

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9344 / July 30, 2012

SECURITIES EXCHANGE ACT OF 1934
Release No. 67531 / July 30, 2012

INVESTMENT COMPANY ACT OF 1940
Release No. 30157 / July 30, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14964

In the Matter of

PETER DONG ZHOU,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933, SECTIONS 15(b)
AND 21C OF THE SECURITIES EXCHANGE
ACT OF 1934, AND SECTION 9(b) OF THE
INVESTMENT COMPANY ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Peter Dong Zhou (“Respondent” or “Zhou”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these

proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, and Section 9(b) of the Investment Company Act of 1940 (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

Summary

These proceedings arise out of Respondent’s conduct surrounding his 2007 to 2009 relationship with China Yingxia International, Inc. (“China Yingxia” or the “Company”), a Chinese reverse merger company, for which Respondent’s registered broker-dealer, American Union Securities, Inc. (“American Union”), acted as a placement agent and helped raise over \$10 million from American investors, and ultimately Respondent became an insider responsible for the Company’s periodic investor communications. Zhou effectively used American Union to assist his unregistered father to conduct offerings for China Yingxia, and engage other unregistered persons to solicit investors. Zhou also participated in the unregistered distribution and sale of restricted securities of China Yingxia, facilitating the Company’s payment of so-called consultants. During the course of Zhou’s relationship with China Yingxia, he reviewed and filed annual and quarterly reports; reviewed and issued press releases; and helped the Company retain a chief financial officer, directors, legal counsel, auditors, investor relations firms, and various “consultants.” All the while, Zhou was privy to China Yingxia’s material, non-public information. In early 2009, when Zhou learned that China Yingxia faced serious problems and was essentially near collapse, he used this material, non-public information for his own benefit by depositing China Yingxia shares into his brokerage account and almost immediately selling the securities, all before the stock price ultimately collapsed and the Company ceased operations.

Zhou’s conduct violated Sections 5(a), 5(c), and 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. Further, Zhou aided and abetted violations of Section 15(a) of the Exchange Act.

Respondent

1. Zhou, age 30, resides in New York, New York. Zhou was a registered representative and served as president of American Union, formerly a registered broker-dealer based in New York, New York. During the relevant period, Zhou held series 7, 24, 55, and 63 securities licenses.

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Other Relevant Entities

2. American Union is a New York corporation formerly registered with the Commission as a broker-dealer from approximately June 2004 until November 2010. The firm is no longer in operation. While in existence, the firm provided investment banking and other services to Chinese companies seeking financing from or access to the U.S. capital markets.

3. China Yingxia was a Florida corporation headquartered in Harbin, China with purported operations in China. China Yingxia's stock was quoted on the OTC Link (formerly "Pink Sheets") operated by OTC Markets Group, Inc. under the symbol "CYXI." On February 2, 2012, the Commission instituted administrative proceedings pursuant to Section 12(j) of the Exchange Act against China Yingxia, as the Company had not filed any periodic reports with the Commission since late 2008. By an Order dated March 7, 2012, each class of China Yingxia's registered securities was revoked.

Background

China Yingxia

4. From at least 2007 through 2009, Zhou and his father, who runs a consulting firm specializing in work with Chinese companies ("Consulting Firm"), helped numerous companies become public in the United States through reverse mergers with publicly-traded shell companies.

5. The Consulting Firm had overlapping business with American Union, and nearly always worked with the same Chinese companies, including China Yingxia. Zhou's father, who was the principal of the Consulting Firm, provided startup capital to and shared office space with, and further directed and/or controlled certain activities of, American Union. Zhou's father often presented himself as Chairman of American Union, and held an ownership interest in the firm. Zhou's father was not, however, registered as a broker, nor was he associated with any registered broker-dealer.

