



HARBIN ELECTRIC – COMPLETELY EXPOSED

Introduction

In 2010, the Chinese RTO space was thrown on its head when once high flying Rino International was exposed as a fraud and its customer/contractee list was shown to be fraudulent. At the same time the CEO was taking money out of the company, the company was misrepresenting its stature in its industry to US investors. All of this transpired under the eyes of their trouble-plagued auditor Frazer Frost.

It was only a month earlier that Harbin Electric (NASDAQ:HRBN) prevented itself from becoming another RINO by announcing a takeover bid by its Chairman/CEO Tianfu Yang. But that time has now come. Citron will prove that Harbin is just as bad as RINO: fabricated customers, management taking money from the company, undisclosed insider dealings, and the worst accounting disclosures that either Citron or any forensic accountant has ever seen.

As for a buyout? Not happening! **This report, if printed in its entirety, would span over 100 pages. A team of attorneys and investigators has been gathering this data for months.**

Overview

This report examines in significant depth Harbin's purported operations and the deal documents to explore the following questions:

2. Harbin has grossly overstated revenues from its three

- disclosed (largest) customers.
3. Harbin has grossly overstated its export revenue.
 4. Harbin is guilty of multiple securities violations
 5. Harbin's largest division has disclosed material control weaknesses in every principal aspect of its business.

Note: Throughout the report we will refer to a thorough investigation into Harbin conducted by a private investigative firm in China. In order to protect our sources, Citron redacts the name of the firm, replacing it with "X" in appropriate documents. The executive who headed the report is a Certified Fraud Examiner with a specialty in China who has curriculum vitae more extensive than any investigator we have ever worked with. The full report, including the redacted names, will be available to the SEC or through legal due process with Citron Research.

Grossly Overstated "Largest Customer" Revenues

Harbin's current 10-K (fiscal yr 2010, filed March 16, 2011) states:

“No customer accounted for more than 10% of the total revenues for the fiscal year ended December 31, 2010. Two major customers accounted for approximately 22% of the net revenue for the fiscal year ended December 31, 2009, individually accounting for **12% (DXT)** and **10% (Jiangsu Liyang Car Seat Adjuster Factory)**, respectively. Three major customers accounted for 43% of the net revenue for the fiscal year ended December 31, 2008, with each customer individually accounting for **16% (Jiangsu Liyang Car Seat Adjuster Factory)**, **15% (DXT)** and **12% (Guiyang Putian Logistic Co., Ltd.)**, respectively.”

It is the opinion of Citron that Harbin is materially misrepresenting its revenue to the investing public and thereby committing fraud on the marketplace. Here we will review the 3 stated major customers of Harbin and the results of our investigation.

Customer #1: Jiangsu Liyang Car Seat Adjuster

The clearest sign of fraud at HRBN is seen in the interview with the purchasing agent at Jiangsu Liyang. Jiangsu Liyang (JLA) was reported to be Harbin's 2nd largest customer in 2009 (10% of revenues), and its largest in 2008 (16% of revenues).

The customer's Vice General Manager states unequivocally that not only has his firm not ordered a fraction of what Harbin has reported, worse, their customers predominantly order **manual** seat adjustors, not motorized ones.

This interview is definitive and draws a clear path to fraud — more than sufficient to trigger the Material Adverse Effect clause of the bank's loan document draft.

[[Liyang Car Seat Adjuster Manager Interview](http://citronresearch.com/wp-content/uploads/2011/08/Liyang-Car-Seat-Adjuster-Manager-Interview.pdf)
[<http://citronresearch.com/wp-content/uploads/2011/08/Liyang-Car-Seat-Adjuster-Manager-Interview.pdf>]]

Analysis of JLA revenues per HRBN disclosures:

Year	HRBN Reported Revenues (USD mil)	% from JLA	Revenues attrib to JLA (USD mil)	Avg RMB / USD conversion rate FY
2009	223.23	10%	22.32	6.8311
2008	120.82	16%	19.33	6.9483

According to JLA's SAIC filings and presentation, which are consistent with its published business model, HRBN's claimed sales to JLA were **114% of JLA's total 2009 revenues**, and **148% of JLA's 2009 operating costs**. See the documents linked below for verification.

