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NORTHERN DISTRICT OF CALIFORNIA

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11 UNITED STATES DISTRICT COURT
12 NORTHERN DISTRICT OF CALIFORNIA

13 C 05 00330

14 SECURITIES AND EXCHANGE COMMISSION,

Case No. _____

15 Plaintiff,

COMPLAINT

16 v.

17 JUN SINGO LIANG,

18 Defendant.

19 Plaintiff Securities and Exchange Commission (the "Commission") alleges:

20 SUMMARY OF THE ACTION

21 1. Defendant Jun Singo Liang, an officer of NetEase.com, Inc. ("NetEase" or the
22 "Company"), a Chinese Internet company with an office in Newark, California, engaged in insider
23 trading by selling thousands of shares of stock after he learned secret corporate information that the
24 high-profile division he managed was going to miss its revenue targets substantially. Defendant's
25 insider trading enabled him to avoid losses of over \$700,000 which he otherwise would have incurred
26 when the negative information was made public and the stock price plunged.

27 2. In 2003, Defendant was a Senior Vice President and General Manager of NetEase's
28 Wireless Business Department, the Company's fastest growing division and largest source of
revenue. Shortly before NetEase was scheduled to release its financial results for the third quarter of
2003, Defendant learned that his division – which typically accounted for half of the Company's

1 revenue – was likely to report a significant revenue shortfall. In the two trading days before the
2 scheduled announcement, Defendant sold more than 47,000 depositary shares of NetEase stock.
3 After NetEase announced the revenue shortfall, the stock price plummeted by 23%. By trading ahead
4 of this news, Defendant avoided more than \$700,000 in losses.

5 3. Defendant engaged in illegal insider trading. Defendant violated Section 10(b) of the
6 Securities Exchange Act (“Exchange Act”) of 1934 [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R.
7 240.10b-5] thereunder.

8 **AUTHORITY TO BRING THIS ACTION**

9 4. The Commission brings this action pursuant to Sections 21(d), 21(e), and 21A of the
10 Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78u-1(c)].

11 5. Defendant, directly and indirectly, has engaged in transactions, acts, practices and
12 courses of business that constitute violations of Section 10(b) of the Exchange Act [15 U.S.C. §
13 78j(b)] and Rule 10b-5 [17 C.F.R. 240.10b-5] promulgated thereunder.

14 6. Entry of the requested injunction is necessary to ensure the Defendant’s future
15 compliance with the law.

16 **JURISDICTION AND VENUE**

17 7. This Court has jurisdiction over this action pursuant to Sections 21(e), 21A and 27 of
18 the Exchange Act [15 U.S.C. §§ 78u(e), 78u-1 and 78aa].

19 8. Defendant, directly or indirectly, made use of the means or instrumentalities of
20 interstate commerce, or of the mails, or of the facilities of a national securities exchange in
21 connection with the transactions, acts, practices and courses of business alleged herein.

22 9. Venue in this District is proper pursuant to Section 27 of the Exchange Act [15 U.S.C.
23 § 78aa].

24 **DEFENDANT**

25 10. Defendant Jun Singo Liang, age 27, resides in Guangzhou, China. Defendant was an
26 officer of NetEase and was employed as Senior Vice President and General Manager of the Wireless
27 Business Department at the Company’s offices in Beijing and Guangzhou, China, until his
28 resignation effective March 15, 2004.

1 **RELEVANT ENTITY**

2 11. NetEase is an Internet technology provider incorporated in the Cayman Islands, with
3 its principal place of business in Beijing, China, and a United States office in Newark, Alameda
4 County, California. NetEase's common stock trades as Depository Shares evidenced by American
5 Depository Receipts, which are registered with the Commission pursuant to Section 12(g) of the
6 Exchange Act. The Depository Shares are publicly quoted on the Nasdaq National Market under the
7 symbol "NTES."¹

8 **DEFENDANT'S IMPROPER TRADING**

9 12. In connection with his employment, Defendant was granted options for 100,000 shares
10 of NetEase stock. Defendant exercised the options and deposited the shares into a Charles Schwab
11 brokerage account on December 4, 2002. Over the next thirteen months, Defendant periodically
12 bought and sold shares of NetEase stock.

13 13. At all relevant times, NetEase had an insider trading policy that prohibited its
14 employees from trading in NetEase securities while possessing knowledge of material, nonpublic
15 information concerning the Company. The policy also limited employee trades around the time of the
16 Company's quarterly earnings announcements by establishing trading windows during which trades
17 were allowed and blackout periods during which trades were prohibited. Defendant was aware that
18 NetEase had trading windows and blackout periods on employee trades.

19 14. NetEase's Wireless Department was a quickly-growing division of the Company that
20 by 2003 generated approximately half of the Company's total revenue. NetEase frequently touted the
21 Wireless Department's growth in its annual reports and press releases. For example, in its first
22 quarter 2003 earnings announcement, NetEase reported that its wireless business was "growing
23 steadily" with "fast-growing user rates," and that the Company "expect[s] strong potential from this
24 area" and is "positioning [itself] well to capture future business opportunities." Similarly, NetEase
25 stated in its second quarter 2003 earnings announcement that the Company "continue[s] to see

26 _____
27 ¹ Throughout this Complaint, the term "shares" refers to the NetEase Depository Shares that
28 trade on Nasdaq. Each Depository Share is equivalent to 100 shares of NetEase common stock,
which does not otherwise trade on any exchange or market.

