

**JUDGE BATTS**

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

\_\_\_\_\_) Individually and  
on Behalf of All Others Similarly Situated, )

) Plaintiff, )

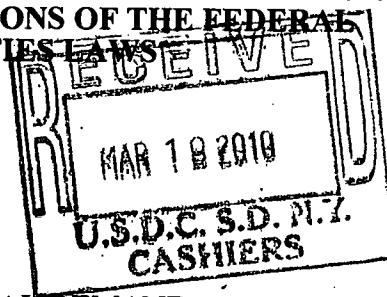
) v. )

) FUQI INTERNATIONAL, INC., YU KWAI )  
) CHONG, CHING WAN WONG, )

) Defendants. )

**10 CIV 2515**

**CLASS ACTION COMPLAINT FOR  
VIOLATIONS OF THE FEDERAL  
SECURITIES LAWS**



JURY TRIAL DEMAND

Plaintiff \_\_\_\_\_ by and through his attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff's information and belief is based upon, among other things, his counsel's investigation, which includes without limitation: (a) review and analysis of regulatory filings made by Fuqi International, Inc. ("Fuqi" or the "Company"), with the United States Securities and Exchange Commission ("SEC"); (b) review and analysis of press releases and media reports issued by and disseminated by Fuqi; and (c) review of other publicly available information concerning Fuqi.

**NATURE OF THE ACTION AND OVERVIEW**

1. This is a federal class action on behalf of purchasers of Fuqi's securities between May 15, 2009 and March 16, 2010, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. Fuqi is a leading designer of high quality precious metal jewelry in China, developing, promoting, and selling a broad range of products in the large and rapidly expanding Chinese luxury goods market.

3. On March 16, 2010, after the market closed, the Company disclosed that Fuqi had identified certain errors related to the accounting of the Company's inventory and cost of sales and that the result of the accounting errors was expected to have a material impact on the Company's previously issued quarterly financial statements for the first three quarters of 2009. The Company informed investors that, as a result, Fuqi's financial statements for the first three quarters of 2009 should no longer be relied upon and that the Company intended to file amendments disclosing the effect of the accounting errors.

4. On this news, shares of Fuqi declined \$7.10 per share, or 37.37%, to close on March 17, 2010, at \$11.90 per share, on unusually heavy volume.

5. Throughout the Class Period, Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose: (1) that the Company's wholesale business was slowing; (2) that the Company's cost of sales was understated during the Class Period; (3) that, as a result, the Company's financial results were overstated during the Class Period; (4) that the Company's financial results were not prepared in accordance with Generally Accepted Accounting Principles ("GAAP"); (5) that the Company lacked adequate internal and financial controls; and (6) that, as a result of the above, the Company's financial statements were materially false and misleading at all relevant times.

6. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

**JURISDICTION AND VENUE**

7. The claims asserted herein arise under 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 by the SEC (17 C.F.R. § 240.10b-5).

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

9. Venue is proper in this Judicial District pursuant to 28 U.S.C. §1391(b) and Section 27 of the Exchange Act (15 U.S.C. §78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud have occurred in this Judicial District.

10. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

**PARTIES**

11. Plaintiff [REDACTED] as set forth in the accompanying certification, incorporated by reference herein, purchased Fuqi common stock during the Class Period, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

12. Defendant Fuqi is a Delaware corporation with its principal executive offices located at 5/F., Block 1, Shi Hua Industrial Zone, Cui Zhu Road North, Shenzhen, 518019, People's Republic of China.

13. Defendant Yu Kwai Chong ("Chong") was, at all relevant times, Chief Executive Officer ("CEO"), President, and Chairman of the Board of Fuqi since April 2001.

14. Defendant Ching Wan Wong (“Wong”) was, at all relevant times, Chief Financial Officer (“CFO”) of Fuqi since January 2004.

15. Defendants Chong and Wong are collectively referred to hereinafter as the “Individual Defendants.” The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of Fuqi’s reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. Each defendant was provided with copies of the Company’s reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each “group-published” information, the result of the collective actions of the Individual Defendants.

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

16. Fuqi is a leading designer of high quality precious metal jewelry in China, developing, promoting, and selling a broad range of products in the large and rapidly expanding Chinese luxury goods market.

**Materially False and Misleading  
Statements Issued During the Class Period**

17. The Class Period begins on May 15, 2009. On this day, Fuqi issued a press release entitled, "FUQI International, Inc. Reports First Quarter 2009 Financial Results."

Therein, the Company, in relevant part, stated:

- 1Q09 Revenues Increase 41% to \$109.4 Million -
- 1Q09 Gross Margin Increases 510 Basis Points to 16.5% -
- 1Q09 Net Income Increases to \$9.7 Million, or \$0.45 per Diluted Share -
- Company Raises FY09 Financial Estimates -

SHENZHEN, China, May 15 /PRNewswire-Asia-FirstCall/ -- FUQI International, Inc. (Nasdaq: FUQI) today announced financial results for the first quarter ended March 31, 2009.

