

Qingdao Footwear, Inc.  
Form 10-K  
May 05, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the fiscal year ended: December 31, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-53075

QINGDAO FOOTWEAR, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

16-1591157  
(I.R.S. Employer  
Identification Number)

c/o Qingdao Hongguan Shoes Co., Ltd.  
269 First Huashan Road  
Jimo City, Qingdao, Shandong, PRC  
(Address of principal executive office and zip code)

86-0532-86595999  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.0001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Edgar Filing: Qingdao Footwear, Inc. - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of June 30, 2010, the aggregate market value of the shares of the Registrant's common stock held by non-affiliates (based upon the closing price of such shares as reported on the Over-the-Counter Bulletin Board) was approximately \$65,233. As of May 2, 2011, there were 12,023,679 shares of the Registrant's common stock outstanding.

---

QINGDAO FOOTWEAR, INC.  
FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2010

INDEX TO REPORT ON FORM 10-K

		Page
<b>PART I</b>		
ITEM 1.	BUSINESS.	5
ITEM 1A.	RISK FACTORS.	16
ITEM 1B.	UNRESOLVED STAFF COMMENTS.	
ITEM 2.	PROPERTIES.	26
ITEM 3.	LEGAL PROCEEDINGS.	27
ITEM 4.	(REMOVED AND RESERVED).	27
<b>PART II</b>		
ITEM 5.	MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.	28
ITEM 6.	SELECTED FINANCIAL DATA.	29
ITEM 7.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.	29
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.	
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.	38
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.	38
ITEM 9A.	CONTROLS AND PROCEDURES.	39
ITEM 9B.	OTHER INFORMATION.	40
<b>PART III</b>		
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.	41
ITEM 11.	EXECUTIVE COMPENSATION.	43
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.	44
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.	45
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES.	47
<b>PART IV</b>		
ITEM 15.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES.	48
<b>SIGNATURES</b>		50

CONSOLIDATED FINANCIAL STATEMENTS

51

2

---

## FORWARD LOOKING STATEMENTS

This report contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “potential,” “predicts,” “projects,” “should,” “would” and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements include, among other things, statements relating to:

- Our ability to source products from manufacturers at the high quality and competitive pricing as we have historically;
  - the impact that a downturn or negative changes in the Chinese retail economy may have on our sales;
  - our ability to obtain additional capital in future years to fund our planned expansion;
  - economic, political, regulatory, legal and foreign exchange risks associated with our operations; or
  - the loss of key members of our senior management and our qualified sales personnel.

Also, forward-looking statements represent our estimates and assumptions only as of the date of this report. You should read this report and the documents that we reference and filed as exhibits to the report completely and with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

## USE OF CERTAIN DEFINED TERMS

Except where the context otherwise requires and for the purposes of this report only:

- “QHS,” the “Company,” “we,” “us” or “our” refer to the combined business of Qingdao Footwear, Inc. and its wholly owned direct and indirect subsidiaries, (i) Glory Reach International Limited, or “Glory Reach,” a Hong Kong limited company; and (ii) Qingdao Hongguan Shoes Co., Ltd., a PRC limited company, or “Qingdao Shoes,” as the case may be;
- “BVI” refers to the British Virgin Islands;
- “Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the People’s Republic of China;
- “PRC,” “China” and “Chinese” refer to the People’s Republic of China (excluding Hong Kong and Taiwan);
- “Renminbi” and “RMB” refer to the legal currency of China;

- “Securities Act” refers to the Securities Act of 1933, as amended; and

- “U.S. dollars,” “dollars” and “\$” refer to the legal currency of the United States.

In this Annual Report we are relying on and we refer to information and statistics regarding the footwear and retail industry and economy in China and that we have obtained from various cited government and institute research publications. Much of this information is publicly available for free and has not been specifically prepared for us for use or incorporation in this Annual Report on Form 10-K or otherwise. We have not independently verified such information, and you should not unduly rely upon it.

## PART I

### Item 1. Business.

#### Overview

We are a designer and retailer of branded footwear in Northern China. We were organized to service what we believe is an unmet and increasing demand for high quality formal and casual footwear throughout the PRC. As urbanization and individual purchasing power has increased in China, the demand for leather footwear has also grown.

Our principal business includes (1) designing and selecting designs for men's and women's leather shoe lines; (2) sourcing and purchasing contract-manufactured footwear; and (3) selling these lines of footwear under our proprietary brand, "Hongguan" (sometimes presented as "HonGung"). We do not manufacture or assemble any shoes. We operate a number of flagship stores throughout greater Qingdao. Our products are also brought to market through our extensive distribution network of authorized independent distributors as well as through third party retailers selected to operate exclusive Hongguan brand stores on our behalf. Our company headquarters and main sales office is located in Shandong province in northern China, in the city of Jimo, less than 25 miles from the major urban center of Qingdao.

#### Corporate History and Background

Qingdao Footwear was originally incorporated as Datone, Inc. on August 9, 2000 under the laws of the State of Delaware. The Company operated as a wholly-owned subsidiary of USIP.com, Inc., a Utah corporation. On August 24, 2006, USIP.com, Inc. spun-off its subsidiary companies, one of which was Datone, Inc. On February 1, 2008, Datone, Inc. filed a Form 10-SB registration statement that was declared effective on November 13, 2008.

Datone, Inc. was a provider of both privately owned and company owned payphones and stations in New York. The Company generates revenues from the collection of the payphone coinage, a portion of usage of service from each payphone and a percentage of long distance calls placed from each payphone from the telecommunications service providers. In addition, the Company also generated revenues from the service and repair of privately owned payphones and sales of payphone units.

On February 12, 2010, the Company completed a reverse acquisition transaction through a share exchange with Glory Reach International Limited, a Hong Kong limited company ("Glory Reach"), the shareholders of Glory Reach (the "Shareholders"), Greenwich Holdings LLC and QHS, whereby the Company acquired 100% of the issued and outstanding capital stock of Glory Reach in exchange for 10,000 shares of our Series A Convertible Preferred Stock. These shares of our Series A Convertible Preferred Stock constituted 97% of our issued and outstanding capital stock on an as-converted to common stock basis as of and immediately after the consummation of the reverse acquisition. As a result of the reverse acquisition, Glory Reach became our wholly-owned subsidiary and the former shareholders of Glory Reach became our controlling stockholders. The share exchange transaction with Glory Reach was treated as a reverse acquisition, with Glory Reach as the acquirer and Datone, Inc. as the acquired party for accounting and financial reporting purposes.

Immediately following the closing of the reverse acquisition of Glory Reach, two of the Shareholders, Joseph Meuse, as the beneficial owner of Belmont Partners, and William Luckman, transferred 338 of the 1747 shares of Series A Convertible Preferred Stock issued to them under the share exchange to certain persons who provided services to Glory Reach's subsidiaries, pursuant to share allocation agreements that the Shareholder entered into with such service providers. We have accounted for such transfers as compensation expenses. The service providers and descriptions of the services they provided are included in the following table:



Edgar Filing: Qingdao Footwear, Inc. - Form 10-K

Name	Shares	Services Provided
Hong Yan	78	Accounting services
Lie Shen	78	Accounting services
The Crone Law Group	78	U.S. legal services
Have Success Investments Ltd	104	China legal services

5

---

Upon the closing of the reverse acquisition, Craig H. Burton, our president and director, Joseph J. Passalaqua, our secretary and director, and Joseph Meuse, our director, submitted resignation letters pursuant to which they resigned from all offices that they held effective immediately and from their position as our directors that became effective on the tenth day following the mailing by us of an information statement to our stockholders that complies with the requirements of Section 14f-1 of the Exchange Act, was mailed out on March 8, 2010. In addition, our board of directors on February 12, 2010 appointed Tao Wang (Chairman), Renwei Ma and Lanhai Sun to fill the vacancies created by such resignations, which appointments became effective upon the effectiveness of the resignation of Craig H. Burton, Joseph J. Passalaqua and Joseph Meuse on March 18, 2010, the tenth day following the mailing by us of the information statement to our stockholders on March 8, 2010. (Subsequent to the resignation of these individuals, our company retained Mr. Meuse as its Chief Financial Officer on July 12, 2010.) In addition, our executive officers were replaced by QHS' executive officers upon the closing of the reverse acquisition as indicated in more detail below.

As a result of our acquisition of Glory Reach, we now own all of the issued and outstanding capital stock of Glory Reach, which in turn owns all of the outstanding capital stock of QHS.

QHS was established in the PRC on May 11, 2003 for the purpose of engaging in the development and sales of shoe products. Prior to the acquisition described in the following paragraph, Mr. Tao Wang owned 80% of the equity interests of QHS.

Glory Reach was established in Hong Kong on November 18, 2009 to serve as an intermediate holding company. Mr. Tao Wang controls and has the right to receive sole ownership of Swift Dynamic, the majority owner of Glory Reach, pursuant to the Incentive Option Agreement and Entrustment Agreement entered into with Renhuan Shi, a Korean passport holder. See "Risk Factors – Our business and financial performance may be materially adversely affected if the PRC regulatory authorities determine that our acquisition of QHS constitutes a Round-trip Investment without MOFCOM approval." As a result of Mr. Wang's ownership of QHS and his control of Glory Reach, the entities are considered to be under common control.

On February 8, 2010, pursuant to the restructuring plan and upon issuance of the Enterprise Corporation Business License by the Jinmo City Administration for Industry and Commerce, Glory Reach acquired 100% of the equity interests in QHS from Mr. Tao Wang, our Chief Executive Officer, and other minority shareholders, who are all PRC residents. On February 4, 2010, the local government of the PRC issued the certificate of approval regarding the change in shareholding of QHS and its transformation from a PRC domestic company to a wholly-foreign owned enterprise.

Since there is common control between the Glory Reach and QHS, for accounting purposes, the acquisition of QHS has been treated as a recapitalization with no adjustment to the historical basis of its assets and liabilities. The restructuring has been accounted for using the "as if" pooling method of accounting and the operations were consolidated as if the restructuring had occurred as of the beginning of the earliest period presented in our consolidated financial statements and the current corporate structure had been in existence throughout the periods covered by our consolidated financial statements.

Immediately following the acquisition of Glory Reach, under an Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations (the "Conveyance Agreement"), we transferred all of our pre-acquisition assets and liabilities to our wholly-owned subsidiary, DT Communications, Inc. The spinoff to DT Communications, Inc. occurred immediately before the acquisition. Because the surviving entity for accounting purposes was the operating company, Glory Reach, the spinoff had no impact on our accounting for the reverse merger.

On March 1, 2010, Swift Dynamic, being the record holder of 6,495 shares of our Series A Preferred Stock, constituting 59.0% of the voting power of our issued and outstanding shares of our Common Stock and Series A

Preferred Stock, voting together as a single class, consented in writing to an amendment to our certificate of incorporation to change our name to “Qingdao Footwear, Inc.”

## Our Corporate Structure

All of our business operations are conducted through our Hong Kong and Chinese subsidiaries. The chart below presents our corporate structure.

(1) All of the outstanding shares of Swift Dynamic are held by Mr. Renhuan Shi. Such shares are subject to the Incentive Option Agreement and the Entrustment Agreement. Because of the rights granted to Mr. Tao Wang under these agreements, Mr. Tao Wang is deemed the beneficial owner of such shares.

## Our Industry and Principal Market

China is the largest producer of footwear in the world, with at least 25,000 enterprises employing more than 10 million employees who manufacture more than 10 billion pairs of shoes per annum. China's annual production accounts for nearly 70% of the 14.3 billion pairs of shoes produced worldwide. In 2008, roughly 75% of PRC production capacity was exported while the remaining 25% were consumed domestically. Chinese consumption of footwear reached 2.5 billion pairs in 2008. (Global Footwear, 2nd Edition, [www.researchandmarkets.com](http://www.researchandmarkets.com)) We anticipate stable growth in the domestic footwear market for the next several years. Beginning with the deterioration in the global economy in 2008 and the collapse of the Chinese textile and footwear export market, a material number of low margin manufacturers were forced out of business. Domestic consumption and retail sales within China, however, remained robust throughout the export downturn and global financial crisis. As we have intentionally avoided the manufacturing sector, we were able to capitalize on the economic conditions and maintain our profit margin and by capitalizing on overcapacity in our sourcing market and growing consumer demand.

## PRC Domestic Consumption

According to the CIA World Factbook, China's gross domestic product ("GDP") growth rate has exceeded both the United States' and the world's GDP growth rate over the past ten years:

Along with growth in the economy as a whole, Chinese domestic consumption has increased in line with rapid urbanization and increases in disposable income over the past 15 years. Per capita urban disposable income has increased by an annualized rate of 12.9% over the 5 years ending in 2008, and is anticipated to top \$2,000 in 2012. The urban population as a percentage of the total population increased from 40.6% in 2003 to 46.6% at the end of 2009, and this trend is expected to continue into the future. (National Bureau of Statistics of China, [www.stats.gov.cn](http://www.stats.gov.cn)) The United Nations estimates that China's population is likely to be evenly split between rural and urban areas by 2015. ("Urbanization in the People's Republic of China," [www.wikipedia.org](http://www.wikipedia.org))

These trends have driven a boom in retail sales in the PRC, which has grown at an annual rate ranging from 9.7 to 21.6% over the past ten year period. It is estimated that retail sales will grow 47% from 2009 to 2014. (China Retail Report Q1 2010, [www.companiesandmarkets.com](http://www.companiesandmarkets.com))

The retail sales according to the China Statistical Yearbook are displayed below:

### The PRC Footwear Market

China's footwear market generated total revenues of approximately \$11.7 billion dollars in 2008. According to Datamonitor, from 2004 through 2008, revenues grew at a cumulative annual growth rate of approximately 10.7%. ("Footwear in China," [www.datamonitor.com](http://www.datamonitor.com))

China's footwear market accounts for approximately 34% of the entire Asia-Pacific footwear market's value, and China is expected to continue to grow in future periods by over 8% per year through 2013, while the most valuable market, Japan, which holds approximately 35.8% of the footwear market value in the region, is expected to decrease by approximately 0.8% per year over the same period ("Footwear in China," [www.datamonitor.com](http://www.datamonitor.com)).

While Chinese per capita footwear consumption is lower than a number of other countries, China surpassed the United States in 2008 as the country that purchases the most pairs of footwear in the aggregate. Because the average Chinese consumer purchases an average of two pairs of shoes annually, far fewer than consumption levels in Korea, Japan or the West, shoe consumption are expected to approach levels of other nations with similar cultural consumption characteristics if China's consumer wealth continues to grow. ("Footwear in China," [www.datamonitor.com](http://www.datamonitor.com)) For this reason, we expect the market is likely to continue to grow for the foreseeable future.

## Our Growth Strategy

We believe that the market for affordable, high quality footwear in China provides us with attractive and sustainable growth opportunities. We intend to pursue the following strategies, which are entirely dependent upon completion of an equity offering, to achieve our goal:

- (1) Continue our aggressive marketing and advertising campaigns in order to gain brand awareness. We currently advertise and market our products throughout Shandong province in general and the greater Qingdao region in particular, using a combination of advertising across a variety of media, sales fairs, and billboard displays. We expect to continue to focus these efforts.
- (2) Expand distributor and third party operator stores in prime locations to maximize profits. We seek to place stores in locations we consider attractive from a business perspective. Potential attractive locations are typically in areas that are likely to have a sufficient population of “window shoppers” in the Registrant’s target demographic (generally, consumers seeking business casual and formal leather shoes appropriate for an office setting). We do not currently plan to expand our geographic footprint beyond what we view as our core market, Shandong province. In addition, we expect that we will continue to strengthen our presence in the Qingdao region.
- (3) Bring more self-owned stores online to increase higher margin sales. Although we have not established a timeline to increase the number of self-owned stores we will open in the near future, we expect that we will open more self-owned stores (and at a faster rate) if we complete an equity offering than we will open if we rely only on organic growth to fund such openings. The reason for this is that we have found that expanding our distributor network allows us to leverage our resources more effectively, even though we earn higher margins on our self-owned stores. In the event we complete an equity offering, however, we would have free cash available to devote to opening self-owned stores. In our experience, establishing a new sales point such as a company-owned flagship store in Qingdao typically requires approximately three months and costs approximately \$120,000. The typical cost of establishing a distributor store is approximately \$30,000 and the typical cost of establishing a third-party store is approximately \$60,000. We anticipate spending approximately \$300,000 on our expansion efforts in the next 12 months, such plans being entirely dependent on the completion of an equity offering. The following table illustrates the number of stores we intend to open if an equity offering is completed and the number we intend to open if an equity offering is not completed. If an equity offering is completed, openings will be funded solely through offering proceeds. If an equity offering is not completed, we intend to fund openings through cash from operations and commercial loans. If such sources are insufficient, we may be unable to open the intended number of stores.

	Stores to Open in Next 12 Months if Offering is Completed	Stores to Open in Next 12 Months if Offering is not Completed
Company Owned	10-20	3-5
Third Party	30-50	10-15
Distributor	50-100	15-30

- (4) Continue to strive for excellence in quality, customer service and design in order to attract new and retain repeat customers. We have an in-house product design team, which is responsible for designing our product lines. We have worked with this team and our advertising team to develop an image for our Hongguan brand that we believe will continue to attract customers in our target demographic of office workers. We recognize employees on a regular basis to encourage a concerted effort of high quality customer service.





- (5) Leverage our growing purchasing power with manufacturers to lower costs. At present, we have found that Chinese shoe manufacturers have unused manufacturing capacity. To the extent we have demand from customers for our branded shoes, we believe we benefit from a favorable market in which to purchase from such manufacturers. If we continue to grow, we will be able to use our increased purchasing power and the desire of manufacturers to make use of such untapped capacity to reduce our costs to purchase footwear.
- (6) We plan to use the internet and job fairs for future hiring. We hire at peak season to reduce the cost and increase efficiency. In addition, we encourage our current employees to recommend appropriate talents. We provide compensation that is higher than local market average. In addition, we expect to finish all the hiring for next year before September 2011 and finish all the training before December 2011. Our main area of hiring in the near future is:
- a. R&D personnel for leather shoes R&D and functional shoes;
  - b. Marketing personnel for domestic market expansion, e-commerce development and maintenance; and
  - c. Management personnel.

#### Our Products

Our products consist of men and women's footwear. Our designs are on the whole targeted at consumers seeking business casual and formal leather shoes appropriate for an office setting. Each year we design or commission designs for more than 300 unique styles. We do not manufacture our products, but instead outsource manufacturing to third parties. Our designs are split roughly evenly between men's and women's products. Designs are made based on collaboration between our sales department and design department regarding market demand and assessment of what will designs be fashionable in the upcoming season. As of December 31, 2010, men's footwear constituted approximately 60% of revenue and women's footwear the remainder. Approximately 40% of sales were formal shoes, and the remainder is attributed to casual footwear.

