Carlton Cowie ("Plaintiff"), by his attorneys, on behalf of himself and all others similarly situated, alleges the following based upon the investigation of plaintiff’s counsel, except as to allegations specifically pertaining to plaintiff, which are based on personal knowledge. The investigation of counsel included, among other things, a review of Fuqi International, Inc. ("Fuqi" or the "Company") public filings with the United States Securities and Exchange Commission ("SEC"), press releases issued by the Company, media and news reports about the Company, and other publicly available data, including, but not limited to, publicly available trading data relating to the price and trading volume of Fuqi common stock.

I. INTRODUCTION

1. This action is a securities fraud action brought under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission ("SEC") by plaintiff on behalf of a class of all persons and entities who purchased the common stock of Fuqi between May 15, 2009 and March 16, 2010, inclusive (the "Class Period") to recover damages caused to the Class by defendants’ violations of the securities laws.
2. According to the Company’s Form 10-Q filed with the SEC on November 9, 2009 for the quarter ended September 30, 2009 ("Third Quarter 2009 Form 10-Q"), Fuqi purportedly is a leading designer of high quality precious metal jewelry in China, developing, promoting, and selling a broad range of products to the Chinese luxury goods market. The Company purportedly operates in two divisions: (i) wholesale of jewelry products and (ii) retail jewelry products, whereby the wholesale division is responsible for designing, manufacturing, selling and marketing its products to other wholesalers and distributors.

3. From the start of the Class Period and throughout the Class Period, the Company led investors to believe that it was adequately accounting for the Company’s inventory and the cost of sales, managing its financials in accordance with generally accepted accounting principles ("GAAP") and that its financial statements, earnings releases and filings with the SEC accurately represented the Company’s financial condition, including the value of its inventories, its cost of sales, gross profit and net income.

4. However, unknown to investors, during the Class Period, defendants knew or recklessly disregarded that Fuqi’s reported results were the product of accounting errors and manipulations related to the Company’s inventory and cost of sales, which resulted in falsely inflated gross profits and falsely inflated net income during the Class Period. Fuqi states in its March 16, 2010 8-K filing that its assessment procedures are not yet complete, but also states that in the course of conducting an assessment of its internal controls as of December 31, 2009, the Company believes it has identified deficiencies related to its 2009 Sarbanes-Oxley Section 404 compliance audit that constitute a "material weakness". As a result of the Company’s identification of accounting errors that constitute a material weakness, Fuqi admits to previously reporting "understated" cost of sales, "overstated" gross profit and "overstated" net income.
during the Class Period and has further stated that its previously issued financial statements included in its SEC filings should no longer be relied upon.

5. At the beginning of the Class Period On May 15, 2009, Fuqi issued a press release reporting that “[g]ross 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” and that “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.”

6. On August 6, 2009, Fuqi issued a press release reporting its financial results for the second quarter of 2009. The Company held itself out to investors as having gross profit of $17.4 million in the second quarter of 2009, a 145.1% increase from $7.1 million for the same period in the prior year, and net income of $9.9 million, or $0.45 per diluted share, an 86.8% increase from $5.3 million, or $0.25 per diluted share, in the same period of the prior year.

7. On November 9, 2009, Fuqi issued a press release reporting its financial results for the third quarter of 2009. The Company held itself out to investors as having gross profit of $29.9 million in the third quarter of 2009, a 172.0% increase from $11 million for the same period in the prior year, and net income of $18.8 million, or $0.73 per diluted share, an 187.9% increase from $6.5 million, or $0.31 per diluted share, in the same period of the prior year.

8. On March 16, 2010, after the market closed, Fuqi disclosed in a Form 8-K filing with the SEC that its previously issued financial statements as of and for the three months ended March 31, 2009, the three months ended June 30, 2009 and the three months ended September 30, 2009 “should no longer be relied upon due to an error in the accounting of inventory and cost of sales” and further stated as follows:

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.

9. On March 16, 2010, after the close of the market, Fuqi also filed a Form 12b-25 Notification of Late Filing with the SEC stating that the Company was unable to prepare and review all necessary information and disclosure in its Annual Report on Form 10-K within the prescribed period and that it would file its 10-K as soon as possible.

10. On March 17, 2010, the first trading day following the Company’s March 16, 2010 disclosures, Fuqi’s common stock declined by $7.10 per share, or 37.4%, from $19 per share to close at $11.90 per share on substantially greater than average volume.

