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熊猫绿能
Panda Green

PANDA GREEN ENERGY GROUP LIMITED

熊貓綠色能源集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 686)

UPDATE ON INVESTIGATION

References are made to (1) the announcements of the Company dated 12 and 13 May 2020 in relation to the formation of the Independent Investigation Committee; and (2) the announcement of the Company dated 9 June 2020 in relation to, among other things, the engagement of an external independent professional adviser, further update on publication of 2019 Audited Annual Results and delay in despatch of 2019 Annual Report (the “**Announcements**”). Unless the context requires otherwise, terms and expressions used in this announcement shall have the same meanings as those defined in the Announcements.

BACKGROUND OF THE INVESTIGATION

On 10 May 2020, the Company received a letter from its Auditors regarding the Group’s prepayment of the Deposits to:

- (a) Renewable Energy (Hong Kong) Trade Board Limited (“**EBODHK**”), a subsidiary of New Energy Exchange Limited (“**NEX**”), totalling HK\$598 million (equivalent to approximately RMB522 million); and
- (b) Shenzhen Zhiyuan Renewable Energy Company Limited* (深圳智遠新能源有限公司) (“**SZZY**”), totalling RMB500 million.

The Group has, for the year ended 31 December 2019, recognized an impairment charge on the Deposits totalling approximately RMB1,022 million, as well as other receivables from NEX and its related entities (“**NEX and related entities**”).

On 13 May 2020, the Independent Investigation Committee was formed.

THE DRAFT INVESTIGATION REPORT

On 3 July 2020, a draft investigation report (“**Draft Investigation Report**”) was first delivered to the Independent Investigation Committee by KPMG, the external independent professional adviser engaged by the Independent Investigation Committee to conduct the investigation on certain matters as agreed with the Independent Investigation Committee in response to the concerns raised by the Auditors. The Draft Investigation Report contains KPMG’s current findings (subject to further changes) covering matters relating to the Deposits and certain receivables from NEX, as well as the disposal of certain power plants in September 2019.

KEY FINDINGS IN THE DRAFT INVESTIGATION REPORT

The key findings in the Draft Investigation Report are set out below:

1. Payments abroad without proper approvals (HK\$598 million and HK\$88 million)

From 2014 to 2017, the Group made payments to NEX and related entities including EBODHK totalling HK\$598 million for the purposes of acquisition and construction of power projects. However, the payments and the underlying agreements had not been approved in accordance with the Group’s authorization procedures, and the payments were not used in accordance with the purposes stated in the underlying agreements.

In addition, between June and October 2015, the Group made payments of HK\$58 million to EBODHK and HK\$30 million to China Merchants New Energy Group Limited, totalling HK\$88 million.

The above payments (i.e. HK\$598 million and HK\$88 million), totalling HK\$686 million, were made at the verbal instruction of Mr. Alan Li, a former executive director and chief executive officer of the Company from June 2013 to June 2019 and a former chairman of the Board from January 2014 to June 2019, and the purposes for such payments were not indicated clearly in the payment requisition documents, while the supporting documentation appeared to have been prepared after the payments had already been made.

2. Fund flows underlying the payments of HK\$598 million and HK\$88 million

The fund flows underlying the payments totalling HK\$686 million (HK\$598 million plus HK\$88 million) mainly found their ways to six channels, and most of the funds had been used to acquire the Company's share (the "Shares") and approximately HK\$12 million had been paid into Mr. Alan Li's personal account. The movement and use of the funds were instructed by Mr. Alan Li and/or Mr. Li Hong, a former chief financial officer of the Company from April 2014 to June 2019 and a former executive director of the Company from August 2015 to June 2019.

As at January 2019, Magicgrand Group Limited, a company wholly-owned by Mr. Alan Li, held approximately 11.05% shareholding of NEX. NEX is principally engaged in sourcing and constructing power plants projects and related parts.

Between 2013 and the middle of 2018, there were significant overlaps between the Group and NEX relating to (i) management and finance personnel with some personnel taking up roles at both the Group and NEX; and (ii) the same floor of Shenzhen office, approval and IT systems being used by the Group and NEX. Mr. Alan Li was also an executive director and chief executive officer of NEX from 2013 until September 2016.

