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10 **UNITED STATES DISTRICT COURT**  
11 **CENTRAL DISTRICT OF CALIFORNIA**

12  
13 SECURITIES AND EXCHANGE  
COMMISSION,

14  
15 Plaintiff,

16 vs.

17 CHINA SKY ONE MEDICAL, INC.,  
and YAN-QING LIU,

18  
19 Defendants.

Case No.

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

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1 Plaintiff Securities and Exchange Commission (“Commission”) for its  
2 Complaint against Defendants China Sky One Medical, Inc. (“CSKI”) and Yan-  
3 qing Liu (“Liu”) alleges as follows:

4 **JURISDICTION AND VENUE**

5 1. This Court has jurisdiction over this action pursuant to Sections 20(b),  
6 20(d)(1), and 22(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§  
7 77t(b), 77t(d)(1), & 77v(a)], and Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27 of  
8 the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d)(1),  
9 78u(d)(3)(A), 78u(e), & 78aa]. Defendants have, directly or indirectly, made use  
10 of the means or instrumentalities of interstate commerce, of the mails, or of the  
11 facilities of a national securities exchange, in connection with the transactions,  
12 acts, practices, and courses of business alleged in this complaint.

13 2. Venue is proper in this district pursuant to Section 22(a) of the  
14 Securities Act [15 U.S.C. § 77v(a)], and Section 27 of the Exchange Act [15  
15 U.S.C. § 78aa], because certain of the transactions, acts, practices, and courses of  
16 conduct constituting violations of the federal securities laws occurred within this  
17 district. During the relevant period, CSKI’s securities were traded within this  
18 District, and CSKI’s subsidiary American California Pharmaceutical Group, Inc.  
19 was registered with the Secretary of State of California.

20 **SUMMARY**

21 3. This is a financial fraud case involving the fabrication of export sales  
22 and the material overstatement of financial results for 2007 and 2008 by the  
23 Defendants.

24 4. Defendant CSKI is a company based in Harbin, Helongjiang Province,  
25 the People’s Republic of China. It manufactures and sells medicinal products,  
26 including a “slim patch” that purports to promote weight loss. Its common stock is  
27 registered with the Commission pursuant to Section 12(g) of the Exchange Act [15  
28

1 U.S.C. § 78l(g)], and trades in the United States. Defendant Liu is CSKI's CEO and  
2 chairman of the board.

3 5. In 2007, CSKI reported in its filings with the Commission that it had  
4 entered into a strategic distribution agreement with a Malaysian company, Takasima  
5 Industries (M) Sdn. Bhd ("Takasima"), pursuant to which Takasima was appointed as  
6 CSKI's "exclusive" distributor in Malaysia and undertook to generate \$1 million per  
7 month in sales. In its public filings, CSKI reported export sales to Malaysia of over  
8 \$12.2 million for 2007 (constituting 25% of total revenues), and about \$7.5 million  
9 for 2008 (constituting 8.2% of total revenues). All of these purported sales were for  
10 one product, CSKI's slim patch.

11 6. CSKI's Form 10-K for 2007 also identified its top two customers,  
12 Ningbo Yuehua International Trading Company ("Yuehua") and Guangzhou Xinghe  
13 International Trading Company ("Xinghe"), which collectively accounted for 25% of  
14 its total revenues for 2007. CSKI claims that Yuehua and Xinghe were sales agents  
15 for Takasima, and that all of CSKI's sales to Yuehua and Xinghe were export sales to  
16 Malaysia via Takasima.

17 7. In fact, Takasima only purchased a total of \$167,542 in slim patches  
18 from CSKI for 2007, a mere fraction of what was reported in CSKI's public filings,  
19 and did not make any purchase from CSKI for 2008. Moreover, Takasima never  
20 entered into any distribution agreement with CSKI and never had any relationship  
21 with, or purchased any goods through, Yuehua and Xinghe.

