PRESCIENCE POINT
RESEARCH GROUP

A-Power Energy Generation Systems
NASDAQ: APWR

"Evaluating the Clouds Overshadowing A-Power Energy Generation Systems"

Recommendation: Strong Sell

June 2011

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Executive Summary

In this report, we present a number of reasons why investors in A-Power Energy Generation Systems, Ltd. ("APWR" or the "company"), as well as its auditor and the SEC, should be especially cautious. We believe that the company's revenue and profit may be overstated in its SEC filings. Furthermore, a large number of related parties that have not been properly disclosed have been identified throughout our research process. A summary of our key concerns include:

- APWR has a history of internal weaknesses over financial controls, which has resulted in an adverse opinion from A-Power's 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.
- Management's compensation structure is egregious, offering enormous bonuses on an all-or-none basis for achieving lofty performance goals.
- SAIC filings show that APWR is reporting significantly lower revenue and profit to the authorities in China. For 2009, SAIC filings showed approximately $25 million of revenue, compared to $311 million in SEC filings.
- 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 makes no mention of the actual transactions occurring between APWR and these related businesses. Our investigators in China have uncovered numerous additional undisclosed companies owned and/or operated by A-Power's CEO.

Company Background

A-Power began as a Special Purpose Acquisition Vehicle, a 'blank check company', named Chardan South China Acquisition Corporation, organized on March 10, 2005. Chardan's original mandate was to identify an attractive investment opportunity in China, buy some portion of that business for $30 million, and then bring that company public in the US. On May 11, 2007, a registration statement was filed in which Chardan announced that it had identified an attractive candidate. That candidate was the Liaoning GaoKe Energy Group Company, an engineering design firm specializing in off-grid electrical generators that recycle exhaust heat for use in industrial processes, resulting in increased generator efficiency and more reliable uptime. The acquisition would be consummated on January 18, 2008, with the newly formed A-Power acquiring the common stock of Head Dragon Holdings, the Hong Kong holding company owning the GaoKe assets.

"What can go wrong if you have weak governance? In a word, everything. Money and property can be siphoned off; the foreign invested enterprise can be violating labor, environmental, or numerous other laws; or the China branch can be competing with headquarters for customers."

- Robert Collins and Carson Block, "Doing Business in China for Dummies"

Material Weakness

APWR has a long history of material weaknesses in internal control over financial reporting. The first instance occurred during 2008. The following is an excerpt from the 2008 20-F:

1. Entity-Level Controls

As of December 31, 2008, management had sufficiently documented our control environment using the COSO internal control framework but concluded that such control activities were not appropriately designed and operating effectively as of December 31, 2008. Specifically, management concluded that we did not have adequate controls with respect to: (i) oversight of the management and financial reporting by the Audit Committee, (ii) effective and continuous communication to employees of our commitment to appropriate business practices and standards, (iii) the lack of process and controls to ensure that business risks related to internal control over financial reporting are identified, investigated, and resolved in a timely manner (iv) in certain instances, the lack of written policies and procedures, including a formalized accounting policy that is applied to us and our subsidiaries, written policies of human resources and other written policies and procedures related to product/service pricing, purchase management and bank account management, and (v) insufficient capital resources to permit well performed monitoring of internal controls. Based on the deficiencies noted in the design and operating effectiveness of our control environment, management determined that we had an ineffective control environment. Additionally, due to the deficiencies noted above management determined that the monitoring function, dissemination of information and communication, risk assessment function and control activities did not operate effectively. These deficiencies constitute a material weakness in the control environment, monitoring, information and communication, risk assessment, and control activities components of COSO. Each of these deficiencies individually constitutes a material weakness.

