

Qingdao Footwear, Inc.  
Form 10-K/A  
November 04, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K/A

Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended: December 31, 2009

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.  
(Formerly Datone, 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)

Qingdao Footwear, Inc.  
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

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.

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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. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting  
company

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, 2009, 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. Shares of the Registrant's common stock held by each executive officer and director and by each person who owns 10 percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of November 3, 2010, there were 10,000,000 shares of the Registrant's common stock outstanding.

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Explanatory Note

The purpose of this Annual Report on Form 10-K/A is to amend Items 1, 1A, 5, 10, 11, 13 and 15 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed with the Securities and Exchange Commission (the “SEC”) on March 30, 2010 and amended on August 3, 2010 (the “2009 10-K”).

Items 1, 1A, 5, 10, 11, 13 and 15 of our 2009 10-K have been amended and restated in their entirety. In particular, the financial statements have been restated to reflect an understatement of tax liabilities for the period, as previously disclosed in a current report on Form 8-K filed on October 14, 2010. Except as stated herein, this Form 10-K/A does not reflect events occurring after the filing of the Form 10-K on March 30, 2009 and no attempt has been made in this Annual Report on Form 10-K/A to modify or update other disclosures as presented in the 2009 10-K. Accordingly, this Form 10-K/A should be read in conjunction with our filings with the SEC subsequent to the filing of the Form 10-K.

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.

QINGDAO FOOTWEAR, INC.  
(Formerly Datone, Inc.)

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For the Fiscal Year Ended December 31, 2009

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PART I  
BUSINESS

ITEM 1.

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:

Name	Shares	Services Provided
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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

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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 63.0% 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.

#### 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 June 30, 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 June 30, 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 and year ended December 31, 2009.

Sales Channels

The following diagram details our current distribution channels:

As of June 30, 2010, we had 12 flagship stores, 11 exclusive third party managed retail outlets, and 192 outlets managed by distributors.

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

Channel	2009 Sales	%	2008 Sales	%
Self Owned Stores	\$ 2,792,146	16%	\$ 2,049,529	15%
Wholesale (Third party Stores and Distributors)	\$ 15,071,745	84%	\$ 11,854,785	85%
Total Revenue	\$ 17,863,891	100%	\$ 13,904,314	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 Q2	2008	2009	2010 Q2	2008	2009	2010 Q2	2008	2009	2010 Q2
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](http://en.wikipedia.org); "World Bank Supports Skills Development in Two Chinese Provinces," [go.worldbank.org](http://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](http://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, 2009 and 2008, the sales generated by the Company's flagship stores accounted for 16% and 15% 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	9
Design & Purchasing	3
Accounting	5
Warehouse	8
Administration	7
Sales	42

Total

74

15

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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.

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 contact 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 three 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

Not applicable as we are a smaller reporting company.

## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

The CUSIP number for our common stock is 23816A103. Our common stock is quoted under the symbol "QING" (previously "DATI") on the Electronic Bulletin Board maintained by the Financial Industry Regulatory Authority; however, there have only been limited or sporadic quotations and only a very limited public trading market for our common stock. Indeed, our common stock has been traded publicly on less than 20% of the trading days in 2010. The Electronic Bulletin Board is a significantly more limited market than established trading markets such as the New York Stock Exchange or NASDAQ.

The closing bid price for our common stock on September 1, 2010 was \$2.25 per share, as reported by [www.quotemedia.com](http://www.quotemedia.com). The common stock has not traded publicly since that date.

The following table sets forth, for the periods indicated, the high and low closing prices of our common stock. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. The trading price for all days prior to the completion of our reverse split and conversion of preferred stock into common stock has been adjusted to account for such events.

	Closing Bid Prices	
	High	Low
Year Ended December 31, 2010	(\$)	(\$)
First Quarter	16.20	2.16
Second Quarter	14.85	5.00
Third Quarter (no trading since August 24, 2010)	8.00	2.05
Year Ended December 31, 2009		
First Quarter (from March 30, 2009)	0.27	0.27
Second Quarter	1.62	0.27
Third Quarter	1.35	1.35
Fourth Quarter	1.35	1.35

## Approximate Number of Holders of Our Common Stock

As of September 1, 2010, there were approximately 275 stockholders of record of our common stock. This number does not include shares held by brokerage clearing houses, depositories or others in unregistered form.