22 8. CSKI materially overstated its financial results for 2007 and 2008 in its  
23 Forms 10-K and 10-Q, and a current report on Form 8-K, and fabricated its strategic  
24 distribution relationship with Takasima in those filings. The overstated financial  
25 results continued to appear in CSKI's financial statements through 2010, and  
26 continue to impact the company's retained earnings on its balance sheet up to the  
27 present. CSKI also used the materially overstated financial results in its private  
28 placement of securities in 2008.

1           9.     CSKI has failed to file its annual report on Form 10-K for the year  
2 ended December 31, 2011, and Forms 10-Q for the quarters ended March 31, 2012  
3 and June 30, 2012.

4           10.    By virtue of the conduct alleged herein, CSKI and Liu, directly or  
5 indirectly, singly or in concert, violated and are otherwise liable for violations of the  
6 federal securities laws, as follows:

7               (a)    CSKI violated Section 17(a)(2) of the Securities Act [15 U.S.C. §  
8 77q(a)(2)], Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act  
9 [15 U.S.C. § 78j(b), 15 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)], and  
10 Rules 10b-5(b), 12b-20, 13a-1, 13a-11, and 13a-13 thereunder [17 C.F.R. §§  
11 240.10b-5(b), 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13];

12               (b)    Liu violated Section 17(a)(2) of the Securities Act [15 U.S.C.  
13 § 77q(a)(2)], Sections 10(b) and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b)  
14 and 78m(b)(5)] and Rules 10b-5(b), 13a-14, 13b2-1, and 13b2-2 thereunder [17  
15 C.F.R. §§ 240.10b-5, 240.13a-14, 240.13b2-1, and 240.13b2-2], and Section 304 of  
16 the Sarbanes-Oxley Act of 2002 [15 U.S.C. § 7243];

17               (c)    Liu is liable, pursuant to Section 20(e) of the Exchange Act [15  
18 U.S.C. §78t(e)], for aiding and abetting CSKI's violations of Sections 13(a),  
19 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a),  
20 78m(b)(2)(A), and 78m(b)(2)(B)], and Rules 12b-20, 13a-1, 13a-11, and 13a-13  
21 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13]; and

22               (d)    Liu is liable as a control person pursuant to Section 20(a) of the  
23 Exchange Act [15 U.S.C. § 78t(a)] for CSKI's violations of Sections 10(b), 13(a),  
24 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a),  
25 78m(b)(2)(A), and 78m(b)(2)(B)], and Rules 10b-5(b), 12b-20, 13a-1, 13a-11, and  
26 13a-13 thereunder [17 C.F.R. §§ 240.10b-5(b), 240.12b-20, 240.13a-1, 240.13a-11,  
27 and 240.13a-13].

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1           21. Liu has been on sick leave since December 2011. However, he has not  
2 relinquished his CEO or chairman position and continues to sign CSKI's public  
3 filings. CSKI's Chief Financial Officer resigned effective December 22, 2011.

4 **B. CSKI and Liu Made Materially False Statements in its Public Filings and**  
5 **Private Placement Documents**

6 (a) **CSKI Made Minimal Sales to Takasima and Never Entered Into a**  
7 **Distribution Agreement With Takasima**

8           22. Takasima is a Malaysian fitness equipment manufacturer and retailer. It  
9 purchased a total of \$167,542 in slim patches from CSKI in 2007 and stopped its  
10 purchases after March 2007. It never entered into any distribution agreement with  
11 CSKI and never undertook (much less satisfied) any minimal purchase commitment.  
12 In addition, it never used Yuehua or Xinghe as its agent. In fact, it never had any  
13 relationship with, or purchased any goods through, Yuehua and Xinghe.

14 (b) **The Defendants Made Materially False Statements in CSKI's Public**  
15 **Filings**

16           23. In its Form 10-K for 2007 and Forms 10-Q for the first three quarters of  
17 2007, CSKI falsely stated that that it had entered into a strategic distribution  
18 agreement with Takasima, pursuant to which Takasima was appointed as CSKI's  
19 "exclusive" sales agent of its slim patches in Malaysia, that Takasima would  
20 repackage and sell the patches under its "Takasima" brand name, that Takasima  
21 would "generate sales revenue of approximately USD\$1.0 million per month," and  
22 that "[s]ince the signing of the agreement early this year, Takasima has fulfilled its  
23 monthly obligation. Management anticipates that this strategic agreement could  
24 result in up to USD\$12 million in additional annual sales revenue in 2007, with a net  
25 profit margin of approximately 20%."

