more time manipulating financial statements than their day-to-day tasks. This has a negative effect on the operating capability of the company as a whole.

(3) Fraudulent financial reporting is carried out on a continuous basis.

Normally, fraudulent financial reporting isn't isolated by one accounting period but is continuous across continuous accounting reference periods in order to maintain the original pretense, especially in the case of listed companies and companies seeking public issuance whose financial statements are relied upon by the public.

Generally, fraudulent financial reporting is conducted over various accounting periods otherwise users of the company's accounts will be able to detect significant distortions between the beginning balances and the ending ones.

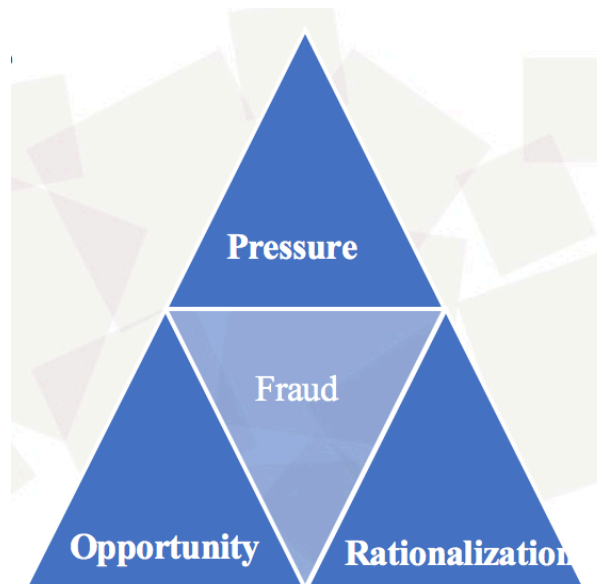
2.3 The research of early-warning signals occurred in frauds-committed by companies

2.3.1 Fraud triangle

Since Cressey (1953) proposes the theory of fraud triangle: (1) perceived pressure, (2) rationalization, and (3) knowledge and opportunity to commit the crime. Albrecht, Wernz and Williams (1995) also agree which was mentioned above that it is highly important for a large-scale or long-period fraud. Pressure refers to perpetrators' personal stress that could come from some financial problems or one's incentive. Rationalization refers to perpetrators usually have a personal understanding of fraud or ethics for their companies. They believe their behaviors are somewhat reasonable. Opportunity occurs in a company where there are employees and managers who have worked for a long time or gained perpetual occupations inclined to commit fraud as they know the weakness of the control (Singleton, Singleton, Bologna and Lindquist, 2006). They also find the main factor cultivates opportunity is weak internal control. The fraud triangle provides clues to examine any fraud that will take place if all of the three elements are present (Albrecht, Albrecht, Albrecht and Zimbelman, 2011).

This paper follows previous studies by applying fraud triangle theory. Mohamed, Ahmad and Jon (2015) examine fraud-risk factors by fraud models including fraud triangle model which indicates the relation of fraud triangle and financial-fraud cases based on Malaysian public listed companies. Mohamed and Jomitin (2014) prove that fraud triangle model is significantly important to detect fraudulent financial reporting by applying fraud triangle theory in their case studies of determining fraud risk as well.

Figure 3: Fraud Triangle



2.3.2 Red flags

Romney, Albrecht and Cherrington (1980) give a comment of the fraudulent examples to identify the drivers which cause a high probability of fraud. They cling to an idea as "The Red Flags of Possible Fraudulent Activity" and defined the red flags with three items as: Opportunity Red Flags, Personal Characteristic Red Flags and Situational Pressure Red Flags.

Loebbecke, Eining and Willingham (1989) support the importance of control environment by a survey based on one partner of KPMG Peat Marwick. If it is weak, management fraud or other frauds will have a chance to take place. Heiman-Hoffman, Morgan and Patton (1996) point that the dishonest of clients is the most important red flag and weak control environment is the next one on the list of 30 important signs ranked by asking 130 auditors with a survey. The American Institute of Certificated Public Accountants (AICPA) issued "Statement on Auditing Standards No.53: The auditor's responsibility to detect and report errors and irregularities" in 1989. However, it doesn't offer the guidance for auditors for how to use it to distinguish

errors and irregularities in order to give an appropriate assessment of the risk (Loebbecke et al., 1989 and Heiman-Hoffman et al., 1996).

These red flags can be separated into six groups: “(1) accounting anomalies, (2) internal control, (3) analytical anomalies, (4) extravagant lifestyle, (5) unusual behavior, (6) tips and complaints” (Albrecht et al., 2011: 137).

Many prior studies were undertaken with investigating red flags associated with financial statement fraud. Brennan and McGrath (2007) study 14 cases from the U.S. and Europe to identify how red flags reflect financial statement fraud. In this case study of WBAD, red flags were vitally important signals in guiding us to investigate.

2.3.3 Internal governance related to earnings management

The definition of earnings management was concluded by Ronen and Yaari (2008: 26) as: “Earnings management occurs when managers use judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers.”

Leuz, Nanda, and Wysocki (2003) point that earnings management can conceal a company's profitability from public, namely, earnings management somewhat penalizes investor's profit.

Kedia and Philippon (2009) argue that earnings management can make positive effects on stock prices, offering more opportunities for managers to get profitable deals in capital market, and managers who have more shares and are more incentive

to get involved in earnings management. Managers who plan to hide the low productivity of their companies generally manage earnings and also recruit and invest to make a pretense that the productivity is high. Actually, companies with low real productivity would like to recruit and invest excessively, which distorts the distribution of resources in earnings management. For low productivity, managers have to misreport in financial statement which seems that they really have recruited more people and invest more for companies.

Cheng, Lee and Shevlin (2016) find that internal governance has significant influence on constraining earnings management and the influence of internal governance is stronger where CEOs are less powerful, is weaker where CEOs have incentives to manage earnings.

2.4 Fraudulent financial reporting for Initial Public Offering (IPO)

IPO - a company's shares are issued to the public for the first time, offering new chances for the business, its owners and investors (Khurshed, 2011).

Gregoriou (2011) claims that IPOs of shares are an important way to contribute to capital structure for young companies and also play a key role in initial financing work, so it's common to find that the circumstance of the stock exchanges and financial statements of companies are changing unusually during some short accounting periods before IPOs.

WBAD's financial statements for its IPO also presented information which was ignored by public because people are tolerant to new. But WBAD committed fraud to reach its goal of issuing shares.

3. Methodology

Sutter (1998) categorized research methodology by 6 distinguishing features:

- 1) Quantitative versus Qualitative,
- 2) Descriptive versus Inferential,
- 3) True Experiment versus Quasi-experimental,
- 4) Causal Comparative versus Correlational
- 5) Single-Subject versus Group, and
- 6) Teacher (sometimes call action research) versus Traditional.

Runeson & Höst (2009) argue that case study is an empirical method which can investigate some phenomena in certain context. Yin (2009) deems that case study is an event or an individual or even a unit of analysis which is mainly generating in three types: descriptive, pilot and explanatory. Noor (2008) lists the strengths of case study: 1) descriptive case study is for describing specific situation; 2) pilot case study is for formulating questions or hypothesis testing; 3) explanatory case study is for research of individuals.

The present case study can be considered as descriptive one, intending to adopt a two-pronged approach: firstly studying the relevant literature and secondly analyzing the financial reports of WBAD.

In the first part by researching and reviewing the relevant research from China and other countries. The primary literature is composed of news and company reports. The secondary literature is from journals, books or some publishing articles related to the primary literature.

In the second part, this paper states the related definitions, features of fraudulent financial reporting, which lays foundation for later analysis. These tools will be employed to study the processed-rice industry of WBAD and to analyze the case of

the company's fraudulent financial reporting in its IPO listing information.

WBAD was still doing its own business until May of 2017, but the case study focuses on its fraud-committed period. With considering this situation, this study only focused on the accounting period of 2008-2012 to analyze in aspects of financial statement, financial ratios and cash flow.

3.1 Analysis

The analysis of this case study can be considered “mix” while in some cases one or both of qualitative and quantitative methodology were applied. Literature review is a complement to the case study analysis and; the ratios used in the analysis are also efficiently and clearly to represent the overview of the case.

Thereby, the analysis tools used in this case study are the following:

- (1) To briefly describe WBAD and its main business;
- (2) To list primary financial index from WBAD's financial statements and the restatement after its fraud was discovered (As a listed company, all financial statements are available to download on the stock market websites - Appendix I.);
- (3) To choose some peers that were doing the same or related business in the same industry and region to compare. It can give an overview of the real circumstance of this kind of business and distinguishes the outstanding difference occurred in WBAD's financial statement;
- (4) To analyze the key index in 3 aspects: a) balance sheet, income statement and

cash flow statement; b) financial ratios in perspective of profitability, operating capability and debt-paying ability; c) free cash flow. The selected financial ratios for analyzing published financial statements are proposed methods which present more precise indicators in assessing the possibility that a firm engages in falsifying financial statements (Spathis, Doumpos and Zopounidiz, 2002);

(5) To analyze the reason of WBAD to commit frauds in terms of profit-driven factor and its unhealthy managerial control in which shareholder organization is a key point to analyze.

4. Introduction of Wanfu Biotechnology (Hunan) Agricultural Development Co., Ltd.

4.1 Background of Wanfu Biotechnology (Hunan) Agricultural Development Co., Ltd.

4.1.1 Company profile and the reason for choosing it as the case study

From 2003 when it was originally set up in Taoyuan, District, Hunan Province, WBAD's original name was Xianglu Wanfu Co., Ltd. It was re-registered on October 7, 2009 with its current name by the corporate legal person named Yongfu Gong and with a registered capital of ¥50 million. Yongfu Gong and his wife Ronghua Yang each owned a 29.99% share of WBAD's equity capital. It was merged and acquired by Joyvio Group in 2016, and then its name was changed to Joyvio Agriculture Development on May 22, 2017.

WBAD was listed on the Shenzhen Stock Exchange on September 15, 2011 and

issued 17 million (¥1 per share) on September 27, 2011. It increased the registered capital to ¥67 million on October 17, 2011.

Regarding the reason for choosing WBAD as the case study, as aforementioned, it is the first company which launched in GEM with fraudulent financial reports and, is a representative company of those companies who committed frauds in China because of its schemes of committing frauds which will be presented in the following parts.