[[JIANGSU LIYANG AUTOMOBILE SEAT ANGLE-CONTROLLER Credit Report and SAIC filing](http://citronresearch.com/wp-content/uploads/2011/08/JIANGSU-LIYANG-AUTOMOBILE-SEAT-ANGLE-CONTROLLER-Credit-Report-and-SAIC-filing.pdf)
[<http://citronresearch.com/wp-content/uploads/2011/08/JIANGSU-LIYANG-AUTOMOBILE-SEAT-ANGLE-CONTROLLER-Credit-Report-and-SAIC-filing.pdf>].]

[[Liyang 2011 Business Plan](http://citronresearch.com/wp-content/uploads/2011/08/Liyang-2011-Business-Plan.pdf)
[<http://citronresearch.com/wp-content/uploads/2011/08/Liyang-2011-Business-Plan.pdf>].]

** Interesting note: JLA has no difficulty making public statements consistent with its SAIC documents – which is **not the case with HRBN** ... or many other of the Chinese RTO's.

Customer #2: Daqing Xinchengtai Technology (DXT)

The reported largest customer of Harbin in 2009 (and #2 in 2008) was challenging to obtain financial information from. That is because they are not a manufacturer themselves, but rather a middleman, supplying pumps to the government funded Daqing Oilfield. While the SAIC docs retrieved were light on information because of the "Intermediary" nature of DXT's business, the interviews were conclusive.

All of Citron's research, including interviews, confirmed that Harbin grossly overstated revenues recognized from DXT. It is Citron's assessment that HRBN overstated its 2009 and 2008 sales to DXT at least by 365% and 247% respectively.

Below is the supporting documentation:

[[Daqing Interviews](http://citronresearch.com/wp-content/uploads/2011/08/Daqing-Interviews.pdf)
[<http://citronresearch.com/wp-content/uploads/2011/08/Daqing-Interviews.pdf>].]

[content/uploads/2011/08/Daqing-Interviews.pdf\]](#)

]

[[DXT SAIC \[http://citronresearch.com/wp-content/uploads/2011/08/DXT-SAIC.pdf\]](http://citronresearch.com/wp-content/uploads/2011/08/DXT-SAIC.pdf)]

Customer #3: Guiyang Putian Logistic

The last of HRBN's "top 3" customers is Guiyang Putian Logistic (GPL), responsible for 12% of Harbin's revenues for 2008. (The Chinese character name for GPL is:

贵阳普天物流技术股份有限公司)

It is the opinion of Citron Research that Harbin has greatly exaggerated its sales to GPL. As stated in the 10-K, GPL was 12% of 2008 Net Revenue of \$120,802,302.

Obtaining these records was more burdensome because Guiynag is located in the Guizhou Province, a third level province in China with inferior corporate record keeping.

HRBN reported sales to GPL that would be 85% of GPL's total revenues. This is obviously unrealistic as validated by the purchaser for GPL. Our source documents appear below:

[[GPL Interview \[http://citronresearch.com/wp-content/uploads/2011/08/GPL_Interview.pdf\]](http://citronresearch.com/wp-content/uploads/2011/08/GPL_Interview.pdf)]

[[GPL SAIC English \[http://citronresearch.com/wp-content/uploads/2011/08/GPL-SAIC-English.pdf\]](http://citronresearch.com/wp-content/uploads/2011/08/GPL-SAIC-English.pdf)]

]

This is what our research revealed for the only three customers ever identified in Harbin's SEC filings. We can only imagine what the rest of the revenue book looks like.