26           24. CSKI's Form 10-K for 2007 identified its two alleged top customers,  
27 Yuehua and Xinghe, which CSKI claimed collectively accounted for 25% of its total  
28 revenues for 2007. CSKI also claimed that Yuehua and Xinghe were sales agents for

1 Takasima, all of its sales to Yuehua and Xinghe were export sales to Malaysia via  
2 Takasima, and all such sales were for one product, CSKI's slim patch.

3 25. CSKI booked sales to Yuehua and Xinghe commencing in April 2007.  
4 These sales were not real. The chart below shows the impact of those fake sales on  
5 CSKI's reported financial performance for 2007 and 2008:

Period	Fictitious Sales to Yuehua and Xinghe/ Malaysian Exports	Total Reported Revenues	Percentage by which Revenues Were Overstated	Percentage by which Net Income Was Overstated***
Q2 2007	\$4,194,680	\$ 14,645,247	40.1%	44.6%
Q3 2007	\$4,486,907	\$16,770,570	36.5%	34.4%
Q4 2007	\$3,561,861	\$12,723,375	38.9%	36.9%
2007 Total	\$12,251,740(*)	\$49,318,308	33.1%	33.1%
Q1 2008	\$1,670,676	\$12,413,430	15.6%	15.7%
Q2 2008	\$3,583,013	\$23,748,592	17.8%	16.1%
Q3 2008	\$1,961,429	\$29,699,282	7.1%	6.6%
Q4 2008	\$369,281	\$25,954,879	1.4%	1.7%
2008 Total	\$7,537,407(*,**)	\$91,816,183	8.9%	8.9%

\*Based on CSKI's general ledger (converted from Chinese Yuan). Total for the year does not equal the sum of the quarterly amounts due to different exchange rates applied.  
\*\* Consistent with the total number as revised in CSKI's 2009 Form 10-K.  
\*\*\* Calculated based on estimated net profit margin.

18  
19 In addition, the fake sales had a corresponding impact on CSKI's earnings per share  
20 and retained earnings.

21 26. As a result, CSKI materially overstated its financial results for 2007 and  
22 2008. The overstated financial results continued to appear in CSKI's financial  
23 statements through 2010, and continue to impact the company's retained earnings on  
24 its balance sheet up to the present.

25 27. CSKI's 2007 annual report on Form 10-K falsely reported export sales  
26 to Malaysia of over \$12.2 million, constituting 25% of total revenues for 2007. In its  
27 Form 10-K for 2008, CSKI falsely reported export sales to Malaysia of about \$8.8  
28

1 million, which number was subsequently changed to \$7.5 million in its annual report  
2 on Form 10-K for 2009, constituting 8.2% of total revenues for 2008.

3 28. CSKI's Forms 10-Q for the quarters ended June 30 and September 30,  
4 2007 and all Forms 10-Q for 2008 reflected the fake sales to Yuehua and Xinghe. As  
5 a result, these Forms 10-Q materially overstated CSKI's financial performance for  
6 the relevant quarters.

7 29. In a Form 8-K filed with the Commission on May 19, 2008, announcing  
8 its financial results for the quarter ended March 31, 2008, CSKI included the fake  
9 sales to Yuehua and Xinghe, and as a result materially overstated its financial  
10 performance for the quarter.

11 30. CSKI's Forms 10-Q and Form 10-K for 2009, as amended, included the  
12 materially overstated financial results for 2007 and the relevant quarters of 2008.

13 31. CSKI's Form 10-K for 2010 included the materially overstated financial  
14 results for 2008.