4.1.2 The main products

The company's main business is deep processing of rice. The main raw material are rice and damaged rice, which are processed by the use of advanced physical, chemical and biological engineering technology with WBAD's equipment system. It is the first company in China whose production mode is based on recyclable economy that the core products of deep processing of rice and by-product with the comprehensive utilization. The company's main products are maltodextrins, high maltose syrup, rice protein powder, glucose powder, edible rice, which can be widely used in the production of beverages, food, feed, health care products, medicine, chemical and other fields (Table 1 and Figure 4).

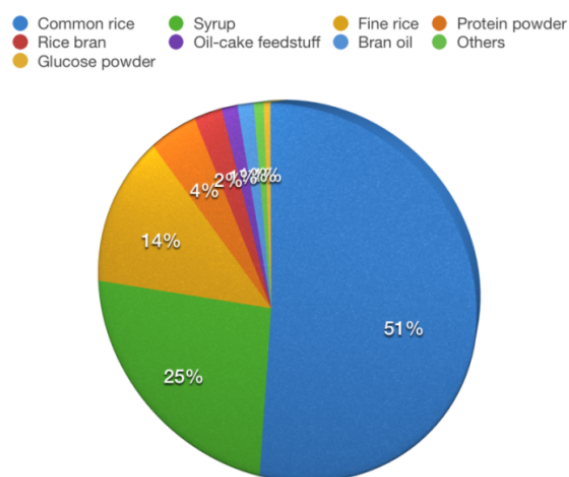
Through nearly eight years of development, the company's product structure, process technology, management level of the dynamic upgrade, have made it become the biggest company among the recyclable economy enterprises in the south of China who produce rice protein, rice starch sugar as the core products by deep processing of rice and by-product efficient utilization. In addition, the company's technological advantage is "the deep processing of rice, starch, sugar and by-product in efficient comprehensive utilization", which hits the international advanced level, and in a leading position in the technology of rice glucose crystallization in the world.

Table 1: Income of Products of WBAD in the First Half of 2012

Product	Income
Common rice	42,108,224
Syrup	20,317,413
Fine rice	11,197,521
Protein powder	3,520,289
Rice bran	1,947,715
Oil-cake feedstuff	1,073,932
Bran oil	1,066,423
Others	651,78
Glucose powder	431,098
Unit: ¥ RMB	

Source: WBAD's semi-annual financial restatement 06/2012 (Appendix II)

Figure 4: Income of Products of WBAD in the First Half of 2012



Source: WBAD's semi-annual financial restatement 06/2012 (Appendix II)

4.2 Analysis of the industry of rice processing

China is a country where more than 60% of the population takes rice as their staple food and is the number one rice producer in the world.

Rice processing involves the grading of the rice grains and the removal of the rice husk. Brown rice passes through two hulling machines that remove the outer bran layers from the grain. During the process of producing standard-quality rice, substandard and damaged rice are also produced as by-products. In China, the rate of damaged rice is about 15% during the production process, which represents an annual amount of damaged rice close to 10 million tons. More than 60% of the damaged rice is processed into feed with the remainder mainly being processed into glutinous rice flour, rice noodles, rice cakes, rice wine, rice vinegar and some other traditional Chinese foodstuffs. Compared with most other rice producing countries the Chinese industry is characterized by low efficiency.

Since the 1960s, with the development of technology, China has refined its rice processing capability specifically, the use of new physical, chemical, biological and other technologies which it has applied to the processing of rice and its by-products leading to a greater overall recovery rate per ton of source input. In light of these technological advances and increased productivity companies such as WBAD were established to take advantage of improved rice producing environment in China.

4.3 Review of the fraudulent financial reporting

WBAD's fraudulent financial reporting was discovered in its semi-annual financial statements of 2012. The total operating income was fraudulently inflated to as ¥270 million against a true figure of ¥82.17 million. This resulted in the company reporting profitable results for the first time in its history to which led the company's

financial results to be out of red soon in the first half of 2012. Due to the huge amount, which caught Hunan Province Securities Regulatory Bureau's attention then it began to carry out one-month investigation on September 19, 2012 when WBAD had to start the trade suspension as well. Hunan Province Securities Regulatory Bureau claimed that WBAD committed fraud and significant omissions in its semi-annual financial statement of 2012 on October 25, 2012. The operating income, the operating cost and the operating profit were overstated by ¥188 million, ¥146 million and ¥40 million, respectively. What's more, WBAD concealed the truth that it had suspended the project of recyclable-economy processing of for half a year.

WBAD issued the notification that its trade resumption on March 2, 2013, and also disclosed its other false records: the operating income, the operating cost and the operating profit were increasing falsely by around ¥740 million, ¥180 million and ¥160 million from 2008 to 2011, respectively, which should have been ¥25.66 million, ¥39.56 million and ¥60.27 million, respectively. The real amount of the operating profit was about ¥20 million.

As a consequence, WBAD was fined ¥300 thousand by the CSRC. The CEO Yongfu Gong was also fined ¥300 thousand and prohibited to enter the stock exchanges by the CSRC as well as the CFO of WBAD. Ping An Securities Company Ltd. as the sponsor institute of WBAD failed to honor its duty, issued the sponsor letter with a false record, was fined ¥76.65 million, and was disqualified as a sponsor institution for 3 months. In addition, Ping An Securities Company Ltd. had to set up the compensation fund of ¥300 million for those investors who lost the capital in this case. At the same time, the executive of Ping An Securities Company Ltd. Xue Rongnian was also jointly punished. The CSRC confiscated all the audit income of Zhonglei Accounting Firm which carried on the job of audit of WBAD, and fined it by ¥2.76 million with revoking its Securities Qualification Certificate. The accountant who signed for WBAD was detained at a fine of ¥130 thousand and prohibited to

enter the stock exchanges.

Table 2: Principle Accounting Index from Semi-annual Financial Statement of 2012
I

Operating Activities	Reporting Period	Last Year	Growth Rate
	01/2012-06/2012	01/2011-06/2011	
Gross revenue	269,905,215.22	232,214,988.94	16.23%
Operating profit	25,548,566.38	30,177,400.21	-15.34%
Total profit	28,740,111.24	34,213,870.33	-16.00%
Net income attributable to shareholders of the listed company	26,553,192.01	31,178,898.13	-14.84%
Net profit attributable to shareholders of the listed company after reducing non-	23,819,526.68	28,365,724.53	-16.03%
Net cash flows from operating activities	-28,589,370.08	39,555,630.96	-172.27 %
Total assets	1,002,885,123.36	1,053,056,010.51	-4.76%
Equity attributable to shareholders of the listed company	676,521,824.27	670,068,632.26	0.96%
Capital equity	134,000,000.00	67,000,000.00	100.00%
Unit: ¥ RMB			

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

Table 3: Principle Accounting Index from Semi-annual Financial Statement of 2012
II

Operating Activities	Reporting Period	Last Year	Growth Rate
	01/2012-06/2012	01/2011-06/2011	
Basic earnings per share (Yuan/ share)	0.198	0.624	-68.27%
Diluted earnings per share (Yuan/ share)	0.198	0.624	-68.27%
Basic earnings per share after reducing non-recurring profit and loss (Yuan/ share)	0.178	0.567	-68.61%
Rate of fully diluted Return on Common Stockholders' Equity after reducing non-recurring profit and loss (%)	3.92%	4.56%	-15.7%
Weighted average ROE (%)	3.89%	13.52%	-9.63%
Rate of fully diluted Return on Common Stockholders' Equity (%)	3.52%	4.23%	-16.78%
Weighted average ROE after reducing non-recurring profit and loss (%)	3.49%	12.3%	-8.81%
Cash flow from operating activities per share after reducing non-recurring profit and loss (Yuan/ share)	-0.21	0.59	-135.59%
Net assets attributable to shareholders of the listed company (Yuan/ share)	5.05	10	-49.5%
Debt to assets ratio (%)	32.54%	36.37%	-10.52%

Unit: ¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

Table 4: Principle Accounting Index from Semi-annual Financial Restatement of 2012
I

Operating Activities	Reporting Period	Last Year	Growth Rate
	01/2012-06/2012	01/2011-06/2011	
Gross revenue	82,169,396.61	232,214,988.94	-64.61%
Operating profit	-14,365,253.87	30,177,400.21	-147.60%
Total profit	-11,173,709.01	34,213,870.33	-132.66%
Net income attributable to shareholders of the listed company	-13,678,403.40	31,178,898.13	-143.87%
Net profit attributable to shareholders of the listed company after reducing non-	-16,412,068.73	28,365,724.53	-157.86%
Net cash flows from operating activities	-28,589,370.08	39,555,630.96	-172.28%
Total assets	962,315,828.30	1,053,056,010.51	-8.62%
Equity attributable to shareholders of the listed company	636,290,228.86	670,068,632.26	-5.04%
Capital equity	134,000,000.00	67,000,000.00	100.00%
Unit: ¥ RMB			

Source: WBAD's semi-annual financial restatement 06/2012 (Appendix II)

Table 5: Principle Accounting Index from Semi-annual Financial Restatement of 2012
II

Operating Activities	Reporting Period	Last Year	Growth Rate
	01/2012-06/2012	01/2011-06/2011	
Basic earnings per share (Yuan/ share)	-0.102	0.624	-116.35%
Diluted earnings per share (Yuan/ share)	-0.102	0.624	-116.35%
Basic earnings per share after reducing non-recurring profit and loss (Yuan/ share)	-0.122	0.567	-121.52%
Rate of fully diluted Return on Common Stockholders' Equity after reducing non-recurring profit and loss (%)	-2.15%	4.65%	-146.24%
Weighted average ROE (%)	-2.04%	13.52%	-115.09%
Rate of fully diluted Return on Common Stockholders' Equity (%)	2.58%	4.23%	-160.99%
Weighted average ROE after reducing non-recurring profit and loss (%)	-2.45%	12.3%	-119.92%
Cash flow from operating activities per share after reducing non-recurring profit and loss (Yuan/ share)	-0.213	0.59	-136.10%
Net assets attributable to shareholders of the listed company (Yuan/ share)	4.75	10	-52.50%
Debt to assets ratio (%)	33.88%	36.37%	-6.85%

Unit: ¥ RMB

Source: WBAD's semi-annual financial restatement 06/2012 (Appendix II)

4.4 Schemes of committing fraud

4.4.1 Overstating operating income

The main operating activities of WBAD are the sales of rice, maltose and their by-products. Falsified the price as 4 times more expensive than the original one for the majority of the products, thus the sales revenue was a hundred times more than the real sales income. What's more, some products weren't contained in sales, their sales' data was overstated in the same way. The most unacceptable income was the one of maltodextrin, which was reported as ¥1.12 million, while the real number was less than ¥100 thousand. Moreover, WBAD claimed that the transaction of glucose powder was ¥14 million, but it was actually only ¥430 thousand. According to the investigation, it can be seen that other products' sales were also falsified by 5 to 10 times more than the real ones.