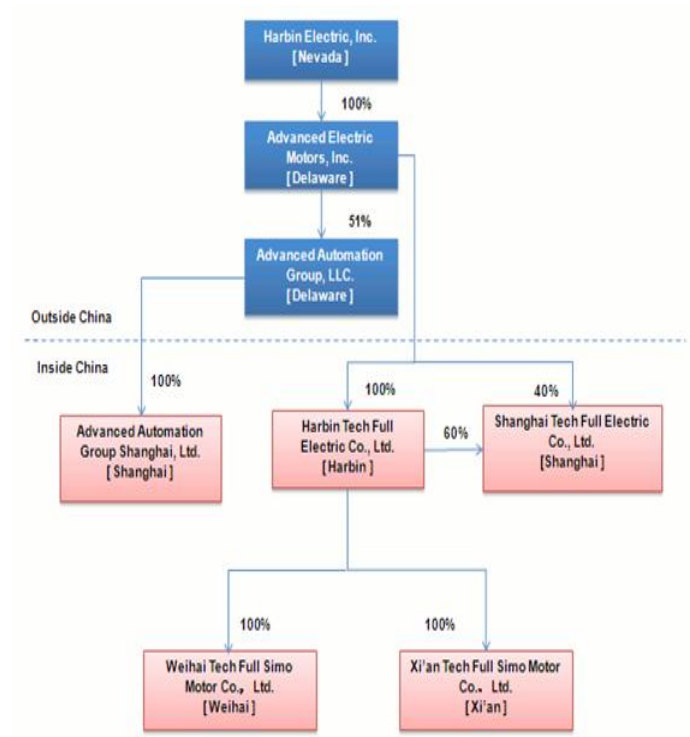
Grossly Overstated Exports

From 2010 10-K:

“Our automobile specialty micro-motors are purchased by customers who are first-tier suppliers to the automobile industry. We supply these

products to domestic customers and also export them to OEM suppliers in North America.”

In the same 10-K they state that international sales are \$20,410,902 for the year ending 2010. Noting all of the subsidiaries of Harbin as presented in this corporate structure on their website:



[\[http://citronresearch.com/wp-content/uploads/2011/08/Harbin-Corp-Org-Chart.jpg\]](http://citronresearch.com/wp-content/uploads/2011/08/Harbin-Corp-Org-Chart.jpg)

Citron has completed an exhaustive analysis of product imports as published in Datamyne, and finds a mere fraction of the amount of imports to North America Harbin claims to be exporting.

It is the opinion of Citron that Harbin has exaggerated their export data by a factor of multiples. Linked here is a worksheet with our findings. Our research shows HRBN exports of less than \$4 million in 2010, compared to their reported \$20+ million.

[\[Harbin Exports from Datamyne \[http://citronresearch.com/wp-content/uploads/2011/08/Harbin-Exports-from-Datamyne.pdf\].\]](http://citronresearch.com/wp-content/uploads/2011/08/Harbin-Exports-from-Datamyne.pdf)

For all those who think that Harbin is immune to criticism because of its purported pending buyout, be advised that this company is under the scrutiny of the SEC until the moment the deal is completed. The company is at risk of being forced to announce non-reliance on its filed financial statements at any time. The Material Adverse Events clauses of the various deal agreements therefore hang in the balance.

Material Adverse Events

Even though Citron has provided strong evidence that HRBN has been fabricating revenues in its SEC filings, we are sure that many investors will say, "Who cares if the company is being bought?"

Besides the obvious regulatory risk involved, there are critical contingencies defined in the loan docs that give the bank an out for material misstatements by the company in its reported financials. In particular, the loan documents state:

18.12 Original Financial Statements

	(a)	The Original Financial Statements we accordance with the Applicable GAAP unless expressly disclosed to the Ler contrary before the date of this Agre
	(b)	The Original Financial Statements giv view of the Target's consolidated fina results of operations during the relev
	(c)	There has been no material adverse Target's assets, business or financial date of Original Financial Statements

	(d)	The Group's most recent financial statements pursuant to Clause 19.1 (<i>Financial Statements</i>)
	(i)	have been prepared in accordance with Applicable GAAP as applied to Financial Statements; and
	(ii)	give a true and fair view of fairly present (if unaudited condition as at the end of, and the operations for, the period to which they relate (consolidated where applicable)
	(e)	Since the date of the most recent financial statements delivered pursuant to Clause 19.1 (<i>Financial Statements</i>) there has been no material adverse change in the business, assets or financial condition of the Group.

Securities Law Violation/Conflict of Interest – Part 1: Tianfu Yang's personal loan from Harbin

In the 10-K we read an interesting disclosure:

"On December 28, 2010, the Company made an advance of \$1,517,000 to Tai Fu Industrial Co., Ltd., an entity owned by Tianfu Yang, the

Company's Chairman. The purpose of the advance was to accommodate an urgent cash need of a transaction for this related entity under a guarantee to repay the Company within a few days. As of December 31, 2010, the money was repaid in full."

