

THE ROSEN LAW FIRM, P.A.

Phillip Kim, Esq.
Laurence M. Rosen, Esq.
Jonathan Stern, Esq.
275 Madison Avenue, 34th Floor
New York, New York 10016
Tel: (212) 686-1060
Fax: (212) 202-3827
Email: pkim@rosenlegal.com
Email: lrosen@rosenlegal.com
Email: jstern@rosenlegal.com

Lead Counsel for Plaintiffs and the Class

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

**In re Lihua International, Inc. Securities
Litigation**

No. 14-CV-5037-RA

CORRECTED SECOND
AMENDED CLASS ACTION
COMPLAINT

Lead Plaintiff James Holtz, and Plaintiffs Peter Hoang and Beverly Burks, individually and on behalf of all other persons similarly situated, by their undersigned attorneys, for their complaint against Defendants, allege the following based upon personal knowledge as to themselves and their own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through their attorneys, which included, among other things, a review of the Defendants' public documents, United States Securities and Exchange Commission ("SEC") and Chinese State Administration for Industry and Commerce ("SAIC")¹ filings, media

¹ The SAIC is a governmental authority in the People's Republic of China that is responsible for overseeing a variety of corporate and commercial matters at issue here. Chinese corporations must register with the SAIC upon formation, and must timely disclose a variety of information to the SAIC, including but not limited to: periodic financial statements; changes in ownership; use of corporate stock as collateral for a debt contract; and the identities of corporate officers. Some of this information is accessible to the public and is used by Chinese investors. Information regarding encumbrance of stock through use as collateral is also available to counterparties considering making loans.

and news reports, information readily obtainable on the Internet, and interviews of several confidential witnesses with personal knowledge of the relevant facts. Plaintiffs believe that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

I. NATURE OF THE ACTION

1. This is a federal securities class action on behalf of a class consisting of all persons other than Defendants who purchased the common stock of Lihua International, Inc. (“Lihua” or the “Company”) between August 9, 2012 and April 30, 2014, inclusive (the “Class Period”), seeking to recover damages caused by Defendants’ violations of the Securities Exchange Act of 1934 (the “Exchange Act”).

2. Defendant Lihua is a Delaware Corporation headquartered in the People’s Republic of China (“PRC”) that purported to manufacture, market, and distribute refined copper products through its two wholly-owned subsidiaries incorporated in the PRC.

3. The securities fraud here is stark. During the Class Period, Lihua’s production output dropped to 20%, then 10%, of reported production, then zero, due to rising copper prices, bad investments, and hundreds of millions of dollars in debt. Yet none of this was disclosed to the investing public. Lihua’s fraud was finally disclosed when Lihua’s CEO was caught defrauding a bank lender by misappropriating Lihua’s copper inventory that it had posted as security on a loan. Current management allowed this fraud to go on during the Class Period, and has taken no action to mitigate the damages to Lihua and its shareholders since the fraud was revealed, instead turning the company over to a Chinese Government entity that has made clear that it intends to liquidate the Company and expects to provide no money to shareholders.

II. JURISDICTION AND VENUE

4. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §78j (b) and 78t (a)), and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

5. This Court has jurisdiction over the subject matter of this action pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. § 1331.

6. Venue is proper in this Judicial District pursuant to §27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b).

7. In connection with the acts, conduct and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

III. PARTIES

8. Lead Plaintiff James Holtz, as set forth in the previously filed certification (Docket No. 15-2), purchased Lihua common stock at artificially inflated prices during the Class Period and has been damaged thereby.

9. Plaintiff Peter Hoang, as set forth in the previously filed certification (Docket No. 64), purchased Lihua common stock at artificially inflated prices during the Class Period and has been damaged thereby.

10. Plaintiff Beverly Burks, as set forth in the previously filed certification (Docket No. 64), purchased Lihua common stock at artificially inflated prices during the Class Period and has been damaged thereby.

11. Defendant Lihua International Inc. is a Delaware corporation that purported to manufacture, market, and distribute refined copper products through its two wholly-owned subsidiaries incorporated in the People's Republic of China: Danyang Lihua Electron Co., Ltd., ("Lihua Electron") and Jiangsu Lihua Copper Industry Co., Ltd. ("Lihua Copper") (together the "PRC Subsidiaries"). During the Class Period the Company's stock was traded on the NASDAQ Stock Market under the symbol "LIWA."

12. Throughout the Class Period the company was headquartered in Jiangsu Province, PRC.

13. Defendant Jianhua Zhu was ("Zhu"), from October 31, 2008 to May 6, 2014, the President, Chief Executive Officer, and Chairman of the Board of Directors of Lihua. In addition, Zhu was Executive Director and a member of the boards of directors of Lihua's PRC Subsidiaries. He continues to control the PRC Subsidiaries as their legal representative, which in China means he can legally bind the subsidiaries on any contract or obligation. Zhu also was the beneficial owner of 44.45% of Lihua's stock through a British Virgin Islands entity controlled by him titled Magnify Wealth Enterprises Limited ("Magnify Wealth").

14. Defendant Daphne Yan Huang ("Huang"), is Chief Financial Officer, Treasurer and Executive Vice President of Finance and Director of Investor Relations of Lihua. She has served as Executive Vice President of Finance and Director of Investor Relations of Lihua since October 2009. She has served as Chief Financial Officer and Treasurer since October 23, 2011. From April 2003 through February 2009, Ms. Huang worked at GE Capital Markets, Inc., a broker dealer, where she served as Assistant Vice President and then Vice President of the Debt Capital Markets group and was responsible for debt product structuring and syndication in the

U.S. capital markets. She was once licensed as a CPA in the State of New York and is fluent in Mandarin.

15. Defendant Yaying Wang (“Wang”) was, from October 31, 2008 to May 6, 2014, the Chief Operating Officer of Lihua and a member of its Board of Directors. In addition, she was, throughout the Class Period, the Chief Operating Officer and a member of the board of directors of the PRC Subsidiaries. Wang is the wife of Zhu and as such was listed as the beneficial owner of 44.45% of Lihua’s stock.

16. Defendant Robert C. Bruce (“Bruce”) was, from April 14, 2009 to June 27, 2014, an independent director of the Company and the Chairman of the Audit Committee.

17. Defendant Jonathan P. Serbin (“Serbin”) was, from April 14, 2009 to September 23, 2014, an independent director of the Company and a member of the Audit Committee.

18. Defendant Kelvin Lau (“Lau”) was, from April 14, 2009 to September 23, 2014, an independent director of the Company and a member of the Audit Committee.

19. Bruce, Servin, and Lau shall jointly be referred to as the “Audit Committee Defendants.”

20. Zhu, Wang, Huang, Bruce, Serbin, and Lau shall jointly be referred to as the “Individual Defendants.”

21. Each of the Individual Defendants:

- a. directly participated in the management of the Company;
- b. was directly involved in the day-to-day operations of the Company at the highest levels;
- c. was privy to confidential proprietary information concerning the Company and its business and operations;

d. was directly or indirectly involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein;

e. was directly or indirectly involved in the oversight or implementation of the Company's internal controls;

f. was aware of or recklessly disregarded the fact that the false and misleading statements were being issued concerning the Company; and/or

g. approved or ratified these statements in violation of the federal securities laws.