15 32. Liu participated in the preparation of and had ultimate authority over  
16 CSKI's SEC filings. He reviewed CSKI's financial statements and was familiar with  
17 U.S. Generally Accepted Accounting Principles ("GAAP"). He signed all of CSKI's  
18 annual, quarterly and current reports, and signed the Sarbanes-Oxley certifications for  
19 the Forms 10-K and 10-Q. He knew, or was at least reckless in not knowing, that  
20 CSKI's public filings contained materially overstated financial results for 2007 and  
21 2008 and false and misleading statements regarding the distribution agreement with  
22 Takasima.

23 (c) **The Defendants Made Materially False Statements in CSKI's**  
24 **Private Placement Documents**

25 33. In January 2008, CSKI raised \$23.5 million from U.S. investors through  
26 a private placement. In connection with the private placement, CSKI used selling  
27 documents that included its 2007's materially overstated financial results or the  
28 Commission filings containing such materially overstated financial results. One of

1 these documents was a “confidential investment presentation” (the “investors’  
2 presentation”). This presentation contained the materially overstated financial  
3 performance numbers for the first three quarters of 2007 and projected numbers for  
4 the entire year, including revenue, gross profit and net income. In the Securities  
5 Purchase Agreement by and among CSKI and the investors, CSKI represented that it  
6 had made available to the investors its SEC filings and that such filings contained a  
7 complete and accurate description in all material respects of its business and did not  
8 include any materially false or misleading statements. The SEC filings included the  
9 Form 10-Q for the quarter ended September 30, 2007, which contains the materially  
10 overstated financial results for the first three quarters of 2007.

11 34. Liu was actively involved in the private placement process, and directly  
12 interacted with the U.S. investors. He came to the U.S. for a road show, met  
13 investors and used the investors’ presentation in his meetings, and signed the  
14 Securities Purchase Agreement as CSKI’s CEO, while he knew or was reckless in not  
15 knowing that they contained or incorporated CSKI’s public filings that contained  
16 materially overstated financial results for 2007.

17 **(d) Liu Made Misrepresentations to CSKI’s Auditors**

18 35. In his capacity as CSKI’s CEO, Liu signed management representation  
19 letters to CSKI’s auditors in connection with their audits of CSKI’s periodic reports  
20 and other filings. CSKI’s representation letters to its auditors dated March 25, 2008  
21 and March 25, 2009 falsely represented that (1) the financial statements were fairly  
22 presented in conformity with U.S. GAAP; and (2) Liu had no knowledge of any fraud  
23 or suspected fraud affecting CSKI involving management or employees with a  
24 significant role in internal controls, or others where the fraud could result in a  
25 material misstatement to the financial statements.

26 36. Liu made misrepresentations to CSKI’s auditors by signing the  
27 management representation letters that he knew, or was reckless in not knowing,  
28

1 contained material misrepresentations about sales to Takasima through Yuehua and  
2 Xinghe.

3 (e) **Liu Personally Benefited from the Overstated Financial Statements**

4 37. In connection with the private placement, Liu entered into a “Make  
5 Good” Agreement with the lead investor (acting as the “Investor Agent”), pursuant  
6 to which Liu placed 3 million of his CSKI shares into escrow for the benefit of the  
7 investors. Under the agreement, up to the entire 3 million escrowed shares would  
8 be distributed to the investors based on a formula if CSKI’s adjusted earnings per  
9 share (“Adjusted EPS”) were less than \$1.05 for 2007 and \$1.75 (later reduced to  
10 \$1.63) for 2008. CSKI purportedly attained the threshold Adjusted EPS for  
11 purposes of the Make Good Agreement, and the escrowed shares were returned to  
12 Liu.

13 38. As described above, the fabricated sales to Malaysia constituted 25%  
14 and 8.2% of total revenues for 2007 and 2008, respectively. If the fictitious sales  
15 were excluded from the above calculation (and based on the estimated impact on  
16 net income), the Adjusted EPS would have been approximately \$0.83 for 2007 and  
17 \$1.57 for 2008, in each instance below the threshold amount. As a result, and  
18 calculated based on the formula provided in the Make Good Agreement, nearly 1.4  
19 million of Liu’s escrowed shares would have been forfeited for the benefit of the  
20 investors. Therefore, the overstated financial results significantly contributed to  
21 CSKI’s attaining the threshold earnings numbers and Liu’s retention of his  
22 escrowed shares.

