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GCL-POLY ENERGY HOLDINGS LIMITED

保利協鑫能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3800)

KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION

This announcement is made by the board (the “**Board**”) of directors of GCL-Poly Energy Holdings Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.51(4) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

We refer to:

- (a) the Company’s announcements dated 31 March 2021, 6 April 2021 and 11 April 2021 under which it was announced that:
 - (i) the publication of the 2020 Annual Results has been delayed until further notice;
 - (ii) the Board Meeting for considering and approving, among other matters, the 2020 Annual Results and its publication, and considering the payment of a final dividend, if any, has been further postponed until further notice; and
 - (iii) the trading in the shares of the Company on Stock Exchange suspended with effect from 9:00 a.m. on 1 April 2021;
- (b) the Company’s announcement dated 19 April 2021 in relation to, among other things, the publication of the Company’s unaudited management accounts for the year ended 31 December 2020;

- (c) the Company's announcement dated 28 April 2021 containing certain updates on the delay in publication of its 2020 Annual Results and despatch of its 2020 Annual Report;
 - (d) the Company's announcement dated 4 May 2021 in relation to the Resumption Guidance;
 - (e) the Company's announcement dated 7 May 2021 in relation to the appointment of Forensic Accountant;
 - (f) the Company's announcement dated 17 May 2021 in relation to its change of auditor;
 - (g) the Company's announcement dated 29 June 2021 in relation to the formal appointment of the new auditor of the Company; and
 - (h) the Company's announcement dated 30 June 2021 in relation to quarterly update on the resumption progress,
- (together, the "**Previous Announcements**").

Unless otherwise defined, capitalised terms in this announcement have the meanings used in the Previous Announcements.

BACKGROUND

Trading of the Company's shares has been suspended since 1 April 2021 pending release of its annual results for the financial year ended 31 December 2020. The delay was due to the additional time required for the Company to address audit issues identified by its former auditor, Deloitte Touche Tohmatsu (the "**Former Auditor**") under the Auditor Letter dated 9 April 2021.

The primary concerns that the Former Auditor raised in the Auditor Letter were in relation to the commercial rationale of an Engineering, Procurement and Construction contract (the "**EPC Contract**") of RMB1.9 billion for a granular silicon project entered into in September 2019 among Jiangsu Zhongneng (a subsidiary of the Company), a PRC state-owned enterprise (the "**SOE Lead Contractor**") and a sub-contractor (the "**Sub-Contractor**"), including but not limited to the validity of a prepayment of RMB510 million made to the SOE Lead Contractor.

The Company received from the SOE Lead Contractor an aggregate refund in cash of RMB495.28 million (representing 97% of the prepayment that had been paid by Jiangsu Zhongneng for the purposes of the EPC Contract) following the termination of the EPC Contract on 6 April 2021. Further, as disclosed in the Company’s announcement dated 7 May 2021, the Company and the Special Committee engaged Mazars Certified Public Accountants LLP* (the “**Forensic Accountant**”) as the Company’s forensic accountant to conduct a forensic investigation into the Former Auditor’s concerns in the Auditor Letter (the “**Forensic Investigation**”).

THE SCOPE OF THE FORENSIC INVESTIGATION

The Forensic Accountant has conducted an independent forensic investigation to assess the issues raised in the Auditor Letter, focusing on the commercial rationale for the EPC Contract, including but not limited to the validity of the prepayment for the purposes of the EPC Contract.

For the purpose of the Forensic Investigation, the Forensic Accountant conducted the following procedures:

- (i) obtained relevant documents, including relevant contracts, financial data, internal approval documents, screenshot evidence of relevant approvals in the internal approval system, bank statements and relevant proof of payment and receipt, feasibility study reports and legal memoranda;
- (ii) obtained electronic evidence, including data from relevant personnel’s work computers, and seeking to ensure the completeness of such data by conducting hash checks;
- (iii) visited Jiangsu Zhongneng, the parent company of the SOE Lead Contractor, the Sub-Contractor, the operation management headquarters of the Company, and the beneficial owner of the Sub-Contractor (the “**Sub-Contractor Owner**”);
- (iv) conducted background check to obtain information and data of relevant companies and personnel;
- (v) conducted interviews with relevant personnel, including personnel from Jiangsu Zhongneng, the parent company of the SOE Lead Contractor and the Sub-Contractor, and Grandall Law Firm; and
- (vi) reviewed, compared and analysed the information and documents obtained, and conducted supplementary interviews.

