

Lihua International Investor & Analyst Conference Call

Wednesday, August 3, 2011 at 8:00 a.m. Eastern time

Please note that the following transcript is being provided for informational purposes only. Investors are encouraged to listen to the conference call archive, which will be available on the Company's website at http://www.lihuaintl.com/Investor_Relations/Events_Presentations.html until November 1, 2011.

Lee Roth – The Piacente Group:

Thank you, Jo, and good day everyone. This is Lee Roth with the Piacente Group, investor relations counsel for Lihua International, and I would like to thank all of you for joining us for the Company's investor and analyst conference call to address the allegations contained in a report issued by Absaroka Capital Management on August 1, 2011. With me on the line from Lihua management are Chairman and Chief Executive Officer, Mr. Zhu Jianhua; Chief Financial Officer, Mr. Roy Yu; and EVP of Corporate Finance and Director of Investor Relations, Ms. Daphne Huang.

Before we begin, I'd like to remind you that the comments made during today's call and the subsequent Q&A session may contain forward-looking statements that are within the meaning of Section 27(a) of the Securities Act of 1933, as amended, and Section 21(e) of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact that address activities, events or developments that the Company expects, projects, believes or anticipates will or may occur in the future, including but without limitation to statements about Lihua's business or growth strategy, general industry conditions, including the availability of copper or recycled scrap copper, future operating results of the Company, capital expenditures, expansion and growth opportunities, bank borrowings, financing activities and other such matters are forward-looking statements. Although the Company believes that its expectations made during today's call and during the related Q&A session are based on reasonable assumptions, our actual results may differ from those projected in the forward-looking statements.

With that said, it's now my pleasure to turn the call over to Lihua's EVP of Corporate Finance and Investor Relations, Daphne Huang. Daphne, go ahead please.

Daphne Huang – EVP Corporate Finance and Investor Relations:

Good morning everyone, and thank you for participating in today's conference call. Let me begin by thanking everyone who has supported Lihua and believed in the potential of our business since we went public in September of 2009. Lihua's Management has, and will continue to work hard to deliver solid operational and financial performance to our shareholders. However, in light of the current market environment for U.S. listed China based companies which has become a feeding ground for many unwarranted attacks by

short sellers, management has recognized the importance of quickly responding to false and misleading allegations to stop the short sellers from profiting at the expense of our loyal shareholders. Lihua's management team is committed to providing the highest level of transparency for our shareholders.

I will now turn the call over to our CFO Mr. Roy Yu, then our CEO Mr. Jian Hua Zhu, to provide remarks about the specific allegations raised in the August first article on Lihua by Absaroka Capital Management, an admitted short seller of our stock. There will be a question and answer session following management's remarks.

Roy?

Roy Yu - CFO:

Good morning everyone, and again, thank you for joining us today. I will now provide management's responses to each of the items raised in the August 1st Absaroka report.

1. Self-Dealing and Related Party Transactions – the report alleges that a potential conflict of interest related to the ownership of Danyang Huaying Resource Recycling, Ltd. raises significant concerns about management motivations.

Although Absaroka is right that Danyang Huaying Resource Recycling is a related company, Lihua never purchased any raw materials from Danyang Huaying. Danyang Huaying Resource Recycling was established in 2008 by Ms. Wang Yaying (Lihua's COO), Ms. WANG Liying, sister of Lihua's COO and Ms. Zhu Junying, an unrelated third party and not a "brother" or family member of Mr Zhu Jian Hua, Lihua's CEO. Danyang Huaying was a VAT tax exempt entity and up until 2008 Lihua would have been able to derive tax benefits from purchasing scrap copper from a VAT tax exempt entity. However since the beginning of 2009, Chinese tax law changed and resource recycling entities were no longer VAT-tax exempt. Accordingly, Lihua would not have received any tax benefits had it purchased scrap copper from Danyang Huaying, nor did it purchase any scrap copper from Danyang Huaying.

With respect to the Danyang Huaying SAIC report referenced by the Absaroka report, Danyang Huaying is an operating business and has business activities unrelated to Lihua. Of course, none of those activities were the subject of the Absaroka report.

2. Illogical Financial Results – Unsustainable margins or indicative of accounting shenanigans and corporate malfeasance?

Lihua considers its margins in line with current expectations in the copper industry and the allegations related thereto by Absaroka, demonstrates its lack of understanding of our business. Lihua started producing and selling copper anode to Zhangjiagang United Copper Company, a wholly owned subsidiary of Tongling Metal Group, one of the top

three copper conglomerates in China, as specifically requested by the purchaser. A significant portion of the copper anode we've produced to date has been sold to Zhangjiagang United Copper, which has placed orders for volumes that extend beyond our current production capacity. This is a direct contradiction to the claims in the Absaroka report, which states that Lihua faces competitive pricing pressure in our anode supply business.