3. Payments of RMB500 million to SZZY

In April 2017, with the approval of Mr. Li Hong, RMB500 million from the Group was injected into Hangzhou Canhong Investment Management Limited Partnership* (杭州燦鴻投資管理合夥企業(有限合夥)) ("Hangzhou Canhong") through two of the Company's PRC subsidiaries. In May 2017, Hangzhou Canhong paid RMB485 million as shareholder's loan and RMB15 million in the name of equity investment into SZZY. SZZY, being a limited partner of Jiaxing Huaqiao Jiqian Investment Limited Partnership* (嘉興華僑吉乾投資合夥企業(有限合夥)) ("Jiaxing"), then injected such capital of RMB500 million into Jiaxing.

There were an undated agreement together with supplemental agreement ("Project Agreements") between Hangzhou Canhong and SZZY in relation to acquisition of power projects. The current management of the Group indicated that the Project Agreements and the payment of the RMB500 million have not been approved in accordance with the Group's authorization procedures.

Mr. Li Hong indicated that (a) the RMB500 million had not been used in accordance with the purposes set out in the Project Agreements, and (b) the Project Agreements were put in place subsequently for accounting purposes.

4. Fund flows underlying the payments totalling RMB500 million

Sunshine Business Investments Limited (“**Sunshine**”) and Speedy Worldwide Logistic Limited (“**Speedy**”) entered into a loan agreement dated 7 April 2017 whereby Sunshine as borrower has borrowed HK\$1,100 million from Speedy as lender (“**Sunshine’s Borrowings**”) for a term of three years for acquiring 99% shareholding in New Modern Management Limited* (新現代管理有限公司) (“**New Modern**”), being a shareholder of the Company, the remaining 1% shareholding of which was acquired at HK\$50 million by Top Merchant Group Limited. It is noted that from April to October 2017, New Modern acquired 904,104,000 Shares of the Company in total by way of subscription and on the market.

For the purposes of Sunshine’s Borrowings, Jiaxing had entered into an undated guarantee agreement with SZZY (whose legal representative at the time was also an employee of NEX) whereby Jiaxing provided a guarantee in favour of Speedy in respect of Sunshine’s Borrowings and SZZY offered its partnership interest in Jiaxing (worth RMB500 million) to Jiaxing under a security agreement/counter guarantee. In April 2020, Jiaxing gave notice to SZZY that Sunshine’s Borrowings was due and Sunshine has failed to repay the same, and demanded SZZY to honour its obligation under the security agreement/counter guarantee.

Before 2018, the accounting matters of SZZY were handled by NEX related personnel, according to representations of an individual who was the former legal representative of SZZY from April 2017 to June 2018. The same individual is currently an employee of NEX and was also a former employee of the Group.

5. Disposal of two subsidiaries to NEX related purchasers

KPMG noted from information provided by the current management of the Group that the Group facilitated the disposal by Changzhou Haozhen Venture Investment Centre Limited Partnership* (常州灝貞創業投資中心(有限合夥)) (“**Haozhen Limited Partnership**”) of its 95% interest in Changzhou Ranchen Solar Investment Limited* (常州冉宸光伏投資有限公司) (“**Ranchen**”) and the certain underlying power plants with installed capacity of 270MW in September 2019. The Draft Investigation Report covers the related disposal of the Company’s subsidiaries and payment of approximately RMB303.7 million to Wanxiang Trust Co., Ltd.* (萬向信托有限公司) (“**Wanxiang Trust**”).

References are therefore made to the Company's announcements dated 5 September 2019 and 11 October 2019 in relation to the disposal by the Company's subsidiary, United Photovoltaics (Changzhou) Investment Group Co., Ltd. (聯合光伏(常州)投資集團有限公司 ("UP Changzhou")), of two subsidiaries (one known as Changzhou Zhaolian Lvyi New Energy Limited* (常州市招聯綠奕新能源有限公司) ("Lvyi")) which through Haozhen Limited Partnership held aggregate effective equity interest of 36.45% in Ranchen, which in turn held certain power plants with installed capacity of 270MW, to two purchasers in which NEX has interest ("NEX related Purchasers") for consideration of approximately RMB198.5 million.