#### Sourcing and Purchase of Products

We are a retailer and designer of footwear products, and as such we fully outsource production of our footwear to third party manufacturers. Due to excess capacity in the footwear manufacturing industry in the PRC, we have historically been able to source our products at competitive prices that allow us to maintain strong margins in comparison with our competitors. In this way, we avoid what we perceive to be the risks and lower margins associated with manufacturing footwear and are able to focus our energies on our brand building and retail business.

Our suppliers are selected for their ability to meet our high quality standards, timely execution of our orders and competitive pricing. As of December 31, 2010, we had contractual relationships with 60 footwear manufacturers. None of our suppliers accounted for more than 10% of the total cost of our goods sold in 2009. Our suppliers are mainly located in Wenzhou, Chongqing and various towns in Jiangsu.

Our contracts with suppliers are on an as ordered basis, with payment due at the end of the month of delivery, and are usually for a term of one year. Prices are negotiated based on a by design basis by our sourcing team. All of our suppliers are subject to our strict quality control standards, and we are entitled to return product without payment if it is not according to the quality set forth in our agreement.

During the year ended December 31, 2007, purchases from one vendor accounted for 13.2% of the total merchandise purchases of the Company. There is no such concentration for the year ended December 31, 2008, 2009, and 2010, respectively.

#### Sales Channels

The following diagram details our current distribution channels:

The majority of our sales come through distributors stores. The table below provides a breakdown of sales by sales channel:

Channel	2010 Sales	%	2009 Sales	%
Self-Owned Stores	\$5,145,220	16	\$2,792,146	16
Wholesale (Third party Stores and Distributors)	\$16,127,014	84	\$15,071,745	84
Total Revenue	\$21,272,234	100	\$17,863,891	100

We have experienced rapid growth in our retail presence in the past two years. The following table details the locations and historical growth of our sales network:

	Flagship Stores			Distributors			3rd Party Operators			Total		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Shandong (excluding Qingdao)	0	0	0	42	155	155	0	6	6	42	161	161
Qingdao city (including Jimo)	8	11	12	44	26	26	0	4	4	52	41	42
Xinjiang	0	0	0	1	1	3	0	1	1	1	2	4
Shanxi	0	0	0	2	3	2	0	0	0	2	3	2
Tianjiang	0	0	0	0	1	1	0	0	0	0	1	1
Heilongjiang	0	0	0	0	1	1	0	0	0	0	1	1
Hebei	0	0	0	0	2	1	0	0	0	0	2	1
Liaoning	0	0	0	0	1	1	0	0	0	0	1	1
Henan	0	0	0	0	1	1	0	0	0	0	1	1
	8	11	12	89	191	191	0	11	11	97	213	214

## Shandong Province

Shandong Province is China's second largest province (after Guangdong), with a population of approximately 94 million people. The province is also China's second most densely populated province (after Jiangsu), with 587 people per square kilometer, more than four times the average population density in China. Gross domestic product ("GDP") attributable to Shandong ranks it second among China's provinces, accounting for more than ten percent of China's GDP in 2008. ("List of Administrative Divisions by Population Density," en.wikipedia.org; "World Bank Supports Skills Development in Two Chinese Provinces," go.worldbank.org)

## Qingdao City

Qingdao is a sub-provincial city in China comprised of seven districts and five county-level cities. It is one of China's twenty largest cities and one of the two largest cities in Shandong province, with approximately 200,000 more people living in Jinan city than in Qingdao city but more than 1.7 million more people living in the greater Qingdao administrative area than in Jinan's administrative region. Qingdao has a population of approximately 8 million residents, of whom approximately 3.8 million live in the urban area.

Qingdao's per-capita GDP (approximately \$7,616 in 2008) is above average in China (approximately \$3,290 in 2008), in part due to the Chinese government's decision in 1984 to designate Qingdao as a special economic and technology development zone. For this reason, Qingdao's local economy features a variety of foreign investment, with South Korea and Japan investments being particularly prominent in the area. ("Qingdao," en.wikipedia.org)

## Flagship Stores

We directly own or lease and operate all of our flagship stores. All located in Jimo or greater Qingdao. Each store has an individual sales team and managers that report to our central office in Qingdao. All sales staff are compensated on a commission based pay scale. Locations are selected according to management's estimation of market opportunity. Our flagship stores bear the Hongguan brand name and exclusively retail Hongguan brand footwear.

During the years ended December 31, 2010 and 2009, the sales generated by the Company's flagship stores accounted for 24% and 16% of total sales, respectively.

## Hongguan Flagship Outlets in Jimo:

### Stores Managed by Third Party Operators

In order to meet consumer demand for our products and efficiently expand of our business, we also select certain third parties to operate Hongguan (sometimes presented as “HonGung,” as in the above image) branded outlets. We have literature and rules regarding the location, size, store layout, interior design and product display of their Hongguan retail stores. All potential third party operators require prior approval before opening new stores. We visit potential locations for new outlets and consider the suitability of such locations before approval. Furthermore, all third party operators must personally operate their stores.

These operators are chosen based on the following criteria:

- Management experience in retail operations and our confidence in their ability to effectively meet our sales targets and high standards of conduct.
- Good credit and sufficient capital.
- Proposed store location, size and condition.

After approval, the third party operators must purchase a fixed amount of footwear stock at wholesale prices and Hongguan branded decorations for proper interior and exterior design. Third party operators then continue to pay wholesale prices for footwear on an on demand basis. Contracts with third party operators are typically for a period of two years.

### Distributors

We identify suitable distributors and enter into distributorship agreements, usually for a term of two years. Distributors purchase wholesale priced shoes and vend them at sales points throughout China. We require our distributors to implement, monitor compliance with and enforce our retail store guidelines. Our distributors are independent third parties that do not pay us any fee other than the purchase price for the purchase of our products, nor do we pay them any incentives or fees.

Our distribution contracts usually contain the following terms:

- Geographic limitation — Distributors must sell our Hongguan branded footwear within a specific authorized location(s).
- Wholesale price — Distributors pay a discounted wholesale price for our products.
- Payment and credit terms — Payment and credit terms are on a case by case basis. The credit period is usually one month, and 25% percent of our distributors prepay for their stock.

- **Performance** — QHS typically retains the right to end the agreement if a distributor does to meet sales turnover levels comparable to other distributors.
- **Exclusivity** — We work with nearly 200 distributors, so the types and sizes of distributor outlets vary significantly. Many of these outlets are independent shoe stores, but we are open to the prospect of cooperating with department stores and larger established retailers. The distributorship agreements allow our distributors to sell our products under the Hongguan brand on an exclusive basis. If there are other brands featured at the distributor’s outlet, Hongguan brand shoes must constitute a certain percentage, generally a majority, of product on display. Furthermore, the products must be displayed according to our standards.
- **Training** — Training and instructional materials are provided to all of our distributors regarding product display, decoration, and sales techniques.
- **Renewal and termination** — We can renew contracts at our discretion and can terminate contracts if contractual conditions including sales targets are not met.

We do not have a return policy with our distributors, other than a general right to return defective merchandise. In the event a distributor is unable to sell its stock, we will attempt—but are not obligated—to help it relocate such stock to a nearby QHS outlet.

#### Purchasing and Sales Prices

We have historically organized one sales fair per year in which distributors and third parties operators can view and select upcoming designs. We also maintain several showrooms in our head office in Jimo with the current and future product lines which our sales force visits on a regular basis.

We intend to keep the pricing of our products at reasonable levels in the foreseeable future in order to stay competitive and maintain product demand. Our wholesale prices are generally not more than a 50% discount to the sales price.

#### Employees

The table below details the various departments and number of employees in each. All of these employees are full-time employees.

Management and Sales	7
Design & Purchasing	4
Accounting	5
Warehouse	8
Administration	13
Sales	48
<b>Total</b>	<b>85</b>

We believe we are in material compliance with all applicable labor and safety laws and regulations in the PRC, including the PRC Labor Contract Law, the PRC Unemployment Insurance Law, the PRC Provisional Insurance Measures for Maternity of Employees, PRC Interim Provisions on Registration of Social Insurance, PRC Interim Regulation on the Collection and Payment of Social Insurance Premiums and other related regulations, rules and provisions issued by the relevant governmental authorities for our operations in the PRC. According to the PRC Labor Contract Law, we are required to enter into labor contracts with our employees and to pay them no less than local minimum wage.

Intellectual Property

Our products are sold under the Hongguan brand name, which is a registered trademark in the PRC.

15

---

Trademarks (Mandarin)	Trademarks	Certificate #	Valid Term
	Hongguan	3483788	March 14, 2005 to March 13, 2015

Under current Chinese laws, we may renew our trademark upon expiration for an unlimited number of successive ten year terms.

#### Advertising and Marketing Efforts

Our sales and marketing department is responsible for the organization of sales fairs, selection, review, execution and management of contracts with third parties and distributors, and operation of our own retail outlets. We utilize television, print media, radio, the internet and outdoor billboard displays to build brand awareness. Since 2006, Chinese popular television star Ren Quan has been the face of QHS' advertising campaign. In 2006, we entered into a contract with Ren Quan and purchased the rights to use his image for our marketing purposes. This contract expired in February 2010. We are contractually obligated to maintain confidentiality as to the terms at which we acquired his rights. More recently, we have entered into a contract with another Chinese popular television star, Liu Xiaohu and purchased the rights to use his image for our marketing purposes, and he is featured in our television commercials and our various advertisements beginning in 2010. This contract expires on March 2, 2012. We expect to focus more heavily on advertisements featuring Liu Xiaohu in the future.

#### Competition

The retail and in particular the footwear retail industry are highly competitive in the PRC. Our competitors are a number of international and domestic enterprises with shoe sales operations in our target market, including but not limited to Jinhou Footwear Company, Liangda Leather Company, Haining Leather Footwear Company and Fude Leather Shoe Company. We expect the competition to become more intensified due to the entry of new footwear retailers in the PRC and as a result we may be subject to competitive pricing pressures in the future. Quality, cutting edge style, brand awareness, customer service, highly motivated sales force and affordable footwear prices are vital cornerstones to success in our industry.

Our market share is small in comparison with the entire China footwear market, which is a multibillion-dollar industry. According to the recent census taken in 2008, the cities of Jimo and Qingdao have approximately 1.10 million and 8 million residents, respectively. While we lack readily available market research on the footwear market in Qingdao and Jimo, our management estimates that our products collectively represent a market share of roughly 20% in Jimo and 6% in Qingdao. This market share is based on our target market of business casual and formal leather shoes for office workers.

#### Design Team

Our design team consists of four full time designers that are engaged in creating new fashionable designs for upcoming seasons. They are also engaged in the review, selection and alteration of designs proposed by contract manufacturers. On average, our design team is responsible for the selection or creation 300 models of footwear per year.

#### Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You

should read the section entitled “Special Note Regarding Forward-Looking Statements” above for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this report.



## Risks Related to Our Business

### WE HAVE A SHORT OPERATING HISTORY.

We have only been in retail business since 2003. We may not succeed in implementing our business plan successfully because of competition from domestic and foreign market entrants, failure of the market to accept our products, or other reasons. Therefore, you should not place undue reliance on our past performance as they may not be indicative of our future results.

### WE FACE RISKS RELATED TO GENERAL DOMESTIC AND GLOBAL ECONOMIC CONDITIONS AND TO THE CURRENT CREDIT CRISIS.

Our current operating cash flows provide us with stable funding capacity. However, the current uncertainty arising out of domestic and global economic conditions, including the recent disruption in credit markets, poses a risk to the PRC economy, and may impact our ability to manage normal relationships with our customers, suppliers and creditors. If the current situation deteriorates significantly, our business could be materially negatively impacted, as demand for our products and services may decrease from a slow-down in the general economy, or supplier or customer disruptions may result from tighter credit markets.

### OUR BUSINESS IS SUBJECT TO THE HEALTH OF THE PRC ECONOMY AND OUR GROWTH MAY BE INHIBITED BY THE INABILITY OF POTENTIAL CUSTOMERS TO FUND PURCHASES OF OUR PRODUCTS AND SERVICES.

Our products are dependent on the disposable income of PRC citizens, which could be adversely affected by an economic downturn.

### IN ORDER TO GROW AT THE PACE EXPECTED BY MANAGEMENT, WE WILL REQUIRE ADDITIONAL CAPITAL TO SUPPORT OUR LONG-TERM GROWTH STRATEGIES. IF WE ARE UNABLE TO OBTAIN ADDITIONAL CAPITAL IN FUTURE YEARS, WE MAY BE UNABLE TO PROCEED WITH OUR PLANS AND WE MAY BE FORCED TO CURTAIL OUR OPERATIONS.

We will require additional working capital to support our long-term growth strategies, which includes identifying suitable points of market entry for expansion growing the number of points of sale for our products, so as to enhance our product offerings and benefit from economies of scale. Our working capital requirements and the cash flow provided by future operating activities, if any, may vary greatly from quarter to quarter, depending on the volume of business during the period. We may not be able to obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources. Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities. In addition, we may grant registration rights to investors purchasing our equity or debt securities in the future. If we are unable to raise additional financing, we may be unable to implement our long-term growth strategies, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures on a timely basis.

### IF THE MANUFACTURERS FROM WHOM WE SOURCE SOME OF OUR PRODUCTS FAIL TO PERFORM THEIR CONTRACTUAL OBLIGATIONS, OUR ABILITY TO PROVIDE PRODUCTS AND SERVICES TO OUR CUSTOMERS, AS WELL AS OUR ABILITY TO OBTAIN FUTURE BUSINESS, MAY BE HARMED.

As we do not have any manufacturing capabilities, we are at risk should our suppliers fail to provide us products at the high quality our customers expect.



IF WE ARE UNABLE TO ATTRACT AND RETAIN SENIOR MANAGEMENT AND QUALIFIED TECHNICAL AND SALES PERSONNEL, OUR OPERATIONS, FINANCIAL CONDITION AND PROSPECTS WILL BE MATERIALLY ADVERSELY AFFECTED.

Our future success depends in part on the contributions of our management team and key technical and sales personnel and our ability to attract and retain qualified new personnel. In particular, our success depends on the continuing employment of our Chief Executive Officer, Mr. Tao Wang, our Chief Operating Officer, Shi Wenmao; and our Chief Financial Officer, Mr. Pin Huang. There is significant competition in our industry for qualified managerial, technical and sales personnel and we cannot assure you that we will be able to retain our key senior managerial, technical and sales personnel or that we will be able to attract, integrate and retain other such personnel that we may require in the future. If we are unable to attract and retain key personnel in the future, our business, operations, financial condition, results of operations and prospects could be materially adversely affected.

WE DO NOT CARRY BUSINESS INTERRUPTION OR OTHER INSURANCE, SO WE HAVE TO BEAR LOSSES OURSELVES.

We are subject to risk inherent to our business, including equipment failure, theft, natural disasters, industrial accidents, labor disturbances, business interruptions, property damage, product liability, personal injury and death. We do not carry any business interruption insurance or third-party liability insurance or other insurance to cover risks associated with our business. As a result, if we suffer losses, damages or liabilities, including those caused by natural disasters or other events beyond our control and we are unable to make a claim against a third party, we will be required to bear all such losses from our own funds, which could have a material adverse effect on our business, financial condition and results of operations.

OUR QUARTERLY OPERATING RESULTS ARE LIKELY TO FLUCTUATE, WHICH MAY AFFECT OUR STOCK PRICE.

Our quarterly revenues, expenses, operating results and gross profit margins vary from quarter to quarter. As a result, our operating results may fall below the expectations of securities analysts and investors in some quarters, which could result in a decrease in the market price of our common stock. The reasons our quarterly results may fluctuate include:

- variations in profit margins attributable to product mix;
- changes in the general competitive and economic conditions;
- delays in, or uneven timing in the delivery of, customer orders; and
- the introduction of new products by us or our competitors.

Period to period comparisons of our results should not be relied on as indications of future performance.

OUR LIMITED ABILITY TO PROTECT OUR INTELLECTUAL PROPERTY, AND THE POSSIBILITY THAT OUR TECHNOLOGY COULD INADVERTENTLY INFRINGE TECHNOLOGY OWNED BY OTHERS, MAY ADVERSELY AFFECT OUR ABILITY TO COMPETE.

We rely on a combination of trade secret laws and confidentiality procedures to protect the patents, copyrights and technological know-how that comprise our intellectual property. We protect our technological know-how pursuant to non-disclosure and non-competition provisions contained in our employment agreements, and agreements with them

to keep confidential all information relating to our customers, methods, business and trade secrets during and after their employment with us. Our employees are also required to acknowledge and recognize that all inventions, trade secrets, works of authorship, developments and other processes made by them during their employment are our property. We have been granted the use of brand name Hongguan.

A successful challenge to the ownership of our intellectual property could materially damage our business prospects. Our competitors may assert that our technologies or products infringe on their patents or proprietary rights. We may be required to obtain from others licenses that may not be available on commercially reasonable terms, if at all. Problems with intellectual property rights could increase the cost of our products or delay or preclude our new product development and commercialization. If infringement claims against us are deemed valid, we may not be able to obtain appropriate licenses on acceptable terms or at all. Litigation could be costly and time-consuming but may be necessary to protect our technology license positions or to defend against infringement claims.

OUR BUSINESS MAY BE SUBJECT TO SEASONAL AND CYCLICAL FLUCTUATIONS IN SALES.

We may experience seasonal fluctuations in our revenue in the PRC. Moreover, our revenues are usually higher in the fourth and first quarters due seasonal purchases.

Risks Related to Doing Business in China

CHANGES IN CHINA'S POLITICAL OR ECONOMIC SITUATION COULD HARM US AND OUR OPERATING RESULTS.

Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Some of the things that could have this effect are:

- Level of government involvement in the economy;
  - Control of foreign exchange;
  - Methods of allocating resources;
  - Balance of payments position;
  - International trade restrictions; and
  - International conflict.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in many ways. For example, state-owned enterprises still constitute a large portion of the Chinese economy and weak corporate governance and a lack of flexible currency exchange policy still prevail in China. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the Chinese economy was similar to those of the OECD member countries.

UNCERTAINTIES WITH RESPECT TO THE PRC LEGAL SYSTEM COULD LIMIT THE LEGAL PROTECTIONS AVAILABLE TO YOU AND US.

We conduct substantially all of our business through our operating subsidiaries in the PRC and Hong Kong. Our principal operating subsidiary, Qingdao Shoes, is subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. In addition, all of our executive officers and all of our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to affect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.



**YOU MAY HAVE DIFFICULTY ENFORCING JUDGMENTS AGAINST US.**

We are a Delaware holding company, but Glory Reach is a Hong Kong company, and our principal operating subsidiary, Qingdao Shoes is located in the PRC. Most of our assets are located outside the United States and most of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments predicated on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside the United States. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts. The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. Courts in China may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security or the public interest. So it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

**THE PRC GOVERNMENT EXERTS SUBSTANTIAL INFLUENCE OVER THE MANNER IN WHICH WE MUST CONDUCT OUR BUSINESS ACTIVITIES.**

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

**FUTURE INFLATION IN CHINA MAY INHIBIT OUR ABILITY TO CONDUCT BUSINESS IN CHINA.**

In recent years, the Chinese economy has experienced periods of rapid expansion and highly fluctuating rates of inflation. During the past ten years, the rate of inflation in China has been as high as 20.7% and as low as -2.2%. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products and our company.

