

**UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA**

**UNITED STATES SECURITIES
AND EXCHANGE COMMISSION**
100 F Street, NE
Washington, DC 20549-4030
Tel: (202) 551-4492

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Plaintiff,

Case: 1:09-cv-02045
Assigned To : Bates, John D.
Assign. Date : 10/30/2009
Description: General Civil

v.

**CHINA HOLDINGS, INC., and
JULIANNA LU (a.k.a. JENNY
XUEJIAN LU)**

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:

Defendants.

COMPLAINT

Plaintiff United States Securities and Exchange Commission (the "Commission") alleges as follows:

SUMMARY OF ALLEGATIONS

1. From April 15, 2008 through April 17, 2009, China Holdings, Inc. ("CHHL" or the "Company"), acting through its Chief Executive Officer Julianna Lu ("Lu"), made material misrepresentations in nine public reports filed with the Commission.

2. Between April 15 and 18, 2008, Lu filed an original and two amended annual reports for CHHL's fiscal year 2007 on Forms 10-KSB and 10-KSB/A which improperly included audit reports from CHHL's then-current and former auditors – Sherb & Co. LLP ("Sherb") and RBSM LLP ("RBSM"), respectively. Lu made these filings despite knowing that neither auditor authorized her to use its audit report because she had not made necessary corrections to the filings, and because she did not give the auditors the opportunity to review and

approve the filings. Sherb resigned as CHHL's auditor on April 18, 2008 without completing its audit.

3. Between April 23 and May 6, 2008, Lu filed an original and two amended current reports for CHHL on Forms 8-K and 8-K/A, which fraudulently represented that CHHL had dismissed Sherb, but that Sherb and CHHL had no disagreements over "matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures." In addition, Lu attached to the May 6, 2008 Form 8-K/A a fabricated letter purportedly from Sherb which stated that Sherb agreed with the statements made in the filing. Sherb wrote no such letter.

4. Between March 31 and April 17, 2009, Lu filed an original and two amended annual reports for CHHL's fiscal year 2008 on Forms 10-K and 10-K/A. Lu again included audit reports from Sherb and RBSM in the two Forms 10-K/A despite knowing that neither firm authorized her to use its report.

5. By committing the acts described in this Complaint, CHHL and Lu committed fraud by (i) concealing the fact that Sherb and RBSM did not give Lu permission to include their audit reports in any of the filings mentioned above, (ii) misrepresenting that CHHL's fiscal year 2007 consolidated financial statements were audited, (iii) misrepresenting that CHHL dismissed Sherb, and (iv) misrepresenting that CHHL and Sherb had no disagreements on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures.

6. Accordingly, CHHL and Lu directly or indirectly engaged in and, unless restrained and enjoined by the Court, will continue to engage in, transactions, acts, practices and courses of business that violate Section 10(b) of the Securities Exchange Act of 1934 (the

“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]. Lu also aided and abetted CHHL’s violations of Exchange Act Section 10(b) and Rule 10b-5.

7. The Commission seeks a judgment (i) enjoining CHHL and Lu from engaging in violations of Exchange Act Section 10(b) and Rule 10b-5, and enjoining Lu from aiding and abetting violations of Exchange Act Section 10(b) and Rule 10b-5, (ii) requiring CHHL and Lu each to pay a civil monetary penalty pursuant to Exchange Act Section 21(d)(3) [15 U.S.C. § 78u(d)(3)], and (iii) barring Lu from acting as an officer or director of a public company pursuant to Exchange Act Section 21(d)(2) [15 U.S.C. § 78u(d)(2)].

JURISDICTION AND VENUE

8. The Court has jurisdiction over this action pursuant to Exchange Act Sections 21(d), 21(e) and 27 [15 U.S.C. §§ 78u(d), 78u(e) and 78aa]. CHHL and Lu made use of the means or instruments of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the acts, transactions, practices and courses of business alleged in this Complaint.

9. Venue lies in the District of Columbia pursuant to Exchange Act Section 27 because CHHL filed materially false or misleading reports on Forms 10-K, 10-K/A, 10-KSB, 10-KSB/A, 8-K and 8-K/A with the Commission in this District.

THE PARTIES

10. Plaintiff is the United States Securities and Exchange Commission, which brings this action pursuant to the authority conferred on it by Exchange Act Sections 21(d) and 21(e).