WBAD committed fraud by the two following methods:

(1) Creating fraudulent contracts

WBAD created 2 contracts with Hunan Shaniu Food Company and 3 contracts with Dongguan Guanmu Huayuan, Cereals Oil Company in order to stress the authenticity of the fake sales.

(2) Creating fraudulent transactions, ghost suppliers and buyers

The majority of the buyers who were present in its semi-annual financial statement of 2012 were unreal and the relevant financials were also falsified by WBAD which can be seen in the table 5. Hunan Shaniu Food Factory had gone out of business for several years before 2012; Dongguan Changping Xiangying Cereals Oil Business Department was a briefcase company; Huaihua Xiaoyaya Food Co., Ltd. didn't exist; WBAD falsified transaction with Jinshi City Zhongyi Sugar Co., Ltd. and

Hunan Qidong Jiamei Food Co., Ltd. from ¥1.18 million and ¥2.23 million to ¥134.19 million and ¥141.51 million, respectively.

Table 6: The Top 5 Buyers in Semi-annual Financial Statement of 2012

Company	Revenue	%
Dongguan Changping Xiangying Cereals Oil Business Department	16,941,956.70	6.28%
Hunan Qidong Jiamei Food Co., Ltd.	14,156,118.40	5.25%
Hunan Shaniu Food Factory	13,803,865.90	5.12%
Jinshi City Zhongyi Sugar Co., Ltd.	13,419,520.80	4.97%
Huaihua Xiaoyaya Food Co., Ltd.	13,406,406.70	4.97%
Total	71,727,868.50	26.59%

Unit: ¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

Table 7: The Top 5 Buyers in in Semi-annual Financial Restatement of 2012

Company	Revenue	%
Dongguan Changping Xiangying Cereals Oil Business Department	16,941,956.70	20.58%
Foshan City Nanhai Yide Cereals Oil Trade Department	6,340,000.00	7.70%
Hunan Qidong Jiamei Food Co., Ltd.	2,228,011.60	2.71%
Jinshi City Zhongyi Sugar Co., Ltd.	1,187,250.00	1.44%
Jiaozuo City Feiai Agricultural Development Co., Ltd.	906,944.00	1.10%
Total	27,604,162.30	33.54%

Unit: ¥ RMB

Source: WBAD's semi-annual financial restatement 06/2012 (Appendix II)

4.4.2 Overstating prepayment

The prepayment of WBAD as of the end of 2011 was ¥119 million, which increased by 449.44% from the amount of 2010. The prepayment of WBAD's semi-annual financial statement of 2012 was falsified with amount of ¥146 million from ¥101 million which was inflated by ¥45 million. The prepayment to the subordinate food companies of WBAD flowed back to WBAD in the end, which was recorded as cash flow in the financial statements statement. The construction work in process of WBAD is the final project that pretended to make profits. Here is the brief introduction of the construction work in process.

First, WBAD opened an account in the name of the construction work in process

and paid for it, which explained the reduction of cash flow. Second, there was a fake construction contracting company falsified by WBAD taking charge of the construction project of WBAD, so WBAD transferred money as project payment to this company. Third, the construction contracting company transferred money to others' accounts which pretended to be clients of WBAD, who signed purchase contracts with WBAD and paid for it. As the result, cash flow increased by the overstated prepayment according to the reasonable cycle. As the result, the assets of WBAD seemed increased.

Table 8: Prepayment in Semi-annual Financial Statement of 2012

Duration of project	At the end	At the beginning
1 year	145,695,483.65	118,809,817.66
1-2 year		569,030.00
Total	145,695,483.65	119,378,847.66

Unit: ¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

Table 9: Prepayment in Semi-annual Financial Restatement of 2012

Duration of project	At the end	At the beginning
1 year	101,007,181.02	118,809,817.66
1-2 year		569,030.00
Total	101,007,181.02	119,378,847.66

Unit: ¥ RMB

Source: WBAD's semi-annual financial restatement 06/2012 (Appendix II)

4.4.3 Overstating construction work in process

Besides the falsified prepayment, WBAD faked the profits by extending the

scale of construction work in process as non-current assets. The book value of each construction work in process was inflated that made assets increase to ¥180 million in the semi-annual financial statement of 2012. Compared with the amount of ¥87 million from 2011, it increased by ¥93 million within a half year, but the real amount was ¥100 million which actually increased by ¥13 million. WBAD was in the primary stage as a listed company, which usually demanded to set some construction works, so these processes didn't catch the attention of public.

Table 10: Book Value of the Construction Work in Process in the Semi-annual Financial Statement of 2012

Work in process	At the end	At the beginning
Reconstruction project of heating workshop	73,687,013.87	54,392,996.72
Expansion project of producing rice starch sugar	28,093,323.39	2,083,979.78
Sewage treatment project	42,012,028.65	2,012,028.65
Total	179,975,363.60	86,750,113.38

Unit: ¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

Table 11: Book Value of the Construction Work in Process in the Semi-annual Financial Restatement of 2012

Work in process	At the end	At the beginning
Reconstruction project of heating workshop	60,010,013.87	54,392,996.72
Expansion project of producing rice starch sugar	6,770,323.39	2,083,979.78
Sewage treatment project	2,012,028.65	2,012,028.65
Total	99,615,363.60	86,750,113.38

Unit: ¥ RMB

Source: WBAD's semi-annual financial restatement 06/2012 (Appendix II)

4.4.4 Unreported issues of Wanfu Biotechnology (Hunan) Agricultural Development Co., Ltd.

The investigation exposed that WBAD's recyclable deep processing of rice producing had been suspended by lacking technology supporting. So each production line was influenced or suspended for several months, which absolutely brought losses to WBAD. In the early half of 2012: the production line of common rice had been suspended for 123 days; the production line of fine rice had been suspended for 81 days; the production line of rice starch sugar had been suspended for 68 days. But WBAD didn't report it to the related investors or the public.

5. Financial analysis

Wells (2001) proves that fraudulent financial index can be generated by unreasonable result of financial ratios or relevant indicators after analyzing numbers from the balance sheet, income statement and statement of cash flows. Here are several analyses in terms of different aspects by analyzing these various statements from 2008 to 2012.

5.1 Analysis of financial statement

5.1.1 Balance sheet

Balance sheet is a statement of financial index of an organization (Harrison et al., 2012: 2) that is a way to know more about WBAD from the construction and the transformation of its assets, liability and equity by analyzing these balance sheets from 2008 to 2012.

Table 12: Primary Index from Balance Sheet from 2008 to 2012

Index	06/2012	12/2011	12/2010	12/2009	12/2008
Total assets	100,289	105,306	50,608	38,288	31,516
Accounts receivable	1,288	3,699	809	578	772
Current assets	65,624	79,359	28,588	26,139	19,843
Non-current assets	34,664	25,947	22,02	12,089	11,673
Prepaid accounts	14,57	11,938	2,173	1,564	3,182
Inventory	29,546	24,509	19,013	19,629	14,253
Fixed assets	13,564	14,23	14,188	10,62	8,805
Construction work in process	17,998	8,675	4,743	148	1,716

Unit: 10,000¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

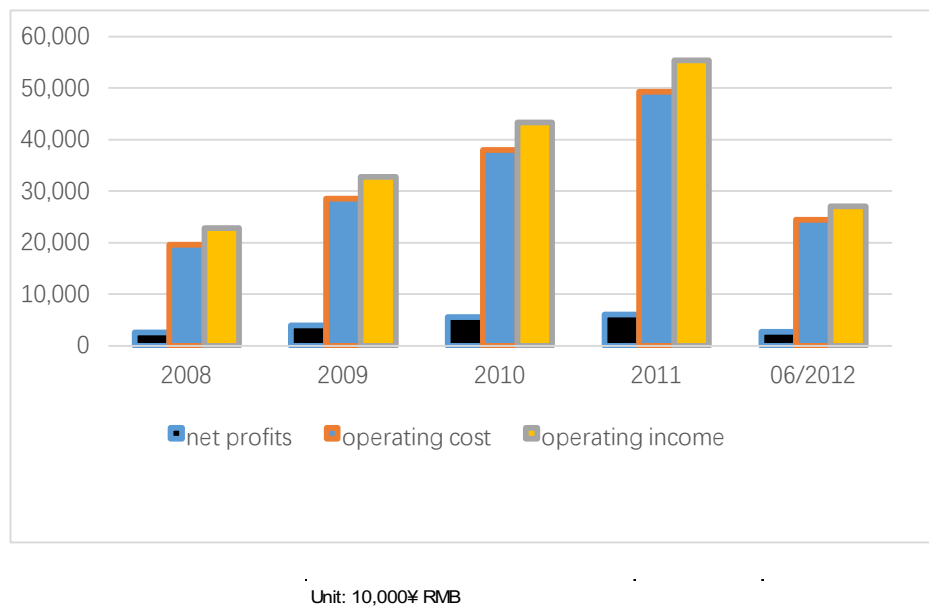
The current assets increased by over 50% from 2011 to 2012. Accounts receivable and prepayment increased by ¥28,90 million and ¥97,56 million respectively in 2011, which surged by 357% and 450% respectively. The construction work in process almost doubled in 6 months until June 2012. The amount of inventory also rose dramatically in 2011 and the early half of 2012. All above mentioned were obviously strange and WBAD didn't explain well in the financial statements.

There was another suspect that the expansion project of producing rice starch sugar was injected capital by ¥20,61 million before June 2012 (it was ¥2,08 million in 2011). The amount of investment of the expansion project of producing rice starch sugar was about 12 times as the amount of 2011 but the work efficiency was only one third of it in 2011, which also showed incompatible index and WBAD didn't provide more information or details of it.

5.1.2 Income statement

Income statement measures operating performance (Harrison et al., 2012), so this paper will present the unreasonable income and cost conducted with WBAD's income statement and find out why it is unreasonable by analyzing it with the true operating performance in the industry's circumstance those years.