II. JURISDICTION AND VENUE

11. The claims asserted arise under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. Jurisdiction is conferred by Section 27 of the Exchange Act. Venue is proper pursuant to Section 27 of Exchange Act as defendant Fuqi and/or the Individual Defendants conduct business in and the wrongful conduct took place in this District.

III. THE PARTIES

12. Plaintiff purchased Fuqi common stock as detailed in the certification attached hereto and was damaged thereby.

13. Defendant Fuqi purports to operate through its wholly-owned subsidiary, Fuqi International Holdings Co., Ltd., a British Virgin Islands corporation, and its wholly-owned subsidiary, Shenzhen Fuqi Jewelry Co., Ltd., a company established under the laws of China. Defendant Fuqi is a Delaware corporation that effected a reverse merger transaction in November 2006 and subsequently reincorporated in Delaware on December 8, 2006. The principal executive offices of Fuqi are located at 5/F., Block 1, Shi Hua Industrial Zone, Cui Zhu
Road North, Shenzhen, 518019, People’s Republic of China. Fuqi’s common stock trades on The NASDAQ Global Market ("NASDAQ") under the symbol “FUQI”.

14. Defendant Yu Kwai Chong ("Chong") was Chief Executive Officer of Fuqi during the Class Period. During the Class Period, he signed the Company’s quarterly reports filed on form 10-Q with the SEC and multiple certifications pursuant to the Sarbanes-Oxley Act of 2002 as discussed in ¶¶ 23, 27 and 30.

15. Defendant Chin Wan Wong ("Wong") was Chief financial Officer of Fuqi during the Class Period. During the Class Period, he signed the Company’s quarterly reports filed on form 10-Q with the SEC and multiple certifications pursuant to the Sarbanes-Oxley Act of 2002 as discussed in ¶¶ 23, 27, and 30.

16. The individuals named as defendants in ¶¶ 14 - 15 are referred to herein 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 quarterly reports, 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 but not to the public, 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 misleading.
IV. CLASS ACTION ALLEGATIONS

17. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3) on behalf of a class of all persons and entities who purchased the publicly traded common stock of Fuqi between May 15, 2009 and March 16, 2010, inclusive (the "Class").

18. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiff at the present time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds of members of the Class located throughout the United States. As of November 9, 2009, Fuqi had 27,628,656 shares of common stock outstanding.

19. Plaintiff's claims are typical of the claims of the members of the Class. Plaintiff and all members of the Class have sustained damages because of defendants' unlawful activities alleged herein. Plaintiff has retained counsel competent and experienced in class and securities litigation and intends to pursue this action vigorously. The interests of the Class will be fairly and adequately protected by plaintiff. Plaintiff has no interests which are contrary to or in conflict with those of the Class that plaintiff seeks to represent.

20. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy. Plaintiff knows of no difficulty to be encountered in the management of this action that would preclude its maintenance as a class action.

21. 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 and omissions as alleged herein;

(b) whether defendants misstated and/or omitted to state material facts in their public statements and filings with the SEC;

(c) whether defendants participated directly or indirectly in the course of conduct complained of herein; and

(d) whether the members of the Class have sustained damages and the proper measure of such damages.

V. FALSE AND MISLEADING STATEMENTS

22. The Class Period begins on May 15, 2009, when Fuqi announced its results for the first quarter of 2009 for the period ended March 31, 2009:

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.

* * *

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.

* * *

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.'

23. On May 15, 2009, the Company filed its first quarter 2009 Form 10-Q for the period ended March 31, 2009 ("First Quarter 2009 10-Q"), reporting the same earnings as in the May 15, 2009 press release. The First Quarter 2009 10-Q includes certifications pursuant to the Sarbanes-Oxley Act of 2002 signed by defendant Chong, Chief Executive Officer, and defendant Wong, Chief Financial Officer, whereby each of the signatories certified to the following:

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.

24. The Company’s First Quarter 2009 10-Q also stated that “[i]n the opinion of management, these condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the financial position of
Fuqi as of March 31, 2009 and the results of operations and the cash flows for the three-month periods ended March 31, 2009 and 2008."

25. On July 31, 2009, Fuqi filed a Prospectus Supplement offering 4,855,000 common shares for sale, plus an over-allotment of 726,395 additional shares, at a price of $21.50 per share for a total of approximately $112 million in proceeds after underwriting discounts and commissions, which incorporated by reference the information included in its First Quarter 2009 10-Q filed on May 15, 2009 with the SEC.