2. Financial Closing and Reporting Process

We did not maintain effective controls over the financial reporting process and the underlying accounting processes due to the lack of sufficient experienced accounting personnel and formalized policies and procedures. This resulted in significant out-of-period adjustments to our consolidated financial statements. Specifically, controls were not effective to ensure that significant non-routine transactions, accounting estimates, and other adjustments were appropriately reviewed, analyzed and monitored by competent accounting staff on a timely basis. Additionally, some of the adjustments that have been recorded relate to account reconciliations not being performed effectively.

Source: A-Power Energy Generation Systems, Ltd., 20-F, June 30, 2009 Powered by Morningstar® Document Research℠

Of particular interest to investors should be note (v) which cites "insufficient capital resources to permit well performed monitoring of internal controls" despite ending the year with over $44m of cash. With this much cash on the balance sheet it's hard to imagine why management was not able to acquire the adequate human capital or develop the appropriate checks and balances infrastructure necessary to maintain effective controls over financial reporting.

After reporting to the SEC that remediation steps had been taken, APWR again cited a lack of internal controls in 2009. The following is an excerpt from the 2009 20-F:

Entity-Level Controls

Management tried to improve entity-level control using the COSO internal control framework but concluded that such control activities were not appropriately designed and operating effectively as of December 31, 2009. Specifically, management concluded that we did not have adequate controls with respect to: (i) insufficient communication of appropriate business practices and standards, (ii) lack of effective procedures to ensure that risks related to financial reporting are assessed in a timely manner (iii) in certain instances, lack of written policies and procedures, and (iv) insufficient monitoring of internal controls. Due to the deficiencies noted above management determined that these deficiencies constitute a material weakness in the control environment, risk assessment, control activities, monitoring, information and communication.

Financial Closing and Reporting Process

We did not maintain effective controls over the financial reporting process and underlying accounting processes due to the lack of certain written policies and procedures.

Notwithstanding the material weaknesses described above, management believes that there are no material inaccuracies or omissions of material fact and, to the best of its knowledge, believes that the consolidated financial statements included in this annual report present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

The effectiveness of our internal control over financial reporting has been audited by MSCM LLP, an independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 20-F, as stated in their report which is included herein.

Ending 2009 with $166m of cash on the balance sheet, management still couldn't find the time or resources to institute effective internal controls.

As a result, APWR's auditor expressed an adverse opinion pertaining to APWR's internal control over financial reporting. Here is the letter from MSCM expressing an adverse opinion:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of A-Power Energy Generation Systems, Ltd.

We have audited the accompanying consolidated balance sheets of A-Power Energy Generation Systems, Ltd. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2009. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States). The Company's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 31, 2010 expressed an adverse opinion.

/s/ MSCM LLP
MSCM LLP
Toronto, Canada
March 31, 2010

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. In this case, the auditor had to take extra measures in order to get comfortable with APWR's financial statements due to inadequate processes that would ensure the reliability of APWR's financial reporting. More simply, management has a lot of room to misbehave, and APWR's lack of sufficient internal controls puts the burden fully on the auditor to catch that misbehavior.

As of today, APWR has yet to release 2010 audited financial statements. On April 7, 2011, APWR issued a press release in which CFO Kin Kwong Mak stated, "The scope of the audit field work that is necessary to bring the audit of our 2010 financial statements to a conclusion was not immediately recognized…" . In other words, audited results have yet to be released because APWR and its auditors have hit sticking points in the audit itself.

And so we're presented with yet another US-listed Chinese company with accounting and audit-related issues. Given the company's history of material weaknesses and caution amongst auditors resulting from a renewed focus by the SEC on the auditors of Chinese companies, investors in this case can hardly be surprised. In the interest of self-preservation, we encourage A-Power's auditor MSCM LLP to carefully weigh what evidence they've collected that would indicate that APWR is accurately reflecting its financial position.

Perverted Incentives

The incentive compensation guidelines below were first published in APWR's S-4 filed May 11, 2007 and they have been repeated numerous times in more recent filings. The screenshot below was taken from the most recent annual report published March 30, 2010.

