

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

CATHERINE RAND, Individually and On Behalf
of All Others Similarly Situated,

Plaintiff,

vs.

CHINA ENERGY SAVINGS TECHNOLOGY,
INC., KWUN-LUEN SIU, LAWRENCE LOK
YUEN-MING, and SUN LI,

Defendants.

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) **CIVIL ACTION NO.**
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) **CLASS ACTION COMPLAINT**
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) **JURY TRIAL DEMANDED**
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Plaintiff, Catherine Rand, (“Plaintiff”), alleges the following based upon the investigation by Plaintiff’s counsel, which included, among other things, a review of the defendants’ public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding China Energy Savings Technology, Inc. (“China Energy” or the “Company”) securities analysts’ reports and advisories about the Company, and information readily available on the Internet.

NATURE OF THE ACTION AND OVERVIEW

1. This is a federal class action on behalf of purchasers of the publicly traded securities of China Energy between April 21, 2005 and February 15, 2006 (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

2. China Energy is a rapidly growing Chinese company engaged in the manufacturing and sales of advanced technology energy-saving products in the People’s Republic of China.

3. On April 20, 2005, China Energy announced that the Company’s stock would

begin trading on NASDAQ on April 21, 2005. Shares of the Company's common stock would continue trading under the ticker symbol "CESV." The listing application was approved by NASDAQ on April 13, 2005.

4. On February 15, 2006, NASDAQ announced that trading in shares of China Energy was halted at 3:30 p.m., Eastern Time, for "additional information requested" from the Company at a last price of \$6.82.

5. On March 22, 2006, China Energy announced that NASDAQ's request for information involved the facts and circumstances regarding the underlying transactions related to the rescission of certain Rule 144 legal opinions by the Company's prior securities counsel who resigned in February 2006, as well as certain other matters related to the Company's issuance of securities. The Company reported that it retained new securities counsel and was cooperating with NASDAQ in an effort to resolve any questions or issues raised by NASDAQ in order to resume trading as soon as possible.

6. Throughout the Class Period, defendants failed to disclose: (1) that defendants allowed Company insiders to self-deal in the Company's January 2006 private placement; (2) that the Company failed to comply with SEC rules regarding limitations on sales of restricted stock; and (3) that as a result of this failure to comply with SEC rules, trading of the Company's stock would be halted by NASDAQ.

7. As of the filing of this Complaint, China Energy stock is still halted from trading. No indication has been given as to when, if ever, the Company's stock will resume trading.

JURISDICTION AND VENUE

8. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17

C.F.R. § 240.10b-5).

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

10. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District. Additionally, China Energy trades its shares on NASDAQ, which is located in the Southern District of New York. Thus, venue is proper in this District.

11. In connection with the acts, conduct and other wrongs alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

12. Plaintiff, Catherine Rand, as set forth in the accompanying certification, incorporated by reference herein, purchased China Energy securities at artificially inflated prices during the Class Period and has been damaged thereby.

13. Defendant China Energy is a Nevada corporation with its principal place of business located at Suite 3203/A, 32/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

14. Defendant Kwun-Luen Siu ("Siu") was the Company's Chairman and Chief Executive Officer, since January 17, 2006.

15. Defendant Lawrence Lok Yuen-Ming ("Yuen-Ming") was, at all relevant times, the Company's Chief Financial Officer.

16. Defendant Sun Li (“Li”) was, at all relevant times until January 17, 2006, the Company’s Chairman and Chief Executive Officer.

17. Defendants Siu, Yuen-Ming, and Li are collectively referred to hereinafter as the “Individual Defendants.” The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of China Energy’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, 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. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each “group-published” information, the result of the collective actions of the Individual Defendants.

SUBSTANTIVE ALLEGATIONS

Background

18. China Energy is a rapidly growing Chinese company engaged in the manufacturing and sales of advanced technology energy-saving products in the People’s Republic of China.

19. On August 25, 2004, China Energy announced it completed its name and trading symbol change. The NASD issued the company the new stock trading symbol CESV on the Over The Counter Bulletin Board.

20. Commenting on the name change, the Company’s Chief Operating Officer at the

time, Kam Man Lee stated:

The name and trading symbol changes were a critical matter for the company and I am very pleased we have completed the process. The new name and symbol reflect more accurately our business model and our region of economic development. It is our goal to build a company with real value for its shareholders. The foundation is in place to immediately bring our shareholders up to speed on the company and our position in the very exciting China Energy Sector.

We have dynamic growth ahead of us. Our market penetration is in its infancy and we have no real competition. If oil and coal prices remain high, and growth and demand for energy remain high, we feel strongly that our early position in this sector will allow us to stay an industry leader.

21. Prior to changing its name to China Energy, the Company did business as Rim Holdings, Inc. ("Rim"). Rim was a holding company that held all of the shares of Rimmer Computers, Inc. ("Rimmer"). Rimmer was an approved technical service provider for computer hardware and software system manufacturers such as Novell, Microsoft, IBM, Compaq, Hewlett Packard, Cisco and others.

22. On July 2, 2004, Rim announced that it entered into a Stock Purchase Agreement on June 29, 2004 to acquire a 50% ownership interest in Starway Management Limited ("Starway"). This transaction closed on June 30, 2004. Rim purchased a 50% stake in Starway from Eurofaith Holdings, Inc. ("Eurofaith") in exchange for a convertible note with a principal of \$120 million but would be convertible into approximately 223,073,380 shares of Rim common stock upon the December 31, 2004 maturity date. Further, Eurofaith could convert at anytime prior to such maturity date. Starway, through its two wholly owned subsidiaries, Shenzhen Dicken Industrial Development Limited, Shenzhen Dicken Technology Development Limited, was a People's Republic of China-based manufacturer of the software and hardware of energy saving products for use in commercial and industrial settings.

23. On August 16, 2004, Rim filed Form NT 10-Q with the SEC. Rim's Form NT 10-Q reported that Rim would be unable to timely file its quarterly report.