26. On August 6, 2009 Fuqi announced its 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.

* * *

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.

* * *

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.

27. On August 6, 2009, the Company filed its Form 10-Q for the second quarter of 2009 ("Second Quarter 2009 10-Q") reporting the same earnings as in the August 6, 2009 press release. The Second Quarter 2009 10-Q includes certifications pursuant to the Sarbanes-Oxley Act of 2002 signed by defendant Chong, Chief Executive Officer, and defendant Wong, Chief Financial Officer, whereby the signatories certified to the same statements alleged in ¶ 23 above.

28. The Company’s Second Quarter 2009 10-Q also stated that “[i]n the opinion of management, these condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the financial position of Fuqi as of June 30, 2009 and the results of operations and the cash flows for the three-month periods ended June 30, 2009 and 2008. . . .”

29. On November 9, 2009, Fuqi announced its results for the third quarter ended September 30, 2009:

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. . . . commented Mr. Yu Kwai Chong, CEO and Chairman of Fuqi International.

***

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.

***

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.

30. On November 9, 2009, the Company filed its Form 10-Q for the third quarter of 2009 ("Third Quarter 2009 10-Q") reporting the same earnings as in the November 9, 2009 press
release. The Third Quarter 2009 10-Q includes certifications pursuant to the Sarbanes-Oxley Act of 2002 signed by defendant Chong, Chief Executive Officer, and defendant Wong, Chief Financial Officer, whereby the signatories certified to the same statements alleged in ¶ 23 above.

31. The Company’s Third Quarter 2009 10-Q also stated that “[i]n the opinion of management, these condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the financial position of Fuqi as of September 30, 2009 and the results of operations and the cash flows for the three-month periods ended September 30, 2009 and 2008. . . .”

32. The statements set forth in ¶¶ 22 – 31 were materially false and misleading when made because Defendants knowingly or recklessly failed to disclose that:

(a) Fuqi’s reported financial results during the Class Period included errors in accounting of inventory and cost of sales that materially understated the cost of sales and thereby materially overstated the Company’s gross profit and net income;

(b) Fuqi’s financial results were artificially inflated due to the material misstatements of inventory and cost of sales;

(c) the Company’s internal controls in financial reporting had a material weakness and were inadequate to prevent the Company from improperly reporting its inventory values, the cost of sales, gross profit, net income and other related financial figures;

(d) the Company’s reported financial results for the periods ended March 31, June 30 and September 30, 2009 were not prepared in accordance with GAAP; and

(e) as a result of the above, the Individual Defendants’ Company’s Sarbanes-Oxley certifications were materially false and misleading.
VI. THE TRUTH BEGINS TO EMERGE

33. March 16, 2010, after the market closed, Fuqi disclosed in a Form 8-K filing with the SEC that its previously issued financial statements as of and for the three months ended March 31, 2009, the three months ended June 30, 2009 and the three months ended September 30, 2009 should no longer be relied upon as set forth in ¶ 8 above:

34. On March 16, 2010, the Company also filed a Form 12b-25 Notification of Late Filing with the SEC stating that Fuqi was “unable to prepare and review all necessary information and disclosures in its annual Report on form 10-K within the prescribed time period without incurring unreasonable effort and expense” and that “[t]he Registrant requires additional efforts and time to accurately prepare and present all necessary disclosures.” In this regard, the Form 12b-25 further stated as follows:

The Registrant has been conducting an assessment of its internal controls as of December 31, 2009 in accordance with the Registrant’s Sarbanes-Oxley Act compliance procedures, and as was the case as of December 31, 2008 and 2007, such procedures resulted in the identification of certain internal control deficiencies. Although the Registrant’s assessment procedures are not yet completed, the Registrant believes that at least one of the identified deficiencies, thus far, constitutes a material weakness, including but not limited to the Registrant’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 Registrant 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, as more fully described in Part IV, below. Management and the accounting personnel require additional time to evaluate such effects on the previously filed quarterly financial statements of 2009. As a result of the foregoing, the Registrant’s completion of its annual consolidated financial statements and required disclosure is being delayed pending the Registrant’s completion of analysis and evaluation of the potential errors on the previously issued quarterly financial statements for 2009.