6. In mid-2006, with assistance from Zhou and his father, China Yingxia added itself to the long list of companies in recent years that have become public in the United States via reverse merger. China Yingxia purported to be a nutritional food business focusing on products based on cactus, millet, rice, and soybean. China Yingxia's chief executive officer and her family held around 50% of the outstanding shares, and the CEO's son served as a director of the Company.

7. After completion of the reverse merger in May 2006 and until the Company's eventual demise around March 2009, Zhou maintained a prominent role with China Yingxia.

8. Alongside his father, Zhou performed for China Yingxia virtually all tasks required of a public company. In addition to assisting with the reverse merger, Zhou worked with the Company's chief executive officer, oversaw the interviewing and hiring of the Company's CFO (and after his hiring worked closely with him) as well as the appointment of

several new directors who were contacts of Zhou's father. Additionally, Zhou prepared or worked on the Company's filings with the Commission and its press releases; and for the few board meetings that took place, Zhou organized calls, set the agenda, and participated in the meetings. Further, Zhou helped retain U.S. service providers, including an investor relations firm, auditors and lawyers, and managed, if not controlled, those relationships for the Company. Zhou also intimately worked with certain so-called consultants, as described below.

9. Zhou's work with the Company provided him access to material, non-public information concerning the Company and its management and operations.

First China Yingxia Private Placement July 2007

10. By early 2007, China Yingxia sought to raise approximately \$6.5 million for working capital and other corporate purposes, including purchasing materials related to a soybean production line.

11. In April 2007, the Company held a road show in New York City, meeting with various fund managers and others that frequently invested in Chinese reverse merger companies. Assisted by one of the Company's service providers, the Company's CEO and Zhou, among others, went on the road show to meet with potential investors, including a well-known fund manager that invested heavily in U.S. listed Chinese companies ("Fund Manager"), and a registered representative of a broker-dealer ("Broker").

12. After the road show, Zhou and his father helped the Company negotiate investment terms with the Fund Manager and one of his associates ("Lead Investors"). The terms included, among other things, the price, investment amounts, closing date, and payment to the Lead Investors for certain services.

13. As negotiations concluded, the Lead Investors entered into consulting agreements to pay them for the due diligence they conducted in conjunction with their investments. The due diligence was later used in efforts to sell China Yingxia to other investors in a subsequent PIPE or private investment in public equity transaction. The Lead Investors invested a total of \$2 million in July 2007, marking the close of China Yingxia's first capital raise in the U.S.

Issuance of Shares from CEO's Father

14. In late June and early July 2007, the Lead Investors entered into consulting agreements with an unnamed and, at the time, unknown shareholder of China Yingxia, to compensate for due diligence services supposedly already provided to the Company.

15. The consulting agreements included payment of 250,000 restricted shares of China Yingxia that had been issued in connection with the Company's May 2006 reverse merger. Zhou and his father negotiated and facilitated the execution of the agreements.

16. On August 1, 2007 – almost one month after execution of the agreements – Zhou identified the unnamed shareholder, who was supposedly the counterparty to the agreements. The unnamed shareholder was China Yingxia’s CEO’s father.

17. Neither of the Lead Investors rendered any services to the CEO’s father. As facilitated by Zhou, the CEO’s father transferred his restricted shares to the Lead Investors. The CEO’s father was a person directly or indirectly controlled by the issuer, China Yingxia. The CEO’s father’s restricted shares were transferred to the Lead Investors at the apparent direction of the Company. Further, the CEO’s father apparently was not reimbursed by the Company for his shares.

18. In the same communication identifying the unnamed shareholder, Zhou provided the Lead Investors with instructions for obtaining an opinion pursuant to Rule 144 under the Securities Act to lift the restrictions on the 250,000 shares, and thus render the shares freely tradeable. While Zhou knew that no services were provided to the CEO’s father – as he had only then identified the CEO’s father as a party to the agreements – he relayed advice to the Lead Investors that, “if the shares were received as compensation for work done for the Company then [counsel] could not give the 144 legal opinion to lift the restriction, but if the shares were compensatoin [sic] for work done for the shareholder, then this is none [sic] issue.”