**RESTRICTIONS ON CURRENCY EXCHANGE MAY LIMIT OUR ABILITY TO RECEIVE AND USE OUR REVENUES EFFECTIVELY.**

The majority of our revenues will be settled in RMB and U.S. dollars, and any future restrictions on currency exchanges may limit our ability to use revenue generated in RMB to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the RMB for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents, at those banks in China authorized to conduct foreign exchange business. In addition, conversion of RMB for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the RMB.



**FLUCTUATIONS IN EXCHANGE RATES COULD ADVERSELY AFFECT OUR BUSINESS AND THE VALUE OF OUR SECURITIES.**

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars as well as earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Since July 2005, the RMB is no longer pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

**RESTRICTIONS UNDER PRC LAW ON OUR PRC SUBSIDIARY'S ABILITY TO MAKE DIVIDENDS AND OTHER DISTRIBUTIONS COULD MATERIALLY AND ADVERSELY AFFECT OUR ABILITY TO GROW, MAKE INVESTMENTS OR ACQUISITIONS THAT COULD BENEFIT OUR BUSINESS, PAY DIVIDENDS TO YOU, AND OTHERWISE FUND AND CONDUCT OUR BUSINESSES.**

Substantially all of our revenues are earned by Qingdao Shoes, our PRC subsidiary. PRC regulations restrict the ability of our PRC subsidiary to make dividends and other payments to its offshore parent company. PRC legal restrictions permit payments of dividend by our PRC subsidiary only out of its accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiary is also required under PRC laws and regulations to allocate at least 10% of our annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of our registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. Any limitations on the ability of our PRC subsidiary to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

**FAILURE TO COMPLY WITH PRC REGULATIONS RELATING TO THE ESTABLISHMENT OF OFFSHORE SPECIAL PURPOSE COMPANIES BY PRC RESIDENTS MAY SUBJECT OUR PRC RESIDENT SHAREHOLDERS TO PERSONAL LIABILITY, LIMIT OUR ABILITY TO ACQUIRE PRC COMPANIES OR TO INJECT CAPITAL INTO OUR PRC SUBSIDIARIES, LIMIT OUR PRC SUBSIDIARIES' ABILITY TO DISTRIBUTE PROFITS TO US OR OTHERWISE MATERIALLY ADVERSELY AFFECT US.**

In October 2005, SAFE, issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75, which required PRC residents to register with the competent local SAFE branch before establishing or acquiring control over an offshore special purpose company, or SPV, for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines

issued by SAFE, which became public in June 2007 (known as Notice 106), expanded the reach of Circular 75 by (1) purporting to cover the establishment or acquisition of control by PRC residents of offshore entities which merely acquire “control” over domestic companies or assets, even in the absence of legal ownership; (2) adding requirements relating to the source of the PRC resident’s funds used to establish or acquire the offshore entity; covering the use of existing offshore entities for offshore financings; (3) purporting to cover situations in which an offshore SPV establishes a new subsidiary in China or acquires an unrelated company or unrelated assets in China; and (4) making the domestic affiliate of the SPV responsible for the accuracy of certain documents which must be filed in connection with any such registration, notably, the business plan which describes the overseas financing and the use of proceeds. Amendments to registrations made under Circular 75 are required in connection with any increase or decrease of capital, transfer of shares, mergers and acquisitions, equity investment or creation of any security interest in any assets located in China to guarantee offshore obligations, and Notice 106 makes the offshore SPV jointly responsible for these filings. In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006; this date was subsequently extended indefinitely by Notice 106, which also required that the registrant establish that all foreign exchange transactions undertaken by the SPV and its affiliates were in compliance with applicable laws and regulations. Failure to comply with the requirements of Circular 75, as applied by SAFE in accordance with Notice 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV’s affiliates being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

We have advised our shareholders who are PRC residents, as defined in Circular 75, to register with the relevant branch of SAFE, as currently required, in connection with their equity interests in us and our acquisitions of equity interests in our PRC subsidiaries. However, we cannot provide any assurances that their existing registrations have fully complied with, and they have made all necessary amendments to their registration to fully comply with, all applicable registrations or approvals required by Circular 75. Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries' ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 75 by our PRC resident beneficial holders. In addition, such PRC residents may not always be able to complete the necessary registration procedures required by Circular 75. We also have little control over either our present or prospective direct or indirect shareholders or the outcome of such registration procedures. A failure by our PRC resident beneficial holders or future PRC resident shareholders to comply with Circular 75, if SAFE requires it, could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

**OUR BUSINESS AND FINANCIAL PERFORMANCE MAY BE MATERIALLY ADVERSELY AFFECTED IF THE PRC REGULATORY AUTHORITIES DETERMINE THAT OUR ACQUISITION OF QINGDAO SHOES CONSTITUTES A ROUND-TRIP INVESTMENT WITHOUT MOFCOM APPROVAL.**

On August 8, 2006, six PRC regulatory agencies promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the 2006 M&A Rule, which became effective on September 8, 2006. According to the 2006 M&A Rule, when a PRC business that is owned by PRC individual(s) is sold to a non-PRC entity that is established or controlled, directly or indirectly, by those same PRC individual(s) it must be approved by the Ministry of Commerce, or MOFCOM, and any indirect arrangement or series of arrangements which achieves the same end result without the approval of MOFCOM is a violation of PRC law.

The general manager of Qingdao Shoes, Mr. Wang Tao ("Founder"), as a PRC citizen, entered into an option agreement ("Incentive Option Agreement") with \_\_\_\_\_, a Korean passport holder ("Foreign Passport Holder"). To incentivize Mr. Wang Tao in connection with the continuous development of the Company's majority stockholder, Swift Dynamic Limited ("BVICo")'s, business, Mr. Wang Tao is to receive shares from BVICo, one of shareholders of Glory Reach, subject to certain contingencies as set forth in the Option Agreement. Under the Incentive Option Agreement, the Founder shall serve as CEO and director for BVI Co. not less than 3 year period of time; and in anticipation of Founder's continuance contributions to Qingdao Shoes Group including BVICo, Glory Reach and Qingdao Shoes, if Qingdao Shoes Group meet certain thresholds of the revenue conditions, Founder shall have an option to acquire all of the shares of BVICo during a 3 year vesting period (the "Option"). In addition, Incentive Option Agreement also provides that the Foreign Passport Holder shall not dispose any of the shares of BVICo without Founder's consent.

After Wang Tao exercises this option, the Founder, will, through his ownership of BVICo, be our controlling stockholder. His acquisition of our equity interest, or the Acquisition, is required to be registered with the competent administration of industry and commerce authorities, or AIC, in Beijing. The Founder will also be required to make filings with the SAFE to register the Company and its non-PRC subsidiaries to qualify them as SPVs, pursuant to Circular 75 and Circular 106.

The PRC regulatory authorities may take the view that the Acquisition and the Share Exchange Agreement are part of an overall series of arrangements which constitute a Round-trip Investment, because at the end of these transactions, the Founder will become majority owner and effective controlling party of a foreign entity that acquired ownership of our Chinese subsidiaries. The PRC regulatory authorities may also take the view that the registration of the Acquisition with the relevant AIC in Beijing and the filings with the SAFE may not be evidence that the Acquisition has been properly approved because the relevant parties did not fully disclose to the AIC, SAFE or MOFCOM the overall restructuring arrangements, the existence of the Share Exchange Agreement and its link with the Acquisition. If the PRC regulatory authorities take the view that the Acquisition constitutes a Round-trip Investment under the 2006 M&A Rules, we cannot assure you we may be able to obtain the approval required from MOFCOM.

If the PRC regulatory authorities take the view that the Acquisition constitutes a Round-trip Investment without MOFCOM approval, they could invalidate our acquisition and ownership of our Chinese subsidiaries. Additionally, the PRC regulatory authorities may take the view that the Acquisition constitutes a transaction which requires the prior approval of the China Securities Regulatory Commission, or CSRC, before MOFCOM approval is obtained. We believe that if this takes place, we may be able to find a way to re-establish control of our Chinese subsidiaries' business operations through a series of contractual arrangements rather than an outright purchase of our Chinese subsidiaries. But we cannot assure you that such contractual arrangements will be protected by PRC law or that the registrant can receive as complete or effective economic benefit and overall control of our Chinese subsidiaries' business than if the Company had direct ownership of our Chinese subsidiaries. In addition, we cannot assure you that such contractual arrangements can be successfully effected under PRC law. If we cannot obtain MOFCOM or CSRC approval if required by the PRC regulatory authorities to do so, and if we cannot put in place or enforce relevant contractual arrangements as an alternative and equivalent means of control of our Chinese subsidiaries, our business and financial performance will be materially adversely affected.

IF WE MAKE EQUITY COMPENSATION GRANTS TO PERSONS WHO ARE PRC CITIZENS, THEY MAY BE REQUIRED TO REGISTER WITH THE STATE ADMINISTRATION OF FOREIGN EXCHANGE OF THE PRC, OR SAFE. WE MAY ALSO FACE REGULATORY UNCERTAINTIES THAT COULD RESTRICT OUR ABILITY TO ADOPT AN EQUITY COMPENSATION PLAN FOR OUR DIRECTORS AND EMPLOYEES AND OTHER PARTIES UNDER PRC LAW.

On April 6, 2007, SAFE issued the "Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company, also known as "Circular 78." It is not clear whether Circular 78 covers all forms of equity compensation plans or only those which provide for the granting of stock options. For any plans which are so covered and are adopted by a non-PRC listed company after April 6, 2007, Circular 78 requires all participants who are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires PRC citizens to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company's covered equity compensation plan prior to April 6, 2007. We intend to adopt an equity compensation plan in the future and make option grants to our officers and directors, most of who are PRC citizens. Circular 78 may require our officers and directors who receive option grants and are PRC citizens to register with SAFE. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time consuming. If it is determined that any of our equity compensation plans are subject to Circular 78, failure to comply with such provisions may subject us and participants of our equity incentive plan who are PRC citizens to fines and legal sanctions and prevent us from being able to grant equity compensation to our PRC employees. In that case, our ability to compensate our employees and directors through equity compensation would be hindered and our business operations may be adversely affected.

"



**UNDER THE NEW EIT LAW, WE MAY BE CLASSIFIED AS A “RESIDENT ENTERPRISE” OF CHINA. SUCH CLASSIFICATION WILL LIKELY RESULT IN UNFAVORABLE TAX CONSEQUENCES TO US AND OUR NON-PRC SHAREHOLDERS.**

Under the New EIT Law effective on January 1, 2008, an enterprise established outside China with “de facto management bodies” within China is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the New EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

On April 22, 2009, the State Administration of Taxation issued the Notice Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises pursuant to Criteria of de facto Management Bodies, or the Notice, further interpreting the application of the New EIT Law and its implementation non-Chinese enterprise or group controlled offshore entities. Pursuant to the Notice, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or group will be classified as a “non-domestically incorporated resident enterprise” if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate chops, board and shareholder minutes are kept in China; and (iv) at least half of its directors with voting rights or senior management often resident in China. A resident enterprise would be subject to an enterprise income tax rate of 25% on its worldwide income and must pay a withholding tax at a rate of 10% when paying dividends to its non-PRC shareholders. However, it remains unclear as to whether the Notice is applicable to an offshore enterprise incorporated by a Chinese natural person. Nor are detailed measures on imposition of tax from non-domestically incorporated resident enterprises are available. Therefore, it is unclear how tax authorities will determine tax residency based on the facts of each case.

We may be deemed to be a resident enterprise by Chinese tax authorities. If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on financing proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the New EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as “tax-exempt income,” we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares. [We are actively monitoring the possibility of “resident enterprise” treatment for the 2010 tax year].

If we were treated as a “resident enterprise” by PRC tax authorities, we would be subject to taxation in both the U.S. and China, and our PRC tax may not be creditable against our U.S. tax.

**WE MAY BE EXPOSED TO LIABILITIES UNDER THE FOREIGN CORRUPT PRACTICES ACT AND CHINESE ANTI-CORRUPTION LAWS, AND ANY DETERMINATION THAT WE VIOLATED THESE LAWS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.**

We are subject to the Foreign Corrupt Practice Act, or FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as

defined by the statute, for the purpose of obtaining or retaining business. We have operations, agreements with third parties and we make most of our sales in China. PRC also strictly prohibits bribery of government officials. Our activities in China create the risk of unauthorized payments or offers of payments by the employees, consultants, sales agents or distributors of our Company, even though they may not always be subject to our control. It is our policy to implement safeguards to discourage these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants, sales agents or distributors of our Company may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the U.S. government may seek to hold our Company liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

#### Risks Related to the Market for Our Common Stock

##### OUR COMMON STOCK IS QUOTED ON THE OTC BULLETIN BOARD, WHICH MAY HAVE AN UNFAVORABLE IMPACT ON OUR STOCK PRICE AND LIQUIDITY.

Our common stock is quoted on the OTC Bulletin Board. The OTC Bulletin Board is a significantly more limited market than established trading markets such as the New York Stock Exchange or NASDAQ. The quotation of our shares on the OTC Bulletin Board may result in a less liquid market available for existing and potential shareholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future. We plan to list our common stock as soon as practicable. However, we cannot assure you that we will be able to meet the initial listing standards of any stock exchange, or that we will be able to maintain any such listing.

##### WE MAY BE SUBJECT TO PENNY STOCK REGULATIONS AND RESTRICTIONS AND YOU MAY HAVE DIFFICULTY SELLING SHARES OF OUR COMMON STOCK.

The SEC has adopted regulations which generally define so-called “penny stocks” to be an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. Our common stock is a “penny stock” and is subject to Rule 15g-9 under the Exchange Act, or the Penny Stock Rule. This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and “accredited investors” (generally, individuals with a net worth in excess of \$1,000,000 or annual incomes exceeding \$200,000, or \$300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market, thus possibly making it more difficult for us to raise additional capital.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in penny stock, of a disclosure schedule required by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that our common stock will qualify for exemption from the Penny Stock Rule. In any event, even if our common stock were exempt from the Penny Stock Rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

##### PROVISIONS IN OUR CERTIFICATE OF INCORPORATION AND BYLAWS OR DELAWARE LAW MIGHT DISCOURAGE, DELAY OR PREVENT A CHANGE OF CONTROL OF US OR CHANGES IN OUR MANAGEMENT AND, THEREFORE DEPRESS THE TRADING PRICE OF THE COMMON STOCK.

Our Certificate of Incorporation authorizes our board of directors to issue up to 10,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the board of directors without further action by stockholders. These terms may include preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of our board of directors to issue preferred stock could make it



more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change-in-control, which in turn could prevent our stockholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our common stock.

In addition, Delaware corporate law and our Certificate of Incorporation and Bylaws also contain other provisions that could discourage, delay or prevent a change in control of our Company or changes in its management that our stockholders may deem advantageous. These provisions:

- deny holders of our common stock cumulative voting rights in the election of directors, meaning that stockholders owning a majority of our outstanding shares of common stock will be able to elect all of our directors;
- require any stockholder wishing to properly bring a matter before a meeting of stockholders to comply with specified procedural and advance notice requirements;
- require any stockholder wishing to properly bring a matter before a meeting of stockholders to comply with specified procedural and advance notice requirements; and
  - allow any vacancy on the board of directors, however the vacancy occurs, to be filled by the directors.

**WE DO NOT INTEND TO PAY DIVIDENDS FOR THE FORESEEABLE FUTURE.**

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board deems relevant.

**OUR CONTROLLING STOCKHOLDER HOLDS A SIGNIFICANT PERCENTAGE OF OUR OUTSTANDING VOTING SECURITIES, WHICH COULD HINDER OUR ABILITY TO ENGAGE IN SIGNIFICANT CORPORATE TRANSACTIONS WITHOUT HIS APPROVAL.**

Swift Dynamic Ltd., which is run by Mr. Tao Wang, is the beneficial owner of approximately 59% of our outstanding voting securities. As a result, Swift Dynamic Ltd., and Mr. Tao Wang possess significant influence, giving them the ability, among other things, to elect a majority of our board of directors and to authorize or prevent proposed significant corporate transactions. Their ownership and control may also have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discourage a potential acquirer from making a tender offer.

**Item 2. Properties.**

Our principal executive offices are in Jimo, China.

Certificate No.	Jin Guo Yong (2007) 534
User of the Land	Wang Tao
Location	West #1 Huashan Road., Jimo City, Shandong Province
Usage	Industrial
Area (sqm)	14,225
Form of Acquisition	By means of transfer
Expiration Date	12/28/2052

The Company leases one of its stores from Mr. Tao Wang under a four-year operating lease expiring August 2011. For the years ended December 31, 2010 and 2009, rent expense of \$25,732 and \$17,593, respectively, was included in

total rent expense for the respective years. The Company leases one of its warehouse buildings to Weidong Liang, brother-in-law of Mr. Tao Wang, for three years starting May 2008. Per the agreement, the lessee shall pay equal amount of advertising expense on behalf of the lessor as the lease payment. For the year ended December 31, 2010, the Company recorded other income of \$88,731 from leasing the aforementioned building and advertising expense.

Item 3. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 4. (Removed and Reserved).

27

---

## PART II

## Item 5. Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

## (a) Market Information

The Company's Common Stock is quoted on the Over-the-Counter Bulletin Board ("OTCBB") under the symbol "QING.OB". The following table sets forth the quarterly high and low sale prices for our common shares for the last two completed fiscal years and the subsequent interim periods. The prices set forth below represent interdealer quotations, without retail markup, markdown or commission and may not be reflective of actual transactions.

Quarter ended	High	Low
March 31, 2011	\$ 8.00	\$ 0.45
December 31, 2010	\$ 6.00	\$ 2.35
September 30, 2010	\$ 2.30	\$ 2.05
June 30, 2010	\$ 8.00	\$ 0.20
March 31, 2010	\$ 0.60	\$ 0.08
December 31, 2009	\$ 0.05	\$ 0.05
September 30, 2009	\$ 0.05	\$ 0.05
June 30, 2009	\$ 0.06	\$ 0.01

Quotations on the OTCBB bulletin board reflect bid and ask quotations, may reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

## (b) Holders

As of May 2, 2011, there were approximately 279 stockholders of record of our common stock. This number does not include shares held by brokerage clearing houses, depositories or others in unregistered form.