## Dividend Policy

The holders of shares of our common stock are entitled to dividends out of funds legally available when and as declared by our board of directors. Our board of directors does not anticipate declaring a dividend in the foreseeable future. Should we decide in the future to pay dividends, as a holding company, our ability to do so and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiary and other holdings and investments. In addition, our operating subsidiary in the PRC, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions. Although none of our current loan agreements prohibit the payment of dividends, we cannot guarantee that any future loan agreements will permit such payments. Payments of dividends by QHS to our company are subject to the requirement that foreign invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business. Further, such remittances would require QHS to provide an application for remittance that includes, in addition to the application form, a foreign registration certificate, board resolution, capital verification report, audit report on profit and stock bonuses, and a tax certificate. In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to receive, ratably, the net assets available to shareholders after payment of all creditors. Additionally, QHS is required under PRC laws and regulations to allocate at least 10% of its annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reach 50% of its 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. See “Risk Factors – 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” and “- 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.”

## 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 and we do not have any outstanding stock options.

## Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

During the year ended December 31, 2009, we did not have any sales of securities that were not registered under the Securities Act of 1933, as amended.

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 Passalacqua, wife of the Company’s former director and former secretary Joseph Passalacqua.

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 Series A Convertible Preferred stock were received by Joseph Passalacqua in return for allowing certain debts of the Company to be assumed by DT

communications.

We issued securities on February 10 and 12, 2010 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.

On June 10, 2010, we effected a 1-for-27 reverse split of our outstanding common stock, which resulted in 8,100,000 shares of common stock being converted into 300,000 shares of common stock, representing 3% of our currently outstanding common stock. After the completion of the reverse split, shares of our Series A Preferred Stock automatically converted into shares of common stock on the basis of 1 share of Series A Preferred Stock for 970 shares of common stock. This resulted in the automatic conversion of the 10,000 outstanding shares of Series A Preferred Stock into 9,700,000 shares of common stock, constituting 97% of our currently outstanding common stock. The reverse split was conducted in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act. The shares were exchanged with existing security holders exclusively, and no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange. After taking effect of the reverse split and the automatic conversion of the Series A Preferred Stock into common stock, the Company had 275 shareholders immediately after the reverse split.

#### Purchases of Our Equity Securities

No repurchases of our common stock were made during the fourth quarter of our fiscal year ended December 31, 2009.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

##### Directors and Executive Officers

Prior to the consummation of the share exchange with Glory Reach, our board of directors consisted of three directors, Craig H. Burton, Joseph J. Passalacqua, and Joseph Meuse (the "Former Directors"). On February 12, 2010, the Former Directors submitted a letter of resignation and Tao Wang, Renwei Ma, and Lanhai Sun have been appointed to our board of directors (the "Directors"). The resignation of the Former Directors and appointment of the Directors both became effective on March 18, 2010.

##### Former Directors and Officers

Craig Burton, Mr. Burton served as President and director of Datone, Inc. from August 2000 until March 18, 2010. On February 12, 2010 Mr. Burton tendered his resignation as President of Datone. Mr. Burton attended the University of South Carolina-Coastal and was a licensed real estate agent in the State of New York. He began working in marketing for a long distance carrier in 1996 and in 1999, Mr. Burton became Director of Marketing for Datone Communications, Inc., an owner of payphones and distributor of prepaid calling cards. Datone was acquired by USIP in January, 2000. Mr. Burton served as President and a director of USIP.Com from January 2000-2006. Additionally, Mr. Burton was secretary and director of NB Telecom, Inc. from December 2005-2008.

Joseph J. Passalacqua, Mr. Passalacqua served as our secretary and director from August 2000 until March 18, 2010. On February 12, 2010 Mr. Passalacqua tendered his resignation as Secretary of Datone. Since 1999, Mr. Passalacqua has worked as a trainer at Sports Karate and fitness training company located in Cicero, New York. Mr. Passalacqua is a

high school graduate.