To understand our gross margins, one needs to understand the copper smelting business that Lihua is in. Lihua smelts and produces copper anode from scrap copper, which is a very different and more environmentally friendly process than producing anode using virgin copper from copper mines. The margins for these two smelting processes are also different. Baotou Copper Smelting Group, the company referenced in the Absaroka report, smelts copper anode from virgin copper, which is a more pollutive process and has relatively lower margins, since mined copper rock has an extremely low pure copper content, of around 1% of total mass.

The gross margins for each of our product lines are quite logical when compared to those of our industry peers. In the first quarter of 2011, our CCA superfine wire had 29.6% gross margin, which was similar to or slightly higher than the gross margins of CCA thick wire producers, which are generally in the high 20s. The slight margin premium we enjoy is related to the fact that Lihua's CCA superfine wire is a more downstream product than CCA thick wire, which is typically purchased by wire producers and drawn into fine and superfine wire.

Our pure copper wire had an 11.2% gross margin in the first quarter of 2011. Our copper wire margins benefit from the fact that wire is drawn from copper rod we produce in-house from scrap copper, as opposed to other copper wire manufacturers, who typically purchase copper rod from third parties to be drawn into wire. Accordingly, Lihua's gross margin for its superfine copper wire is greater than the gross margins of other superfine copper wire manufacturers who have to purchase copper rods from third parties.

A real world example illustrates the point. A domestic publicly listed company, Rongsheng Chaowei sources copper rod as a raw material from suppliers and produces superfine copper wire. Rongsheng maintains a 9.22% gross margin on the sale of its superfine copper wire as compared to Lihua's superfine copper wire gross margin of 11.2%. This difference can be attributed to the costs that Rongsheng incurs from having to purchase copper rods from third parties.

In terms of copper anode, because we produce the anode from scrap copper, which is a metals-to-metals production process, the anode we produced should generate a similar gross margin to that of copper cathode, which is also upstream, uses anode as a raw material, and goes through a similar metals-to-metals production process. According to this short seller's report, one of the top three copper **conglomerates**, Jiangxi Copper, generated copper cathode gross margin of 7.37%, which is roughly in line with our first quarter copper anode gross margin of 9%.

3. Supplier Relationships – Difficult to reconcile public claims with business reality.

First Management believes that there has been extensive independent channel checking done on our suppliers and customers by sell side analysts and investors to verify the total sales and cost of goods associated with our business.

In addition, since the report was published, we have contacted all of the 5 suppliers mentioned in the short report, and each of them represented to us that they had not been contacted by Absaroka or any of its representatives. They further confirmed that they had never represented anything similar to what was quoted in the short seller's report in terms of their relationship with Lihua, or the scrap copper quantities purported in the Absaroka piece.

4. Illogical and Repeated Secondary Share Issuances – Is the cash balance real?

Absaroka believes that our capital management is illogical. While it is easy to raise questions, with all respect, Absaroka just does not understand our business. Short-term working capital needs are quite high in the copper related product business. Management needs to maintain sufficient cash on our balance sheet to help facilitate the short-term working capital needs of our day-to-day operations. Contrary to Absaroka's insinuation that Lihua has abused the secondary market process to raise funds, management of Lihua carefully weighs the cash needs of the company with its near and far term growth plans. In its report, Absaroka misrepresented our September 2009 \$10 mm IPO as a secondary offering. In addition, the entire amount of our \$34.5 mm secondary offering was raised to cover the fixed cost part of the phase II CAPEX expansion, while enabling us to maintain sufficient cash on balance sheet to fund day-to-day operations.

Absaroka's attack on the limited amount of shares which have been repurchased pursuant to the share repurchase program is without merit. Lihua has fully disclosed in prior press releases and on earnings conference calls the difficulty we've encountered in our ability to convert RMB to U.S. dollars for overseas use due to the SAFE restrictions. That is why Lihua arranged to borrow up to \$4mm U.S. dollars from Mr Zhu in Hong Kong and have Lihua Copper simultaneously pay him back the equivalent amount of RMB interest free, to enable the company to partially resolve the funding issue related to the share buyback execution.

As we have disclosed in prior press release, Lihua has bought back over 264,000 shares, or over \$2 million of common stock in the open market as of the end of the second quarter, and our CEO Mr. Zhu, through his affiliated entity Magnify Wealth, has purchased 125,000 shares in open market as of the end of the second quarter.