23 39. CSKI’s overstated financial results also helped improve the liquidity  
24 of Liu’s shares. In 2008, CSKI successfully obtained a listing on the American  
25 Stock Exchange and later on NASDAQ.

26 C. **CSKI and Liu Falsified Books and Records**

27 40. CSKI created and maintained books and records that falsely and  
28 inaccurately reflected the fabricated sales to Yuehua and Xinghe, including a

1 distribution agreement with Takasima, inventory records, bank statements and  
2 general ledgers that purported to document sales to Yuehua and Xinghe.

3 41. CSKI created and maintains in its records two versions of distribution  
4 agreement with Takasima, both of which were signed by Liu but not by anyone  
5 from Takasima, although in fact Takasima never entered into such agreement with  
6 CSKI.

7 42. CSKI substantiated the purported sales to Yuehua and Xinghe with  
8 “Stock Release Notes,” general ledgers, and bank statements from one Chinese  
9 bank. The Stock Release Notes purport to document sales and the release of goods  
10 from inventory. They were fabricated because the sales never occurred. The  
11 transactions reflected in the Stock Release Notes match CSKI’s general ledgers,  
12 which categorized all transactions with Yuehua and Xinghe as revenue generating  
13 sales transactions. Hence, the general ledgers were false at least with respect to  
14 these entries. The bank statements were tied to the Stock Release Notes and the  
15 general ledgers with respect to the purported sales to Yuehua and Xinghe and thus  
16 were false as to these entries.

17 43. In connection with the audit of CSKI’s financial statements, CSKI  
18 provided its outside auditors the false Stock Release Notes, and the general ledgers  
19 and bank statements reflecting the fabricated sales to Yuehua and Xinghe.

20 44. CSKI also maintains in its records a set of documents purporting to  
21 evidence five direct sales to Takasima in the total amount of \$567,688. The sales  
22 documentation cover one small order dated December 19, 2006, and four orders  
23 from January to April 2007, including detailed packing lists (for shipping),  
24 commercial invoices setting forth payment terms, and sales confirmations. Some  
25 of the packaging lists and invoices bear Liu’s signature. But these purported sales  
26 do not match any of Takasima’s orders, the total amount is over three times more  
27 than the total amount that Takasima acknowledged as purchased from CSKI, and  
28

1 the sales were not reflected in CSKI's general ledgers. Ultimately CSKI admitted  
2 that the sales represented in these documents never occurred.

3 45. In addition, CSKI failed to maintain a system of internal controls  
4 sufficient to ensure that the company accurately record and report its business and  
5 sales transactions necessary to permit preparation of financial statements in  
6 conformity with GAAP and to maintain the accountability of assets. Liu signed the  
7 false distribution agreement with Takasima as well as documents purporting to reflect  
8 direct sales to Takasima that never occurred. He knew or was reckless in not  
9 knowing that CSKI used and continues to use and rely on the falsified books and  
10 records, and substantially assisted CSKI in documenting the fabricated sales to  
11 Takasima.

12 **FIRST CLAIM FOR RELIEF**

13 **FRAUD IN THE OFFER OR SALE OF SECURITIES**

14 **In Violation of Section 17(a)(2) of the Securities Act**

15 **(Against CSKI and Liu)**

16 46. The Commission realleges and incorporates by reference ¶¶ 1 through  
17 45 above.

18 47. CSKI and Liu, by engaging in the conduct described above, directly or  
19 indirectly, in the offer or sale of securities by the use of means or instruments of  
20 transportation or communication in interstate commerce or by the use of the mails,  
21 obtained money or property by means of untrue statements of a material fact or by  
22 omitting to state a material fact necessary in order to make the statements made, in  
23 light of the circumstances under which they were made, not misleading.

24 48. By reason of the foregoing, CSKI and Liu violated, and unless restrained  
25 and enjoined will continue to violate, Section 17(a)(2) of the Securities Act [15  
26 U.S.C. § 77q(a)(2)].