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Joseph Meuse, Mr. Meuse served as a director of Datone from January 25, 2010 through March 18, 2010. Mr. Meuse founded several companies in the financial services and securities industries, which he continues to operate. In 2002, Mr. Meuse founded PacWest Stock Transfer LLC and is a majority partner in Pacific Stock Transfer Company, an independent stock transfer agent that serves over 1,000 clients, including a number of publicly traded companies that do business in China. In 2003, Mr. Meuse founded Belmont Partners, LLC, an international financial consulting firm that provides public shell companies for use in reverse merger transactions. In 2006, Mr. Meuse founded Belmont Financial Services and Belmont IT Services, two companies that provide accounting and information technology services to small businesses in the Northern Virginia area. Additionally, Mr. Meuse maintains a position as a board member of the following public companies: Action Industries, Inc.; All State Properties Holdings, Inc.; Blue Gem Enterprise; Cinnabar Ventures, Inc.; Blue Fish Clothing, Inc.; Brite-Strike Tactical Illumination Productions, Inc.; Comprehensive Healthcare Solutions, Inc.; Contracted Services, Inc.; Firstar Exploration Corp.; Fresca Worldwide Trading Company; Geopulse Explorations, Inc.; Hudson's Grill International, Inc.; IDcentricx, Inc.; Intercontinental Resources, Inc.; Ivecon Corp.; Jamaica Jim, Inc.; Jasper Ventures, Inc.; King Resources, Inc.; Lions Petroleum, Inc.; Madrona Ventures, Inc.; Michael Lambert, Inc.; Miller Diversified Corp.; Network Capital, Inc.; Recycle Tech, Inc.; Rockport Healthcare Group; Shimmer Gold, Inc.; Smart Holdings, Inc.; SpectraSource, Inc.; 3DShopping.com, Inc.; Springfield Company, Inc.; Unidigital, Inc.; Volcanic Gold; WES Consulting, Inc.; XRG, Inc.; Yzapp International, Inc.; Data Storage Consulting Services, Inc.; Cienega Creek Holdings, Inc.; and Luke Entertainment, Inc. Mr. Meuse attended the College of William and Mary.

Fang Sui. Ms. Sui joined QHS in March 2003. She served as our chief financial officer until July 11, 2010. In 2000 she obtained a bachelor's degree from Jimo Telecommunication University. Ms. Sui is a qualified accountant in the PRC.

#### Current Board of Directors and Officers

Through July 11, 2010, Ms. Fang Sui served as our Chief Financial Officer, at which time she resigned from such role but continues to work with our company. From July 12, 2010 through present, Mr. Joseph Meuse has served as our Chief Financial Officer. Mr. Meuse has allocated to spend 15-20 hours per week towards the responsibilities as CFO. In conjunction with that, Mr. Meuse has recently implemented a schedule of weekly visits to the Company, one day a week with a minimum of 4 days per month. Our board of directors and executive officers are currently as listed below.

NAME	AGE	POSITION	SINCE
Tao Wang	39	Director and Chief Executive Officer	March 18, 2010
Renwei Ma	43	Director and Legal Representative of QHS	March 18, 2010
Joseph Meuse	40	Chief Financial Officer	
Wenmao Shi	39	Chief Operating Officer	
Lanhai Sun	39	Director	March 18, 2010

Each director serves for a term of one year expiring at the next annual shareholder meeting.

Tao Wang. Mr. Wang founded QHS in 2003 and has served as its chief executive officer since March 10, 2003. Mr. Wang served as our Chief Executive Officer and as Chairman of our Board of Directors since our inception. Before founding QHS, 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 China's footwear industry. We have selected Mr. Wang to serve as a director and as Chairman of the Board because he is our majority shareholder and has a rich background in the footwear industry.

Renwei Ma. Mr. Ma has been QHS' legal representative since the founding of QHS in March 2003, and was an initial investor in the Company. Prior to becoming QHS's legal representative, he was self-employed, and was engaged in various entrepreneurial endeavors in the footwear industry. In 1991 he obtained an associate's degree in marketing

from Yantai Trade and Industry University. We have selected Mr. Wang to serve as a director and as Chairman of the Board because he is our legal representative and a founding investor in the company.