Figure 5: Trend of the Profits



Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

Table 13: Primary Index from Income statement from 2008 to 2012

Index	06/2012	12/2011	12/2010	12/2009	12/2008
Operating income	26,991	55,324	43,359	32,765	22,824
Operating cost	24,434	49,319	37,946	28,565	19,559
Taxes and surcharges	121	160	139	36	4
Selling cost	497	1,406	1,217	1,026	274
Overhead cost	1,065	2,92	2,368	1,86	492
Financial cost	914	1,726	1,198	1,049	1,153
Operating profit	2,555	5,911	5,344	4,2	3,265
Construction work in process	17,998	8,675	4,743	148	1,716
Non-operating income	327	870	778	255	58
Non-operating cost	8	105	2	3	55
Income tax expense	219	649	563	444	754
Net profits	2,655	6,027	5,555	3,956	2,566

Unit: 10,000¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

Table 14: Growth Rate of Profit in the Prime Operating Income of WBAD and JJ

Company	Index	2011	2010	2009
WABD	Operating income	55,324	43,359	32,765
	Growth rate	27.60%	32.33%	43.55%
JJ	Operating income	142,59	125,236	122,786
	Growth rate	13.86%	1.99%	2.27%

Unit: 10,000¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

JJ's annual financial statements 12/2008–06/2012 (Appendix III)

Table 15: The other profitability indexes of WBAD and JJ

Company	Index	2011	2010	2009
WABD	Gross profit margin (%)	21.21%	23.93%	24.66%
	Net profit margin (%)	10.89%	12.81%	12.08%
	Return on equity (%)	8.99%	25.84%	24.81%
JJ	Gross profit margin (%)	10.62%	15.89%	16.53%
	Net profit margin (%)	-4.96%	0.53%	0.44%
	Return on equity (%)	-13.75%	1.02%	0.69%

Unit: 10,000¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

JJ's annual financial statements 12/2008–06/2012 (Appendix III)

In recent years, a lot of companies from processing industry for agricultural products make a little profit or only keep balance in China. Because Chinese government's macroeconomic management controls the prices of agricultural products not to grow fast when the cost of agricultural products' material is becoming more and more expensive in the last ten years. Normally, if the cost increases and

other conditions are the same as before, the profit usually goes down. But WBAD's profit kept going up during 2009 to 2011 and its operating income was increasing with almost same rate without proper explanation. However, one famous company named Jin'jian Co., Ltd. (JJ) in the same industry and the same city with WBAD made negative net profit margin of – 4.96% in 2011 (0.44% in 2009). There is a comparison from the two companies in the following tables. From table 14, it's clear to show WBAD's growth rate of profit was almost 2 times, 16 times and 19 times as JJ's in 2011, 2010 and 2009, respectively. The similar phenomenon also occurs in table 15.

5.1.3 Cash flow statement

Cash flow statement indicates the cash the company has generated and expensed over the year (Harrison et al., 2012), which is also important for knowing a company during accounting periods. Here is a brief cash-flow statement of WBAD from 2008 to 2012.

Table 16: The Primary Index from Cash-flow Statement of WBAD from 2008 to 2012

Index	06/2012	2011	2010	2009	2008
Cash flow from operating activities	-2,859	3,34	7,163	1,263	205
Cash flow from investing activities	-5,883	-13,616	-11,16	-931	-3,781
Cash flow from financing activities	-11,102	43,386	5,439	2,383	3,481
Net cash flow	-19,844	33,11	1,442	2,715	-95

Unit: 10,000¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

WBAD's net cash flow rose sharply before its IPO and then slumped after IPO. Cash flow from investing activities increased faster than cash flow from operating

activities, which presented WBAD's still got investment even though it didn't enhance its operating capability. And its cash flow from financing activities also decreased after its IPO. These phenomena were not abnormal as a young listed company in China. But it is clear to show WBAD was in high risk in June 2012 which was contradictory to its report that claimed they kept the good trend in operating and there existed doubts in the operating revenue which went up with 16.18% from June 2011.

5.2 Analysis of financial ratios

People who plan to invest or assess an organization can apply financial ratios in the analysis (Harrison et al., 2012). By using financial ratios, some company's information can be discovered. Generally, there are three aspects of ratios to show the risk and profit:

Table 17: The Three Aspects of Ratios

Profitability	Return on Assets = Net Profit / Average Total Assets
	Net Profit Margin = Net profits / Net Sales
Operating Capability	Inventory Turnover = Cost of Goods Sold/ Average Inventory
	Accounts Receivables Turnover = Net Sales/ Average Accounts Receivable
Debt-paying Ability	Debt to Asset Ratio = Total Liabilities/ Total Assets
	Liquidity Ratio = Liquid Assets/ Current Liabilities

5.2.1 Profitability ratios

Profitability ratios are a group of functions which are applied to evaluate a company's profitability to its expenses and liabilities over an accounting period (Harrison et al., 2012). The principle ratios are net profit margin, gross profit margin,

return on assets and return on equity. This paper presents return on assets and net profit margin of WBAD to analyze (table 18).

(1) Return on assets (ROA) is an index of the relationship between an organization's profit and its total assets in an accounting period; ROA indicates the performance of an organization's profitability with its assets (Harrison et al., 2012). The table gives the percentage of ROA of WBAD from 2008 to 2012, which went up until 2010 but went down from 2011. It indicates that WBAD's profitability was going down at that time.

(2) Net profit margin shows how much of each dollar owned by a company as revenue turns into profit (Harrison et al., 2012). Higher percentage indicates the stronger profitability of a company. From 2008 to 2010, the net profit margin of WBAD was keeping going up. However, it turned down after its IPO. This also indicates WBAD was not in a good business situation in these years.

Table 18: Return on Assets and Net Profit Margin of WBAD from 2008 to 2012

Index	06/2012	2011	2010	2009	2008
Return on assets (%)	2.65%	7.73%	10.98%	10.34%	8.14%
Net profit margin (%)	9.84%	10.89%	12.87%	12.08%	11.28%

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

5.2.2 Operating capability

Operating capability refers to the ability of a company to run business with the assets to generate earnings including inventory turnover, current asset turnover, operating cycle, liquidity, accounts receivable turnover, total asset turnover and so on (Harrison et al., 2012). This paper chooses the inventory turnover and the accounts receivable turnover of WBAD to analyze its operating capability.

(1) Inventory turnover presents the efficiency of an organization for selling inventory which is usually compared to industry average (Harrison et al., 2012). A low inventory turnover normally proves that a company could have a inefficient inventory management, namely, it is storing more goods than its sales, which is not a positive-trend signal in some cases. In the opposite, a high inventory turnover proves that an organization could have a good outperformance with its competitive advantage. According to table 19, the inventory turnover of WBAD was lower than JJ and Bei Da'huang Co., Ltd. (BDH) who were doing the same business in the same industry, especially in 2012. But WBAD's revenue was increasing from ¥228 million, in 2008 to ¥553 million in 2011 with an annual growth of 47.33%. What's more, the semi-annual revenue of 2012 was ¥270 million, when the inventory turnover was only 0.26. From the above analysis of the growth rate of profit of WBAD and JJ's growth rate of profit was almost 2 times, 16 times and 19 times as JJ's in 2011, 2010, 2009, respectively (table 14). But JJ's inventory turnover was higher than WBAD's in each year. If WBAD generated earnings by selling products, the inventory turnover should have increased. Otherwise, there exists contradiction in its financial statements or they should have stated more details to explain it.

Table 19: Inventory Turnover of WBAD, JJ and BDH from 2008 to 2012

Inventory turnover	06/2012	2011	2010	2009	2008
WBAD	0.26	1.97	1.71	1.46	1.56
JJ	1.90	3.60	2.38	2.10	2.10
BDH	1.48	1.76	1.47	1.64	1.55

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

JJ's annual financial statements 12/2008–06/2012 (Appendix III)

BDH's annual financial statements 12/2008–06/2012 (Appendix IV)

(2) Accounts receivable turnover indicates that an organization can transform its accounts receivable into cash how many times over an accounting period. It shows an organization's ability of collecting its credit sales from customers. It can be seen that

higher accounts receivable turnover is better in general (Harrison et al., 2012).

But WBAD's accounts receivable turnover was higher when its inventory turnover was lower than the other two companies (table 16). It was abnormal and WBAD didn't explain what had happened in its financial statements.

Table 20: Accounts Receivable Turnover of WBAD, JJ and BDH from 2008 to 2012

Accounts receivable turnover	06/2012	2011	2010	2009	2008
WBAD	3.11	24.54	62.49	46.11	56.20
JJ	6.96	21.22	22.47	23.15	22.09
BDH	12.53	6.65	11.39	8.34	6.78

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

JJ's annual financial statements 12/2008–06/2012 (Appendix III)

BDH's annual financial statements 12/2008–06/2012 (Appendix IV)

5.2.3 Debt-paying ability

Debt-paying ability is generated by the income statement and the balance sheet. Generally, it is applied to analyze the credit of repaying debt by an organization. Usually, one significant indicator which could generate the result of high financial risk is debt-paying ability (Harrison et al., 2012).

Debt to asset ratio is to see the degree of financial leverage of a company (Harrison et al., 2012). If a company has a lot of long-term debt to asset ratio, it indicates the company is in a quite high level of financial risk. WBAD was in high level of financial risk from 2008 to 2009, and then it decreased to 32.54% in 2012.

Liquidity ratio is also one of methods to analyze that if an organization is able to repay both of its current and non-current liabilities and it could present the position of

cash and cash equivalence (Harrison et al., 2012). The proper liquidity ratio is 1, but WBAD's was 0.25, 0.31 and 0.41 in 2008, 2009 and 2010 respectively. After its IPO in 2011, the liquidity ratio climbed to 1.64 and 1.45 in 2011 and 2012.

According to the following table, WBAD's debt-paying ability was enhanced in the year after its IPO. As it was mentioned above, WBAD's operating capability and profitability was not as good as those selected peers in the industry. It's not difficult to see the enhancement of debt-paying ability was in suspicion as well.

Table 21: Debt-paying Ability of WBAD from 2008 to 2012

Debt-paying ability	06/2012	2011	2010	2009	2008
Debt to Asset Ratio	32.54%	36.37%	57.52%	58.29%	77.53%
Liquidity Ratio	1.45	1.64	0.41	0.31	0.25

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

5.3 Analysis of free cash flow

Free cash flow (FCF) presents how well an organization's financial activities work. It can be explained that how much cash is available for a company to use besides expenditure required to maintain its operating activities (Harrison et al., 2012). The conception of cash flow statements appeared in financial statements almost 30 years ago, as working capital flows highly related with earnings (Ketz, 2016). FCF offers useful information related to liquidity and solvency, and it is usually as the bottom line item of the operating activities of the cash flow and related to investing activities. Many investors also find the free cash flow as a key indicator for making investment decision.

