

A-Power Energy Generation Systems, Ltd.

A-Power Energy Generation Systems (“APWR” or “the company”) is a US-listed Chinese company with accounting and audit-related issues. We originally published our research findings pertaining to APWR on Friday, June 17. The analysis can be found [here](#). The company has yet to file its 2010 audited financial statements and is currently under investigation by the Securities and Exchange Commission.

As a cautious investment manager, we have gone to great lengths to verify A-Power’s claims made in SEC filings and in press releases. Although our investigation is ongoing, the data we have gathered up to this point has cast serious doubt over management’s reporting of A-Power’s financial condition. Our evidence, discussed in this and our initial report, includes the following:

- Several events have transpired since we originally published our research that can be interpreted as glaring red flags. These events include director and auditor resignations, a halt in trading by the NASDAQ Stock Exchange, and the opening of an investigation regarding APWR potentially having violated federal securities laws.
- APWR has a history of internal weaknesses over financial controls, which has resulted in an adverse opinion from A-Power’s (now-resigned) independent auditor. A-Power’s auditor issued an adverse opinion in the 2009 audit and APWR has yet to publish its 2010 audited financial statements.
- APWR discloses a number of “Related Party Balances” in which APWR is both lending money to and borrowing money from related individuals and businesses. However, management does not adequately discuss the actual transactions occurring between APWR and these related businesses. The relationship between APWR and its related parties is one that will undoubtedly require SEC scrutiny and could possibly result in material financial restatements.
- Our attempts to locate and/or contact distributed generation facilities mentioned on A-Power’s website and in recent press releases have failed. Our investigation team in China has prepared a report for us in which 39 companies out of 39 companies on our list have either not been locatable, or refused to answer even a preliminary set of questions. Our spreadsheet includes addresses, phone numbers, Chinese and English names, websites, and some other information we have put together. We also searched for evidence of distributed generation facilities on Google Maps and found many vacant lots (although data is sometimes outdated).

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Glaring Red Flags

Several material events have transpired since we originally published our analysis that can be interpreted as glaring red flags, validating our initial concerns:

- The same day our initial analysis was published (June 17), [APWR board member Robert Leckie resigned](#) “as a result of concerns that his views on process and best practices were not necessarily shared throughout the Company”.
- On the following trading day, Monday, June 20, APWR issued a [‘pre-response’ to our analysis](#), stating that it was reviewing the issues raised in our article and that it intended to provide answers ‘by way of a press release as soon as possible’. It has yet to do so.
- One week later, [APWR’s auditor \(MSCM LLC\) resigned](#), announcing that it had refused to sign off on the company’s financial position, and the NASDAQ stock exchange [halted all trading in APWR stock](#).
- On Tuesday, June 28, [another 2 independent directors resigned](#).
- On Tuesday, July 5, APWR announced that [its CFO Peter Mak would be stepping down](#). (More recently, [Mak stepped down as head of the audit committee of Trina Solar Ltd.](#), purportedly a result of his ties with A-Power.)
- On Tuesday, August 18, APWR issued a press release entitled “A-Power Receives SEC Subpoena,” announcing it is [currently under investigation by the SEC](#). The SEC is investigating whether the “Company or any of its personnel violated federal securities laws.”

More recent decisions from the company indicate little intent of regaining investor confidence.

Dear Auditor – A Word of Caution

On Tuesday, September 20, APWR issued the following press release: [A-Power Appoints BDO Daejoo as its Independent Registered Public Accounting Firm](#). The announcement contained the following statement.

...the Audit Committee of A-Power's Board of Directors has approved the engagement of BDO Daejoo LLC as its new independent registered public accounting firm and has specifically engaged BDO Daejoo LLC to audit the Company's financial statements for the year ended December 31, 2010. The appointment was made on September 16, 2011, effective September 15, 2011.

BDO Daejoo LLC is currently registered with the Public Company Accounting and Oversight Board.

The engagement by the Company of BDO Daejoo LLC follows the resignation of the Company's former independent registered public accounting firm, MSCM LLP, effective June 26, 2011. As previously reported, MSCM LLP stated that it had resigned because the Company had not retained a qualified independent forensic accounting firm to evaluate certain business transactions that MSCM stated was necessary for MSCM to complete its audit of the Company's financial statements for the year ended December 31, 2010 on a timely basis.