11. According to its public filings, Defendant China Holdings, Inc. is a development stage company incorporated in Nevada that “intend[s] to engage in multiple China-focused business activities including, energy, renewable energy, resources, utilities finance, real estate,

and pharmaceutical” ventures. The Company’s “principal executive offices” are identified as being located in Las Vegas, Nevada, but CHHL also has a “mailing address” in Beijing, China. During the period of the misconduct alleged in this Complaint, CHHL’s stock was not registered with the Commission. CHHL’s stock traded on the Over-the-Counter Bulletin Board (“OTCBB”) until May 8, 2009, after which time it was removed from the OTCBB, and is now quoted on the Pink Sheets.

12. According to CHHL’s public filings, Defendant Julianna Lu (also known as Jenny XueJian Lu), age 47, is CHHL’s “Chief Executive Officer, Principal Financial Officer, Principal Accounting Officer, Treasurer and Chairwoman of the Board of Directors.” Lu is a citizen of Canada, and is believed to be a resident of Vancouver, British Columbia.

FACTS

I. Lu Improperly Included Audit Reports In CHHL’s Fiscal Year 2007 Annual Report

13. On April 15, 2008, Lu filed an annual report on Form 10-KSB for CHHL’s fiscal year ended December 31, 2007, which included audit reports from both Sherb, CHHL’s then-current auditor, and RBSM, its former auditor.

14. Neither auditor had authorized Lu to include its audit report in the filing because, as of April 15, Lu had not made numerous changes to the draft filing required by Sherb.¹ In

¹ The Sherb audit report was supposed to cover CHHL’s fiscal year 2007 financial statements. While Sherb did not authorize Lu to use its audit report, she had a copy of the report because Sherb gave it to CHHL’s corporate printer for inclusion in a draft Form 10-KSB in anticipation that Lu would make the necessary corrections, that Sherb and RBSM would review and approve the filing, and that Sherb would thereafter complete its audit. RBSM was CHHL’s previous auditor, and its audit report pertained to its completed audit of CHHL’s fiscal year 2006 financial statements. RBSM resigned as CHHL’s auditor in November 2007. CHHL needed to include both the Sherb and RBSM audit reports in its fiscal year 2007 annual report because issuers filing Forms 10-KSB at that time were required under Regulation S-B Rule 310(a) [17 C.F.R. § 228.310(a)] to include an audited balance sheet as of the end of the most recent fiscal

particular, material adjustments needed to be made to CHHL's financial statements, as well as to its disclosures surrounding options grants. Because Lu was urging RBSM and Sherb to authorize her to include their audit reports in the filing while changes were outstanding, both RBSM and Sherb repeatedly informed Lu and CHHL's outside counsel that they would not authorize Lu to include their audit reports until the outstanding changes were made. Lu filed and signed the Form 10-KSB despite knowing these facts.

15. On April 15, after learning that Lu filed the Form 10-KSB, RBSM, Sherb and CHHL's outside counsel raised objections with Lu. RBSM and Sherb informed Lu that she did not have authorization from either accounting firm to include its audit report in the filing. RBSM also objected to the fact that Lu had changed the date of the RBSM audit report (from April 2, 2007 to April 15, 2008) without RBSM's permission. After conferring on the matter, RBSM, Sherb and CHHL's outside counsel informed Lu on the evening of April 15 that she could file an amended annual report so long as the outstanding changes were made and the auditors were given a chance to review and approve a final draft of the filing.

16. Two days later, on April 17, Lu filed an amended annual report on Form 10-KSB/A which omitted the RBSM audit report entirely, but still included the Sherb audit report. CHHL's outside counsel raised objections with Lu because she made the filing without making the outstanding changes and without Sherb's authorization to include its audit report.

17. The next day, on April 18, Lu filed a second Form 10-KSB/A that included both the Sherb audit report and the RBSM audit report (this time with its original date). CHHL's outside counsel again raised objections with Lu because she made the filing without his

year end as well as audited statements of income, cash flows and changes in stockholders' equity for the two fiscal years preceding the date of the balance sheet.

approval, and without either auditor authorizing her to include its audit report in the filing. Both CHHL's outside counsel and Sherb resigned on April 18, 2008. Sherb did not complete its audit.

18. Lu signed CHHL's original annual report on Form 10-KSB and the two amended reports on Form 10-KSB/A as the Company's "Chief Executive Officer, Principal Financial Officer, Principal Accounting Officer, Treasurer and Chairman of the Board of Directors."

19. Lu knew, or was reckless in not knowing, that the three filings were materially false or misleading because they (i) concealed the fact that RBSM and Sherb did not authorize her to include their audit reports in any of the filings, (ii) falsely represented that CHHL's consolidated fiscal year 2007 financial statements were audited, and (iii) included the Sherb audit report, which falsely, and without Sherb's authorization, stated that Sherb audited the fiscal year 2007 financial statements and opined that the financial statements "present fairly, in all material respects the financial position" of CHHL and its subsidiaries.