FCF generally keeps positive net profit of a company (Harrison et al., 2012), but

WBAD's FCF was going down during 2009-2011 with FCF was ¥3.3 million, - ¥40 million and - ¥102.7 million respectively when the net profit amounted to ¥39.6 million in 2009, ¥55.5 million in 2010 and ¥60.2 million in 2011. Obviously, it was another suspicion in the financial statements of WBAD.

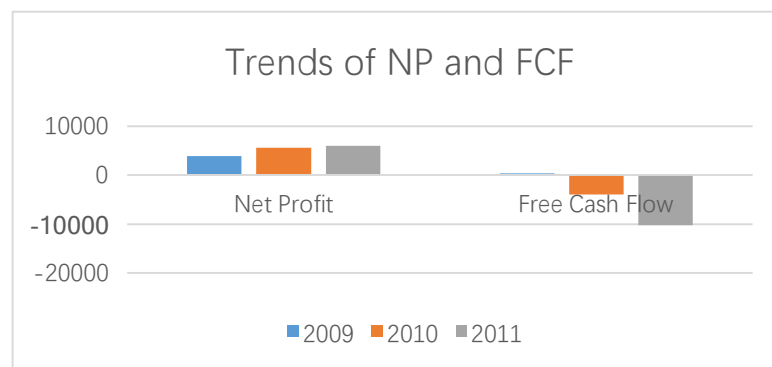
Table 22: Net Profit and Free Cash Flow of WBAD from 2009 to 2011

Index	2011	2010	2009
Net profit	6,026	5,555	3,956
Free cash flow	-10,276	-3,997	332

Unit: 10,000¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

Figure 6 Debt-paying Ability of WBAD, JJ and BDH from 2008 to 2012



Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix I)

5.4 Reasons for committing fraud

(1) Profit- driven factor

WBAD claimed that its mission was to be an enterprise of integrity which contributed to the social credibility. But WBAD broke its words when it was confronted with the temptation of profit. Because the requirements for companies' IPO in GEM were difficult for WBAD to reach, it started to falsify the financial statements from 2008 to prepare for its IPO in 2011, which enabled it to finance a

huge amount of capital funds.

(2) Unhealthy managerial control

From table 20, Yongfu Gong and his wife Ronghua Yang each owned 40.19%, which totally was 80.38% of WBAD before its IPO. After the IPO in 2011, their shares were still more than 60% of WBAD, which made the company be controlled by the couple without a healthy check and balance.

Furthermore, the Chairman of the board Yongfu Gong was also the Chief Executive Officer (CEO) of WBAD, so he could almost make all decisions by himself. Besides Yongfu Gong and Ronghua Yang, the board contained other 7 people who were experienced in management, but they hardly carried out the rights they had. Chen et al. (2006) point out that if directors come from outside of the board, the incidences of fraudulent activities in China will be reduced. Beasley (1996) also claims that the possibility of companies with CEO duality (who occupies both positions of the CEO and chairman) to commit fraud is higher.

Table 23: Ownership Structure of WBAD

Shareholder	Before IPO		After IPO	
	Shares	%	Shares	%
Yongfu Gong	2,009.50	40.19%	2,009.50	29.99%
Ronghua Yang	2,009.50	40.19%	2,009.50	29.99%

Unit: 10,000¥ RMB

Source: WBAD's annual financial statements 12/2008–06/2012 (Appendix 1)

6. Conclusion

After analyzing WBAD's case, it is possible to determine that the legal framework of the Chinese stock exchanges is still far from healthy. Because of the pervasive impact of fraudulent financial reporting, the assessment and the

management of it can lower the risk that undermines the integrity of the enterprise. There are two external aspects which cause the fraud of WBAD:

(1) Illicit competition of accountings firms and sponsor institutions

Zhonglei Accounting Firm took charge of WBAD's audition for its IPO, but it did not fulfill its obligation. There were a lot of frauds in WBAD's financial statements as some parts were more obvious which had been analyzed in this paper. Those professional auditors who worked in Zhonglei Accounting Firm gave unqualified opinion to confirm that WBAD's financial statements were authentic. As the consequence, it led investors to lose and damaged the credit of auditors in public.

Ping An Securities Co., Ltd. worked as the sponsor institution for WBAD's IPO had to examine all the documents and reporting's authenticity. However, Ping An Securities Co., Ltd. got involved in the fraud instead of supervising WBAD.

(2) Unsound governance system and penalty

WBAD was not a famous or profitable company compared with the other companies in the industry in Hunan Province, but it succeeded in passing the audition from the CSRC. WBAD was confronted with various doubts from public, which still couldn't curb it issued 17 million ¥1 ordinary shares in Shenzhen stock exchanges on September 27th 2011. After the investigation of this case, it discovered that there were bankruptcy and unsound governance in the securities market.

In the meanwhile, the penalty for IPO fraud in China is not sufficient for stopping a company cheating and the weak capability of executing penalty is also connivance. The fine for a company which has fraudulent IPO is less than ¥5 million. The final court decision was that WBAD only needed to be imposed a fine of ¥300,000, while the amount of overstatement involved in this case was 1416 times as the fine. As the consequence, there may be more companies that would like to make

money in this low-cost way in China. Compared with the same case in the U.S., a company or its legal person involved in fraud should be sentenced to less than 25 years' imprisonment with \$5-25 million, which is 6-150 times as the fine in China, and the involved accounts should be sentenced to less than 10 years' imprisonment or a fine.

The law and the penalty related to financial fraud should be improved and the regulators need to enhance their capability of examine the fraud in IPO and fulfill their obligation.

All the information can be analyzed and then generate the conclusion that the company had committed fraud, so related regulators and auditors could examine it more carefully that might reduce investors' loss. The methods of detecting fraudulent financial reporting over the world can't be applied directly to WBAD's case with considering the environments and regulatory criteria which are completely different.

WBAD's fraud is the first one in GEM but also a common case as other fraudulent cases. The early-warning signals of fraud existed in WBAD are artificial earnings management, CEO duality, unbalanced ownership structure, incentives for IPO and conceal of loss. The primary fraud presented in its financial statements reporting are assets, unusual growth rate related to the industry, out-of-logic ratios' results and dramatically changes in short accounting periods without reasonable reporting.

However, in this paper, there are the following shortcomings: Firstly, owing to limited resources, it was not possible to collect information directly by means of interviews, so all of the data relating to WBAD's financial statements and other relevant information are from the Chinese stock exchanges. Secondly, the author has no direct experience working in the related fields of auditing, accounting and

regulating, thus it has been necessary to call upon the knowledge and expertise of individuals with extensive experience in this area to formulate strategies and prescriptions that will be useful for GEM regulators in the future.

7. References

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Appendix I WBAD's annual financial statements

12/2008–06/2012

Balance sheet¹

报告日期	2012/6/30	2011/12/31	2011/6/30	2010/12/31	2009/12/31	2008/12/31
货币资金(万元)	19023	38867	1242	5756	4314	1600
交易性金融资产(万元)	--	--	--	778	--	--
应收账款(万元)	1288	3699	1110	809	578	772
预付款项(万元)	14570	11938	2845	2173	1564	3182
其他应收款(万元)	1287	346	216	58	54	37
存货(万元)	29456	24509	20306	19013	19629	14253
流动资产合计(万元)	65624	79359	25719	28588	26139	19843
投资性房地产(万元)	171	113	116	119	126	--
固定资产原值(万元)	18038	18079	17280	16859	12412	10118
累计折旧(万元)	4474	3848	3278	2672	1792	1313
固定资产净值(万元)	13564	14230	14002	14188	10620	8805
固定资产(万元)	13564	14230	14002	14188	10620	8805
在建工程(万元)	17998	8675	8080	4743	148	1716
无形资产(万元)	2846	2879	2901	2934	1183	1109
递延所得税资产(万元)	86	50	23	37	12	43
非流动资产合计(万元)	34664	25947	25123	22020	12089	11673
资产总计(万元)	100289	105306	50842	50608	38228	31516
短期借款(万元)	23300	29000	17200	22000	19397	17440
应付票据(万元)	--	2000	--	--	--	--
应付账款(万元)	763	384	901	477	218	148
预收账款(万元)	2286	867	1097	136	354	1196
应付职工薪酬(万元)	146	123	120	37	38	126
应交税费(万元)	532	-20	466	165	309	584
其他应付款(万元)	436	491	587	439	469	3141
一年内到期的非流动负债(万元)	300	500	--	--	--	--
流动负债合计(万元)	27761	33344	20370	23254	20785	22635
长期借款(万元)	4400	4500	5500	5500	1500	1800
长期递延收益(万元)	--	455	355	355	--	--
其他非流动负债(万元)	475	--	--	--	--	--
非流动负债合计(万元)	4875	4955	5855	5855	1500	1800
负债合计(万元)	32636	38299	26225	29109	22285	24435
实收资本(或股本)(万元)	13400	6700	5000	5000	5000	2000
资本公积(万元)	41047	47747	9966	9966	9966	2200
盈余公积(万元)	1521	1256	965	653	98	288
未分配利润(万元)	11683	11304	8685	5879	879	2593
归属于母公司股东权益合计(万元)	67652	67007	24617	21499	15944	7082
所有者权益合计(万元)	67652	67007	24617	21499	15944	7082
负债和所有者权益总计(万元)	100289	105306	50842	50608	38228	31516

unit: ¥ 10,000

¹ http://quotes.money.163.com/f10/zcfzb_300268.html#01c05

Income statement²

报告日期	2012/6/30	2011/12/31	2011/6/30	2010/12/31	2009/12/31	2008/12/31
营业总收入(万元)	26991	55324	23221	43359	32765	22824
营业收入(万元)	26976	55324	23221	43359	32765	22824
营业总成本(万元)	24434	49319	20110	37946	28565	19559
营业成本(万元)	21596	42895	17884	32985	24685	17625
营业税金及附加(万元)	121	160	74	139	36	4
销售费用(万元)	497	1406	444	1217	1026	274
管理费用(万元)	1065	2920	869	2368	1860	492
财务费用(万元)	914	1726	805	1198	1049	1153
资产减值损失(万元)	237	212	34	40	-91	13
公允价值变动收益(万元)	--	123	123	-123	--	--
投资收益(万元)	--	-217	-217	54	--	--
营业利润(万元)	2555	5911	3018	5343	4200	3265
营业外收入(万元)	327	870	405	778	255	58
营业外支出(万元)	8	105	2	3	55	3
非流动资产处置损失(万元)	--	96	--	--	--	--
利润总额(万元)	2874	6676	3421	6118	4400	3320
所得税费用(万元)	219	649	303	563	444	754
净利润(万元)	2655	6027	3118	5555	3956	2566
归属于母公司所有者的净利润(万元)	2655	6027	3118	5555	3956	2566
基本每股收益	0.2	1.11	0.62	1.11	0.85	1.28
稀释每股收益	0.2	1.11	0.62	1.11	0.85	1.28