22. Lihua is liable for the acts of the Individual Defendants and its employees under the doctrine of *respondeat superior* and common law principles of agency because all of the wrongful acts complained of herein were carried out within the scope of their employment.

23. The scienter of the Individual Defendants and other employees and agents of the Company is similarly imputed to Lihua under *respondeat superior* and agency principles.

IV. BACKGROUND ON LIHUA PRIOR TO THE CLASS PERIOD

24. Lihua went public on May 13, 2009. In its Registration Statement, it disclosed \$6 million in bank debt as of December 31, 2008. As it disclosed in its Registration Statement, Lihua used bank loans to fund capital expenditures. Given this debt, it is unsurprising that in October 2009, Lihua hired Defendant Huang as its Executive Vice President of Corporate Finance, since she had a background as a debt expert. Having worked structuring debt as a Vice President in the Capital Markets Group of GE Capital Markets, Inc., and prior to that as a Senior Associate in the Debt Capital Markets Group of Fleet Securities, Inc., Defendant Huang was qualified to manage the Company's debt.

25. As Executive Vice President of Corporate Finance, Defendant Huang was responsible for the day to day supervision of the finance department. The finance department handled the preparation and circulation of loan documents to banks. Confidential Informant 1 (“CI 1”), who was a Finance Manager for Lihua from December 2008 to March 2011, explained that the finance department was responsible for preparing and sending loan documents to the banks. Confidential Informant 2, (“CI 2”), who was a Commercial Manager for Lihua Electron from November 2009 to 2012, confirmed that the finance department handled bank loans. CI 1 explained that, throughout his tenure, Lihua rolled over bank debt, using one bank loan to repay another. Having a debt expert such as Huang in the finance department was crucial to managing this process.

26. Notwithstanding Huang’s expertise, Lihua’s reporting of loans in its SEC filings was inconsistent and misleading during the period that she was Executive Vice President of Corporate Finance. While it reported some of its debt during the period, it omitted other loans, including a loan from China Construction Bank taken out on March 27, 2009 for 10 million RMB (approximately \$1.6 million), which was not disclosed.

27. Throughout Huang’s tenure as Executive Vice President of Corporate Finance, Defendants continued to have outstanding bank loans on its books, some of which were reported to investors. In October 2011, Huang became CFO and Treasurer of Lihua. In its 10-K for fiscal year 2011, the Company announced that it had paid off all of its bank debt. Seemingly, the Company made the surprising choice of promoting a debt specialist to CFO just as it eliminated its debt. Lihua’s actions become clearer in hindsight. In reality, Lihua did not eliminate its debt – instead, it massively increased it. As Lihua’s business prospects fell throughout the Class PeriodPeriod, obtaining and concealing debt became vital to the continued existence of Lihua.

Fortunately for Defendants, but tragically for investors, Lihua had as a CFO someone with exactly the background to perpetuate such a fraud.

V. EVIDENCE OF LIHUA'S FRAUD

28. The Class Period begins on August 9, 2012, when Lihua filed its Form 10-Q for the quarter ended June 30, 2012 ("2012 Second Quarter 10-Q"). The 2012 Second Quarter 10-Q recorded no bank debt on Lihua's balance sheet as of December 31, 2011 and June 30, 2012. However, that claim was false because, as of December 31, 2011, Lihua still had outstanding the loan owed to the China Construction Bank, which did not come due until March 26, 2012, for 10 million RMB. Plaintiffs learned of this loan through a publicly accessible SAIC database. Lihua's concealment of this debt was the beginning of a pattern. Throughout the Class Period, Lihua took on massive debts, debts that, according to a report dated September 24, 2014 by the news site Danyang Daily (the "Danyang Daily Report"), peaked at over \$325 million USD during the Class Period and by March 28, 2014 was over \$195 million USD. This debt was so severe that it threatened to cause a regional financial crisis in Lihua's hometown of Danyang City.

29. Throughout 2012, Lihua continued to borrow money and conceal its debts from shareholders. On October 24, 2012 Lihua again took out a 10 million RMB loan from China Construction Bank, a loan that will come due on October 23, 2015. Plaintiffs also learned of this loan from a publicly accessible SAIC database. Again, Lihua never disclosed this debt to its investors.

30. Lihua also began committing tax fraud in October of 2012. As the Company disclosed in an 8-K dated December 16, 2014, Defendant Wang and Lihua Copper were indicted by the Yingkou Zhanqian District People's Procurate for issuing false VAT invoices. VAT, or

value added tax, is a sales tax that charges businesses the difference between what the seller paid for raw materials, and the price the seller received for a finished product. Therefore, by exaggerating the amount that was paid for raw materials, a company can reduce its VAT charges. To further its fraud, Lihua Copper had suppliers inflate invoices for raw materials and thus paid excessive prices for goods, reducing their VAT. Then the excess price Lihua paid was remitted back to a debit card controlled by Wang.

31. By 2013, Lihua's production was collapsing as well. According to the Danyang Daily Report, Lihua struggled financially because its plants were operating at 20% of capacity, and the burden of paying for a 150 square kilometer facility that was mostly empty space drove them to greater debt. Like their debt, Lihua concealed this decline in output and revenue from investors, omitting it from their periodic reports and financial statements. In addition, the Danyang Daily Report revealed that Lihua made bad investments in the capital markets such as futures and stocks, and on industrial investments such as a Xinjiang tungsten mine and a Nanjing power plant, which losses were also concealed from investors.

32. Although Lihua claimed that its production and revenues were growing at the beginning of 2013, in reality, its business was in decline. According to a report by the People's Daily, the official newspaper of the government of China, dated March 28, 2014 (the "People's Daily Report"), by 2013 Lihua, which at its peak was burning 270 furnaces at its facility, was only operating 30 furnaces, implying that Lihua was operating at 11% of capacity in 2013. This, too, was not disclosed. A Lihua factory worker who provided an interview to the People's Daily told the newspaper that by 2013, Lihua had no manufacturing work for him to do, and gave him odd jobs at half of his old salary.

33. By July of 2013, Lihua's cash shortage began to drive its business decisions. Confidential Informant 3 ("CI 3") was hired as a research and development director in July of 2013, a position that he kept until June of 2014. He was hired with a staff of 15 workers and placed in charge of five workshops that were to undertake three projects: to produce clad aluminum wire, enameled wire, and ultra-thin wire. CI 3 understood that the projects were being undertaken not just in the hopes of making a profit, but also as way to justify to banks Lihua's requests for additional borrowings.

34. That Lihua needed to launch new projects in order to create a pretext for borrowing and conceal its true capital needs and production decline shows both its true financial situation, and Defendants' knowledge thereof.

35. CI 3 also noted that because copper was purchased using cash, Lihua was in a precarious position where a small financial problem could cause a domino effect leading to a serious default in Lihua's bank loans. The precariousness of Lihua's debt situation made it vital that a debt expert such as Huang was managing the Company's finances.

36. CI 3 stated that during his tenure from July 2013 to June 2014, Lihua was suffering due to declines in copper prices. At the same time, with prices declining, Lihua's negotiating position with customers deteriorated. Previously, Lihua was able to demand cash on delivery. Afterwards, Lihua was only able to receive an initial down payment before production, and had to offer a 30 to 40 day credit period after delivery. CI 3 also noted that the decline in copper prices caused a problem with Lihua's ability to borrow, because Lihua used copper as collateral for their bank borrowings.