Wenmao Shi. Mr. Shi has been served as our Chief Operating Officer since inception in 2003 and is responsible for QHS advertising, marketing and sales efforts. Prior to joining QHS, Mr. Shi was a director of sales at Qingdao Double Star Group, a leading PRC footwear manufacturer from July 1992 to February 2003. Mr. Shi has over 18 years of sales experience, and obtained a bachelors degree in economics in 1992 from Wuhan Southeast University of Economics and Law.

Lanhai Sun. Mr. Sun has been working as the Company's financial consultant since 2005, and he has invested in and owns several QHS outlets. He served as the general manager at Shandong Huibo Import & Export Co., Ltd. (2006 through 2008) and Qingdao Xingguang Import & Export Co., Ltd. (2009 through present) apparel trading companies, as well as serving as the CEO of SK Investment Group Ltd, a financial consulting firm (2008 through present). We have selected Mr. Sun to serve as a director because of his experience in financial consulting and pivotal role assisting with our listing in the United States.

#### 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	2008	8,088	3,676	11,764
	2009	8,088	3,676	11,764
Craig Burton, former President	2008	40,040	0	40,040
	2009	40,040	0	40,040

(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 Datone.

## 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 the shareholders of QHS. Upon the formation of QHS, Mr. Wang's salary was determined by Mr. Wang (as the majority shareholder) in conjunction with Renwei Ma, the legal representative of QHS. Business and living expenses as well as market rates were taken into consideration. Once we appoint directors to our compensation committee, our compensation committee will consider compensation decisions and will determine market-based salaries for officers and directors commensurate with their positions with our company.

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.

Employment Agreement – Craig Burton

We retained our previous president, Craig Burton, without an employment agreement. Mr. Burton served at will in this position until his resignation from the position on February 12, 2010. Mr. Burton received no compensation other than a cash salary of \$40,040 in each of 2008 and 2009 and received no payment in 2010.

#### Employment Agreement – Tao Wang

Effective February 12, 2010, we retained Mr. Wang to serve as Chief Executive Officer of Qingdao Footwear. Mr. Wang currently serves in this capacity without a written employment agreement. Mr. Wang has, however, served as the chief executive officer of QHS since March 10, 2003. Mr. Wang's employment agreement with QHS provides for an employment period beginning on March 11, 2003 and terminating on March 10, 2023. Mr. Wang's compensation is set by QHS and is expected to be between RMB 3,000 and RMB 10,000 (approximately \$440 to \$1,467) per month. In addition, Mr. Wang is eligible to receive such performance bonuses as QHS may determine. QHS is obligated to pay pension funds and applicable reserves and social insurance as may be required from time to time under Chinese law. Upon termination of employment, Mr. Wang is entitled only to those benefits as are required to be paid under Chinese law.

Under Chinese law, we may only terminate employment agreements without cause and without penalty by providing notice of non-renewal one month prior to the date on which the employment agreement is scheduled to expire. If we fail to provide this notice or if we wish to terminate an employment agreement in the absence of cause, then we are obligated to pay the employee one month's salary for each year we have employed the employee. We are, however, permitted to terminate an employee for cause without penalty to our company, where the employee has committed a crime or the employee's actions or inactions have resulted in a material adverse effect to us.

We anticipate that we will enter into a written employment agreement with Mr. Wang to serve as our chief executive officer and that such agreement will include customary terms, including confidentiality and non-competition language, and will be for a period of at least three years.

#### Employment Agreement – Joseph Meuse

Effective July 12, 2010, we retained Mr. Meuse to serve as our Chief Financial Officer. Pursuant to Mr. Meuse's employment agreement, his initial term of employment commenced on July 12, 2010 and will terminate on December 12, 2010. Mr. Meuse is to be compensated at a rate of \$10,000 per month throughout the initial term of employment plus an additional one time payment of 15,000 shares of our common stock.