## (c) Dividends

We have not declared or paid any cash dividends on our common stock. Any future decisions regarding dividends will be made by our board of directors. We currently intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Our board of directors has complete discretion on whether to pay dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

Substantially all of our revenues are earned by Qingdao Shoes, our PRC subsidiary. PRC regulations restrict the ability of our PRC subsidiary to make dividends and other payments to its offshore parent company. PRC legal restrictions permit payments of dividend by our PRC subsidiary only out of its accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiary is also required under PRC laws and regulations to allocate at least 10% of our annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of our registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. Any limitations on the ability of our PRC subsidiary to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to

our business, pay dividends and otherwise fund and conduct our business.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

We do not have in effect any compensation plans under which our equity securities are authorized for issuance. In March 2010, we granted common stock purchase options to purchase 100,000 shares of our common stock at an exercise price of \$4.00 per share to the Crone Law Group for services provided related to the reverse merger. The options are exercisable for three years after the issue dates of the options. The fair value of options granted were estimated on the date of grant using the Blacks-Scholes valuation model and the following assumptions: a risk free interest rate of 1.38%, a weighted expected life of 3 years, a dividend rate of 0.0%, and a weighted expected volatility of 300.00%.

Stock option activity for the year ended December 31, 2010 is summarized as follows:

	Number of Shares	Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Outstanding at January 1, 2009	-	\$ -	-
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2009	-	\$ -	-
Granted	100,000	4.00	2.17
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2010	100,000	\$ 4.00	2.17

The options as of December 31, 2010, had no intrinsic value as their exercise price was greater than the current market price.

#### Recent Sales of Unregistered Securities

On February 12, 2010, we issued 10,000 shares of our Series A Convertible Preferred stock (“Series A Preferred Stock”) to the shareholders of Glory Reach. The total consideration for the 10,000 shares of our Series A Convertible Preferred stock was 10,000 ordinary shares of Glory Reach, which is all the issued and outstanding capital stock of Glory Reach. The number of our shares issued to the shareholders of Glory Reach was determined based on an arms-length negotiation. The issuance of our shares to these shareholders was made in reliance on the exemption provided by Section 4(2) of the Securities Act for the offer and sale of securities not involving a public offering and Regulation D promulgated thereunder.

On February 10, 2010, we issued 3,136,768 shares of common stock to our landlord to extinguish approximately \$47,052 of debt owed to Callaway Properties, our pre reverse acquisition landlord. Callaway Properties’ sole shareholder is Mary Passalaqua, wife of the Company’s director and former secretary Joseph Passalaqua.

On December 1, 2010, the Company issued 13,500 and 200,000 shares to the Crone Law Group and Richard E Barsom in lieu of compensation for legal and investor relation service they provided. On December 21, 2010, the Company issued 25,000 shares to Belmont Partners LLC for compensation to Joseph Meuse, the former CFO, 300,000 shares to Mr. Lanhai Sun for the consulting service he provided, and 75,000 shares to Aegis Capital for the financial service they provided.

We issued securities in reliance upon Rule 506 of Regulation D of the Securities Act. These shareholders who received the securities in such instances made representations that (a) the shareholder is acquiring the securities for his, her or its own account for investment and not for the account of any other person and not with a view to or for distribution, assignment or resale in connection with any distribution within the meaning of the Securities Act, (b) the shareholder agrees not to sell or otherwise transfer the purchased shares unless they are registered under the Securities Act and any applicable state securities laws, or an exemption or exemptions from such registration are available, (c) the shareholder has knowledge and experience in financial and business matters such that he, she or it is capable of evaluating the merits and risks of an investment in us, (d) the shareholder had access to all of our documents, records, and books pertaining to the investment and was provided the opportunity ask questions and receive answers regarding

the terms and conditions of the offering and to obtain any additional information which we possessed or were able to acquire without unreasonable effort and expense, and (e) the shareholder has no need for the liquidity in its investment in us and could afford the complete loss of such investment. Management made the determination that the investors in instances where we relied on Regulation D are accredited investors (as defined in Regulation D) based upon management's inquiry into their sophistication and net worth. In addition, there was no general solicitation or advertising for securities issued in reliance upon Regulation D.

In instances described above where we indicate that we relied upon Section 4(2) of the Securities Act in issuing securities, our reliance was based upon the following factors: (a) the issuance of the securities was an isolated private transaction by us which did not involve a public offering; (b) there were only a limited number of offerees; (c) there were no subsequent or contemporaneous public offerings of the securities by us; (d) the securities were not broken down into smaller denominations; and (e) the negotiations for the sale of the stock took place directly between the offeree and us.

#### Purchases of Our Equity Securities

No repurchases of our common stock were made during the fourth quarter of our fiscal year ended December 31, 2010.

#### Item 6. Selected Financial Data

Not applicable.

#### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, including statements that include the words "believes," "expects," "anticipates," or similar expressions. These forward-looking statements include, among others, statements concerning our expectations regarding our working capital requirements, financing requirements, business, growth prospects, competition and results of operations, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Report on Form 10-K for the year ended December 31, 2010 involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by the forward-looking statements contained herein.



Throughout this report, the terms “we,” “us,” “our company,” “our” and “Qingdao Footwear” refer to the combined business of Qingdao Footwear, Inc., formerly Datone, Inc., and its wholly owned direct and indirect subsidiaries, (i) Glory Reach International Limited, or “Glory Reach,” a Hong Kong limited company; and (ii) Qingdao Hongguan Shoes Co., Ltd., a PRC limited company, or “QHS,” as the case may be.

## Overview

We are a designer and retailer of branded footwear in Northern China. We were organized to service what we believe is an unmet and increasing demand for high quality formal and casual footwear throughout the PRC. We are focused on providing footwear that rises to the style, quality and comfort demands of a high-end consumer at affordable prices within reach of middle market office employees. Our products can be divided into men’s and women’s casual and formal footwear. Along with the growth in urbanization and individual purchasing power in China, the demand for leather footwear has also grown. Since our organization in 2003, we have grown rapidly throughout Shandong province, a province that has approximately one-third the numbers of people of the United States.

Our principal business includes (1) designing and selecting designs for men’s and women’s leather shoe lines; (2) sourcing and purchasing contract-manufactured footwear; and (3) selling these lines of footwear under our proprietary brand, “ ” (Hongguan, sometimes presented as “HonGung”). We do not manufacture or assemble any shoes. We operate a number of flagship stores throughout greater Qingdao. Our products are also brought to market through our extensive distribution network of authorized independent distributors as well as through third party retailers selected to operate exclusive Hongguan brand stores on our behalf. We believe that the sale of our products through distributors and third parties has enabled us to grow by exploiting their local retail expertise and economies of scale while minimizing our expenditure on fixed asset and human resources. Our company headquarters and main sales office is located in Shandong province in northern China, in the city of Jimo, less than 25 miles from the major urban center of Qingdao.

## Principal Factors Affecting Our Financial and Operational Results

Our financial results of operations have been and will continue to be affected by a number of factors, including but not limited to the following factors:

### Growth in the broader PRC economy

Our financial condition and results of operations have been driven by macro-economic conditions, increased disposable income and consumer spending in the PRC. Since our formation, we have derived 100% of our income from operations in China. Along with growth in the economy as a whole, Chinese domestic consumption has increased in line with rapid urbanization and increases in disposable income over the past 15 years. Per capita urban disposable income has increased by an annualized rate of 12.9% over the 5 years ending in 2008 and is anticipated to top \$2,000 in 2012. The urban population as a percentage of the total population increased from 40.6% in 2003 to 46.6% at the end of 2009, and this trend is expected to continue into the future. (National Bureau of Statistics of China, [www.stats.gov.cn](http://www.stats.gov.cn)) The United Nations estimates that China’s population is likely to be evenly split between rural and urban areas by 2015. (“Urbanization in the People’s Republic of China,” [www.wikipedia.org](http://www.wikipedia.org)) We expect that financial performance will continue to be driven by the positive trends in retail consumption, urbanization and increased consumer spending in the future.

### Increased consumer demand for leather footwear products in the PRC

Consumer demand for leather footwear products in the PRC is a key driver of our continued growth. The success of our enterprise depends in large part on the growth in the PRC consumer market, particularly consumer demand for high quality, affordable leather shoes. As average living standards in the PRC continue to improve and a larger

percentage of employment opportunities become available in an urban office or service economy setting, we expect consumer demand in the PRC to shift increasingly towards footwear appropriate to such settings, such as fine leather footwear. While Chinese per capita footwear consumption is lower than a number of other countries, China surpassed the United States in 2008 as the country that purchases the most pairs of footwear in the aggregate. Because the average Chinese consumer purchases an average of two pairs of shoes annually, far fewer than consumption levels in Korea, Japan or the West, China's shoe consumption rate is expected to approach levels of other nations with similar cultural consumption characteristics if China's consumer wealth continues to grow. ("Footwear in China," [www.datamonitor.com](http://www.datamonitor.com)) For this reason, we expect the market to continue to grow for the immediate future.

### Management and Expansion of Our Distribution Network

The majority of our sales are derived through third party distributors. As such, management of our brand through and collection of receivables from these parties is paramount to our success and future growth. We manage our brand by controlling how our products are placed, selecting store locations and decoration, and other qualitative measures. We regularly visit and inspect third party stores in order to ensure they meet our high standards for appearance, quality and service.

In the past, we had managed receivables from our third parties by requiring full payment for goods within one month of delivery. Beginning with our sales fair in February 2010, we extended credit to certain distributors. These distributors were selected based on outstanding track records in both sales and timely payments. We extended this credit in order to enhance their ability to increase sales responsibly and reward them for past success and loyalty. The extension of credit allows these distributors to grow cost effectively in accordance with our goal of achieving greater penetration in the Shandong retail market. It also encourages them to purchase our new models of footwear. We monitor our receivables carefully and reserve the right to terminate contracts with any supplier whose payments are not timely. We have maintained strong and positive long term relationships with all the distributors that we extended credit periods to and have rarely encountered any difficulties on collection of accounts receivable and do not anticipate collection issues in the future. We encourage such timely repayment by maintaining regular communication with these distributors. Management believes that it has already taken adequate measures to ensure timely settlement by the distributors, and the extended credit period has not and will not materially adversely affected our liquidity or working capital.

### Effective cost management and quality control in our supply chain

Our footwear is designed in house, but production of our footwear is entirely outsourced. To meet production requirements and to remain profitable, we must be able to count on our suppliers for quality product at reasonable prices delivered in a timely manner at commercially reasonable prices. Therefore, it is vital to our success that we are able to maintain control of our supply chain. We believe that we will be able to offset a portion of any such increased costs through improvement of production efficiency and use of economies of scale. Historically, we have been successful in containing cost of goods sold as a percentage of total cost of sales. For 2008 and 2009 our cost of goods sold accounted for 59% and 57% of total sales, respectively. We seek to capitalize on overcapacity in the footwear manufacturing industry in the PRC and leverage our purchasing power to continue to obtain favorable prices from our major suppliers. Should costs increase in the markets from which we currently source products, we are confident that we will be able to find alternative footwear providers throughout Southeast Asia. We actively work with our suppliers to maintain quality and reserve the right to return goods that do not meet our standards.

### Competitive Pricing Points and Attractive Product Designs

We have been able to maintain strong gross profit margins through competitive pricing of our products and effective cost management. To increase sales volumes, our pricing policy is to offer a range of products set at different price points with the aim of targeting different segments within the mid-range market. In order to maintain our price competitiveness and sales volumes, we review our pricing strategy regularly to make adjustments based on various factors, including the market response to existing recommended retail prices, the level of sales, the expected product margin on individual products, the prices of our competitors' products and the anticipated market trends and expected demand from customers.

We pursue a variety of designs that offer a diversified product mix and provide a wide range of leather footwear styles to our customers, which we believe to be vital to attracting customers and to increasing our revenue. Our designers have historically produced more than 300 unique designs annually which vary by season and target demographic. We

strive to find innovative styles and technologies to incorporate into our shoes and always meet the highest and most popular styles for our customers. In the coming years, we will monitor demand and adjust our products accordingly to maximize sales and profit.

### Ability to maintain brand recognition and marketing success

We believe that brand recognition drives consumer product selection. We will continue to invest our efforts in brand building and establishing Hongguan as a quality affordable footwear brand rising to the highest fashion standards while remaining within reach of a smaller budget consumer. We place great emphasis on our brand and promote Hongguan products through advertisements in the media, sales fairs and various other promotional activities. We intend to increase our marketing budgets for promotional activities in the future in order to further strengthen our brand and market position.

### Previous Organization and Reverse Acquisition

During fiscal year 2009, our company's corporate entity, Datone, Inc., was a provider of both privately owned and company owned payphones and stations in New York. Datone, Inc. received revenues from the collection of the payphone coinage, a portion of usage of service from each payphone and a percentage of long distance calls placed from each payphone from the telecommunications service providers. In addition, Datone, Inc. also received revenues from the service and repair of privately owned payphones and sales of payphone units.

On February 12, 2010, our company completed a reverse acquisition transaction through a share exchange with Glory Reach and the shareholders of Glory Reach (the "Glory Reach Shareholders"), whereby Qingdao Footwear (Datone, Inc. at the time) acquired 100% of the issued and outstanding capital stock of Glory Reach in exchange for 10,000 shares of Datone, Inc.'s Series A Preferred Stock. This preferred stock constituted 97% of our issued and outstanding capital stock on an as-converted to common stock basis as of and immediately after the consummation of the reverse acquisition. As a result of the reverse acquisition, Glory Reach became our wholly-owned subsidiary and the Glory Reach Shareholders became our beneficially controlling stockholders. The share exchange transaction with Glory Reach was treated as a reverse acquisition, with Glory Reach as the acquirer and Datone, Inc. as the acquired party. In connection with this acquisition, Datone, Inc. changed its name to "Qingdao Footwear, Inc." and changed its operations from serving as a provider of payphones and stations in New York to serving as a holding company for a designer and retailer of branded footwear in Northern China.

As a result of our acquisition of Glory Reach, we now own all of the issued and outstanding capital stock of Glory Reach, which in turn owns all of the outstanding capital stock of QHS.

### Results of Operations

#### Comparison of Years Ended December 31, 2010 and 2009

The following table sets forth key components of our results of operations during the years ended December 31, 2010 and 2009, both in dollars and as a percentage of our net sales.

	2010		December 31, 2009	
	Amount	% of Net Sales	Amount	% of Net Sales
Net Sales	\$ 21,272,234	100%	\$ 17,863,891	100%
Cost of sales	11,601,302	55%	10,162,778	57%
Gross profit	9,670,932	45%	7,701,113	43%
Operating Expenses	3,742,647	17%	969,645	5%
Operating Income	5,928,285	28%	6,731,468	38%
Other income /(interest expense)	(2,924)	0%	27,318	0%
Income Before Income Taxes	5,925,361	31%	6,758,786	38%

Edgar Filing: Qingdao Footwear, Inc. - Form 10-K

Income taxes	1,914,614	9%	1,689,697	9%
Net income	\$ 4,010,747	19%	\$ 5,069,089	28%

32

---

Net Sales. Our net sales increased to \$21,272,234 in the year ended December 31, 2010 from \$17,863,891 in 2009, representing 19.1% revenue growth. As retail sales trends and broader economic growth in the PRC have been positive despite a global economic downturn, during the year ended December 31, 2010, we increased prices by 26% in order to achieve higher gross profit, which resulted in a decrease in sales volume of 1% as compared to the same period of 2009.

Net sales from our wholesale operations increased \$1,056,115, or 7.0%, to \$16,127,014 for the year ended December 31, 2010, from \$15,071,745 for the year ended December 31, 2009. The average selling price per pair within our wholesale operations increased to \$17.7 per pair for the year ended December 31, 2010 from \$15.1 per pair in the same period last year, an increase of 17.22%, primarily due to acceptance of new designs and higher pricing of the products we promoted. However, it resulted in a sales volume decrease of 8.8% to 912 thousand pairs of shoes during the year ended December 31, 2010.

Net sales from our retail operations increased \$2,353,231 to \$5,145,220 for the year ended December 31, 2010, a 84.3% increase over sales of \$2,792,146 for the year ended December 31, 2009. The average selling price per pair within our retail operations increased 8.9% to \$26.1 per pair for the year ended December 31, 2010 compared to \$23.95 for the same period in 2009. Apart from the increase of our selling price, our sales volume also contributed a 69.3% increase as compared to the same period of 2009, which was mainly the result of an increase in the number of our sales outlets from 8 as of December 31, 2009 to 13 as of December 31, 2010 respectively. The increase in our unit selling price was mainly the result of our sales strategy to promote more high-unit price products to the market to achieve higher gross profit. The total size of our stores was 1,250 and 900 square meters as of December 31, 2010 and 2009, respectively. The average size per store was 96 and 113 square meters as of December 31, 2010 and 2009, respectively. The average size of our newly opened stores is 75 square meters which is lower than our older stores due to limited available locations. Our sales volume per square meter per month was 13 and 11 pairs for the years ended December 31, 2010 and 2009, respectively. Our sales volume per outlet per month was 1,265 and 1,214 pairs for the years ended December 31, 2010 and 2009, respectively.

Cost of Sales. For the year ended December 31, 2010, cost of sales amounted to \$11,601,302 or approximately 55% of net revenues as compared to cost of sales of \$10,162,778 or approximately 57% of net revenues for the same period of 2009. The increase of cost of sales of 14.2% over the same period of 2009 was mainly caused by an increase in sales of 19.1%. The higher increase ratio in sales was mainly the result of a change in our sales mixture resulting in our retail sales increase to 24% of total sales as of December 31, 2010 from 16% comparable period of 2009. Retail sales contribute approximately same margin as wholesale operations.

Gross Profit and Gross Margin. Gross profit for the year ended December 31, 2010 increased \$1,969,819 to \$9,670,932 from \$7,701,113 for the same period in 2009. Gross profit as a percentage of net sales, or gross margin, increased to 45% for the year ended December 31, 2010 from 43% for the same period in 2009. The gross margin increase was primarily attributable to increased margins for both our retail and wholesale operations and the change in our sales mixture as explained above.

Gross profit for wholesale operations increased \$764,176, or 12.8%, to \$6,754,818 for the year ended December 31, 2010 from \$5,990,642 for the same period in 2009. Wholesale margins increased to 41.9% for the year ended December 31, 2010 from 39.7% for the same period in 2009. The increase in wholesale gross profit was primarily due to the increased selling price for wholesale operations offset by decreased sales volume due to the highly competitive local footwear market.

Gross profit for retail operations increased \$1,273,704, or 74.5%, to \$2,983,743 for the year ended December 31, 2010 from \$1,710,039 for the same period in 2009. Retail margins decreased to 58% for the year ended December 31, 2010 from 61.2% for the same period in 2009. The increase of gross profit was mainly caused by increased unit selling

prices and sales volume in retail operations as explained above.

Operating Expenses. Our selling, general and administrative expenses grew to \$3,742,647 in the year ended December 31, 2010 from \$969,645 in the same period in 2009. This was mainly due to stock compensation and a payment of shares to service providers for services provided in connection with our reverse merger as well as increased advertising costs, rent for shopping mall space and increased payroll due to the expansion of our business.