From information provided by the current management of the Group, it is noted that shortly before the above disposal, UP Changzhou in July and August 2019 made payment of approximately RMB303.7 million to Wanxiang Trust, which also held 31.45% equity interest in Ranchen through Haozhen Limited Partnership.

Representations from the management of the Group according to their existing knowledge indicated that, to facilitate subsequent sale of assets, the payment of approximately RMB303.7 million was made on behalf of Lvyi, which becomes a subsidiary of NEX after the disposal, to Wanxiang Trust as the earnest money for transfer of the interest in Haozhen Limited Partnership held by Wanxiang Trust to Lvyi.

Representations from the management of the Group also indicated that (i) Lvyi became a member of the NEX's group following the disposal; and (ii) a wholly-owned subsidiary of the Company known as Changzhou Zhaolian Lvgang New Energy Limited* (常州市招聯綠港新能源有限公司 ("Lvgang")) has under a loan agreement in October 2019 borrowed RMB450 million from Lvyi.

The following four parties, namely, one of the NEX related Purchasers, UP Changzhou, Lvyi and Lvgang have entered into a four-party agreement whereby amounts owing among them would be set-off ("**Four-party Agreement**"). The amounts owing among them as at 31 December 2019, according to representations from the management of the Group, were approximately (i) RMB197.5 million from the NEX related Purchaser to UP Changzhou plus (ii) RMB303.7 million from Lvyi (which became a NEX subsidiary after the disposal), less RMB450 million from Lvgang (a Group subsidiary) to Lvyi. Separately, in December 2019, Lvyi paid RMB15 million to Lvgang.

As a result of set-offs pursuant to the above Four-party Agreement and Lvyi's subsequent payment of RMB15 million to Lvgang in December 2019, as at 31 December 2019, there was an amount of approximately RMB36.2 million outstanding from NEX and related entities to the Group under the above transaction.

RECOMMENDATIONS OF KPMG

In the Draft Investigation Report, KPMG made recommendations to the effect that the Company should:

- ensure strict adherence to its office approval system and authorization procedures including the use of stamps/chops and signing by authorized signatories;
- engage external professionals to make an assessment over the recoverability of prepayment of the Deposits made in connection with NEX and related entities;
- tighten policies in relation to staff departures and handover of work and company property including computers and information management; and
- review key internal control points, conduct internal audits regularly and implement enhancement as appropriate.

RECOMMENDATIONS OF THE INDEPENDENT INVESTIGATION COMMITTEE

The Independent Investigation Committee, having regard to the Draft Investigation Report, agrees with the recommendations of KPMG and suggests that the following measures should be adopted as soon as possible for implementing the same recommendations:

- engaging an internal control review expert to carry out an internal control review; and
- seeking external professional/legal advices on the following steps: assessing the recoverability of prepayment of the Deposits made in connection with NEX and related entities, taking recovery related action and making reports of the relevant findings in the Draft Investigation Report to the appropriate enforcement authorities.

VIEWS OF THE BOARD

The Board takes note of the above recommendations of KPMG and that the Independent Investigation Committee is in agreement with the same.

The Board will adopt the measures suggested by the Independent Investigation Committee. In this regard, the Board has approved the engagement of KPMG Advisory (China) Limited for conducting an internal control review of the Group, and will provide further update as and when appropriate. The Board and the current management of the Company will address issues discovered during the independent investigation in a timely and proactive manner and take various actions to recover losses, in order to safeguard the interests of the Company and its shareholders as a whole.

By Order of the Board
Panda Green Energy Group Limited
Zhang Ping
Chairman of the Board

Hong Kong, 19 July 2020

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Ping (Chairman and Chief Executive Officer), Mr. Lu Zhenwei and Mr. Xu Jianjun; the non-executive directors of the Company are Mr. Sui Xiaofeng, Mr. Chen Dayu, Mr. Li Hao, Ms. Xie Yi and Mr. Yu Qiuming; and the independent non-executive directors of the Company are Mr. Kwan Kai Cheong, Mr. Yen Yuen Ho, Tony, Mr. Shi Dinghuan and Mr. Chen Hongsheng.

* *for identification only*