#### Outstanding Equity Awards at Fiscal Year End

For the year ended December 31, 2009, no director or executive officer has received equity compensation from us pursuant to any compensatory or benefit plan. 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, 2009 and currently no compensation arrangements are in place for the compensation of directors.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

#### Transactions with Related Persons

The following includes a summary of transactions since the beginning of 2007, 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 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 that the Company expects to pay in the first quarter of 2010.

During year 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, 2009 and 2008, related party rent expense of \$17,593 and \$17,298, respectively, was included in total rent expense of the year. For the six months ended June 30, 2010 and 2009, related party rent expense of \$8,800 and \$8,794, 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, 2009 and 2008, the Company recorded other income of \$87,966 and \$57,660, respectively, from leasing the aforementioned building and advertising expense of the same amount respectively. For the six months ended June 30, 2010 and 2009, we recorded other income of \$44,007 and \$43,971 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. We intend to add independent directors in the near future.

#### Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years. Additionally, we are not a shell company for which control persons need be disclosed.

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.

DATONE, INC.

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

Date: November 4, 2010

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.

Signature	Capacity	Date
/s/ Tao Wang Tao Wang	Chief Executive Officer and Director (Principal Executive Officer)	November 4, 2010
/s/ Joseph Meuse Joseph Meuse	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and authorized representative in the United States	November 4, 2010
* Renwei Ma	Director	November 4, 2010
* Lanhai Sun	Director	November 4, 2010

\* By: /s/ Tao Wang  
Tao Wang, Attorney-in-Fact



PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Qingdao Footwear, Inc. (the “Company”) as of December 31, 2009 and 2008, and the related statements of operations, shareholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with 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 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 also 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of the Company referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Company restated its Balance Sheets, Statements 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 and 17.

/s/ MALONEBAILEY, LLP

MALONEBAILEY, LLP  
www.malonebailey.com  
Houston, Texas

April 16, 2010 (except for Notes 13 and 17 which are dated November 3, 2010)

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2009 AND 2008

	2009 (Restated)	2008 (Restated)
<b>ASSETS</b>		
Current assets		
Cash	\$ 61,131	\$ 118,534
Accounts receivable	98,962	3,534
Inventories	344,512	189,535
Prepaid expenses	57,311	58,490
Total current assets	561,916	370,093
Property, plant and equipment, net	930,451	602,831
Intangible assets	208,167	213,008
Total Assets	\$ 1,700,534	\$ 1,185,932
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Short-term loans	\$ 718,830	\$ 704,160
Accounts payable	15,727	546
Taxes payable	12,551,687	7,601,709
Due to related parties	117,360	-
Total current liabilities	13,403,604	8,306,415
Long-term debt	249,390	-
Total Liabilities	\$ 13,652,994	\$ 8,306,415
Shareholders' Equity		
Preferred stock, .0001 par value, 10,000,000 shares authorized, none issued and outstanding	-	-
Common shares, .0001 par value, 100,000,000 shares authorized, 9,700,000 shares issued and outstanding	970	970
Additional paid-in capital	319,510	319,510
Accumulated other comprehensive income	440,775	437,665
Retained deficits	(12,713,715)	(7,878,628)
Total Shareholders' Equity	\$ (11,952,460)	\$ (7,120,483)
Total Liabilities and Shareholders' Equity	\$ 1,700,534	\$ 1,185,932

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



QINGDAO FOOTWEAR, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Net sales	\$ 17,863,891	\$ 13,904,314
Cost of goods sold	10,162,778	8,246,592
Gross profit	7,701,113	5,657,722
Operating expenses:		
Selling, general and administrative expenses	907,807	759,470
Depreciation and Amortization Expense	61,838	55,360
Profit from operations	6,731,468	4,842,892
Other income (expense)		
Other income	87,966	57,660
Interest income	1,144	8,949
Interest (expense)	(61,792)	(61,905)
Income before income taxes	6,758,786	4,847,596
Income taxes	1,689,697	1,211,899
Net income	\$ 5,069,089	\$ 3,635,697
Net income per share - basic and diluted	\$ 0.52	\$ 0.37
Weighted average shares outstanding	9,700,000	9,700,000
Net income	\$ 5,069,089	\$ 3,635,697
Other comprehensive income		
Foreign currency translation	3,110	232,047
Comprehensive income	\$ 5,072,199	\$ 3,867,744

