

JUDGE NICHWALD

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES SECURITIES  
AND EXCHANGE COMMISSION,

Plaintiff,

vs.

CHINA NORTHEAST PETROLEUM HOLDINGS  
LIMITED; WANG HONGJUN (a/k/a Hongjun  
Wang); JU GUIZHI (a/k/a Guizhi Ju); and JIANG  
CHAO (a/k/a Chao Jiang),

Defendants,

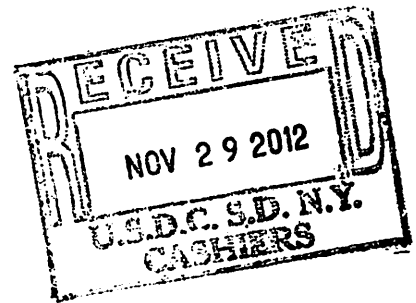
JIANG MINGFU (a/k/a Mingfu Jiang); and SUN  
JISHUANG (a/k/a Jishuang Sun),

Relief Defendants.

12 CV 8696

— Civ. —

COMPLAINT



Plaintiff, the United States Securities and Exchange Commission (the “Commission” or “SEC”), alleges:

SUMMARY

1. This action arises from the undisclosed diversion of offering proceeds to the personal accounts of corporate insiders and related fraudulent and deceptive conduct.

2. China Northeast Petroleum Holdings Limited (“CNEP”) is purportedly engaged in oil exploration, drilling, and production in the People’s Republic of China (“China”).

3. Beginning in at least January 2009 and continuing thereafter, Wang Hongjun (“Wang”), who then served as the Chairman of CNEP’s Board of Directors and CNEP’s President and CEO, and Ju Guizhi (“Ju”), one of CNEP’s founders, engaged in numerous undisclosed, related-party transactions involving CNEP. During 2009, there were at least 176

undisclosed, related-party transactions recorded in CNEP's accounting records. The related-party activity was comprised of approximately \$28 million of transactions directly or indirectly from CNEP to Wang or Ju; approximately \$11 million purportedly loaned to CNEP or paid to third parties on behalf of CNEP by Wang or Ju; and \$20 million of post-year-end adjustments that purportedly reduced the debt owed by Wang and Ju to CNEP. Together, these transactions totaled approximately \$59 million of related-party activity during 2009. Neither the magnitude nor the volume of these related-party transactions has been fully disclosed to the investing public.

4. In late 2009, CNEP made two public stock offerings. In connection with these offerings, CNEP publicly stated to investors in a registration statement signed by Wang that the offering proceeds would be used "to fund its future business expansion plan, and for general working capital purposes." CNEP and Wang subsequently repeated this representation in additional public statements in connection with the two offerings. CNEP and Wang did not disclose to investors the past pattern of related-party transactions or their intention to divert offering proceeds for improper purposes.

5. In those two offerings, CNEP raised approximately \$31.9 million in the U.S. capital markets in September and December 2009. The offering proceeds were initially deposited into CNEP's U.S. bank account (the "U.S. Bank Account"). Consistent with a pre-existing pattern of engaging in undisclosed, related-party transactions, funds were then diverted to corporate insiders and their family members in a manner that was neither disclosed to investors nor consistent with CNEP's representations to investors concerning the intended and permissible uses of the offering proceeds.

6. After offering proceeds were deposited into the U.S. Bank Account, Defendants made, or caused to be made, a number of transfers to company insiders or their family members, including without limitation:

- Wang’s wife, Jishuang Sun (“Sun”), received \$300,000 from CNEP’s U.S. Bank Account and used the funds to purchase a home in California;
- The company’s Vice President of Corporate Finance and Secretary, Jiang Chao, made two transfers totaling \$910,000 from CNEP’s U.S. Bank Account into his father’s personal bank account; and
- Ju received \$5.85 million in a series of transfers that originated from CNEP’s U.S. Bank Account.

Prior to the deposit of the offering proceeds, there were insufficient funds in CNEP’s U.S. Bank Account to cover any of these transfers. CNEP’s Board of Directors was not apprised of and did not approve these transfers of funds; none of the transfers had any documented business purpose; none were consistent with the CNEP’s representations to the investing public concerning the stated uses of the offering proceeds; and none of the transfers were disclosed to CNEP investors.

7. The Commission brings this action seeking permanent injunctive relief to prevent future violations of the federal securities laws, disgorgement of ill-gotten gains with prejudgment interest, civil penalties, officer and director bars, and any other appropriate relief.

### **JURISDICTION**

8. This Court has jurisdiction over this action pursuant to Sections 20 and 22 of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. §§ 77t and 77v] and Sections 21 and 27 of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. §§ 78u and 78aa].