1                                   **SECOND CLAIM FOR RELIEF**  
2                                   **FRAUD IN CONNECTION WITH THE**  
3                                   **PURCHASE OR SALE OF SECURITIES**  
4                                   **In Violation of Section 10(b) of the Exchange Act**  
5                                   **and Rule 10b-5(b) thereunder**  
6                                   **(Against CSKI and Liu)**

7           49.   The Commission realleges and incorporates by reference ¶¶ 1 through  
8 45 above.

9           50.   CSKI and Liu, and each of them, by engaging in the conduct described  
10 above, directly or indirectly, by use of the means or instrumentalities of interstate  
11 commerce or of the mails, or of the facilities of a national securities exchange, in  
12 connection with the purchase or sale of securities, knowingly or recklessly, have  
13 made untrue statements of material fact, or omitted to state material facts necessary in  
14 order to make statements made, in the light of the circumstances under which they  
15 were made, not misleading.

16           51.   By engaging in the conduct described above, CSKI and Liu violated, and  
17 unless enjoined will continue to violate, Section 10(b) of the Exchange Act [15  
18 U.S.C. § 78j(b)] and Rule 10b-5(b) thereunder [17 C.F.R. § 240.10b-5(b)].

19                                   **THIRD CLAIM FOR RELIEF**  
20                                   **REPORTING VIOLATIONS**  
21                                   **Violations of Section 13(a) of the Exchange Act,**  
22                                   **and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder**  
23                                   **(Against CSKI and Liu)**

24           52.   The Commission realleges and incorporates by reference ¶¶ 1 through  
25 45 above.

26           53.   By failing to file with the Commission a Form 10-K for the year 2011  
27 and Forms 10-Q for the quarters ended March 31 and June 30, 2012, and by filing  
28 materially false and misleading periodic reports, including annual, quarterly, and

1 current reports on Forms 10-K, 10-Q, and 8-K for 2007 through 2010, CSKI violated,  
2 and unless restrained and enjoined will continue to violate, Section 13(a) of the  
3 Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, 13a-11, and 13a-13  
4 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13].

5 54. Liu knowingly or recklessly provided substantial assistance to CSKI's  
6 reporting violations.

7 55. By engaging in the conduct described above, Liu aided and abetted, and  
8 unless enjoined will continue to aid and abet, CSKI's violations of Section 13(a) of  
9 the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, 13a-11, and 13a-13  
10 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13].

#### 11 **FOURTH CLAIM FOR RELIEF**

#### 12 **RECORDKEEPING VIOLATIONS**

#### 13 **Violations of Section 13(b)(2)(A) of the Exchange Act**

#### 14 **(Against CSKI and Liu)**

15 56. The Commission realleges and incorporates by reference ¶¶ 1 through  
16 45 above.

17 57. By failing to make or keep books, records and accounts that in  
18 reasonable detail accurately and fairly reflected its transactions and disposition of its  
19 assets, CSKI violated, and unless restrained and enjoined will continue to violate,  
20 Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

21 58. Liu knowingly or recklessly provided substantial assistance to CSKI's  
22 books and records violations.

23 59. By engaging in the conduct described above, Liu aided and abetted, and  
24 unless enjoined will continue to aid and abet, CSKI's violations of Section  
25 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

1 **FIFTH CLAIM FOR RELIEF**

2 **INTERNAL CONTROLS VIOLATIONS**

3 **Violations of Section 13(b)(2)(B) of the Exchange Act**

4 **(Against CSKI and Liu)**

5 60. The Commission realleges and incorporates by reference ¶¶ 1 through  
6 45 above.

7 61. By failing to devise and maintain a system of internal accounting  
8 controls sufficient to provide reasonable assurances that transactions were recorded  
9 as necessary to permit preparation of financial statements in conformity with GAAP  
10 and to maintain the accountability of assets, CSKI violated, and unless restrained and  
11 enjoined will continue to violate, Section 13(b)(2)(B) of the Exchange Act [15 U.S.C.  
12 § 78m(b)(2)(B)].