24. On August 19, 2004, Rim filed Form 8-K with the SEC. In its Form 8-K, Rim stated:

On August 19, 2004, the Registrant engaged Webb & Company, P.A. as the Registrant's independent accountants to review the Registrant's consolidated balance sheet as of June 30, 2004 and the related consolidated statements of income, stockholders' equity and cash flows for the quarter then ended. The decision to appoint Webb & Company, P.A. was approved by the Registrant's Board of Directors.

The Registrant dismissed Gary E. Hirth CPA ("Hirth") as its auditors effective from August 19, 2004. Hirth served as the Registrant's independent auditors for the Registrant's former fiscal year ended September 30, 2003. Hirth's report on the Registrant's consolidated financial statements for the registrant's fiscal year ended September 30, 2003 (the "Reports") did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

25. Additionally, and with respect to the change in accountant, Rim stated:

During the Registrant's two most recent fiscal years and any subsequent interim period prior to the engagement of Webb & Company, P.A., neither the Registrant nor anyone on the Registrant's behalf consulted with Webb & Company, P.A. regarding either (i) the application of accounting principles to a specified transaction, either contemplated or proposed, or the type of audit opinion that might be rendered on the Registrant's financial statements or (ii) any matter that was either the subject of a "disagreement" or a "reportable event."

26. On January 13, 2005, China Energy filed its transitional report with the SEC on Form 10-KSB. With respect to Hirth's departure, the Company stated:

We dismissed Gary E. Hirth CPA ("Hirth") as our auditors effective from August 19, 2004. Hirth served as our independent auditors for our former fiscal years ended September 30, 2003 and September 30, 2002. Hirth's report on our consolidated financial statements for our fiscal years ended September 30, 2003

and September 30, 2002 (the "Reports") did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles except as follows: In Hirth's report dated December 29, 2003 and December 23, 2002 for financial statements for our fiscal years ended September 30, 2003 and September 30, 2002, respectively, Hirth indicated that: "The Company has negative working capital and a deficit stockholders' equity. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

27. On August 24, 2004, Rim filed its quarterly report with the SEC on Form 10-QSB. Rim reported quarterly revenues of \$13,739,415, as compared to revenues of \$6,760,649 during the quarter ended June 30, 2003, an increase of 103 percent.

28. On August 26, 2004, New Solomon Consultants Limited ("New Solomon") purchased 56 percent of China Energy's securities, thereby acquiring a controlling interest in the Company. New Solomon acquired the securities from Eurofaith upon conversion of the promissory note from the June 30, 2004 transaction. Able Stars Enterprises Ltd., which is owned by defendant Li, owns 55 percent of New Solomon.

29. On September 17, 2004, China Energy's Chief Executive Officer Lee Kam Man resigned. Defendant Li assumed the position of Chief Executive Officer, and was also appointed Chairman of the Company's Board of Directors. At this time, defendant Li was also the principal shareholder of Shenzhen Dicken Industrial Development Limited.

30. On November 5, 2004, Webb & Company, hired by China Energy as the Company's auditors only three months earlier, resigned after an affiliate of the auditor was appointed China Energy's Chief Financial Officer.

31. On November 16, 2004, China Energy issued a press release entitled "China Energy Savings Increases Stake in Energy Savings Project." The Company stated:

China Energy Savings Increases Stake in Energy Savings Project

Net Profits Through 3rd Quarter Increase by 256% to \$24 Million

HONG KONG, Nov. 16 /Xinhua-PRNewswire/ -- The Board of Directors of China Energy Savings Technology, Inc. (CESV - news) (BULLETIN BOARD: CESV) is pleased to announce it passed a resolution on November 15, 2004 to enter into an agreement with Eurofaith Holdings Inc. to purchase a 15% stake in Starway held by Eurofaith. China Energy Savings shall issue 3,346,100 shares of its common stocks to Eurofaith to pay for the deal.

In addition to the 50% stake in Starway, which China Energy Savings acquired from Eurofaith on August 25, 2004, China Energy Savings will be holding a 65% stake in Starway upon closing of the deal. At present, Starway is holding 100% interest in Shenzhen Dicken Industrial Development Limited. The core business of Shenzhen Dicken is the development of advanced energy savings products and wind energy project in China.

The board of China Energy Savings has deemed it to be in the best interests of the corporation and its stockholders to proceed with the deal. First, it helps increase the net profit. Second, the deal enables the corporation to take a more firm control of its energy savings project. Last but not least it paves the way for China Energy Savings to transfer to the NASDAQ National Market.

Mr Sun Li, CEO of China Energy Savings said, "The outlook for the company is promising. The company's products are in excessive demand due to the deteriorating supply of electricity in China, combined with ever increasing coal and oil prices, which keep reaching new highs."

The unaudited revenue and the net profit of Starway for the first nine months ended September 30, 2004 are \$31 million and \$24 million respectively, a substantial increase of 256% in net profit compared with the same period last year. The management believes that this upward trend will continue for the next several years to come.

The purchase of the 15% stake in Starway is favorable to China Energy Savings. The company does not rule out the future possibility of increasing its stakes in Starway.. In commenting on these results, defendant Catalano stated:

The Company's financial performance resulted in further debt reduction this quarter. More importantly, our consistent quality of operations has continued to strengthen the Company's leading position in our industry. Substantial contracts have been renewed

and preparations to begin a major new contract are already underway.”

32. On December 3, 2004, China Energy issued a press release entitled “China Energy Savings Technology Comments on Application to NASDAQ.” The Company stated:

China Energy Savings Technology Comments on Application to NASDAQ

Revenue Through 3rd Quarter at \$31 Million with \$22 Million in Net Profits;

Profits Rose 256%

HONG KONG, Dec. 3 /Xinhua-PRNewswire/ -- The Board of Directors of China Energy Savings Technology, Inc (CESV - news) (BULLETIN BOARD: CESV) is pleased to announce it filed a listing application with the NASDAQ National Market on December 2, 2004 to move from the OTC Bulletin Board to the NASDAQ National Market.