37. By September, although Lihua claimed to investors that it had almost \$190 million in cash reserves, Lihua's true financial position was so weak that, in order to obtain a

mere \$8 million loan and line of credit on September 17, 2013, it needed both to post scrap copper as security and to obtain outside guarantors.

38. According to the decision by Nanjing Intermediate People's Court, dated September 4, 2014, in the matter of *Everbright Co. Ltd., Nanjing Branch v. Jiangsu Lihua Copper Co. Ltd., et al*, ("*Everbright v. Lihua*"), on September 17, 2013 Lihua Copper received from the Nanjing branch of the Chinese bank Everbright a loan and line of credit of 50 Million RMB (approximately \$8 million). To obtain the loan, Lihua was required to post 30 million RMB worth of copper as collateral, and obtain the guarantee of Zhu, Wang, Lihua Electron, and another company titled Jiangsu Chamfor Paper Industry Co., Ltd. This loan was signed by both Zhu and Wang, and Everbright was provided by board resolutions approving the loan from the boards of both Lihua Copper and Lihua Electron. This financing was divided into a loan of 10 million RMB (approximately \$1.6 million) with an interest rate of 6.9% from March 21, 2014, and a maturity date on September 22, 2014, and a 40 million RMB line of credit (approximately \$6.5 million). This loan and bank line were not disclosed to Lihua shareholders.

39. By the end of January 2014, Lihua stopped producing any product. The People's Daily Report explained that Lihua essentially discontinued production after the 2014 Spring Festival, which fell on January 31, 2014, and that its previously crowded staff dormitories were empty.

40. Lihua ultimately used the line of credit by directing Everbright to pay \$6,186,156.67 to another creditor on January 8, 2014. Under the terms of the agreement, the line of credit was required to be repaid within 90 days at an interest rate of 4.7421%.

41. Confidential Informant 4 ("CI 4") was hired as a human resources assistant at Lihua's main facility in February of 2014, and worked until April of 2014. When CI 4 first came

to work, CI 4 observed that Lihua had stopped production, and employees were only engaged in equipment repair and a limited amount of smelting. Within a month after arriving at work, CI 4 was told that the Company would immediately begin dismissing workers.

42. Despite reporting over \$200 million in cash at the beginning of 2014, by March, Lihua was unable to make payments on its \$8 million loan to Everbright. Rather than admit that Lihua was bankrupt, Zhu and Wang decided instead to conceal the collateral from creditors, and to destroy the evidence of Defendants' fraud.

43. In March 2014, Zhu asked 10 employees, including CI 3, to participate in transporting scrap copper off site to a rented warehouse in Wuxi, a city that is a two hour drive from Danyang. CI 3 initially believed that this was merely a matter of inventory relocation but CI 3 now realizes that Zhu was attempting to hide collateral from Everbright. A bank supervisor was onsite at Lihua's facilities to oversee the storage of the copper. Associates of Zhu got the supervisor drunk, and then moved the inventory. CI 3 helped supervise the Lihua employees to move the copper, which required 10 trucks.

44. On the day of the inventory theft, CI 3 observed Zhu and his wife burning documents in the offices and deleting "all files from company computers". Zhu rarely used digital documents and most files were in hard copy only, meaning that this financial information cannot be replaced.

45. Everbright reported the theft to the police, and also brought the above referenced civil action *Everbright v. Lihua*. The People's Daily Report broke the news on March 28 that Zhu was under investigation, and according to the Danyang Daily Report, on March 28 Lihua also publicly announced within China that its "funding chain was broken." This is a Chinese business term of art that means that the Company was out of money – unable to pay its bills as

they came due, essentially insolvent. The People's Daily Report also revealed that Huihong International may take Lihua over.

46. According to CI 4, by the time CI 4 left Lihua in April, all but the highest level employees were terminated.

47. None of this was revealed to investors until the website geoinvesting.com posted a brief summary of the People's Daily Report on April 30, 2014. That same day, at 2:40 pm, Lihua issued a press release attached to a Form 8-K filed with the SEC that stated that Lihua "is aware of a decline in the Company's stock price and published allegations that Mr. Zhu Jianhua, the Company's CEO and Chairman of the Company's Board, may have diverted or attempted to divert Company assets and as a result may have been the subject of action by local law enforcement. Although they have not yet been able to verify this information, the Board's Audit Committee is taking steps to determine the facts and will take appropriate action. If the allegations prove true, the Company's financial statements may contain material misstatements."

48. Shortly after the allegations of Defendants' fraud became public, on May 4, Zhu and Wang sent letters to the board of directors that were received on May 6, announcing their resignations, for "personal reasons."

49. A short time later, Zhu transferred his controlling share of Lihua stock through a private sale to Wuxi Industry Development Group Co., Ltd. ("Wuxi Industry") and Jiangsu Huihong International Group ("JHIG"), both state-owned companies. As Lihua disclosed in a Form 8-K, dated May 14, 2014, the Company received a stock purchase agreement between Magnify Wealth, the holding company used by Zhu for his shares in Lihua, and a British Virgin Islands company called Power Apex Holdings Limited ("Power Apex"), for stock totaling 44% of outstanding shares of Lihua. Power Apex is an indirectly owned in part by Wuxi Industry.

According to the Danyang Daily Report, this purchase was part of a plan to take over Lihua by state-owned companies Wuxi Industry and JHIG. This move is additionally supported by the local municipal Communist Party committee.

50. The Danyang Daily Report also indicated that Wuxi Industry and JHIG are interested in Lihua for three reasons: its US listing, its international clients and facilities, and to improve the investment ecosystem in Danyang. The Danyang Daily article noted that if Wuxi Industry and JHIG had not handled this issue, it could have triggered a regional financial crisis.

51. During May, as the Company was being taken over, Lihua was continuing to wind down operations. By May 2014, the five workshops CI 3 had overseen ceased operations, and by the time CI 3 left Lihua in June, most employees had left, although a “key accountant and some senior employees” had stayed.

52. On June 16, 2014, Lihua filed a form 8-K that disclosed that on June 10, Lihua’s Board of Directors had appointed two individuals associated with Wuxi Industry to positions at Lihua: Tian Bo Wang (“T Wang”) who was appointed Chief Executive Officer, President and Chairman of the Board, and Ming Zhang (“Zhang”) as a director on the Board. T Wang served as a General Manager and then Chairman of Jiangsu High Hope Electric Co., Ltd., a subsidiary of Jiangsu High Hope International Group, and since 2008 has been a Director and General Manager of Jiangsu International Co., Ltd. “Since September 2008, Mr. Zhang has held positions managing investments at Wuxi Jinde Asset Management Co, Ltd., a subsidiary of Wuxi Industrial Development Group Co., Ltd. (‘Wuxi IDG’).”

53. This development, although unanimously supported by the board at the time, was apparently disagreeable to Bruce, who, according to Lihua’s 8-K dated July 3, 2014 had resigned on June 27, 2014 because he disagreed with Lihua’s decision to not fund an internal investigation

by McDermott, Will, and Emery into the circumstances surrounding Power Apex's takeover of Zhu's shares, as well as the pending allegations against Mr. Zhu and the current status of the company.