unit: ¥10,000

² http://quotes.money.163.com/f10/lrb_300268.html#01c06

Cash flow statement³

报告日期	2012/6/30	2011/12/31	2011/6/30	2010/12/31	2009/12/31	2008/12/31
销售商品、提供劳务收到的现金(万元)	34853	62288	27381	49343	37448	26664
收到的其他与经营活动有关的现金(万元)	533	1024	698	2351	432	1765
经营活动现金流入小计(万元)	35385	63312	28079	51694	37881	28429
购买商品、接受劳务支付的现金(万元)	34698	53389	22096	38472	32384	27473
支付给职工以及为职工支付的现金(万元)	565	1086	513	999	644	267
支付的各项税费(万元)	1260	2572	865	2524	1254	69
支付的其他与经营活动有关的现金(万元)	1721	2925	650	2535	2335	416
经营活动现金流出小计(万元)	38244	59972	24124	44530	36618	28224
经营活动产生的现金流量净额(万元)	-2859	3340	3956	7163	1263	205
收回投资所收到的现金(万元)	0	1377	1377	--	--	--
投资活动现金流入小计(万元)	0	1377	1377	54	48	0
购建固定资产、无形资产和其他长期资产所支付的现金	5883	14593	3840	10313	979	3781
投资所支付的现金(万元)	--	400	400	901	--	--
投资活动现金流出小计(万元)	5883	14993	4240	11214	979	3781
投资活动产生的现金流量净额(万元)	-5883	-13616	-2863	-11160	-931	-3781
吸收投资收到的现金(万元)	--	39975	--	--	4906	--
取得借款收到的现金(万元)	19900	39600	6700	41200	30133	20959
筹资活动现金流入小计(万元)	19900	79575	6700	41200	35039	20959
偿还债务支付的现金(万元)	27900	33100	11500	34597	31600	16317
分配股利、利润或偿付利息所支付的现金(万元)	3102	1715	807	1164	1056	1160
支付其他与筹资活动有关的现金(万元)	--	1374	--	--	--	--
筹资活动现金流出小计(万元)	31002	36189	12307	35761	32656	17478
筹资活动产生的现金流量净额(万元)	-11102	43386	-5607	5439	2383	3481
现金及现金等价物净增加额(万元)	-19844	33110	-4515	1442	2714	-95
加:期初现金及现金等价物余额(万元)	38867	5756	5756	4314	1600	1695
期末现金及现金等价物余额(万元)	19023	38867	1242	5756	4314	1600
净利润(万元)	2655	6027	3118	5555	3956	2566
资产减值准备(万元)	237	212	34	40	-91	13
固定资产折旧、油气资产折耗、生产性物资折旧(万元)	4474	1225	609	886	585	507
无形资产摊销(万元)	242	65	33	56	26	24
处置固定资产、无形资产和其他长期资产的损失(万元)	--	51	--	--	37	--
固定资产报废损失(万元)	--	45	--	--	--	--
公允价值变动损失(万元)	--	-123	-123	123	--	--
财务费用(万元)	--	1769	807	1164	1056	1160
投资损失(万元)	--	217	217	-54	--	--
递延所得税资产减少(万元)	--	-13	--	-24	31	-8
存货的减少(万元)	--	-4848	-1293	615	-5376	-5933
经营性应收项目的减少(万元)	--	-3648	-1131	-1189	1885	-1129
经营性应付项目的增加(万元)	--	2360	1685	-9	-846	3006
经营活动产生现金流量净额(万元)	-2859	3340	3956	7163	1263	205
现金的期末余额(万元)	--	38867	1242	5756	4314	1600
现金的期初余额(万元)	--	5756	5756	4314	1600	1695
现金及现金等价物的净增加额(万元)	-19844	33110	-4515	1442	2714	-95

unit: ¥10,000

³ http://quotes.money.163.com/f10/xjllb_300268.html#01c07

Appendix II WBAD's semi-annual financial restatement 06/2012

Announcement of restatement⁴



证券代码: 300268

证券简称: 万福生科

万福生科(湖南)农业开发股份有限公司

公告编号: 2012-039

万福生科(湖南)农业开发股份有限公司 关于重要信息披露的补充和 2012年中报更正的公告

重大风险提示: 此次更正和补充是公司初步自查的结果, 目前公司正在进行进一步的自查, 同时在配合中国证监会的立案稽查, 有关财务数据等信息有可能进一步变化。请广大投资者注意投资风险。

一、2012年中报存在虚假记载和重大遗漏, 现更正如下:

(一)更正事项的原因及说明

公司在2012年半年报中存在虚假记载和重大遗漏, 初步自查情况如下:

公司在2012年半年报中虚增营业收入187,590,816.61元、虚增营业成本145,558,495.31元、虚增利润40,231,595.41元, 未披露公司上半年停产事项。

公司募投项目—循环经济型稻米精深加工生产线项目上半年因技改停产, 其中普米生产线于2012年1月12日至6月30日累计停产123天; 精米生产线于2012年1月1日至2012年6月30日累计停产81天; 淀粉糖生产线于2012年3月17日至2012年5月23日累计停产68天。截止2012年6月30日, 循环经济型稻米精深加工生产线已基本完成, 进入调试阶段。

公司循环经济型稻米精深加工生产线项目原计划停产技改一个月, 但由于今年上半年常德地区降雨时间较长, 延误公司技改工期, 使得该项目停产技改时间延长, 导致公司今年上半年销售收入大幅减少。

公司犯下如此的错误, 主要是因为公司放松了内部管理, 没有很好的执行内部控制制度, 没有进一步加强法律意识和提高法制观念。公司全体董事、监事及管理

⁴ Only some restated index analyzed in this study was copied here. The full restatement can be found in the following websites:

Public announcement: <http://app.finance.ifeng.com/data/stock/ggzw/300268/14161464>

PDF download: <https://wenku.baidu.com/view/50137963f242336c1eb95e4e.html>

Index restated from income statement

主要会计数据	报告期（1-6月）	上年同期	本报告期比上年同期增减(%)
营业总收入（元）	82,169,396.61	232,214,988.94	-64.61%
营业利润（元）	-14,365,253.87	30,177,400.21	-147.60%
利润总额（元）	-11,173,709.01	34,213,870.33	-132.66%
归属于上市公司股东的净利润（元）	-13,678,403.40	31,178,898.13	-143.87%
归属于上市公司股东的扣除非经常性损益的净利润（元）	-16,412,068.73	28,365,724.53	-157.86%
经营活动产生的现金流量净额（元）	-28,589,370.08	39,555,630.96	-172.28%
	本报告期末	上年度期末	本报告期末比上年同期末增减(%)
总资产（元）	962,315,828.30	1,053,056,010.51	-8.62%
归属于上市公司股东的所有者权益（元）	636,290,228.86	670,068,632.26	-5.04%
股本（股）	134,000,000.00	67,000,000.00	100.00%

Restatement from financial index

主要财务指标	报告期（1-6月）	上年同期	本报告期比上年同期增减(%)
基本每股收益（元/股）	-0.102	0.624	-116.35%
稀释每股收益（元/股）	-0.102	0.624	-116.35%
扣除非经常性损益后的基本每股收益（元/股）	-0.122	0.567	-121.52%
全面摊薄净资产收益率（%）	-2.15%	4.65%	-146.24%
加权平均净资产收益率（%）	-2.04%	13.52%	-115.09%
扣除非经常性损益后全面摊薄净资产收益率（%）	-2.58%	4.23%	-160.99%
扣除非经常性损益后的加权平均净资产收益率（%）	-2.45%	12.3%	-119.92%
每股经营活动产生的现金流量净额（元/股）	-0.213	0.59	-136.10%
	本报告期末	上年度期末	本报告期末比上年同期末增减(%)
归属于上市公司股东的每股净资产（元/股）	4.75	10	-52.50%
资产负债率（%）	33.88%	36.37%	-6.85%

2、对半年报中董事会报告部分数据的影响

原文为：

报告期内，公司实现营业收入 269,760,213.22 元，比上年同期增长 16.18%；营业利润 25,548,566.38 元，比上年同期减少 15.34%；净利润 26,553,192.01 万元，比上年同期减少 14.84%。

更正为：

报告期内，公司实现营业收入 82,169,396.61 元，比上年同期减少 64.61%；营业利润-14,365,253.87 元，比上年同期减少 147.60%；净利润-13,678,403.40 万元，比上年同期减少 143.78%。

Index restated from income of products

分行业或分产品	营业收入	营业成本	毛利率(%)	营业收入比上年同期增减(%)	营业成本比上年同期增减(%)	毛利率比上年同期增减(%)
分行业						
食品加工	82,314,398.61	70,443,942.37	14.42%	-64.55%	-60.60%	-37.27%
分产品						
糖浆	20,317,413.33	18,106,746.76	10.88%	-75.20%	-69.45%	-60.66%
葡萄糖粉	431,098.29	406,310.44	5.75%	-97.18%	-96.34%	-79.01%
麦芽糊精				-100%	-100%	
蛋白粉	3,520,289.38	3,024,910.05	14.07%	-83.71%	-78.87%	-58.33%
优质米	11,197,521.23	10,637,396.85	5.00%	-78.16%	-74.35%	-73.81%
普米	42,108,224.13	33,228,188.71	21.09%	12.93%	-0.88%	109.03%
油糠	1,947,715.58	1,492,698.55	23.36%	48.77%	17.39%	711.71%
谷壳				-100%	-100%	
糠油	1,066,423.89	993,053.08	6.88%	-78.87%	-74.46%	-70.01%
饼粕	1,073,932.30	848,886.96	20.96%	-82.96%	-84.39%	52.66%
其他	651,780.48	1,705,750.97	-161.71%			