Mr Sun Li, CEO of China Energy Savings, said, "One of our primary goals is to trade on the NASDAQ. We believe that we have met all of the requirements to be listed on the NASDAQ and have filed an application to be listed on the NASDAQ. This will open up investment opportunities to many institutional investors who typically do not, or cannot invest in Over The Counter companies."

The unaudited revenue and net profit that China Energy Savings generated from its energy savings project for the first three quarters ended September 30, 2004 are \$31 million and \$22 million, marking an increase of 256% in net profit compared with the same period last year. The management believes that this upward trend will continue for the next several years to come due to the serious shortage of electricity supply. In addition to the 65% stake in the energy saving project held by the company as of today, the company contemplates acquiring the remaining 35% stake in the near future.

"We are growing rapidly as a company and believe a move to a more active exchange is in the best interest of the company and its shareholders," concluded Mr. Sun.

33. On December 9, 2004, China Energy issued a press release entitled "China Energy Savings Technology Announces Substantial Increases in New Contracts." The Company stated:

China Energy Savings Technology Announces Substantial
Increases in New Contracts

HONG KONG, Dec. 9 /Xinhua-PRNewswire/ -- China Energy Savings Technology, Inc. (CESV - news) (BULLETIN BOARD: CESV) , a leading software developer and manufacturer of energy savings products in the PRC, announces today the number of contracts it signed in recent months has increased substantially.

Shenzhen Dicken Industrial Development Limited, a subsidiary of China Energy Savings Technology, has signed over 100 new contracts since the closing of the acquisition of 50% of energy savings project in China on August 25, 2004. The subsequent acquisition of 15% stake of the project on November 16, 2004 further increased the Company's stake in the project to 65%. The total value of these contracts increased since August 25, 2004 are worth about \$11 million, an increase of 108% compared with the same period last year. The management of China Energy Saving Technology forecasts the net profit of the 4th quarter will at least double that of the same period last year, contributing to the profit growth.

Mr. Ian Cheng, Chief Executive Officer of Shenzhen Dicken Industrial Development Limited, said "these contracts representing 50% market share are expected to be completed in 2nd half of 2005 and the net profit is expected to double by then. The shortage of electricity supply in China is one of main reasons that our customers are buying more and more of our products. In many large Chinese cities and provinces, especially those booming regions in Southern China, rolling electricity blackouts have become common events during summer and winter seasons. Increasingly, Chinese government and businesses have begun embracing energy conservation and saving. Our products provide one of best and easiest solutions in the market place to save electricity. One thing is certain energy demands and energy production will continue to rise and we have positioned ourselves as a cost savings, environment saving energy player and we are looking at all aspects of the energy crunch in China." On December 2, 2004, the company was pleased to announce that it filed a listing application with the NASDAQ National Market to

move from the OTC Bulletin Board to the NASDAQ National Market."

34. On December 29, 2004, China Energy filed Form NT 10-K with the SEC. The Company's Form NT 10-K stated that China Energy would be unable to timely file its annual report.

35. On January 13, 2005, China Energy filed its transition report for the nine-month period between January 1, 2004 and September 30, 2004 with the SEC on Form 10-KSB. The Company reported that, for the nine month period ended September 30, 2003, revenues were \$31 million, with gross profit of \$19 million and earnings per share of 51 cents per share.

36. On January 25, 2005, China Energy issued a press release entitled "China Energy Savings Technology Chairman and CEO States Corporate Plans and Objectives for 2005." The Company stated:

China Energy Savings Technology Chairman and CEO States
Corporate Plans and Objectives for 2005

Plans Include Generation of Energy-For-Sale to Compliment
Its Energy Savings Unit

HONG KONG, Jan. 25 /Xinhua-PRNewswire/ -- China Energy Savings Technology, Inc. (CESV - news) (BULLETIN BOARD: CESV) , Chairman and CEO, Mr. Sun Li, on the basis of the corporate milestones, particularly the profit contribution in 2004, looks ahead to 2005.

China Energy Savings Technology ("CESV") is in current negotiations to acquire the remaining 35% interest in Starway Management Limited ("Starway"). Upon completion, the proposed acquisition is expected to greatly enhance the profit contribution to CESV. Starway will become a wholly owned subsidiary of CESV and its financials will consolidate to CESV.

Aside from the windmill project at Alashan, Xinjiang Province, China, the key members of the management, with their strong reputation in the Chinese energy sector, and through their extensive network of relationships, are at present identifying several potential acquisition targets in various energy sectors

including coal mines, natural gas, and power plants, particularly those with large assets and good profit potentials. The company hopes to complete several acquisitions in 2005 through the issuance of new shares of CESV common stock without paying cash in the hope of preserving cash while making even higher profits for a greater return on investment for shareholders.

The projects in negotiation include a highly potential public utility gas company and a coal-refining factory. As a company making strong inroads into the Chinese energy sector, CESV is not only devoted to energy savings, but also to energy supply and enrichment. Company executives are quite sophisticated in all facets of energy, and have designs on turning the company into one of China's largest full-service energy conglomerates. CESV's ultimate goal is becoming a large-scale, comprehensive energy technology company listed on the NASDAQ National Market.

Since December 2004, CESV has signed a number of profit sharing contracts with the Chinese government involving the installation of equipment and the launching of various energy savings technology applications. In line with more than 100 sales contracts and orders signed last year, as well as the acquisition of several high profit energy projects, management foresees a substantial increase in both revenues and net profit for fiscal year 2005.

37. On February 3, 2005, China Energy issued a press release entitled "China Energy Savings Increases Stake in Energy Savings Project." The Company stated:

China Energy Savings Increases Stake in Energy Savings Project

Starway Management Limited Becomes Wholly Owned Subsidiary

HONG KONG, Feb. 3 /Xinhua-PRNewswire/ -- The Board of Directors of China Energy Savings Technology, Inc. (CESV - news) (BULLETIN BOARD: CESV) is pleased to announce it has acquired the remaining 35% stake in Starway Management Limited ("Starway") held by Sky Beyond Investments Limited ("Sky Beyond"). In exchange for the 35% stake, China Energy Savings will issue 7,807,569 shares of its common stocks to Sky Beyond. The amount of consideration given for the Acquisition was determined with reference to the acquisitions of 50% and 15% stake in Starway capital stock on June 30, 2004 and November 15, 2004 respectively.