54. According to Defense Counsel's Declaration filed in this action (Docket No. 55) on October 3, 2014, (the "October 3 Dec") by July, Lihua's management had regained control of Lihua's offices. However, they were at that time locked out of Lihua's company emails, which were hosted by a third party. In early July, someone with an administrative login deleted those emails from a computer located in Danyang City.

55. After regaining control of Lihua's facilities in late July of 2014, Lihua's management learned that certain of Lihua's financial records were missing. Nonetheless, and despite the fact that the loss of documents should trigger an immediate retraction of all financial statements on which the missing documents relied, Lihua failed to disclose this fact until Lihua's auditor, Crowe Horwath ("Crowe"), resigned in a letter received by the SEC on August 28, 2014. Only then did it acknowledge that its 2013 financial statements could not be relied upon. Upon inspection of the premises in the last week of September, Defendants also learned that 5 computers were missing hard drives. According to Defense Counsel's Declaration filed in this action (Docket No. 59) on October 15, 2014, (the "October 15 Dec"), Defendants also discovered that a laptop belonging to Zhu's son was missing.

56. As stated in Lihua's 8-K dated August 29, 2014, Lihua retained Asia Pacific CPA Group ("AP") on July 25, 2014 to provide a report on the PRC Subsidiaries' financial condition as of June 30, 2014.

57. The Danyang Daily Report revealed that on September 23, 2014, a new company, "Jiangsu Jinhong International Economic and Technological Development Co. Ltd" ("Jinhong

International”) began operations on Lihua’s facilities. Lihua’s shareholders had not been informed that a new entity was now running operations on Lihua’s facilities. Defendants concealed this fact for several months until December 16, 2014 when it admitted that a new entity was running Lihua, and liquidating its assets. “Jiangsu Jinhong Import and Export Co.” (“Jinhong Import”) entered into a framework agreement with Zhu, as well as Lihua Electron and Copper. As Defendants’ 8-K explained,

Pursuant to the Agreement, Mr. Zhu, in his capacity as the legal representative of the PRC subsidiaries, agreed to entrust all assets of the subsidiaries to Jinhong, along with any assets held in the name of Mr. Zhu that were acquired with funds entrusted to Mr. Zhu by the subsidiaries. Pursuant to the Agreement, Jinhong agreed to act as the reorganization trustee of the Company’s subsidiaries. Within its responsibilities, Jinhong has the right to dispose the entrusted assets that are free of legal restriction, lien claims or court order seals, on behalf of the subsidiaries pursuant to a plan of reorganization to be submitted to and approved by the local government. The funds from the asset disposition will be held in a trustee account. Jinhong, in its capacity as trustee, agreed to use the funds from such disposition, after recouping any costs incurred by Jinhong in effecting the disposition, to: (i) pay salaries and social security payments to the employees of the subsidiaries; (ii) pay utility fees and security fees owed by the subsidiaries; (iii) pay the taxes owed by the subsidiaries; and (iv) pay the remaining debts of the subsidiaries on a pro rata basis to the debt holders of the subsidiaries. It is not expected that any funds will remain after payment of the foregoing”

58. On September 3, 2014, after Lihua defaulted in *Everbright v. Lihua*, the Court there issued a judgment ordering that Lihua’s loan be repaid in full within 10 days of the judgment.

59. On September 29, 2014, Lihua revealed in a Form 8-K that AP had reviewed the internal ledgers of the PRC Subsidiaries and that “combined internal ledger balances of the subsidiaries reportedly showed combined assets of RMB 1,695.3 million [\$271 million], combined liabilities of RMB 1,538.7 million [\$246 million] and combined equity of RMB 156.6 million [\$25 million], Asia Pacific determined that the combined assets were RMB 719.2 million

[\$115 million], the combined liabilities were RMB 1,484.9 million [\$238 million] for a combined deficit of RMB 765.6 million [\$112 million].”

60. This disclosure reveals that the bulk of Lihua’s liabilities were apparent from the face of Lihua’s books and records.

61. AP also reported that the PRC Subsidiaries had borrowed money from ten banks for a combined total borrowing of 1.112 billion RMB [\$178 million].

62. AP also disclosed that “RMB 331.1 million [\$53 million] in receivables due Lihua Copper were transferred to an entity that Company management believes to be related to its former Chief Executive Officer, the solvency of which is unknown. Of the foregoing receivables, RMB 203.3 million [\$33 million] were receivables due from the Company’s former Chief Executive Officer and former Chief Operating Officer.” Lihua did not disclose the basis of their belief that the entity was affiliated with Zhu. AP also stated that “[a]n entity related to the Company’s former Chief Executive Officer owes Lihua Copper RMB 350.5 million [\$56 million].”

63. Notwithstanding the allegations by Lihua against Zhu, Lihua has not disclosed any legal action that it has taken to remedy this situation, and the October 15 Dec. disclosed that Lihua has not even taken legal action to recover the lost documents from Zhu, or the \$53 million in receivables he stole. This is despite the fact that Wuxi Industry was somehow able to induce Zhu to transfer his shares in Lihua to a company it controls. Even worse, the company disclosed in its 8-K dated December 16, 2014, that Zhu remains the legal representative of both of Lihua’s subsidiaries. This role gives Zhu the power to bind Lihua’s subsidiaries.

64. As stated in the Danyang Daily Report, Wuxi Industry and JHIG were working to restructure Lihua’s debt with its Chinese creditors.

VI. DEFENDANT HUANG'S OBLIGATIONS TO ESTABLISH AND MAINTAIN DISCLOSURE CONTROLS AND PROCEDURES

65. As CFO of Lihua, Defendant Huang was required to establish and maintain effective internal controls over financial reporting, as described in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the Exchange Act, internal control is defined to require, among other things “reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer” and “reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.”

66. As set forth in Lihua's Registration Statement dated June 3, 2009, Lihua was required, pursuant to a Public Relations Escrow Agreement, to retain an internal controls consultant, and Lihua complied by retaining Deloitte Touch Tohmatsu (“Deloitte”) for that purpose.

67. Deloitte has published a guide to internal controls compliance entitled “Taking Control: A Guide to Compliance with Section 404 of the Sarbanes-Oxley Act of 2002” (The “Deloitte Report”). The Deloitte Report notes that financial frauds are usually committed by upper management, explaining: “where is your company most vulnerable? Does the part-time assistant to the accounts payable clerk have the ability to bring down the company? Probably not. Instead, focus on the high-risk areas, such as the following: • management override • manual journal entries • estimates • rationale for significant transactions • disclosures in financial

statements (and, perhaps more importantly, disclosures not in the financial statements) • selection and application of accounting principles.”

68. The Deloitte Report also notes the need to identify “any significant risks involving the ability of an employee to initiate and/or process unauthorized transactions” and advises management to focus on “authority for specific types of transactions within each process • Monitoring: monitoring for unauthorized transactions.”

69. As the Deloitte Report explains, “controls over fraudulent activity are intended to prevent or detect unauthorized expenditures or investments, unauthorized incurrence of liabilities, stolen inventory, the conversion of assets to personal use, and other illegal activities.” The Deloitte Report also warns: “to ensure the integrity of your financial reporting, you should safeguard your company's assets against misappropriation, errors, and irregularities.”

