Zungui Haixi Corporation **2010 Annual Report**

Corporate Profile

Zungui Haixi Corporation, through its wholly owned subsidiaries, is engaged in the manufacture and sale of athletic footwear, apparel and accessories, and also casual footwear in the People's Republic of China. Both product lines are marketed under the ZUNGUI brand. Zungui Haixi distributes its products to consumers throughout China through an extensive network of retail outlets which exclusively carry ZUNGUI branded products. There are 62,259,500 common shares issued and outstanding. The corporate website is www.zunguihaixi.com.

Financial Highlights

(In thousands of Canadian dollars unless otherwise stated)

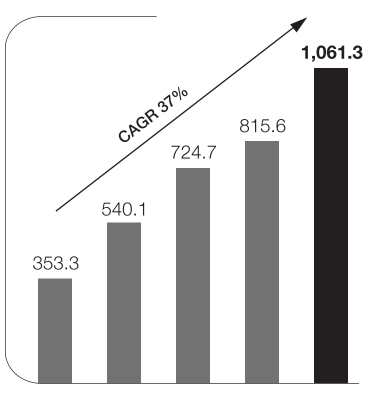
For the Year Ended June 30,		2010		2009	% Increase
Revenue					
Footwear	$	**140,658**	$	117,636	20%
Apparel and accessories		**23,227**		21,094	10%
Total revenue		**163,885**		138,730	18%
Cost of sales		**119,373**		101,323	18%
Gross profit		**44,512**		37,407	19%
Net income	$	**26,976**	$	23,047	17%
Earnings per share – basic and diluted	$	**0.48**	$	0.46	4%
Weighted average number of common shares outstanding		**56,403,055**		50,000,000	13%
Gross margin					
Footwear		**27.3%**		27.2%	
Apparel and accessories		**26.1%**		25.6%	
Total		**27.2%**		27.0%	
Cash	$	**85,876**	$	23,757	
Total assets		**131,705**		56,079	
Bank loan		**—**		511	
Retained earnings		**56,161**		32,021	
Shareholders' equity		**96,003**		35,175	
Corporate owned and managed retail outlets		**31**		3	933%
Distributor owned and managed retail outlets		**1,762**		1,608	10%

Financial Highlights in RMB

(In thousands of RMB)

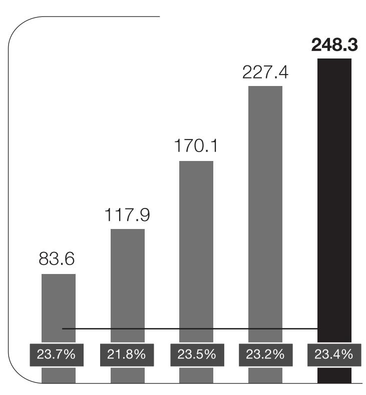
For the Year Ended June 30,		2010		2009	% Increase
Revenue					
Footwear	RMB	**910,905**	RMB	691,381	32%
Apparel and accessories		**150,420**		124,265	21%
Total revenue		**1,061,325**		815,646	30%
Net income		**174,570**		135,884	29%

Revenue
RMB million

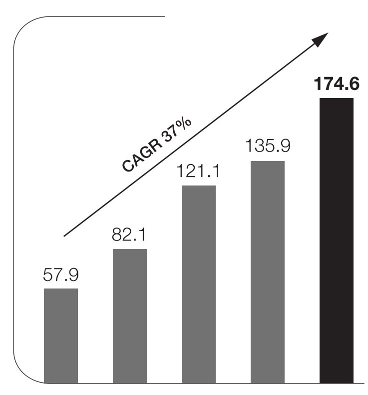


*Year ended December 31

EBITDA
RMB million



Net Income
RMB million



This first message to shareholders marks the successful transition to becoming a public company on the Toronto Stock Exchange – the next major advancement for our enterprise and a source of pride for all of us at Zungui Haixi Corporation.

In less than 20 years, Zungui has grown from a start-up to a significant brand in our markets. We have more than 1,900 retail outlets in our network, a proven business model evolving to generate increased margins, a reputation for high quality products, and an established corporate culture, as well as strong and experienced design and management teams.

Our December 2009 initial public offering (IPO) strengthened the company's financial foundation to continue Zungui's outstanding growth trajectory.

China's strong growth in sportswear

China remains one of the world's most vibrant markets. Retail spending on consumer goods is expected to increase at 13 per cent annually, and the Chinese sportswear market is expected to grow at more than 33 per cent annually. Accordingly, we believe we can continue to generate significant growth, especially as domestic brands have won market share from imports, particularly in the Tier 2 and Tier 3 cities we target.

As evidence, spring sales fair orders for sports footwear and apparel and for casual footwear increased 38 and 30 per cent over last year, respectively.

Implementing our growth strategies

In our IPO presentation, we anticipated investing to expand Zungui's retail distribution channel by 350 new stores in calendar 2010.

Progress on this commitment is on track, as Zungui completed the fiscal year-end having opened 28 new corporate stores and 63 stores with distributors. As of September 30th, this number of new stores has increased to 43 corporate stores and 186 stores with distributors. To manage this growth, Zungui added 14 new regional sales managers, as planned.

To drive customers to Zungui's retail stores, we are investing in expanded brand recognition, awareness and image. A new television advertising campaign in Hunan Province is the first element of this initiative.

We also planned to build a new manufacturing facility in Shishi City and to expand our production capacity by adding two new lines to the five currently in operation.

Based on continuing strong demand growth and China's robust economy, we are scaling-up more substantially, building a new 10-storey manufacturing facility, instead of the original six storeys. The larger size required a different planning approval process and we now expect to complete the new facility in June 2011, instead of March 2011. We are upgrading all five of our existing production lines with additional production capacity expected by April 2011.

Strong financial performance

Zungui's financial performance has continued to be strong. Revenues grew consistently, to Renminbi (RMB) 1,061.3 million for the fiscal year ended June 30, 2010, an increase of 30 per cent over fiscal 2009. Gross margin for the year was 27.2 per cent, compared to 27.0 per cent for fiscal 2009. Net income grew to RMB 174.6 million for the fiscal year, a gain of 29 per cent over fiscal 2009. Diluted earnings per share were Canadian 48 cents in fiscal 2010, compared to Canadian 46 cents in fiscal 2009, after a 13 per cent increase in the weighted average number of shares outstanding in the period.

While this growth was consistent with previous periods, the results did not translate into gains in the Canadian dollars in which Zungui reports, as the relative value of the Canadian dollar increased compared to the United States dollar whilst the Chinese Renminbi remained pegged to the United States dollar. If the year's results were converted at the prior year's average exchange rate, earnings per share would have increased to 52 cents per share, diluted.

One unexpected development was the resignation of Jixu Cai, Chief Executive Officer and a Director of the company, due to health concerns. Jixu is one of the founders of this company and his contributions to Zungui's growth and success over the past 18 years have been significant.

Fortunately, the company has attracted Xinglin Li to the new position of Chief Operating Officer. He brings to Zungui more than 20 years of experience with high profile apparel and footwear manufacturers in southern China, in manufacturing, marketing, retail development and general management.

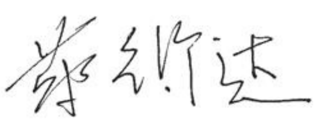
Maintaining Zungui's growth trajectory

To maintain the appeal of our products, Zungui has invested in new designs, including Dynamic Commerce leather casual footwear, which targets young professionals. We believe up-scale leather footwear holds significant market potential for Zungui.

Shortly before the fiscal year-end, Zungui announced a share buyback plan to repurchase up to 3.1 million shares – or about 5 per cent of the shares. This decision was taken by the Board of Directors as recent prices for the company's shares do not properly reflect their underlying value in respect of the company's future prospects.

We have sufficient cash and financing reserves to advance our growth strategies without compromising our financial strength or flexibility, so applying cash to this objective is a sound decision.

In closing, I thank the Board of Directors for their active engagement and wise counsel, Zungui employees for their hard work in making our transition to public ownership a success, and our shareholders for their interest in our company.



Yanda Cai
Chief Executive Officer
Zungui Haixi Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following management's discussion and analysis of financial condition and results of operation (the "MD&A") of Zungui Haixi Corporation ("Zungui" or "Company") is prepared for the year ended June 30, 2010 with comparative figures for the period ended June 30, 2009. Zungui became the parent company of Southern Trends International Holding Company Limited ("Southern"), through a share exchange agreement completed in conjunction with the completion of the Company's initial public offering on December 21, 2009. All figures presented for periods prior to December 21, 2009 refer to Southern financial statements. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2010, and the notes contained therein, the second and third quarter 2010 MD&As and the final long form prospectus filed on December 11, 2009. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company can be found at www.sedar.com.

Disclosure contained in this MD&A is current to September 29, 2010 the date of approval of the MD&A and financial statements by the Board of Directors.

Caution Regarding Forward-Looking Statements

Certain statements in this MD&A contain forward-looking information that involve risk and uncertainties. Statements other than statements of historical fact contained in this MD&A may be forward-looking statements within the meaning of certain securities laws, including, without limitation, statements involving management's expectations, intentions and beliefs concerning the domestic PRC sportswear industry, the competitive landscape in this industry and the general economy, statements regarding the future financial position or results of the Company, business strategies, proposed acquisitions, growth opportunities, budgets, litigation, projected costs and plans and objectives of or involving the Company. Such statements should be considered forward-looking statements, Wherever possible, words such as "may", "would", "could", "will", "anticipate", "believe", "plan", "expect", "intend", "estimate", "aim", "endeavour", "project", "continue" and similar expressions have been used to identify forward-looking statements.

These forward-looking statements reflect management's current beliefs and business judgement with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risks, uncertainties and assumptions, and you should not place undue reliance on these forward-looking statements. Although management believes its current beliefs and assumptions are reasonable, many factors could cause Zungui's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, risks related to: failure to maintain or promote the ZUNGUI brand; dependency on distributors and retailers for product sales and brand promotion; difficulty in continuing to grow Zungui's distribution network; dependency on certain of its key executives, design, technical and other personnel; failure to effectively integrate additional corporate-owned and managed retail outlets; strong competition; the loss, or decrease in, sales to Zungui's major distributors; failure to successfully implement plans to expand production capacity and improve production efficiency; failure to execute growth strategy; reliance on subcontractors; fluctuations in the price, availability and quality of raw materials; exposure to credit risks of distributors; selling prices; failure to accurately track inventory levels or sales figures; failure to maintain and cultivate key relationships; failure to optimize and adjust product mix; failure to anticipate and respond in a timely manner to fashion trends and changes in consumer tastes in the PRC; liability for unpaid contributions to the social security insurance program; increases in labour costs and labour disputes; protection of trademarks and other proprietary rights; damage to administrative or production facilities, fire or other calamities; proof of title; exposure to environmental liability; exposure to product liability, property damage or personal injury claims; closure of retail outlets; failure to obtain additional financing; risks relating to holding companies; risks associated with dividends; conflict of interests of directors and officers; limited recourse against principal securityholder and existing shareholders; disclosure controls and procedures and internal controls over financial reporting; language barriers between certain directors and officers of the Company; influence by the majority shareholder; future sales of common shares; risks associated with state ownership; exposure to fluctuations in the economic conditions in the PRC; fluctuations in foreign exchange rates; changes in Zungui's tax treatment; limitations in the ability to repatriate profits or convert currency; limited shareholders' rights in China; risks relating to a developing legal system; intellectual property rights protection and enforcement; requirements for permits and business licenses; risks relating to the appropriation of land used in Zungui's operations; natural disasters; reliance on third-party sources and industry publications; volatile market price; return on an investment in common shares. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking statements contained in this MD&A. The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These forward-looking statements are made as of and speak as of the date of this MD&A and the Company does not intend to, or assume any obligation to, update or revise these forward-looking statements to reflect new information, events, results or circumstances or otherwise after the date on which such statement is made as to reflect the occurrence of unanticipated events, except as required by law, including securities laws.

Contents of MD&A **Page**

Overview

Zungui is principally engaged in the manufacture and sale of athletic footwear, apparel and accessories ("Sportswear Product Line") and casual leather footwear ("Casual Product Line") in the PRC. Both product lines are marketed under the well-recognized ZUNGUI brand. As of June 30, 2010, Zungui distributes its products to consumers through 31 corporate-owned retail outlets and through 47 distributors, who in turn sell products via an extensive network of 1,762 retail outlets, 1,423 of which offer the Sportswear Product Line and 339 of which offer the Casual Product Line. As of September 29, 2010, the Company has opened an additional 15 corporate-owned retail outlets and the distributors 123 additional retail outlets. All retail outlets exclusively sell products which carry the ZUNGUI brand.

Highlights for the Year

Revenue grew 30% in Renminbi ("RMB") to RMB 1,061.3 million for the year ended June 30, 2010 from RMB 815.6 million last year. In Canadian dollars, revenue grew 18% to $163.9 million for the year from $138.7 million compared to last year.

Net income increased 29% to RMB 174.6 million for the year compared to RMB 135.9 million last year. In Canadian dollars, net income increased 17% to $27.0 million for the year compared to $23.0 million last year.

Zungui completed its initial public offering on December 21, 2009 raising gross proceeds of $39.8 million.

During the last six months, the Company has been focused on executing its retail growth strategy of opening up 100 corporate owned and managed retail outlets and 250 distributor owned and operated retail outlets during calendar year 2010. The Company has opened 28 corporate-owned stores during the last six months and laid the foundation for the remaining 72 stores (of which 15 are already open as of September 29, 2010) to be opened before December 31, 2010. The distributors opened 63 new retail stores during the last six months and the Company is confident that they will open an additional 187 retail stores (of which 123 are already open as of September 29, 2010) by the end of the second quarter of 2011.

The Company is upgrading all five of its existing production lines which is expected to generate additional production capacity by April, 2011.

On June 19, 2010, Mr. Yanda Cai became Chief Executive Officer replacing Mr. Jixu Cai who resigned. The Company hired a Chief Operating Officer, Mr. Xinglin Li, who has external retailing experience to further strengthen the Company's management team.

Selected Financial Information

During the year ended June 30, 2010, the Company focused on revenue growth and increased profitability through the expansion of its retail network. It provided services and training to distributors to help meet customer needs and increase their sales. For the year ended June 30, 2010, revenue grew 18% to \$163.9 million from \$138.7 million compared to last year. In RMB, revenue grew 30% to RMB 1,061.3 million from RMB 815.6 million last year. The lower growth rate in Canadian dollars is attributable to the fluctuations in the Chinese currency relative to the Canadian dollar reporting currency in 2009 and 2010.