This disclosure brings up several issues that should be troubling to all investors:

- Why does another entity belonging to the CEO have an "urgent cash need"?
- Why does Tianfu Yang not have \$1.5 million in cash to give to the other entity? Isn't that odd for someone proposing to sign personally for a \$400 million loan?
- This transaction appears to be a clear violation of Sarbanes Oxley. As clearly stated in section 402 from Sarbanes Oxley:

SEC. 402. ENHANCED CONFLICT OF INTEREST PROVISIONS.

(a) PROHIBITION ON PERSONAL LOANS TO EXECUTIVES.—Section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m), as amended by this Act, is amended by adding at the end the following:

"(k) PROHIBITION ON PERSONAL LOAN TO EXECUTIVES.—

"(1) IN GENERAL.—It shall be unlawful for any issuer (as defined in section 2 of the Sarbanes-Oxley Act of 2002), directly or indirectly, including through any subsidiary, to extend or maintain credit, to arrange for the extension of credit, or to renew an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof) of that issuer.

Was the loan actually repaid? Is it odd to take an "urgent cash need" loan out on Tuesday, only to pay it back on a Friday? Who accounted for the reconciliation of the loan? Was it paid back in full in cash on that stated date? Or was this a postdated transaction that involved an "in kind" repayment at a later date so the company did not have to take the charge before the quarter ended? Or are we supposed to believe the repayment just coincidentally fell on the last day of the quarter?

Additionally, it was previously reported on by Citron that in the past that CEO Tianfu Yan and his brother Harbin Vice President Tianli Yang were previously obligated to make a civil settlement of a charge of misappropriation of funds and falsification of a bank loan document at a prior company. While these facts do not prove fraud in Harbin, it does go to character.

Harbin responded to this finding, **not** by disproving or even denying their legal wrongdoings, but rather by claiming that Tianli Yang is not a director of Harbin as Citron stated. Just to prove the thoroughness of the work, here is a document that proves in fact that Tianli Yang is on record as a director of Harbin.

[[SAIC Filing with Tianli Yang Director](http://citronresearch.com/wp-content/uploads/2011/08/SAIC-Filing-with-Tianli-Yang-Director.pdf)
[<http://citronresearch.com/wp-content/uploads/2011/08/SAIC-Filing-with-Tianli-Yang-Director.pdf>].]

Securities Law Violation/Conflict of Interest – Part 2: Boyd Plowman's role in Abax and the Harbin Special Committee

Aside from Harbin's CEO, the most important man in this process has become Boyd Plowman. Mr. Plowman is both head of the audit committee of Harbin, as well as the appointed head of the special committee to take the company private. This committee is at the center of the requirement that the interests of shareholders be defended. It is under his watch that we are to trust both Harbin's financials, and the fairness of the process by which the "takeover" transaction proceeds.

However, the July 13, 2011 proxy statement filing is the first time investors are informed of the following :

"Shortly after Abax filed a Schedule 13G with the SEC on December 9, 2010 announcing its greater than 5% ownership of the Company common stock, Mr. Plowman, the Special Committee Chair, brought to the attention of the other members of Special Committee, as well as to Gibson Dunn, the fact that **he was then serving as a director of several Abax-controlled entities including Abax Global Opportunities Fund, Abax Arhat Fund, Abax Claremont Ltd., Abax Jade Ltd., Abax Emerald Ltd., Abax Lotus Ltd., Abax Nai Xin A Ltd., and Abax Nai Xin B Ltd. (the "Abax Companies").**"

This relationship presents many conflicts of interest among shareholders / Harbin / Boyd Plowman that the SEC cannot ignore.

1. **#1.** On July 29, 2010, just before all the buyout drama began, Abax Emerald loaned Harbin \$15 million at a 10% interest rate. This would be a related party transaction, since the head of the audit committee is a director of Abax Emerald. Worse, you would think the head of the audit committee would know better than to **fail to disclose** this relationship. The above-market interest rate alone gives rise to the question of whether preference was

granted to a related party.