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, 2009 AND 2008

	2009 (Restated)	2008 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 5,069,089	\$ 3,635,697
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	61,838	55,360
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(95,428)	1,028
Inventories	(154,977)	246,700
Prepaid expenses	1,179	10,427
Accounts payable	15,180	(2,527)
Tax payable	4,949,978	3,800,000
Net cash provided by operating activities	9,846,859	7,746,685
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Advance to related party	(323)	-
Purchase of property and equipment	(384,332)	(37,944)
Net cash used in investing activities	(384,655)	(37,944)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distribution to shareholders	(9,786,817)	(7,660,033)
Proceeds from loans	1,701,720	850,860
Repayments on loans	(1,437,660)	(850,860)
Net cash used in financing activities	(9,522,757)	(7,660,033)
Effect of exchange rate changes on cash	3,150	35,218
Net increase (decrease) in cash	\$ (57,403)	\$ 83,926
Cash, beginning of year	118,534	34,608
Cash, end of year	\$ 61,131	\$ 118,534
<b>SUPPLEMENTARY DISCLOSURE:</b>		
Interest paid	\$ 61,792	\$ 61,905
Income tax paid	\$ 3,763	\$ 2,539

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

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(RESTATED)

	Common Stock	Additional Paid- in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
Balance, December 31, 2007	\$ 970	\$ 319,510	\$ 205,618	\$ (3,514,546)	\$ (2,988,448)
Distribution to shareholders	-	-	-	(7,999,779)	(7,999,779)
Net income	-	-	-	3,635,697	3,635,697
Foreign currency translation gain	-	-	232,047	-	232,047
Balance, December 31, 2008	\$ 970	\$ 319,510	\$ 437,665	\$ (7,878,628)	\$ (7,120,483)
Distribution to shareholders	-	-	-	(9,904,176)	(9,904,176)
Net income	-	-	-	5,069,089	5,069,089
Foreign currency translation gain	-	-	3,110	-	3,110
Balance, December 31, 2009	\$ 970	\$ 319,510	\$ 440,775	\$ (12,713,715)	\$ (11,952,460)

The accompanying notes are an integral part of these financial statements

QINGDAO FOOTWEAR, INC.  
NOTES TO FINANCIAL STATEMENTS

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. The Company operated as a wholly-owned subsidiary of USIP.COM, Inc. On August 24, 2006, USIP decided to spin-off its subsidiary companies, one of which was Datone, Inc. On February 1, 2008, Datone, Inc. filed a Form 10-SB registration statement. On November 13, 2008, Datone, Inc. went effective.

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 Qingdao Shoes, 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 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. 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. After the reverse merger, Datone, Inc 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, reverse merger is accounted for as a reverse merger with a shell company and as a recapitalization.

Glory Reach International Limited (the “Company”) 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 the Company. On February 8, 2010, also pursuant to the restructuring plan, the Company 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.

Since there is common control between the Glory Reach and Qingdao Shoes, for accounting purposes, the acquisitions of Qingdao Shoes has been treated as a recapitalization with no adjustment to the historical basis of their 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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, 2009 and 2008, and for the years ended

December 31, 2009 and 2008. 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, 2009 and 2008, 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.

#### 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, 2009 and 2008, the cumulative translation adjustment of \$440,775 and \$437,665 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, 2009 and 2008, other comprehensive income was \$3,110 and \$232,047, respectively.

#### 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 the 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, 2009 and 2008, 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 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 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.

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### 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.

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

### Land Use Rights

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.

### 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 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, 2009 and 2008.

### 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 costs are included in selling, general and administrative expenses, and these costs have been insignificant in all periods.

### Advertising Expense

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 \$87,966 and \$57,660 for the years ended December 31, 2009 and 2008, respectively.

#### Shipping and Handling

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

#### Store Opening Costs

Non-capital expenditures associated with opening new stores are expensed 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, 2009 and 2008.

## 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 \$3,038,726 and \$83,851, respectively, for the year ended December 31, 2009. VAT on sales and VAT on purchases amounted to \$2,405,548 and \$81,464, respectively, for the year ended December 31, 2008. 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:

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

1 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.