'We are excited to continue posting strong financial results in the first quarter of 2009, and are pleased to be one of the leaders in the growing luxury jewelry market in China, which has been somewhat resistant to the effects of the economic downturn. Despite the health of the global economy, we have put in place a structure that has allowed us to continue growing at respectable rates. We are now beginning to see signs of stability in the Chinese economy, which we believe will bode even better for our future results. We are focusing our efforts to drive the continued growth of our retail business and we believe the traditionally larger margins will have an increasingly significant impact on our profitability as our retail business continues to grow. We will continue to serve our wholesale customers optimally, by maintaining the right amount of inventory and varieties of design on hand at all time to fulfill our customer demand,' commented Mr. Yu Kwai Chong, CEO and Chairman of Fuqi International.

Revenues for the first quarter of 2009 increased 41.0% to \$109.4 million from \$77.6 million in the first quarter of 2008. The increase was attributable to an increase of sales volume in the wholesale business as well as from increased revenues derived from the Company's retail business. Wholesale revenue contributed approximately \$96.8 million to overall revenues, representing year-over-year growth of approximately 26.7% and retail revenue contributed approximately \$12.5 million to overall revenue for the quarter, which is a 9.4 times increase compared to the same period in the prior year. Gross profit in the first quarter of 2009 increased 105% to \$18.1 million from \$8.8 million for the same period in the prior year. Gross profit margin for the first quarter of 2009 increased 510 basis points to 16.5% compared to 11.4% in the same period in the prior year. The improvement in gross margin was primarily due to an increase of product segments, benefit from gradually rising precious metal prices and a stable increase in sales of Fuqi's and Temix's retail outlets. The Company continues to prudently grow its retail business to capitalize on higher retail margins, which has occurred in the first quarter of 2009.

Operating expenses in the first quarter increased 189% to \$5.5 million compared to \$1.9 million in the prior year period. The increase was primarily a result of an increase in legal and professional fees and salary expenses incurred in relation to

the expansion of our wholesale and retail business and an increase in fees to the malls for retail business. Income from operations for the first quarter increased 83% to \$12.6 million from \$6.9 million in the first quarter of 2008.

Net Income for the first quarter of 2009 increased 52% to \$9.7 million, or \$0.45 per diluted share, compared to \$6.4 million, or \$0.31 per diluted share in the same period of the prior year.

On March 31, 2009, the Company had cash and cash equivalents of \$54.0 million, compared with \$56.6 million at the end of 2008. Inventory at the end of the first quarter was \$70.1 million, up from \$44.4 million at the end of 2008 in the Company's anticipation of increasing demand for its jewelry products for the Labor Day holidays and Mother's Day. This increase also reflects the Company's desire to have available product quantities and varieties on hand to meet demand in the wholesale business as well as its strategic expansion into the retail business.

#### 2009 Financial Outlook

Mr. Chong continued, 'Our keen financial management has allowed us to post this impressive growth, and enabled us to begin to distinguish ourselves from the competition. We plan to continue to conservatively manage our balance sheet so that we are always ready to capitalize upon profitable opportunities in the marketplace.'

For the second quarter, the Company anticipates total revenue between approximately \$89.5 - \$93.5 million which includes wholesale and retail revenues. Net income in the second quarter is expected to be in the range of \$5.9 - \$6.9 million, or \$0.27 - \$0.32 per diluted share, based on a weighted average share count of 21.5 million shares.

For the full year 2009, the Company currently expects full-year revenue of approximately \$442.0 - \$465.0 million. These estimates include both wholesale and retail revenues and exclude the impact from any potential acquisitions. The Company also anticipates net income of approximately \$32.0 - \$35.0 million, or diluted EPS of \$1.49 - \$1.63, based on a weighted average share count of 21.7 million shares.

18. On May 15, 2009, Fuqi filed its Quarterly Report with the SEC on Form 10-Q for the 2009 fiscal first quarter. The Company's Form 10-Q was signed by Defendants Chong and Wong, and reaffirmed the Company's financial results announced that day. The Company's Form 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Chong and Wong, who certified:

1. I have reviewed this report on Form 10-Q of Fuqi International, Inc.;
2. Based on my knowledge, this report 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 with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I 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;
  - 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; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - 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.

19. On July 22, 2009, Fuqi issued a press release entitled, "FUQI International Comments on Outlook for Second Quarter 2009 Financial Results." Therein, the Company, in relevant part, stated:

SHENZHEN, China, July 22 /PRNewswire-Asia-FirstCall/ -- FUQI International, Inc. (Nasdaq: FUQI), a leading designer of high quality precious metal jewelry in China, today announced that based on its preliminary review of its financial results for the three months ended June 30, 2009, the Company believes that its second quarter earnings per share will be at or higher than the high end of its previously released forecast of \$0.27 to \$0.32 per diluted share, based on a weighted average share count of approximately 21.7 million shares. The Company plans to release its final second quarter results of operations in early August.