CONCLUSION OF THE FORENSIC INVESTIGATION

For the prepayment of RMB510 million by Jiangsu Zhongneng to the SOE Lead Contractor under the EPC Contract, the Forensic Accountant has not identified any non-compliant or unreasonable circumstances from both a legal and commercial perspective.

The Forensic Accountant has not identified any concern in the completeness of the information disclosed by the Company's management to the Former Auditor in connection with the EPC Contract.

KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION

As disclosed in the Company's announcement dated 4 May 2021, one of the requirements under the Resumption Guidance is that the Company has to conduct an appropriate independent investigation into the various concerns raised by the Former Auditor in the Auditor Letter, disclose the findings and take appropriate remedial actions.

The Company understands that:

- (i) the Forensic Accountant submitted the forensic review report on 13 July 2021 to the Special Committee (the "**Forensic Review Report**"); and
- (ii) the Special Committee reviewed and submitted the Forensic Review Report to the Board for its approval on 14 July 2021; and
- (iii) the Board reviewed and approved the Forensic Review Report on 14 July 2021.

The Company hereby discloses the key findings of the Forensic Review Report and sets out its responses below:

1. The commercial rationale for the EPC Contract

Background

Jiangsu Zhongneng, and the SOE Lead Contractor and the Sub-Contractor (as a consortium) entered into the EPC Contract. The total value of the contract is RMB1.9 billion, with a prepayment of RMB510 million. The Former Auditor raised concerns about the commercial rationale of the EPC Contract and the operation scale of the Sub-Contractor.

Summary of the Forensic Accountant's findings

The SOE Lead Contractor is responsible for the design, construction and commissioning of the project, while the Sub-Contractor is responsible for the procurement and supply of the required equipment and materials.

A consortium was established between the SOE Lead Contractor and the Sub-Contractor to provide services required under the EPC Contract, as the task requires expertise from multiple areas. The SOE Lead Contractor (as the consortium leader) invited the Sub-Contractor to form the consortium as a member. Since the Sub-Contractor had previously provided equipment and materials to another associate of the Company, Jiangsu Zhongneng approved the Sub-Contractor to be a member of the consortium.

In addition, the SOE Lead Contractor was of the view there may be difficulty in the procurement and supply of the required equipment and materials from overseas, given it is a state-owned enterprise. By forming a consortium with the Sub-Contractor for the EPC Contract, the SOE Lead Contractor is able to make use of the network of the Sub-Contractor on the procurement and supply of the required equipment and materials from overseas.

The Forensic Accountant is of the view that (a) the division of responsibilities, rights and obligations between the SOE Lead Contractor and the Sub-Contractor under the EPC Contract are clear; (b) the EPC Contract and relevant consortium agreement are legally compliance; and (c) each of the state-owned enterprise and domestic-owned enterprise can leverage on their respective advantages for the benefit of the project.

2. The validity of the prepayment made for the purposes of the EPC Contract

Background

After entering into the EPC Contract, Jiangsu Zhongneng paid RMB510 million to the SOE Lead Contractor (as the consortium leader) for work in the initial phase of the EPC Contract.

Summary of the Forensic Accountant's findings

According to the interim measures for settlement of construction project price (建設工程價款結算暫行辦法) (the “**Interim Measures**”), prepayment of EPC Contract should in principle be between 10% and 30% of the contractual amount. The Forensic Accountant calculated that the prepayment made by Jiangsu Zhongneng to the SOE Lead Contractor under the EPC Contract was within the parameters set out in the Interim Measures.

The Forensic Accountant conducted an investigation on the approval process in the system in respect of the prepayment of RMB510 million by Jiangsu Zhongneng. The payment was submitted by the relevant financial personnel of Jiangsu Zhongneng, and approved by (i) the financial manager of Jiangsu Zhongneng, (ii) the financial controller of Jiangsu Zhongneng and (iii) the General Manager of Jiangsu Zhongneng. The Forensic Accountant checked the bank-in slips to verify the validity of the payment.