9. Venue is proper in this judicial district pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa] because certain of the acts and omissions constituting violations alleged herein occurred in this judicial district.

10. Defendants, directly and indirectly, made use of the mails and of the means and instrumentalities of interstate commerce in connection with the acts, practices, and courses of business described in this Complaint.

### **DEFENDANTS**

#### ***CNEP***

11. CNEP is a Nevada corporation with its principal offices located in New York and a second office in California. CNEP is purportedly engaged in oil exploration, drilling, and production in China.

12. CNEP was formed through a reverse merger with a U.S. shell in April 2004. Its common stock was thereafter registered with the SEC pursuant to Section 12(g) of the Exchange Act. On June 15, 2009, CNEP began trading on NYSE Amex LLC, which became NYSE MKT, LLC (“NYSE”) and its common stock was registered with the SEC pursuant to Section 12(b) of the Exchange Act. On July 6, 2012, NYSE delisted CNEP’s common stock. Following the delisting, CNEP’s common stock was, and remains, registered with the SEC pursuant to Section 12(g) of the Exchange Act.

13. As of December 31, 2009, CNEP had a market capitalization of approximately \$258 million, with its stock trading on NYSE Amex, LLC at \$9.25 per share.

14. As of November 27, 2012, CNEP’s stock remained de-listed, its market capitalization had fallen below \$8 million, and its stock traded at \$0.22 per share over-the-counter.

#### ***Individual Defendants***

15. Wang Hongjun, a/k/a Hongjun Wang, was the chairman of CNEP’s Board of Directors, CEO and President from at least January 1, 2009 until May 23, 2010, at which time

CNEP's Board of Directors accepted his resignation as Chairman and placed Wang on administrative leave from his position as CEO and President. Wang continues to serve as a director of CNEP. He is a Chinese national who resides part-time in California and part-time in China. At all relevant times, Wang was the largest shareholder of CNEP common stock, owning over 26% of the outstanding shares as reported by CNEP in its Annual Report on Form 10-K for the year ended December 31, 2009, and exerted actual control over CNEP.

16. Ju Guizhi, a/k/a Guizhi Ju, is one of CNEP's founders and Wang's mother. She is a Chinese national who resides in China. Ju served as a CNEP director from approximately November 2009 through May 2010, but otherwise held no disclosed positions with the company. Throughout CNEP's existence, however, Ju has been heavily involved in CNEP's day-to-day operations and has exerted actual control over CNEP. Ju also served for a period as Chairman of the CNEP subsidiary Songyuan North East Petroleum Technical Services Co., Ltd. ("Songyuan Technical"), and holds a ten percent equity interest in that company. Ju likewise served for a period as both General Manager and as a Director of the CNEP subsidiary Songyuan Yu Qiao Oil & Gas Development Co., Ltd. ("Songyuan Yu Qiao"). As of February 15, 2012, Ju continued in her role at Songyuan Yu Qiao and was also a General Manager of CNEP subsidiary Changling Longde Oil and Gas.

17. Jiang Chao, a/k/a Chao Jiang, is a Chinese citizen who resides in Jersey City, New Jersey. He serves as Vice President of Corporate Finance and Secretary of CNEP.

***Relief Defendants***

18. Sun Jishuang, a/k/a Jishuang Sun, is Wang's wife and, since November 2010, has served as the Treasurer/Cashier of CNEP. She is a Chinese national who currently resides in

California. Sun is named as a relief defendant because she improperly received funds from CNEP to which she does not have a legal claim.

19. Jiang Mingfu, a/k/a Mingfu Jiang, is Jiang Chao's father. Jiang Mingfu is a Chinese citizen who resides in Jersey City, New Jersey. Jiang Mingfu is named as a relief defendant because he improperly received funds from CNEP to which he does not have a legal claim.

### **FACTUAL ALLEGATIONS**

#### **A. CNEP Raises \$31.9 Million in the U.S. Capital Markets**

20. CNEP's stock was listed and began trading on NYSE on or about June 15, 2009. Approximately two weeks later, the company filed a shelf registration statement on a Form S-3 signed by Wang that registered public offerings of up to \$40 million of securities (the "Registration Statement"), and which became effective on September 9, 2009. The Registration Statement stated that CNEP would "use the net proceeds from the sale of the securities covered by this prospectus for general corporate purposes, which may include working capital, capital expenditures, acquisitions of new technologies or businesses, and investments."