Index restated from balance sheet

应收账款		4,124,490.13	36,992,705.84
预付款项		101,007,181.02	119,378,847.66
其他应收款		106,429,915.01	3,463,867.16
流动资产合计		696,351,903.50	793,587,792.45
非流动资产：			
在建工程		99,615,263.60	86,750,113.38
递延所得税资产		537,574.81	499,226.94
非流动资产合计		265,963,924.80	259,468,218.06
资产总计		962,315,828.30	1,053,056,010.51
流动负债：			
应付职工薪酬		1,118,303.19	1,225,523.95
流动负债合计		277,275,599.44	333,437,378.25
负债合计		326,025,599.44	382,987,378.25
所有者权益（或股东权益）：			
盈余公积		12,559,470.21	12,559,470.21
未分配利润		79,256,828.41	113,035,231.81
归属于母公司所有者权益合计		636,290,228.86	670,068,632.26
所有者权益（或股东权益）合计		636,290,228.86	670,068,632.26
负债和所有者权益（或股东权益）总计		962,315,828.30	1,053,056,010.51

Restated index from cash flow statement

项目	本期金额	上期金额
一、经营活动产生的现金流量：		
销售商品、提供劳务收到的现金	118,564,216.80	274,060,520.87
收到其他与经营活动有关的现金	235,287,342.47	6,733,528.08
购买商品、接受劳务支付的现金	117,020,448.10	220,955,674.77
支付其他与经营活动有关的现金	247,169,356.52	6,497,397.90

Restated top 5 buys

客户名称	主营业务收入	占公司全部营业收入的比例(%)
东莞市常平湘盈粮油经营部	16,941,956.70	20.58%
佛山市南海亿德粮油贸易行	6,340,000.00	7.70%
湖南祁东佳美食品有限公司	2,228,011.60	2.71%
津市中意糖果有限公司	1,187,250.00	1.44%
焦作市菲爱特农业发展有限公司	906,944.00	1.10%

Restated prepayment

账龄	期末数		期初数	
	金额	比例(%)	金额	比例(%)
1年以内	101,007,181.02	100%	118,809,817.66	99.52%
1至2年			569,030.00	0.48%
合计	101,007,181.02	--	119,378,847.66	--

Restated book value of construction work in process

项目	期末数			期初数		
	账面余额	减值准备	账面价值	账面余额	减值准备	账面价值
供热车间改造工程	60,010,013.87		60,010,013.87	54,392,996.72		54,392,996.72
淀粉糖扩改工程	6,770,323.39		6,770,323.39	2,083,979.78		2,083,979.78
污水处理工程	2,012,028.65		2,012,028.65	2,012,028.65		2,012,028.65
合计	99,615,363.60		99,615,363.60	86,750,113.38		86,750,113.38

Appendix III JJ's annual financial statements 12/2008– 06/2012

Balance sheet⁵

报告日期	2012/6/30	2011/12/31	2010/12/31	2009/12/31	2008/12/31
货币资金(万元)	8323	15979	11248	11247	10344
应收票据(万元)	647	2826	1507	2441	797
应收账款(万元)	9480	7573	5864	5283	5323
预付款项(万元)	7081	5564	8103	5283	2151
其他应收款(万元)	1329	742	1179	3129	6989
存货(万元)	31604	33147	37586	50788	47045
其他流动资产(万元)	1410	1895	2588	0	28
流动资产合计(万元)	59874	67726	68075	78170	72697
可供出售金融资产(万元)	--	--	--	0	0
持有至到期投资(万元)	--	--	--	0	--
长期股权投资(万元)	3338	3316	6714	6724	2744
固定资产原值(万元)	88862	88540	84923	83019	75032
累计折旧(万元)	28296	26577	23225	19940	17089
固定资产净值(万元)	60566	61963	61697	63079	57943
固定资产减值准备(万元)	2699	2699	2706	2706	2992
固定资产(万元)	57866	59263	58991	60373	54951
在建工程(万元)	852	362	3269	1304	6410
生产性生物资产(万元)	1157	1214	1365	1506	1647
无形资产(万元)	6404	6870	8625	8932	8204
长期待摊费用(万元)	314	317	330	273	234
股权分置流通权(万元)	--	--	--	0	--
递延所得税资产(万元)	59	59	665	1274	1537
非流动资产合计(万元)	69990	71399	77959	80386	75728
资产总计(万元)	129865	139125	148034	158556	148425
短期借款(万元)	44450	56980	53213	68290	63659
应付账款(万元)	7649	4474	6104	5515	3929
预收账款(万元)	3927	4283	4193	3603	4276
应付职工薪酬(万元)	1209	1692	2121	1821	1775
应交税费(万元)	768	918	1302	-102	-1405
其他应付款(万元)	6409	5691	9059	10176	8483
一年内到期的非流动负债(万元)	--	1000	3500	490	7440
其他流动负债(万元)	--	--	--	0	220
流动负债合计(万元)	64412	75037	79495	89793	88377
长期借款(万元)	14762	13062	9303	11303	1703
其他非流动负债(万元)	1948	1450	1793	145	253
非流动负债合计(万元)	16710	14512	11096	11448	1956
负债合计(万元)	81121	89549	90591	101241	90334
实收资本(或股本)(万元)	54446	54446	54446	54446	54446
资本公积(万元)	17294	17294	17294	17294	17290
盈余公积(万元)	1632	1632	1632	1632	1632
未分配利润(万元)	-25537	-24622	-17917	-18481	-17590
归属于母公司股东权益合计(万元)	47835	48750	55455	54891	55778
少数股东权益(万元)	908	825	1988	2425	2313
所有者权益合计(万元)	48743	49576	57443	57315	58091
负债和所有者权益总计(万元)	129865	139125	148034	158556	148425

unit: ¥10,000

⁵ http://quotes.money.163.com/f10/zcfzb_600127.html#01c05

Income statement⁶

报告日期	2012/6/30	2011/12/31	2010/12/31	2009/12/31	2008/12/31
营业总收入(万元)	68538	142590	125236	122786	120061
营业收入(万元)	68538	142590	125236	122786	120061
营业总成本(万元)	69764	154649	127321	123199	140024
营业成本(万元)	58691	127445	105332	102486	105864
营业税金及附加(万元)	301	406	611	561	623
销售费用(万元)	5716	14178	11577	10599	10049
管理费用(万元)	3102	7860	7922	6835	8302
财务费用(万元)	1771	3709	2548	2404	2904
资产减值损失(万元)	183	1051	-669	313	12282
投资收益(万元)	28	1412	51	55	-1256
对联营企业和合营企业的投资收益(万元)	--	58	31	-111	-1
营业利润(万元)	-1199	-10647	-2034	-357	-21219
营业外收入(万元)	428	4379	4131	1897	2366
营业外支出(万元)	60	130	214	180	1110
非流动资产处置损失(万元)	31	66	90	28	963
利润总额(万元)	-832	-6397	1882	1360	-19964
所得税费用(万元)	1	678	1217	819	408
净利润(万元)	-832	-7075	665	540	-20372
归属于母公司所有者的净利润(万元)	-915	-6704	564	380	-19884
少数股东损益(万元)	83	-370	101	160	-488
基本每股收益	-0.02	-0.12	0.01	0.01	-0.37
稀释每股收益	-0.02	-0.12	0.01	0.01	-0.37

unit: ¥10,000

⁶ http://quotes.money.163.com/f10/lrb_600127.html#01c06

Cash flow statement⁷

报告日期	2012/6/30	2011/12/31	2010/12/31	2009/12/31	2008/12/31
销售商品、提供劳务收到的现金(万元)	77269	155245	146728	135331	130766
收到的税费返还(万元)	35	140	155	--	--
收到的其他与经营活动有关的现金(万元)	1125	5089	7459	2613	4595
经营活动现金流入小计(万元)	78430	160474	154342	137944	135361
购买商品、接受劳务支付的现金(万元)	58464	132733	103619	109668	106481
支付给职工以及为职工支付的现金(万元)	4857	10230	8827	7190	6232
支付的各项税费(万元)	2338	3647	6937	4154	4654
支付的其他与经营活动有关的现金(万元)	6310	13703	14246	15813	11082
经营活动现金流出小计(万元)	71969	160312	133628	136825	128449
经营活动产生的现金流量净额(万元)	6461	162	20715	1119	6912
收回投资所收到的现金(万元)	--	--	18	--	1517
取得投资收益所收到的现金(万元)	5	11	20	12	--
处置固定资产、无形资产和其他长期资产所收回的现金净额(万元)	4	681	351	1246	1800
处置子公司及其他营业单位收到的现金净额(万元)	--	2370	--	514	495
收到的其他与投资活动有关的现金(万元)	498	140	1518	371	375
投资活动现金流入小计(万元)	507	3203	1908	2144	4187
购建固定资产、无形资产和其他长期资产所支付的现金(万元)	785	1566	4494	5892	5391
投资所支付的现金(万元)	--	10	--	--	1996
取得子公司及其他营业单位支付的现金净额(万元)	--	--	527	--	--
支付的其他与投资活动有关的现金(万元)	--	--	--	142	--
投资活动现金流出小计(万元)	785	1576	5022	6034	7387
投资活动产生的现金流量净额(万元)	-278	1627	-3114	-3891	-3200
取得借款收到的现金(万元)	22600	80546	66063	80690	67070
筹资活动现金流入小计(万元)	22600	80546	66063	80694	67070
偿还债务支付的现金(万元)	34430	73520	80130	73409	64011
分配股利、利润或偿付利息所支付的现金(万元)	2008	4103	3530	3610	6030
筹资活动现金流出小计(万元)	36438	77623	83660	77019	70041
筹资活动产生的现金流量净额(万元)	-13838	2923	-17597	3675	-2971
汇率变动对现金及现金等价物的影响(万元)	--	18	-3	0	0
现金及现金等价物净增加额(万元)	-7656	4731	1	903	741
加:期初现金及现金等价物余额(万元)	15979	11248	11247	10344	9603
期末现金及现金等价物余额(万元)	8323	15979	11248	11247	10344
净利润(万元)	-832	-7075	665	540	-20372
资产减值准备(万元)	183	1051	-669	313	12282
固定资产折旧、油气资产折耗、生产性物资折旧(万元)	2012	4446	3685	3300	3120
无形资产摊销(万元)	115	383	412	362	378
长期待摊费用摊销(万元)	3	10	21	21	53
处置固定资产、无形资产和其他长期资产的损失(万元)	-101	-42	68	8	776
财务费用(万元)	2020	3761	2791	2287	2857
投资损失(万元)	-28	-1412	-51	-55	1256
递延所得税资产减少(万元)	--	607	609	263	353
存货的减少(万元)	1544	4332	13308	-2375	5784
经营性应收项目的减少(万元)	-1650	270	-879	-4999	-3230
经营性应付项目的增加(万元)	3194	-6169	755	1450	3655
经营活动产生现金流量净额(万元)	6461	162	20715	1119	6912
现金的期末余额(万元)	8323	15979	11248	11247	10344
现金的期初余额(万元)	15979	11248	11247	10344	9603
现金及现金等价物的净增加额(万元)	-7656	4731	1	903	741