Mr Sun Li, CEO of China Energy Savings said, "The positive impact to the company's revenue and profit through from this acquisition cannot be taken lightly. This is a major event in our company's history, and dating back to August of last year, when we acquired 50% of Starway, we knew we wanted to make them a wholly owned subsidiary as quickly as possible. We have worked very hard to accomplish this." On November 16, 2004 the company acquired an additional 15% of Starway, raising its stake to 65% at that time. "Complete ownership of Starway gives us every expectation we'll have better profits, and profit potentials moving forward. This is a great day in the company's history, and a great day for shareholders."

Upon completion of the shares transfer, China Energy Savings will wholly own Starway. At present, Starway holds 100% interest in Shenzhen Dicken Industrial Development Limited ("Shenzhen Dicken"). The core business of Shenzhen Dicken is the development of advanced energy savings products and wind energy project in China energy project in China.

For the period January to December 2004, Shenzhen Dicken had profits of approximately RMB254.7 million (approximately US\$30.7 million) on revenues of RMB360.3 million (approximately US\$43.6 million).

The Board of Directors of China Energy Savings, citing increased net profits and complete ownership in its China energy savings projects, has deemed it to be in the best interests of the corporation and its stockholders to proceed with the deal to acquire 100% of Starway. The Board also cited the acquisition as favorable to its listing application to transfer to the NASDAQ National Market.

38. On February 14, 2005, China Energy filed its quarterly report with the SEC on Form 10-QSB. The Company's Form 10-QSB was signed by defendant Li and reported quarterly revenue of \$11.7 million, gross profit of \$6.8 million and earnings per share of 25 cents per share. Additionally, the Company's Form 10-QSB contained the following Sarbanes-Oxley required certification signed by defendant Li:

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-
14(a) AND 15D-14(a) AS ADOPTED PURSUANT TO SECTION
302 OF THE SARBANES-OXLEY ACT OF 2002

1. I have reviewed this quarterly report on Form 10-QSB of China Energy Savings Technology, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this annual report;

4. The other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 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 small business issuer and have:

a) designed such disclosure controls and procedures or cause such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal

quarter that has materially affected, or its reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal controls over financial reporting.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the China Energy Savings Technology, Inc. Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sun Li, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

(2) The information contained in the Report fairly presents in all material respects the financial condition and results of operations of the Company.

39. On April 18, 2005, China Energy issued a press release entitled "China Energy Savings Technology, Inc. Approved for Listing on NASDAQ National Market System (NMS)."

The Company stated:

China Energy Savings Technology, Inc. Approved for Listing on NASDAQ National Market System (NMS)

Trading Symbol Will Remain CESV

HONG KONG, April 18 /Xinhua-PRNewswire/ -- China Energy Savings Technology, Inc. (CESV - news) (BULLETIN BOARD: CESV) , today announced that on April 13, 2005 NASDAQ approved its application to list its common stock on the NASDAQ National Market System (NMS).

The Company's common stock will be eligible for trading on the NMS on a date arranged by NMS, which is approximately 3 days from the Company's notice upon payment of the initial entry fee. The fee was remitted on April 18, 2005. The trading symbol for common stock will continue to be CESV.

The company would like to thank the following market makers for working with them throughout the application process: Goldman Sachs, RBC Capital, S.G. Martin Securities LLC, Capital Growth Financial, LLC, and Hudson Securities Inc.

**Materially False And Misleading
Statements Issued During The Class Period**

40. On April 20, 2005, at 3:54 P.M. EST, China Energy issued a press release entitled “China Energy Savings Technology, Inc. Announces Move to the NASDAQ National Market System.” The Company stated:

China Energy Savings Technology, Inc. Announces Move to the Nasdaq National Market System

HONG KONG, April 20 /Xinhua-PRNewswire/ -- China Energy Savings Technology, Inc. (CESV - news) (BULLETIN BOARD: CESV) , a leading energy savings company, today announced that its common stock will begin trading on the Nasdaq National Market System (NMS) on Thursday, April 21, 2005 when market opens. Shares of the Company's common stock will continue trading under the ticker symbol "CESV". The listing application was approved by Nasdaq on April 13, 2005.

Mr Sun Li, Chairman and CEO of China Energy Savings Technology commented, "The move to the NMS marks another significant milestone in the company's growth and development and represents another step in our ongoing commitment to delivering value to our shareholders. The NMS listing will provide

greater visibility and access to a wider investor base. We are honored to join the family of NMS-listed companies and look forward to continued growth and development on the NMS."

"The shortage of energy supply will be getting worse in the years to come," Sun Li continued. "Because of this we are even more devoted to the contribution of energy conservation, which is in the best interest of our shareholders. When Starway Management Limited, the energy savings subsidiary of China Energy Savings Technology, generated \$8.9 million in annual income in 2003 after consolidating its financials with its mother company, the earning per share was only \$0.36. In 2004 the annual income reached \$30.7 million after consolidating its financials with its mother company (before deducting the value of the shares issued under the company's 2004 equity plan), and the earning per share rose to \$1.25. These figures reflected the potentials of energy saving market in China."

On March 23, 2005, the Research Works, Inc. an independent equity research company, initiated coverage of China Energy Savings Technology on the factors of our profit potential and NMS listing. The entire report can be viewed online at the following URL: <http://www.stocksontheweb.com/cesv.pdf>.

41. On this news, China Energy's stock rose 25 cents to close, on April 21, 2005, at \$15.00 per share.

42. On May 17, 2005, China Energy filed Form NT 10-K with the SEC. The Company's Form NT 10-K stated that China Energy would be unable to timely file its annual report.

43. On May 23, 2005, China Energy filed its quarterly report with the SEC on Form 10-QSB. The Company's Form 10-QSB was signed by defendant Li and reported that, for the period ended March 31, 2005, the Company's quarterly revenues were \$11.2 million, gross profits were \$6.9 million and earnings per share were 18 cents per share. Additionally, the Company's Form 10-QSB contained Sarbanes-Oxley required certifications substantially similar to the certifications contained in ¶ 38, *supra*.