Pursuant to the terms of the stock purchase agreement, in consideration for all of his Head Dragon Holdings shares, Mr. Lu received 13,000,000 common shares, of which 3,497,000 shares were transferred to John S. Lin and three other shareholders. As additional consideration for the Head Dragon Holding shares, the stock purchase agreement provides that Mr. Lu will be issued up to an aggregate of 9,000,000 common shares (1,000,0000 per year for 2007 through 2009 and 2,000,000 for 2010 through 2012, on an all-or-none basis each year) for the six years beginning with fiscal 2007 if, on a consolidated basis, we generate net operating profits (excluding after-tax operating profits from any subsequent acquisitions of securities that have a dilutive effect) of at least the following amounts:

Year ending December 31,	Net Operating Profit (after tax)
2007	$ 14,000,000
2008	$ 19,000,000
2009	$ 29,000,000
2010	$ 44,000,000
2011	$ 63,000,000
2012	$ 87,000,000

Four things make this compensation structure startling.

1) The enormous growth rate necessary for management to achieve performance targets. Growing your business from $14 million of profits to $87 million of NOPAT in 5 years is extremely difficult.
2) Lack of a per-share metric, allowing management to achieve growth regardless of dilution rather than by making good capital allocation decisions.
3) The value of the payouts is enormous.
4) This is an all-or-none bonus, leaving no room for even the slightest underperformance. For example, in 2010, management was required to grow the business by 52%. If they fell short in 2009, however, and only generated $25 million of NOPAT, they would then be required to grow the business by 76% to make up the difference. Missing just one year would put all following years just a little more out of reach.

Before going public, APWR executive management consisted of just one man, Jinxiang Lu, whose compensation from 2004-2006 is outlined below:

***GaoKe's* Executive Officers**

The following sets forth summary information concerning the compensation paid by GaoKe to Mr. Jinxiang Lv during the last three fiscal years.

Annual Compensation			
Name	**Year**	**Salary ($)**	**Bonus ($)**
Jinxiang Lv	2006	$5,119	None
	2005	$4,982	None
	2004	$4,933	None

At the IPO price of $8 per share, a 1-million share bonus is valued at $8,000,000. Lu would receive this bonus for 2008 and 2009 as well, and then $16,000,000 in 2010, 2011, and 2012 for a total package value of $72 million assuming no share price appreciation. Growing the share price could obviously greatly increase the value of this bonus over time. Before the share price collapsed in 2008, Lu could have expected a $30m 2008 bonus. At the end of 2009, with shares trading at $20, Lu could have expected a $20m bonus.

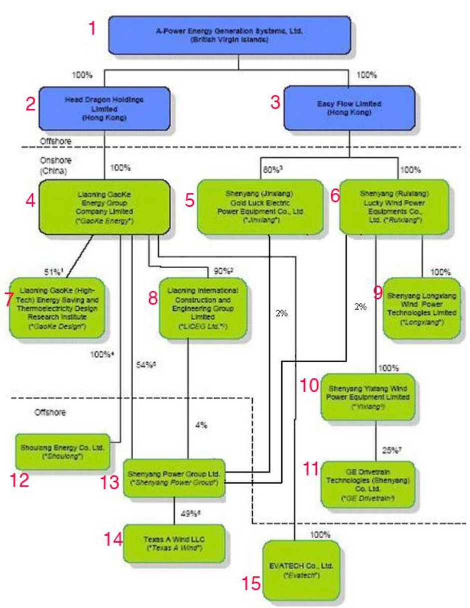
Additionally, because of the all-or-none nature of this compensation scheme, not only does Jinxiang Lu have this year's bonus on the line, but all future years as well. If management reported only $25 million in 2009, Jinxiang Lu would be jeopardizing not only that $8 million, but the next three payments of $16 million as well. Hitting the 2009 target could effectively be worth $112 million.