The following table sets forth selected financial information for the periods indicated. The selected financial information has been derived from the Company's audited consolidated financial statements for the year ended June 30, 2010.

Earnings Data

	For The Year Ended June 30,	
	2010	2009
Revenue	$ 163,885	$ 138,730
Cost of sales	119,373	101,323
Gross profit	44,512	37,407
Selling expenses	2,325	3,234
Research and development expenses	761	484
General and administrative expenses	3,705	2,135
Other expenses (income), net	98	(52)
Income taxes	10,647	8,559
Net income	$ 26,976	$ 23,047
Earnings per share – basic and diluted	$ 0.48	$0.46

Balance Sheet Data	As at June 30, 2010	As at June 30, 2009
Cash	$ 85,876	$ 23,757
Inventories	3,498	2,984
Property, plant and equipment	6,470	5,331
Total assets	131,705	56,079
Working capital	89,532	29,844
Retained earnings	56,161	32,021
Total shareholders' equity	96,003	35,175

Factors Affecting Results of Operations

Foreign Currency

All of the Company's revenues and expenses, other than the corporate expenses, are generated in the People's Republic of China (PRC). Accordingly, the results of operations are impacted by the fluctuation of the Renminbi ("RMB") against the Canadian dollar when converted for financial reporting purposes. The weighted average exchange rate for one RMB, expressed in Canadian dollars, for the years ended June 30, 2010 and 2009 was 0.1545 and 0.1762. The movement of the Chinese currency relative to the Canadian dollar in the year ended June 30, 2010 resulted in the statement of operations in Canadian dollars being 9% less than would have been reported if the Company had used the average exchange rate for the same periods of 2009, respectively.

Financial Highlights in RMB

The following table sets forth selected financial information for the Company for the periods indicated in RMB which is the Company's functional currency for its wholly owned subsidiary in China. The Company's head office's functional currency is Canadian dollars. The Company uses Canadian dollars as its reporting currency. This information has been derived from the Company's records supporting the audited consolidated financial statements for the years ended June 30, 2010 and 2009, immediately prior to their conversion to Canadian dollars.

In RMB	**For The Year Ended June 30**	
	2010	**2009**
Revenue	RMB 1,061,325	RMB 815,646
Cost of sales	772,975	595,861
Gross profit	288,350	219,785
Net income	174,570	135,884
Weighted average exchange rate for one RMB, expressed in Canadi dollars	0.1545	0.1698

Revenues

The Company's revenues consist of sales from footwear, apparel and accessories sold within the PRC. The Company provides sales rebates and advertising contributions to its distributors that are deducted from its gross revenue to derive its net revenue.

Cost of Sales

The Company's cost of sales consists of internal and external production costs. Internal production costs include raw materials, labour and manufacturing costs. Outsourced production costs refer to the cost of procuring finished footwear, apparel and accessories, which represents amounts paid to subcontracted manufacturers in the PRC. Gross margin on sales of outsourced production is normally approximately 1% less than internally produced footwear.

Seasonality

The results of the Company are generally not subject to seasonality although the Company is modestly affected by the Chinese New Year typically held in the third quarter of each year.

Results of Operations Year Ended June 30, 2010 compared to June 30, 2009
(Amounts in thousands of dollars, unless specified otherwise)

Revenue

The Company's revenues consist of sales from footwear, apparel and accessories sold domestically within the PRC. The Company derives its revenue from two distribution channels: distributors and corporate-owned and managed retail outlets. The number of distributor owned and managed retail outlets increased by 154 net new retail outlets to 1,762 during the year ended June 30, 2010. The Company currently has 31 corporate-owned and managed retail outlets with the balance being leased or owned by distributors or third-party retailers. The Company opened 28 new corporate-owned and managed retail outlets during the year ended June 30, 2010.

Revenue by Product Line

	For The Year Ended June 30			
	2010	**% of Total**	**2009**	**% of Total**
Footwear	$ 140,658	85.8	$ 117,636	84.8
Apparel and accessories	23,227	14.2	21,094	15.2
Total	**$ 163,885**	**100.0**	**$ 138,730**	**100.0**

Total revenue increased 18% to $163.9 million in the year ended June 30, 2010 compared to last year. In RMB, revenue increased 30% to RMB 1,061.3 million for the year compared to RMB 815.6 million last year. The strengthening of the Canadian dollar during the year relative to the RMB reduced the percentage increase in revenue by 12% when reported in Canadian dollars. Footwear revenue increased 20% to $140.7 million for the year ended June 30, 2010 compared to the same period last year, and was comprised of $122.5 million (2009 - $101.3 million) in revenue from athletic footwear and $20.6 million (2009 - $18.2 million) from casual footwear. The growth in revenue was the result of increased number of retail outlets, increased consumer demand for the Company's products and price increases implemented late in March, 2010.

In RMB, the Company's revenue per average number of retail outlets increased 18% to RMB 0.6 million during the year ended June 30, 2010 compared to the same period last year. For each of the year ended June 30, 2010 and 2009, 99.5% and 99.7% of the Company's revenue was derived from its wholesale distribution channel, respectively.

Cost of Sales

	For The Year Ended June 30			
	2010	**% of Total**	**2009**	**% of Total**
Footwear (internal production)				
Raw materials	$ 37,867	31.7	$ 39,846	39.3
Labour	4,635	3.9	4,386	4.3
Manufacturing costs	2,477	2.1	1,752	1.7
Subtotal	44,979	37.7	45,984	45.3
Footwear (outsourced production)	57,223	47.9	39,616	39.1
Apparel and accessories (outsourced production)	17,171	14.4	15,723	15.6
Total	**$ 119,373**	**100.0**	**$ 101,323**	**100.0**

During the year ended June 30, 2010, cost of sales increased 18% to $119.4 million compared to last year consistent with the 18% increase in revenue for the same period. In RMB, cost of sales increased 30% to RMB 773.0 million for the year ended June 30, 2010 compared to last year consistent with the 30% increase in revenue.

During the third quarter, the Company began remitting social insurance premiums on all employees which increased the labour costs by approximately $0.6 million for the year ended June 30, 2010. Raw materials accounted for 84.2% of the cost of sales on internally produced footwear for the year ended June 30, 2010 compared to 86.7% last year. While the cost of raw materials declined in Canadian dollars due to currency fluctuations, in RMB raw materials increased 4% to RMB 244.7 million compared to the prior year.

All amounts in Canadian dollars unless otherwise stated

The Company manufactured or outsourced 11.3 million pairs of shoes during the year ended June 30, 2010, of which 60% of the production was outsourced, compared to 8.4 million pairs of shoes the previous year, of which 46% was outsourced. With upgrades being performed on some of the existing production lines during the quarter, the Company fulfilled its production requirements through the use of external suppliers. The average cost of outsourced production increased approximately 9% during the year. The Company expects to have increased production facilities by April 2011 when the existing five production lines will be fully replaced with new equipment that has increased improved production capacity.

Gross Profit

	For The Year Ended June 30			
	2010	**Gross Margin %**	**2009**	**Gross Margin %**
Footwear	$ 38,456	27.3	$ 32,036	27.2
Apparel and accessories	6,056	26.1	5,371	25.6
Total	**$ 44,512**	**27.2**	**$ 37,407**	**27.0**

The gross margin improved slightly for the year ended June 30, 2010 compared to last year on higher average selling prices which offset higher manufacturing and outsourcing costs.

Selling Expenses

	For The Year Ended June 30		
	2010	**2009**	**Decrease**
Selling Expenses	$ 2,325	$ 3,234	(28%)

The Company spent $2.1 million on advertising during the year ended June 30, 2010 compared to $2.5 million last year. The Company has been repositioning the brand during the last quarter, in conjunction with the appointment of the Chief Operating Officer and will launch a new advertising campaign in the second quarter of fiscal 2011. Selling expenses represented 1.4% and 2.3% of total revenue for the year ended June 30, 2010 and 2009, respectively.

Research and Development Expenses

	For The Year Ended June 30		
	2010	**2009**	**Increase**
Research and Development Expenses	$ 761	$ 484	57%

Research and development expenses increased during the year ended June 30, 2010 as the Company invested additional funds on expanding its research and development centre and the number of new products it developed.

General and Administrative Expenses

	For The Year Ended June 30		
	2010	**2009**	**Increase**
General and Administrative Expenses	$ 3,609	$ 2,150	68%

Corporate expenses related to being a public company, including salaries, directors fees, audit fees and stock compensation expenses totalled $1.2 million during the year ended June 30, 2010. The Company incurred additional general expenses of $0.4 million relating to the employees, including bonuses, training and uniform replacements. General and administrative expenses represented 2.2% and 1.5% of total revenue for the year end June 30, 2010 and 2009, respectively.

All amounts in Canadian dollars unless otherwise stated

Other Expenses (Income), net

	For The Year Ended June 30		
	2010	**2009**	**Increase**
Other expenses (income), net	$ 98	$ (52)	n/a

Other income, net comprised primarily of interest income, is shown net of interest expense of $0.2 million for the years ended June 30, 2010 and 2009. The Company recognized a foreign exchange loss of $0.2 million on the conversion of Canadian funds that were invested in its operating subsidiary.

Income Tax Expense

	For The Year Ended June 30		
	2010	**2009**	**Increase**
Income tax expense	$ 10,647	$ 8,559	24%

The statutory income tax rate in the PRC is 25% and in Canada is 33%. Due to non-deductible expenses, the effective tax rate in the PRC is 27%. Tax losses in Canada for which no accounting benefit has been recognized further increased the effective tax rate to 28% for the year ended June 30, 2010 compared to 27% last year.

Net Income

	For The Year Ended June 30		
	2010	**2009**	**Increase**
Net income	$ 26,976	$ 23,047	17%

Net income increased 17% to $27.0 million for the year ended June 30, 2010 compared last year. In RMB, net income increased 29% to RMB 174.6 million for the year ended June 30, 2010 compared to RMB 135.9 million last year. Revenue growth of 18% together with the slight increase in the gross margin, generated an additional $7.1 million of gross profit. A further reduction of selling expenses increased income by $0.9 million which was offset by an increase in general and administrative expenses of $1.5 million, increased research and development expenses of $0.4 million and additional income taxes of $2.1 million.

Basic and Diluted Earnings Per Share

Basic and diluted earnings per share was 48 cents for the year ended June 30, 2010 compared to 46 cents for the year ended June 30, 2009. There were 62,259,500 shares issued and outstanding as at June 30, 2010. The weighted average number shares outstanding during the year ended June 30, 2010 and 2009 was 56,403,055 and 50,000,000, respectively. As a result of the application of continuity of interest accounting, all periods prior to the initial public offering completed on December 21, 2009 are deemed to have 50,000,000 shares issued and outstanding for the purpose of determining earnings per share.

All amounts in Canadian dollars unless otherwise stated

Summary of Quarterly Results

The following table is a summary of the selected quarterly financial information for each of the eight quarters ended June 30, 2010. The results over the last eight quarters are impacted by the fluctuation of the RMB against the Canadian dollar. Revenue has increased over the past eight quarters as a result of the expansion of the number of distributor owned and managed retail outlets by 20% from 1,455 retail outlets at July 1, 2008 to 1,762 retail outlets as at June 30, 2010. Net income has also correspondingly increased.

Quarter Ended	**June 30 2010**	**Mar 31 2010**	**Dec 31 2009**	**Sept 30 2009**	**June 30 2009**	**Mar 31 2009**	**Dec 31 2008**	**Sept 30 2008**
Revenue	$ 50,553	$ 33,342	$ 36,960	$ 43,030	$ 44,349	$ 31,104	$ 33,950	$ 29,327
Net income	8,575	5,194	5,550	7,657	7,597	5,144	5,293	5,013
Earnings per share – basic and diluted	$ 0.14	$ 0.08	$ 0.11	$ 0.15	$ 0.15	$ 0.10	$ 0.11	$ 0.10

Fourth Quarter Results

	For The Quarter Ended June 30, 2010	**2009**
Revenue	$ 50,553	$ 44,349
Cost of sales	36,187	32,316
Gross profit	14,366	12,033
Selling expenses	762	725
Research and development expenses	223	166
General and administrative expenses	1,309	741
Other expenses (income), net	114	(19)
Income taxes	3,383	2,823
Net income	$ 8,575	$ 7,597
Earnings per share – basic and diluted	$ 0.14	$ 0.15

During the quarter, revenue increased 14% to $50.6 million compared to the fourth quarter of 2009. In RMB, revenue increased 31% to RMB 335.8 million for the quarter compared to RMB 256.7 million. Cost of sales increased 12% to $36.2 million for the quarter compared to $32.3 million for the same quarter last year. In RMB, cost of sales increased 29% to RMB 240.4 million compared to RMB 187.0 million for the same quarter last year. The gross margin improved in the fourth quarter to 28.4% compared to 27.1% for the same quarter last year on higher average selling prices.

General and administrative expenses increased 77% on corporate head office expenses and the payment of social insurance premiums for administrative employees in PRC. Net income increased 12% to $8.6 million in the quarter compared to $7.6 million for the same quarter last year. In RMB, net income increased 27% to RMB 57.0 million compared to RMB 44.8 million. Diluted earnings per share was 14 cents in the quarter compared to 15 cents for the same quarter last year on a 25% increase in the weighted average number of shares outstanding in the quarter.

All amounts in Canadian dollars unless otherwise stated

Selected Annual Information

The information in the table below sets out the financial data derived from the Company's financial statements for each of the three most recently completed fiscal years. There is no comparable audited financial information available for periods prior to June 30, 2009 as a result of the year end of Southern and its subsidiaries' being December 31st .

	Year Ended June 30, 2010	Year Ended June 30, 2009	Six Months Ended June 30, 2008	Year Ended December 31, 2007
Earnings Data				
Revenue	$ 163,885	$ 138,730	$ 47,903	$ 75,936
Net income	26,976	23,047	8,237	11,538
Basic and diluted earnings per share	$ 0.48	$ 0.46	$ 0.16	$ 0.23
Balance Sheet Data				
Total assets	131,705	56,079	24,570	40,947
Total debt	-	511	441	535
Cash dividends declared per common share	-	-	$ 0.23	$ 0.14

For the six months ended June 30, 2008 and the year ended December 31, 2007 the cash dividends were paid out pursuant to an agreement between the former owners as outlined in the final long form prospectus filed on December 11, 2009 on www.sedar.com.