44. On June 27, 2005, China Energy filed Form 8-K with the SEC. The Company

announced that it would be restating previously announced financial results. Specifically, the Company stated:

On or about March 29, 2005, the Registrant concluded that it needed to amend and restate the financial statements presented in the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004 in order to include information regarding stock issuances to consultants and other service providers that are more accurately reflected and accounted for in such quarter's Quarterly Report. Such stock issuances are reflected as additional expenses as more fully set forth in Amendment No. 1 to Form 10-QSB for the quarter ended December 31, 2004 filed with the Commission on March 29, 2005.

On or about June 10, 2005, the Registrant concluded that it needed to amend and restate the financial statements presented in the Registrant's Amendment No. 1 to the Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004 in order to: (i) correct earnings per share calculations related to the acquisition of shares of Starway Management Limited ("Starway"); (ii) add disclosure in Note 1 of the Registrant's financial statements regarding the consideration for the acquisition of Starway; (iii) add disclosure in Note 1 regarding revenue recognition accounting policies; (iv) add disclosure in Note 11 regarding Chinese taxes the Registrant is subject to; and (v) add disclosure in new Note 17 regarding the restatement of the financial statements.

On or about June 10, 2005, the Registrant concluded that it needed to amend and restate the financial statements presented in the Registrant's Amendment No. 1 to the Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004 in order to: (i) correct earnings per share calculations related to the acquisition of Starway; (ii) add disclosure in Note 1 of the Registrant's financial statements regarding the consideration for the acquisition of Starway; (iii) add disclosure in Note 2 regarding revenue recognition accounting policies; (iv) add disclosure in Note 12 regarding Chinese taxes the Registrant is subject to; (v) add disclosure in new Note 18 regarding the restatement of the financial statements.

As a result of the above described restatements, the previously issued financial statements contained in the Registrant's Amendment No. 1 to Form 10-KSB for the fiscal year ended September 30, 2004 and the Registrant's Amendment No. 1 to Form 10-QSB for the quarter ended March 29, 2005 should no longer be relied upon. We have filed, on June 15, 2005,

amendments to Amendment No. 1 to Form 10-KSB for the fiscal year ended September 30, 2004 and to Amendment No. 1 to Form 10-QSB for the quarter ended March 29, 2005 to effect the restatement of our financial statements for these matters.

The Registrant has provided to, and discussed with, both its current and prior independent registered accountants, these accounting matters.

45. Also on June 27, 2005, China Energy filed amended financial results for the fiscal year ended September 31, 2005 on Form 10-KSB with the SEC, and filed amended financial results for the quarter ended December 31, 2005 on Form 10-QSB with the SEC.

46. On July 1, 2005, China Energy announced the resignation of the Company's Chief Financial Officers and three directors on Form 8-K filed with the SEC. Specifically, the Company stated:

(a) RESIGNATION OF DIRECTORS

Effective July 1, 2005, Mr. Dennis Yu Won-Kong ("Mr. Yu") resigned as a member of the board of directors of the Registrant and will also no longer serve as a member of the Company's audit committee. There were no disagreements between Mr. Yu and any officer or director of the Registrant. The Registrant has provided a copy of the disclosures it is making in response to this Item 5.02 to Mr. Yu and has informed him that he may furnish the Registrant as promptly as possible with a letter stating whether he agrees or disagrees with the disclosures made in response to this Item 5.02, and that if he disagrees, then the Registrant requests that he provide the respects in which he does not agree with the disclosures. The Registrant will file any letter received by the Registrant from Mr. Yu as an exhibit to an amendment to this current report on Form 8-K within two business days after receipt by the Registrant.

Effective July 1, 2005, Mr. Li Shilong ("Mr. Li") resigned as a member of the board of directors of the Registrant. There were no disagreements between Mr. Li and any officer or director of the Registrant. The Registrant has provided a copy of the disclosures it is making in response to this Item 5.02 to Mr. Li and has informed him that he may furnish the Registrant as promptly as possible with a letter stating whether he agrees or disagrees with the disclosures made in response to this Item 5.02, and, if he disagrees,

then the Registrant requests that he provide the respects in which he does not agree with the disclosures. The Registrant will file any letter received by the Registrant from Mr. Li as an exhibit to an amendment to this current report on Form 8-K within two business days after receipt by the Registrant.

Effective July 1, 2005, Mr. Lee Kam Man ("Mr. Lee") resigned as a member of the board of directors of the Registrant. There were no disagreements between Mr. Lee and any officer or director of the Registrant. The Registrant has provided a copy of the disclosures it is making in response to this Item 5.02 to Mr. Lee and has informed him that he may furnish the Registrant as promptly as possible with a letter stating whether he agrees or disagrees with the disclosures made in response to this Item 5.02, and, if he disagrees, then the Registrant requests that he provide the respects in which he does not agree with the disclosures. The Registrant will file any letter received by the Registrant from Mr. Lee as an exhibit to an amendment to this current report on Form 8-K within two business days after receipt by the Registrant.

(b) RESIGNATION OF CHIEF FINANCIAL OFFICER

Effective July 1, 2005, Mr. Poon Kam-Wah resigned as the Chief Financial Officer of the Registrant.

47. On July 12, 2005, China Energy issued a press release entitled "China Energy Savings Announces 3rd Quarter Preliminary Financial Results For Its Subsidiary." The Company stated:

China Energy Savings Announces 3rd Quarter Preliminary Financial Results For Its Subsidiary

Quarterly Profits Reach \$7.35 Million

HONG KONG, July 12 /Xinhua-PRNewswire/ -- China Energy Savings Technology, Inc., (CESV - news) today announced the preliminary 3rd Quarter Revenue figure (unaudited) of its subsidiary, Starway Management Limited ("Starway") for the quarter ended June 30, 2005 is approximately \$12.17 million. Net Income in the Quarter reached approximately \$7.35 million and the Earnings Per Share for the 3rd Quarter reached \$0.30, which is a record high. Final figures are subject to the filing of Form 10QSB.