2. **#2.** Reading the language in the filing, we are to believe that no one on the special committee ever knew that Plowman was associated with Abax? Does this pass the smell test?
3. **#3.** It has never been disclosed how much financial interest Plowman has in Abax. Nor have been disclosed other relationships with directors of Abax, such as this investment company we found called Kilometre Growth, where Plowman is a director along with other Abax directors. Why are these matters undisclosed in HRBN's SEC filings?

<http://www.formds.com/issuers/kilometre-growth-asia-fund>

[<http://www.formds.com/issuers/kilometre-growth-asia-fund>].

Citron is amazed that Gibson Dunn did not find conflict in this relationship and that the SEC can authorize this deal without greater transparency of the Abax/Plowman relationship. This might be the first time in the history of takeovers that the **head of the special committee formed to oversee the sale of a company is actually a director of the acquiring entity.**

Citron also notes the numerous times Plowman's bio appears in Harbin's filings; yet not once does it mention his directorship in Abax funds; this despite Abax's high profile in the China investment scene following Morgan Stanley's major stake in the fund in 2007.

Disclosures that the SEC Cannot Ignore

While the Special Committee was busy talking to the white shoe lawyers and bankers about a deal, the most reprehensible

disclosures we have even seen in a public company were filed in the HRBN 10-K. The disclosures are regarding Simo Motor, the largest subsidiary of HRBN, purchased in 2009 and "restructured" in 2010, at a cost of over \$25 million, to integrate it into Harbin just last year. We note that these disclosures did not exist when HRBN purchased Simo.

“We and our independent registered public accounting firm, in connection with management's assessment of and the audit of our internal control over financial reporting as of December 31, 2010, **identified five material weaknesses in our internal control over financial reporting...**

Control activities related to bank reconciliation – At Xi'an Simo, the bank reconciliation for various bank accounts were not prepared accurately, which impacted the valuation and existence of the cash in bank as of December 31, 2010.

Control activities related to the reconciliation and classification of notes receivable – At Xi'an Simo, notes receivables endorsed as payment to third parties were not properly recorded, resulting in a **discrepancy between the physical notes receivables on hand and the general ledger.** Additionally, the improper classifications of transactions has impacted the completeness, and valuation of accounts payable / advance to suppliers and notes receivable balances at the year ended December 31, 2010 at Xi'an Simo

Control activities related to the calculation of provision of income tax – At Xi'an Simo, due to ambiguities in the PRC tax rules, the temporary and permanent differences in tax amounts were not properly identified

Control activities related to valuation of inventory allowance – At Xi'an Simo, slow moving inventories that had not been used over a year **were not properly evaluated for inventory allowance.**

Control activities related to inventory recording.— At Xi'an Simo, inventory movement between manufacturing facilities and sales entities were not timely and properly recorded on the general ledger.

It is especially astonishing how Simo Motors, Harbin's largest and highest visibility acquisition, has severe management control problems in every single verifiable part of this business: cash reconciliation, tax filings, payables, receivables, and inventory valuation. And as has been previously documented in text and video (view [here](https://www.vimeo.com/23282580) [https://www.vimeo.com/23282580] if you haven't seen it already), Simo Motors main physical plant is an antiquated 50 year old facility, with severe lack of automation of its manufacturing capabilities, requiring tens of millions of dollars in retooling and capital improvements required to to be competitive in its space.

With all the money being spent on consultants, why wouldn't Goldman Sachs, Morgan Stanley, or Lazard recommend a **new, independent forensic accountant** to run these material weaknesses to ground before any deal closes?

Forensic Analysis

Because we knew that HRBN directors would not hire a forensic accountant to go through their current operations, we hired one ourselves to present a financial analysis of HRBN. As noted, every potential financial acquirer walked away from this deal...maybe they saw what our forensic accountant projected.

[[HRBN Independent Forensic Accounting Report](http://citronresearch.com/wp-content/uploads/2011/08/HRBN-Independent-Forensic-Accounting-Report.pdf) [http://citronresearch.com/wp-content/uploads/2011/08/HRBN-Independent-Forensic-Accounting-Report.pdf]

Cannot be Said Too Many Times: Frazer Frost

Anyone following the China RTO drama is well aware of the notorious audit firm Frazer Frost, which occupies a unique spot in the history of this sector. After all, Frazer Frost is the **only** auditor sued by the SEC during this

entire China RTO fiasco. Citron is actually in competition with Frazer Frost — they have as many halts as we do over the past 7 months.