Other Income & Interest Expense. Other income and interest expense decreased to (\$2,924) in the year ended December 31, 2010 from \$27,318 in the same period in 2009. This is mainly due to the increase of bank loans this year. Other income and interest expense is a negligible percentage of our revenue.

Income before Income Taxes. Our income before income taxes increased to \$5,925,361 in the year ended December 31, 2010 from \$6,758,786 in the same period in 2009. The increase was mainly due to an increase in gross profit offset by increased operating expenses.

Income Taxes. Income tax increased to \$1,914,614 in the year ended December 31, 2010 from \$1,689,697 in the same period in 2009. The increase was due to an increase in taxable income, as our tax rate remained constant.

Net Income. In the year ended December 31, 2010, we generated net income of \$4,010,747, an increase from \$5,069,089 in the same period in 2009. This increase was primarily due to increased profit before tax as explained above.

### Liquidity and Capital Resources

As of December 31, 2010, we had cash and cash equivalents of \$49,325, primarily consisting of cash on hand and demand deposits. This compares with December 31, 2009, when we had cash and cash equivalents of \$61,131, primarily consisting of cash on hand and demand deposits. The following table provides detailed information about our net cash flow for all financial statement periods presented in this report. To date, we have financed our operations primarily through cash flows from operations and equity contributions by our shareholders. We do not expect our daily operations to be constrained by cash flow as we are currently able to fund our operations through our existing cash flow from operations. However, our future expansion plans (which include increasing the number of sales points, advertising actively, and increasing inventory) rely entirely on the completion of an offering of our common stock. If an offering is not completed then we will need to rely on organic growth or commercial loans to facilitate our expansion plans and we cannot guarantee that we will be successful at obtaining loans or growing organically at a rate sufficient to support our expansion plans.

The following table sets forth a summary of our cash flows for the periods indicated:

#### Cash Flows

(all amounts in U.S. dollars)

	Year Ended December 31,	
	2010	2009
Net cash provided by operating activities	\$ 3,964,901	\$ 9,846,859
Net cash used in investing activities	(3,882,864 )	(384,332)
Net cash provided by (used in) financing activities	274,937	(9,523,080)
Effects of Exchange Rate Change in Cash	(368,780)	3,150
Net Decrease in Cash and Cash Equivalents	(11,806)	(57,403)
Cash and Cash Equivalent at Beginning of the Period	61,131	118,534
Cash and Cash Equivalent at End of the Period	49,325	61,131

#### Operating activities

Net cash provided by operating activities was \$3,964,901 for the year ended December 31, 2010, compared to \$9,846,859 for the same period in 2009.

The cash provided by operating activities for the year ended December 31, 2010 was mainly derived from our net profit of \$4,010,747, offset by an increase of accounts payable of \$1,047,273, an increase of stock based compensation of \$2,064,336 and an increase of prepayments of \$4,424,915. The increase of accounts payable was due to we ask for a longer payment term on our payables, which resulted in an increase of accounts payables. Increase of prepayment mainly represents payment during the period for advertising and long term leasing for our newly established outlets. These prepaid amounts are related to rent for operating stores, advertisement board and pole and landscaping maintenance contracts. These prepaid amounts are amortized based on the lease terms (for the prepaid rent), contracted terms for advertisement board and pole and contract terms for landscaping maintenance contract. The amortization expense for the year ended December 31, 2010 is \$648,778. We may choose to lease or buy outlets in future. We may also continue to do advertising to promote our sales and increase our brand acceptance.

The cash provided by operating activities for the year ended December 31, 2009 was the result of net profit of \$5,069,089, and increase in tax payable of \$4,949,978.

#### Investing activities

Net cash used in investing activities for the year ended December 31, 2010 was \$3,882,864 as compared to \$384,332 net cash used in investing activities during the same period of 2009. The cash used in investing activities during the year ended December 31, 2010 represents payment of \$3,792,591 to acquire land use rights, payment of property and equipment of \$851,791. The cash used in investing activities during the year ended December 31, 2009 represents the payment of property and equipment of \$384,332.

#### Financing activities

Net cash provided by financing activities for the year ended December 31, 2010 was \$274,937, as compared to \$9,523,080 used in the same period of 2009. The cash provided by financing activities during the year ended December 31, 2010 represents the cash proceeds from bank loans of \$1,972,147 offset by the distribution to owner of \$381,391 and repayments on bank loans of \$1,198,459. The cash used in financing activities during the year ended December 31, 2009 represents distribution to owner of \$9,786,817.

#### Bank loans

Our bank loans include short-term loans and long-term loans. In our industry, it is customary to obtain such loans to meet cash flow and inventory needs.

Short term loans of \$1,774,932 as of December 31, 2010, were issued by Bank of Qingdao and JiMo Rural Bank, with annual interest rates ranging from 6.372% to 8.896%, and with terms of 12 months and 24 months which will mature in September, November and December 2011 respectively. All bank loans were secured either by the property of the Company or third parties.

#### Capital resources

We believe that our cash on hand and cash flow from operations will meet part of our present cash needs and we will require additional cash resources, to meet our expected capital expenditure and working capital for the next 12 months. We may, however, in the future, require additional cash resources due to changed business conditions, implementation of our strategy to ramp up our marketing efforts and increase brand awareness, or acquisitions we may decide to pursue. If our own financial resources are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to expand our business operations and could harm our overall business prospects.

#### Inflation

Inflation and changing prices have not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future. However, our management will closely monitor the price change in the industry and continually maintain effective cost control in operations.



### Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures or capital resources that is material to an investor in our securities.

### Seasonality

We may experience seasonal fluctuations in our revenue in some regions in the PRC, based on the seasonal changes in the weather and the tendency of customers to make purchases relating to their apparel suitable for the time of year. Any seasonality may cause significant pressure on us to monitor the development of materials accurately and to anticipate and satisfy these requirements. Our revenues are usually higher in the first and fourth quarters due to seasonal purchases.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported, including the notes thereto, and related disclosures of commitments and contingencies, if any. We have identified certain accounting policies that are significant to the preparation of our financial statements. These accounting policies are important for an understanding of our financial condition and results of operation. Critical accounting policies are those that are most important to the portrayal of our financial conditions and results of operations and require management's difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements:

#### Revenue Recognition

We generate revenues from the retail and wholesale of shoes. Sales revenues are recognized when the following four revenue criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, and collectability is reasonably assured. Sales are presented net of value added tax ("VAT"). No return allowance is made as product returns have been insignificant in all periods.

Retail sales are recognized at the point of sale to customers. Wholesales to our contracted customers are recognized as revenue at the time the product is shipped and title passes to the customer on an FOB shipping point basis. Wholesale prices are predetermined and fixed based on contractual agreements. We do not allow any discounts, credits, rebates or similar privileges.

We do not grant any inventory pricing protection or other inventory adjusting policies to our distributors. The distributors are responsible for their purchased products types and volumes, unless any quality problems arise. If quality issues arise with our products, the products will be fully replaced by our manufacturers in accordance with the purchase agreement. As a result, we recognize our sales on delivery of our products to our wholesalers. For the retail customers, we only allow returns due to quality problems. We do not permit returns based on any other reason, and we do not believe such liberal return policies are common in China. Should there be any quality defects; customers have the right to return the shoes to the stores from which they purchased them. The stores then return them to our company, and we negotiate an acceptable solution with the manufacturers, which tend to vary with the facts in each

case. According to our historical data, such returns are at approximately 0.01% of total sales and are not material to our financial statements.

In light of the low level of revenue dilution, we do not generally assess returns of products, levels of inventory, expected introductions of new products or external sources.

We have not experienced any purchases of products in excess of ordinary course of business levels as a result of any incentives. In our experience, customers merely purchase their seasonal footwear needs more quickly—but not in greater numbers—than they might otherwise purchase in the absence of such incentives. This result is not surprising in an industry like the footwear industry, which is marked by seasonal sales on, for example, sandals during summer and boots during winter. As a result of such seasonal fluctuations, our customers endeavor not to maintain excessive inventory but do try to purchase seasonally-specific shoes shortly before the season.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the amount of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those estimates.

#### Accounts Receivable

Accounts receivable consists of unpaid balances due from the whole-sale customers. Such balances generally are cleared in the subsequent month when the whole-sale customers place another order. The Company does not provide an allowance for doubtful accounts because the Company has not experienced any credit losses in collecting these amounts from whole-sale customers.

#### Impairment of Long-Lived Assets

The Company accounts for impairment of property and equipment and amortizable intangible assets in accordance with ASC 360, “Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of”, which requires the Company to evaluate a long-lived asset for recoverability when there is an event or circumstance that indicates the carrying value of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset or asset group is not recoverable (when the carrying amount exceeds the gross, undiscounted cash flows from use and disposition) and is measured as the excess of the carrying amount over the asset’s (or asset group’s) fair value. There was no impairment of long-lived assets for the years ended December 31, 2010 and 2009.

#### Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined on a weighted average basis and includes all expenditures incurred in bringing the goods to the point of sale and putting them in a salable condition. In assessing the ultimate realization of inventories, the management makes judgments as to future demand requirements compared to current or committed inventory levels. Our reserve requirements generally increase as our projected demand requirements; or decrease due to market conditions and product life cycle changes. The Company estimates the demand requirements based on market conditions, forecasts prepared by its customers, sales contracts and orders in hand.

In addition, the Company estimates net realizable value based on intended use, current market value and inventory ageing analyses. The Company writes down inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventories and their estimated market value based upon assumptions about future demand and market conditions.

## Comprehensive Income

The Company has adopted the provisions of ASC 220 “Reporting Comprehensive Income” which establishes standards for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements.

ASC 220 defines comprehensive income is comprised of net income and all changes to the statements of stockholders’ equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company’s other comprehensive income arose from the effect of foreign currency translation adjustments.



## Foreign Currency Translation

The Company's functional currency is Chinese Renminbi ("RMB") and its reporting currency is the U.S. dollar. Transactions denominated in foreign currencies are translated into U.S. dollar at exchange rate in effect on the date of the transactions. Exchange gains or losses on transaction are included in earnings.

The financial statements of the Company are translated into United States dollars in accordance with the provisions of ASC 830 "Foreign Currency Matters", using the year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses and historical rates for the equity. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive income.

## Segment Reporting

We operate as a single operating segment for purposes of presenting financial information and evaluating performance. As such, the accompanying consolidated financial statements present financial information in a format that is consistent with the internal financial information used by management. We do not accumulate operating expenses by wholesale and retail operations and, therefore, it is impractical to present such information.

### Item 8. Financial Statements and Supplementary Financial Data.

Our financial statements, together with the independent registered public accounting firm's report, begin on page F-1, at the end of this Annual Report.

### Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

#### (a) Dismissal of independent registered public accounting firm

On February 10, 2011, the Company's board of directors dismissed MaloneBailey, LLP ("MaloneBailey"), as the Company's independent registered public accounting firm.

The report of MaloneBailey on the Company's financial statements as of and for the year ended December 31, 2009, contained no adverse opinion or disclaimer of opinion nor was qualified or modified as to uncertainty, audit scope, or accounting principle.

During the recent fiscal year ending December 31, 2009, and through the date of the dismissal, there have been no (i) disagreements with MaloneBailey on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to MaloneBailey's satisfaction, would have caused MaloneBailey to make reference to the subject matter of the disagreement(s) in connection with its reports; or (ii) "reportable events" as defined in Item 304(a)(1)(v) of Regulation S-K.

The Company has provided MaloneBailey with a copy of the above disclosures and requested that MaloneBailey furnish the Company with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with the above statement. A copy of MaloneBailey's letter, dated March 4, 2011 is filed as Exhibit 16.1 to the Company's Current Report on Form 8-K, as filed with the SEC on March 4, 2011.

#### (b) New independent registered public accounting firm

On February 10, 2011, the Company's board of directors approved the engagement of Sherb & Co., LLP ("Sherb"), as the Company's new independent registered public accounting firm.

During the recent fiscal years ending December 31, 2010 and 2009, and through the date of the appointment, the Company had not consulted Sherb regarding (i) the application of accounting principles to any specified transaction, either completed or proposed, (ii) the type of audit opinion that might be rendered on the Company's financial statements, or (iii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv)) or a reportable event (as defined in Item 304(a)(1)(v)).

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO"), its principal executive officer, and Chief Financial Officer ("CFO"), its principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of December 31, 2009. Based on that evaluation, the CEO and CFO concluded that there had been improvements of the Company's disclosure controls and procedures and the manner in which information that is required to be disclosed in Exchange Act report is reported within the time period specified in the SEC's rule and forms. CEO has concluded that our disclosure controls and procedures were not effective as of December 31, 2009.

Management's Annual Report on Internal Control over Financial Reporting

Section 404 of the Sarbanes-Oxley Act of 2002 requires that management document and test the Company's internal control over financial reporting and include in this Annual Report on Form 10-K a report on management's assessment of the effectiveness of our internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting refers to the process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, and includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management designed an evaluation process that meets the needs of its company and that provides reasonable assurance for its assessment based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In connection with their review of our internal controls over financial reporting for the fiscal year ended December 31, 2010, our management concluded that, as of December 31, 2010, our internal control over financial reporting was not effective.

This Annual Report on Form 10-K does not, nor is required to, include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in internal control over financial reporting

In order to further enhance our disclosure and internal controls, the Company has hired financial consultants to assist management in evaluating complex accounting issues on an as-needed basis, and the implementation of systems to improve control and review procedures over all financial statement and account balances.

Item 9B. Other Information.

There is no information required to be disclosed in a report on Form 8-K during the fourth quarter of the year covered by this Form 10-K but not reported.

## PART III

## Item 10. Directors, Executive Officers and Corporate Governance.

The following table and biographical summaries set forth information, including principal occupation and business experience, about our directors and executive officers at May 2, 2011. There is no familial relationship between or among the nominees, directors or executive officers of the Company:

NAME	AGE	POSITION
Tao Wang	40	Director and Chief Executive Officer
Renwei Ma	42	Director and General Counsel
Pin Huang	39	Chief Financial Officer, Controller
Wenmao Shi	40	Chief Operating Officer
Zhengdian Xing	34	Vice President, Sales
Xianfu Qiao	48	Sourcing and Design Manager

**Tao Wang** Mr. Wang has been the company's CEO and founder since March 10, 2003. Before founding Hongguan, Mr. Wang was engaged in variety of capacities involving branding, strategic marketing and sales of footwear since 1992. Mr. Wang has over 18 years' experience in shoe industry.

**Renwei Ma** Mr. Ma is the company legal representative since the founding of the Hongguan in March 2003. Prior becoming Hongguan's legal representative, he was self-employed, as well worked in the shoe industry. He obtained a bachelor degree in Marketing.

**Pin Huang** has served the Company as an Accounting Manager of its wholly owned subsidiary Qingdao Hongguang Shoes Company since August 2010. From 2008 to July 2010 Ms. Huang served as a Department Manager for Qindao Zhonghui, a CPA firm. From 1997 to 2007 Ms. Huang served as an accountant, and later a financial manager, for Qingdao Double Dragon Clothing Co. The Board selected Ms. Huang as a Chief Financial Officer because of her over 10 years of accounting experience.

**Wenmao Shi** Mr. Mao has been with the Company in the sales department since inception in March 2003. Prior joining Hongguan, Mr. Mao was a director of sales at Qingdao Double Star Group. Mr. Mao has over 18 years of sales experience, and obtained a bachelor degree in 1992, majoring in Economics.

**Zhengdian Xing** Mr. Xing is a Sales Manager and has been with the Company since March 2003. Prior joining Hongguan, Mr. Mao was previously an entrepreneur in the footwear industry since 1998. Mr. Xing has over 10 years of sales experience, and obtained a bachelor degree in 1998, majoring in Sales and Marketing.

**Xianfu Qiao**, Mr. Qiao has been the Company's Development Manager since March 2003. Prior joining Hongguan, Mr. Mao was self-employed, he has worked in the shoe industry in a variety of capacities since 1986. Mr. Qiao has over 20 years of industry experience.

#### Family Relationships

There is no family relationship among any of our officers or directors.

#### Board of Directors and Board Committees

Our board of directors currently consists of three (3) directors. There are no family relationships among any of our executive officers and directors. Our directors are currently elected each year at the annual shareholder meeting.

A director may vote in respect of any contract or transaction in which he is interested; provided, however that the nature of the interest of any director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee thereof of the nature of a director's interest shall be sufficient disclosure and after such general notice it shall not be necessary to give special notice relating to any particular transaction. A director may be counted for a quorum upon a motion in respect of any contract or arrangement which he shall make with our company, or in which he is so interested and may vote on such motion.

There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting.

The Board of Directors intends in the future to maintain a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Listing Rule 5605(a)(15).

There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

Mr. Tao Wang currently holds both the positions of Chief Executive Officer and Chair of the Board. These two positions have not been consolidated into one position; Mr. Wang simply holds both positions at this time. We do not have a lead independent director because of the foregoing reason and also because we believe our independent directors are encouraged to freely voice their opinions on a relatively small company board. We believe this leadership structure is appropriate because we are a smaller reporting; as such we deem it appropriate to be able to benefit from the guidance of Mr. Wang as both our principal executive officer and Chair of the Board.

Our Board of Directors plays a key role in our risk oversight. The Board of Directors makes all relevant Company decisions. As such, it is important for us to have both our Chief Executive Officer and General Counsel serve on the Board as they play key roles in the risk oversight of the Company. As a smaller reporting company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

#### Board Committees

Currently, three committees have been established under the board: the audit committee, the compensation committee and the nominating committee; however, we do not yet have board members on these committees, as we do not yet have independent directors. The audit committee is responsible for overseeing the accounting and financial reporting processes of our company and audits of the financial statements of our company, including the appointment, compensation and oversight of the work of our independent auditors. The compensation committee of the board of directors reviews and makes recommendations to the board regarding our compensation policies for our officers and all forms of compensation, and also administers our incentive compensation plans and equity-based plans (but our board retains the authority to interpret those plans). The nominating committee of the board of directors is responsible for the assessment of the performance of the board, considering and making recommendations to the board with respect to the nominations or elections of directors and other governance issues. The nominating committee considers diversity of opinion and experience when nominating directors.

#### Executive and Director Compensation Determination

Prior to our reverse acquisition of Glory Reach, our operating subsidiaries were private limited companies organized under the laws of the PRC, and in accordance with PRC regulations, the salary and bonus of our executive officers was determined by our shareholders.

The compensation committee of the board of directors annually reviews the performance and total compensation package for the Company's executive officers, including the Chief Executive Officer; considers the modification of existing compensation, and the adoption of new compensation plans; and recommends appropriate changes to the board of directors, which votes on such recommendations.