19. After holding the securities for only a short time, the Lead Investors sold the shares purportedly pursuant to Rule 144 under the Securities Act. At the time, although the shares had been held by the CEO’s father for more than one year, they were not eligible for immediate resale. The CEO’s father could not legitimately rely on any exemption from registration of such securities given his relationship to the Company. The CEO’s father was an “issuer” as that term is defined in the definition of “underwriter” in Section 2(a)(11) of the Securities Act. Those who received shares from the CEO’s father, therefore, received restricted shares and were also deemed “underwriters” when they sold such shares. Moreover, the Lead Investors did not meet the requirements for sale under Rule 144, and the transaction to compensate them operated to evade the registration requirements of the Securities Act.

Second China Yingxia Private Placement August 2007 and Illicit Payments to Unregistered Brokers

20. The Company soon embarked on a second capital raise. Although American Union acted as the official placement agent for China Yingxia’s second private placement, Zhou’s father and three “consultants” provided key introductions and solicited most of the investors. It appears that American Union and Zhou’s role in the PIPE was largely limited to certain administrative tasks, leaving the main task of raising money to Zhou’s father and the three “consultants.”

21. In addition, the “consultants” reviewed and/or circulated deal documents, commented on the terms of the investment, and facilitated the PIPE closing, all in exchange for previously agreed-upon transaction-based compensation stemming from the amount of money China Yingxia raised. One of the “consultants,” the Fund Manager, assisted the Company,

including by hosting a meeting with potential investors at a shared conference room in the Fund Manager's office building. The other "consultants," the Broker, whom the Company met on its road show, and one of the Company's service providers, an investor relations firm ("IR Firm"), also assisted with introductions in person or via email. No disclosures were made to any investors concerning any payments to the "consultants."

22. With the exception of the Broker – who conducted his activities away from his firm as it did not have knowledge of or opportunity to supervise his activities – the "consultants" were neither registered as or associated with any broker-dealer.

23. On August 9, 2007, China Yingxia announced the completion of a second round of financing whereby it sold \$8,725,130 worth of restricted securities to 20 investors. Virtually all of the 20 investors were contacts of the Fund Manager, Broker, or the IR Firm.

24. Although the offering term sheet, which Zhou circulated to potential investors, provided that American Union, as placement agent, would receive a 13% fee for its services, in fact American Union received no such amount. Contrary to this statement, China Yingxia's agreements with American Union and the Consulting Firm outlined payments each would receive for various services; such agreements nowhere stated that American Union would receive a 13% fee for raising money. Instead, the Consulting Firm's agreement provided that it would receive a 13% PIPE fee. Zhou's father, the principal of the Consulting Firm, doled out money from this fee at his discretion, paying American Union 4%, or \$349,005.20, and keeping the larger 9% share, or \$785,261.80, for the Consulting Firm. Zhou's father further used this money to pay the three so-called consultants.

25. After the second financing closed in August 2007 and the amount raised became clear, the three "consultants" emailed Zhou and/or his father concerning payment. The Fund Manager emailed several times, stating on one occasion "we are due our share of money from the fund raise." The Broker emailed, "[a]re you going to send me docs to [sic] we can get paid on CYXI?" A principal of the IR Firm emailed, "[w]e are very pleased at ... the finalization of the ... raise. At this time I would like to either meet with you face to face or speak on the phone as to our consulting fee for the investors we introduced to CYXI"

26. In response to emails from the "consultants," Zhou's father, with Zhou's assistance, executed backdated consulting agreements with the three "consultants." In what appears to be an attempt to conceal the true nature of the services provided, the consulting agreements concerned supposed "strategic consulting services." The agreements stated that the consultants would provide to the Consulting Firm's clients certain services, including "assisting the company in press releases, conference calls, etc.; communicating with investors, accompanying investors to visit the facilities of the [Consulting Firm's] clients; and providing other consulting assistance."