The Forensic Accountant conducted an interview with the General Manager of Jiangsu Zhongneng, who stated that in 2019, Jiangsu Zhongneng had achieved technological improvement in granular silicon and considered the urgency to start the granular silicon project quickly. However, in 2019, the Company had difficulty in obtaining sufficient financing for the granular silicon project. As SOE Lead Contractor agreed to provide financial support for the granular silicon project, subject to Jiangsu Zhongneng's prepayment of the RMB510 million prepayment, the General Manager of Jiangsu Zhongneng approved the EPC Contract and Jiangsu Zhongneng entered into the EPC Contract. In this regard, the Forensic Accountant noted that the General Manager of Jiangsu Zhongneng, according to relevant internal policy, did not have authority to approve any contract involving more than RMB100 million of capital expenditure.

Therefore, the approval of the EPC Contract by the General Manager of Jiangsu Zhongneng was in breach of the Company's internal policy.

The Company, having investigated the circumstances under which the non-compliance occurred, is of the view that this is a one-off incident, and will engage appropriate external consultants to review and, if necessary, strengthen internal compliance with its internal systems and procedures.

3. Relationship between the Sub-Contractor, Suzhou Entity and the Company

Background

The Sub-Contractor was established in August 2018. The registered capital is RMB100 million and the paid capital is nil. The legal owner of the Sub-Contractor was changed in October 2019.

When visiting the office of the Sub-Contractor, the Former Auditor noted that the office was occupied by another PRC-incorporated entity (the “**Suzhou Entity**”). The Former Auditor was also concerned that this Suzhou Entity may be indirectly related to one of Jiangsu Zhongneng's employees.

Summary of the Forensic Accountant's findings

The beneficial owner of the 100% equity in the Sub-Contractor is the Sub-Contractor Owner. The Sub-Contractor Owner entered into an equity holding agreement (股權代持協議) with the former and current legal owners of the Sub-Contractor.

The Sub-Contractor Owner, the executive director and legal owner of the Sub-Contractor and the executive director of the Sub-Contractor acting on behalf of the Sub-Contractor each signed a statement on 27 April 2021, as witnessed by Grandall Law Firm, confirming that they are independent of the Company and its related parties.

Investigation by the Forensic Accountant shows that the Suzhou Entity rented the office from the landlord for its own use, and subsequently sub-leased it to Sub-Contractor who used it as its office.

The Forensic Accountant assessed the Company's and its relevant affiliates' human resources record. The Forensic Accountant found no record in the Company's employment records relating to the Suzhou Entity's legal representative, and past and present supervisors.

The Forensic Accountant also found no evidence of the beneficial owner and legal owner of the Sub-Contractor being employed by the Company or its affiliates.

4. New EPC Contract, Termination of the EPC Contract and Supplemental Agreement, and progress in the recovery of prepayment

Background

On 8 January 2021, Jiangsu Zhongneng entered into another EPC contract ("**New EPC Contract**") for the granular silicon project with another EPC Contractor ("**New EPC Contractor**"). Jiangsu Zhongneng, the SOE Lead Contractor and the Sub-Contractor entered into a termination agreement on 6 April 2021 (the "**Termination Agreement**") and the Supplemental Agreement to the Termination Agreement on 25 April 2021 (the "**Supplemental Agreement**") to terminate the EPC Contract. The parties to the EPC Contract agreed and confirmed that the SOE Lead Contractor and the Sub-Contractor incurred total costs of RMB14.72 million for the work performed in the initial phase of the EPC Contract. As mentioned in the Company's announcement dated 28 April 2021, the SOE Lead Contractor has returned RMB495.28 million, being the prepayment amount after deducting the total costs already incurred by itself and the Sub-Contractor, to Jiangsu Zhongneng.

The Company confirms that the entering into of the New EPC Contract and the termination of the EPC Contract were not related to the audit issues raised by the Former Auditor in the Auditor Letter.

As stated in the Company's announcement dated 28 April 2021, in the course of assessing the issues in relation to the EPC Contract, the Company has discovered that the EPC Contract constituted a major transaction of the Company as the consideration ratio exceeded 25% but was less than 100% based on the market capitalisation of the Company at the time when the EPC Contract was entered into.

The Company is reviewing the circumstances in which this non-compliance had occurred and believe that this was an isolated incident. The Company should have complied with the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules and is taking steps to rectify the situation to ensure that the applicable requirements under Chapter 14 of the Listing Rules are complied with as soon as is reasonably practicable, notwithstanding that the EPC Contract has now been terminated.