21. Jiang Chao, at various times during 2009, met with investment bankers to raise capital, appeared at "road shows," and made presentations on behalf of CNEP at investor conferences. For example, on September 1, 2009, CNEP issued a press release announcing that Jiang Chao, as part of the company's management team, would participate and present at an investor conference in New York on September 9, 2009, the same day that CNEP's Registration Statement became effective. Jiang Chao also assisted in drafting and reviewing CNEP's press releases and filings with the SEC, including CNEP's periodic reports and Registration Statement.

22. On September 16, 2009, CNEP filed a Current Report on Form 8-K (the “September 8-K”) signed by Wang, in which CNEP announced a public offering of CNEP stock. The September 8-K included a copy of a press release that CNEP issued to the public the same day and listed Jiang Chao as the contact person. In the press release, CNEP stated that it would “use the net proceeds from the offering to fund its future business expansion plan, and for general working capital purposes.” The September 8-K also included a copy of a Securities Purchase Agreement in which CNEP represented that it “shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and shall not use such proceeds for: (a) the satisfaction of any portion of the Company’s debt (other than payment of trade payables in the ordinary course of the Company’s business and prior practices) . . . .”

23. On December 15, 2009, CNEP filed another Current Report on Form 8-K signed by Wang (the “December 8-K”) announcing a second offering of CNEP stock. The December 8-K included a copy of a press release that CNEP issued the same day, in which CNEP represented that it planned to “use the net proceeds from the offering to redeem its 8% Senior Debenture issued to Lotusbox Investments Ltd. on February 28, 2008 and for general working capital purposes.” The press release again listed Jiang Chao as the contact person for CNEP. The December 8-K also included a copy of a Securities Purchase Agreement in which CNEP represented that it “shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and repayment of debt and shall not use such proceeds for: (a) the redemption of any Common Stock or Common Stock Equivalents, (b) the settlement of any outstanding litigation or (c) and [sic] shall not use such proceeds in violation of the FCPA or OFAC regulations.”

24. CNEP raised \$18.4 million in September 2009 and \$13.5 million in December 2009 through two best-efforts offerings underwritten by a New York-based investment bank.

**B. Offering Proceeds Transferred to Insiders**

25. The offering proceeds were deposited into CNEP's U.S. Bank Account. Wang had signature authority over the account from the time it was opened in 2005 through at least February 7, 2011, at which time he re-signed the signature card and added his wife, Sun, as an additional signatory. In addition, Jiang Chao had signatory authority over the account from its inception until October 10, 2010. During that period, Ju regularly directed Jiang Chao to make transfers to and from the account despite having no official authority over the bank account.

26. On November 3 and December 16, 2009, Jiang Chao authorized the transfer of \$500,000 and \$410,000, respectively, of proceeds from CNEP's U.S. Bank Account to a personal bank account held in the name of his father, Jiang Mingfu. Jiang Mingfu did not hold any disclosed position at CNEP. There is no known or documented business purpose for the transfers, and the Board of Directors was not apprised of, and did not authorize, the transfers.

27. Despite having authorized the transfers described in Paragraph 26 above, Jiang Chao falsely claimed in sworn testimony to the SEC that none of his family members had received anything of value over \$500 at any time from CNEP.

28. Ju directed Jiang Chao to transfer \$300,000 of proceeds from CNEP's U.S. Bank Account to a personal bank account held in the name of her daughter-in-law, Sun. Thereafter, on November 19, 2009, Jiang Chao effected the transfer from the U.S. Bank Account to Sun. Sun then used those funds to purchase a home in California in her name. There is no known or documented business purpose for the transfer, and the Board of Directors was not apprised of, and did not authorize, the transfer.



29. Between September 25 and 29, 2009, Ju also received multiple transfers of proceeds totaling approximately \$5.85 million. Jiang Chao authorized and caused the transfers to be made from the U.S. Bank Account into which the offering proceeds were deposited. The transfers were subsequently routed through multiple CNEP bank accounts in China before being deposited into Ju's personal bank account in China. There is no known or documented business purpose for these transfers, and CNEP's board was not apprised of, and did not authorize, them.

30. Prior to the deposit of offering proceeds into CNEP's U.S. Bank Account, there were insufficient funds in the account to fund the transfers to Sun, Jiang Mingfu and Ju. Indeed, immediately prior to the first deposit of offering proceeds on or about September 16, 2009, CNEP's U.S. Bank Account had a balance of only approximately \$84,000.

31. None of the transfers detailed in Paragraphs 26 through 29 above were disclosed to the investing public.

**C. CNEP Insiders Had Long Engaged In Undisclosed and Improper Related-Party Transactions**

32. By September 2009, CNEP, Wang and Ju already had engaged in a course of conduct that involved numerous related-party transactions, including the routine and repeated transfer of cash between (both to and from) CNEP and Wang or Ju. As set forth above, these same practices continued after the 2009 offerings.