27. Despite that description of the services, the "consultants" received transaction-based compensation for raising money for the Company, not for any consulting services. The Consulting Firm paid the three "consultants" a total of \$533,500, and retained for itself almost

\$252,000 after distributing those payments. The principal of the Consulting Firm paid with checks drawn from the Consulting Firm's bank account. The money used to pay the so-called consultants is directly traceable to investor money flowing into China Yingxia through the August 2007 private placement. The payments, which were almost exactly 5% of the amounts each "consultant" raised for the Company, were made to: (i) a firm tied to the Fund Manager, for payment of \$107,500; (ii) the Broker's employer, a registered broker-dealer, for payment of \$226,000; and (iii) the IR Firm, for payment of \$200,000.

Insider Trading in China Yingxia Ahead of Press Release

28. Zhou continued to work with the Company well after the financings concluded. He coordinated with the CFO and others on public filings, and also worked with one of the Company's investor relations firms concerning press releases, among other things.

29. In late February 2009, China Yingxia began to experience difficulties relating to allegations of illegal activity involving the CEO. The Company's China-based management was unreachable and fell out of contact with Zhou, his father, and others. Before any news became publicly disseminated by the Company, the CEO sent a letter to the Fund Manager (who maintained a continuing role with the Company and its CEO) detailing serious issues facing China Yingxia, including her fundraising activity and that a factory was shut down as well as other issues affecting workers. The Fund Manager in turn sent the letter to Zhou and his father on February 19, 2009, stating that "[t]his would mean that you knew of all the problems ... the closing of the ... facility"

30. Despite Zhou's role with the Company and access to the material, non-public information, on the same day, Zhou opened an individual brokerage account with American Union and deposited 104,514 shares of China Yingxia. Zhou sold his entire position days later on February 26-27, 2009 for approximate profits/loss avoidance of \$20,900. Zhou executed no other transactions in the account.

31. On March 6, 2009, the Company issued a press release publicly disclosing problems concerning the CEO and China Yingxia. The press release stated, among other things, that certain disputes involving the CEO "adversely affected the normal operations" of the Company and that they "have caused ... [a] shut down" to certain related operations. In response, the stock price declined by close to 70%. After the press release, the Company effectively collapsed. Recent reports indicate that Chinese officials have sentenced China Yingxia's CEO to death for illegal fundraising activities, similar to a Ponzi scheme, involving Chinese citizens.

Violations

32. As a result of the conduct described above, Zhou willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer or sale of securities and in connection with the purchase or sale of securities.

33. As a result of the conduct described above, Zhou willfully violated Sections 5(a) and 5(c) of the Securities Act, which make it unlawful for any person, directly or indirectly, to sell or to offer to sell a security for which a registration statement is not filed or not in effect or there is not an applicable exemption from registration.

34. As a result of the conduct described above, Zhou willfully aided and abetted violations of Section 15(a) of the Exchange Act, which makes it unlawful for any broker or dealer to effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security, unless such broker or dealer is registered or associated with a registered broker-dealer.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Zhou's Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Zhou cease and desist from committing or causing any violations and any future violations of Sections 5(a), 5(c), and 17(a) of the Securities Act, Sections 10(b) and 15(a) of the Exchange Act, and Rule 10b-5 thereunder.

B. Respondent Zhou be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; and

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or

trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock,

with the right to apply for reentry after three (3) years to the appropriate self-regulatory organization, or if there is none, to the Commission.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondent shall, within 30 days of the entry of this Order, pay disgorgement of \$20,900, prejudgment interest of \$2,463.39 and civil penalties of \$50,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 or pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Peter Dong Zhou as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Andrew M. Calamari, Acting Regional Director, Division of Enforcement, Securities and Exchange Commission, 3 World Financial Center, Suite 400, New York, NY 10281.

E. Such civil money penalty may be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended ("Fair Fund distribution"). Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant

to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Elizabeth M. Murphy
Secretary