<http://www.theprogressiveaccountant.com/news/sec-suspends-california-audit-partner.html>
[\[http://www.theprogressiveaccountant.com/news/sec-suspends-california-audit-partner.html\]](http://www.theprogressiveaccountant.com/news/sec-suspends-california-audit-partner.html)

“Moore Stephens Wurth Frazer Torbet, LLP and Frost, PLLC are moving to resume operations as separate entities, as existed prior to their combination in January 2010. The combined firm, Frazer Frost, LLP, will continue to exist as a legal entity until the separation has been completed. It continues to be the policy of both firms not to comment publicly on client, personnel, or other internal matters.”

“Frazer Frost”, the auditor of record for Harbin’s 10-K, doesn’t actually exist any more. (Citron especially appreciates this website. <http://www.frazerfrost.com/> [\[http://www.frazerfrost.com/\]](http://www.frazerfrost.com/).) This is what investors will see if anyone ever tries to hold the auditor accountable for the annual financial report on which this purported **3/4ths of a billion dollar transaction** is based.

Formed of a merger in early 2010, Frazer Frost was dissolved in the wake of the SEC suit for having accepted management’s assurances in lieu of its own verification in the case of China Energy Savings Technology. Then came the exposure and delisting of RINO, whose management admitted it had fabricated revenues based on non-existent contractual relationships with large customers, again assumed valid by the same audit firm.

With all the firepower of assembled consultants for this deal : Goldman Sachs, Morgan Stanley, Ernst & Young, Lazard, Skadden Arps, Gibson Dunn, and White & Case, all with their hand in the till for the deal, **nobody** has demanded the hiring of a forensic auditor to finally lay out a full and fair accounting of the entire company for all investors to see what’s going on. The only numbers available are Frazer Frost’s.

A 500 Page Proxy Statement, but Nobody Has Done Their Homework

Lets see what all these high-priced consultants **didn't** do.

Morgan Stanley:

"In arriving at its opinion, Morgan Stanley assumed and relied upon, **without independent verification**, the accuracy and completeness of the information that was publicly available or supplied or otherwise made available to Morgan Stanley by the Company, and formed a substantial basis for its opinion. With respect to the April 2011 Case, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of the Company of the future financial performance of the Company."

Lazard:

"Lazard assumed and relied upon the accuracy and completeness of the foregoing information, **without independent verification** of such information. Lazard did not conduct any independent valuation or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company, or concerning the solvency or fair value of the Company, and Lazard was not furnished with any such valuation or appraisal."

Goldman:

Mr. Tianfu Yang did not request, and **Goldman Sachs did not provide, at any time, any opinion to the parties as to the fairness of the \$24.00 offer price or as to any**

valuation of the Company for the purpose of assessing the fairness of such offer price. Goldman Sachs was not requested to, and did not, recommend at any time the specific consideration payable in the proposed merger, which \$24.00 consideration was communicated by Mr. Tianfu Yang to Goldman Sachs and subsequently was determined by negotiations between the Special Committee and Mr. Tianfu Yang and Abax, and as a result, the Company's decision to enter into the merger agreement was solely that of the Special Committee and the Company's board of directors.

(Goldman apparently did not assist Tianfu Yang in the negotiations for a \$400 million dollar bank loan either.)

Audit Committee:

"Members of the Audit Committee rely **without independent verification on the information provided to them and on the representations made by management and the independent accountants.**

Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal control and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's consideration and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted accounting principles or that the Company's auditors are in fact "independent".

And finally, Citron notes that all the negotiations with China Development Bank were conducted personally by Tianfu Yang,

despite his having retained the world's pre-eminent investment banker as his personal advisor.

The Silence of the Buyers is Overwhelming

This company was left at the altar by Barings. Worse, they were left at the altar by **73 potential strategic and financial bidders, who were offered a look at this company. Only 3 bothered to execute an NDA, and not one offered a competing bid.**



The industry has spoken. The lack of enthusiasm for this deal speaks volumes. Initially the deal was to be funded by Goldman Sachs and Barings. After they walked away, Morgan Stanley shopped for buyers. Of the 73 potential bidders they brought to the table (41 were strategic), only 3 strategic ones even asked for an NDA.