***1. The Board Discovers Undisclosed, Related-Party Transactions***

33. In April 2010, an independent director who served as Chairman of the audit committee of CNEP's Board of Directors (the "Audit Committee") discovered a line item in the company's draft 2009 financial statements reflecting that \$3.89 million was allegedly due to CNEP from a shareholder. Prior to April 2010, neither the Board of Directors nor the Audit

Committee had been apprised of any such debt or the underlying transactions with a shareholder giving rise to such debt.

34. The Audit Committee Chairman sought an explanation from the company's management. He learned that the \$3.89 million was allegedly due from Ju, but he received varying explanations for the debt. For example, the CFO at the time claimed that the \$3.89 million represented an amount owed by Ju to the company, and that the debt was a one-time occurrence.

35. Thereafter, at the behest of the Audit Committee, CNEP and its Board of Directors retained a Hong Kong accounting firm, to review the \$3.89 million debt and any other related-party transactions that had occurred in 2009.

**2. *The Hong Kong Accounting Firm Uncovers Numerous Undisclosed, Related-Party Transactions***

36. In July 2010, the Hong Kong accounting firm issued a report to CNEP's Board of Directors identifying at least 176 undisclosed, related-party transactions between CNEP and Wang or Ju in 2009 (the "July 2010 Report").

37. During the investigation of Ju's alleged \$3.89 million debt, CNEP's then-CFO admitted that transfers between the company and Ju or Wang occurred more regularly than he had previously represented to the Audit Committee.

38. As a result of the investigation, the Board of Directors learned that the \$3.89 million debt had not been a "one-off transfer" but rather the result of a subset of the 176 undisclosed, related-party transactions. The Board of Directors further learned that it was not possible to identify the transactions allegedly underlying the \$3.89 million because of "the significant number and diverse nature of transactions" with Ju. Ju claimed that transactions occurred through her personal accounts to avoid certain corporate taxes and, thereby, obtain

lower prices from vendors. The Hong Kong accounting firm, however, found that “[n]o supporting documentation is available to verify these representations . . . .”

39. The 176 related-party transactions detailed in the July 2010 Report totaled approximately \$59 million, which included the \$3.89 million debt owed by Ju to CNEP. The \$59 million total included approximately \$28 million of transactions directly or indirectly from CNEP to Wang or Ju, plus approximately \$11 million that Wang or Ju allegedly loaned to CNEP or paid to third parties on behalf of the company. A balance of approximately \$20 million remained due from Wang or Ju to CNEP as of December 31, 2009, but that debt was purportedly eliminated through a series of unusual and largely uncorroborated post-year-end adjustments.

40. The \$28 million worth of transaction involving Ju and Wang that occurred during 2009 included cash loans from CNEP to Ju and Wang of at least \$17.2 million and \$3.8 million, respectively. These “loans” were not documented and did not have any written repayment terms.

41. In terms of the magnitude of these related-party transactions with Ju and Wang, \$28 million is approximately 94% of the \$29.9 million of net proceeds that CNEP received from the 2009 public offerings; almost twice the approximately \$15.9 million in cash provided by operations in 2009; and 43% of CNEP’s reported annual revenue of approximately \$64.7 million for 2009.

42. The Audit Committee Charter required all related-party transactions to be reviewed and approved by the Audit Committee. Yet, neither the Board of Directors nor the Audit Committee was apprised of, much less approved, the 176 related-party transactions detailed in the Hong Kong accounting firm’s July 2010 Report. Moreover, neither the volume nor the magnitude of these related-party transactions was fully disclosed to the investing public.

#### **D. Wang and Ju's Ongoing Role In Controlling CNEP**

43. Ju was one of the founders of CNEP. Since the company's inception, she was actively involved in the day-to-day decisions, operations, and management of CNEP, even during periods when it was not disclosed that she was acting as an officer or director of the company.

44. Except when she was briefly appointed to serve as a director from November 20, 2009 through May 23, 2010, Ju did not have any disclosed role at CNEP. Nonetheless, she engaged in numerous transactions with and on behalf of the company, including those described above.

45. Before, during and after her brief tenure as a CNEP director, Ju exerted actual control over CNEP. For example, Ju made decisions and entered into agreements on behalf of company, including directing transfers of assets from CNEP to herself and others, and allegedly entering into transactions with vendors on behalf of CNEP. Ju also attended and participated in meetings of the Board of Directors before and after she served as a director.