Liquidity and Capital Resources

Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Company's financial commitments and obligations as they fall due. The Company believes that it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year. The Company's main source of funds is from the sales of its products to distributors and cash on hand. The Company's use of funds is primarily for its operating expenses including the payment for its production of footwear and outsourced production to third party suppliers.

During June, 2010, the Company repaid its term bank loan of $0.4 million (RMB 3 million).

Through the Company's growth and expansion, with cash from operations of $30.3 million, as well as the initial public offering completed on December 21, 2009, it has increased its cash on hand from $23.8 million as at June 30, 2009 to $85.9 million as at June 30, 2010.

The Company commences its manufacturing of most products at the time that it enters into a binding production contract with the distributor to limit its inventory levels. Finished goods inventory increased slightly to $1.6 million as at June 30, 2010 from $1.6 million as at June 30, 2009 all in spite of the 18% increase in the revenue for the year. The other components of inventory increased 33% to $1.9 million.

Accounts receivable increased during the year to $34.1 million compared to $22.2 million as at June 30, 2009 as sales were higher by $6 million during the fourth quarter of 2010 combined with the extended payment terms offered to certain distributors to provide support to them to open more retail stores. The accounts receivable turnover is 60 days for the year ended June 30, 2010 compared to 46 days for the prior year. The Company has not experienced any increase in bad debts or increased provision for allowance for doubtful accounts.

At present, there are no known demands, commitments, events or uncertainties that would adversely affect the trends and expected fluctuations in the Company's liquidity. The Company believes it has the funds required to meet its business objectives and working capital and other cash requirements for at least twelve months. However, there can be no assurances that these funds will be sufficient and the Company may have to evaluate additional means of financing, including additional debt or equity financing.

Net cash provided by operating activities for the year ended June 30, 2010 was $30.3 million compared to $17.4 million for the prior year. The growth in the business has been the main driver of the increased cash generated from operating activities and the decreased working capital requirement for the year. Net cash generated by financing activities was $34.7 million for the year ended June 30, 2010. No dividends were paid out during fiscal 2010 or 2009. Net cash generated during the year ended June 30, 2010 and 2009 was $62.1 million and $18.7 million, respectively.

Working capital increased from $29.8 million (RMB 281.1 million) as at June 30, 2009 to $89.5 million (RMB 572.5 million) as at June 30, 2010 as a result of the growth in revenue and profitability and the proceeds from the initial public offering.

Capital Expenditures

The Company's capital expenditures primarily relate to its investment in the equipment to upgrade its production lines. The Company expects to use a portion of the net proceeds from the Offering to complete the upgrade in equipment as well as to construct a new building. The Company has submitted plans for the construction of a new building of ten storeys and is awaiting approval from government officials which is expected shortly. The Company expects to complete construction and installation of two new production lines by June, 2011.

Capital Structure

Shares Outstanding

As of June 30, 2010 and current date, September 29, 2010, the Company has 62,259,500 common shares issued and outstanding.

Reorganization and Share Capital

On December 21, 2009, the Company completed a share exchange agreement with Southern whereby the 10,000 issued and outstanding common shares of Southern were exchanged for 50,000,000 common shares of the Company. On June 25, 2009, Southern, an investment holding company, acquired 100% ownership interest in Honorable Int'l Investment Co., Limited ("Honorable") which is an investment holding company based in Hong Kong. Honorable acquired 100% interest in Mengshida Shoes Co., Ltd Shishi City ("Mengshida") on July 25, 2008. Mengshida manufactures and sells athletic footwear and related apparel and accessories as well as leisure leather shoes in the People's Republic of China (the "PRC").

These reorganization transactions were accounted for on a continuity of interest basis of accounting whereby the various assets and liabilities are accounted for at the carrying value in the combining companies' records. Current and comparative consolidated financial results are presented as if the companies have always been combined. The number of common shares outstanding has been restated for the purpose of determining earnings per share to reflect the reorganization.

Initial Public Offering

On December 21, 2009, the Company completed its initial public offering ("IPO") by issuing 11,500,000 common shares at a price of $3.25 per common share, resulting in net proceeds of $33,040 after deducting the underwriters' fees and other related expenses of the offering of $4,355.

The Company granted the underwriters an over-allotment option exercisable for a period of 30 days from closing of the IPO to purchase up to an additional 1,725,000 common shares at the issue price. No stock based compensation was recorded for this option. On January 12, 2010, the underwriters exercised the over-allotment option and purchased 759,500 common shares at $3.25. Net proceeds of $2,278 were received after deducting the underwriters' fees and related expenses of $190.

All amounts in Canadian dollars unless otherwise stated

In addition, the underwriters received compensation options entitling them to acquire up to 7% of the number of common shares issued under the IPO including any shares exercised under the over-allotment option. On December 21, 2009, the underwriters received an option to purchase 805,000 common shares ("compensation options") at $3.25 for a period of 24 months. On January 12, 2010, the underwriters received a further 53,165 compensation options in conjunction with the exercise of the over-allotment that will be exercisable for common shares at $3.25 per share until January 12, 2012.

Stock Options

There are 700,000 stock options outstanding granted to consultants and 950,000 stock options outstanding granted to employees and non-employee directors. The stock options have the same terms and conditions and were granted on December 21, 2009 at an exercise price of $3.25 and an expiry date of December 21, 2014.

Normal Course Issuer Bid

On September 17, 2010 the Company announced approval from the TSX Venture Exchange to proceed with a normal course issuer bid. The Company can purchase for cancellation, at market prices, up to 3,112,975 of its issued and outstanding common shares, representing 5% of the 62,259,500 common shares outstanding as at September 29, 2010. The Bid will commence on October 4, 2010 and terminate on October 3, 2011, or on such earlier date as the Bid is completed or otherwise terminated by Zungui.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Use of Proceeds

The Company completed its initial public offering on December 21, 2009 and received net cash proceeds of $34,759 after deducting the underwriter fees but prior to the issue costs of $1,719. On January 12, 2010, the Company received a further $2,278 of net cash proceeds from the exercise of the over-allotment option. As of June 30, 2010, there has been no variance in the Company's disclosure of its intended use of proceeds from the final prospectus dated December 11, 2009 and filed on SEDAR at www.sedar.com.

Intended Use of Proceeds	**As disclosed**	**Disbursed as of June 30 2010**	**Update as of June 30 2010**
Retail and Distribution Network Expansion	$ 16,000	$ 1,727	$ 14,273
Increase Production Capacity – Building and Equipment	7,000	476	6,524
Brand Recognition, Awareness and Image	9,000	487	8,513
Working Capital	2,800		
Net Proceeds	$ 34,800		

The disbursement of the network expansion proceeds is expected to increase during the next two quarters of fiscal 2011 as more stores are opened and distributors achieve the criteria for payment of the decoration allowance. The ZUNGUI brand is being repositioned in conjunction with the appointment of the Chief Operating Officer and the Company intends launch a new strategy in the second quarter of fiscal 2011 on brand recognition, awareness and image. While the Company intends to use the net proceeds as stated above, circumstances may arise where, for sound business reasons and in order to account for currency fluctuations, a reallocation of monies may be necessary or advisable.

Related Party Transactions

Directors of Mengshida have jointly provided personal guarantees to indemnify Mengshida on certain potential tax exposures including related interest and penalties for periods prior to 2006. As a result, the Company has recorded an other receivables from the directors of $1.3 million as at June 30, 2010 and $1.2 million as of June 30, 2009.

A loan was received from a director of Honorable for $0.4 million and $0.5 million as at June 30, 2010 and June 30, 2009, respectively. The loan is not secured, is interest free and payable on demand.

Directors of Mengshida have jointly made personal guarantees to indemnify the Company for any premiums for social insurance in arrears in excess of RMB 4,465,000. One of the Directors has pledged 2,000,000 common shares of the Company owned by him for any potential liability that may become payable under this undertaking.

A corporation owned 50% by one of Zungui's Directors received $400,000 in cash and 700,000 stock options of the Company in trust for various parties as consideration for services rendered in connection with the initial public offering. The stock options were granted at $3.25 and vest in equal amounts over three years. A company controlled by the same Director received 440,000 of the 700,000 stock options granted by the Company. The above transactions were conducted in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Financial Instruments and Other Instruments

The Company held cash of $85.9 million on its balance sheet as at June 30, 2010. The Company does not have any cash equivalents or invested assets. The Company does not currently utilize any other instruments such as derivative financial instruments to reduce its exposure to interest rate risk. The Company's location in the Fujian Province is in close proximity to a large number of suppliers of raw materials required in the manufacturing of the Company's products creating procurement efficiency and, as a result, the Company does not need to enter into any forward future contracts to purchase raw materials. All of the Company's financial assets and financial liabilities are short term in nature and are measured on an ongoing basis at fair value or amortized cost.

Adoption of New Accounting Policies

The Company has a stock based compensation plan. The Company estimates the fair value of options granted to employees, non-employees directors and consultants using the Black-Scholes option pricing model. The Company recognizes the fair value as a compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, the amount of the proceeds together with the amount recorded in contributed surplus, is recorded in share capital.

The CICA has amended Handbook Section 3862 to require enhanced disclosure on the fair value of certain financial instruments. The Company adopted these recommendations effective June 30, 2010 and the required disclosures are included in the note 16 to the consolidated financial statements. The Company does not have any financial instruments measured at fair value that require disclosure of the hierarchy levels. These amendments did not impact the company's results of operations or financial position.

Future Accounting Changes

Transition to IFRS

Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards ("IFRS") over a transitional period to be complete by 2011. The Company will be required to report using IFRS effective for interim and annual financial statements relating to the fiscal year ended June 30, 2012.

The Company expects the transition to IFRS to have an impact on financial reporting, business processes and information systems. The Company began a preliminary assessment during the year ended June 30, 2010. The Company will invest in training and resources through the transition process to facilitate a timely conversion.

Business Combinations, Consolidations and Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1582, Business Combinations replacing Section 1581, Business Combinations. Section 1582 will apply to a transaction in which the acquirer obtains control of one or more businesses (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be probable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. These standards are applicable to interim and annual financial statements of the Company beginning on July 1, 2011. The Company does not anticipate any significant impact upon the adoption of these standards.

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements and 1602, Non-Controlling Interests replacing Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 establishes standards for accounting for a non-controlling interest. These standards are applicable to interim and annual financial statements of the Company beginning on July 1, 2011. The Company does not anticipate any significant impact upon the adoption of these standards.

Risk Factors

The following are certain risk factors inherent in the Company's business and an investment in the common shares of the Company. The risks described below are not the only ones facing the Company and holders of the Common Shares. Additional risks not currently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations. The Company's business, financial condition, results of operations and prospects could be materially adversely affected by any of these risks.

Particular attention should be given to the fact that the Company's operations are currently conducted in the PRC and are governed by a legal and regulatory environment which in some respects differs from that which prevails in Canada.

Risks Relating to the Business

Failure to maintain or promote the ZUNGUI brand may adversely affect the Company's future success

Management believes that the ZUNGUI brand is critical to the Company's success. Zungui's marketing efforts are concentrated on establishing and maintaining a unique and distinctive brand image - if it is unsuccessful in promoting this image or fails to maintain its brand position among its targeted consumer groups, market perception and consumer acceptance of the ZUNGUI brand may be eroded, and the Company's business, financial condition, results of operations and prospects may be materially adversely affected. Additionally, the Company may also suffer negative publicity if the quality of its products is not maintained, or if its promotional efforts become controversial, which in either case could materially adversely affect the Company's business, financial condition, results of operations and prospects.

The Company is dependent on distributors and retailers for sales of products to consumers and, to some extent, the promotion of the ZUNGUI brand

Zungui presently operates 31 corporate-owned and managed retail outlets, and relies mostly on distributors and retailers through whom it conducts substantially all of its current sales. As Zungui relies on, and will continue to rely on, distributors and their network of retailers for a substantial portion of its sales, Zungui's future success is dependent on the growth of its distribution network and the Company's distributors' ability to grow their respective networks of retailers.

Zungui has entered into agreements with distributors for a term of one year, renewable annually. There is no assurance that Zungui will be able to renew its distributor agreements or renew such agreements on terms that are favourable to Zungui, or that the distributors will place orders with Zungui at the same level as before.

Further, distributors of ZUNGUI products are given exclusivity over their territories. If any of them terminates or does not renew its distributor agreement with Zungui, it may not be able to replace it with a new distributor in a timely manner, or the replacement distributor(s) may not be able to manage the same network of retailers or a network of retailers of similar scale. As a result, the Company's business, financial condition, results of operations and prospects may be materially adversely affected.

As Zungui relies on third-party retailers over whom it does not have direct contractual relationships (Zungui relies on distributors to oversee authorized retailers), its ability to ensure their adherence to Zungui's retail policies, which cover, among other operational requirements, exclusivity, customer service, store image and pricing, is limited. The Company can give no assurance that current arrangements for controlling quality, operations and pricing at the retail level are sufficient to ensure the success of, or to prevent negative market opinion about, the ZUNGUI brand. Zungui can give no assurance that distributors and retailers will not aggressively discount the sales price of ZUNGUI products to consumers in order to reduce their inventory levels or for other reasons.

Further, material deviations from Zungui's policies by a substantial number of retailers, or aggressive discounting of the sales prices of its products by distributors or retailers could result in, among others, erosion of goodwill, decrease in the market value of the ZUNGUI brand or an unfavourable public perception about the quality of the Company's products, which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects. Zungui's recourse in the event of a deviation or breach is generally limited to payment of damages by the relevant distributor or termination of the distributor agreement with the relevant distributor.

It may be difficult to continue to grow Zungui's distribution network

Zungui's growth is currently dependent upon its ability to (i) maintain and grow the current distribution network, (ii) execute its current strategy for growth, and (iii) obtain qualified distributors and retailers. Zungui is also dependent on distributors to locate new retail sites in prime locations. Zungui faces competition for both distributors and retail locations. Zungui's inability to successfully contract with qualified distributors could adversely affect its business development. The opening and success of retail outlets is dependent on a number of factors, including, without limitation, the availability of suitable sites, negotiations of acceptable leases or purchase terms for new locations, permitting and government regulatory compliance and the ability to meet construction schedules. Distributors or retailers may not have these business abilities, or access to financial resources necessary to open a retail outlet or to successfully develop or operate such an outlet, or develop or operate such an outlet in a manner consistent with Zungui's expectations.