20. On August 6, 2009, Fuqi issued a press release entitled, "FUQI International, Inc. Reports Second Quarter 2009 Financial Results." Therein, the Company, in relevant part, stated:

2Q09 Revenues Increase 50.6% to \$100.8 Million  
2Q09 Gross Margin Increases 660 Basis Points to 17.2%  
2Q09 Net Income Increases 86.8% to \$9.9 Million, or \$0.45 per Diluted Share  
Raises Full Year Revenue and Net Income Guidance

SHENZHEN, China, Aug. 6 /PRNewswire-Asia-FirstCall/ -- FUQI International, Inc. (Nasdaq: FUQI) today announced financial results for the second quarter ended June 30, 2009.

'I am pleased to report that, our team has once again delivered strong second quarter results. We believe this is an indication that our wholesale and retail strategy, combined with our vertically integrated operations and growing brand recognition, provides us with a blueprint for success and reflects the strength of our position in the growing Chinese jewelry marketplace. We look forward to capitalizing on opportunities that present themselves and putting the capital from our recently closed \$120 million public offering in accretive use in the near future. We are excited about our opportunities to continue growing both our wholesale and retail businesses as well as focusing on our long-term goals. We continue to explore opportunities to enhance our growth and which will enable us to become a more efficient and productive organization so that we can continue to deliver solid results for our shareholders,' commented Mr. Yu Kwai Chong, CEO and Chairman of Fuqi International.

Revenues for the second quarter of 2009 increased 50.6% to \$100.8 million from \$66.9 million in the second quarter of 2008. The increase was attributable to an increase of sales volume in the wholesale business as well as from increased revenues derived from the Company's retail business. Wholesale revenue contributed approximately \$92.5 million to overall revenues for the quarter, representing year-over-year growth of approximately 39.9%, and retail revenue

contributed approximately \$8.3 million to overall revenue for the quarter, which is a 10.2 times increase compared to the same period in the prior year.

Gross profit in the second quarter of 2009 increased 145.1% to \$17.4 million from \$7.1 million for the same period in the prior year. Gross profit margin for the second quarter of 2009 increased 660 basis points to 17.2% compared to 10.6% in the same period in the prior year. The improvement in gross margin was primarily due to an increase of product segments, an expansion in retail sales, which resulted from an increase in brand awareness, and opening additional jewelry counters as well as our acquisition of Temix's 50 retail counters/stores in 2008. Second quarter wholesale gross margin increased 510 basis points to 15.7% compared to 10.6% in the prior year period while retail gross margin increased significantly to 33.7% in the second quarter of 2009 compared to 7.4% in the second quarter of the prior year.

Operating expenses in the second quarter increased 281.8% to \$4.2 million compared to \$1.1 million in the prior year period. The increase was primarily a result of an increase in legal and professional fees as a public company, salary expenses incurred in relation to the expansion of our wholesale and retail business and an increase in variable rents and fees to department stores and malls for retail business. Income from operations for the second quarter increased 120% to \$13.2 million from \$6.0 million in the second quarter of 2008.

Net income for the second quarter of 2009 increased 86.8% to \$9.9 million, or \$0.45 per diluted share, compared to \$5.3 million, or \$0.25 per diluted share in the same period of the prior year.

On June 30, 2009, the Company had cash and cash equivalents of \$49.3 million, compared with \$56.6 million at the end of 2008. Inventory at the end of the second quarter was \$86.8 million, up from \$44.4 million at the end of 2008. This increase reflects the Company's desire to have available product quantities and varieties on hand to meet demand in the wholesale business as well as its strategic expansion into the retail business.

#### 2009 Financial Outlook

Mr. Chong continued, 'As a result of the successful offering as well as market opportunities, we are raising our revenue and net income guidance for the remainder of this year. We believe that we have laid the foundation to successfully build a fully-integrated wholesale and retail operation that can capture a sizeable market share in the growing Chinese middle class market. We are enthusiastic about our future growth prospects, and believe we have the vision to build the leading jewelry provider in China.'

For the third quarter, the Company anticipates total revenue between approximately \$121.5 - \$131.3 million which includes wholesale and retail revenues. Net income in the third quarter is expected to be in the range of \$10.1 - \$11.1 million, or \$0.40 - \$0.44 per diluted share, based on a weighted average share count of approximately 25.3 million shares. The share count will partially reflect the 5.58 million shares issued in the stock offering that closed on August 5, 2009.