Summary of the Forensic Accountant's findings

The Forensic Accountant has studied the major reasons for the termination of the EPC Contract being, that the improvement in technology in granular silicon project has enabled the segregation of production units/steps, and that the technology secret is highly confidential. Therefore, Jiangsu Zhongneng has decided to change the project from having a main contractor to individual contractors for individual production unit/step mode, in order to maintain confidentiality. The Forensic Accountant considers that Jiangsu Zhongneng's decision to terminate the EPC Contract in October 2020 was supported by sufficient commercial reasons.

Based on the Forensic Accountant's interview with the General Manager of Jiangsu Zhongneng, the New EPC Contract was entered by Jiangsu Zhongneng in response to the growing market demand and increased economic value for granular silicon technology, which Jiangsu Zhongneng became aware of around the second half of 2020. In August 2020, Jiangsu Zhongneng initiated its search for a new contractor for the granular silicon project.

Jiangsu Zhongneng has compared various potential contractors under the new arrangement and selected the New EPC Contractor based on its qualification and financial resources.

The Forensic Accountant has investigated the New EPC Contractor and found the New EPC Contractor possess the relevant qualifications for the New EPC Contract, and it has worked for Jiangsu Zhongneng before. The Forensic Accountant considers that the selection of the New EPC Contractor and the New EPC Contract were commercially reasonable and valid.

The Audit Committee of the Company had several rounds of discussions with the Chairman of the Company to speed up the termination of the EPC Contract. Through the effort of the Chairman of the Company and assistance from the government, the EPC Contract was terminated and the SOE Lead Contractor has returned RMB495.28 million to Jiangsu Zhongneng.

The Forensic Accountant reviewed the bank-in slips, and confirmed that Jiangsu Zhongneng has already received the repayment under the Termination Agreement and Supplemental Agreement.

KEY LIMITATIONS OF THE FORENSIC INVESTIGATION

1. Neither the SOE Lead Contractor nor the Sub-Contractor could provide any additional information relating to the EPC Contract including but not limited to bank-in slips or other evidence verifying transfers between the SOE Lead Contractor and the Sub-Contractor or other third parties. The explanations provided were that: (i) information of a state-owned enterprise cannot be disclosed; (ii) the information involves commercial secrets and (iii) the EPC Contract has already been terminated.
2. The SOE Lead Contractor could not arrange for the following personnel to be interviewed given that the EPC Contract has already been terminated: (i) the chief financial officer of the SOE Lead Contractor, who was interviewed by the Former Auditor; and (ii) the employees who participated in, and travelled for, the design of the project under the EPC Contract.

Notwithstanding the limitations above, the Forensic Accountant has conducted a comprehensive review and analysis and exercised its independent judgment in arriving at its final conclusion based on all the available evidence that could be obtained. The Forensic Accountant is of the view that the conclusion reached in the Forensic Review Report would not be affected by such limitations.

OPINION OF THE SPECIAL COMMITTEE AND THE BOARD ON THE FORENSIC REVIEW REPORT

The Special Committee and the Board have reviewed the Forensic Review Report (including the limitations of the Forensic Investigation) and understood from the Forensic Accountant that those limitations would not affect the conclusion of the Forensic Investigation.

The Special Committee and the Board are of the view that the content and findings in the Forensic Review Report are reasonable and acceptable, and the Board is of the view that the Forensic Review Report has adequately addressed the concerns raised by the Former Auditor in the Auditor Letter.

The Board is of the view that the problems identified in the Forensic Review Report do not affect the business operation, financial situation or contingent liabilities of the Group. The Group's business operation continues as usual despite the suspension of trading since 1 April 2021.

CONTINUED SUSPENSION OF TRADING

Trading in shares in the Company was suspended from 9:00 a.m. on 1 April 2021 and will remain suspended until further notice.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
GCL-Poly Energy Holdings Limited
保利協鑫能源控股有限公司
Zhu Gongshan
Chairman

Hong Kong, 14 July 2021

As at the date of this announcement, the Board comprises Mr. Zhu Gongshan (Chairman), Mr. Zhu Zhanjun, Mr. Zhu Yufeng, Ms. Sun Wei, Mr. Yeung Man Chung, Charles and Mr. Zheng Xiongjiu as executive Directors; Ir. Dr. Raymond Ho Chung Tai, Mr. Yip Tai Him, Dr. Shen Wenzhong and Mr. Wong Man Chung, Francis as independent non-executive Directors.

* *For identification purposes only*