And this compensation scheme is not the only case of perverted incentives associated with APWR. The Chardan South China Acquisition Corporation made the decision to acquire GaoKe based largely off a report prepared by Genius Advice International Co., Ltd. ("GAI"). In its agreement with Chardan, GAI was to be compensated $200,000 for preparing the report, $66,700 of which would be paid for the first report prepared by GAI. The final $133,300 would be paid "upon the successful consummation of a business transaction with an operating entity in the PRC". GAI prepared three preliminary reports on other companies before they were asked to prepare a full report on GaoKe. Without any incentive to uncover problems with the company, it's not surprising that an investment decision was reached very quickly.

Perverted Incentives

Businesses that operate in China file their financial statements with the State Administration for Industry and Commerce. These statements are an excellent place to start piecing together the truth. Reputable Chinese companies submit financial statements to the SAIC that resemble those published in the US. APWR's filings in China indicate that APWR is earning a tiny fraction of the revenue reported to the SEC and is potentially generating millions of dollars of losses rather than profits.

A-Power's organizational structure is complex but important for investors to understand. The schematic diagram presented in the 2009 annual report has been reproduced below. We will work through each subsidiary and when available, provide SAIC filings:



1) A-Power Energy Generation Systems, Ltd. (British Virgin Islands) – This is the holding company US investors are able purchase shares of.
2) Head Dragon Holdings Limited (Hong Kong) – This is the holding company originally taken private by the Chardan South China Acquisition Corporation. This subsidiary manages the "Distributed Power Generation Business".
3) Easy Flow Limited (Hong Kong) – A holding company for the unprofitable wind energy businesses.
4) Liaoning GaoKe Energy Group Company Limited ("GaoKe Energy") – The main operating subsidiary of APWR responsible for "entering into contracts with [A-Power's] distributed power generation systems customers and undertaking projects, as well as subcontracting work to GaoKe Design, LICEG Ltd. and to third party subcontractors". This should be A-Power's most important operating subsidiary, responsible for most of its revenue and earnings.
5) Shenyang (Jinxiang) Good Luck Electric Power Equipment Co., Ltd. ("Jinxiang") – A subsidiary with a manufacturing agreement with Norwin to build 750kW and 225kW wind systems.
6) Shenyang (Ruixiang) Lucky Wind Power Equipments Co., Ltd. ("Ruixiang") – A subsidiary established to manufacture and sell Fuhrlander 2.7MW wind turbines.
7) Liaoning Gaoke (High-Tech) Energy Saving and Thermoelectricity Research Institute ("GaoKe Design") – This subsidiary is 49% owned by the CEO, Jinxiang Lu, and his wife.
8) Liaoning International Construction and Engineering Group Limited ("LICEG Ltd.") – LICEG is a construction and engineering company in China with Class A licenses permitting it to undertake projects of any scale or size. It is not to be confused with LICEG Ltd., the holding company owned by GaoKe Energy. LICEG Ltd. was established so that GaoKe could utilize Class A licenses without actually having to obtain them. LICEG would transfer a number of its licenses and approximately 30 employees to LICEG Ltd., which is 90% owned by GaoKe and 10% owned by LICEG. Effectively GaoKe is paying LICEG employees in exchange for construction licenses. We're not sure of the legality of this arrangement.
9) Shenyang Longxiang Wind Power Technologies Limited – Incorporated in October 2009 as a "manufacturing company specializing in research and development, consultant service for wind turbine business". Not grammatically correct, but this sentence from the 2009 20-F is the only description we could find.
10) Shenyang Yixiang Wind Power Equipment Limited – Incorporated in June 2009 as a "manufacturing company specializing in the production of wind turbine components to establish a joint venture with GE Drivetrain Technologies, a unit of GE Transportation (China)".
11) GE Drivetrain Technologies (Shenyang) Co., Ltd. – A joint venture with GE Transportation to which APWR contributed 50% of the equity capital and took ownership of 25% of the company. A-Power received a Notice of Arbitration from GE Transportation on March 7, 2011, claiming that APWR had unresolved breaches of its contract. This indicates that a deal between APWR and GE is no longer on the table. Unfortunately, because this in an arbitration situation, the details of the dispute are unlikely to be released to the public.
12) Shoulong Energy Co., Ltd. – A subsidiary in Thailand.
13) Shenyang Power Group, Ltd. – This subsidiary is described by management as a "PRC construction company" incorporated in May 2009.
14) Texas A Wind LLC – A joint venture with USREG to develop a wind farm in Texas. It's difficult to determine how likely it is that this project will get off the ground, but the political landscape is described nicely in this report form MSNBC.
15) EVATECH Co., Ltd – An unprofitable Japanese solar panel and electronics manufacturer purchased for $50 million in 2010.