For a company who is supposed to be a leader in the Chinese motor industry it is obvious that their industry does not even find them significant enough to sign an NDA. The complete lack of interest in the deal from all parties that were brought to the table by Goldman Sachs and Morgan Stanley affirms to ridiculous nature of this alleged buyout. This demonstrates that not only does Citron view Harbin with skepticism, but it has no credibility with any serious competitor in the space.

Breaking Up Is Hard to Do

Deals of this size typically have breakup fees attached. These are intended to provide a measure of assurance to investors, who have the most to lose if it fails, or the spurned buyer, for all their wasted expense and effort if a better suitor comes along.

But like every aspect of this proposed deal, the breakup fees are a story of their own.

Consider:

- If the company breaks up the merger, it owes the buyer group, 90% of which is Chairman Tianfu Yang \$22.5 million.
- If the buyers group fails to conclude the merger, the buyer group jointly (but **not** jointly and severally) is obligated to pay the company a \$30 million breakup fee.

Since, in neither of these cases, is any cash pledged to back these guarantees, these failsafe provisions, customarily structured to protect the unaffiliated security holders from a broken deal, result only in scenarios where the Chairman has to sue his company or the company has to sue its Chairman, for enforcement of the "guarantee".

The Significance of the SEC in this process

The entire proxy and Form 13E-3 is now submitted and under review by the SEC for comments and questions. At a time when both US officials and Chinese officials are working towards the goal of reliable and transparent disclosures from Chinese listed companies, this filing is a major step in the wrong direction.

The next step in this process is an anticipated set of questions and comments from the SEC, due within 30 days of the SC 13E3 filing date, July 13, 2011. This report will shed light on numerous issues that should be of substantial concern to the SEC, as noted in the next section.

Where the market has done an efficient job in flushing out Chinese RTOs and other equities with unreliable accounting, the notion of hiring a team of lawyers to prop of a company with questionable financials, reconciled by non existent auditing firm is a dangerous blueprint for other Chinese

companies to inflate their stock while management could possibly be selling stock into a bidding market. Chinese nationals in management positions, insulated as they are from any enforcement of US securities law can easily orchestrate the whole process. Therefore the SEC is a gatekeeper on a set of market integrity concerns which stretch far beyond the current Harbin drama.

Proof that Tianfu Yang has NO INTENTION of Concluding the Proposed \$24 Buyout of Harbin Electric

It's really quite simple. If Tianfu Yang wanted to buy Harbin Electric he would have taken a different path. He knew Simo's cash couldn't be reconciled. He knew his gross margins from his antiquated factories couldn't possibly be double or triple any of his competitors. He knew the sales to disclosed major customers were false. More than anyone, he knows that the company keeps consuming cash, despite the profitable financial statements and projections.

ALL he had to do was declare non-reliance on the filed audited financial reports. He would have disclosed all the internal weaknesses in the company, and gone through restatements. He would have hired a forensic auditor, and would be able to buy the entire company for possibly under \$5.00 a share. He knew all of this and knows it today.

For less than 25% of the pricetag of the financing he's purportedly arranged, he and a group of colleagues could have bought 100% control of the business completely legally and swiftly. In fact, as his advisors, Goldman Sachs would have been remiss to the point of negligence had they not so advised. Why has nobody advised calling in a forensic accountant?

Caveat emptor.

Conclusion

In reviewing the preponderance of evidence presented in this and previous Citron reports on Harbin, it is the unequivocal opinion of this writer that CEO Tianfu Yang does not want this deal to go through. He alone knows what his company is truly worth, and he knows about the overstatement of revenues. The last thing he wants is to be on the hook for a \$400 million loan for a company that only made .16 cents last quarter, even considering its highly suspect accounting. Mr. Yang was able to procure a boilerplate loan doc; Citron believes it was competently prepared, but it will never be executed.

AUGUST 3, 2011 /

Share this entry



© Copyright 2018 - Citron Research | All Rights Reserved | "Cautious Investing To All"