Zungui provides training and support to distributors and retailers, but the quality of retail outlets may be diminished by any number of factors beyond Zungui's control. Consequently, ZUNGUI retail outlets may not successfully operate in a manner consistent with the Company's standards and requirements, and the image and reputation of the brand may suffer.

The Company is heavily dependent on certain of its key executives, design, technical and other personnel. Its inability to attract, retain and motivate qualified personnel could have a material adverse effect

The Company's success depends heavily on its ability to attract, retain and motivate key employees, including senior management, design and technical personnel. If the Company loses the services of any of its key executives and cannot replace them in a timely manner, its business and prospects may be adversely affected. Since the Company is managed by a small group of senior executive officers, the loss of the technical knowledge, management expertise and knowledge of operations of one or more members of the Company's core management team, including Mr. Yanda Cai, Chief Executive Officer and Mr. Fengyi Cai, Chairman and Director, the founders of the Company, could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any senior executive who leaves the Company and would need to spend time usually reserved for managing the business to search for, hire and train new members of management. The loss of some or all of the Company's senior executives could negatively affect the Company's ability to develop and pursue its business strategy which could adversely affect the Company's business and financial results. The Company does not currently carry any "key man" life insurance on its executives.

In addition, the Company believes that the competition for qualified senior management, design and technical personnel is very intense, and the Company faces competition for such personnel from competitors in the industry. In particular, the Company believes that currently there is a shortage of qualified personnel with sportswear design expertise and industry experience in the PRC. If the Company is unable to retain or is unsuccessful in recruiting qualified design personnel, the Company's business, financial condition, results of operations and prospects may be materially adversely affected.

Personnel matters are of particular concern in China for a number of reasons. First, intellectual property rights are not as well protected or highly valued in China as in certain other countries, and it is not uncommon for employees to take trade secrets and confidential information with them to new employers. This could have a significant negative impact on the Company's competitiveness. Second, when senior managers quit or are terminated, it is not uncommon for the employees they supervised to leave with them, taking significant institutional knowledge. Finally, with the growth of China's economy has come new found mobility for employees such that many employees change jobs on a regular basis. The Company expects that it will need to provide incentives to retain its key personnel and such incentives could decrease its profitability, and affect the Company's financial condition and operating results.

Zungui's growth strategy contemplates the addition of more corporate-owned and managed retail outlets, which it has limited experience with to date

The vast majority of Zungui's retail outlets are managed and operated by third-party distributors and retailers – Zungui currently only operates 31 retail outlets. Zungui's growth strategy contemplates a significant increase in the number of corporate-owned and managed retail outlets. There can be no assurance that such expanded corporate-owned and managed network will be successful in the near term, if at all. There can also be no assurance that the Company's existing relationships and agreements with distributors, including the grant of exclusive territories, will not inhibit or delay the expansion of the Company's corporate-owned and managed retail outlet network. Additionally, Zungui's investment in a corporate-owned and managed store is more substantial than for distributor or retailer managed outlets, and as such the failure of a number of corporate retail outlets could have a material adverse effect on its business, financial condition, results of operations and prospects.

Zungui operates in a very competitive market and the strong competition it faces may result in a decline in market share and lower profit margins

The Company believes that the sportswear industry in the PRC is characterized by strong competition from both international and domestic brands. Zungui faces competition based on, among other factors, brand recognition, design, quality and price. The market is ever-evolving, and it faces competition from brands with similar brand positioning, as well as others. Zungui's strategy of leveraging its business model of having its own production facilities to provide higher quality products and be more responsive to market conditions may not prove to be effective. The Company can provide no assurance that it will be able to compete effectively against competitors, existing or new, who may have greater financial resources, greater scales of production, superior technology, better brand recognition and a wider, more diverse and established distribution network. To compete effectively and maintain market share, Zungui may be forced to, among other actions, reduce prices, provide more sales incentives to distributors, and increase capital expenditures, which may in turn negatively affect profit margins and other results of operations.

The loss of, or significant decrease in, sales to Zungui's major distributors could have a material adverse effect

Zungui's five largest distributors together accounted for approximately 30.0% of its total revenues and its largest distributor accounted for approximately 6.8% of total revenues for the fiscal year ended June 30, 2010. Zungui's agreements with distributors generally have a term of one year, and Zungui can give no assurance that their agreements with them will be renewed on the same or similar terms, or at all. Although Zungui sets annual sales and expansion targets for distributors, no minimum purchase amount is stipulated in the distributor agreements. Zungui can give no assurance that existing distributors will continue to place orders at historical levels or at all, or that it would be able to find other distributors to purchase similar types and quantities of orders should it lose any of its existing distributors. If any of Zungui's major distributors substantially reduces its volume of purchases or ceases its business relationship with Zungui, its business, financial condition, results of operations and prospects may be materially adversely affected.

Zungui may not be able to successfully implement its plans to expand production capacity and improve production efficiency, which would have a material adverse effect on its ability to execute its growth strategy

Zungui seeks to expand production capacity and improve production efficiencies through, among other things, its research and development efforts. Zungui plans to increase its existing production facilities from five lines to seven lines, and introduce advanced facility designs. If it is unsuccessful in expanding its production facilities or improving its existing production processes, the Company's business, financial condition, results of operations and prospects may be materially adversely affected. There are a number of factors that could delay these expansion projects or increase the costs of building and installing the necessary equipment for these and future production facilities in accordance with Zungui's plans. Such factors include, but are not limited to:

- unexpected increases in equipment and construction material costs;
- delays, shortages and late delivery of quality building materials and manufacturing equipment;

- labour disputes with our employees or a labour dispute, work stoppage or slowdown at any of service providers, such as raw material or equipment providers, or at construction or engineering firms engaged in the build-out of its production facilities;

- design or construction changes with respect to building spaces or equipment layout;

- delays in securing the necessary governmental approvals and permits; and

- changes in technologies, capacity and other changes to Zungui's plans for new facilities necessitated by changes in market conditions or customer demands.

As a result of any of the above factors, Zungui's projections relating to production capacity, process technology capabilities or technology developments may significantly differ from actual production capacity, process technology capabilities or technology developments. In addition, delays in the construction and the equipping or expansion of its production facilities could result in the loss or delayed receipt of revenues, cause it to breach material terms of contracts with distributors, and cause an increase in financing costs, any of which could have a materially adverse effect on its business, financial condition, results of operations and prospects.

The Company may fail to execute its growth strategy or maintain its growth rate if it cannot adequately increase its internal resources to manage its expanded business

The Company's future growth will impose significant additional responsibilities on its management, including the need to identify, recruit, train and integrate additional employees, and oversee the expansion of its production facilities and distribution network. In addition, rapid and significant growth is expected to place a strain on its administrative and operational infrastructure, in particular on internal accounting and financial reporting processes and systems. As the Company's operations expand, it expects that additional resources will be required to manage new relationships with additional distributors and their third-party retailers and to oversee an increasing number of retailers, as well as other third parties, including subcontractors, equipment providers, consultants and others. The Company's ability to manage operations and growth will require it to continue to improve its operational, financial and management controls, reporting systems and procedures. If the Company is unable to manage its growth effectively, it may be difficult for the Company to execute its business growth strategy.

Zungui is reliant on its subcontractors

For the year ended June 30, 2010, 60.0% of Zungui's footwear and 100% of its sports apparel and accessory products were manufactured by subcontractors. The largest subcontractor accounted for approximately 27.8% of purchases from all subcontractors for the fiscal year ended June 30, 2010. In the future, in the event the planned increases in production capacity and enhancements to its production efficiencies may not be sufficient to keep pace with the Company's potential future growth in demand, the Company believes that it will need to continue to rely on subcontractors to support its need for additional capacity. Problems with any of Zungui's subcontractors production facilities or processes could result in product defects or failure to produce an adequate number of products which meet the Company's quality standards. If such events occur, it could be required to recall products previously dispatched, delay delivery of products, or be unable to supply products at all. Product defects or poor quality products could also adversely affect the Company's reputation and brand image. In addition, it may need to record periodic charges associated with manufacturing failures or other production-related costs that are not absorbed into inventory or incur costs to secure additional sources of capacity.

Difficulties or delays in subcontractors' manufacturing and supply of existing or new products could increase its costs, cause Zungui to lose revenue or market share and damage its reputation, any of which could have a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, Zungui does not enter into long-term agreements with its subcontractors. Instead, for each order, it enters into separate purchase contracts which set out the terms regarding the price, purchase quantity, delivery terms, confidential obligations and settlement terms. Zungui can give no assurance that its existing subcontractors will continue to accept its future purchase orders on the same or similar terms (including prices and quantities), or at all. Zungui can give no assurance that it would be able to find other subcontractors to supply the same or similar types and quantities of finished products should it lose the services of any of its existing subcontractors. If any of its major subcontractors substantially reduces its volume of supply to Zungui or terminates its business relationship with Zungui, its business, financial condition, results of operations and prospects may be materially adversely affected.

As Zungui is reliant on subcontractors for the manufacture of certain of its products, any increase in the cost of these products, for whatever reason, could have a material adverse effect on the Company's business, financial condition and results of operations if the Company cannot pass such cost increases on to distributors.

Fluctuations in the price, availability and quality of raw materials could cause production delays and increase production costs

Fabrics, soles, rubber, plastics, glue, leather and nano-silver anti-bacterial chemicals are the principal raw materials used in the production of ZUNGUI footwear products. All of its raw materials are currently sourced from PRC suppliers. Approximately 49.1% of raw material purchases were sourced from its top five suppliers for the fiscal year ended June 30, 2010. Zungui does not enter into long-term agreements with its raw material suppliers. For each order, it enters into separate purchase contracts which set out the terms regarding the price, purchase quantity, delivery terms, confidential obligations and settlement terms. Zungui can give no assurance that its suppliers will continue to supply the raw materials it needs to produce its products at favourable or similar prices, or at all.

It addition, market prices for Zungui's raw materials are subject to fluctuation and may be dependent on the prices of commodities. The Company's results of operations may be materially adversely affected by increases in the market prices of raw materials, particularly if it is unable to pass on the increased cost of raw materials to its customers by selling products at higher prices.

Zungui is exposed to the credit risks of distributors

Zungui currently offers distributors credit terms with the average accounts receivable turnover at 60 days. There is no assurance that Zungui will not experience problems with accounts receivables or bad debts in the future. Delays or difficulties in collecting from distributors may materially adversely affect the Company's financial condition and results of operations.

Selling prices of Zungui products are subject to changes which may be beyond the Company's control

Zungui has limited control over the prices at which distributors or consumers are willing to purchase its products as prices are driven mainly by economic factors such as demand and supply. In addition, Zungui's business model also significantly affects the selling prices of its products. For instance, under the current business model, Zungui sells most of its products to distributors rather than directly to consumers or retailers. Under this model, despite benefits such as a more extensive distribution network which is intended to generate higher sales, the selling prices of Zungui products are generally and naturally lower than the selling prices of those sold directly to consumers or retailers. Should the selling prices of Zungui products decrease or if Zungui is unable to maintain the prices of its products at desired levels, Company growth targets, and its business, financial condition, results of operations and prospects may be materially adversely affected.

Zungui may not be able to accurately track the inventory level or sales figures at distributors and their respective retailers' retail outlets

Zungui's ability to track the sales by distributors to retailers and the ultimate retail sales by the retail outlets, and consequently their respective inventory levels, is limited. Zungui may not be able to accurately track the inventory levels at distributors and their respective retailers' retail outlets, or to identify or prevent any excessive inventory build-up at these retail outlets. Zungui seeks to collect sales figures from distributors, however there can be no assurance that sales figures or inventory levels collected by the Company are accurate.

Zungui will need to maintain and cultivate key relationships

To date, Zungui's success has been, in part, dependent on personal and corporate relationships with suppliers, distributors and certain government officials. The alteration or termination of these relationships could have a substantial impact on the Company's future success and may materially adversely affect its business, financial condition, operating results and prospects.

If the Company is unable to optimize and adjust its product mix, its sales may fluctuate and profitability may decline substantially

Zungui's ability to achieve and maintain profitability depends on its ability to optimize and adjust its product mix. Zungui offers a wide range of branded products for both men and women, including footwear, sports apparel and accessory products. Zungui continuously monitors its product mix and develops new products that it believes will generate higher customer demand and increase revenue and profitability. As Zungui adjusts its product mix, its profitability will be affected both by any change in revenue and by any change in cost of sales attributable to each product category. If it is unable to optimize and adjust its product mix, its sales may fluctuate and profitability may decline substantially.

The Company may not be able to anticipate and respond in a timely manner to fashion trends and rapid changes in consumers' tastes in the PRC

As the Company's sportswear products are linked with fashions and trends, its sales are dependent on its ability to cater to different consumer fashion tastes. Zungui believes that a substantial portion of its revenues is dependent on market perception and consumers' acceptance that the ZUNGUI brand is fashionable, which requires continued anticipation and responsiveness to ever changing market and fashion trends. Zungui's failure to anticipate and respond to market and fashion trends in a timely and accurate manner could result in distributors and third-party retailers experiencing lower sales volumes, lower selling prices and lower profits. This could in turn negatively affect Zungui's sales to distributors in the future, as well as the Company's financial condition and results of operations.

The Company may be requested to make up any unpaid contributions to the social insurance program

Under the PRC laws and regulations, Zungui is required to make mandatory contributions to a number of social insurance programs for their employees who are eligible for such benefits. Under the applicable national laws and regulations, Zungui is required to contribute to these social insurance programs representing, in the aggregate, 29.2% of the wages payable to these employees, comprising contributions to (i) pension insurance at the rate of 18%; (ii) medical insurance at the rate of 7.5%; (iii) unemployment insurance at the rate of 2%; (iv) work-related injuries insurance at the rate of 1% and (v) maternity insurance at the rate of 0.7%.

In practice, the enforcement and application of the laws pertaining to social insurance contributions are not uniform, particularly as they relate to migrant workers who work outside of the province in which they live, and given the different levels of development in social benefits in different parts of the PRC. As such, the Company did not properly administer social insurance contributions for all of Zungui's migrant workers in strict compliance with national laws and regulations prior to the intial public offering of the Company. As a result, the percentage of the total social security contribution (which is calculated by comparing the amount of contributions made and the actual total staff cost) fell short of the amounts required to be contributed under the applicable national laws and regulations.

Zungui may be ordered by the relevant social insurance bureaus to pay the outstanding contributions within a prescribed time limit and late charges or penalties may apply. Zungui began to remit social insurance premiums in the third quarter of fiscal 2010 and has not been ordered by the relevant social insurance bureaus to pay any outstanding contributions.