46. On May 23, 2010, after the Board of Directors received a preliminary report from the Hong Kong accounting firm, the Board of Directors issued a resolution that, among other things, (i) placed Wang on administrative leave as CEO and accepted Wang's resignation as Chairman of the Board (although he was allowed to continue serving as a director), and (ii) accepted Ju's resignation as a director. The board resolution further stated that "going forward, Ms. Ju shall have no role in the operation of the Company or its subsidiaries and she shall have no authority to act on behalf of the Company or its subsidiaries." On May 27, 2010, CNEP filed a Form 8-K disclosing that Ju had resigned as a director and that Wang had resigned

as Chairman of the Board of Directors and was placed on administrative leave as President and CEO.

47. Wang and Ju nevertheless continued to exert control over CNEP and certain of its subsidiaries after May 23, 2010.

48. Ju continued to be actively involved in the day-to-day operations and management of CNEP subsequent to May 23, 2010, when she was officially barred by the Board of Directors from participating in the company's operations. For example, Ju continued to attend board meetings and negotiate with outside counsel regarding payment for services rendered to CNEP. Ju also continued to serve as the General Manager of two of CNEP's operating subsidiaries in China, Song Yuan City Yu Qiao Oil and Gas Development Ltd. Corp and Longde Oil and Gas Development Co. Ltd.

49. Wang was the largest shareholder of CNEP, continued to serve as the General Manager for the CNEP subsidiary, Song Yuan North East Petroleum Technical Service Co. Ltd., and continued to have signature authority over CNEP's Bank of America account even after May 23, 2010.

#### **E. CNEP's Public Filings Contained Material Misrepresentations and Omissions**

50. CNEP's Registration Statement, its September 8-K (and attached press release and Securities Purchase Agreement), and its December 8-K (and attached press release and Securities Purchase Agreement), each of which was signed by Wang, falsely represented that the offering proceeds would be used to fund its future business expansion plan and for general working capital purposes.

51. CNEP filed, or was required to file, annual, current and quarterly reports (on Forms 10-K, 8-K and 10-Q) from at least 2009 to the present. In these filings, including, but not

limited to, CNEP's Form 10-K filed on September 3, 2010 for the period ended December 31, 2009 and CNEP's Forms 10-Q/A filed on September 1, 2010 for the periods ended March 31, 2009, June 30, 2009 and September 30, 2009, CNEP was required but failed to disclose, among other things, the following facts that are detailed herein: (i) money was transferred from CNEP to Wang and Ju; (ii) offering proceeds were sent to Sun's personal bank account and used to pay a part of the purchase price of Sun's house; (iii) offering proceeds were sent to the personal bank accounts of Ju and Jiang Mingfu; (iv) at least 176 related-party transactions totaling \$59 million occurred during 2009; (v) Ju was an undisclosed control person prior to being appointed a director in November 2009 and, in direct contravention of a board resolution, returned to being an undisclosed control person after May 23, 2010; and (vi) CNEP lacked adequate internal controls. Throughout 2009 to the present, CNEP failed to file required Current Reports on Forms 8-K disclosing the foregoing.

52. CNEP filed two Forms 10-Q signed by Wang on May 15, 2009 and August 14, 2009 for the periods ended March 31, 2009 and June 30, 2009, respectively, and a Form 10-Q/A on July 23, 2009 for the period ended March 31, 2009, that failed to disclose, among other things, the following facts that are detailed herein: (i) money was transferred from CNEP to Wang and Ju, (ii) Ju was an undisclosed control person, and (iii) CNEP lacked adequate internal controls.

53. CNEP filed a Form 10-Q signed by Wang on November 16, 2009 for the period ended September 30, 2009 that failed to disclose, among other things, the following facts that are detailed herein: (i) money was transferred from CNEP to Wang and Ju, (ii) Ju was an undisclosed control person, (iii) CNEP lacked adequate internal controls, and (iv) offering proceeds were transferred to Ju.

**F. CNEP Lacked Adequate Recordkeeping and Internal Controls**

54. CNEP lacked adequate recordkeeping and supporting documentation regarding at least the following matters that are detailed herein: (i) the purpose of the transfers of money to Wang and Ju, (ii) alleged loans to and from Wang and Ju and any repayment terms, (iii) Ju's authority to negotiate or execute contracts on behalf CNEP during the time she was an undisclosed control person, (iv) post-year-end adjustments, and (v) payments to vendors and third parties. As noted above, although Wang and Ju claimed that they used the money they received from CNEP to pay corporate expenses, the alleged payments on behalf of CNEP were not properly documented or recorded in CNEP's accounting records.

