



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

P.O. Box 55, 19<sup>th</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

CP 55, 19e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE SECURITIES ACT,  
R.S.O. 1990, c. S.5, as amended**

**- and -**

**IN THE MATTER OF  
ZUNGUI HAIXI CORPORATION**

**TEMPORARY ORDER**

**(Subsections 127(1) & (5))**

**WHEREAS** it appears to the Ontario Securities Commission (the "Commission") that:

1. Zungui Haixi Corporation ("Zungui") is a publicly traded company incorporated pursuant to the laws of Ontario and a "reporting issuer" in Ontario, as that term is defined in section 1(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act");
2. Zungui completed its initial public offering by way of a prospectus dated December 11, 2009 on December 21, 2009 raising gross proceeds of \$39.8 million;
3. Substantially all of Zungui's assets and the books and records relevant to these assets, the controlling shareholder (who is also the Chairman), the Chief Executive Officer and the Chief Operating Officer are located in China;
4. Zungui is a holding company and conducts substantially all of its business through its subsidiaries, including Mengshida Shoes Co., Ltd. ("Mengshida") which generates substantially all of Zungui's revenues;
5. Zungui owns 100% of the operating entity Mengshida, through its wholly-owned holding companies;
6. Mengshida's business involves the manufacture and sale of athletic and casual footwear, apparel and accessories, to the Chinese market. Mengshida's head office and all its operations are located in China;
7. Zungui maintains an administrative office in Toronto for its Chief Financial Officer and a Financial Controller. Zungui has four independent directors, all of whom reside in Ontario;

8. On August 22, 2011, Zungui issued a press release announcing that Zungui's auditor, Ernst & Young LLP (Ernst & Young), has suspended procedures with respect to the audit of Zungui's financial statements for the year ended June 30, 2011 pending further action from Zungui. The press release notes that Ernst & Young's suspension of audit procedures will remain in place until Zungui clarifies and substantiates its position with respect to issues pertaining to the current and prior year which Ernst & Young identified in the course of Ernst & Young's audit work, and that Ernst & Young recommended that the issues identified be addressed by an independent investigation;

9. On August 24, 2011, Zungui filed a material change report in respect of the events described in the August 22, 2011 press release;

10. On September 16, 2011, Zungui issued a further press release which provided that “[t]he concerns raised by Ernst & Young relate in part to inconsistencies in bank documents and the inability to obtain bank confirmations in a manner acceptable to the auditors. The bank balances are one of the largest items on the balance sheet. In addition, Ernst & Young identified issues as to incorrect VAT invoices supporting purchases from certain of the Company's suppliers.”;

11. In the September 16, 2011 press release, Zungui also announced the creation of a Special Committee of the Board of Directors (the “Special Committee”) and that the Special Committee has sought the cooperation and assistance of Yanda Cai, the CEO and a director of Zungui, but that “[i]t is not clear whether such cooperation or the funding necessary for the Special Committee to undertake its investigation will be forthcoming and the Special Committee is considering alternative courses of action.”;

12. Cash consistently represents a substantial portion of Zungui’s assets. Based on the most recently filed financial statements for the interim period ended March 31, 2011, Zungui had \$65.3 million of cash representing approximately 52% of Zungui’s assets;

**AND WHEREAS** the Commission is of the opinion that the time required to conclude a hearing could be prejudicial to the public interest as set out in section 127(5) of the Act;

**AND WHEREAS** the Commission is of the opinion that it is in the public interest to make this order;

**AND WHEREAS** by Authorization Order made July 14, 2011, pursuant to subsection 3.5(3) of the Act, each of Howard I. Wetston, James E. A. Turner, Kevin J. Kelly, James D. Carnwath, Mary G. Condon, Paulette L. Kennedy, Vern Krishna, Christopher Portner and Edward P. Kerwin, acting alone, is authorized to exercise the powers of the Commission under the Act, subject to subsection 3.5(4) of the Act, to make orders under section 127 of the Act;

**IT IS HEREBY ORDERED** that, pursuant to paragraph 2 of section 127(1) of the Act, all trading in the securities of Zungui, whether direct or indirect, shall cease;

**IT IS FURTHER ORDERED** that, pursuant to section 127(6) of the Act, this order shall take effect immediately and shall expire on the fifteenth day after its making unless extended by order of the Commission.

**DATED** at Toronto this 16<sup>th</sup> day of September, 2011.

*“James Turner”*

---

James E.A. Turner, Vice-Chair