Labour costs may be increased due to the implementation of the new PRC Labour Contract Law

The PRC Labour Contract Law was adopted by the Standing Committee of the National People's Congress of PRC on June 29, 2007 and became effective on January 1, 2008. The implementation of the new law, especially the following provisions, may increase Zungui's labour costs: (a) an employer shall make monetary compensation, which shall be based on the number of an employee's working years with the employer at the rate of one month's wage for each year, to the employee upon termination of the employment contract with certain exceptions (for example, in the circumstances where the term of a fixed-term employment contract expires and the employee does not agree to renew the contract even though the conditions offered by the employer are the same as or better than those stipulated in the current contract); (b) the wages of an employee on probation may not be less than the lowest wage level for the same job with the employer or less than 80% of the wage agreed upon in the employment contract, and may not be less than the local minimum wage rate; (c) if an employee has been working for the employer for a consecutive period of not less than 10 years, or if a fixed-term employment contract with an employee was entered into on two consecutive occasions, generally the employer should enter into an open-ended employment with such employee, unless the employee requests for a fixed-term employment contract; (d) if an employer fails, in violation of the related provisions, to enter into an open-ended contract with an employee, it shall each month pay to the employee twice the employee's wage, starting from the date on which an open-ended employment contract should have been entered into; (e) if an employer fails to enter into a written employment contract with an employee more than one month but less than one year after the date on which it started using the employee, it shall each month pay to the employee twice his wage; and (f) if an employer hires an employee whose employment contract with another employer has not yet been terminated or ended, causing the other employer to suffer a loss, it shall be jointly and severally liable with the employee for the compensation of such loss. Zungui's labour costs may increase due to the implementation of the new PRC Labour Contract Law and the Company's business and results of operations may be materially and adversely affected.

Labour disputes could significantly affect the Company's operations

Labour disputes with Zungui's employees or labour disputes, work stoppages or slowdowns at any of its subcontractors or suppliers or at construction or engineering firms engaged in the construction of its production facilities could significantly disrupt operations or expansion plans. Delays caused by any such disruptions could materially affect projections for increased capacity, production and revenues, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The use of trademarks or brands that are the same as or similar to Zungui's trademarks or brands by other parties may have a negative impact on the goodwill, value and images of its brands

The laws of the PRC permit other parties to register trademarks which may be similar to Zungui's registered trademarks under certain circumstances. Such activities may cause confusion among consumers. The Company's control over the quality of products or services provided by third parties who use trademarks similar to Zungui's is limited. Zungui may initiate legal proceedings to defend the ownership of its trademarks or brands against unlawful infringement by third parties. These legal proceedings may be time-consuming and it might be required to devote substantial management time and resources in an attempt to achieve a favourable outcome. There can be no assurance that such legal proceedings would be successful. The goodwill and value of Zungui's trademarks and public perception of its brands and images may be adversely affected by the inferior quality of the products and services provided by third parties who use trademarks similar to Zungui's. A negative perception of its brand and images could have a material adverse effect on the Company's sales, and therefore on its business, financial condition, results of operations and prospects.

Zungui faces possible infringements of its intellectual property and the counterfeiting of the ZUNGUI brand

Zungui believes its brand and associated intellectual property rights are crucial to its success. There is no assurance that third parties will not infringe Zungui's intellectual property rights. Additionally, Zungui believes the quality of its products is also critical to its success, and inferior, counterfeit goods now or in the future may adversely affect the Company's reputation, and that of its brand. The Company's efforts to enforce or defend its intellectual property rights may not be adequate and may require significant attention from management and may be costly. The outcome of any legal actions to protect intellectual property rights may be uncertain. If the Company is unable to adequately protect or safeguard its intellectual property rights, its business, financial condition, results of operations and prospects may be materially adversely affected.

The Company could be adversely affected by claims by third-parties for possible infringement of intellectual property rights

The Company is constantly developing new products, which may lead to it inadvertently infringing upon a third-party's rights, or which may lead such third-party to believe the Company has infringed its rights. Third parties, including competitors, may believe that one or more of its products infringe their intellectual property rights and initiate legal proceedings against the Company. If any legal proceeding against it for infringement of intellectual property rights is successful, and the Company is unable to obtain a license for the usage of such intellectual property right on suitable terms, or at all, or are unable to design around such intellectual property right, the Company may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property. In such cases, they could have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The Company may also be subject to other legal and equitable claims, as well as damage to its reputation and image, and such proceedings and their consequences could divert management's attention from the business, all of which could have a similar material adverse effect.

Any significant damage to administrative or production facilities, as a result of fire or other calamities, could have a material adverse effect

Zungui's ability to meet the demands of distributors and its ability to grow its business are heavily dependent on efficient, proper and uninterrupted operations at its facilities. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment and the destruction of buildings, equipment and other facilities due to natural disasters such as hurricanes, fire or earthquakes would severely affect its ability to continue operations. The Company currently does not carry any business interruption insurance. While it does maintain certain insurance policies covering losses due to fire, lightning and explosions, there can be no assurance that its coverage would be adequate to compensate Zungui for the actual cost of replacing such buildings, equipment and infrastructure nor can it assure you that such events would not have a material adverse effect on it business, financial condition, results of operations and prospects.

Zungui does not have proof of title or building ownership certificates for certain leased premises

Zungui leases certain buildings from the Propaganda Station of the People's Liberation Army of PRC of Nanjing Military Region and from two individuals, for which there is no proof of title. Without a building ownership certificate and land use right certificate the right to the properties cannot be verified and the Company's lease could be detrimentally affected. In addition, there is a warehouse and electrical equipment room located on the Company's property for which no construction permit or certificate of ownership were obtained. There is a risk that local governmental authorities could fine Zungui and order such installations be dismantled.

The Company is exposed to environmental liability. Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in China may cause the Company to incur additional capital expenditures

The Company's business operations in the PRC are subject to the environmental laws and regulations issued by the PRC government. To date, other than as described below, it has fully complied with all relevant environmental laws and regulations. Failure to comply with any such laws or regulations may result in fines being levied. Moreover, the PRC government has the discretion to cease or close any operation if the failure to comply with such laws or regulations is serious. There can also be no assurance that the PRC government will not change the existing laws or regulations or impose additional or stricter laws or regulations. Compliance with any of these additional or stricter laws or regulations may cause the Company to incur additional capital expenditure, which it may be unable to pass on to customers through higher prices for products.

The Company currently does not hold a pollutant discharge permit. Zungui has a statutory obligation to obtain a pollutant discharge permit and has submitted an application with the relevant authorities to obtain such pollutant discharge permit. Without such permit, Zungui could be forced to stop its production by the local environmental protection agency.

The Company may be exposed to product liability, property damage or personal injury claims, which may adversely affect its reputation and business

The development, manufacture and marketing of sportswear may be subject to product liability claims. Zungui may be subject to product liability claims in the event that any of its products is alleged to have a defect which causes harm or damage to a consumer, and it may, as a result, have to expend significant financial and managerial resources to defend against such claims. The Company believes that such product liability claim risks will increase as legal concepts in product liability claims begin to develop and mature in the PRC. The Company does not maintain product liability insurance coverage and it cannot provide any assurance that its business, financial condition, results of operations and prospects will not be materially adversely affected by a successful product liability claim against the Company. In addition, it does not maintain third-party liability insurance against claims for property damage or personal injury. Regardless of the ultimate merits of a claim or dispute, the Company may face significant costs and expenses to defend against such claims or enter into settlement agreements, and it may suffer serious damage to its reputation, be subject to material monetary damages and be subject to government investigations. In such cases, it may lead to fines and sanctions against the Company and which may result in negative public perception of the ZUNGUI brand, all of which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The closure of retail outlets may affect Zungui's revenues

Zungui's revenue is dependent upon the sales made through its third-party distribution network which, in turn, is dependent in part on the number of retail outlets in the network and the gross sales of these outlets. Each year, a number of factors could result in the closure of one or more of these retail outlets.

In addition, as a result of the significant growth recently experienced, certain existing retail outlets are thriving as the populations in their respective territories and their average per capita income continues to grow. As a result, it is expected that as territories become re-allocated or as new retail outlets are opened to better serve the respective territories, although this would result in a net increase in the number of retail outlets, there may be an initial decrease in the sales figures of the existing retail outlets in territories that have been reduced. There can be no assurance that retail outlet sales in such circumstances would ever return to historic levels.

The Company's ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of its strategies

The Company expects its working capital needs and capital expenditure needs to increase in the future as it continues to expand and enhance its production facilities, open additional corporate-owned and managed retail outlets, increase design, research and development capabilities and as it continues to implement other strategies. The Company's ability to raise additional capital will depend on the financial success of its current business and the successful implementation of its key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond its control. No assurance can be given that it will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a further dilutive effect on shareholders. If Zungui requires additional debt financing, the lenders may require it to agree on restrictive covenants that could limit its flexibility in conducting future business activities, and the debt service payments may be a significant drain on free capital allocated for research and other activities. If the Company is unsuccessful in raising additional capital it may not be able to continue its business operations, and advance its growth initiatives.

Although Chinese banks are in the midst of reform, the basis on which they can lend money is not transparent and they do not often lend money to foreign invested enterprises. Obtaining financing from a Chinese bank will, to a certain extent, involve leveraging personal relationships. There is no guarantee that Zungui will have the right relationships if and when it requires further financing. The Chinese government has articulated the need to try and control the rate of economic growth in China and has set out stricter lending policies, and this too could adversely affect Zungui's ability to obtain future bank financing in China.

The Company is a holding company

The Company is a holding company and a substantial portion of its assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate all of its revenues. Consequently, the Company's operations are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations that govern these entities. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

Dividends

The Company does not currently plan on declaring or paying any dividends on its common shares in the foreseeable future. Any future dividend policy will be determined by the Board of Directors of the Company.

Directors and officers may have conflicts of interest

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company are to be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company.

The Company will have limited recourse against certain Existing Shareholders and the Principal Securityholder in connection with the Share Exchange

The Share Exchange Agreement dated December 21, 2009 and filed on www.sedar.com contains various representations and warranties of the Principal Securityholder and the Existing Shareholders, in each case as defined therein, whereby the Principal Securityholder and the Existing Sharesholders exchanged their Southern shares for Company common shares on the basis of one Southern Trends share for 5,000 Company common shares. The Principal Securityholder and the Existing Shareholders have agreed to indemnify the Company from, among other things: (i) claims or losses relating to the breach of any such representations or warranties; and (ii) the failure of the Existing Shareholders to perform any of their respective covenants under the Share Exchange Agreement. Any claim for breach of a representation and warranty must be made before the expiry of a specified period. It is not certain that the Principal Securityholder and the Existing Shareholders would have sufficient assets to satisfy any claims for indemnification at the time an indemnification claim is made or a judgment respecting such a claim is entered. Furthermore, there is no assurance that investors will be able to collect from the Principal Securityholder and the Existing Shareholders judgments obtained in Canada. As a result, there can be no assurance that the Company will be able to recover from the Principal Securityholder and the Existing Shareholders the full amount of any damages suffered by the Company in respect of any of the matters covered by these indemnity provisions.

Shareholders will not have a direct statutory right or any other rights against the Existing Shareholders or the Principal Securityholder. The sole remedy of the Company is through any indemnities to be provided to the Company by the Existing Shareholders and the Principal Securityholder under the Share Exchange Agreement in respect of a breach of the representations and warranties in that agreement.

The Company's disclosure controls and procedures and internal controls over financial reporting may not prevent all error and all fraud

Failure to maintain effective internal controls could cause the Company to fail to meet its reporting obligations or result in material misstatements in its financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed which could also cause shareholders to lose confidence in the Company's reported financial information, which could result in a lower trading price of the common shares.

Management does not expect that the Company's disclosure controls and procedures and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

There exists a language barrier between certain directors and officers of the Company

A language barrier exists between Mandarin speaking and English speaking management as well as Board members. There is a risk of miscommunication between the parties. There can be no assurance that existing bilingual employees will be an effective communicator and that all internal day-to-day business dealings and affairs between the Mandarin and English speaking management of the Company will be accurately described, interpreted and received by the parties.

Influence by the majority shareholder

The majority shareholder beneficially owns or controls, directly or indirectly, 35,380,000 common shares, which represent approximately 56.8% of the Company's issued and outstanding common shares. As a result, if the majority shareholder and certain persons or entities act together, they will have the ability to control all matters submitted to shareholders for approval, including without limitation the election and removal of directors, amendments to articles of incorporation and by-laws and the approval of any business combination. This may delay or prevent an acquisition of the Company or cause the market price of its common shares to decline. While the rights of minority shareholders would be protected in Canada, judgments rendered against the Company and/or its subsidiaries or the Principal Securityholder or the Existing Shareholders (as defined in the Share Exchange Agreement) would likely not be enforceable in China.

Future sales of common shares by the majority shareholder

Subject to compliance with applicable securities laws, officers, directors, the majority shareholder and their affiliates may sell some or all of their common shares in the future. No prediction can be made as to the effect, if any, such future sales of common shares will have on the market price of the common shares prevailing from time to time. However, the future sale of a substantial number of common shares by the Company's officers, directors, majority shareholder and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for common shares.

Risks Relating to Conducting Business in the PRC

Almost all of the Company's assets are located in the PRC and all of its revenues are derived from its operations in the PRC. As a result, its operations and assets are subject to significant political, economic, legal and other uncertainties associated with doing business in the PRC, which are discussed in more detail below.

There are significant risks associated with state ownership

The Company carries on its business in China and derives all of its profit from the activities of its operating subsidiary. As such, the Company's subsidiaries operating results, financial position and prospects are subject to a significant degree of risk relating to certain economic, political, social and legal developments in China.

The Chinese economy differs from the economies of most developed countries in a number of respects, including its structure, the level of government involvement, the level of development, the control of foreign exchange and the allocation of resources.

Before its adoption of reform and open door policies beginning in 1978, China was primarily a planned economy. Since that time, China's economy has been undergoing a transition from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented economic reforms, reduced state ownership and established sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, control for foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, government policies relating to currency conversion, taxation, import restrictions and the trading of imported goods, among others, continue to have a significant impact on the overall economy, as does the presence of the government as a market participant as well as the market regulator. Many of the policy changes initiated since 1978 are unprecedented in China, experimental in nature, and are frequently refined and readjusted. Political and social factors may also lead to further refinements and readjustments. Changes in Chinese political, economic, or social conditions, or to the current laws and regulations, or their interpretations may adversely affect the Company's profitability and prospects.