For the fourth quarter, the Company anticipates total revenue between approximately \$177.5 - \$185.5 million which includes wholesale and retail

revenues. Net income in the fourth quarter is expected to be in the range of \$14.4 - \$16.2 million, or \$0.52 - \$0.59 per diluted share, based on a weighted average share count of approximately 27.6 million shares.

For the full year 2009, the Company now expects full-year revenue of approximately \$509.2 - \$527.0 million. These estimates include both wholesale and retail revenues and exclude the impact from any potential acquisitions. The Company also anticipates net income of approximately \$44.0 - \$46.8 million, or diluted EPS of \$1.83 - \$1.94, based on a weighted average share count of approximately 24.1 million shares, reflecting the partial-year impact of the shares issued in our recent offering.

21. On August 6, 2009, Fuqi filed its Quarterly Report with the SEC on Form 10-Q for the 2009 fiscal second quarter. The Company's Form 10-Q was signed by Defendants Chong and Wong and reaffirmed the Company's financial results announced that day. The Company's Form 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Chong and Wong, substantially similar to the certifications contained in ¶19, *supra*.

22. The statements contained in ¶¶18-22, were materially false and/or misleading when made because defendants failed to disclose or indicate the following: (1) that the growth of the Company's wholesale business was slowing; (2) that the Company's cost of sales was understated during the Class Period; (3) that, as a result, the Company's financial results were overstated during the Class Period; (4) that the Company's financial results were not prepared in accordance with GAAP; (5) that the Company lacked adequate internal and financial controls; and (6) that, as a result of the above, the Company's financial statements were materially false and misleading at all relevant times.

### **The Truth Begins To Emerge**

23. On November 9, 2009, Fuqi issued a press release entitled, "FUQI International, Inc. Reports Third Quarter 2009 Financial Results." Therein, the Company, in relevant part, stated

-- 3Q09 Revenues Increase 35.8% to \$127.2 Million -- -- 3Q09 Gross Margin  
Increases 11.8% to 23.5% -- -- 3Q09 Net Income Increases 187.9% to \$18.8

Million, or \$0.73 per Diluted Share -- -- Raises Full Year Revenue and Net Income Guidance --

SHENZHEN, China, Nov. 9, 2009 (PRNewswire-Asia) -- FUQI International, Inc. (Nasdaq: FUQI) today announced financial results for the third quarter ended September 30, 2009.

"I am pleased to report that, our team has once again delivered strong third quarter results, especially as the third quarter has historically been a seasonally slower quarter for FUQI. During the third quarter, we were able to report stronger than expected wholesale results primarily due to increased sales volume and through our original design manufacturing (ODM) work. As our brand grows throughout China, we plan to continue to capitalize on such opportunities to enhance our wholesale and retail businesses. Furthermore, we will continue with our collaborative relationship with several well-known universities specialized in gemological training in China to further enhance our product and designs as well as to develop innovative technological products. We remain confident with our fully-integrated wholesale and retail platforms, and we believe that we are well on our way to becoming one of the dominant jewelry enterprises in China," commented Mr. Yu Kwai Chong, CEO and Chairman of Fuqi International.

In the third quarter of 2009, the company opened a total of eleven new retail counters. Three FUQI counters were opened in Beijing, Shanghai and Shenyang and eight Temix brand counters were opened in Beijing and Shanghai. Three counters closed in the same period. As of September 30, 2009, the Company had a total of 72 retail counters, including 58 under the Temix brand and 14 under the FUQI brand, and a total of 7 retail stores, which are all under the Temix brand. The Company continues to grow its counter space and plans to have a total of 95-100 retail locations by the end of 2009 and additional 80-100 retail locations in 2010.

Revenues for the third quarter of 2009 increased 35.8% to \$127.2 million from \$93.7 million in the third quarter of 2008. The increase was attributable to an increase of sales volume in the wholesale business, including original design manufacturing (ODM) work, as well as from increased revenues derived from the Company's retail business. Wholesale revenue contributed approximately \$117.5 million to overall revenues for the quarter, representing year-over-year growth of approximately 29.7%, and retail revenue contributed approximately \$9.7 million to overall revenue for the quarter, which is a 208.7% increase compared to \$3.2 million the same period of the prior year.

Gross profit in the third quarter of 2009 increased 172.0% to \$29.9 million from \$11.0 million for the same period in the prior year. Gross profit margin for the third quarter of 2009 increased to 23.5% compared to 11.7% in the same period in the prior year. The improvement in gross margin was primarily due to higher wholesale margins resulting from several sizeable ODM orders fulfilled during the third quarter. Third quarter wholesale gross margin increased 12.8% to 23.6% compared to 10.8% in the prior year period while retail gross margin was 22.6% in the third quarter of 2009 compared to 38.0% in the third quarter of the prior year.