unit: ¥10,000

⁷ http://quotes.money.163.com/f10/xjllb_600127.html#01c07

Appendix IV BDH's annual financial statements 12/2008– 06/2012

Balance sheet⁸

报告日期	2012/6/30	2011/12/31	2010/12/31	2009/12/31	2008/12/31
货币资金(万元)	142599	220984	141771	101576	101389
交易性金融资产(万元)	302	115	--	0	444
应收票据(万元)	4214	11900	2034	1103	1091
应收账款(万元)	126218	121647	90625	71397	84934
预付款项(万元)	112182	94505	260032	100242	36271
应收利息(万元)	322	322	--	0	--
其他应收款(万元)	76282	80220	20605	31253	22584
存货(万元)	449423	581551	648498	330334	252812
一年内到期的非流动资产(万元)	323	829	682	741	695
其他流动资产(万元)	12684	12562	14102	1799	2544
流动资产合计(万元)	924550	1124633	1178349	638445	502769
发放贷款及垫款(万元)	8000	--	--	0	--
持有至到期投资(万元)	2000	2000	--	0	--
长期股权投资(万元)	10383	9248	1310	210	445
投资性房地产(万元)	--	--	--	983	1028
固定资产原值(万元)	881215	876952	807498	738603	660662
累计折旧(万元)	304663	286906	253099	227443	202878
固定资产净值(万元)	576552	590046	554399	511160	457784
固定资产减值准备(万元)	8171	8171	6118	1837	766
固定资产(万元)	568381	581875	548281	509323	457018
在建工程(万元)	33447	28699	36808	22751	36879
工程物资(万元)	209	178	--	2	--
无形资产(万元)	30321	30848	24916	25768	19956
长期待摊费用(万元)	1250	727	802	699	954
递延所得税资产(万元)	--	--	--	0	274
其他非流动资产(万元)	27881	22039	--	0	--
非流动资产合计(万元)	681877	675614	612118	559736	516552
资产总计(万元)	1606427	1800247	1790467	1198181	1019321
短期借款(万元)	382825	584833	712720	453090	263985
应付票据(万元)	8000	13000	7720	55	--
应付账款(万元)	89362	117640	108305	37892	30770
预收账款(万元)	177923	164007	215636	37727	54291
应付职工薪酬(万元)	30998	27936	25230	22915	21973
应交税费(万元)	-43871	-43897	-63742	-32000	-24152
应付利息(万元)	11034	3808	3311	515	704
应付股利(万元)	39	39	39	38	38
其他应付款(万元)	152644	129247	106592	96712	90751
保险合同准备金(万元)	1959	1542	--	0	--
其他流动负债(万元)	180224	180374	--	0	--
流动负债合计(万元)	991137	1178528	1115811	616943	438358
长期借款(万元)	1085	1085	1226	1242	1299
应付债券(万元)	--	--	80000	55060	85019
长期应付款(万元)	14	14	14	14	14
其他非流动负债(万元)	6371	6416	6014	4970	1295
非流动负债合计(万元)	7470	7515	87253	61286	87627
负债合计(万元)	998607	1186043	1203064	678229	525985
实收资本(或股本)(万元)	177768	177768	177768	171448	167631
资本公积(万元)	242504	242504	242751	194092	165333
专项储备(万元)	109	60	--	0	--
盈余公积(万元)	90193	90193	80689	73562	67372
未分配利润(万元)	61442	65860	58758	56547	72816
归属于母公司股东权益合计(万元)	572016	576385	559966	495649	473151
少数股东权益(万元)	35804	37820	27436	24303	20185
所有者权益合计(万元)	607820	614205	587402	519953	493336
负债和所有者权益总计(万元)	1606427	1800247	1790467	1198181	1019321

unit: ¥10,000

⁸ http://quotes.money.163.com/f10/zcfzb_600598.html#01c05

Income statement⁹

报告日期	2012/6/30	2011/12/31	2010/12/31	2009/12/31	2008/12/31
营业总收入(万元)	840898	1333315	922769	652195	561003
营业收入(万元)	839715	1330472	922769	652195	561003
利息收入(万元)	845	1630	--	--	--
手续费及佣金收入(万元)	338	1214	--	--	--
营业总成本(万元)	812528	1294856	892689	624291	512089
营业成本(万元)	720511	1088561	720501	478932	388653
利息支出(万元)	90	383	--	--	--
手续费及佣金支出(万元)	20	55	--	--	--
提取保险合同准备金净额(万元)	417	767	--	--	--
营业税金及附加(万元)	269	902	660	181	322
销售费用(万元)	12687	37165	33864	26361	20867
管理费用(万元)	58789	133178	107789	90947	77780
财务费用(万元)	18561	22987	19231	11686	15011
资产减值损失(万元)	1184	10858	10644	16182	9456
公允价值变动收益(万元)	177	115	--	-50	50
投资收益(万元)	300	-593	-29	32	-284
对联营企业和合营企业的投资收益(万元)	136	63	0	-125	103
营业利润(万元)	28848	37981	30051	27887	48679
营业外收入(万元)	1499	13174	6244	6815	8241
营业外支出(万元)	3588	6084	840	1207	865
非流动资产处置损失(万元)	0	502	166	851	285
利润总额(万元)	26758	45071	35454	33495	56056
所得税费用(万元)	305	2721	696	974	883
净利润(万元)	26453	42350	34758	32521	55173
归属于母公司所有者的净利润(万元)	28469	44085	35668	35852	58806
少数股东损益(万元)	-2015	-1735	-910	-3332	-3633
基本每股收益	0.16	0.25	0.2	0.21	0.36
稀释每股收益	0.16	0.25	0.2	0.21	0.36

unit: ¥10,000

⁹ http://quotes.money.163.com/f10/lrb_600598.html#01c06

Cash flow statement¹⁰

报告日期	2012/6/30	2011/12/31	2010/12/31	2009/12/31	2008/12/31
销售商品、提供劳务收到的现金(万元)	916861	1310451	1141196	672252	611094
收取利息、手续费及佣金的现金(万元)	322	1420	--	--	--
收到的税费返还(万元)	58	449	202	--	2535
收到的其他与经营活动有关的现金(万元)	79273	39175	13219	7561	10814
经营活动现金流入小计(万元)	996515	1351495	1154617	679813	624443
购买商品、接受劳务支付的现金(万元)	671625	922837	1195058	629207	419828
支付给职工以及为职工支付的现金(万元)	32974	70797	56251	50918	45856
支付的各项税费(万元)	7419	8050	4820	5451	7416
支付的其他与经营活动有关的现金(万元)	80648	140157	94332	87687	60368
经营活动现金流出小计(万元)	792687	1141877	1350462	773263	533469
经营活动产生的现金流量净额(万元)	203828	209617	-195845	-93450	90975
收回投资所收到的现金(万元)	13378	32499	--	--	--
取得投资收益所收到的现金(万元)	933	5205	--	127	149
处置固定资产、无形资产和其他长期资产所收回的现金	15	15	149	902	700
收到的其他与投资活动有关的现金(万元)	--	9223	1127	3635	--
投资活动现金流入小计(万元)	14327	46943	1276	4664	880
购建固定资产、无形资产和其他长期资产所支付的现金	9913	44057	63757	64291	49538
投资所支付的现金(万元)	22387	33916	1100	353	820
取得子公司及其他营业单位支付的现金净额(万元)	--	2000	--	30	9291
支付的其他与投资活动有关的现金(万元)	--	9200	--	--	--
投资活动现金流出小计(万元)	32299	89173	64857	64674	59648
投资活动产生的现金流量净额(万元)	-17973	-42231	-63581	-60011	-58769
吸收投资收到的现金(万元)	--	3229	4042	7645	10058
其中：子公司吸收少数股东投资收到的现金(万元)	--	3229	4042	7660	10058
取得借款收到的现金(万元)	324818	1373408	1173098	526890	322985
收到其他与筹资活动有关的现金(万元)	3000	40159	--	--	--
筹资活动现金流入小计(万元)	327818	1416796	1177140	534535	333043
偿还债务支付的现金(万元)	537521	1401311	834405	337785	396565
分配股利、利润或偿付利息所支付的现金(万元)	46902	61551	46397	54232	57198
支付其他与筹资活动有关的现金(万元)	--	40291	--	--	--
筹资活动现金流出小计(万元)	584423	1503153	880801	392017	453764
筹资活动产生的现金流量净额(万元)	-256605	-86357	296339	142518	-120721
汇率变动对现金及现金等价物的影响(万元)	-2	14	-6	16	0
现金及现金等价物净增加额(万元)	-70752	81043	36907	-10927	-88515
加:期初现金及现金等价物余额(万元)	213351	132308	89059	99986	188501
期末现金及现金等价物余额(万元)	142599	213351	125966	89059	99986
净利润(万元)	26453	42350	34758	32521	55173
资产减值准备(万元)	1184	10858	10644	16182	9456
固定资产折旧、油气资产折耗、生产性物资折旧(万元)	17902	35200	31330	28688	25411
无形资产摊销(万元)	629	951	894	1019	1113
长期待摊费用摊销(万元)	556	1088	458	941	349
处置固定资产、无形资产和其他长期资产的损失(万元)	-3	222	-293	128	55
固定资产报废损失(万元)	--	193	--	--	--
公允价值变动损失(万元)	-177	-115	--	50	-50
财务费用(万元)	19081	39005	20080	12192	18169
投资损失(万元)	-300	593	29	-32	284
递延所得税资产减少(万元)	--	--	--	274	-142
存货的减少(万元)	132326	68218	-312973	-79029	-8517
经营性应收项目的减少(万元)	-11693	60059	194279	-66784	3305
经营性应付项目的增加(万元)	17870	-49005	-175051	-39598	-12228
其他(万元)	--	--	--	--	-1403
经营活动产生现金流量净额(万元)	203828	209617	-195845	-93450	90975
债务转为资本(万元)	--	--	54979	32583	--
现金的期末余额(万元)	142599	213351	125966	89059	99986
现金的期初余额(万元)	213351	132308	89059	99986	188501
现金及现金等价物的净增加额(万元)	-70752	81043	36907	-10927	-88515

unit: ¥10,000

¹⁰ http://quotes.money.163.com/f10/xjllb_600598.html#01c07