#### Section 16(A) Beneficial Ownership Reporting Compliance



Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers and persons who own more than ten percent of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, none of the required parties are delinquent in their Section 16(a) filings.

## Involvement in Certain Legal Proceedings

The Company is not aware of any legal proceedings in which any director, officer, or any owner of record or beneficial owner of more than five percent of any class of voting securities of the Company, or any affiliate of any such director, officer, affiliate of the Company, or security holder, is a party adverse to the Company or has a material interest adverse to the Company.

## Item 11. Executive Compensation.

### Summary Compensation Table

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to the named persons for services rendered in all capacities during the noted periods. No other executive officer received total annual salary and bonus compensation in excess of \$100,000.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Total (\$)
Tao Wang, Chief Executive Officer (1)	2010	\$ 8,628	\$ 0	\$ 8,628
Pin Huang, Chief Financial Officer	2010	\$ 2,550	\$ 0	\$ 2,550
Wenmao Shi, Chief Operating Officer	2010	\$ 7,069	\$ 0	\$ 7,069
Craig Burton, former President (1)	2008	\$ 40,040	\$ 0	\$ 40,040
	2009	\$ 40,040	\$ 0	\$ 40,040
	2010	\$ 0	\$ 0	\$ 0

(1) On February 12, 2010, we acquired Glory Reach in a reverse acquisition transaction that was structured as a share exchange and in connection with that transaction, Mr. Tao Wang became our Chief Executive Officer. Prior to the effective date of the reverse acquisition, Mr. Craig Burton served as President of the Company.

### Summary of Employment Agreements and Material Terms

Prior to our reverse acquisition of Glory Reach, our operating subsidiaries were private limited companies organized under the laws of the PRC, and in accordance with PRC regulations, the salary and bonus of our executives was determined by our shareholders.

Other than the salary and necessary social benefits required by the government, we currently do not provide other benefits to the officers at this time. Our executive officers are not entitled to severance payments upon the termination of their employment agreements or following a change in control.

We have not provided retirement benefits (other than a state pension scheme in which all of our employees in China participate) or severance or change of control benefits to our named executive officers.

### Outstanding Equity Awards at Fiscal Year End

For the year ended December 31, 2010, Joseph Meuse, our former Chief Financial Officer, received 25,000 shares as compensation for his services during 2010. There is no plan or understanding, express or implied, to pay any compensation to any director or executive officer pursuant to any compensatory or benefit plan, although we

anticipate that we will compensate our officers and directors for services to us with stock or options to purchase stock, in lieu of cash.

## Compensation of Directors

No member of our board of directors received any compensation for his services as a director during the year ended December 31, 2010, and currently no compensation arrangements are in place for the compensation of directors.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information regarding beneficial ownership of our common stock as of May 2, 2011, (i) by each person who is known by us to beneficially own more than 5% of our common stock; (ii) by each of our officers and directors; and (iii) by all of our officers and directors as a group. Unless otherwise specified, the address of each of the persons set forth below is in care of the Company, 269 First Huashan Road, Jimo City, Qingdao, Shandong, China. Except as indicated in the footnotes to this table and subject to applicable community property laws, the persons named in the table to our knowledge have sole voting and investment power with respect to all shares of securities shown as beneficially owned by them. The information in this table is as of May 2, 2011, based upon 12,023,679 shares of common stock outstanding.

Name and Address of Beneficial Owner	Office, if Any	Title of Class	Amount and Nature of Beneficial Ownership	Percent Ownership and Voting Power (1)
<b>Officers and Directors</b>				
Tao Wang	Chief Executive Officer, Director	Common Stock	6,900,150(2)	57.4%
Pin Huang	Chief Financial Officer	Common Stock	0	*
Renwei Ma	Director	Common Stock	0	*
Wenmao Shi	Chief Operating Officer	Common Stock	0	*
All officers and directors as a group (4 persons named above)			6,900,150	57.4%
<b>5% Security Holders</b>				
Swift Dynamic Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, British Virgin Islands		Common Stock	6,900,150(2)	57.4%
Belmont Partners, 360 Main Street, P.O. Box 393 Washington, Virginia 22747		Common Stock	725,340	6.0%

\* Less than 1%

- (1) Common Stock shares have one vote per share. Shares are presented on a post-split/post-conversion basis, as described more fully in the section titled “Description of Share Capital.”
- (2) Among the 6,900,150 Common Shares, 6,300,150 of them are held by Swift Dynamic. Tao Wang serves as Chief Executive Officer and Director of Swift Dynamic and exercises sole voting and dispositive control over the shares held by Swift Dynamic.

## Changes in Control

On February 12, 2010, the Company and its stockholders entered into the Exchange Agreement with Glory Reach, Glory Reach Shareholders, Greenwich Holdings LLC, and Qingdao Shoes. Pursuant to the Exchange Agreement, the Company acquired all of the outstanding shares of Glory Reach from the Glory Reach Shareholders (the “Interests”); and the Glory Reach Shareholders transferred and contributed all of their Interests to us. In exchange, we issued to the Glory Reach Shareholders, their designees or assigns, 10,000 shares of our Series A Convertible stock, which constituted 97% of our issued and outstanding capital stock on an as-converted to common stock basis as of and immediately after the consummation of the transactions contemplated by the Share Exchange Agreement. Therefore, Glory Reach became a wholly-owned subsidiary of the Company. The Share Exchange resulted in a change in control of the Company.

Further and in connection with the Share Exchange, on February 12, 2010, Craig H. Burton, our former President, Joseph J. Passalacqua, our former Secretary, and Joseph Meuse, our former Director, submitted a resignation letter pursuant to which they resigned from all offices that they held effective immediately and from their position as our directors that became effective on the tenth day following the mailing by us of a Schedule 14f-1. In addition, on February 12, 2010, our board of directors appointed Tao Wang (Chairman), Renwei Ma and Lanhai Sun to fill the vacancies created by such increase, which appointments became effective upon the effectiveness of the resignation of Craig H. Burton, Joseph J. Passalacqua, and Joseph Meuse on the tenth day following the mailing by us of a Schedule 14f-1.

## Item 13. Certain Relationships and Related Party Transactions.

### Transactions with Related Persons

The following includes a summary of transactions since the beginning of 2008, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest (other than compensation described under “Executive Compensation”). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions.

### Related Parties

Since 2007, we have entered into transactions with the following people who are considered related persons on the respective bases listed next to their names:

Related Person Name	Related Party Basis
Tao Wang	Director, executive officer and five percent shareholder
Renwei Ma	Director and general counsel
Weidong Liang	Brother-in-law of Tao Wang
Siyong Wang	Brother of Tao Wang
Joseph Passalacqua	Former Director and Secretary
Mary Passalacqua	Wife of former Director and Secretary Joseph Passalacqua

Due to related party

The Company declared distribution and paid dividends to the shareholders in 2009. The balance of dividend payable was \$117,360 and nil as of December 2009 and 2008, respectively, which represented the dividend payable to Mr. Renwei Ma, the shareholder of the Company.

#### Other related party transactions

During 2009, the Company distributed \$9,904,176 to its shareholders, Mr. Tao Wang and Mr. Renwei Ma, in which \$9,786,816 was distributed in cash, and the remaining \$117,360 was the dividend payable to Mr. Renwei Ma at December 31, 2009.

During 2008, the Company distributed \$7,999,779 to its shareholders Mr. Tao Wang and Mr. Renwei Ma.

We lease one of our stores from Mr. Tao Wang under a four-year operating lease expiring August 2011. For the years ended December 31, 2010 and 2009, related party rent expense of \$25,732 and \$17,593, respectively, was included in total rent expense of the year.

We lease one of our warehouse buildings to Weidong Liang. This lease is for a period of three years starting May 2008. Per the agreement, Mr. Liang shall pay equal amount of advertising expense on behalf of the lessor as the lease payment. For the year ended December 31, 2010 and 2009, we recorded other income of \$87,966 and \$87,966, respectively, from leasing the aforementioned building and advertising expense of the same amount respectively.

Mr. Tao Wang entered into the contract with the Company to assume fiscal responsibilities for all tax liabilities recorded and potential penalties relating to all tax liabilities before December 31, 2009. As of December 31, 2009, the assumed amount was \$12,549,060, which mainly included VAT tax payable and income tax payable. However, these tax amounts transferred to Mr. Tao Wang were never paid to the government. As a result, the historical financial statements of the Company we restated to reflect the Company as the primary obligor of the tax liabilities. According to PRC tax law, late or deficient tax payment could subject to significant tax penalty.

A long-term loan for \$249,390 was issued in December 2009 by JiMo Rural Bank, with a 2 year repayment period and annual interest rate of 7.02%. The loan is guaranteed by Siyou Wang and is collateralized by Mr. Wang's property.

On February 10, 2010, we issued 3,136,768 shares of common stock to our landlord to extinguish approximately \$47,052 of debt owed to Callaway Properties, our pre reverse acquisition landlord. Callaway Properties' sole shareholder is Mary Passalaqua, wife of the Company's former director and former secretary Joseph Passalaqua.

On February 12, 2010, we issued 10,000 shares of our Series A Convertible Preferred stock ("Series A Preferred Stock") to the shareholders of Glory Reach. The total consideration for the 10,000 shares of our Series A Convertible Preferred stock was 10,000 ordinary shares of Glory Reach, which is all the issued and outstanding capital stock of Glory Reach. The number of our shares issued to the shareholders of Glory Reach was determined based on an arms-length negotiation. The issuance of our shares to these shareholders was made in reliance on the exemption provided by Section 4(2) of the Securities Act for the offer and sale of securities not involving a public offering and Regulation D promulgated thereunder. 722 shares of Series A Convertible Preferred stock was received by Belmont Partners, as an original shareholder in Glory Reach and 51 shares of Convertible Preferred stock were received by Joseph Passalaqua in return for allowing certain debts of the Registrant to be assumed by DT Communications.

#### Insider Transactions Policies and Procedures

The Company does not currently have an insider transaction policy.

#### Director Independence



We currently do not have any independent directors, as the term “independent” is defined by the rules of the Nasdaq Stock Market.

## Item 14. Principal Accountant Fees and Services.

## Fees Paid to Independent Public Accountants

All fees for services (i) provided by MaloneBailey, LLP, related to the fiscal year ended December 31, 2009, and (ii) provided by Sherb & Co., LLP, related to the fiscal year ended December 31, 2010, were as follows:

	Years Ended December 31,	
	2010	2009
Audit Fees	\$ 40,000	\$ 20,000
Audit-Related Fees	-	-
Tax Fees	-	-
Other Fees	-	-
Total	\$ 40,000	\$ 20,000

## Pre-Approval Policies and Procedures

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by our auditors must be approved in advance by our Board to assure that such services do not impair the auditors' independence from us. In accordance with its policies and procedures, our board of directors pre-approved the audit services performed by (i) MaloneBailey, LLP, for our consolidated financial statements as of and for the year ended December 31, 2009 and (ii) Sherb & Co., LLP, for our consolidated financial statements as of and for the year ended December 31, 2010.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(b) Exhibits

Exhibit No.	Description
2.1	Share Exchange Agreement, dated February 12, 2010, among the Datone, Glory Reach International Limited, Qingdao Shoes, the shareholders of Glory Reach International Limited, and Greenwich Holdings LLC (translated) (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, and incorporated herein by this reference)
3.1	Amended and Restated Certificate of Incorporation (Filed as an exhibit to the Company's registration statement on Form 10-SB, as filed with the Securities and Exchange Commission on February 1, 2008, and incorporated herein by this reference)
3.2	Bylaws (Filed as an exhibit to the Company's registration statement on Form 10-SB, as filed with the Securities and Exchange Commission on February 1, 2008, and incorporated herein by this reference)
3.3	Certificate of Designation of Series A Voting Convertible Preferred Stock, as filed with the Delaware Secretary of State on February 11, 2010 (translated) (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, and incorporated herein by this reference)
10.1	Form of Distributer Contract (translated) (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, and incorporated herein by this reference)
10.2	Form of Purchase Contract (translated) (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, and incorporated herein by this reference)
10.3	Asset Transfer Agreement between Qingdao Shoes and Tao Wang (translated) (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, and incorporated herein by this reference)
10.4	Form of Director Indemnification Agreement (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, and incorporated herein by this reference)
10.5	Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, and incorporated herein by this reference)
10.6	Form of Director Indemnification Agreement (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, as amended)

on August 2, 2010, and incorporated herein by this reference)

- 10.7 Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations (Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 12, 2010, as amended on August 2, 2010, and incorporated herein by this reference)

48

---

- 10.8 Form of Escrow Agreement\*
- 10.9 Employment Agreement - Mr. Tao Wang\*
- 10.10 Entrustment Agreement\*
- 10.11 Incentive Option Agreement\*
- 14.1 Code of Ethics\*
- 21.1 Subsidiaries of the Company (Filed as an exhibit to the Company's 2009 Annual Report on Form 10-K, as filed with the Securities Exchange Commission on March 30, 2010)
- 31.1 Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 32.1 Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 32.2 Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

\* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QINGDAO FOOTWEAR, INC.

Dated: May 4, 2011

By: /s/ Tao Wang  
Name: Tao Wang  
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated.

Each person whose signature appears below hereby authorizes Tao Wang as attorneys-in-fact to sign on his behalf, individually, and in each capacity stated below, and to file all amendments and/or supplements to this Annual Report on Form 10-K.

Signature	Title	Date
/s/ Tao Wang Tao Wang	Chief Executive Officer and Director (Principal Executive Officer)	May 4, 2011
/s/ Pin Huang Pin Huang	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	May 4, 2011
/s/ Renwei Ma Renwei Ma	Director	May 4, 2011
/s/ Wenmao Shi Wenmao Shi	Chief Operating Officer	May 4, 2011

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets December 31, 2010 and December 31, 2009	F-3
Consolidated Statements of Operations For the Years Ended December 31, 2010 and 2009	F-4
Consolidated Statements of Stockholders' Deficit For the Years Ended December 31, 2010 and 2009	F-5
Consolidated Statements of Cash Flows For the Years Ended December 31, 2010 and 2009	F-6
Notes to Consolidated Financial Statements	F-7-F-19

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Qingdao Footwear, Inc.  
Qingdao, PRC

We have audited the accompanying consolidated balance sheet of Qingdao Footwear, Inc. and Subsidiaries (the "Company") as of December 31, 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Company restated its Balance Sheets, Statement of Cash Flows and Statements of Shareholders' Equity to reflect the tax liabilities (including value added tax and income tax). There were no changes to reported earnings. The Company determined that additional disclosure was required to disclose its significant tax liabilities and the related risks in its consolidated financial statements. See Notes 13.

/s/ MaloneBailey, LLP  
www.malonebailey.com  
Houston, Texas

April 16, 2010 (except for Note 2, 10, and 14 which are dated November 3, 2010)



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors  
Qingdao Footwear, Inc.

We have audited the accompanying consolidated balance sheet of Qingdao Footwear, Inc. (the "Company") as of December 31, 2010 and the related consolidated statements of operations and comprehensive income, stockholders' equity (deficit) and cash flows for the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. 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. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has assumed liabilities related to taxes payable as of December 31, 2009 as more fully described in Note 2. These issues raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Sherb & Co., LLP  
Certified Public Accountants

New York, New York  
May 3, 2011

## PART I: FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2010 AND 2009

	December 31 2010	December 31 2009
<b>ASSETS</b>		
Current assets		
Cash	\$ 49,325	\$ 61,131
Accounts receivable	49,390	98,962
Advance to suppliers	70,074	-
Inventories	630,701	344,512
Other receivables	3,546,852	-
Prepaid expenses	604,577	57,311
<b>Total current assets</b>	<b>4,950,919</b>	<b>561,916</b>
Long term prepaid expenses	3,873,077	-
Property, plant and equipment, net	1,153,116	930,451
Intangible assets	210,261	208,167
<b>Total Assets</b>	<b>\$ 10,187,373</b>	<b>\$ 1,700,534</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Short-term loans	\$ 1,774,932	\$ 718,830
Accounts payable	51,242	15,727
Other payables	978,762	-
Taxes payable	13,976,944	12,551,687
Salary payable	32,996	-
Due to related parties	-	117,360
<b>Total current liabilities</b>	<b>16,814,876</b>	<b>13,403,604</b>
Long-term debt	-	249,390
<b>Total Liabilities</b>	<b>\$ 16,814,876</b>	<b>\$ 13,652,994</b>
Shareholders' Deficiency		
Series A preferred stock, .0001 par value, 10,000,000 shares authorized, none issued and outstanding		
Common stock, .0001 par value, 100,000,000 shares authorized, 10,613,679 and 9,700,000 shares issued and outstanding, respectively as of December 31,	1,061	970

Edgar Filing: Qingdao Footwear, Inc. - Form 10-K

2010 and 2009

Additional paid-in capital	2,383,755	319,510
Statutory surplus reserve	160,240	-
Accumulated other comprehensive income	72,040	440,775
Accumulated deficits	(9,244,599 )	(12,713,715 )
Total Shareholders' Deficiency	\$ (6,627,503 )	\$ (11,952,460 )
Total Liabilities and Shareholders' Deficiency	\$ 10,187,373	\$ 1,700,534

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

F-3

---

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Net revenue	\$21,272,234	\$17,863,891
Cost of sales	11,601,302	10,162,778
Gross profit	9,670,932	7,701,113
Operating expenses:		
Selling, general and administrative expenses	3,593,753	907,807
Depreciation and Amortization Expense	148,894	61,838
Income from operations	5,928,285	6,731,468
Other income (expenses)		
Interest income	22,516	1,144
Interest expenses	(107,463 )	(61,792 )
Other, net	82,023	87,966
Income/(loss) before income taxes	5,925,361	6,758,786
Income tax	1,914,614	1,689,697
Net income/(loss)	\$4,010,747	\$5,069,089
Other comprehensive income (loss)	(368,735 )	3,110
Net Comprehensive income	\$3,642,012	\$5,072,199
Basic and diluted net income (loss) per share	\$0.40	\$0.52
Weighted average common and common equivalent shares:		
Basic	10,613,679	9,700,000
Diluted	10,613,679	9,700,000

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

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$4,010,747	\$5,069,089
Adjustments to reconcile net income/(loss)		
Provided by operating activities:		
Depreciation and amortization	148,894	61,838
Stock based compensation	2,064,336	-
Changes in operating assets and liabilities:		
Accounts receivable	49,572	(95,428 )
Advance to suppliers	(70,074 )	-
Inventories	(286,189 )	(154,977 )
Prepaid expenses	(4,424,915)	1,179
Accounts payable and accrued liabilities	1,047,273	15,180
Taxes payable	1,425,257	4,949,978
Net cash provided by operating activities	3,964,901	9,846,859
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received from sale of fixed assets	553,718	-
Cash received from sale of land use right	207,800	-
Cash paid for property and equipment	(851,791 )	(384,332 )
Cash paid for land use right	(3,792,591)	-
Net cash used in investing activities	(3,882,864)	(384,332 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distribution to shareholders	(381,391 )	(9,786,817)
Proceeds from loans	1,972,147	1,701,720
Repayment of due to related party	(117,360 )	(323 )
Repayments on loans	(1,198,459)	(1,437,660)
Net cash provided by (used in) financing activities	274,937	(9,523,080)
Effect of exchange rate changes on cash	(368,780 )	3,150
Net decrease in cash	\$(11,806 )	\$(57,403 )
Cash, beginning of period	61,131	118,534
Cash, end of period	\$49,325	\$61,131
<b>SUPPLEMENTARY DISCLOSURE:</b>		
Interest paid	\$107,463	\$61,792
Income tax paid	\$1,863,492	\$3,763

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



QINGDAO FOOTWEAR, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Statutory Surplus Reserve	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Deficiency
Balance December 31, 2008	9,700,000	\$ 970	\$ 319,510	\$ -	\$ 437,665	\$ (7,878,628 )	\$ (7,120,483 )
Distribution to shareholders	-	-	-	-	-	(9,904,176 )	(9,904,176 )
Foreign Currency Translation	-	-	-	-	3,110	-	3,110
Net income	-	-	-	-	-	5,069,089	5,069,089
Balance December 31, 2009	9,700,000	970	319,510	-	440,775	(12,713,715 )	(11,952,460)
Recapitalization of Datone on reverse acquisition	300,000	30	442,581	-	-	-	442,611
Fractional shares	179	-	-	-	-	-	-
Common stock issued for service	613,500	61	1,381,664	-	-	-	1,381,725
Distribution to shareholders	-	-	-	-	-	(381,391 )	(381,391 )
Stock based compensation	-	-	240,000	-	-	-	240,000
Foreign Currency Translation	-	-	-	-	(368,735 )	-	(368,735 )
Net income	-	-	-	-	-	4,010,747	4,010,747
Appropriated statutory surplus reserve	-	-	-	160,240	-	(160,240 )	-
Balance December 31, 2010	10,613,679	\$ 1,061	\$ 2,383,755	\$ 160,240	\$ 72,040	\$ (9,244,599 )	\$ (6,627,503 )

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

QINGDAO FOOTWEAR, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - ORGANIZATION AND BUSINESS OPERATIONS

Qingdao Footwear, Inc. (formerly Datone, Inc.) was originally incorporated on August 9, 2000 under the laws of the State of Delaware. Datone operated as a wholly-owned subsidiary of USIP.COM, Inc. (“USIP”). On August 24, 2006, USIP decided to spin-off its subsidiary companies, one of which was Datone. On February 1, 2008, Datone, Inc. filed a registration statement on Form 10-SB, which went effective on November 13, 2008.