Operating expenses in the third quarter increased 110.8% to \$5.7 million compared to \$2.7 million in the prior year period. The increase was primarily a

result of higher professional fees as a result of the expansion of the retail business and increased payroll cost for the additional employees hired in the accounting and finance department, salary expenses incurred in relation to the expansion of the wholesale and retail business and an increase in variable rents and fees to department stores and malls for retail business. Income from operations for the third quarter increased 192.3% to \$24.2 million from \$8.3 million in the third quarter of 2008.

Net income for the third quarter of 2009 increased 187.9% to \$18.8 million, or \$0.73 per diluted share, compared to \$6.5 million, or \$0.31 per diluted share in the same period of the prior year.

On September 30, 2009, the Company had cash and cash equivalents of \$173.2 million, compared with \$49.3 million at the end of the second quarter. Inventory at the end of the third quarter was \$85.8 million, down slightly from \$86.8 million in the second quarter, but reflecting anticipated demand for jewelry products in the upcoming Christmas holiday season.

#### 2009 Financial Outlook

Mr. Chong continued, "The third quarter came in stronger than we expected, considering the long National Holiday week and the dearth of gift-giving holidays during the quarter. Nevertheless, our ability to generate strong revenue and earnings growth during a seasonally slow period is extremely encouraging for our management team, as we look towards our goals for the future. As a result of the stronger-than-expected third quarter performance, we will be raising our revenue and net income guidance for the fourth quarter and full year. We believe that FUQI has laid the plans for strong continued growth in the wholesale and retail markets, and our branding, marketing and distribution plans will enable us to leverage the foundation we have built for more market penetration. We are excited about the coming quarters and the plans we have in place, and look forward to providing our shareholders with optimal value."

For the fourth quarter of 2009, the Company anticipates total revenue between approximately \$182.0-\$191.0 million, which includes wholesale and retail revenues. Net income in the fourth quarter is expected to be in the range of \$15.2-\$16.6 million, or \$0.55-\$0.60 per diluted share, based on a weighted average share count of approximately 27.6 million shares.

For the full year 2009, the Company now expects full-year revenue of approximately \$519.4-\$528.4 million. These estimates include both wholesale and retail revenues and exclude the impact from any potential acquisitions. The Company also anticipates net income of approximately \$53.5-\$54.9 million, or diluted EPS of \$2.21-\$2.27, based on a weighted average share count of approximately 24.2 million shares, reflecting the partial-year impact of the shares issued in our recent offering.

24. On November 9, 2009, Fuqi filed its Quarterly Report with the SEC on Form 10-Q for the 2009 fiscal third quarter. The Company's Form 10-Q was signed by Defendants Chong and Wong and reaffirmed the Company's financial results announced that day. The

Company's Form 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Chong and Wong, substantially similar to the certifications contained in ¶19, *supra*.

25. While the Company's financial results for the first three quarters of the 2009 fiscal year appeared to meet expectations, excluding the Company's \$19 million in original design manufacturing (ODM) orders, the Company's wholesale growth slowed significantly to around 10%. As noted in November 9, 2009, in an analyst report issued by Merriman Curhan Ford entitled, "Fuqi International Reports Mixed 3Q09 Results; Slower Core Growth Boosted by Significant ODM Revenues; Need to See 4Q/FFY10 Rebound in Trends:"

### **Investment Conclusion**

In our opinion, FUQI International's strong brand and established wholesale distribution coupled with its recent entry into the higher margin retail channel should help it take increasing market share of China's jewelry market. That being said, we are slightly more cautious on the near-term wholesale growth profile given the ODM margin boost in 3Q and need to see a return to core growth in 4Q to remain constructive on the shares — along with a return to more normalized retail gross margins. FY10 revenue growth should remain in tact although EPS growth will be constrained due to the one-time benefits this year. We are reducing our P/E multiple to 12-15x (from 15-18x) on our FY10 EPS estimate, yielding a potential valuation range of \$27.75-34.50.

### **Summary**

- **FUQI reported mixed 3Q results** with overall revenues of \$127.2M vs. our estimate of \$129.5M and EPS of \$0.73 vs. our street-high estimate of \$0.51. Overall blended gross margins of 23.5% came in above our 16.0% estimate.
- **ODM orders provided the quarterly boost.** FUQI generated \$19.0M in wholesale revenues from original design manufacturing (ODM) orders vs. only \$1.0M in 3Q09. Excluding these orders, wholesale growth slowed to around 10%. In addition, management noted that the gross margin on the ODM revenues are at least 2x the margins on traditional wholesale revenues (although by our calculations the benefit had to be much greater than that).
- **Concerned about lower-quality revenues.** We view these ODM orders as lower quality than core jewelry sales and need to monitor the trend to make sure this does not continue. At a minimum, FUQI management made good use of extra capacity to land high-margin business, but this is not the core jewelry business for which investors are involved in FUQI shares.
- **Retail margins below expectations.** Retail margins of 22.6% came in below

our 31.5% estimate and the 38.0% margin last year. Management attributed this to product mix with more lower-margin platinum products (investing) instead of gold/gemstone products (gift-giving). We expect margins to rebound in 4Q with more gift-giving holidays vs. none in 3Q.