1 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, 2009 and 2008, 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 borrowings 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 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.

Recent Accounting Pronouncements

Fair Value Measurements and Disclosures (Included in ASC 820, previously FSP No. 157-4, “Determining Whether a Market is Not Active and a Transaction Is Not Distressed”). FSP No. 157-4 clarifies when markets are illiquid or that market pricing may not actually reflect the “real” value of an asset. If a market is determined to be inactive and market price is reflective of a distressed price then an alternative method of pricing can be used, such as a present value technique to estimate fair value. FSP No. 157-4 identifies factors to be considered when determining whether or not a market is inactive. FSP No. 157-4 would be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 and shall be applied prospectively. The adoption of this standard had no material effect on the Company's financial statements.

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Interim Disclosures about Fair Value of Financial Instruments (Included in ASC 825 “Financial Instruments”, previously FSP SFAS No. 107-1). This guidance requires that the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”, be included in interim financial statements. This guidance also requires entities to disclose the method and significant assumptions used to estimate the fair value of financial instruments on an interim and annual basis and to highlight any changes from prior periods. FSP 107-1 was effective for interim periods ending after September 15, 2009. The adoption of FSP 107-1 had no material impact on the Company’s financial statements.

Consolidation of Variable Interest Entities – Amended (To be included in ASC 810 “Consolidation”, previously SFAS 167 “Amendments to FASB Interpretation No. 46(R)”). SFAS 167 amends FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities,” to require an enterprise to perform an analysis to determine the primary beneficiary of a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity. SFAS 167 also requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise’s involvement in a variable interest entity. SFAS 167 is effective for the first annual reporting period beginning after November 15, 2009 and will be effective for us as of January 1, 2010. The management is in the process of evaluating the impact of adopting this standard on the Company’s financial statements.

FASB Accounting Standards Codification (Accounting Standards Update “ASU” 2009-1). In June 2009, the Financial Accounting Standard Board (“FASB”) approved its Accounting Standards Codification (“Codification”) as the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification is effective for interim or annual financial periods ending after September 15, 2009 and impacts our financial statements as all future references to authoritative accounting literature will be referenced in accordance with the Codification. There have been no changes to the content of our financial statements or disclosures as a result of implementing the Codification.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 (“ASC Update 2009-05”), an update to ASC 820, Fair Value Measurements and Disclosures. This update provides amendments to reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. Among other provisions, this update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the valuation techniques described in ASC Update 2009-05. ASC Update 2009-05 will become effective for the Company’s annual financial statements for the year ended December 31, 2009. The adoption of this standard had no material effect on the Company’s financial statements.

In October 2009, the FASB issued Accounting Standards Update, 2009-13, Revenue Recognition (Topic 605) “Multiple Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force”. This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. The management is in the process of evaluating the impact of adopting this standard on the Company’s financial statements.

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166,

Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140. The amendments in this Accounting Standards Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The management is in the process of evaluating the impact of adopting this standard on the Company's financial statements.

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In December, 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The management is in the process of evaluating the impact of adopting this standard on the Company's financial statements.

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The management is in the process of evaluating the impact of adopting this standard on the Company's financial statements.

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 Level 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, issuances, 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, issuances, 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.

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## NOTE 3 – INVENTORY

As of December 31, 2009 and 2008, inventory consists of the following:

	December 31, 2009	December 31, 2008
Finished goods	\$ 344,512	\$ 189,535
<b>Total inventory</b>	<b>\$ 344,512</b>	<b>\$ 189,535</b>

## NOTE 4 - PREPAID EXPENSES

As of December 31, 2009 and 2008, the prepaid expenses consisted of the following:

	December 31, 2009	December 31, 2008
Retail store rental prepayment	\$ 18,778	\$ 18,778
Prepaid to suppliers	38,533	39,712
<b>Total prepaid expenses</b>	<b>\$ 57,311</b>	<b>\$ 58,490</b>

## NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2009 and 2008, property, plant and equipment consisted of the following:

	December 31, 2009	December 31, 2008
Plant and building	\$ 1,096,639	\$ 731,918
Office furniture and equipment	24,789	12,304
Transportation equipment	155,763	148,314
<b>Total at cost</b>	<b>1,277,191</b>	<b>892,536</b>
Less: Accumulated depreciation	(346,740)	(289,705)
<b>Total property, plant and equipment, net</b>	<b>\$ 930,451</b>	<b>\$ 602,831</b>

Depreciation for the years ended December 31, 2009 and 2008 was \$57,000 and \$50,603 respectively.