The Registrant will file its Annual Report on Form 10-K as soon as possible. The Registrant will attempt to file its Annual Report on Form 10-K 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.
35. On March 17, 2010, following the Company’s disclosure of accounting errors related to inventory and the cost of sales, and the falsely inflated gross profit and net income in the Company’s previously reported financial statements during the Class Period, Fuqi’s common stock declined by $7.10 per share, or about 37.4%, from $19 per share to close at $11.90 per share on substantially greater than average volume.

VII. ADDITIONAL SCIENTER ALLEGATIONS

36. 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 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.

37. Defendants knew or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public, as explained in the Form 8-K and Form 12b-25 filings of March 16, 2010 reporting that the Company had issued false financial reports due to accounting errors related to inventory and cost of sales, had identified a “material weakness”, and had consequently failed to accurately report the cost of sales, gross profit and net income figures during the Class Period. The ongoing fraudulent scheme described in this complaint could not have been perpetrated over a substantial period of
time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Individual Defendants.

38. Defendants had the motive and opportunity to perpetrate the fraudulent scheme and course of business described herein because the Individual Defendants were the most senior officers of Fuqi, issued statements and press releases on behalf of Fuqi and had the opportunity to commit the fraud alleged herein. Defendants motive to perpetrate the fraud is also evidenced by the fact that Fuqi sought to improve its weakening cash position during the Class Period and did substantially strengthen its cash position by selling more than 4,855,000 shares of publicly traded common stock for proceeds of more than $100 million as a result of the falsely inflated common stock price of $21.50 per share.

VIII. LOSS CAUSATION/ECONOMIC LOSS

39. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated Fuqi’s stock price and operated as a fraud or deceit on Class Period purchasers of Fuqi’s common stock by misrepresenting the Company’s operating condition and future business prospects. Defendants achieved this by making positive statements about Fuqi’s business and financial results while they knew or recklessly disregarded that the Company was improperly accounting for its inventories and cost of sales, that the corresponding gross profit and net income figures were overstated, and that its internal controls were materially defective. Later, however, when defendants’ prior misrepresentations were disclosed and became apparent to the market, the price of Fuqi’s common stock fell precipitously as the prior artificial inflation came out of Fuqi’s stock price. As a result of their purchases of Fuqi common stock during the Class Period, plaintiff and
other members of the Class suffered economic loss, i.e., damages under the federal securities laws.

IX. FRAUD-ON-THE-MARKET DOCTRINE

40. At all relevant times, the market for Fuqi’s common stock was an efficient market for the following reasons, among others:

(a) The Company’s common stock was actively traded on the NASDAQ in a highly efficient market;

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

(c) The Company was covered regularly by securities analysts; and

(d) The Company regularly issued press releases which were carried by national news wires. Each of these releases was publicly available and entered the public marketplace.

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

X. NO SAFE HARBOR

42. 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. Many of the specific statements pleaded herein were not identified as “forward-looking
statements” when made. To the extent there were any forward-looking statements, 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. Alternatively, to the extent that the statutory safe harbor does 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 particular speaker knew that the particular forward looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Fuqi who knew that those statements were false when made.

FIRST CLAIM FOR RELIEF

For Violation of Section 10(b) of the Exchange Act
and Rule 10b-5 Promulgated Thereunder Against All Defendants

43. Plaintiff incorporates ¶¶ 1 - 42 by reference.

44. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately recklessly disregarded were materially false and misleading in that they contained material misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

45. Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 in that they:

(a) Employed devices, schemes and artifices to defraud;

(b) Made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made not misleading; or
(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Fuqi common stock during the Class Period.

46. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Fuqi’s common stock. Plaintiff and the Class would not have purchased Fuqi common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants’ misleading statements.

47. As a direct and proximate result of these defendants’ wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Fuqi common stock during the Class Period.

SECOND CLAIM FOR RELIEF

For Violation of Section 20(a) of the Exchange Act
Against the Individual Defendants


49. 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, participation in and/or awareness of the Company’s operations and/or intimate knowledge of the 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.

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

51. As set forth above, Fuqi and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions each as a controlling person, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Fuqi’s and the Individual Defendants’ wrongful conduct, plaintiff and other members of the Class suffered damages in connection with their purchases of the Company’s common stock during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows: declaring this action to be a proper class action; awarding damages, including interest; awarding reasonable costs, including attorneys’ fees; and such equitable/injunctive relief as the Court may deem proper.
JURY DEMAND

Plaintiff demands a trial by jury.

DATED: March 22, 2010

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