1 significant opportunities” in its wireless business, “which remains a very significant revenue source
2 for the company.”

3 15. As head of the Wireless Department and a corporate insider, Defendant had access to
4 material, nonpublic information regarding NetEase’s financial results.

5 16. By the third week of October 2003, Defendant knew that the Wireless Department’s
6 revenue for the third quarter ended September 30, 2003 had fallen approximately 15-20% from the
7 previous quarter.

8 17. On October 23, 2003, NetEase publicly announced that it would release its third
9 quarter financial results on October 28, 2003. NetEase’s practice was to release its quarterly results
10 after the close of trading on the scheduled date.

11 18. On October 27, 2003, Defendant sold 30,667 shares of NetEase stock at an average
12 price of \$65.44, realizing proceeds of approximately \$2 million. The next day, Defendant sold an
13 additional 17,000 shares at an average price of \$65.81 for proceeds of approximately \$1.1 million.

14 19. On October 28, 2003, NetEase’s stock price closed at \$65.85. After the close of
15 trading, NetEase publicly announced the financial results for its third quarter ended September 30,
16 2003. The Company reported, among other things, that Wireless Department revenue – Defendant’s
17 division – had fallen about 21% from the previous quarter. Although revenue from other divisions
18 had risen, the shortfall in Wireless revenue was significant enough that NetEase missed industry
19 analysts’ projections for its overall performance that quarter.

20 20. The next trading day, October 29, 2003, NetEase’s stock price fell 23% to close at
21 \$50.64. Since then, NetEase stock has never again reached its pre-announcement price of \$65.85.

22 21. By selling 47,667 shares of NetEase stock before the Company’s announcement of its
23 third quarter financial results, Defendant avoided losses of at least \$710,257.65.

24 22. At the time he executed these sales of NetEase stock, Defendant suspected that he was
25 trading during a blackout period in which trades by Company employees were prohibited by
26 Company policy. In addition, Defendant knew or was reckless in not knowing that the information
27 about NetEase’s revenue was material and nonpublic.

1 23. In January 2004, in connection with a National Association of Securities Dealers
2 inquiry into securities trading around the time of NetEase's October 28 announcement, Defendant
3 informed NetEase about his sales of Company stock. Shortly after volunteering this information,
4 Defendant retained counsel in the United States and directed them to contact the relevant authorities.
5 Defendant's counsel contacted Commission staff on February 25, 2004, and disclosed Defendant's
6 improper trading.

7 CLAIM FOR RELIEF

8 Violations of Section 10(b) of the Exchange Act
9 [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. 240.10b-5]
Promulgated Thereunder

10 24. Paragraphs 1 through 23 are re-alleged and incorporated herein by reference.

11 25. Defendant had a fiduciary duty to NetEase and its securities holders not to trade in
12 NetEase securities, either directly or indirectly, based on material, nonpublic information concerning
13 the Company. Defendant breached that duty when he sold NetEase stock on October 27 and 28,
14 2003, based on material, nonpublic information concerning the Company's financial results for the
15 third quarter of 2003.

16 26. Defendant, with scienter, directly or indirectly:

17 a) employed devices, schemes, or artifices to defraud;

18 b) made untrue statements of material facts or omitted to state material facts
19 necessary in order to make the statements made, in the light of the circumstances
20 under which they were made, not misleading; or

21 c) engaged in acts, practices, or courses of business which operated or would
22 operate as a fraud or deceit upon other persons, including purchasers and sellers of
23 securities;

24 in connection with the purchase or sale of securities, by the use of means or instrumentalities of
25 interstate commerce, of the mails, or the facilities of a national securities exchange.

26 27. By reason of the foregoing, Defendant violated, and unless restrained and enjoined
27 will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5
28 thereunder [17 C.F.R. § 240.10b-5].

1 **PRAYER FOR RELIEF**

2 WHEREFORE, the Commission respectfully requests that this Court:

3 **I.**

4 Permanently enjoin Defendant and his agents, servants, employees and attorneys, and those
5 persons in active concert or participation with them who receive actual notice of the final judgment of
6 permanent injunction by personal service or otherwise, and each of them, from directly or indirectly
7 violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. §
8 240.10b-5] thereunder;

9 **II.**

10 Enter an Order prohibiting Defendant from acting as an officer or director of any issuer that
11 has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] or
12 that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)];

13 **III.**

14 Enter an Order requiring Defendant to disgorge an amount equal to his illegal trading losses
15 avoided from the securities transactions complained of herein, plus prejudgment interest;

16 **IV.**

17 Enter an Order requiring Defendant to pay civil penalties under Section 21A of the Exchange
18 Act [15 U.S.C. § 78u-1]; and

19 **V.**

20 Grant such other relief as this Court may deem just and appropriate.

21
22 Respectfully submitted,

23 Dated: January 24, 2005

24 
Helene L. Morrison

Marc J. Fagel

Cary S. Robnett

Jennifer L. Scafe

Attorneys for Plaintiff

SECURITIES AND EXCHANGE COMMISSION