As China heads into the summer peak energy season, the company's revenue was up 8% versus last quarter, while net

income rose an impressive 14% compared to last quarter. The Company expects its energy savings project to bring an annual profit of at least \$27 million for the year 2005 (October 1, 2004 to September 30, 2005) or Earnings Per Share of over \$1.10. PE ratio at the time of this press release is 7.46x.

"With the heat of summer upon us, and the demand for electricity growing, we continue to strongly promote energy conservation not only in China, but worldwide," said Mr. Sun Li, Chairman and CEO of China Energy Savings Technology.

Last week China's Prime Minister Wen Jiabao and China's State Council appealed to the Chinese public by calling for a drive "to build a resources-saving society" by focusing on conservation and renewable resources.

Wen's Monday appeal was followed by a blueprint for a comprehensive plan that would make greater efforts to conserve energy across the entire economy, from heavy industry to farms to homes.

"Changing people's notion of energy saving in their daily life is very important as the first step in promoting a resources-saving society," said Yang Chunping, director of the National Development and Reform Commission's Management Research Centre. Mr. Yang stressed that the government's aim was to reduce energy consumption, promote energy conservation and boost sustainable energy development.

"Our quarterly revenue and profit figures show that we're not only growing as a company, but as a country our efforts to conserve energy are starting to show. As a country we have a long road ahead. As a company we'll continue to be there every step of the way, promoting conservation of the resources we currently have to carry us into a prosperous future," concluded Mr. Sun.

48. On August 15, 2005, China Energy filed Form NT 10-Q with the SEC. The Company's Form NT 10-Q stated that China Energy would be unable to timely file its quarterly report.

49. On August 22, 2005, China Energy filed its quarterly report with the SEC on Form 10-QSB. The Company's Form 10-QSB was signed by defendants Li and Yuen-Ming and reported quarterly revenue of \$9.6 million, net income of \$4.5 million, and earnings per share of

18 cents per share. These results were substantially lower than the Company's preliminary financial results previously announced on July 12, 2005. Additionally, the Company's Form 10-QSB contained Sarbanes-Oxley required certifications signed by defendants Li and Yuen-Ming substantially similar to the certifications contained in ¶ 38, *supra*.

50. On December 14, 2005, China Energy filed Form NT 10-K with the SEC. The Company's Form NT 10-K stated that China Energy would be unable to timely file its annual report.

51. On December 20, 2005, China Energy filed its annual report with the SEC on Form 10-KSB. The Company's Form 10-K was signed by defendants Li and Yuen-Ming and reported that, for the fiscal year ended September 30, 2005, the Company's annual revenue was \$48.4 million, net income was \$22.4 million, and earnings per share were \$1.04 per share. Additionally, the Company's Form 10-K contained Sarbanes-Oxley required certifications signed by defendants Li and Yuen-Ming substantially similar to the certifications contained in ¶ 38, *supra*.

The Truth Begins to Emerge

52. On January 17, 2006, China Energy issued a press entitled "China Energy Savings Secures \$50 Million Financing For New Ventures." The Company stated:

China Energy Savings Secures \$50 Million Financing For New Ventures

HONG KONG, Jan. 17 /Xinhua-PRNewswire/ -- China Energy Savings Technology, Inc. (CESV - news), a leading provider of energy saving products in China, announced today that it signed an underwriting agreement with a full service investment financial group providing a broad range of securities related services on January 17, 2006 for raising \$50 million through a private placement of Preferred Stock. The funds will be used to finance acquisitions of new infrastructure and energy ventures. The S3 registration will be filed with the financing placement. Mr Kwun-Luen Siu, the newly appointed Chairman and Chief Executive

Officer of the Company, stated, "We are extremely pleased to announce this proposed offering. This financing will allow us to more aggressively pursue opportunities that we believe will drive our future growth plan. We are extremely excited with the financial group who participated in this financing as the underwriter."

53. Also on January 17, 2006, China Energy issued a press release entitled "China Energy Savings Appoints New Chairman and Chief Executive Officer." The Company stated:

China Energy Savings Appoints New Chairman and Chief Executive Officer

HONG KONG, Jan. 17 /Xinhua-PRNewswire/ -- China Energy Savings Technology, Inc. (CESV - news), a leading provider of energy saving products in China, announced today that Sun Li has resigned as Director to pursue his own business and personal interests and that the position has been filled by Kwun Luen Siu, effective immediately. Sun Li remains the largest shareholder of the Company after leaving the Board.

Mr Siu is referred by Sun Li and reviewed by the Board of Directors of the Company before he was appointed. Commenting on the change in management, the Board is pleased to have Mr Siu assume the role as Chairman and Chief Executive Officer, who has an impressive and successful background in the financial sector having served as the Responsible Director of Forex, Futures and Securities under Securities and Futures Commission of Hong Kong, the Chairman of Supervisory Committee of the Chinese Gold and Silver Exchange Society of Hong Kong, and Managing Director of Dashin Group in Hong Kong. The Board further believes that Mr Siu will bring extensive financial expertise to the Company, which is key to the future growth of the Company. Mr Siu also has a higher proficiency of English than Sun Li.

Prior to joining the board, Mr Siu introduced an investment financial group to the Company to underwrite up to \$50 million to fund the development of their new alternative energy technologies, new markets and potential acquisitions. For more information of this transaction, please refer to another piece of company news of today.

The Board thanks Sun Li for his contribution during his tenure and wishes him every success in his own business.

54. On this news, shares of China Energy fell 96 cents, or 12.13 percent, to close, on

January 20, 2006, at \$6.95 per share.

55. On January 20, 2006, China Energy filed two registration statements with the SEC on Form S-3. The Company's Form S-3s registered the sale of 6,050,000 shares of China Energy stock held by New Solomon and 10,000,000 shares of China Energy stock, respectively.

56. While China Energy's Form S-3s did disclose defendant Li's interest in New Solomon, the Company failed to disclose that defendant Sui, defendant Li's replacement as the Company's Chief Executive Officer, introduced the financial investment group to China Energy that was underwriting China Energy's \$50 million private placement offering.