70. The Deloitte Report also identifies the importance of authorization controls, which “establish accountability for the initiation and approving of transactions that impact the financial reporting process.”

71. Taken together, the above statements in the Deloitte Report put Defendant Huang on notice of her duty as CFO and Executive Vice President of Finance to create internal controls in order to prevent unauthorized transactions by employees, and that upper management was a key area of concern for internal control violations.

VII. MATERIALLY FALSE AND MISLEADING STATEMENTS

A. 2012 Second Quarter 10-Q

72. On August 9, 2012, Lihua filed its 2012 Second Quarter 10-Q with the SEC.

73. This Form 10-Q and accompanying Sarbanes-Oxley Certifications were signed by Defendants Zhu and Huang.

74. The 2012 Second Quarter 10-Q reported no outstanding debt for the period, and no debt as of December 31, 2011, except for small loans from Zhu and an entity controlled by Zhu that were repaid by March 31.

75. The statement in the preceding paragraph was false and misleading because, as set forth in Section V above, Lihua failed to disclose that as of December 31, 2011 it had an outstanding loan of 10 Million RMB with China Construction Bank.

76. In the Sarbanes-Oxley Certifications accompanying this Form 10-Q, Defendants Zhu and Huang each certified that they are: “responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. “Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. “Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; [and]

c. “Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the

disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.”

d. “disclosed ... to the registrant’s auditors and the audit committee of the registrant’s board of directors ... (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.”

77. The statements in the preceding paragraph were false and misleading because Lihua failed to disclose material weaknesses in its internal control as evidenced by the information in Section V above. In particular, defendants’ internal controls failed to properly identify a 10 million RMB loan from China Construction Bank, which was reflected in publicly available SAIC databases.

B. 2012 Third Quarter 10-Q

78. On November 9, 2012, Lihua filed its Form 10-Q for the quarter ended September 30, 2012 (“2012 Third Quarter 10-Q”) with the SEC.

79. This Form 10-Q and the accompanying Sarbanes-Oxley Certification were signed by Defendants Zhu and Huang.

80. The 2012 Third Quarter 10-Q also recorded no debt for the period, or as of December 31, 2011.

81. The statement in the preceding paragraph was false and misleading because, as set forth in Section V above, Lihua failed to disclose that as of December 31, 2011 it had an outstanding loan of 10 Million RMB with China Construction Bank.

82. In the Sarbanes-Oxley Certification accompanying this Form 10-Q, Defendants Zhu and Huang each certified that they are: “responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. “Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. “Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; [and]

c. “Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.”

d. “disclosed ... to the registrant’s auditors and the audit committee of the registrant’s board of directors ... (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize

and report financial information; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.”

83. The statements in the preceding paragraph were false and misleading because Lihua failed to disclose material weaknesses in its internal control as evidenced by the information in Section V above.

C. 2012 10-K

84. On March 18, 2013, Lihua filed its Form 10-K Annual Report for the fiscal year ended December 31, 2012 (“2012 10-K”) with the SEC.

85. This Form 10-K was signed by each of the Individual Defendants.

86. Zhu and Huang also signed the Sarbanes-Oxley certifications accompanying the 2012 10-K.

87. The 2012 10-K recorded no debt for the period, except for small loans from Zhu and an entity controlled by Zhu that were repaid by March 31.

88. The statement in the preceding paragraph was false and misleading because, as set forth in Section V above, Lihua failed to disclose two 10 million RMB loans that were outstanding during fiscal year 2012.

89. In the Sarbanes-Oxley Certification accompanying this Form 10-K, Defendants Zhu and Huang each certified that they are: “responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. “Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that

material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. “Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; [and]

c. “Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.”

d. “disclosed ... to the registrant’s auditors and the audit committee of the registrant’s board of directors ... (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.”

90. The statements in the preceding paragraph were false and misleading because Lihua failed to disclose material weaknesses in its internal control as evidenced by the information in Section V above. In particular, it failed to disclose material weaknesses in internal controls that led to Defendants’ failure to report two loans each for 10 RMB that were

outstanding during fiscal year 2012, and the tax fraud committed by Lihua Copper and Defendant Wang.

D. 2013 First Quarter 10-Q

91. On May 10, 2013, Lihua filed its Form 10-Q for the quarter ended March 31, 2013 (“2013 First Quarter 10-Q”) with the SEC.

92. This Form 10-Q and the accompanying Sarbanes-Oxley Certification were signed by Defendants Zhu and Huang.

93. The 2013 First Quarter 10-Q also recorded no debt for the period.

94. The statements in the preceding paragraph were false and misleading because, as set forth in Section V above, Lihua failed to disclose debt that it took on throughout 2013, which eventually led to upwards of \$300 million in debt, and included an outstanding loan of 10 million RMB owed to China Construction Bank.

95. The 2013 First Quarter 10-Q also reported that a copper refinery capacity of 125,000-140,000 tonnes per annum, and sales of 10,179 tons of CCA and copper wire, 14,473 tons of copper anode, and 2,177 tons of copper rod, a 32 percent increase in volume over the same quarter the previous year.

96. The statements in the preceding paragraph were misleading because, as set forth in Section V above, Lihua failed to disclose that Lihua’s production was declining in 2013, and that throughout the Class Period it was operating at 20% of capacity or lower and below 11% throughout 2013.

97. In the Sarbanes-Oxley Certification accompanying this Form 10-Q, Defendants Zhu and Huang each certified that they are: “responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e))

and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. “Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. “Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; [and]

c. “Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.”

d. “disclosed ... to the registrant’s auditors and the audit committee of the registrant’s board of directors ... (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.”

98. The statements in the preceding paragraph were false and misleading because Lihua failed to disclose material weaknesses in its internal control as evidenced by the information in Section V above. In particular, it failed to disclose material weaknesses in internal controls that led to Defendants' failure to report a loan for 10 RMB that was outstanding during the reporting period, and the tax fraud committed by Lihua Copper and Defendant Wang.

E. May 10, 2013 Conference Call

99. In a conference call with analysts on May 10, 2013, an analyst raised the issue that many Chinese Companies were coming under scrutiny from the SEC because of deficiencies in the audits of Chinese companies and that "the whole group is somewhat in the penalty box due to some of the issues from companies in the market place." The analyst went on to ask "is there anything that Lihua can do to kind of be more open or satisfy the market as far as the audits, the auditing procedure, how it's done?" Huang responded that the "audit committee has proactively conducted cash diligence back in 2011. And we have also subsequently conducted further diligence. Our offsite auditors have subsequently conducted further cash diligence especially on all the cash that's with all the banks that we have, including the overseas bank as well." Huang stated that Lihua has "been given a green light, a clean bill of health."

100. This statement was false and misleading because the Board of Directors and Huang failed to properly secure their cash accounts, and additionally demonstrates that Huang and the Audit Committee Defendants were paying close attention to cash balances, demonstrating their knowledge of the fraud set forth herein.

F. 2013 Second Quarter 10-Q

101. On August 9, 2013, Lihua filed its Form 10-Q for the quarter ended June 30, 2013 ("2013 Second Quarter 10-Q") with the SEC.