If the Chinese government changes its current policies, or the interpretation of those policies, the Company may face significant new constraints on its flexibility and ability to expand its business operations or to maximize its profitability. Under Chinese regulatory requirements, all major capital expenditure projects of the Company would require Chinese national and/or provincial government approval.

The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. The Chinese government has implemented various macro-economic control measures from time to time in order to try and control the rate of economic growth, including certain measures which were put in place to restrict bank lending. Some of these measures may have a negative effect on the Company. In addition, such macro-economic control measures may have a general adverse impact on the Chinese economy that would, in turn likely have an adverse impact on the Company's business, financial condition, operating results and prospects.

The Company is exposed to fluctuations in the economic conditions in the PRC, which may significantly affect its business and financial performance

Zungui's sales and growth are dependent on consumer consumption and the continued improvement of macroeconomic conditions in the PRC, where all of Zungui's revenues have been generated in the past and are expected to be generated in the future. There are many factors affecting the level of consumer spending, including but not limited to, interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. The success of Zungui's business depends in part upon the continued growth of the PRC consumer market, and the Company can provide no assurance that the PRC will continue to grow at historical rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending may materially adversely affect the Company's business, financial condition, operating results and prospects.

Fluctuations in foreign exchange rates may adversely affect the presentation of the Company's financial condition and results of operations in Canadian dollars

The value of the RMB fluctuates and is subject to various factors such as changes in political and economic conditions. Since 1994, the official exchange rate for the conversion of RMB to U.S. dollars has generally been stable. On July 21, 2005, the RMB was revaluated upwards by approximately 2% against the U.S. dollar when the People's Bank of China ("PBOC") announced the change of the RMB exchange regime from a U.S. dollar peg system to a managed floating exchange rate regime based on a basket of currencies. Thereafter, the RMB was allowed to fluctuate daily by not more than 0.3% against the U.S. dollar. On May 18, 2007, PBOC announced the daily fluctuation rate of the RMB against the U.S. dollar would be increased to 0.5% as of May 21, 2007. On June 19, 2010 the PBOC announced that in view of the recent economic situation and financial market developments at home and abroad, and the balance of payments situation in China, the PBOC has decided to proceed further with reform of the RMB exchange rate regime and to enhance the RMB exchange rate flexibility. As Zungui reports its financial results in Canadian dollars but earn its revenue in RMB, an increase in the

Canadian dollar relative to the RMB will adversely affect the value, translated or converted into Canadian dollars, of revenue and net income.

Exchange rate fluctuations may adversely affect the Company's financial position and operating results. There is no assurance that the value of the RMB will remain at the current level against the Canadian dollar, the U.S. dollar or against any other foreign currency. The Company does not currently have in place a policy for managing or controlling foreign currency risks since, to date, its primary activities have not resulted in material exposure to foreign currency risk.

Any change in the Company's tax treatment may have a material adverse effect

Any increase in the tax rate to which the Company or its subsidiaries are subject, whether in China or external to China, will reduce the net profitability of the Company. Such reduction could be material and historical financial results may thus not be indicative of results of future periods.

The Company could be adversely affected by changes in Chinese Government income tax rulings with retroactive application

On December 15, 2009, the State Administration of Taxation of the PRC issued a taxation circular that had retroactive application to January 1, 2008. The Company's assessment is that this taxation circular has no financial impact on the Company. However, the Company cannot provide assurance that there will be no future impact from other income tax rulings issued by the Chinese Government on a retroactive basis.

Mengshida may be limited in its ability to repatriate profits or convert currency

The Company's operating subsidiary earns all of its revenues in RMB. Under current PRC regulations, there is no restriction on foreign exchange conversion on the current account although any foreign exchange transaction on the capital account is subject to significant foreign exchange controls and requires the prior approval from the State Administration of Foreign Exchange of the PRC ("SAFE"). However, even on the current account, the RMB is not a freely convertible currency. The Company's operating subsidiary should be allowed to pay outstanding current account obligations in foreign exchange, but will need to present the proper documentation to a designated foreign exchange bank to prove the authenticity of foreign exchange under the current account. While the Chinese government is generally relaxing restrictions on foreign trade and investment, there is no certainty that all future local currency can be repatriated.

There can also be no assurance that the availability of foreign currency will be sufficient for the Company's subsidiary to satisfy any other foreign currency obligations. This may, in turn, adversely affect the Company's ability to pay dividends. There is also no guarantee that foreign exchange control policies will not be changed so as to require government approval to convert RMB into foreign currency on the current account. In addition, failure to obtain approval from SAFE for currency conversion on the capital account may impact on the Company's capital expenditure plans and its ability to expand in accordance with its objectives.

Shareholders' rights in China are more limited than in Canada, and enforcement of judgments may be difficult or impossible

As a Chinese legal entity, Mengshida is subject to Chinese company law and regulations. Chinese company law, in general, and provisions for the protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies in other countries. Substantially all of the Company's assets, through Mengshida, are located in China. China does not have a treaty with Canada providing for the reciprocal recognition and enforcement of judgments of courts and, as such, recognition and enforcement in China of judgments of a Canadian court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Although the rights of minority shareholders in the Company would be protected in Canada, judgments rendered against the Company and/or its subsidiaries and/or its directors or officers, the Principal Securityholder or Existing Shareholders resident in China would likely not be enforceable in China.

China has a developing legal system

The Chinese legal system is a system based on written statutes that are often incomplete or drafted ambiguously. They are interpreted by the Supreme Peoples' Court and prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade.

However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, many judges in the PRC take a pragmatic view of the law and seek to resolve problems without necessarily enforcing the legal rights of the aggrieved parties. As the Chinese legal system develops, changes in such laws and regulations, their interpretation, or their enforcement, may have a material effect on the Company.

Intellectual property rights in China are still developing, in terms of protections and enforcement

Intellectual property rights in China are still developing and there are uncertainties involved in intellectual property rights protection and the enforcement of such protection. The Company will need to pay special attention to protecting its intellectual property and trade secrets. Failure to do so could lead to the loss of a competitive advantage that could not be compensated for by a damages award.

Mengshida is required to hold numerous permits and business licenses

The Company's operating subsidiary, Mengshida, holds various permits, business licenses and approvals authorizing its operations and activities which are subject to periodic review and re-assessment by the Chinese authorities. Standards of compliance necessary to pass such reviews change from time to time and differ from jurisdiction to jurisdiction, leading to a degree of uncertainty. If renewals, or new permits, business licenses, or approvals required in connection with existing or new facilities or activities, are not granted or are delayed, or if existing permits, business licenses or approvals are revoked or substantially modified, the Company may suffer a material adverse effect. If new standards are applied to renewals or new applications, it could prove costly to the Company to meet any new level of compliance.

The Chinese government may appropriate land used in the Company's operations

The Company's operating subsidiary has certain land use rights in China. Under Chinese law, land use rights can be revoked in the public interest, although holders of such appropriated land use rights typically receive compensation. Events in China have shown that the public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent.

The Company may be affected by natural disasters, acts of war, political unrest and epidemics, which are beyond its control

Natural disasters, acts of war, political unrest and epidemics, which are beyond the Company's control, may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some regions in the PRC are particularly susceptible to floods, earthquakes, sandstorms and droughts. Zungui's business, financial condition and results of operations may be materially and adversely affected if such natural disasters occur. Political unrest, acts of war and terrorist attacks may cause damage or disruption to Zungui, its employees, its facilities, the distribution channels operated by distributors or their third-party retailers and its markets, any of which could materially and adversely affect its sales, cost of sales, overall operating results and financial condition. The potential for war or terrorists attacks may also cause uncertainty and cause its business to suffer in ways that the Company cannot currently predict. In addition, certain Asian countries, including the PRC, have encountered epidemics such as SARs, or incidents of the avian flu. Past occurrences of or new epidemics have caused different degrees of damage to the national and local economies in the PRC. A recurrence of or a new epidemic could cause a slowdown in the levels of economic activity generally, which could in turn adversely affect the Company's results of operations and the price of the Common Shares.

Certain facts, forecasts, statistics and other information in this prospectus relating to China, its economy and the sportswear and casual footwear industries are derived from third-party sources and industry publications which may not be reliable

Certain facts, forecasts, statistics and other information contained in this prospectus relating to China, its economy and the sportswear/footwear industries have been derived from official publications or sources generally believed to be reliable. Management has taken reasonable care in the collection and reproduction of such information. However, neither management nor the Underwriters nor any of their respective affiliates or advisors have independently verified such facts, forecasts, statistics and other information, and as such cannot guarantee the quality or reliability of such source materials or the accuracy of their content.

Outlook

The PRC domestic footwear market remains a high growth industry consistent with the growth of the PRC's economy. Zungui's focus is on the domestic market and the Company allocates its resources and efforts to meet the demands of China's growing local markets. Zungui is currently working to increase its presence in Tier 2 and 3 Cities, with populations ranging up to 5 million people, throughout the PRC, where both population and disposable income are growing. This increased presence will be achieved by opening additional corporate-owned and managed retail outlets and by assisting distributors in expanding their retail presence.

Corporate-owned and managed retail outlets typically offer higher margins than sales through distributors as well as greater operating flexibility. By increasing the number of corporate-owned and managed retail outlets, Zungui believes it can focus its growth strategy in certain regions while complementing its current distribution network. The Company expects to add 72 corporate-owned and managed retail outlets, during the period July to December, 2010 and 187 retail outlets from distributors in remainder of calendar 2010.

AUDITORS' REPORT

To the shareholders of
Zungui Haixi Corporation

We have audited the consolidated balance sheets of **Zungui Haixi Corporation** (the "Company") as at June 30, 2010 and 2009 and the consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada — Chartered Accountants

September 29, 2010

Zungui Haixi Corporation
Consolidated Balance Sheets
[Expressed in thousands of Canadian Dollars]

	June 30, 2010	June 30, 2009
Current assets		
Cash	$ 85,876	$ 23,757
Accounts receivable, net	34,128	22,202
Prepaid expenses	343	510
Inventories (Note 4)	3,498	2,984
Other receivables (Note 13)	1,331	1,234
Future income taxes	58	61
Total current assets	125,234	50,748
Property, plant and equipment (Note 5)	6,470	5,331
Total assets	$ 131,705	$ 56,079
Current liabilities		
Accounts payable and accrued liabilities	$ 30,288	$ 15,624
Bank loan (Note 6)	-	511
Taxes payable	4,974	4,287
Due to related party (Note 13)	440	482
Total current liabilities	35,702	20,904
Shareholders' equity		
Share capital (Note 7 and 19)	33,451	-
Paid-in capital (Note 7)	-	-
Contributed surplus	3,282	1,174
Surplus reserve funds (Note 9)	4,774	1,938
Retained earnings	56,161	32,021
Accumulated other comprehensive income (loss)	(1,665)	42
Total shareholders' equity	96,003	35,175
Total liabilities and shareholders' equity	$ 131,705	$ 56,079

Subsequent Event (Note 19)

The accompanying notes are an integral part of these consolidated financial statements

Approved By the Board

(Signed) “Michael W. Manley”

Director

(Signed) “Patrick A. Ryan”

Director

Zungui Haixi Corporation
Consolidated Statements of Income and Comprehensive Income
[Expressed in thousands of Canadian Dollars, except per share data]

	Year Ended June 30, 2010	Year Ended June 30, 2009
Revenue	$ 163,885	$ 138,730
Cost of sales	119,373	101,323
Gross profit	44,512	37,407
Selling expenses	2,325	3,234
Research and development expenses	761	484
General and administrative expenses	3,705	2,135
Foreign exchange loss	198	-
Other income, net	(100)	(52)
	6,889	5,801
Income before income taxes	37,623	31,606
Income tax expense (Note 12)	10,647	8,559
Net income	26,976	23,047
Other comprehensive income (loss):		
Unrealized gain(loss) on foreign currency translation of self-sustaining operations	(1,707)	1,654
Comprehensive income	$ 25,269	$ 24,701
Basic and diluted earnings per share	$ 0.48	$ 0.46
Weighted average number of shares outstanding	56,403,055	50,000,000

The accompanying notes are an integral part of these consolidated financial statements

Zungui Haixi Corporation
Consolidated Statements of Shareholders' Equity
[Expressed in thousands of Canadian Dollars]

	Year Ended June 30, 2010		2009	
Share Capital (Note 7(a))				
Balance, beginning of year	$	-	$	-
Issuance of share capital		35,318		-
Stock based compensation expense		(1,867)		-
Balance, end of year	$	33,451	$	-
Paid-in Capital (Note 7(e))				
Balance, beginning of year	$	-	$	1,174
Reorganization of capital		-		(1,174)
Balance, end of year	$	-	$	-
Contributed Surplus (Note 7(e))				
Balance, beginning of year	$	1,174	$	-
Reorganization of capital		-		1,174
Stock based compensation expense		2,108		-
Balance, end of year	$	3,282	$	1,174
Surplus Reserve Fund (Note 9)				
Balance, beginning of year	$	1,938	$	1,938
Transfer from retained earnings		2,836		-
Balance, end of year	$	4,774	$	1,938
Retained Earnings				
Balance, beginning of year	$	32,021	$	8,974
Net income		26,976		23,047
Transfer to surplus reserve funds		(2,836)		-
Balance, end of year	$	56,161	$	32,021
Accumulated Other Comprehensive Income (Loss)				
Balance, beginning of year	$	42	$	(1,612)
Unrealized foreign currency translation gains (losses)		(1,707)		1,654
Balance, end of year	$	(1,665)	$	42
Total Shareholders' Equity	$	96,003	$	35,175

The accompanying notes are an integral part of these consolidated financial statements

Zungui Haixi Corporation
Consolidated Statements of Cash Flows
[Expressed in thousands of Canadian Dollars]

	Year Ended June 30, 2010	Year Ended June 30, 2009
Cash flows from operating activities		
Net income	$ 26,976	$ 23,047
Items not affecting cash:		
Depreciation	601	487
Future income taxes	(2)	(30)
Provision for doubtful accounts	144	111
Stock based compensation	242	-
Loss on disposal of property, plant and equipment	33	-
Changes in non-cash working capital		
Accounts receivable	(13,702)	(9,433)
Prepaid expenses	123	(285)
Inventories	(747)	(638)
Other receivables	(195)	(154)
Accounts payable and accrued liabilities	15,689	3,502
Taxes payable	1,121	798
Net cash provided by operating activities	30,283	17,405
Cash flows from investing activities		
Property, plant and equipment	(2,198)	(9)
Proceeds from sale of equipment	12	-
Net cash used in investing activities	(2,186)	(9)
Cash flows from financing activities		
Proceeds from bank loans	-	443
Repayment of bank loans	(463)	(443)
Due to related party	(111)	440
Increase in share capital, net	35,318	-
Net cash provided by financing activities	34,744	440
Effect of exchange rate changes on cash	(722)	897
Net increase in cash	62,119	18,733
Cash, beginning of year	23,757	5,024
Cash, end of year	$ 85,876	$ 23,757
Supplemental disclosure of cash information		
Interest paid in cash	$ 24	$ 38
Income taxes paid in cash	9,631	7,773

The accompanying notes are an integral part of these consolidated financial statements

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Zungui Haixi Corporation [“Zungui” or “Company”] was incorporated under the Ontario Business Corporation Act on August 11, 2009. Zungui is a holding company listed on TSX Venture Exchange. Through its subsidiaries, Zungui manufactures and sells sports footwear and related apparel and accessories as well as leisure leather shoes in the People’s Republic of China (the “PRC” or “China”). Zungui’s wholly owned subsidiaries include Southern Trends International Holding Company Ltd. [“Southern”], Honorable Int’l Investment Co., Limited [“Honorable”] and Mengshida Shoes Co., Ltd. Shishi City [“Mengshida”].