20. Lu also knew, or was reckless in not knowing, that the certifications attached to all three filings, which she signed as CHHL's "Chief Executive Officer and Chief Financial Officer" pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") [15 U.S.C. § 7241], falsely asserted that the filings "[do] not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading."

II. Lu Concealed Sherb's Resignation

21. On April 23, 2008, Lu filed a current report for CHHL on Form 8-K stating that CHHL had "dismissed" Sherb. That statement was false, as Lu knew. In fact, Sherb resigned as CHHL's auditor on April 18, 2008, and Sherb's resignation letter was received by Lu no later than April 22, 2008.

22. The April 23 Form 8-K also stated that there were no disagreements between CHHL and Sherb “on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures.” On the same day, the Commission’s Division of Corporation Finance advised CHHL in a comment letter that the Form 8-K needed to include a letter from Sherb stating whether or not it agreed with CHHL’s statements.

23. The next day, on April 24, Lu filed an amended current report on Form 8-K/A which contained the same statements concerning the dismissal of Sherb and the lack of any disagreements with Sherb, but without the required letter from Sherb.

24. On May 6, Lu filed a second Form 8-K/A that included a letter dated April 23, 2008, purportedly from Sherb, which stated that “we are in agreement with the statements concerning our firm in such Form 8-K.. [sic]” Sherb did not write the letter. Instead, Lu fabricated it after Sherb sent her a different letter by email on April 24 in response to the April 23 Form 8-K that expressly stated that Sherb had resigned, and that it could not agree with the statements CHHL made in the April 23 Form 8-K. Sherb stated in its letter that it “never consented to our audit report being included in the financial statements for the year ended December 31, 2007 as filed on Form 10-KSB on April 15, 2008,” that Sherb had withdrawn its audit report, and that Lu should include Sherb’s April 24 letter in an amended Form 8-K.

25. Lu signed CHHL’s original current report on Form 8-K and the amended reports on Form 8-K/A as CHHL’s “Chief Executive Officer.”

26. Lu knew, or was reckless in not knowing, that the filings were materially false or misleading because they (i) misrepresented that CHHL dismissed Sherb and thereby concealed the fact that Sherb resigned as CHHL’s auditor, and (ii) misrepresented that there were no disagreements between CHHL and Sherb on any matters of accounting principles or practices,

financial statement disclosure, or auditing scope or procedures. Lu also knew that the May 6, 2008 Form 8-K/A was materially false or misleading because she included within it a fabricated letter purportedly from Sherb which falsely claimed that Sherb agreed with CHHL's representations in that filing.

**III. Lu Improperly Included Audit Reports
In CHHL's Fiscal Year 2008 Annual Report**

27. On March 31, 2009, Lu filed an annual report on Form 10-K for CHHL's fiscal year ended December 31, 2008. The filing contained no audit reports.

28. On April 16, 2009, Lu filed an amended annual report for CHHL on Form 10-K/A, which contained audit reports from Sherb and RBSM for fiscal years 2007 and 2006, respectively, but contained no audit report for fiscal year 2008. Neither Sherb nor RBSM authorized CHHL to include its audit report in the filing.

29. On April 17, Lu filed a second Form 10-K/A, which also contained an audit report from Sherb for fiscal year 2007. Again, Sherb did not authorize CHHL to include its audit report in this filing.

30. All three filings falsely represented that CHHL's fiscal year 2007 financial statements were audited.

31. Lu signed CHHL's original annual report on Form 10-K and the two amended reports on Form 10-K/A as the Company's "Chief Executive Officer, Principal Financial Officer, Principal Accounting Officer, Treasurer and Chairman of the Board of Directors."

32. Lu knew, or was reckless in not knowing, that the two amended Forms 10-K/A were materially false or misleading because they (i) concealed the fact that RBSM and Sherb did not authorize CHHL to include their audit reports in any of the filings, (ii) falsely represented that CHHL's consolidated fiscal year 2007 financial statements were audited, and (iii) included

the Sherb audit report, which falsely, and without Sherb's authorization, stated that Sherb audited the fiscal year 2007 financial statements and opined that they "present fairly, in all material respects the financial position" of CHHL and its subsidiaries.

33. Lu also knew, or was reckless in not knowing, that all three filings were materially false or misleading because they (i) falsely represented that CHHL's consolidated fiscal year 2007 financial statements were audited, (ii) contained certifications which Lu signed as CHHL's "Chief Executive Officer and Chief Financial Officer" pursuant to Sarbanes-Oxley Act Section 302, which falsely asserted that the filings "[do] not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading," (iii) falsely stated that CHHL dismissed Sherb, and (iv) falsely stated that there were no disagreements between Sherb and CHHL on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures.