55. On May 23, 2010, based on a preliminary report from the Hong Kong accounting firm, in a unanimous written consent in lieu of a special meeting, CNEP's Board of Directors "determined that there are significant deficiencies in the Company internal controls, especially regarding the Company's cash accounts." CNEP lacked sufficient internal controls in procurement and cash management areas, including, among other things, procurement and payment procedures, obtaining bids from suppliers, inappropriate accounts offsetting, inadequate segregation of duties in accounts payable, inefficient monitoring controls, and cash disbursements.

**FIRST CLAIM FOR RELIEF**

**Violations of Securities Act Section 17(a)**

56. Paragraphs 1 through 55 are realleged and incorporated by reference.

57. By reason of the conduct described above, including without limitation the conduct described in Paragraphs 20, 22, 23, 25-31, 32-42 and 50-53, Defendants CNEP and Wang, in connection with the offer or sale of securities, by the use of any means or

instrumentalities of interstate commerce or of the mails, directly or indirectly, acting with the requisite degree of knowledge or state of mind, obtained money or property by means of untrue statements of material facts or omissions of material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. With respect to the misrepresentations described in Paragraphs 20, 22, 23 and 50, CNEP and Wang knew, or were reckless or negligent in not knowing, that the offering proceeds would not be used for the stated purposes in light of, the conduct described in detail above, including (i) the longstanding practice of undisclosed, related-party transactions between CNEP and Wang or Ju (as detailed in Paragraphs 32-42 above), and (ii) the undisclosed transfers of offering proceeds to corporate insiders and their immediate family members that came on the heels of the 2009 offerings (as detailed in Paragraphs 25-31 above). CNEP and Wang likewise knew, or were reckless or negligent in not knowing, that the related omissions described in Paragraphs 50-53 rendered the filings and other public statements misleading in light of the circumstances under which they were made.

58. By reason of the conduct described above, including without limitation the conduct described in Paragraphs 20-55, Defendants CNEP, Wang, Ju and Jiang Chao, in connection with the offer or sale of securities, by the use of the means or instrumentalities of interstate commerce or of the mails, directly or indirectly, acting with the requisite degree of knowledge or state of mind (i) employed devices, schemes, or artifices to defraud; and (ii) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any persons, including purchasers or sellers of the securities. Defendants CNEP, Wang, Ju and Jiang Chao knew, or were reckless or negligent in not knowing, that they employed devices, schemes and artifices to defraud and engaged in transactions, practices or



courses of conduct that operated as a fraud (as described in Paragraphs 20-55) on the investing public by, the conduct described in detail above, including among other things, (i) engaging in a longstanding pattern of related-party transactions, (ii) raising funds with the intent to divert those offering proceeds for improper purposes, (iii) diverting such proceeds to corporate insiders and their immediate family members, and (iv) concealing their misconduct from CNEP's Board of Directors and the investing public.

59. By reason of the conduct described above, Defendants CNEP, Wang, Ju and Jiang Chao violated Securities Act Section 17(a) [15 U.S.C. § 77q(a)].

### **SECOND CLAIM FOR RELIEF**

#### **Violations of Exchange Act Section 10(b) and Rule 10b-5**

60. Paragraphs 1 through 59 are realleged and incorporated by reference.

61. By reason of the conduct described above, including without limitation the conduct described in Paragraphs 20, 22, 23, 25-31, 32-42 and 50-53, Defendants CNEP and Wang, directly or indirectly, in connection with the purchase or sale of securities, by the use of the means or instrumentalities of interstate commerce or of the mails, or of any facility of any national securities exchange, knowingly or recklessly made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. With respect to the misrepresentations described in Paragraphs 20, 22, 23, 50 and 53, CNEP and Wang knew, or were reckless in not knowing, that they were making false and misleading statements in light of the conduct described in detail above, including (i) the longstanding practice of undisclosed, related-party transactions between CNEP and Wang or Ju (as detailed in Paragraphs 32-42 above), and (ii) the undisclosed transfers of offering proceeds to corporate insiders and their

immediate family members that came on the heels of the 2009 offerings (as detailed in Paragraphs 25-31 above). CNEP and Wang likewise knew, or were reckless in not knowing, that the related omissions described in Paragraphs 50-53 rendered the filings and other public statements misleading in light of the circumstances under which they were made.