On December 21, 2009, the Company completed a share exchange agreement with Southern whereby the 10,000 issued and outstanding common shares of Southern were exchanged for 50,000,000 common shares of the Company. On June 25, 2009, Southern, an investment holding company, acquired 100% ownership interest in Honorable which is an investment holding company based in Hong Kong. Honorable acquired 100% interest in Mengshida on July 25, 2008.

These reorganization transactions were accounted for on a continuity of interest basis of accounting whereby the various assets and liabilities are accounted for at the carrying value in the combining companies’ records. Current and comparative consolidated financial results are presented as if the companies have always been combined. The number of common shares outstanding has been restated for the purpose of determining earnings per share to reflect the reorganization.

The comparative figures presented for the year ending June 30, 2009 refer to Southern financial statements.

2. INITIAL PUBLIC OFFERING

On December 21, 2009, the Company completed its initial public offering (“IPO”) by issuing 11,500,000 common shares at a price of $3.25 per common share, resulting in net proceeds of $33,040 after deducting the underwriters’ fees and other related expenses of the offering of $4,335.

The Company granted the underwriters an over-allotment option exercisable for a period of 30 days from closing of the IPO to purchase up to an additional 1,725,000 common shares at the issue price. No stock based compensation was recorded for this option. On January 12, 2010, the underwriters exercised the over-allotment option and purchased 759,500 common shares at $3.25, resulting in net proceeds of $2,278 after deducting the underwriters’ fees and other related expenses of $190.

In addition, the underwriters received compensation options entitling them to acquire up to 7% of the number of common shares issued under the IPO including any shares exercised under the over-allotment option. Refer to Note 7(d).

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and including the following significant accounting policies:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Southern, Honorable and Mengshida. All significant intercompany accounts and transactions have been eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of estimates

The preparation of the consolidated financial statements requires the Company's management to make estimates and assumptions based on currently available information. Such estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting periods presented. The most significant estimates included in the consolidated financial statements are the valuation of accounts receivable, inventories, employees' social benefits and income taxes. Actual results could differ from the estimates used.

(c) Cash and cash equivalents

Cash and cash equivalent comprises cash on hand and cash equivalents. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company has no cash equivalents.

(d) Foreign currency translation

The Company's primary economic activities are in China and the functional currency is Chinese Renminbi ("RMB") for its wholly owned subsidiary, Mengshida, located in China. The Company's head office, Honorable and Southern's functional currency is Canadian dollars. The Company uses Canadian dollars as its reporting currency. Mengshida is considered to be a self-sustaining foreign operation and its' financial statements are translated into the reporting currency using the current rate method. Under this method, revenue and expenses are translated into the reporting currency using the weighted average exchange rates for the period and assets and liabilities are translated using the exchange rate at the end of the period. Capital transactions are translated using historical rates. All resulting exchange differences are reported as accumulated other comprehensive income (loss), which is presented as a separate component of shareholders' equity.

(d) Foreign currency translation (Continued)

Honorable and Southern are considered integrated operations and the temporal method is used for translation of any foreign denominated financial statement transactions. Foreign currency denominated transactions of the Company and its integrated operations are translated at the exchange rates prevailing at transaction dates. Monetary items are revalued to rates of exchange prevailing at the balance sheet date. Exchange gains and losses arising from the translation of foreign currency items are included in the determination of net income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are expensed to earnings as incurred; additions, renewals and betterments are capitalized. When property, plant and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets using the book value of the asset less its estimated residual value. Estimated useful lives are as follows:

Plant and buildings	5-20 Years
Machinery and production equipment	10 Years
Automobiles and trucks	10 Years
Office equipment	5 Years
Leasehold improvements	2-3 Years

(f) Revenue recognition

Revenue comprises sales from retail stores operated by the Company and sales to distributors, less sales rebates and advertising contributions paid to distributors as cash consideration. Sales to customers through company-owned retail stores are recognized at the time the transaction is entered into the point-of-sale register. Sales to distributors are recognized when the distributors have accepted the related risks and rewards of ownership of the products, the price is fixed and determinable and collection of proceeds is reasonably assured.

(g) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost has been determined using the weighted average cost method. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of purchased inventories comprise costs directly attributable to the acquisition of finished goods, materials and services. The costs of conversion of inventories include direct labour and factory overhead.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. Inventory quantities on-hand are regularly reviewed, and where necessary, reserves for excess and unusable inventories are recorded. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments

(i) Financial assets

Initial recognition
Financial assets are classified as held for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value plus, in the case of financial assets not classified as held for trading, directly attributable transaction costs.

The Company's financial assets include cash, accounts receivable and other receivables.

Subsequent measurement
The subsequent measurement of financial assets depends on the classification as follows:

Held for trading
Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or can also be designated as held for trading on initial recognition. They are carried in the balance sheet at fair value with gains or losses recognized in the income statement. Cash is classified as “held-for-trading” and is measured at fair value which approximates cost.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest method. Accounts receivable and other receivables are classified as “loans and receivables”.

(ii) Financial liabilities

Initial recognition
Financial liabilities are classified as financial liabilities held for trading and other financial liabilities and are initially recognized at fair value.

Accounts payable and accrued liabilities, bank loan and due to related party are classified as other financial liabilities.

Subsequent measurement
Subsequent to initial recognition, financial liabilities are carried at amortized cost using the effective interest method.

(i) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss would be recognized in that period for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows or quoted market prices. There have been no impairment losses recognized to date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Operating leases

The Company leases a factory and retail store premises that do not transfer substantially all of the benefits and risks of ownership of the leased assets to the Company. These leases are accounted for as operating leases and minimum rental prepayments are amortized on a straight-line basis over the life of the lease beginning on the possession date.

(k) Research and development costs

Research and development costs, which are included with general and administrative expenses, are expensed in the period in which they are incurred unless the criteria for capitalization under GAAP are met, in which case they are deferred and amortized. The Company has not deferred any such development expenses.

(l) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income taxes assets and liabilities are determined based on the tax consequences attributed to differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using the substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

(m) Changes in accounting policies

(i) Stock-based compensation plan

The Company has a stock based compensation plan which is described in Note 8. The Company measures and recognizes compensation expense using the fair value method. Under this method, the Company estimates the fair value of options granted to employees, non-employee directors and consultants at the grant date using the Black-Scholes option pricing model. The Company recognizes the fair value as a compensation expense over the period that the stock options vest on a straight line basis, with a corresponding increase to contributed surplus. When these stock options are exercised, the amount of the proceeds together with the amount recorded in contributed surplus, is recorded in share capital.

(ii) Financial Instruments

The CICA has amended Handbook Section 3862 to require enhanced disclosure on the fair value of certain financial instruments. The Company adopted these recommendations effective June 30, 2010 and the required disclosures are included in Note 16. The Company does not have any financial instruments measured at fair value that require disclosure of the hierarchy levels. These amendments did not impact the Company's results of operations or financial position.

[Expressed in thousands of Canadian Dollars except per share and share amounts]

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Future accounting changes

(i) Transition to IFRS

Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards ("IFRS") over a transitional period to be complete by 2011. The Company will be required to report using IFRS for interim and annual financial statements relating to the fiscal year ended June 30, 2012.

The Company expects the transition to IFRS to have an impact on financial reporting, business processes and information systems. The Company began a preliminary assessment during the year ended June 30, 2010. The Company will invest in training and resources through the transition process to facilitate a timely conversion.

(ii) Business Combinations, Consolidations and Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1582, Business Combinations replacing Section 1581, Business Combinations. Section 1582 will apply to a transaction in which the acquirer obtains control of one or more businesses (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be probable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. These standards are applicable to interim and annual financial statements of the Company beginning on July 1, 2011. The Company does not anticipate any significant impact upon the adoption of these new standards.

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements and 1602, Non-Controlling Interests replacing Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 establishes standards for accounting for a non-controlling interest. These standards are applicable to interim and annual financial statements of the Company beginning on July 1, 2011. The Company does not anticipate any significant impact upon the adoption of these new standards.

4. INVENTORIES

Inventories consist of:

	June 30, 2010	June 30, 2009
Raw materials	$ 1,433	$ 1,091
Work in progress	466	332
Finished goods	1,599	1,561
Total inventory	$ 3,498	$ 2,984

Inventories expensed as cost of sales were $119,282 and $101,244 for the year ended June 30, 2010 and 2009, respectively.

[Expressed in thousands of Canadian Dollars except per share and share amounts]

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	June 30, 2010			June 30, 2009		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Plant and building	$ 5,859	$ 2,036	$ 3,823	$ 6,376	$ 1,920	$ 4,456
Machinery and production equipment	1,798	950	848	1,660	1,052	608
Automobiles and trucks	668	191	477	404	163	241
Leasehold improvements	1,422	156	1,266	-	-	-
Office equipment	148	92	56	120	94	26
Total	$ 9,895	$ 3,425	$ 6,470	$ 8,560	$ 3,229	$ 5,331

Depreciation expense was $601 and $486 for the years ended June 30, 2010 and 2009, respectively. Buildings with the net book value of $4,399 as of June 30, 2009 were provided as collateral for the bank loan (Note 6) which was repaid on June 25, 2010.

6. BANK LOAN

On July 23, 2008, the Company signed a one year term loan agreement with Bank of Agriculture Shishi branch to borrow $443 (RMB 3,000,000) at a floating interest rate of the aggregate of the bank prime rate plus an additional 20% of the bank prime rate. The loan matured and was fully repaid on July 17, 2009.

On July 17, 2009, the Company signed a one year term loan agreement with Bank of Agriculture Shishi branch to borrow $511 (RMB 3,000,000). The interest rate is the higher of 5.31% per annum or the lending rate per Bank of China, reset every 3 months. Interest is payable on a quarterly basis. The loan was fully repaid on June 25, 2010.

Interest expense was $132 and $154 for the years ended June 30, 2010 and 2009, respectively.

The bank loan was collateralized by the Company's buildings as referred to in Note 5.

7. SHARE CAPITAL, PAID IN CAPITAL AND CONTRIBUTED SURPLUS

(a) Share Capital:

As at June 30, 2010 the authorized share capital of Zungui was unlimited common shares with no par value.

[Expressed in thousands of Canadian Dollars except per share and share amounts]

7. SHARE CAPITAL, PAID IN CAPITAL AND CONTRIBUTED SURPLUS (Continued)

Share Capital	Number of Shares Issued	Number of Stock Options	Number of Compensation Options	Weighted Average Exercise Price	Amount
Balance as at August 11, 2009	1	-	-	$ -	$ -
Share exchange transaction (Note 1)	50,000,000	-	-	-	-
Initial public offering (Note 2)	11,500,000	-	-	-	33,040
Cancellation of share	(1)	-	-	-	-
Stock options (Note 7(c)):					
Granted	-	700,000	-	3.25	(1,005)
Underwriter options (Note 7(d))	-	-	805,000	3.25	(811)
Over-allotment option (Note 2)	759,500	-	-	3.25	2,278
Underwriter options (Note 7(d))	-	-	53,165	3.25	(51)
Balance as at June 30, 2010	62,259,500	700,000	858,165	-	$ 33,451

(b) Earnings Per Share:

As a result of the reorganization as described in Note 1 and the application of the continuity of interest accounting, all periods prior to the initial public offering completed on December 21, 2009 are deemed to have 50,000,000 shares issued and outstanding for the purposes of calculating earnings per share.

(c) Stock Options:

In conjunction with the initial public offering, on December 21, 2009 the Company granted 700,000 stock options at an exercise price of $3.25 to consultants (see Note 13(d)). The consultant's stock options vest equally over a three year period and as at June 30, 2010, none were vested nor exercisable. The stock options expire on December 21, 2014. The per share fair value of these grants was $1.44. Stock based compensation in the amount of $1,005 was deducted from share capital as part of the expenses of the offering.

	Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
Consultants	$3.25	December 21, 2009	December 21, 2014	4.5	700,000	-

In addition, 960,000 stock options were granted to employees and non-employee Directors as further discussed in Note 8 of which 10,000 were forfeited during the year.

(d) Compensation Options:

On December 21, 2009, the Company also granted the underwriters an option to purchase 805,000 common shares ("compensation options") at $3.25 for a period of 24 months. The per share fair value of these grants was $1.01. Stock based compensation in the amount of $811 was deducted from share capital as part of the expenses of the offering.

[Expressed in thousands of Canadian Dollars except per share and share amounts]

7. SHARE CAPITAL, PAID IN CAPITAL AND CONTRIBUTED SURPLUS (Continued)

On January 12, 2010, the underwriters earned an additional 53,165 common shares ("compensation options") at $3.25 for a period of 24 months in conjunction with the exercise of the over-allotment option. The per share fair value of these grants was $0.97. Stock based compensation in the amount of $51 was deducted from share capital as part of the expenses of the offering.

	Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
Compensation Options	$3.25	December 21, 2009	December 21, 2011	1.5	805,000	805,000
Compensation Options	$3.25	January 12, 2010	January 12, 2011	1.5	53,165	53,165

The fair value of the option grants in (c) and (d) above were estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended June 30, 2010
Risk-free interest rate	1.27-2.46
Expected dividend yield	0.0%
Expected volatility	54.3%
Expected option life (in years)	2 - 4

Expected volatility is based on the historical volatility of companies in comparable industries. The risk-free interest rate is based on yields of Government of Canada T-bills with similar maturities. The expected option life was estimated based on vesting schedule and the expiry date for the compensation options.

(e) Paid in Capital:

As part of the reorganization referred to in Note 1, the paid in capital of Mengshida of $1,174 became the contributed surplus of the Company.

On January 29, 2010, the Company applied to change the registered capital of Mengshida to $34.4 million (RMB 220.0 million). As of June 30, 2010, Mengshida's registered capital was $30.2 million (RMB 193.0 million). By January 29, 2012, the Company is required to inject additional capital of $4.2 (RMB 27.0 million) to fulfil this requirement.

8. STOCK BASED COMPENSATION

The Company has a stock option plan to incent directors, officers, consultants and employees. In accordance with the stock option plan, the term of any stock option grant cannot exceed five years and no more than 10% of Company's common shares are reserved for stock option grants.

[Expressed in thousands of Canadian Dollars except per share and share amounts]

8. STOCK BASED COMPENSATION (Continued)

On December 21, 2009, the Company granted 960,000 stock options at an exercise price of $3.25 to Company employees and directors with an expiry date of December 21, 2014. The stock options vest equally over a three year period and as at June 30, 2010, none were vested nor exercisable. The per share fair value of these grants was $1.44. During the year ended June 30, 2010, no additional stock options were granted and 10,000 options were forfeited.

The fair value of the options grants was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended June 30, 2010
Risk-free interest rate	2.46
Expected dividend yield	0.0%
Expected volatility	54.3%
Expected option life (in years)	4

Expected volatility is based on the historical volatility of companies in comparable industries. The risk-free interest rate is based on yields of Government of Canada T-bills with similar maturities. During the year ended June 30, 2010, stock based compensation expense was $242.

A summary of the stock options outstanding as at June 30, 2010, including those described in Note 7, are as follows:

	Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
Employee and Non-Employee Directors	$3.25	December 21, 2009	December 21, 2014	4.5	950,000	-
Consultants	$3.25	December 21, 2009	December 21, 2014	4.5	700,000	-

9. SURPLUS RESERVE FUNDS

In accordance with applicable regulations for foreign funded enterprises in the PRC, Mengshida, the Company's operating subsidiary, is required to retain a certain amount from net income as reserve funds. The amount retained shall not be less than 10% of net income as determined under the PRC GAAP annually for statutory reserves. When the balance of the statutory reserves reaches 50% of the registered capital of Mengshida, no further appropriations are required.

As of June 30, 2010, Mengshida's surplus reserve fund aggregated $4,774 ($1,938 as at June 30, 2009) which represents 15% of Mengshida's registered capital as at June 30, 2010.

[Expressed in thousands of Canadian Dollars except per share and share amounts]

10. MAJOR CUSTOMERS AND SUPPLIERS

The Company sells products to various customers. There were no customers that purchased more than 10% of the Company's products for the years ended June 30, 2010 and 2009.

During the year ended June 30, 2010, purchases from three suppliers, each represented 19% ($21,901), 16% ($17,897) and 16% ($17,829) of total purchases. During the year ended June 30, 2009, purchases from three suppliers, each represented 16% ($15,228), 13% ($12,549) and 11% ($11,066) of total purchases.

11. REVENUE

	Year Ended June 30,	
	2010	2009
Revenue		
Footwear	$ 140,658	$ 117,636
Apparel and accessories	23,227	21,094
Revenue	$ 163,885	$ 138,730

12. INCOME TAXES

The Company is subject to income taxes in Canada while its operating subsidiary, Mengshida is subject to the Corporate Income Tax Law of the PRC enacted on January 1, 2008 which resulted in a unified tax rate of 25% for all enterprises. The Company is not subject to any taxation in the British Virgin Islands and the Company is subject to 16.5% income tax rate in Hong Kong.

The components of income before income taxes are as follows:

	Year Ended June 30,	
	2010	2009
Pre-tax income (loss):		
Canada	$ (1,165)	$ -
Foreign	38,788	31,606
	$ 37,623	$ 31,606

The provision for income taxes consists of the following:

	Year Ended June 30,	
	2010	2009
Income taxes:		
Current:		
Foreign	$ 10,650	$ 8,589
Future:		
Foreign	(3)	(30)
	$ 10,647	$ 8,559

[Expressed in thousands of Canadian Dollars except per share and share amounts]

12. INCOME TAXES (Continued)

A reconciliation of income tax provision compared to Canadian statutory tax rates is as follows:

	Year Ended June 30, 2010	2009
Income before income taxes	$ 37,623	$ 31,606
Statutory Tax Rate	33%	33%
Provision for taxes at statutory marginal tax rate	12,227	10,509
Permanent differences	1,040	658
Share issuance costs	(292)	-
Income tax at lower rates in foreign jurisdictions	(2,913)	(2,608)
Valuation allowance	550	-
Other	35	-
Income tax expense	$ 10,647	$ 8,559
Effective tax rate	28%	27%

The components of the future income tax asset are as follows:

	Year Ended June 30, 2010	2009
Future income tax assets:		
Allowance for doubtful accounts	$ 52	$ 56
Depreciation	6	5
Tax loss carry forward	550	-
Share issuance costs	965	-
Before valuation allowance	1,573	61
Valuation allowance	1,515	-
Future income tax asset, net	$ 58	$ 61

The Company established a valuation allowance of $1,515 as at June 30, 2010 ($ nil as at June 30, 2009) due to the uncertainty of future realization of future income tax assets that originated from tax losses recognized in Canada and Hong Kong. As at June 30, 2010, the Company has income tax losses of $1,820 for which no accounting benefit has been recognized and which can be applied against future years' taxable income in Canada. These losses expire in the year 2020. The Company has income tax losses of $576 in Hong Kong which do not expire. As at June 30, 2009, the Company did not have any income tax losses.

13. RELATED PARTY TRANSACTIONS

(a) Directors of Mengshida have jointly made personal guarantees to indemnify Mengshida on certain potential tax exposures including the related interest and penalties arising in periods prior to 2006. Accordingly, the Company has recorded an other receivables from Directors.

(b) Due to related party consists of a loan from a Director of Honorable totalling $440 (Hong Kong $3,200,000 and RMB 100,000) as at June 30, 2010 and $482 (Hong Kong $3,200,000 and RMB 100,000) as at June 30, 2009. This loan is unsecured, is interest free and is payable on demand.

[Expressed in thousands of Canadian Dollars except per share and share amounts]

13. RELATED PARTY TRANSACTIONS (Continued)

(c) The Directors of Mengshida have jointly made personal guarantees to indemnify Mengshida for any premiums for social insurance in arrears in excess of RMB 4,465,000 as discussed in Note 15. One of the Directors has pledged 2,000,000 common shares of the Company owned by him for any potential liability that may become payable under this undertaking.

(d) A corporation 50% owned by one of Zungui's Directors received $400,000 in cash and 700,000 stock options of the Company in trust for various parties as consideration for services rendered in connection with the initial public offering. The stock options were granted at $3.25 and vest in equal amounts over three years. A company controlled by the same Director received 440,000 of the 700,000 stock options granted by the Company. The above transactions were conducted in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

14. COMMITMENTS

The Company has purchase commitments to pay its suppliers $13,919 based on the purchase contracts signed during the year ended June 30, 2010 ($9,148 as at June 30, 2009), which is primarily related to finished goods. The Company has committed to receive these finished goods in the first six months of fiscal 2011.

During the year ended June 30, 2010, the Company entered into 28 operating lease agreements with various parties to lease retail space for terms ranging up to six years. Several of the lease agreements have flexible lease terms and do not have minimum lease payment requirements.

The minimum lease payments required are as follows:

Period ending June 30,		
2011	$	310
2012		300
2013		261
2014		137
2015		89
Thereafter		217
	$	1,314

For commitments relating to share capital refer to Note 7(e).

15. CONTINGENCY

Pursuant to the relevant laws and regulations of the PRC, the Company makes contributions to the local Labour and Social Security Bureaus based on a rate determined by the local bureaus. The process of determining this rate involves uncertainties and judgments on the part of the Bureaus. Significant estimates and judgement are applied by management to determine the appropriate amount of social insurance to be paid. The Directors of Mengshida have jointly made personal guarantees to indemnify the Company for any premiums for social insurance in arrears and all related fines, penalties, interest and other payments in excess of RMB 4,465,000 ($698) that the Company may be required to make relating to periods prior to December 31, 2009 in the event of a dispute or settlement with the applicable government authorities. See Note 13(c).

[Expressed in thousands of Canadian Dollars except per share and share amounts]

16. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and involve uncertainties and the exercise of significant judgement. The fair value of financial assets and financial liabilities approximates their carrying value due to their short term maturity. The classification of the financial instruments as well as their carrying values is shown in the table below:

June 30, 2010	Held for Trading	Loans and Receivables	Other Financial Liabilities	Total Carrying Value
Financial assets				
Cash	$ 85,876	$ -	$ -	$ 85,876
Accounts receivable	-	34,128	-	34,128
Other receivables	-	1,331	-	1,331
	$ 85,876	$ 35,459	$ -	$ 121,335
Financial liabilities				
Accounts payable and accrued liabilities	$ -	$ -	$ 30,288	$ 30,288
Bank loan	-	-	-	-
Due to related party	-	-	440	440
	$ -	$ -	$ 30,728	$ 30,728

June 30, 2009	Held for Trading	Loans and Receivables	Other Financial Liabilities	Total Carrying Value
Financial assets				
Cash	$ 23,757	$ -	$ -	$ 23,757
Accounts receivable	-	22,202	-	22,202
Other receivables	-	1,234	-	1,234
	$ 23,757	$ 23,436	$ -	$ 47,193
Financial liabilities				
Accounts payable and accrued liabilities	$ -	$ -	$ 15,624	$ 15,624
Bank loan	-	-	511	511
Due to related party	-	-	482	482
	$ -	$ -	$ 16,617	$ 16,617

Financial risk management

Financial risk is the risk to the Company's earnings that arises from fluctuations in market risk (including interest rate risk, foreign currency risk), credit risk and liquidity risk and the degree of volatility of these rates. The Company's business practices seek to minimize any potential adverse effects on the Company's financial performance.

16. FINANCIAL INSTRUMENTS (Continued)

The Company's financial instruments that are included in the consolidated balance sheets are comprised of cash, accounts receivable, other receivables, accounts payable and accrued liabilities, bank loans and due to related party. As at the balance sheet date, there are no significant differences between the carrying value of these items and their estimated fair values because they are short-term in nature.

Market risk

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company repaid its bank loan during the year and no longer has exposure to interest rate fluctuations. The Company does not use any derivative financial instruments to reduce its exposure to interest rate risk.

Foreign Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Company has financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risks. The Company has not hedged its exposure to currency fluctuations. The translation of foreign operations to the reporting currency is not taken into account.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will default on its obligations. The Company's maximum exposure to credit risk consists of the carrying value of its cash, accounts receivable and other receivables. The Company places the majority of its cash with a PRC regulated financial institution.

Credit risk with respect to accounts receivable is mitigated through the sales to numerous different customers. No customer accounted for more than 10% of total sales. In addition, the Company evaluates the financial position of its customers and regularly reviews their credit limit. Allowances are established with regards to potential losses. The Company was not exposed to any particular credit risk concentration for the year ended June 30, 2010 and 2009, respectively.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due. The Company finances its operations through cash flows from operating activities. The Company's goal is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. As at June 30, 2010, the Company had $30,288 in accounts payable and accrued liabilities and due to related party $440. All financial liabilities have contractual maturities of less than one month as of June 30, 2010.

[Expressed in thousands of Canadian Dollars except per share and share amounts]

17. CAPITAL DISCLOSURE

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern and continue to provide returns and benefits for its shareholders. The Company's capital is defined as shareholders' equity as presented on the consolidated balance sheet excluding accumulated other comprehensive income (loss). The Company's capital is as follows:

	Year Ended June 30, 2010	Year Ended June 30, 2009
Bank loan	$ -	$ 511
Shareholders' equity excluding accumulated other comprehensive income (loss)	97,668	35,133
	$ 97,668	$ 35,644

The Company does not establish quantitative return on capital criteria for management or internally imposed restrictions, but rather promotes year-over-year sustainable profitable growth. The Company may adjust its capital mix in order to manage its capital structure. There has been no change with respect to the overall capital risk management strategy during the years ended June 30, 2010 and 2009.

18. SEGMENTED INFORMATION

The Company has one operating segment, being the manufacture and sale of its products in the PRC. This is consistent with the Company's organization structure, the way in which the operation is managed and evaluated, the availability of separate financial results and materiality considerations. All revenues are generated in the PRC and substantially all of the Company's capital assets are located in PRC. Corporate relates to the Company's assets and expenses in its holding companies.

For the Year Ended June 30, 2010	China	Corporate	Total
Net income (loss)	$ 28,095	$ (1,119)	$ 26,976
Total assets	125,027	6,678	131,705

During the year ended June 30, 2009 the Company did not have corporate expenses.

19. SUBSEQUENT EVENT

On September 17, 2010, the Company announced its intention to proceed with a normal course issuer bid as approved by the TSX Venture Exchange. The Company can purchase for cancellation, at market prices, up to 3,112,975 of its issued and outstanding common shares during the period October 4, 2010 to October 3, 2011.

Directors and Officers

Directors

Fengyi Cai
Chairman

Michael W. Manley[3]
Lead Director

Yanda Cai[3]

Margaret Cornish[1,2]

Patrick A. Ryan[1,2]

Elliott Wahle[1,2,3]

[1] Member of Audit Committee
[2] Member of Compensation, Nominating and Governance Committee
[3] Member of Corporate Development Committee

Investor Relations Contact

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Goodmans LLP

Auditor

Ernst & Young LLP

Officers

Yanda Cai
Chief Executive Officer

Shelly Gobin
Chief Financial Officer

Xinglin Li
Chief Operating Officer

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Stock Exchange

TSX Venture Exchange: ZUN

Website: www.zunguihaixi.com

Annual Meeting of Shareholders

Thursday, December 2, 2010
4:30 p.m. EST
Zungui Haixi Corporation
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