On February 12, 2010, Datone completed a reverse acquisition transaction through a share exchange (the “Share Exchange”) with Glory Reach International Limited (“Glory Reach”), a Hong Kong limited company, the shareholders of Glory Reach (the “Shareholders”), Greenwich Holdings LLC and Qingdao Hongguan Shoes Co., Ltd. (“Qingdao Shoes”) a People’s Republic of China (the “PRC”) company, whereby Datone acquired 100% of the issued and outstanding capital stock of Glory Reach in exchange for 10,000 shares of Datone Series A Convertible Preferred Stock which constituted 97% of our issued and outstanding capital stock on an as-converted to common stock basis as of and immediately after the consummation of the reverse acquisition. The Series A Convertible Preferred is convertible at 1 share of preferred for 970 shares of Datone common stock. Following the effectiveness of the Reverse Stock Split (note 13) and conversion of Series A Preferred Stock into common stock (note 13), there will be approximately 10,000,000 shares of Datone common stock issued and outstanding and no shares of preferred stock issued and outstanding. As a result of the reverse acquisition, Glory Reach became Datone wholly-owned subsidiary and the former shareholders of Glory Reach became Datone controlling stockholders. The share exchange transaction with Glory Reach was treated as a reverse acquisition, with Glory Reach as the acquirer and Datone as the acquired party for accounting and financial reporting purposes. After the reverse merger, Datone changed its name to Qingdao Footwear, Inc.

Datone spun off all its assets and liabilities to its prior owners before the reverse merger. For Glory Reach, the reverse merger is accounted for as a reverse merger with a shell company and as a recapitalization. Hereafter, Datone, Glory Reach, Qingdao Shoes is referred to as the “Company”, unless specific reference is made to a subsidiary.

Glory Reach was established in Hong Kong on November 18, 2009 to serve as an intermediate holding company. Mr. Tao Wang, the controlling interest holder of Qingdao Shoes also controls Glory Reach. On February 8, 2010, the Glory Reach acquired 100% of the equity interests in Qingdao Shoes

Qingdao Shoes was incorporated on March 11, 2003 in Jimo County, Qingdao City, Shandong Province, People’s Republic of China (the “PRC”) with registered capital of \$320,480. Prior to December 18, 2009, Mr. Tao Wang owned 80% of Qingdao Shoes and the remaining 20% was owned by Mr. Renwei Ma. Starting from December 18, 2009, Mr. Tao Wang owned 80% of Qingdao Shoes, Mr. Renwei Ma owned 15% and Mr. Wenyi Chen owned the remaining 5%. Qingdao Shoes is the owner of the brand name “Hongguan” and principally engaged in the wholesale and retail sales of fashion footwear primarily in the northeast region of China.

The restructuring has been accounted for using the “as if” pooling method of accounting and the operations were consolidated as if the restructuring had occurred as of the beginning of the earliest period presented in our consolidated financial statements and the current corporate structure had been in existence throughout the periods covered by our consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restatement of Financial Statements



Mr. Tao Wang entered into the contract with the Company to assume fiscal responsibilities for all tax liabilities recorded and potential penalties relating to all the tax liabilities before December 31, 2009. As of December 31, 2009, the assumed amount tax liabilities was \$12,549,060, which mainly included VAT tax payable and income tax payable. However, these tax amounts transferred to Mr. Tao Wang were never paid to the government. As a result, the historical financial statements of the Company were restated to reflect the Company as the primary obligor of the tax liabilities. The restatement has no effect on operating income, net income or cash flows from operating activities.

The accrual of the tax payable liabilities is reflected as a reduction of retained earnings as of December 31, 2010 and 2009.

#### Basis of Presentation

The consolidated financial statements as of December 31, 2010, and for the year then ended were prepared assuming that the Company would continue as a going concern. As noted above in "Restatement of Financial Statements" the Company has assumed fiscal responsibilities related to tax liabilities and penalties for periods prior to December 31, 2009 related to VAT tax payable and income tax payable. These liabilities are significant as the Company has a working capital deficiency, and a shareholders' deficiency, as of December 31, 2010 and 2009, subsequent to the Company's assumption of these liabilities. In addition, although the Company operations have provided cash from operating activities, these operations might not be sufficient to satisfy VAT tax payable and income tax payable assumed by the Company. These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The accompanying consolidated financial statements at December 31, 2010 and 2009 and for the years then ended did not include any adjustments that might be necessary should the Company be unable to continue as a going concern. The Company's Management is currently evaluating their tax liabilities and planning the Company's operations with a goal to maintaining their operations and satisfying the tax liabilities that have arisen since December 31, 2009.

The financial statements reflect the financial position, results of operations and cash flows of the Company and all of its wholly owned and majority owned subsidiaries as of December 31, 2010 and 2009, and for the years ended December 31, 2010 and 2009. All intercompany items are eliminated during consolidation.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the amount of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those estimates.

#### Risks and Uncertainties

The Company is subject to substantial risks from, among other things, intense competition associated with the industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, limited operating history, foreign currency exchange rates and the volatility of public markets.

#### Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and trade receivables. As of December 31, 2010 and 2009, substantially all of the Company’s cash were held by major financial institutions located in the PRC, which management believes are of high credit quality. With respect to trade receivables, the Company generally does not require collateral for trade receivables and has not experienced any credit losses in collecting the trade receivables.

The Company operates principally in the PRC and grants credit to its customers in this geographic region. Although the PRC is economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company’s operations.

#### Cash

The Company considers all highly liquid debt instruments purchased with a maturity period of three months or less to be cash or cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheets for cash and cash equivalents approximate their fair value. All of the Company’s cash that is held in bank accounts in the PRC is not protected by FDIC insurance or any other similar insurance in the PRC.

#### Comprehensive Income

The Company has adopted the provisions of ASC 220 “Reporting Comprehensive Income” which establishes standards for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements.

ASC 220 defines comprehensive income is comprised of net income and all changes to the statements of stockholders’ equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company’s other comprehensive income arose from the effect of foreign currency translation adjustments.

## Foreign Currency Translation

The Company's functional currency is Chinese Currency Renminbi ("RMB") and its reporting currency is the U.S. dollar. Transactions denominated in foreign currencies are translated into U.S. dollar at exchange rate in effect on the date of the transactions. Exchange gains or losses on transaction are included in earnings.

The financial statements of the Company are translated into United States dollars in accordance with the provisions of ASC 830 "Foreign Currency Matters", using the year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses and historical rates for the equity. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive income. At December 31, 2010 and 2009, the cumulative translation adjustment of \$72,040 and \$440,775 were classified as an item of accumulated other comprehensive income in the shareholders' equity section of the balance sheet respectively. For the years ended December 31, 2010 and 2009, other comprehensive income (loss) were (\$368,735) and \$3,110, respectively.

There were no gains or losses from foreign currency transactions during the years ended December 31, 2010 and 2009.

The exchange rate used is as follows,

	December 31,	
	2010	2009
RMB: US\$ exchange rate	6.5918	6.8166

	Year Ended December 31,	
	2010	2009
Average RMB: US\$ exchange rate	6.7620	6.8208

#### Accounts Receivable

Accounts receivable consists of unpaid balances due from the whole-sale customers. Such balances generally are cleared in the subsequent month when the whole-sale customers place another order. The Company uses the aging method to estimate valuation allowance for anticipated uncollectible receivable balances. Under the aging method, bad debts percentages determined by management based on historical experience as well as current economic climate are applied to customers' balances categorized by the number of months the underlying invoices have remained outstanding. The valuation allowance balance is adjusted to the amount computed as a result of the aging method. When facts subsequently become available to indicate that the amount provided as the allowance was incorrect, an adjustment which classified as a change in estimate is made. The Company did not experience any bad debt historically and as of December 31, 2010 and 2009, there was no allowance for doubtful accounts recorded based on the aging method.

#### Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined on a weighted average basis and includes all expenditure incurred in bringing the goods to the point of sale and putting them in a salable condition. In assessing the ultimate realization of inventories, the management makes adjustments as to future demand requirements compared to current or committed inventory levels. Our reserve requirements generally increase as our projected demand requirements; or decrease due to market conditions and product life cycle changes. The Company estimates the demand requirements based on market conditions, forecasts prepared by its customers, sales contracts and orders in hand.

In addition, the Company estimates net realizable value based on intended use, current market value and inventory aging analysis. The Company writes down inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventories and their estimated market value based upon assumptions about future demand and market conditions. There is no reserve on inventory as of December 31, 2010 and 2009.

#### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Gains or losses on disposals are reflected as gain or loss in the year of disposal. Major renewals and betterments are charged to the property accounts while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed in the current period.

Edgar Filing: Qingdao Footwear, Inc. - Form 10-K

Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of assets as set out below.

	Estimated Useful Life
Plant and building	20 years
Office furniture and equipment	5 years
Transportation equipment	5 years

Intangibles

Land use right is stated at cost less accumulated amortization. Amortization is provided using the straight-line method over the designated terms of the lease of 50 years obtained from the relevant PRC land authority.

F-9

---

### Impairment of Long-Lived Assets

The Company accounts for impairment of property and equipment and amortizable intangible assets in accordance with ASC 360, "Accounting for Impairment of Long-Lived Assets to be Disposed Of", which requires the Company to evaluate a long-lived asset for recoverability when there is event or circumstance that indicate the carrying value of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset or asset group is not recoverable (when carrying amount exceeds the gross, undiscounted cash flows from use and disposition) and is measured as the excess of the carrying amount over the asset's (or asset group's) fair value. There was no impairment of long-lived assets for the years ended December 31, 2010 and 2009.

### Revenue Recognition

The Company generates revenues from the retail and wholesale of shoes. Sales revenues are recognized when the following four revenue criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, and collectability is reasonably assured. Sales are presented net of value added tax (VAT). No return allowance is made as product returns have been insignificant in all periods.

Retail sales are recognized at the point of sale to customers. Wholesale to its contracted customers are recognized as revenue at the time the product is shipped and title passes to the customer on an FOB shipping point basis. Wholesale prices are predetermined and fixed based on contractual agreements. The Company does not allow any discounts, credits, rebates or similar privileges.

### Cost of Sales

Cost of sales includes the cost of purchasing merchandise. Receiving and warehousing cost are included in selling, general and administrative expenses, and these costs have been insignificant in all periods.

### Advertising Expenses

The Company expenses cost of advertising, including the cost of TV commercials, outdoor bulletin boards, promotional materials, and in-store displays as advertising expense, when incurred. Advertising expenses included in selling, general and administrative expenses were \$376,583 and \$87,966 for the years ended December 31, 2010 and 2009, respectively.

### Shipping and Handling

Shipping and handling costs related to cost of goods sold are included in selling, general and administrative expense.

Shipping and handling costs are the packing and transportation expenses for the goods sold. For the years ended December 31, 2010 and 2009, shipping and handling costs were \$2,614 and \$20,766 respectively.

### Store Opening Costs

Non-capital expenditures associated with opening new stores are expenses as incurred.

### Income Taxes

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes". ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of

deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. There was no deferred tax asset or liability for the years ended December 31, 2010 and 2009.

#### Value Added Taxes

The Company is subject to value added tax ("VAT") for selling merchandise. The applicable VAT rate is 17% for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). Under the commercial practice of the PRC, the Company pays VAT based on tax invoices issued. The tax invoices may be issued subsequent to the date on which revenue is recognized, and there may be a considerable delay between the date on which the revenue is recognized and the date on which the tax invoice is issued. In the event that the PRC tax authorities dispute the date on which revenue is recognized for tax purposes, the PRC tax office has the right to assess a penalty based on the amount of the taxes which are determined to be late or deficient, and will be expensed in the period if and when a determination is made by the tax authorities that a penalty is due.

VAT on sales and VAT on purchases amounted to \$3,709,652 and \$661,718, respectively, for the year ended December 31, 2010. VAT on sales and VAT on purchases amounted to \$3,038,726 and \$83,851, respectively, for the year ended December 31, 2009. Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government.

#### Fair Value of Financial Instruments

ASC 820 “Fair Value Measurements and Disclosures”, adopted January 1, 2008, defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for current receivables and payables qualify as financial instruments. Management concluded the carrying values are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and if applicable, their stated interest rate approximates current rates available. The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value.

It is management’s opinion that as of December 31, 2010 and 2009, the estimated fair values of the financial instruments were not materially different from their carrying values as presented on the balance sheets. This is attributed to the short maturities of the instruments (less than two years) and that interest rates on the borrowing approximately those that would have been available for loans of similar remaining maturity and risk profile at respective balance sheet dates. The carrying amounts of the loans approximately their fair values because the applicable interest rates approximate current market rates.

#### Segment Reporting

We operate as a single operating segment for purpose of presenting financial information and evaluating performance. As such, the accompanying consolidated financial statements present financial information in a format that is consistent with the internal financial information used by management. We do not accumulate operating expenses by wholesale and retail operations and, therefore, it is impractical to present such information.

#### Earnings per Share

Basic earnings per share is computed by dividing net income by weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. As the exercise price of the option granted to Crone Law Group (Note 14) is higher than the current share price of common stock, the option did not affect the weighted average number of shares of common stock as of December 31, 2010. At December 31, 2010 and 2009, respectively, the Company had no common stock equivalents that could potentially dilute future earnings per share.

#### Recent Accounting Pronouncements



In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No.51.” If an entity has previously adopted SFAS No.160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No.160. The management does not expect the adoption of this ASU to have a material impact on the Company’s financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuance, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuance, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The management does not expect the adoption of this ASU to have a material impact on the Company’s financial statements.

On February 25, 2010, the FASB issued ASU 2010-09 Subsequent Events Topic 855 “Amendments to Certain Recognition and Disclosure Requirements,” effective immediately. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of US GAAP. The FASB believes these amendments remove potential conflicts with the SEC’s literature. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

On March 5, 2010, the FASB issued ASU No. 2010-11 Derivatives and Hedging Topic 815 “Scope Exception Related to Embedded Credit Derivatives.” This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, Derivatives and Hedging – Embedded Derivatives – Recognition. All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are “clearly and closely related” to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU is effective for the Company on July 1, 2010. Early adoption is permitted. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, “Milestone Method of Revenue Recognition.” FASB ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010, and is effective on a prospective basis for milestones achieved after the adoption date. The Company is currently evaluating the effect of this ASU on its financial statements on adoption on January 1, 2011.

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to the consolidated statements.

## NOTE 3 - INVENTORY

As of December 31, 2010 and 2009, inventory consisted of the following:

	December 31, 2010	December 31, 2009
Finished goods	\$ 545,051	\$ 344,512
Raw materials	85,650	-
Total inventories	630,701	344,512

## NOTE 4 - PREPAID EXPENSES

As of December 31, 2010 and 2009, the prepaid expenses consisted of the following:

	December 31, 2010	December 31, 2009
Prepaid rent	\$ 3,073,106	\$ 18,778
Prepaid adverting fee	1,068,516	-
Prepaid maintenance fee	322,370	-
Prepaid miscellaneous fee	13,662	38,533
Total	4,477,654	57,311
Minus: current portion	604,577	57,311
Long-term portion	3,873,077	-

Long term prepaid rent is for three retail store leases arranging from 3, 10, and 15 years. Long term advertising prepayment is for advertisement contracts with period ranging from two to five years. The whole contracts amounts were prepaid. Long term maintenance prepayment is for a five-year landscaping maintenance contract and the whole contract was prepaid.

#### NOTE 5 - OTHER RECEIVABLES

As of December 31, 2010 and 2009, the Company's other receivables consisted of the following:

	December 31, 2010	December 31, 2009
Receivable for sale of fixed assets & land use right	\$ 3,542,280	\$ -
Others	4,572	-
<b>Total other receivables, net</b>	<b>\$ 3,546,852</b>	<b>\$ -</b>

The Company entered an agreement, dated in December 2010, to sell its land use right and plant with original values of \$3,792,591 (RMB25,000,000) and \$587,093 (RMB3,870,000) respectively. The selling prices of the land use right and plant was \$3,747,080 (RMB24,700,000) and \$553,718 (RMB3,650,000), respectively, which resulted in a loss on the sale of \$3,258 (RMB 22,222) and \$ 33,375 (RMB 220,000) for the land use right and plant, respectively. As of December 31, 2010, the Company had received the proceeds of sale of land use right and plant of \$204,800 and \$553,718 respectively.

#### NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2010 and 2009, property, plant and equipment consisted of the following:

	December 31, 2010	December 31, 2009
Plant and building	\$ 1,187,748	\$ 1,096,639
Office furniture and equipment	29,553	24,789
Transportation equipment	265,208	155,763
Others	132,298	
<b>Total at cost</b>	<b>1,614,807</b>	<b>1,277,191</b>
Less: Accumulated depreciation	(461,691 )	(346,740 )
<b>Total property, plant and equipment, net</b>	<b>\$ 1,153,116</b>	<b>\$ 930,451</b>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$102,935 and \$57,000 respectively.

As of December 31, 2010 and 2009, the cost of fixed assets pledged for bank loan was \$377,161 and \$364,690 respectively.

#### NOTE 7 - INTANGIBLE ASSETS

The Company obtained the right from the relevant PRC land authority for 50 years to use the land on which the office premises and warehouse of the Company are situated. As of December 31, 2010 and 2009, intangible assets consisted of the following:

December 31,    December 31,

Edgar Filing: Qingdao Footwear, Inc. - Form 10-K

	2010	2009
Cost of land use right	250,311	242,055
Less: Accumulated amortization	(40,050 )	(33,888 )
Total intangible assets, net	\$ 210,261	\$ 208,167

Amortization expense for the years ended December 31, 2010 and 2009 was \$45,959 and \$4,838, respectively.

As of December 31, 2010 and 2009, the land use rights were pledged for bank loan.

F-13

---

Amortization of intangible assets over the next five years and thereafter is as follows:

Year Ended December 31,	
2011	\$ 4,880
2012	4,880
2013	4,880
2014	4,880
2015	4,880
Thereafter	185,861
	\$ 210,261

#### NOTE 8 - SHORT TERM LOANS

Short-term loans are due to two financial institutions which are normally due within one year. As of December 31, 2010 and 2009, the Company's short term loans consisted of the following:

	December 31, 2010	December 31, 2009
Jimo Rural Cooperative Bank of Qingdao (JMRB), two 12-month bank loans both due in November 2010, bears annual interest at 7.965%, secured by third parties	-	293,400
JMRB, two 12-month bank loans both due in November 2011, bears annual interest at 8.896% average, secured by third parties	303,407	
JMRB, two years bank loan due in December 2011, bears annual interest at 7.02%, secured by third party's building	257,896	249,390
Bank of Qingdao Jimo Branch (BOQ), 12-month bank loan due in September 2011, bears annual interest at 6.372%, pledged by Company's building and land use right	758,518	-
BOQ, 12-month bank loan matured in September 2010, bears annual interest at 6.372% average, pledged by Company's building and land use right.	-	425,430
JMRB, 12-month bank loan due in December 2011, bears annual interest at 8.896%, secured by third party	455,111	-
<b>Total</b>	<b>\$ 1,774,932</b>	<b>\$ 968,220</b>
Less: Current portion	1,774,932	718,830
Long-term portion	-	249,390

The above indebtedness to JMRB at December 31, 2010 and December 31, 2009 has been guaranteed by two unrelated companies.

#### NOTE 9 - OTHER PAYABLES

As of December 31, 2010 and 2009, other payables of the Company are summarized as follows:

	December 31, 2010	December 31, 2009
Store rent	\$ 966,625	\$ -
Other	12,137	
Total	978,762	

F-14

---

In July 2, 2010 the company entered into agreement with Qingdao Jialejia Market Service Ltd. to rent a store for 10 years from August 1, 2010 to July 31, 2020. According to the lease agreement the Company was to prepay the total amount of rent before commencing operations at the store location. Through December 31, 2010 there is still an unpaid amount of \$966,625 due on the lease.

#### NOTE 10 - RELATED PARTY BALANCES AND TRANSCATIONS

##### Related party transactions

During year 2009, the Company distributed \$9,904,176 to its shareholders, Mr. Tao Wang and Mr. Renwei Ma, in which \$9,786,816 was distributed in cash, and the remaining \$117,360 was the dividend payable to Mr. Renwei Ma at December 31, 2009.

The Company declared distribution and paid dividends to the shareholders in 2010 and 2009. The balance of dividend payable was Nil and \$117,360 as of December 31, 2010 and 2009 respectively, which represented the dividend payable to Mr. Renwei Ma, a shareholder of Qingdao Shoes.

The Company leases one of its stores from Mr. Tao Wang under a four-year operating lease expiring August 2011. For the years ended December 31, 2010 and 2009, related party rent expense of \$25,732 and \$17,593, respectively, was included in total rent expense of the year.

The Company leases one of its warehouse buildings to Weidong Liang, brother-in-law of Mr. Tao Wang, for three years starting May 2008. Per the agreement, the lessee shall pay equal amount of advertising expense on behalf of the lessor as the lease payment. For the years ended December 31, 2010 and 2009, the Company recorded other income of \$88,731 and \$87,966 respectively, from leasing the aforementioned building and advertising expense of the same amount respectively.

Mr. Tao Wang entered into a contract with the Company to assume fiscal responsibilities for all tax liabilities recorded and potential penalties relating to all tax liabilities before December 31, 2009. As of December 31, 2009, the assumed amount was \$12,549,060, which mainly included VAT tax payable and income tax payable. However, these tax amounts transferred to Mr. Tao Wang were never paid to the government. As a result, the historical financial statements of the Company were restated to reflect the Company as the primary obligor of the tax liabilities. According to PRC tax law, late or deficient tax payment could subject to significant tax penalty.

A long-term loan for \$249,390, was issued in December 2009 by JMRB, with a 2 year repayment period and annual interest rate of 7.02%. The loan is guaranteed by the relative of Mr. Tao Wang, the CEO and major shareholder of the Company and is collateralized by the property of his relative.

On February 12, 2010, we issued 10,000 shares of our Series A Convertible Preferred stock (“Series A Preferred Stock”) to the shareholders of Glory Reach. The total consideration for the 10,000 shares of our Series A Convertible Preferred stock was 10,000 ordinary shares of Glory Reach, which is all the issued and outstanding capital stock of Glory Reach. The number of our shares issued to the shareholders of Glory Reach was determined based on an arms-length negotiation. The issuance of our shares to these shareholders was made in reliance on the exemption provided by Section 4(2) of the Securities Act for the offer and sale of securities not involving a public offering and Regulation D promulgated thereunder. 722 shares of Series A Convertible Preferred stock was received by Belmont Partners, as an original shareholder in Glory Reach and 51 shares of Convertible Preferred stock were received by Joseph Passalacqua in return for allowing certain debts of the Registrant to be assumed by DT Communications.

#### NOTE 11 - OPERATING LEASES



The Company leases store spaces under noncancelable operating leases expiring at various dates through 2013. Rent expenses was \$249,037 and \$90,165 for the years ended December 31, 2010 and 2009, respectively.

Future minimum lease payments at December 31, 2010 are as follows:

Year:	
2011	50,727
2012	8,797
2013	4,398
	\$ 63,922

F-15

---

## NOTE 12 - INCOME TAX

The Company accounts for income taxes pursuant to the accounting standards that requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carryforwards. Additionally, the accounting standards require the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Realization of deferred tax assets, including those related to the U.S. net operating loss carryforwards, are dependent upon future earnings, if any, of which the timing and amount are uncertain.

Accordingly, the net deferred tax asset related to the U.S. net operating loss carryforward has been fully offset by a valuation allowance. The Company is governed by the Income Tax Law of the People's Republic of China and the United States. In 2010 and 2009, under the Income Tax Laws of PRC, Chinese companies are generally subject to an income tax at an effective rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments. The Company's PRC subsidiaries are subject to these statutory rates. The Company's wholly-owned subsidiary, Glory Reach was incorporated in Hong Kong, and is subject to their income tax rules and regulations. Currently, the Company's management believes that they have no Hong Kong liability as their Hong Kong subsidiary has conducted no operations in Hong Kong.

The Company is incorporated in the United States and has incurred an aggregate net operating loss of approximately \$2,365,000 for income tax purposes through December 31, 2010, subject to the Internal Revenue Code Section 382, which places a limitation on the amount of taxable income that can be offset by net operating losses after a change in ownership. Such change in ownership might have occurred with the Company's reverse merger on February 12, 2010. The net operating loss carries forward for United States income taxes, and may be available to reduce future years' taxable income. These carryforwards will expire, if not utilized, through 2030. Management believes that the realization of the benefits from these losses appears not more than likely due to the Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset benefit to reduce the asset to zero. Management will review this valuation allowance periodically and make adjustments as warranted.

The table below summarizes the differences between the U.S. statutory federal rate and the Company's effective tax rate and as follows for the years ended December 31, 2010 and 2009:

	2010		2009	
U.S. statutory rates	34.0	%	34.0	%
U.S. effective rate in excess of China tax rate	(12	)%	(9.0	)%
Permanent difference	10	%	-	
Total provision for income taxes	32.0	%	25.0	%

For the years ended December 31, 2010 and 2009, income tax expense related to our operations in the PRC amounted to \$1,914,614 and \$1,689,697, respectively.

The Company's deferred tax assets (rounded to the nearest \$00,000) as of December 31, 2010 and 2009 are as follows:

	December 31,	
	2010	2009
Deferred tax asset:		
Net U.S. operating loss carryforward	\$ 800,000	\$ 800,000
Total gross deferred tax asset	800,000	800,000

Edgar Filing: Qingdao Footwear, Inc. - Form 10-K

Less: valuation allowance	(800,000)	(800,000)
Net deferred tax asset	\$ -	\$ -

The Company is governed by the Income Tax Law of the PRC concerning the private-run enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriated tax adjustments in 2010 and 2009 respectively.

	2010	2009
Income before income taxes	\$ 5,925,361	\$ 6,758,786
Income taxes	\$ 1,914,614	\$ 1,689,697

There is no significant temporary difference between book and tax income.

F-16

---

The Company has no United States income tax liabilities as of December 31, 2010 and 2009.

#### NOTE 13 - SHAREHOLDERS' EQUITY

##### The 1-for-27 Reverse Stock Split:

The Company's board of directors unanimously approved, subject to stockholder approval, the 1-for-27 Reverse Split of our issued and outstanding common stock. The reverse split reduced the number of issued and outstanding shares of the Company's common stock outstanding prior to the split. The reverse split increases the total number of issued and outstanding shares of the Company's common stock subsequent to the split by triggering the automatic conversion of the Company's Series A Preferred Stock into 9,700,000 shares of common stock. The reverse split had become effective on June 10, 2010, the date when the Company filed with the Secretary of State of the State of Delaware following the expiration of the 20 day period mandated by Rule 14c of the Exchange Act. All equity transactions in the financial statements have been retroactively stated to reflect the reverse stock split.

##### Common Stock issuances:

Prior to the reverse acquisition on January 26, 2010, Datone formed a new wholly owned entity, DT Communications, Inc., incorporated under the laws of the State of Delaware, to which Datone spun off all of their assets and liabilities.

On February 10, 2010, Datone issued 116,177 common shares (3,136,768 common shares prior to the reverse stock split) to Calloway Properties to repay \$43,500 of debt. Prior to this issuance Datone had 183,823 common shares (4,963,226 common shares prior to the reverse stock split). Prior to the reverse acquisition Datone had 300,000 (post reverse stock split) common shares issued.

On February 12, 2010, Datone entered into and closed on the Exchange Agreement with Glory Reach, its shareholders, Greenwich Holdings LLC, and Glory Reach's wholly owned subsidiary Qingdao Shoes, a People's Republic of China limited company. Pursuant to the Exchange Agreement, Datone acquired all of the outstanding shares of Glory Reach from the Glory Reach Shareholders; and the Glory Reach Shareholders transferred and contributed all of their Interests to Datone. This exchange was effectively accounted for as a reverse merger. In the exchange, Datone issued to the Glory Reach Shareholders 10,000 shares of Series A Preferred stock. Each share of Series A Preferred is convertible into 970 shares of common stock, for a total of 9,700,000 shares of common stock. This Series A Preferred share issuance constituted 97% of Datone's issued and outstanding capital stock on an as-converted to common stock basis as of and immediately after the consummation of the transactions contemplated by the Share Exchange Agreement. Therefore, Glory Reach became a wholly-owned subsidiary of Datone. The Share Exchange resulted in a change in control of Datone, or the Company. Upon completion of the Exchange Agreement the 10,000 shares of Series A Preferred Stock automatically converted into 9,700,000 shares of common stock, which constituted 97% of the outstanding common stock of the Company subsequent to the reverse stock split.

During February 2010, upon the closing of the Exchange Agreement, one of the shareholders transferred 338 of the 874 shares of Series A Convertible Preferred Stock issued to him under the Exchange Agreement to certain service providers of the Company. The underlining common shares were valued at \$1.35 (post-reverse split common stock price) per share resulting in stock compensation expense of \$442,611 for the year ended December 31, 2010.

On December 1, 2010, the Company issued 13,500 and 200,000 shares to the Crone Law Group and Richard E Barsom in lieu of compensation for legal and investor relation service they provided. On December 21, 2010, the Company issued 25,000 shares to Belmont Partners LLC for compensation to Joseph Meuse, the former CFO, 200,000 shares to Mr. Lanhai Sun and 100,000 shares to Mr. Qinglong Shi for the consulting service they provided, and 75,000 shares to Aegis Capital for the financial service they provided. These shares were issued at market and

were valued at \$2,901,725.

Distributions to shareholders:

During year 2010 and 2009, the Company distributed \$381,391 and \$9,904,176, respectively to its shareholders.

Common Stock Options:

In March 2010, the Company granted common stock purchase options to purchase 100,000 shares of our common stock at an exercise price of \$4.00 per share to the Crone Law Group. for services provided related to the reverse merger. The options are exercisable for three years after the issue dates of the options. The fair value of options granted were estimated on the date of grant using the Blacks-Scholes valuation model and the following assumptions: a risk free interest rate of 1.38%, a weighted expected life of 3 years, a dividend rate of 0.0%, and a weighted expected volatility of 300.00%. The Company recorded \$240,000 in compensation expenses, net of related tax effects, related to these option grant for the year ended December 31, 2010.

Stock option activity for the year ended December 31, 2010 is summarized as follows:

	Number of Shares	Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Outstanding at January 1, 2009	-	\$ -	-
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2009	-	\$ -	-
Granted	100,000	4.00	2.17
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2010	100,000	\$ 4.00	2.17

The options as of December 31, 2010 had no intrinsic value as their exercise price was greater than the current market price.

#### Statutory Surplus Reserve:

The Company is required to make appropriations to statutory surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC ("PRC GAAP"). Appropriations to the statutory surplus reserve should be at least 10% of the after-tax net income determined in accordance with the PRC GAAP until the reserve equals 50% of the entities' PRC registered capital of \$320,480 (RMB 2,600,000) or members' equity. We appropriated \$160,240 to the statutory surplus reserve in the year of 2010. As of December 31, 2010, the Company's statutory surplus reserve amounted to \$160,240.

#### NOTE 14 - COMMITMENTS AND CONTINGENCIES

##### Guarantees

As of December 31, 2009, the Company provided corporate guarantees for bank loans borrowed by two unrelated companies incorporated in the PRC ("Company A and B"). Associated with the corporate guarantee, Company A and B also provided cross guarantees for the JMRB bank loans of \$293,400 borrowed by the Company (Note 8). If Company A and B default on the repayment of their bank loans when they come due, the Company is required to repay the outstanding balance. As of December 31, 2009, the guarantee provided for the bank loans borrowed by Company A and B were approximately RMB 2,000,000 (\$293,400) and RMB 1,000,000 (\$146,700), respectively. The company A & B repaid their loan during the year ended December 31, 2010.

The guarantee period was from July 2008 to December 2009. The Company's management considered the risk of default by Company A and B is remote and therefore no liability for the guarantor's obligation under the guarantee was recognized as of December 31, 2009. No fee was paid to Company A and B for their guarantee.

##### Tax liabilities

The Company did not pay much of its significant value added tax liabilities and income tax liabilities, which amounted to \$ 12,549,060.

The tax authority of the PRC Government conducts periodic and ad hoc tax filing reviews on business enterprises operating in the PRC after those enterprises had completed their relevant tax filings, hence the Company's tax filings may not be finalized. It is therefore uncertain as to whether the PRC tax authority may take different views about the Company's tax filings which may lead to additional tax liabilities.

Mr. Tao Wang entered into an agreement with the Company to assume fiscal responsibilities for all tax liabilities recorded and potential penalties relating to all the tax liabilities before December 31, 2009. As of December 31, 2009, the assumed amount was \$12,549,060, which mainly included VAT tax payable and income tax payable. However, these tax amounts transferred to Mr. Tao Wang were never paid to the government. As a result, the historical financial statements of the Company were restated to reflect the Company as the primary obligor of the tax liabilities. According to PRC tax law, late or deficient tax payment could subject the Company to significant tax penalty.

NOTE 15 - OPERATING RISKS

(a) Country risk

The Company has significant investments in the PRC. The operating results of the Company may be adversely affected by changes in the political and social conditions in the PRC and by changes in Chinese government policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. The Company can give no assurance that those changes in political and other conditions will not result in a material adverse effect upon the Company's business and financial condition.

(b) Exchange risk

The Company cannot guarantee the Renminbi, US dollar exchange rate will remain steady, therefore the Company could post the same profit for two comparable periods and post higher or lower profit depending on exchange rate of Renminbi and US dollars. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

(c) Interest risk

The Company is exposed to interest rate risk arising from short-term variable rate borrowings from time to time. The Company's future interest expense will fluctuate in line with any change in borrowing rates. The Company does not have any derivative financial instruments as of December 31, 2010 and 2009 and believes its exposure to interest rate risk is not material.

NOTE 16 – SUBSEQUENT EVENTS

Issuance of Common Shares

In April 2011, the Board of Directors of the Company deems it advisable, and in the best interests of the Company, to issue the Crone Law Group or its designee 50,000 shares of Common Stock of the Company for prior legal services. The shares shall be validly issued, fully paid and nonassessable, and not subject to any preemptive or similar rights, free from all taxes, liens, charges and security interests with respect of the issuance thereof.

On April 15, 2011, the Company issued 260,000 shares to Flash Funding INC for their consulting services provided, 600,000 shares to Mr. Tao Wang for the services provided in 2010 and 500,000 shares to Mr. Chongliang Liu for his commission during 2010.

On April 7, 2011, the Company announced that the Board of Directors has approved a quarterly dividend, whereby common stock shareholders shall receive restricted common shares equal to one and one half (1.5%) percent of each common stock shareholding as of the record date. The first quarterly dividend shall be payable to all common stock shareholders of record on May 16, 2011, with a payable date of May 23, 2011. The shares will be restricted for a period of six months. Additionally, the Company announced that the Board approved the continuance of the dividend for each of the remaining quarters in 2011. Dates for the remaining dividends will be released as available.