



Yesterday after the close of trading Harbin Electric (Nasdaq: “HRBN”) filed an updated explanation of its purported \$38.8 million dollar acquisition of raw land in Xi’an.

Reading the 8-k filing is like listening to a schoolboy come up with colorful excuses why he didn’t come to school with his homework – in short, it’s a Chinese version of the old hokum, “The Dog Ate My Homework” (shout out to my dear friend who came up with that gem in a phone call with me last night!).

Buried in Harbin’s 10-Q filed in August was a disclosure that the company plunked down \$23 million as a deposit for an 82.4 acre parcel in Xi’an. This land transaction was always highly suspicious – read my piece dated September 6th for the bear case. The down payment was made on the last day of the quarter, June 30th. The size was just enough of an outlay, coupled with additional CapEx expenditures and offset partially by continued borrowings on its’ short-term credit facilities, to keep the quarter-ending cash balance close to what it was at year end 2010. This is important because if a company is reporting false profits it needs to shuffle the cash around somewhere. Since bank statements can be easily verified by auditors the best place to make fake cash disappear is within false or inflated asset purchases.

Investigative work by Alfred Little proved, through detailed interviews with officials at the Xi’an Lintong Tourism and Business Development Zone Management Commission, that Harbin never purchased the land in question. A second research firm, Geo-Team, corroborated the research Alfred Little did and confirmed that Harbin never closed on the land. If these findings are true, the 10-Q Harbin filed with the SEC was materially incorrect. If Harbin knew the land hadn’t been purchased when it filed the 10-Q, then the Company and its officers had committed fraud.

In a press release dated September 6th, Harbin purported to refute the findings by Alfred Little and reiterated that its financial statements concerning the land purchase were correct:

“Regarding the land purchase referenced in the report, the Company stands by the statements as disclosed in its 10-Q dated August 9, 2011. Harbin Electric confirms that the land purchase was done in full compliance with various relevant Chinese government entities and notes this transaction structure is a common practice in China.”



## HARBIN ELECTRIC TO THE SEC: THE DOG ATE MY HOMEWORK

9-23-2011



My strong suspicion is that in the past few weeks the SEC must have reached out to Harbin and asked it to corroborate its' claim regarding the Xi'an land purchase. After all, Chinese RTO frauds have been all the rage and Harbin is currently in the process of getting a proxy statement through the SEC (in order to complete a \$24 per share buyout offer). With those facts, you just know the Commission is taking a hard look at all the various allegations swirling around on the blogosphere.

So now Harbin does an about face and tells us in its 8-K filing that the land in question was never purchased after all :

“A prepayment of RMB150 million (\$23.0 million) was made by the Company to Xi'an Lintong on June 30, 2011. The prepayment of RMB150 million previously made to Xi'an Lintong pursuant to the Investment Contract was returned to Xi'an Tech Full on August 24, 2011 in connection with Xi'an Tech Full's execution of the replacement Project Agreement described below.....

On September 15, 2011, Xi'an Tech Full entered into a new Project Entrance Agreement (“Project Agreement”), with No. 2 Commerce Bureau of Xi'an Economic and Technology Development Zone Management Commission (“XETDZ”), a higher level government office, which superseded the Investment Contract, for the purposes of obtaining the use of a larger parcel of land.”

According to the 8-K the entire \$23 million was returned to Harbin on August 24th. In other words, at that moment in time Harbin had walked away from purchasing the parcel. It only entered into a new agreement to purchase a larger parcel on September 15th. Yet on September 6th Harbin claims to stand by its statements in the 10-Q regarding the land purchase! Claiming the 10-Q is accurate while knowing full well the land purchase was cancelled two weeks prior is dishonest to the point that one has to question the complete integrity of management.

Clearly Harbin would argue, when faced with this line of reasoning, that the 10-Q was accurate at the time it was filed; however it is extremely misleading given the facts and circumstance to the point of being a a straight out lie.



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The overwhelming odds favor Harbin making up this story about its deposit refunded (when was the last time you heard Communist apparatchniks return \$23 million dollars voluntarily?) when it was called to explain itself to the SEC. Instead of faking a deed, I believe it concocted a story that allows to it to claim the 10-Q was accurate at the time it was filed. The lie would also allow the company to maintain the fiction that business is so great that the business needs to expand by buying an even larger parcel. And I should add that the new agreement provided for no downpayment, rather the first installment is due October 15th – just enough time for the company to press the SEC to approve its pending proxy filing.

What the regulators ought to do – besides putting the proxy on ice – is subpoena all relevant documentation to corroborate the claims made in last night's 8-K. That includes gathering evidence that the funds were returned from the Xi'an government to Harbin. That includes all the communication between the company and the government regarding the refund. And lastly, that includes discovering just what the company meant in its' September 6th press release when it knew at the time it had never closed on its land purchase.

The overall stock market has undergone unprecedented volatility, mostly to the downside, all the while Harbin has made new highs. It's clear to me, and most professional observers, that this company's financials are materially misstated. Its time for the SEC to end this charade, halt the trading in the stock, and get some answers. Anything else would just be passively encouraging a fraud that gets more brazen with each EDGAR filing.

Disclosure : As of the publishing of this report, I am short Harbin Electric