16) In the following chart we have consolidated the financials of APWR's primary subsidiaries, translated our findings into dollars at an exchange rate of 6.8307 CNY/USD, and compared those numbers to the SEC filings:

2009 AIC Filings

(CNY '000)	GaoKe Energy	GaoKe Design	LICEG Ltd.	Ruixiang	GE Drivetrain	Yixiang	Consolidated	In USD ($ millions)	SEC Filings ($ millions)
Revenue	94,015	1,558	79,731		-	-	**175,304**	**$ 25.66**	**$ 311.25**
Gross Profit	2,673	730	8,035		-	-	**11,438**	**$ 1.67**	**$ 51.09**
Operating Income	(17,560)	(2)	(725)		-	-	**(18,287)**	**$ (2.68)**	**$ 38.24**
Cash	10,657	1,219	4,569		35,982	7,701	**60,128**	**$ 8.80**	**$ 166.48**
Total Assets	1,055,749	3,558	64,963		87,132	27,363	**1,238,765**	**$ 181.35**	**$ 258.19**
Shareholder Equity	21,948	3,092	53,477		68,500	20,000	**167,017**	**$ 24.45**	**$ 252.64**

The table above shows the SAIC filings for GaoKe Energy, GaoKe Design, and LICEG Ltd., APWR's three primary subsidiaries and those most likely to make a contribution to revenue and earnings. The magnitude of the discrepancy between the consolidated SAIC filings and the SEC filings is an indication that management may be lying to regulatory authorities.

The remainder of APWR's subsidiaries are inconsequential, un-locatable, or did not publish financial statements with the SAIC. Ruixiang, for example, seems not to have filed 2009 financials; however, its 2008 financials indicate that it generated no revenue and operating losses of 2.247 million CNY.

The conclusions cautious investors can draw from this is that the business is materially much smaller than what is reported in SEC filings.

Related Party Transactions

Since inception, the company has been making and repaying loans to company insiders and businesses owned by those insiders. Surprisingly, despite disclosing the loan balances, management fails to make note of any business related transactions to and from these companies. The following is an outline of the "Related Party Balances and Transactions" disclosed by management. 2007 balances appear twice because management changed the participants on the list and the total amounts borrowed or owed without disclosing why. 2007a numbers can be found in the 20-F filed July 11, 2008. 2007b numbers can be found in the 20-F filed June 30, 2009:

Related Party Balances and Transactions

Amount due from:	**2005**	**2006**	**2007a**	**2007b**	**2008**	**2009**
Shareholder of the Company		$ 39,099				
Former shareholders of Gaoke	$170,412					
Shareholders of Design	$ 30,205					
Liaoning High Tech Energy Group Electrical Supplies Ltd. ("Electrical")	$ 14,645	$ 26,805	$ 15,080	$ 15,080		
Head Dragon Ground Heating Pump Company ("Heating")			$ 15,109	$ 15,109	$ 22,000	$ 22,000
Liaoning High-Tech Furnace Insulation and Anti-Corrosion Engineering Ltd. ("Furnace")			$ 1,709	$ 2,000	$ 83,000	$ 83,000
Jinxiang Lu - CEO and director				$ 728,000	$1,192,000	$ -
Amount due to:						
Liaoning High-Tech Furnace Insulation and Anti-Corrosion Engineering Ltd. ("Furnace")	$ 40,069	$ 8,761				
Related party note payable		$ 7,300,520				
Shareholder of the Company			$375,531			
Shenyang Xiangfeng New Energy Engineering Ltd. ("Xiangfeng")				$1,104,000	$1,311,000	$1,316,000
John Lin - COO and director				$ -	$ 9,000	
Jinxiang Lu - CEO and director						$2,842,000