13 62. Liu knowingly or recklessly provided substantial assistance to CSKI's  
14 internal controls violations.

15 63. By engaging in the conduct described above, Liu aided and abetted, and  
16 unless enjoined will continue to aid and abet, CSKI's violations of Section  
17 13(b)(2)(B) of the Exchange Act [15 U.S.C § 78m(b)(2)(B)].

18 **SIXTH CLAIM FOR RELIEF**

19 **FALSIFICATION OF RECORDS**

20 **Violations of Section 13(b)(5) of the Exchange Act and**

21 **Rule 13b2-1 thereunder**

22 **(Against Liu)**

23 64. The Commission realleges and incorporates by reference ¶¶ 1 through  
24 45 above.

25 65. Liu engaged in fraudulent practices in the course of which he, directly or  
26 indirectly, falsified or caused to be falsified books, records and accounts of CSKI.



1 statements made, in light of the circumstances under which such statements were  
2 made, not misleading; (ii) based on his knowledge, the report included financial  
3 statements and other financial information which fairly presented, in all material  
4 respects, CSKI's financial condition, results of operations and cash flows; and (iii) he  
5 was responsible for establishing and maintaining adequate internal controls over  
6 financial reporting, had designed and evaluated such controls, and had disclosed any  
7 changes or weaknesses to CSKI's auditor and audit committee.

8 72. By engaging in the conduct described above, Liu violated, and unless  
9 enjoined will continue to violate, Exchange Act Rule 13a-14 [17 C.F.R. § 240.13a-  
10 14].

### 11 **NINTH CLAIM FOR RELIEF**

#### 12 **FAILURE TO REIMBURSE INCENTIVE COMPENSATION**

##### 13 **Violations of Section 304 of the Sarbanes-Oxley Act**

##### 14 **(Against Liu)**

15 73. The Commission realleges and incorporates by reference ¶¶ 1 through  
16 45 above.

17 74. CSKI, by engaging in the conduct described above, filed Forms 10-K for  
18 years 2007 through 2010, and Forms 10-Q for the period from the quarter ended June  
19 30, 2007 through 2009 that were in material noncompliance with financial reporting  
20 requirements under the securities laws and U.S. GAAP.

21 75. Due to CSKI's material non-compliance with its financial reporting  
22 requirements under the securities laws and GAAP, and as a result of its misconduct,  
23 CSKI was required to prepare an accounting restatement for the period from the  
24 quarter ended June 30, 2007 through 2010.

25 76. The Commission has not exempted Liu, pursuant to Section 304(b) of  
26 the Sarbanes-Oxley Act [15 U.S.C. § 7243(b)], from the application of Section 304(a)  
27 of the Sarbanes-Oxley Act [15 U.S.C. § 7243(a)].  
28

1 77. By engaging in the conduct described above, Liu violated, and unless  
2 ordered to comply will continue to violate, Section 304 of the Sarbanes-Oxley Act  
3 [15 U.S.C. § 7243].

4 **TENTH CLAIM FOR RELIEF**  
5 **CONRTOL PERSON LIABILITY**  
6 **Violations as CSKI’s Control Person**  
7 **(Against Liu)**

8 78. The Commission realleges and incorporates by reference ¶¶ 1 through  
9 45 above.

10 79. As alleged above, CSKI violated Sections 10(b), 13(a), 13(b)(2)(A), and  
11 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and  
12 78m(b)(2)(B)], and Rules 10b-5(b), 12b-20, 13a-1, 13a-11, and 13a-13 thereunder [17  
13 C.F.R. §§ 240.10b-5(b), 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13].

14 80. During all relevant times in which CSKI undertook these violations, Liu  
15 was CSKI’s most senior officer and chairman of the board of directors and had  
16 ultimate authority and control over CSKI. He was also the largest shareholder,  
17 owning more than 27.9% of CSKI’s outstanding shares. Liu was involved in the day-  
18 to-day operation of the company, actively participated in the preparation of and  
19 signed all of CSKI’s Commission filings, and certified the quarterly and annual  
20 reports on Forms 10-Q and 10-K. Hence, Liu was a “control person” of CSKI within  
21 the meaning of Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)].