5. Implausibly Large Asset Costs – Management appears to be misallocating CAPEX spend based on market comparables.

Land Use Rights – The total \$10 million cost of the project is broken down as follows:

- Approximately \$5mm paid to local government for the land use right purchase;
- Approximately \$5mm more paid to the local government for relocation of farmers and physical site preparation.

Chinese local governments sell land use rights to manufacturers and do not provide certificates until they receive total land use right allocation annual quota from the Province. Lihua has been informed that the Local Government is in the process of issuing the first certificate for 100 mu of the 180 mu allocated to us, and the certificate for the remaining 80 mu should be issued to us soon. Our purchase price is comparable to the land use right sales in the surrounding area, which are available on the Danyang local government's public website.

Factory Building – according to Absaroka's own validation, the construction of 3 factory buildings should cost \$5.9 mm, and accordingly then it follows that our total estimated cost of \$10mm for the construction of 6 factory buildings is reasonable.

Factory Equipment – According to their website, Nanjing Yongliang Furnace Company is a company which produces and sells heat treatment equipment, which is very different from the equipment Lihua purchases for smelter installation and construction. Furthermore, the equipment for the two smelters we are planning to install in our phase II expansion is the most advanced and highly efficient model currently available domestically. It is reasonable to expect that the equipment we purchased would cost more than the engineers of Nanjing Yongliang Furnace Company had estimated based on the equipment they manufacture and sell. Furthermore, our total estimated \$15 million cost for the two smelters also includes costs for the environmental recycling and protection system which is a part of the external infrastructure of the smelting plant.

6. Scrap Import License – Limited opportunity for value creation due to increased sourcing competition, volatile commodity prices, and significant working capital requirements.

With respect to the impact on our working capital requirements, now that we have the licenses to enable us to begin purchasing and importing scrap copper directly from overseas suppliers, we have begun the process of applying for trade letters of credit with a few local banks. Once approved, we can finance the short term trade with letters of credit from the banks, which frees us up from having to make cash advance outlays for importing the scrap copper. We are currently estimating cost savings per ton on scrap copper import at \$150 per ton.

7. Auditors' Track Record – Raises significant concerns about the validity of published financials and future business prospects.

Our current auditor, Crowe Horwath, has been retained since the second quarter of 2010. Crowe has been consistently ranked as one of the top 10 auditing firms in the U.S.

8. Excessive Stock Promotion – Management appears uniquely focused on stock promotion as it has hosted 11 significant investor events YTD.

Lihua management is and will remain committed to performing appropriate investor relations and communications activities, as expected of a publicly traded company. These include, but are not limited to, hosting earnings calls, presenting at investment conferences, and conducting non-deal road shows. As such, we accept invitations to present at investment conferences as well as investor tours hosted by financial institutions. Earlier this year management also hosted its first annual analyst and investor day event. Management does not view these activities as inappropriate or excessive, and we view them as normal course of business for a public company, as opposed to stock promotion.

Now I'd like to turn the call over to Mr. Zhu for closing remarks, before opening the forum to question and answer session. Mr Zhu?

Mr. Zhu Jianhua – Chairman and CEO:

我代表利华管理层感谢大家对利华国际的发展一直以来的支持和投入。作为利华国际的创始人和CEO，我对我们一贯以来的发展策略和方向有着高度的信心。我们会继续贯策我们的发展方针，通过新产品开发和产能增长来扩大市场份额和保持企业成长。我深信利华会顶住任何做空的团体或个人蓄意制造的暴风雨。管理层绝不容许任何故意造谣中伤利华国际名誉的行为。我们将会和我们的律师和董事会严肃讨论此次事件，不排除正式起诉恶意中伤利华的人和公司的可能性。

Translation of Mr. Zhu's Remarks – Read by Daphne Huang:

Once again, I'd like to thank everyone for the continued participation and support of Lihua's growth. As the founder and CEO of Lihua, I am proud of, and confident in, our ability to deliver a consistent and focused business strategy to grow Lihua through capacity expansion, new product offerings and market penetration. I am confident that Lihua will be able to weather the storm created by these and other unwarranted short seller allegations. Management does not tolerate any intentional attempt to tarnish Lihua's reputation, and we will hold serious discussions with our Board and legal counsel

regarding the possibility of taking legal actions against any individual or group that attempts to defame us or undermine our credibility for the purposes of share price manipulation and short-term profit.

Now we'd like to open to call to question and answer session. Operator?