102. This Form 10-Q and the accompanying Sarbanes-Oxley Certification were signed by Defendants Zhu and Huang.

103. The 2013 Second Quarter 10-Q recorded no debt for the period.

104. The statement in the preceding paragraph was false and misleading because, as set forth in Section V above, Lihua failed to disclose that throughout the Class Period it took on upwards of \$300 million in debt, and that by June of 2013 it was so desperate for additional funding that it was making business decisions for the purpose of obtaining additional funding, and at the time had an undisclosed loan owed to China Construction Bank of 10 million RMB.

105. The 2013 Second Quarter 10-Q also reported a copper refinery capacity of 125,000-140,000 tonnes per annum, and sales of 22,276 tons of CCA and copper wire, 31,870 tons of copper anode, and 4,797 tons of copper rod for the six months ended June 30, 2013, reflecting a 37.3% increase in quarterly volume over the same period the previous year.

106. The statements in the preceding paragraph were misleading because, as set forth in Section V above, Lihua failed to disclose that Lihua's production was declining in 2013, and that throughout the Class Period it was operating at 20% of capacity or lower and below 11% throughout 2013.

107. In the Sarbanes-Oxley Certification accompanying this Form 10-Q, Defendants Zhu and Huang each certified that they are: "responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. "Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that

material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. “Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; [and]

c. “Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.”

d. “disclosed ... to the registrant’s auditors and the audit committee of the registrant’s board of directors ... (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.”

108. The statements in the preceding paragraph were false and misleading because Lihua failed to disclose material weaknesses in its internal control as evidenced by the information in Section V above. In particular, it failed to disclose material weaknesses in

internal controls that led to Defendants' failure to report a loan for 10 RMB that was outstanding during the reporting period and the tax fraud committed by Lihua Copper and Defendant Wang.

G. August 9, 2013 Conference Call

109. In the August 9, 2013 call with analysts, Huang stated that Lihua is continuing "to grow our cash position positively" because "the lending environment in China currently has been very very tight... So we have to be self-sufficient obviously."

110. Huang's statement was false and misleading because Defendants' cash position was declining at this time.

H. 2013 Third Quarter 10-Q

111. On November 12, 2013, Lihua filed its Form 10-Q for the quarter ended September 30, 2013 ("2013 Third Quarter 10-Q") with the SEC.

112. This Form 10-Q and the accompanying Sarbanes-Oxley Certification were signed by Defendants Zhu and Huang.

113. The 2013 Third Quarter 10-Q also recorded no debt for the period.

114. The statement in the preceding paragraph was false and misleading because, as set forth in Section V above, Lihua failed to disclose that throughout the Class Period it took on upwards of \$300 million in debt, that by June of 2013 it was so desperate for additional funding that it was making business decisions for the purpose of obtaining additional funding, and that by September of 2013 it required a cosigner and collateral to obtain additional funding.

115. The 2013 Third Quarter 10-Q also reported a copper refinery capacity of 125,000-140,000 tonnes per annum, and sales of 33,152 tons of CCA and copper wire, 48,034 tons of copper anode, and 7,123 tons of copper rod for the nine months ending September 30, 2013, a decline of 8.8% over the same quarter in the previous year.

116. The statements in the preceding paragraph were misleading because, as set forth in Section V above, Lihua failed to disclose that Lihua's production was declining in 2013, and that throughout the Class Period it was operating at 20% of capacity or lower and below 11% throughout 2013.

117. In the Sarbanes-Oxley Certification accompanying this Form 10-Q, Defendants Zhu and Huang each certified that they are: "responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. "Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. "Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; [and]

c. "Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation."

d. “disclosed ... to the registrant’s auditors and the audit committee of the registrant’s board of directors ... (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.”

118. The statements in the preceding paragraph were false and misleading because Lihua failed to disclose material weaknesses in its internal control as evidenced by the information in Section V above. In particular, it failed to disclose material weaknesses in internal controls that led to Defendants’ failure to report loans and lines of credit for 60 million RMB that were outstanding during the reporting period and the tax fraud committed by Lihua Copper and Defendant Wang.

I. 2013 10-K

119. On March 17, 2014, Lihua filed its Form 10-K Annual Report for the fiscal year ended December 31, 2013 (“2013 10-K”) with the SEC. This Form 10-K was signed by Defendants Zhu and Huang, as well as several directors of Lihua.

120. Zhu and Huang also signed the Sarbanes-Oxley certifications accompanying the 2013 10-K.

121. The 2013 10-K also recorded no debt for the period.

122. The statement in the preceding paragraph was false and misleading because, as set forth in Section V above, Lihua failed to disclose that throughout the Class Period it took on upwards of \$300 million in debt, that by June of 2013 it was so desperate for additional funding that it was making business decisions for the purpose of obtaining additional funding, that by

September of 2013 it required a cosigner and collateral to obtain additional funding, that it was unable to pay its debts, and that it owed 10 million RMB to China Construction Bank and 50 to Everbright.

123. The 2013 10-K also reported a copper refinery capacity of 125,000 to 140,000 tonnes per annum, and sales of 44,331 tons of CCA and copper wire, 63,600 tons of copper anode, and 9,199 tons of copper rod, an 11.6% increase over the previous year.

124. The statements in the preceding paragraph were misleading because, as set forth in Section V above, Lihua failed to disclose that Lihua's production was declining in 2013, and that throughout the Class Period it was operating at 20% of capacity or lower and below 11% throughout 2013, and had ceased manufacturing by the time of the issuance of the 2013 10-K.

125. In the Sarbanes-Oxley Certification accompanying this Form 10-Q, Defendants Zhu and Huang each certified that they are: "responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. "Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. "Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; [and]

c. “Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.”

d. “disclosed ... to the registrant’s auditors and the audit committee of the registrant’s board of directors ... (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.”

126. The statements in the preceding paragraph were false and misleading because Lihua failed to disclose material weaknesses in its internal control as evidenced by the information in Section V above. In particular, it failed to disclose material weaknesses in internal controls that led to Defendants’ failure to report that it owed 10 million RMB to China Construction Bank and 50 to Everbright during 2013.

J. March 17, 2014 Conference Call

127. On March 17, 2014, Huang stated that cash balance was invested in fluid business accounts with a number of local banks in China.

128. Huang’s statement was false and misleading for failing to disclose that the cash balance was invested in bad investments in the capital markets such as futures and stocks, and on

industrial investments such as a Xinjiang tungsten mine and a Nanjing power plant, as corroborated by the Danyang Daily report.

VIII. THE TRUTH BEGINS TO EMERGE AND CAUSES THE CLASS TO SUFFER ECONOMIC LOSS

129. On March 28, 2014, the People's Daily Report was released in China in Mandarin.

130. American investors were made aware of Lihua's problems raised in the People's Daily Report for the first time on April 30, 2014, when GeoInvesting publicized a summary of its contents, revealing:

- a. "China News Media Reports Lihua Intl (NASDAQ:LIWA) is in Serious Debt Crisis.
- b. "LIWA's production activities substantially decreased in 2013.
- c. "After the Spring Festival of 2014 (Jan 31, 2014), LIWA production activities have almost ceased, however LIWA's financial statement does not reflect LIWA's alleged business operation downturn from 2012 to 2013.
- d. "LIWA's cash flow is broken and local courts seized its warehouse.
- e. "There is a rumor that another company called Huihong International may take over LIWA.
- f. "Zhu Jianhua, LIWA's chairman tried to move LIWA's inventory which was collateral to its creditors allegedly hidden in garbage trucks.
- g. "Local police are investigating Zhu Jianhua for larceny."