22 81. By reason of the foregoing, Liu is liable as a control person pursuant to  
23 Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)] for CSKI’s violations of, and  
24 unless enjoined, will continue to engage, as a control person, in conduct that would  
25 render him liable, pursuant to Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)],  
26 for CSKI’s violations of Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the  
27 Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)], and  
28

1 Rules 10b-5(b), 12b-20, 13a-1, 13a-11, and 13a-13 thereunder [17 C.F.R. §§  
2 240.10b-5(b), 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13].

3 **PRAYER FOR RELIEF**

4 WHEREFORE, the Commission respectfully requests that the Court:

5 **I.**

6 Issue findings of fact and conclusions of law that the Defendants committed  
7 the alleged violations.

8 **II.**

9 Issue judgments, in a form consistent with Rule 65(d) of the Federal Rules  
10 of Civil Procedure, permanently enjoining CSKI, its agents, servants, employees  
11 and attorneys and all persons in active concert or participation with them who  
12 receive actual notice of the injunction by personal service or otherwise, and each of  
13 them, from violating, directly or indirectly, Section 17(a) of the Securities Act [15  
14 U.S.C. § 77q(a)], Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the  
15 Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)], and  
16 Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder [17 C.F.R. §§  
17 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13].

18 **III.**

19 Issue judgments, in a form consistent with Rule 65(d) of the Federal Rules  
20 of Civil Procedure, permanently enjoining Liu, his agents, servants, employees and  
21 attorneys and all persons in active concert or participation with them who receive  
22 actual notice of the injunction by personal service or otherwise, and each of them,  
23 from:

- 24 (a) violating, directly or indirectly, Section 17(a) of the Securities Act [15  
25 U.S.C. § 77q(a)], Sections 10(b) and 13(b)(5) of the Exchange Act [15  
26 U.S.C. §§ 78j(b) and 78m(b)(5)] and Rules 10b-5, 13a-14, 13b2-1,  
27 and 13b2-2 thereunder [17 C.F.R. §§ 240.10b-5, 240.13a-14,  
28 240.13b2-1, and 240.13b2-2], and Section 304 of the Sarbanes-Oxley

1 Act of 2002 [15 U.S.C. § 7243];

2 (b) aiding and abetting violations of Sections 13(a), 13(b)(2)(A), and  
3 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a), 78m(b)(2)(A),  
4 and 78m(b)(2)(B)], and Rules 12b-20, 13a-1, 13a-11, and 13a-13  
5 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, and  
6 240.13a-13]; and

7 (c) from controlling, directly or indirectly, any person who violates  
8 Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange  
9 Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)],  
10 and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder [17  
11 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11, and  
12 240.13a-13];

13 **IV.**

14 Order CSKI and Liu to pay civil monetary penalties pursuant to Section  
15 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the  
16 Exchange Act [15 U.S.C. § 78u(d)(3)].

17 **V.**

18 Enter an order, pursuant to Section 20(e) of the Securities Act [15 U.S.C. §  
19 77t(e)], and/or Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)],  
20 prohibiting Liu from acting as an officer or director of any issuer that has a class of  
21 securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78I],  
22 or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15  
23 U.S.C. § 78o(d)].

24 **VI.**

25 Order Liu to reimburse CSKI for his incentive-based and equity-based  
26 compensation, pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 [15  
27 U.S.C. § 7243].

1 **VII.**

2 Retain jurisdiction of this action in accordance with the principles of equity  
3 and the Federal Rules of Civil Procedure in order to implement and carry out the  
4 terms of all orders and decrees that may be entered, or to entertain any suitable  
5 application or motion for additional relief within the jurisdiction of this Court.

6 **VIII.**

7 Granting such other and further relief as this Court may deem just and  
8 proper.

9  
10 DATED: September 4, 2012

Respectfully submitted,

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14 JUNLING MA  
15 Attorney for Plaintiff  
16 Securities and Exchange Commission  
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