26. On this news, shares of Fuqi declined \$4.15 per share, or 17.79%, to close on November 9, 2009, at \$19.18 per share, on unusually heavy volume.

27. The statements contained in ¶¶24-25, were materially false and/or misleading when made because defendants failed to disclose or indicate the following: (1) that the Company's cost of sales was understated during the Class Period; (2) that, as a result, the Company's financial results were overstated during the Class Period; (3) that the Company's financial results were not prepared in accordance with GAAP; (4) that the Company lacked adequate internal and financial controls; and (5) that, as a result of the above, the Company's financial statements were materially false and misleading at all relevant times.

28. On March 16, 2010, Fuqi issued a press release entitled, "FUQI International Provides Preliminary Fourth Quarter Financial Results; Announces Delay in Filing of Form 10-K for 2009." Therein, the Company, in relevant part, stated:

Also today, the Company announced that it has filed a Form 12b-25 with the Securities and Exchange Commission to delay the filing of its Annual Report on Form 10-K for the year ended December 31, 2009. The Company has been conducting an assessment of its internal controls as of December 31, 2009 in accordance with the Company's Sarbanes-Oxley Act compliance procedures. Although the Company's assessment procedures are not yet complete, the Company believes that at least one of the identified deficiencies related to its 2009 Sarbanes-Oxley Section 404 compliance audit, thus far, constitutes a material weakness, including but not limited to the Company's period-end closing process as of December 31, 2009. The complete and final results of the Company's assessment of its internal controls will be disclosed in its Annual Report on Form 10-K for the year ended December 31, 2009.

As a result of the findings of the 2009 Sarbanes-Oxley Section 404 audit, thus far, the Company identified certain accounting errors that are expected to have a material impact on the previously issued quarterly financial statements for the first three quarters of 2009. Management and the accounting personnel require additional time to evaluate such effects on the previously filed quarterly financial statements of 2009. Because the review is still underway, the Company is unable to accurately estimate at this time the impacts on the Company's interim

financial statements for the first three quarters of 2009. However, it is expected that as a result of the accounting errors, the cost of sales for each of the periods were understated and gross profit and net income, as a result, were accordingly overstated. Based on the Company's latest estimate, the earnings per share included in the previously issued financial statements for the nine months ended September 30, 2009 were overstated by approximately \$0.15-\$0.19 per share based on approximately 23.0 million weighted average number of shares for the nine months ended September 30, 2009. The foregoing estimate is based only upon preliminary information available to the Company as of the date of this press release, is subject to adjustment in connection with its ongoing review, and has not been audited by its independent registered public accounting firm. Due to the Company's ongoing internal analysis, the Company is currently unable to provide estimated results of operations for the year ended December 31, 2009. The Company will file its Annual Report on Form 10-K as soon as possible; however, there can be no assurance that the report will be filed within the extended 15 day deadline.

Mr. Chong continued, "We regret the delay and appreciate the patience of our stockholders as the Company works to complete its financial closing process. We take our responsibility to provide complete and accurate financial information seriously and are taking proactive steps that we believe are appropriate under these circumstances. Although the Sarbanes-Oxley Act Section 404 compliance has been a significant challenge for the Company, we believe our continuing efforts to improve our internal control and human resources in operational entities will make our Company stronger in the long term. As a fast growing company, we remain focused that our operating entity financial accounting infrastructure grows stronger and we are committed to invest more resources in our internal auditing function as well. We remain confident in the fundamental soundness of our businesses and look forward to discussing our 2009 financial results and developments for 2010 when we report our fourth quarter and full year 2009 financial results."

29. On March 16, 2010, Fuqi filed a Current Report with the SEC on Form 8-K.

Therein, the Company, in relevant part, stated:

**Item 4.02 Non-Reliance on Previously Issued Financial Statement or a Related Audit Report or Completed Interim Review.**

On March 11, 2010, the management and the Audit Committee of the Company concluded that the Company's previously issued financial statements

- (i) as of and for the three months ended March 31, 2009 as included in the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (the "Commission") on May 15, 2009 (the "First Quarter 10-Q"),
- (ii) as of and for the three and six months ended June 30, 2009 as included in the Company's Quarterly Report on Form 10-Q filed with the Commission on August 6, 2009 (the "Second Quarter 10-Q"), and

- (iii) as of and for the three and nine months ended September 30, 2009 as included in the Company's Quarterly Report on Form 10-Q filed with the Commission on November 9, 2009 (the "Third Quarter 10-Q", and collectively with the First Quarter 10-Q and the Second Quarter 10-Q, the "Filings"),

should not be relied upon due to an error in the accounting of inventory and cost of sales.