131. These adverse facts in the GeoInvesting Report caused the value of Lihua's stock to drop by more than 50% on April 30, 2014, from \$4.33 to \$2.08 per share, before it was halted by NASDAQ at 11:08 a.m.

132. On June 26, 2014, Nasdaq delisted Lihua and trading resumed on the over the counter market. Lihua's stock immediately fell to \$0.30, a loss of 86%.

133. Since then, Lihua's insolvency, which defendants concealed from investors during the Class Period, has caused it to undergo an informal liquidation. It has lost nearly all of its assets, rendering the value of its stock zero.

IX. ADDITIONAL EVIDENCE OF SCIENTER

134. The fraud alleged herein involved the Company's core operations, as the two PRC Subsidiaries accounted for 100% of Lihua's business.

135. Even though Lihua, Huang, and the Audit Committee Defendants regained control of Lihua's facilities in 2014 and learned of failed to disclose Zhu and Wang's destruction of documents, they failed to promptly disclose it. They also failed to withdraw the financial statements on which they relied, despite knowing of the existence of undisclosed loans, and of the fact that the documents which could have permitted a restatement were lost or destroyed. It was not until, on August 28, 2014, Crowe's resignation letter as auditor of Lihua was filed with the SEC.

136. Defendant Zheng, as CEO, Huang, as CFO, and Serbin, Bruce and Lau were well aware of their obligations to maintain internal controls over financial reporting, having received instruction in compliance with Sarbanes-Oxley internal control obligations from Deloitte.

137. Even a minimal effort at internal controls would have uncovered the undisclosed bank loans. Defendants' loans with China Construction Bank were listed on an SAIC database

that was specifically designed to publicly disclose to the public in China that Lihua's assets were encumbered. Defendants' loan with Everbright was approved by resolutions of the boards of Lihua's subsidiaries, and would have been revealed by a simple review of the subsidiaries' board minutes. Lihua's subsidiaries boards consisted of Defendants Zhu and Wang. Given that they are husband and wife, this situation presented a heightened risk of fraud or collusion between Zhu and Wang, and should have been closely monitored.

138. The lack of internal controls was also evident from Defendants' failure to timely disclose Defendant Zhu's theft, despite the fact that Zhu's actions were immediately reported in the Chinese media.

139. Defendants have also acquiesced in Zhu and Wang's theft. Counsel for Defendants also disclosed that, to date, no legal action has been taken to attempt to retrieve the lost documents and that Zhu is still employed with Lihua as legal representative of both Lihua Electron and Lihua Copper.

A. Defendant Huang's Scienter

140. Defendant Huang was also specifically aware of the risk of fraud in Chinese companies listed in the United States. In the March 10, 2013 conference call, an analyst specifically asked what Lihua was doing to address issues related to the SEC and audits of Chinese companies that had emerged in recent times, noting that Chinese companies in general were "in the penalty box". Defendant Huang acknowledged this issue and stated that they had been given "a green light, a clean bill of health." This exchange demonstrates Huang's familiarity with the spate of scandals involving Chinese companies traded in US markets in the past several years. For instance, in February 23, of 2012, Floyd Norris of the New York Times reported of a fraud committed by the US listed Chinese Company Puda Coal, which provided

inaccurate information to American investors but accurate information to the SAIC.² In recent years, more than a dozen US listed Chinese companies have committed fraud that would have been apparent through an examination of SAIC filings: *Elliot v. China Green Agriculture, Inc.*, No. 3:10-CV-0648-LRH-WGC, 2012 WL 5398863, at *6 (D. Nev. Nov. 2, 2012); *Dean v. China Agritech, Inc.*, No. 11-CV-1331-RGK (PJWx), 2011 WL 5148598, at *3 (C.D. Cal. Oct. 27, 2011); *In re China Educ. Alliance, Inc. Sec. Litig.*, No. 10-CV-9239-CAS (JCx), 2011 WL 4978483, at *6 (C.D. Cal. Oct. 11, 2011); *Henning v. Orient Paper, Inc.*, No. 10-CV-5887-VBF (AJWx), 2011 WL 2909322, at *5 (C.D. Cal. July 20, 2011); *Scott v. ZST Digital Networks, Inc.*, No. 110CV03531-GAF (JCx), 2012 WL 538279, at *8 (C.D. Cal. Feb. 14, 2012); *Brown v. China Integrated Energy, Inc.*, No. 11-CV-2559-MMM (PLAx), 2012 WL 1129909, at *4 (C.D. Cal. April 2, 2012); *Brown v. China Integrated Energy, Inc.*, No. 11-CV-2559-MMM (PLAx) 875 F. Supp. 2d 1096, 1122 (C.D. Cal. 2012); *Snellink v. Gulf Resources, Inc.*, No. 11-CV-3722-ODW (MRWx), 870 F. Supp. 2d 930, 934 (C.D. Cal. 2012); *Katz v. China Century Dragon Media, Inc.*, No. 11-CV-2769-JAK (SSx), 2012 WL 1656929, at *2 (C.D. Cal. May 7, 2012) (Katz II); *Redwen v. Sino Clean Energy, Inc.*, No. 11-CV-3936, 2012 WL 1991762, at *4 (C.D. Cal. June 4, 2012); *Lewy v. SkyPeople Fruit Juice, Inc.*, No. 11-CV-2700-PKC, 2012 WL 3957916, at *13-16 (S.D.N.Y. Sept. 10, 2012); *In re China Intelligent Lighting and Elecs., Inc. Sec. Litig.*, 11-CV-2768-PSG (SSx), 2012 WL 3834815, at *5 (C.D. Cal. Sept. 5, 2012) (*China Intelligent II*); *In re Advanced Battery Techs, Inc., Sec. Litig.*, No. 11-CV-2279-CM, 2012 WL 3758085, at *10 (S.D.N.Y. Aug. 29, 2012); *Ho v. Duoyuan Global Water, Inc.*, No. 10-CV-7233-GBD, 887 F. Supp. 2d 547, 568 (S.D.N.Y. 2012); *Miller Inv. Trust v. Morgan Stanley &*

² Available at <http://www.nytimes.com/2012/02/24/business/sec-charges-reveal-fraud-in-chinese-company.html?pagewanted=all>

Co., Inc., No. 11-CV-12126-JLT, 879 F. Supp. 2d 158, 164-65 (D. Mass. 2012 (*quoting Stanger v. China Electric Motor, Inc.*, No. 11-CV-2794-R, March 26, 2012 Motion Hearing at *5)).

Given this context, of which Huang acknowledged awareness, Huang knew that there was a major risk of fraud in US listed Chinese companies, and that such frauds could often be detected by examining SAIC filings.