FIRST CLAIM

CHHL and Lu Violated Exchange Act Section 10(b) and Rule 10b-5

34. The Commission realleges paragraphs 1 through 33 above.

35. By engaging in the conduct described above, between April 15, 2008 and April 17, 2009, CHHL and Lu, directly or indirectly, by use of the means or instruments of interstate commerce, or of the mails, or the facility of a national securities exchange, in connection with the purchase or sale of securities, and with knowledge or recklessness: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person.

36. The fraud perpetrated by CHHL and Lu included, among other things, the following fraudulent devices, fraudulent acts, untrue statements of material fact, or material omissions:

- a. In CHHL's April 15, 2008 Form 10-KSB and April 17 and 18, 2008 Forms 10-KSB/A, CHHL and Lu (i) concealed the fact that Sherb and RBSM did not give CHHL permission to include their audit reports in each filing, (ii) misrepresented that CHHL's consolidated fiscal year 2007 financial statements were audited, (iii) included the Sherb audit report, which falsely, and without Sherb's authorization, stated that Sherb audited the fiscal year 2007 financial statements and opined that the financial statements "present fairly, in all material respects the financial position" of CHHL and its subsidiaries, and (iv) misrepresented that the filing "does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading;"
- b. In CHHL's April 23, 2008 Form 8-K and April 24 and May 6, 2008 Forms 8-K/A, CHHL and Lu (i) misrepresented that CHHL dismissed Sherb and thereby concealed the fact that Sherb resigned as CHHL's auditor, and (ii) misrepresented that there were no disagreements between CHHL and Sherb "on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures;"

- c. In CHHL's May 6, 2008 Form 8-K/A, CHHL and Lu also misrepresented that Sherb agreed with the statements made in CHHL's May 6, 2008 Form 8-K/A by fabricating a letter purportedly from Sherb to that effect;
- d. In CHHL's March 31, 2009 Form 10-K, CHHL and Lu (i) misrepresented that CHHL's consolidated fiscal year 2007 financial statements were audited, and (ii) misrepresented that the filing "does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading;"
- e. In CHHL's April 16 and 17, 2009 Forms 10-K/A, CHHL and Lu (i) concealed the fact that Sherb did not give CHHL permission to include its audit reports in each filing, (ii) misrepresented that CHHL's consolidated fiscal year 2007 financial statements were audited, (iii) included the Sherb audit report, which falsely, and without Sherb's authorization, stated that Sherb audited the fiscal year 2007 financial statements and opined that the financial statements "present fairly, in all material respects the financial position" of CHHL and its subsidiaries, and (iv) misrepresented that the filing "does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading;"
and

f. In CHHL's April 16, 2009 Form 10-K/A, CHHL and Lu also concealed the fact that RBSM did not give CHHL permission to include its audit report in the filing.

37. By reason of the foregoing, CHHL and Lu each violated and, unless restrained and enjoined by the Court, will continue to violate, Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5].

SECOND CLAIM

Lu Aided and Abetted Violations of Exchange Act Section 10(b) and Rule 10b-5

38. The Commission realleges paragraphs 1 through 37 above.

39. Between April 15, 2008 and April 17, 2009, CHHL engaged in fraudulent conduct in violation of Exchange Act Section 10(b) and Rule 10b-5 by committing the acts described in paragraphs 1 through 37 above. Pursuant to Exchange Act Section 20(e) [15 U.S.C. § 78t(e)], Lu knowingly provided substantial assistance to CHHL's fraudulent conduct.

40. By reason of the foregoing, Lu aided and abetted CHHL's violations and, unless restrained and enjoined by the Court, will continue to aid and abet violations of Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court:

I.

Enter judgment in favor of the Commission finding that CHHL and Lu each violated the federal securities laws and Commission Rules as alleged in this Complaint;

II.

Permanently enjoin CHHL and Lu from violating Exchange Act Section 10(b) and Rule 10b-5;

III.

Permanently enjoin Lu from aiding and abetting violations of Exchange Act Section 10(b) and Rule 10b-5;

IV.

Order CHHL and Lu to pay civil monetary penalties pursuant to Exchange Act Section 21(d)(3);

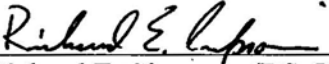
V.

Bar Lu from serving as an officer or director of a public company pursuant to Exchange Act Section 21(d)(2); and

VI.

Grant such equitable relief as may be appropriate or necessary for the benefit of investors pursuant to Exchange Act Section 21(d)(5) [15 U.S.C. § 78u(d)(5)].

Dated: Washington, DC
October 30, 2009


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