62. By reason of the conduct described above, including without limitation the conduct described in Paragraphs 20-55, Defendants CNEP, Wang, Ju and Jiang Chao, directly or indirectly, in connection with the purchase or sale of securities, by the use of the means or instrumentalities of interstate commerce or of the mails, or of any facility of any national securities exchange, knowingly or recklessly, (i) employed devices, schemes, or artifices to defraud and (ii) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any persons, including purchasers or sellers of the securities. Defendants CNEP, Wang, Ju and Jiang Chao knew, or were reckless or negligent in not knowing, that they employed devices, schemes and artifices to defraud and engaged in transactions, practices or courses of conduct that operated as a fraud (as described in Paragraphs 20-55) on the investing public by the conduct described in detail above, including, among other things, (i) engaging in a longstanding pattern of related-party transactions, (ii) raising funds with the intent to divert those offering proceeds for improper purposes, (iii) diverting such proceeds to corporate insiders and their immediate family members, and (iv) concealing their misconduct from CNEP's Board of Directors and the investing public..

63. By reason of the conduct described above, Defendants CNEP, Wang, Ju, and Jiang Chao violated Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

### **THIRD CLAIM FOR RELIEF**

#### **Violations of the Exchange Act Section 13(b)(5) and Exchange Act Rule 13b2-1**

64. Paragraphs 1 through 63 are realleged and incorporated by reference.

65. By reason of the conduct described above, Defendants Wang and Ju knowingly circumvented or knowingly failed to implement a system of internal accounting controls or knowingly falsified books, records, or accounts subject to Exchange Act Section 13(b)(2).

66. By reason of the conduct described above, Defendants Wang and Ju, directly or indirectly, falsified or caused to be falsified books, records or accounts subject to Exchange Act Section 13(b)(2).

67. By reason of the conduct described above, Defendants Wang and Ju violated Exchange Act Section 13(b)(5) [15 U.S.C. § 78m(b)(5)] and Exchange Act Rule 13b2-1 [17 C.F.R. §§ 240.13b2-1].

### **FOURTH CLAIM FOR RELIEF**

#### **CNEP Violated Exchange Act Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) and Rules 13a-1, 13a-11 and 13a-13**

68. Paragraphs 1 through 67 are realleged and incorporated herein by reference.

69. CNEP, whose securities were registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 781], as detailed above, failed to file annual, current, and quarterly reports (on Forms 10-K, 8-K, and 10-Q) with the Commission that were true and correct, and failed to include material information in its required statements and reports as was necessary to make the required statements, in the light of the circumstances under which they were made, not misleading.

70. As detailed above, CNEP failed to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets.

71. As further detailed above, CNEP failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions were recorded as necessary (i) to permit the preparation of financial statements in conformity with generally accepted accounting principles and (ii) to maintain accountability of assets. CNEP's internal controls were deficient, as Wang, Ju and Jiang Chao were able to divert corporate funds to corporate insiders and their immediate family members for no known or documented business purpose, as described in detail above.

72. Based on the foregoing, CNEP violated Exchange Act Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. § 78m(a) and 78m(b)(2)(A) & (B)] and Exchange Act Rules 13a-1, 13a-11 and 13a-13 [17 CFR §§ 240.13a-1, 240.13a-11 and 240.13a-13].

#### **FIFTH CLAIM FOR RELIEF**

##### **Wang, Ju and Jiang Chao Aided and Abetted CNEP's Reporting, Recordkeeping and Internal Controls Violations**

73. Paragraphs 1 through 72 are realleged and incorporated herein by reference.

74. As detailed above, CNEP, whose securities were registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 781], failed to file annual, current, and quarterly reports (on Forms 10-K, 8-K, and 10-Q) with the Commission that were true and correct, and failed to include material information in its required statements and reports as was necessary to make the required statements, in the light of the circumstances under which they were made, not misleading. CNEP thus violated Section 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act

[15 U.S.C. §§ 78m(a) and 78m(b)(2)(A) & (B)] and Exchange Act Rules 13a-1, 13a-11 and 13a-13 [17 CFR §§ 240.13a-1, 240.13a-11 and 240.13a-13].

75. By reason of the conduct described above, Defendants Wang, Ju and Jiang Chao knowingly provided substantial assistance to and thereby aided and abetted CNEP in its violations of Exchange Act Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. §§ 78m(a), 78m(b)(2)(A) and 78m(b)(2)(B)] and Exchange Act Rules 13a-1, 13a-11 and 13a-13 [17 CFR §§ 240.13a-1, 240.13a-11 and 240.13a-13].