57. On February 6, 2006, Dutton Associates reduced its rating of China Energy to neutral. With respect to the rating reduction, Dutton Associates stated:

China Energy Savings Technology, Inc. (China Energy) made two significant announcements on January 17, 2006. The first announcement dealt with a management change; Sun Li resigned as Chairman and Chief Executive Officer "to pursue his own business and personal interests." Mr. Li remains the largest stockholder in China Energy through his security holdings in New Solomon Consultants Ltd. Upon Mr. Li's resignation The Board of Directors immediately appointed Kwun Luen Siu to the positions of Chairman of the Board and Chief Executive Officer. Mr. Siu was referred by Sun Li and reviewed by the Board of Directors of China Energy before being appointed to the positions. Mr. Siu served as the Responsible Director of Forex, Futures and Securities under Securities and Futures Commission of Hong Kong, Chairman of Supervisory Committee of the Chinese Gold and Silver Exchange Society of Hong Kong, and Managing Director of Dashin Group in Hong Kong. As stated in China Energy's news release, Mr. Siu has a higher proficiency in English than Sun Li.

The second announcement dealt with a proposed offering of \$50.0 million of preferred stock. Interestingly, before Sun Li's resignation, Mr. Siu introduced a financial investment group to China Energy. Today, China Energy announced that it signed an underwriting agreement with this full service financial investment group to raise \$50.0 million through a private placement of preferred stock. The funds raised will be used to finance acquisitions of new infrastructure and energy ventures. China

Energy will file an S-3 Registration with the SEC upon placement of the financing.

Since our initial Research Report, China Energy Savings Technology, Inc. (China Energy) has made considerable progress in developing and marketing their energy savings products. China Energy is also planning for the future with alliances for alternative energy sources. The reported results for the fourth quarter and year-ended September 30, 2005, exceeded estimates. However, as we point out later in the report, the quality of earnings is suspect due to the high level of China Energy Savings Technology, Inc. recognized revenue that is in the form of additions to notes receivables, rather than cash received.

Further, China Energy's independent registered public accounting firm, Moore Stephens Wurth Frazer and Torbet, LLP (MSFT), has disclaimed an opinion on both management's assessment of the effectiveness of China Energy's internal control over financial reporting and on the actual effectiveness of its internal control over financial reporting. MSFT did not include such a disclaimer in its audit for the year ended September 30, 2004. China Energy is implementing policies to correct this situation. We believe this could relate to the revenue recognition and notes receivable situation and raises the specter of possible restatements of results.

Finally, the January 5, 2006, notification of the sale of 2.2 million shares of China Energy common stock by New Solomon Consultants Ltd. also concerns us, because Sun Li, Chief Executive Officer of China Energy, owns 55 % of the selling stockholder, New Solomon Consultants Ltd. We will review our rating after China Energy reports their first quarter results, to see whether they solve this accounting situation.

58. On February 14, 2006, China Energy filed its quarterly report with the SEC on Form 10-Q for the quarterly period ended December 31, 2005. The Company's Form 10-Q was signed by defendants Siu and Yuen-Ming and reported that, for the quarter ended December 31, 2005, revenues were \$10,696,397, gross profit was \$6,534,456, and net income was \$6,091,631. Additionally, the Company's Form 10-Q contained Sarbanes-Oxley required certifications signed by defendants Siu and Yuen-Ming substantially similar to the certifications contained in ¶ 38, *supra*.

59. Additionally, the Company disclosed that the SEC was conducting an informal and non public inquiry related to the Empire Financial Group placement agreement. With respect to the SEC's inquiry, the Company stated:

On January 17, 2006, the Company entered into a placement agreement with Empire Financial Group, Inc. (the "Placement Agent") in order to raise \$50 million through a private placement of the Company's preferred stock. The proceeds from the private placement will be used to finance acquisitions of new infrastructure and energy ventures. The Placement Agent will earn a placement fee of 8% of the aggregate purchase price of the preferred stock. In addition, at the closing of the sale of the preferred shares of stock, the Company will issue the Placement Agent warrants to purchase shares of common stock in the Company in an amount equal to 8.0% of the total amount raised. The warrants shall be exercisable at the price paid for any common stock sold in the offering.

On January 20, 2006, the Company filed two Form S-3 registration statements with the United States Securities and Exchange Commission (the "SEC") under which the Company intends to register 10,000,000 shares of its Common Stock by itself, and 6,050,000 additional shares by New Solomon Consultants Limited, principal stockholder of the Company.

The independent auditors of the Company and the Company itself were advised by the SEC on January 31, 2006 and February 9, 2006 respectively that the SEC is conducting an informal and non public inquiry in the "Matter of China Energy Savings Technology, Inc", and requested that the Company and its auditors furnish certain documents. The Company intends to fully cooperate with these inquiries and supply all available materials requested.

60. On February 15, 2006, NASDAQ announced that trading was halted in China Energy at 3:30 p.m., Eastern Time, for "additional information requested" from the company at a last price of \$6.82. Further, trading would remain halted until China Energy fully satisfied NASDAQ's request for additional information.

61. On March 13, 2006, Dutton Associates announced that it would be terminating research coverage of China Energy. Dutton Associates stated:

TERMINATING RESEARCH COVERAGE; FINAL RATING NEUTRAL

Seeking additional information from China Energy Savings Technology, Inc., (China Energy) NASDAQ halted trading in China Energy on February 15, 2006. The price of China Energy stock when halted was \$6.82 per share. Nasdaq said that the stock would remain halted until China Energy has fully satisfied its request for additional information. It is our understanding that part of the reason for the halt was due to the withdrawal of the attorney's opinion letter on the recent Rule 144 Sales of Restricted Stock. Since the beginning of 2006, there were several insider sales of note by New Solomon Consultants, LTD:

1. January 3, 2006 - Sale of 2,200,000 shares in a Private sale at \$8.00
2. January 27, 2006 - Sale of 1,000,000 shares in a Private sale at \$5.75
3. February 3, 2006 - Sale of 1,300,000 shares in market at \$8.92

Mr. Sun Li, former Chairman of the Board and CEO of China Energy, owns 55% of New Solomon Consultants, Ltd., and is the controlling stockholder of New Solomon. Hence Mr. Sun Li is listed as a seller on the above sales.