141. Defendant Huang was also on notice of a heightened risk of fraud because most employees of Lihua were family members of Zhu and Wang. A company where many or most employees are family members of the CEO and COO is at a heightened risk for fraud because family members are likely to be more willing to collude with each other than mere unrelated fellow coworkers. Several confidential witnesses told Plaintiffs' investigators that Lihua employed many of Zhu and Wang's family members. CI 2 stated that most employees are relatives of Zhu and Wang, as did CI 3, and CI 3 added that Lihua didn't treat non-family member employees with respect. These facts, which were widely known to members of the company, put Huang on notice of the risk of fraud and should have been disclosed in Lihua's form 10-Ks. Instead, both the 2012 and 2013 10-Ks state "Mr. Jianhua Zhu, our Chief Executive Officer, President and Chairman, and Ms. Yaying Wang, our Chief Operating Officer and a director, are married. There are no other family relationships among our executive officers, directors and significant employees." This omission, of which Huang was aware, concealed from investors the true scope of the risk of fraud and demonstrates Huang's intent to conceal from investors the lack of internal controls within the Company.

X. APPLICABILITY OF PRESUMPTION OF RELIANCE:

A. Fraud-on-the-Market Doctrine

142. At all relevant times, the market for Lihua common stock was an efficient market for the following reasons, among others:

a. Lihua's stock was listed and actively traded on NASDAQ, a major, highly efficient, and automated market.

b. During the Class Period, on average, 472,428 shares of Lihua stock were traded on a weekly basis. This is approximately 2.9% of the shares in Lihua's float (shares available for sale publicly) and 1.6% of its shares outstanding, demonstrating a very active and broad market for Lihua and permitting a very strong presumption of an efficient market;

c. Lihua regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services;

d. Lihua was followed by at least two securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and certain customers of his/her brokerage firm during the Class Period. Each of these reports was publicly available and entered the public marketplace;

e. Unexpected material news about Lihua was rapidly reflected and incorporated into the Company's stock price during the Class Period.

f. Lihua was eligible to file an S-3 throughout the Class Period.

143. As a result of the foregoing, the market for Lihua's common stock promptly digested current information regarding Lihua from all publicly available sources and reflected such information in Lihua's stock price. Under these circumstances, all purchasers of Lihua's common stock during the Class Period suffered similar injury through their purchase of Lihua's common stock at artificially inflated prices, and a presumption of reliance applies.

B. Affiliated Ute

144. Neither Plaintiffs nor the Class need prove reliance -- either individually or as a class because under the circumstances of this case, which involves a failure to disclose, positive proof of reliance is not a prerequisite to recovery, pursuant to the ruling of the United States Supreme Court in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972). All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered the omitted information important in deciding whether to buy or sell the subject security.

XI. PLAINTIFF'S CLASS ACTION ALLEGATIONS

145. Plaintiffs bring this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all persons who purchased the common stock of Lihua during the Class Period and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of the Company at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

146. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Lihua's common stock was actively traded on NASDAQ. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that there are at least

hundreds of members in the proposed Class. Members of the Class may be identified from records maintained by Lihua or its transfer agent and may be notified of the pendency of this action by mail, using a form of notice customarily used in securities class actions.

147. Plaintiffs' claims are typical of the claims of the members of the Class, as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

148. Plaintiffs will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

149. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a. whether the federal securities laws were violated by Defendants' acts as alleged herein;
- b. whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business and operations of Lihua;
- c. whether the Defendants made the false and misleading statements with scienter; and
- d. to what extent the members of the Class have sustained damages, and the proper measure of damages.

150. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to redress

individually the wrongs done to them. There will be no difficulty in the management of this action as a class action.

FIRST CLAIM
Violation of Section 10(b) of
The Exchange Act and Rule 10b-5
Promulgated Thereunder Against Defendants Lihua, Zhu, and Huang

151. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

152. During the Class Period, Defendants Lihua, Zhu, and Huang (the “First Count Defendants”) carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (1) deceive the investing public, including Plaintiffs and other Class members, as alleged herein; and (2) cause Plaintiffs and other members of the Class to purchase Lihua’s securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, each of the First Count Defendants took the actions set forth herein.

153. The First Count Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit upon the purchasers of the Company’s securities in an effort to maintain artificially high market prices for Lihua’s securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. All First Count Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

154. The First Count Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and

participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of Lihua as specified herein.

155. These First Count Defendants employed devices, schemes, and artifices to defraud while in possession of material adverse non-public information, and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Lihua's value and performance and continued substantial growth, which included the making of, or participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Lihua and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business that operated as a fraud and deceit upon the purchasers of Lihua's securities during the Class Period.

156. Zhu's and Huang's primary liability, and controlling person liability, arises from the following facts: (1) Zhu and Huang were high-level executives, directors, and/or agents at the Company during the Class Period and members of the Company's management team or had control thereof; (2) Zhu and Huang, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, were privy to and participated in the creation, development and reporting of the Company's financial condition; (3) Zhu and Huang enjoyed significant personal contact and familiarity with the other Defendants and were advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (4) Zhu and Huang were aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

157. The First Count Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Lihua's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by the First Count Defendants' overstatements and misstatements of the Company's financial condition throughout the Class Period, the First Count Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

158. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Lihua's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of Lihua's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by the First Count Defendants, or upon the integrity of the market in which the common stock trades, and/or on the absence of material adverse information that was known to or recklessly disregarded by the First Count Defendants but not disclosed in public statements by Defendants during the Class Period, Plaintiffs and the other members of the Class acquired Lihua's securities during the Class Period at artificially high prices and were or will be damaged thereby.

159. At the time of said misrepresentations and omissions, Plaintiffs and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiffs

and the other members of the Class and the marketplace known the truth regarding Lihua's financial results, which was not disclosed by the First Count Defendants, Plaintiffs and other members of the Class would not have purchased or otherwise acquired their Lihua's securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices that they paid.

160. By virtue of the foregoing, the First Count Defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

161. As a direct and proximate result of the First Count Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

162. This action was filed within two years of discovery of the fraud and within five years of each plaintiff's purchases of securities giving rise to the cause of action.

SECOND CLAIM
Violation of Section 20(a) of
The Exchange Act Against the Individual Defendants

163. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

164. The Individual Defendants acted as controlling persons of Lihua within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, agency, ownership and contractual rights, and participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, The Individual Defendants had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements that Plaintiffs contend are false and misleading. The Individual Defendants were

provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiffs to have been misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or to cause the statements to be corrected.

165. In particular, The Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

166. As set forth above, Lihua, Zhu, and Huang each violated Section 10(b), and Rule 10b-5 promulgated thereunder, by their acts and omissions as alleged in this Complaint.

167. By virtue of their positions as controlling persons, The Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the Individual Defendants wrongful conduct, Plaintiffs and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

168. This action was filed within two years of discovery of the fraud and within five years of each Plaintiff's purchases of securities giving rise to the cause of action.

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating Plaintiff Holtz as Lead Plaintiff and certifying Plaintiffs as class representatives under Rule 23 of the Federal Rules of Civil Procedure and Plaintiffs' counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of Plaintiffs and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiffs hereby demands a trial by jury.

Dated: February 6, 2015

THE ROSEN LAW FIRM

By /s/ Jonathan Stern

Jonathan Stern, Esq.

Philip Kim, Esq.

Laurence M. Rosen, Esq.

275 Madison Avenue, 34th Floor

New York, New York 10016

Telephone: (212) 686-1060

Fax: (212) 202-3827

jstern@rosenlegal.com

lrosen@rosenlegal.com

pkim@rosenlegal.com