But what's most important is that NO disclosure is made regarding what business transactions are taking place between these related parties. Are investors to believe APWR isn't contracting services from these companies, or trading goods with these companies? Why is management associating with these businesses if they're not working with APWR? This is an oversight worthy of an SEC investigation.

Motivated by evidence that APWR is not fully disclosing related party transactions, we became suspicious that additional related parties may exist which have not received loans from APWR. The following companies are listed at lngkny.com:

1. Liaoning High-tech Turbine Installation Engineering Company (辽宁高科汽机安装工程分公司)

2. Liaoning High-tech Boiler Installation Company (辽宁高科锅炉安装安装分公司)

3. Liaoning High-tech Electric Installation Company (辽宁高科电气安装安装分公司)

4. Liaoning High-tech Thermal Engineering Installation Company (辽宁高科热工安装安装分公司)

5. Liaoning High-tech Steel Structure Installation Company (辽宁高科钢结构安装安装分公司)

6. Liaoning High-tech Debugging & Operating Installation Company (辽宁高科调试经营运行安装分公司)

7. Liaoning High-Tech Thermal-Insulation and Eroding-resistant Boiler manufacturing Co., Ltd (辽宁高科筑炉保温防腐有限公司)

8. Shenyang (Ruixiang) Lucky Wind Power Equipments Co., Ltd. (沈阳瑞祥风能设备有限公司)

9. High-tech Energy Saving & Thermal Power Designing Institute No.1 Branch (辽宁高科节能热电设计研究院第一分院)

Six of the nine companies mentioned above do not match previously disclosed subsidiaries or related parties.

We then instructed the local organization in China that obtains our AIC filings to search for additional companies owned or operated by Jinxiang Lu, A-Power's CEO. This team found the four related parties that have been trading cash with APWR, as well as 7 additional previously undisclosed related parties. These seven additional companies do not match those presented in the SEC filings or on the company website. A summary of the related parties we have identified can be found in the table below:

#	Chinese Name	English Name	Registration Number	Website	AIC Filings	Org Structure	Semi-Disclosed Related Parties	Stroke Off	Cancelled
1	辽宁高科汽机安装工程分公司	Liaoning High-tech Turbine Installation Engineering Company		o					
2	辽宁高科锅炉安装安装分公司	Liaoning High-tech Boiler Installation Company		o					
3	辽宁高科电气安装安装分公司	Liaoning High-tech Electric Installation Company		o					
4	辽宁高科热工安装安装分公司	Liaoning High-tech Thermal Engineering Installation Company		o					
5	辽宁高科钢结构安装安装分公司	Liaoning High-tech Steel Structure Installation Company		o					
6	辽宁高科调试经营运行安装分公司	Liaoning High-tech Debugging & Operating Installation Company		o					
7	辽宁高科筑炉保温防腐有限公司	Liaoning High-Tech Furnace Insulation and Anti-Corrosion Engineering Ltd.	210133000001562	o	o		o		
8	沈阳瑞祥风能设备有限公司	Shenyang (Ruixiang) Lucky Wind Power Equipments Co., Ltd.	210100402001073	o	o	o			
9	辽宁高科能源集团有限公司	Liaoning Gaoke Energy Group Co., Ltd.	210100400010435		o	o			
10	辽宁国际建设工程集团有限公司	Liaoning International Construction And Engineering Group Ltd.	210133000001675		o	o			
11	辽宁高科节能热电设计研究院	Liaoning Gaoke (High-Tech) Energy Saving And Thermoelectricity Design Research Institute	210100000021080	o	o	o			
12	通用电气传动科技（沈阳）有限公司	GE Drivetrain Technologies (Shenyang) Co., Ltd.	210100402004373		o	o			
13	沈阳益祥风能设备有限公司	Shenyang Yixiang Wind Power Equipment Limited	210132000033449		o	o			
14	沈阳金祥电能设备有限公司	Shenyang (Jinxiang) Good Luck Electric Power Equipment Co., Ltd.	210100402000659		o	o			
15	沈阳龙祥风能技术有限公司	Shenyang Longxiang Wind Power Technologies Limited	210132000039964		o	o			
16	辽宁高科能源集团电气设备有限公司	Liaoning High Tech Energy Group Electrical Supplies Ltd.	2101142102303		o		o	o	
17	辽宁首龙地源热泵有限公司	Head Dragon Ground Heating Pump Company	711000007		o		o		
18	沈阳祥风新能源工程有限公司	Shenyang Xiangfeng New Energy Engineering Ltd.	211203195207250000		o		o		
19	乌拉特后旗恒旺热电能源有限公司		152826000000495		o				
20	乌拉特后旗基和东方风能有限责任公司		152826000001764		o				
21	沈阳祥风能源设备有限公司		211000700		o			o	
22	沈阳动力集团有限公司	Shenyang Power Group, Inc.	210132000031058		o	o			
23	北京世纪易盛国际投资有限公司		1101052886471		o			o	
24	辽宁高科能源集团沈阳电力系统集成有限公司		2101142100692		o				
25	辽宁高科广告传媒有限公司		2101142101608		o				o

The table above contains a number of important columns. A mark in the “Website” column indicates that this subsidiary is listed on the English or Chinese versions of A-Power’s website. A mark in the “AIC Filings” column indicates that AIC filings have been located by our investigator. The “Org Structure” and “Semi-Disclosed Related Parties” columns indicate if the subsidiary has been formally disclosed in the SEC filings, briefly mentioned in the related-party section as a lender or loan recipient, or not disclosed anywhere. The “Stroke Off” column indicates that a subsidiary has failed to publish recent AIC filings. This can be a sign that the company is no longer operational or just behind schedule. Interestingly, a company that owes APWR money is categorized as “Stroke Off”. The “Cancelled” column indicates that the registration statement has been cancelled and that the company is most likely no longer operational.

Disclosed related party transactions are also confusingly opaque. For example, the Easy Flow Limited subsidiary mentioned above was brought into existence in a nonsensical manner. The first mention of Easy Flow was made in the 20-F filed July 11, 2008. It describes a transaction in which John Lin, a director of the company, organized Easy Flow in June of 2007.

Over the subsequent months, APWR transferred $23 million to him through a series of payments. Cash was moved out of the company into the hands of a director. Next year’s 20-F explains that in June of 2008, Mr. Lin “transferred” this subsidiary back to APWR. The specifics of this transaction are unclear in the financial statements, we’re not sure how much cash was transferred out of the company, and we’re not sure what assets were transferred back in. Investors are left guessing what cash flow statement line items might represent the Easy Flow transaction, and more importantly, we’re left guessing why this transaction was structured in such a bizarre way if not to hide the transaction from investors and auditors.

Conclusion

We hope that investors who own APWR and those considering buying shares at what appear to be a fundamentally low valuation familiarize themselves with the risks we've addressed. We also hope that the SEC and MSCM LLC take necessary precautions in protecting investors.

Further due-diligence efforts on our part have led us in uncovering additional causes for concern. Efforts to identify customers of the core distributed generation business have almost all failed. As of the third quarter, the wind power business has generated negligible revenue. Nowhere have we found signs of encouragement.