Strangely however, two weeks later on October 4, APWR announced that [BDO Daejoo rescinded its acceptance and engagement to serve as A-Power's independent auditor](#). As a replacement, A-Power appointed Simon & Edward, LLP as its Independent Registered Public Accounting Firm. A-Power [last reported a net cash position of \\$111.5 million](#). In 2009, it paid its recently resigned auditor MSCM LLP a whopping CDN\$581,275: It can afford to hire a top-tier auditing firm with a strong, well-established reputation. Especially during this time of severed trust and regulator scrutiny, hiring a Top-4 auditor -- or even a Top-100 for that matter -- would seem the optimal deployment of cash on hand and a worthwhile investment in restoring the trust of the investment community.

Instead, it hired Simon & Edward LLP. According to the APWR press release,

The selection of Simon & Edward, LLP was based on the firm's extensive experience auditing public companies in the United States and China. The firm is a U.S. based accounting firm with its offices in City of Industry, California and Beijing, China. The firm's partners include individuals with significant experience with S.E.C. reporting requirements and S.E.C. audits.

Simon & Edward is not a Top-100 firm. As a matter of fact, according to its most recent [Public Company Accounting Oversight Board \(PCAOB\) inspection](#), it appears to be a tiny firm with 3 partners and 5 issuer audit clients.

Notably, Simon & Edward seems to be making a late, ill-fated plunge into the US-listed Chinese RTO space. In the past few months, it has engaged other issuer clients that have been accused of hoodwinking US investors.

On April 6, 2011, Chinese RTO China Agritech (CAGC) announced it had hired Simon & Edward LLP. LM Research has [accused CAGC of being a scam](#) set up to make fraudulent transfers of wealth from the pockets of outside investors into those of inside management. LM Research's findings indicate the company's reported facilities were non-operational and that reported clients denied having a business relationship with CAGC. Like A-Power, CAGC has yet to file its 2010 audited financial statements with the SEC. Trading in CAGC common stock was halted by the NASDAQ on March 14, 2011. The company was delisted by the NASDAQ on May 20, 2011. As of the writing of this report, CAGC stock is down 93.7% in 2011.

It is no wonder that CAGC has made a mockery of the auditor institution, with Simon & Edward LLP being its third in only a 2 year timeframe. But it is baffling that Simon & Edward LLP is willing to take on such reputational risk.

On July 13, 2011, Chinese RTO China Green Material (CAGM) announced that it had hired Simon & Edward LLP. For the sake of brevity, we'll point out that CAGM has had recent turnover in its CFO position, and has had 4 auditors since its reverse merger on February 9, 2007. As of the writing of this report, CAGM stock is down 84% in 2011.

There is growing caution amongst auditors resulting from a renewed [focus](#) by the SEC on the auditors of Chinese companies. We encourage A-Power's auditor Simon & Edward LLP to navigate with caution, and to carefully weigh what evidence they've collected that would indicate that APWR is accurately reflecting its financial position.

'Who Are Your Customers Again?'

With help from our investigators in China, we were able to put together a list of A-Power's recent distributed generation clients in China. Part of this list came directly from APWR's website: When we began researching the company several months ago, both the Chinese and English versions of the site offered a list of completed projects. Interestingly, APWR appears to have removed the list from its site.

Fortunately we took snapshots of the old website. Here are a few: [Changchun Biochemistry Group Co., Ltd.](#), [Wuhan Iron and Steel](#), [Wanshunda Starch Co., Ltd.](#)

It had appeared to us that the list on the unaltered website had not been updated in recent years. To supplement it, we also looked back at the press releases announcing project wins since January 2010. Our final list contains 40 entries:

Name	Reported Megawatts of Capacity
1 Inner Mongolia Houlinge Coal Trade Group Co., Ltd.	800.00MW
2 Laibin B Plant	700.00MW
3 Shanying Comprehensive Utilization Power Generation Co., Ltd.	452.00MW
4 Guangxi Jingui Paper Coating Power Factory	300.00MW
5 CFB power plant in Baode, Shanxi Province	270.00MW
6 Thailand's Biomass Electricity Co., Ltd.	150.00MW
7 Baishan Long Run Water Conservancy	108.80MW
8 Minda Combustion Engine Power Plant in Fuzhou	100.00MW
9 Lingyuan Thermoelectricity Co., Ltd	60.00MW
10 Jinyuankou Electricity co., Ltd.	60.00MW
11 Self-Supply Power Station of Kailu Thermoelectric Co., Ltd	50.00MW
12 Shandong Biological Development Co., Ltd.	50.00MW
13 Liaoyuan Zhongneng Electrical Equipment Ltd.	50.00MW
14 Jinzhou Mengguzhen Thermo Electric Co.	50.00MW
15 Changchun Biochemistry Group Co., Ltd.	37.00MW
16 Nei Menggu Balin Heat Power Co., Ltd	37.00MW
17 Power Plant of Inner Mongolia Bahrain Thermoelectricity Co., Ltd.	37.00MW
18 Wanshunda Starch Co., Ltd.	24.00MW
19 Blue Sky Thermoelectricity & Gas LLC	24.00MW
20 Wianan Alcohol Co., Ltd of Ji'an Biochemistry Group	24.00MW
21 Wanshunda Alcohol Co., Ltd.	24.00MW
22 Qingjian Thermoelectric Co., Ltd.	24.00MW
23 Hainan Century Light Investment Co.	24.00MW
24 Xin County Guangchao Biomass Power Generation LCC	15.00MW
25 Handan Fengfeng Pengtong Coking Co.	15.00MW
26 Zhongying Plank Co., Ltd.	12.00MW
27 Yangxin County Jinyuan Biomass Thermal Power Generation LCC	12.00MW
28 XinFugang Co., Ltd.	6.00MW
29 Hezhou Power Switch Station	0.50MW
30 Wuhan Steel Group	0.11MW
31 Shenyang Alcohol Co., Ltd.	0.11MW
32 Xilinhe Pfoject in Inner Mongolia	0.00MW
33 Thermal Power Plant of Liaoning Tiefert Coal Industry Group Co., Ltd.	0.00MW
34 Huanren Thermal Power Plant in Liaoning Province	0.00MW
35 No. 2 Transformer Station of Wuhan Petro-Chemical Group.	0.00MW
36 Central Transformer Station of Tiefert Mining Affairs Bureau	0.00MW
Power Transmission and Transformation Project of the Rundle Hydropower	
37 Plant in the Yuanshui River Basin and Qiandong Power Plant	0.00MW
38 Oak Bay Real Estate Project with China Resources Land Limited	0.00MW
39 Yingkou Tesco Real Estate Co., Ltd.	0.00MW
40 Jihe Orient Wind Energy Co., Ltd.	0.00MW

With this list in hand, we hired a reputable and independent third-party due-diligence investigation team in China to contact as many of these organizations as possible. This team is staffed with both American and Chinese citizens, and has been working in China for over a decade. A spreadsheet of our investigator's findings can be found [here](#): To summarize, only a handful of these customers were reachable, or even locatable in any way. The few we were able to locate were unwilling to speak. Some of these companies had websites which appeared "fake" to our investigators. Many had a locatable address with no signs of construction or distributed generation facilities at the expected locations, and many companies had no locatable address using common internet mapping software.

We suspect that in the best-case scenario, press releases were issued prematurely and proposed projects never made it to the development stage. In the worst-case scenario, management wholly fabricated these projects.

Conclusion

We hope that investors who own shares in APWR and those considering buying shares at what appears to be a fundamentally low valuation familiarize themselves with the risks we've addressed in our initial report and in this update. We also hope that the NASDAQ and Simon & Edward LLP follow the lead of the SEC in taking necessary precautions in protecting investors. We encourage Simon and Edward to make an effort to contact A-Power's distributed generation clients, both past and present, in order to determine if management's revenue and earnings statements can be relied upon. We hope that we can help protect both US shareholders and Simon & Edward's reputation as an independent auditor committed to the principles set forth by the PCAOB.