#### **SIXTH CLAIM FOR RELIEF**

##### **Wang, Ju and Jiang Chao Aided and Abetted CNEP's Exchange Act Section 10(b) and Rule 10b-5 Violations**

76. Paragraphs 1 through 75 are realleged and incorporated herein by reference.

77. As detailed above in paragraphs 60 through 63, CNEP violated Exchange Act Section 10(b) and Exchange Act Rule 10b-5.

78. By reason of the conduct described above, Defendants Wang, Ju and Jiang Chao knowingly provided substantial assistance to and thereby aided and abetted CNEP in its violations of Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

#### **SEVENTH CLAIM FOR RELIEF**

##### **Wang and Ju, as Control Persons Under Exchange Act Section 20(a), are Liable for CNEP's Violations**

79. Paragraphs 1 through 78 are realleged and incorporated herein by reference.

80. As detailed in paragraphs 1 through 55, Wang exercised control over CNEP by, among other things, (i) serving as the President, CEO and Chairman of the Board of Directors, (ii) being the largest CNEP shareholder, (iii) signing SEC filings, including without limitation,

CNEP's registration statement on Form S-3 and CNEP's annual, current and quarterly reports on Forms 10-K, 8-K and 10-Q, (iv) having signature authority over CNEP's bank accounts, including without limitation, CNEP's account at CNEP's U.S. Bank Account and (v) directing withdrawals of cash from CNEP bank accounts.

81. As detailed in paragraphs 1 through 55, Ju exerted control over CNEP by, among other things, (i) directing transaction between CNEP and herself, (ii) directing transfer of corporate funds to third parties, including without limitation, Sun, (iii) regularly attending board meetings, (iv) negotiating or executing contracts with third parties on behalf of CNEP, (v) authorizing CNEP stock issuances, (vi) directing withdrawals of cash from CNEP bank accounts and (vii) serving as the General Manager of at least two CNEP subsidiaries.

82. By reason of the foregoing, Wang and Ju are liable as control persons under Exchange Act Section 20(a) [15 U.S.C. § 78t(a)] for CNEP's violations of Exchange Act Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. §§ 78j(b), 78m(a) and 78m(b)(2)(A) & (B)] and Exchange Act Rules 10b-5, 13a-1, 13a-11 and 13a-13 [17 C.F.R. §§ 240.10b-5, 240.13a-1, 240.13a-11 and 240.13a-13].

### **PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment:

(a) Permanently enjoining Defendants CNEP, Wang, Ju and Jiang Chao from violating, directly or indirectly, Securities Act Section 17(a) [15 U.S.C. § 77q(a)], Exchange Act Sections 10(b) [15 U.S.C. §§ 78j(b)] and Exchange Act Rules 10b-5 [17 C.F.R. § 240.10b-5];

(b) Permanently enjoining Defendants Wang and Ju from violating, directly or indirectly, Exchange Act Section 13(b)(5) [15 U.S.C. § 78m(b)(5)] and Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1];

(c) Permanently enjoining Defendant CNEP, Wang and Ju from violating, directly or indirectly, Exchange Act Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) [15 U.S.C. §§ 78m(a), 78m(b)(2)(A) and 78m(b)(2)(B)] and Exchange Act Rules 13a-1, 13a-11 and 13a-13 [17 C.F.R. §§ 240.10b-5, 240.13a-1, 240.13a-11 and 240.13a-13];

(d) Permanently enjoining Defendants Wang, Ju and Jiang Chao from aiding and abetting violations of Exchange Act Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A) and 78m(b)(2)(B)] and Exchange Act Rules 10b-5, 13a-1, 13a-11 and 13a-13 [17 C.F.R. §§ 240.10b-5, 240.13a-1, 240.13a-11 and 240.13a-13];

(e) Ordering each Defendant and Relief Defendant to disgorge ill-gotten gains, with prejudgment interest, including, but not limited to, salaries, bonuses, and other benefits wrongfully obtained as a result of the conduct alleged herein;

(f) Imposing civil monetary penalties against Defendants CNEP, Wang, Ju and Jiang Chao pursuant to Securities Act Section 20(d) [15 U.S.C. § 77t(d)] and Exchange Act Section 21(d)(3) [15 U.S.C. § 78u(d)(3)]; Pursuant to Securities Act 20(g) [15 U.S.C. § 77t(g)] and Exchange Act Section 21(d)(2) [15 U.S.C. § 78u(d)(2)];

(g) Prohibiting Defendants Wang, Ju and Jiang Chao from acting as an officer or director of any issuer that has a class of securities registered pursuant to Exchange Act Section 12 [15 U.S.C. § 78l], or that is required to file reports pursuant to Exchange Act Section 15(d) [15 U.S.C. § 78o(d)]; and

(f) Granting such other and further relief as the Court deems just and appropriate.

Dated November 29, 2012

Respectfully submitted,

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