The halt in trading came one day after China Energy filed its SEC Form 10Q for the period ending December 31, 2005, wherein it was noted, "The independent auditors of the Company and China Energy were advised by the SEC on January 31, 2006 and February 9, 2006 respectively that the SEC is conducting an informal and non-public inquiry in the Matter of China Energy Savings Technology, Inc", and the SEC requested that China Energy and its auditors furnish certain documents. China Energy has stated it, "intends to fully cooperate with these inquiries and to supply all available materials requested." We assume that the current trading halt by the NASDAQ relates to these requests by the SEC, the issues surrounding the insider sales, and the withdrawal of the legal opinion by the attorney.

It is interesting that one of the requirements for the sale under "Rule 144 Sales of Restricted Stock" is the 1% requirement that states, "...after the one-year holding period, the number of shares that may be sold during any three-month period can't exceed the greater of 1% of the outstanding shares of the same class being sold, or if the class is listed on a stock exchange or quoted on

Nasdaq, the greater of 1% or the average reported weekly trading volume during the four weeks preceding the filing a notice of the sale on Form 144." China Energy's outstanding shares as of the last SEC 10Q filing are 25,421,853. Applying the 1% requirement of outstanding shares, 254,218 shares could be sold during the three-month period. Applying the 1% requirement to the four-week volume for the sales would allow: approximately 575,000 shares to be sold on January 3, 2006, approximately 448,000 shares to be sold on January 27, 2006, and approximately 1,213,600 shares to be sold on February 3, 2006. We believe the Rule 144 sales by New Solomon exceeded the 1% requirement, and could be a focus of the SEC investigation and the NASDAQ trading halt.

62. On March 22, 2006, China Energy issued a press release entitled "China Energy Savings Announces Reasons of Trading Halt." The Company stated:

China Energy Savings Announces Reasons of Trading Halt

HONG KONG, March 22 /Xinhua-PRNewswire/ -- As previously announced by Nasdaq, trading in shares of China Energy Savings Technology, Inc.'s (CESV - news) common stock was halted on February 15, 2006, and would remain halted until the Company had satisfied Nasdaq's request for additional information. At Nasdaq's request, China Energy Savings Technology is providing this update as to the status of Nasdaq's inquiry. Nasdaq's request for information involves the facts and circumstances regarding the underlying transactions related to the rescission of certain Rule 144 legal opinions by the Company's prior securities counsel who resigned in February 2006, as well as certain other matters related to the company's issuance of securities. The Company has retained new securities counsel and is cooperating with Nasdaq in an effort to resolve any questions or issues raised by Nasdaq in order to resume trading as soon as possible.

63. As of the filing of this Complaint, China Energy stock is still halted from trading. No indication has been given as to when, if ever, the Company's stock will resume trading.

64. As a result of China Energy's stock being halted, Plaintiff and members of the Class have been unable to dispose of their holdings in China Energy and have been damaged.

65. Additionally, on March 10, 2006, defendant Li stated his intent to dispose of 2,970,000 shares of China Energy stock held by New Solomon by filing Form 144 with the SEC.

This amount of stock comprises almost 12 percent of China Energy's outstanding stock, and will further damage Plaintiff and members of the Class.

66. Throughout the Class Period, defendants failed to disclose: (1) that defendants allowed Company insiders to self-deal in the Company's January 2006 private placement; (2) that the Company failed to comply with SEC rules regarding limitations on sales of restricted stock; and (3) that as a result of this failure to comply with SEC rules, trading of the Company's stock would be halted by NASDAQ.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

67. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased the securities of China Energy between April 21, 2005 and February 15, 2006, inclusive (the "Class Period") and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

68. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, China Energy's securities were actively traded on NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by China Energy or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

69. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

70. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

71. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a. whether the federal securities laws were violated by defendants' acts as alleged herein;
- b. whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of China Energy; and
- c. to what extent the members of the Class have sustained damages and the proper measure of damages.

72. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

UNDISCLOSED ADVERSE FACTS

73. The market for China Energy's securities was open, well-developed and efficient

at all relevant times. As a result of these materially false and misleading statements and failures to disclose, China Energy's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired China Energy securities relying upon the integrity of the market price of China Energy's securities and market information relating to China Energy, and have been damaged thereby.

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

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

LOSS CAUSATION

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

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

SCIENTER ALLEGATIONS

78. 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 China Energy, their control over, and/or receipt and/or modification of China Energy's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning China Energy, participated in the fraudulent scheme alleged herein.

Applicability of Presumption of Reliance: Fraud On The Market Doctrine

79. At all relevant times, the market for China Energy securities was an efficient market for the following reasons, among others:

- a. China Energy stock met the requirements for listing, and was listed and

actively traded on NASDAQ, a highly efficient and automated market;

- b. As a regulated issuer, China Energy filed periodic public reports with the SEC and NASDAQ;
- c. China Energy regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and
- d. China Energy was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

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

NO SAFE HARBOR

81. 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 China Energy who knew that those statements were false when made.

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

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

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

84. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which

operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for China Energy securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

85. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of China Energy as specified herein.

86. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of China Energy's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about China Energy and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of China Energy securities during the Class Period.

87. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and

participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

88. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing China Energy's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

89. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of China Energy securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of China Energy's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of

the market in which the securities trades, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, Plaintiff and the other members of the Class acquired China Energy securities during the Class Period at artificially high prices and were damaged thereby.

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

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

92. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

SECOND CLAIM
Violation of Section 20(a) of
The Exchange Act Against the Individual Defendants

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

94. The Individual Defendants acted as controlling persons of China Energy within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level

positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contend 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.

95. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

96. As set forth above, China Energy 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 as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

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

- a. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under

Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as
Lead Counsel;

- b. Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- c. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- d. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Respectfully submitted,

Dated:

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