The Company has been conducting an assessment of its internal controls as of December 31, 2009 in accordance with the Company's Sarbanes-Oxley Act compliance procedures. Although the Company's assessment procedures are not yet complete, the Company believes that at least one of the identified deficiencies related to its 2009 Sarbanes-Oxley Section 404 compliance audit, thus far, constitutes a material weakness, including but not limited to the Company's period-end closing process as of December 31, 2009. As a result of the findings of the 2009 Sarbanes-Oxley Section 404 audit, thus far, the Company identified certain errors related to the accounting of the Company's inventory and cost of sales.

The result of the accounting errors are expected to have a material impact on the previously issued quarterly financial statements for the first three quarters of 2009, as contained in the Filings. Management and the accounting personnel require additional time to conduct an internal evaluation of such effects on the previously filed quarterly financial statements of 2009. Because the review is still underway, the Company is unable to accurately estimate at this time the impacts on the Company's interim financial statements for the first three quarters of 2009.

However, based on the current status of the Company's evaluation, it is expected that the result of the accounting errors is that the cost of sales for each of the first and second quarters of 2009 were understated and gross profit and net income, as a result, were accordingly overstated in such periods. Based on the Company's latest estimate, the possible overstatement is currently anticipated to be approximately 12%-14% and 21%-23% for the first quarter and the second quarter of 2009, respectively, and the earnings per share included in the previously issued financial statements for the nine months ended September 30, 2009 were overstated by approximately \$0.15-\$0.19 per share based on approximately 23.0 million weighted average number of shares for the nine months ended September 30, 2009. The foregoing estimates are based only upon preliminary information available to the Company as of the date of this Form 8-K, are subject to adjustments in connection with its ongoing review, and have not been audited by the Company's independent registered public accounting firm.

As a result of the foregoing, the Company's completion of its annual consolidated financial statements and required disclosure is being delayed pending the Company's completion of analysis and evaluation of the potential errors on the previously issued quarterly financial statements for 2009. As indicated in the Company's Form 12b-25 filed with the Securities and Exchange Commission on March 16, 2010, the Company will file its Annual Report on Form 10-K as soon as possible and attempt to make such filing by the fifteenth calendar day following the prescribed due date for such report; however, there can be no assurance that the report will be filed within such period. As such

time, the Company intends to file amendments to each of the Filings, as required, disclosing the effect of the accounting errors.

The Company's Audit Committee and management have discussed the facts and circumstances of the accounting errors and ongoing internal analysis with the Company's independent auditors.

(Emphasis in original).

30. On this news, shares of Fuqi declined \$7.10 per share, or 37.37%, to close on March 17, 2010, at \$11.90 per share, on unusually heavy volume.

**FUQI'S VIOLATION OF GAAP RULES IN ITS  
FINANCIAL STATEMENTS FILED WITH THE SEC**

31. These financial statements and the statements about the Company's financial results were false and misleading, as such financial information was not prepared in conformity with GAAP, nor was the financial information a fair presentation of the Company's operations due to the Company's improper accounting for, and disclosure about its expenses, in violation of GAAP rules.

32. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. Regulation S-X (17 C.F.R. § 210.4 01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. § 210.10-01(a).

33. The fact that Fuqi plans to restate its financial statements, and informed investors that these financial statements should not be relied upon is an admission that they were false and misleading when originally issued (APB No. 20, 7-13; SFAS No. 154, 25).

34. Given these accounting irregularities, the Company announced financial results that were in violation of GAAP and the following principles:

(a) The principle that “interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements” was violated (APB No. 28, 10);

(b) The principle that “financial reporting should provide information that is useful to present to potential investors and creditors and other users in making rational investment, credit, and similar decisions” was violated (FASB Statement of Concepts No. 1, 34);

(c) The principle that “financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events, and circumstances that change resources and claims to those resources” was violated (FASB Statement of Concepts No. 1, 40);

(d) The principle that “financial reporting should provide information about an enterprise’s financial performance during a period” was violated (FASB Statement of Concepts No. 1, 42);

(e) The principle that “financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it” was violated (FASB Statement of Concepts No. 1, 50);

(f) The principle that “financial reporting should be reliable in that it represents what it purports to represent” was violated (FASB Statement of Concepts No. 2, 58-59);

(g) The principle that “completeness, meaning that nothing is left out of the

information that may be necessary to insure that it validly represents underlying events and conditions” was violated (FASB Statement of Concepts No. 2, 79); and

(h) The principle that “conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered” was violated (FASB Statement of Concepts No. 2, 95).

35. The adverse information concealed by Defendants during the Class Period and detailed above was in violation of Item 303 of Regulation S-K under the federal securities law (17 C.F.R. § 229.303).

### **CLASS ACTION ALLEGATIONS**

36. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased Fuqi’s securities between May 15, 2009 and March 16, 2010, inclusive, 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.

37. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Fuqi’s securities were actively traded on National Association of Securities Dealers Automated Quotations Market (“NASDAQ”). While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Millions of Fuqi shares were traded publicly during the Class Period on the NASDAQ and as of November 9, 2009, Fuqi had 27,628,656 shares of common stock outstanding. Record owners and other members of the Class may be identified from records maintained by Fuqi or its transfer agent and may be notified of the pendency of this

action by mail, using the form of notice similar to that customarily used in securities class actions.

38. Plaintiff's 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.

39. Plaintiff 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.

40. 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 omitted and/or misrepresented material facts about the business, operations, and prospects of Fuqi; and

(c) To what extent the members of the Class have sustained damages and the proper measure of damages.

41. 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 makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

**UNDISCLOSED ADVERSE FACTS**

42. The market for Fuqi's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, Fuqi's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Fuqi's securities relying upon the integrity of the market price of the Company's securities and market information relating to Fuqi, and have been damaged thereby.

43. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of Fuqi's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. Said statements and omissions were materially false and/or misleading in that they failed to disclose material adverse information and/or misrepresented the truth about Fuqi's business, operations, and prospects as alleged herein.

44. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about Fuqi's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class Period

resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

#### **LOSS CAUSATION**

45. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

46. During the Class Period, Plaintiff and the Class purchased Fuqi's securities at artificially inflated prices and were damaged thereby. The price of the Company's securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

#### **SCIENTER ALLEGATIONS**

47. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding Fuqi, their control over, and/or receipt and/or modification of Fuqi's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Fuqi, participated in the fraudulent scheme alleged herein.

48. Additionally, with the Company's securities trading at artificially inflated prices, on or around July 31, 2009, the Company conducted a public offering of more than 5,500,000

shares of Fuqi's common stock at a price of \$21.50 per share, for net proceeds to the Company of approximately \$112 million.

**APPLICABILITY OF PRESUMPTION OF RELIANCE  
(FRAUD-ON-THE-MARKET DOCTRINE)**

49. The market for Fuqi's securities was open, well-developed and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, Fuqi's securities traded at artificially inflated prices during the Class Period. On September 15, 2009, the price of the Company's common stock reached a Class Period high of \$31.86 per share. Plaintiff and other members of the Class purchased or otherwise acquired the Company's securities relying upon the integrity of the market price of Fuqi's securities and market information relating to Fuqi, and have been damaged thereby.

50. During the Class Period, the artificial inflation of Fuqi's stock was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about Fuqi's business, prospects, and operations. These material misstatements and/or omissions created an unrealistically positive assessment of Fuqi and its business, operations, and prospects, thus causing the price of the Company's securities to be artificially inflated at all relevant times, and when disclosed, negatively affected the value of the Company stock. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at such artificially inflated prices, and each of them has been damaged as a result.

51. At all relevant times, the market for Fuqi's securities was an efficient market for the following reasons, among others:

(a) Fuqi stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, Fuqi filed periodic public reports with the SEC and the NASDAQ;

(c) Fuqi regularly communicated with public investors *via* established market communication mechanisms, including through regular dissemination 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; and

(d) Fuqi was followed by securities analysts employed by major brokerage firms who wrote reports about the Company, and these reports were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

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

**NO SAFE HARBOR**

53. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as "forward-looking statements" when made and there were no meaningful cautionary statements identifying important factors that

could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of Fuqi who knew that the statement was false when made.

### **FIRST CLAIM**

#### **Violation of Section 10(b) of The Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants**

54. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

55. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase Fuqi's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

56. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for Fuqi's securities in violation of Section 10(b) of the

Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

57. 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 Fuqi's financial well-being and prospects, as specified herein.

58. These 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 Fuqi's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about Fuqi and its business operations and future prospects in 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 which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

59. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and

familiarity with the other defendants and was 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 (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

60. The defendants had actual knowledge of the misrepresentations and/or 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 Fuqi's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or 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.

61. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of Fuqi's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public statements by Defendants

during the Class Period, Plaintiff and the other members of the Class acquired Fuqi's securities during the Class Period at artificially high prices and were damaged thereby.

62. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that Fuqi was experiencing, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their Fuqi securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

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

64. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff 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.

## **SECOND CLAIM**

### **Violation of Section 20(a) of The Exchange Act Against the Individual Defendants**

65. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

66. The Individual Defendants acted as controlling persons of Fuqi within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, 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 which Plaintiff contends 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 Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

67. In particular, each of these Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is 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.

68. As set forth above, Fuqi and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and/or omissions as alleged in this Complaint. 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 Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

#### **PRAYER FOR RELIEF**

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages in favor of Plaintiff 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 Plaintiff 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**

Plaintiff hereby demands a trial by jury.

Dated: March 19, 2010