## NOTE 6 - INTANGIBLE ASSETS

The Company obtained the right from the relevant PRC land authority for fifty years to use the land on which the office premises and warehouse of the Company are situated. As of December 31, 2009 and 2008, intangible assets consisted of the following:

December 31, 2009	December 31, 2008
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Cost of land use rights	\$	242,055	\$	242,055
Less: Accumulated amortization		(33,888)		(29,047)
Total intangible assets, net	\$	208,167	\$	213,008

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Amortization expense for the years ended December 31, 2009 and 2008 was \$4,838 and \$4,757 respectively.

#### NOTE 7 - SHORT TERM LOANS

Short-term loans are due to two financial institutions which are normally due within one year. As of December 31, 2009 and December 31, 2008, the Company's short term loans consisted of the following:

	December 31, 2009	December 31, 2008
Jimo Rural Cooperative Bank of Qingdao (JMRB), two 12-month bank loans both due in November 2009, bear interest at 10.85% average, secured by third parties and repaid in November 2009.	\$ -	\$ 293,400
Bank of Qingdao Jimo Branch (BOQ), 12-month bank loan due in September 2009, bears interest at 8.25% average, pledged by Company's building and land use right and repaid in August 2009.	-	410,760
JMRB, two 12-month bank loans both due in November 2010, bears annual interest at 7.965% average, secured by third parties	293,400	-
BOQ, 12-month bank loan due in September 2010, bears annual interest at 6.372% average, pledged by Company's building and land use right	425,430	-
<b>Total short-term debt</b>	<b>\$ 718,830</b>	<b>\$ 704,160</b>

The above indebtedness to JMRB at December 31, 2009 and 2008 has been guaranteed by two unrelated companies.

#### NOTE 8 – LONG TERM LOANS

On December 16, 2009, the Company entered into a 2-year loan agreement with JMRB. The Company borrowed \$249,390 with an annual interest rate equal to 7.02% and is due in December 2011. The loan is guaranteed by the relatives of Mr. Tao Wang, the CEO and major shareholder of the Company and is collateralized by the property of his relatives.

#### NOTE 9 - RELATED PARTY BALANCES AND TRANSACTIONS

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 31, 2009 and 2008 respectively, which represented the dividend payable to Mr. Renwei Ma, the shareholder of the Company.

#### 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 that the Company expects to pay in the first quarter of 2010.

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

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, 2009 and 2008, related party rent expense of \$17,593 and \$17,298, 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 year ended December 31, 2009 and 2008, the Company recorded other income of \$87,966 and \$57,660, respectively, from leasing the aforementioned building and advertising expense of the same amount respectively.

#### NOTE 10 – OPERATING LEASES

The Company leases store spaces under noncancelable operating leases expiring at various dates through 2013. Rent expense was \$90,165 and \$88,652 for the years ended December 31, 2009 and 2008, respectively.

Future minimum lease payments at December 31, 2009 are as follows:

Year:	
2010	86,647
2011	50,727
2012	8,797
2013	4,398
	\$ 150,569

#### NOTE 11 - INCOME TAX

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 2009 and 2008 respectively.

	2009	2008
Income before income taxes	\$ 6,758,786	\$ 4,847,596
Income taxes	\$ 1,689,697	\$ 1,211,899



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

The Company has no United States corporate income tax liabilities as of December 31, 2009 and 2008.

The following table reconciles the U.S. statutory corporate income rates to the Company's effective tax rate for the years ended December 31, 2009 and 2008:

	2009	2008
US statutory rates	34.0%	34.0%
Tax rate difference	(9.0)%	(9.0)%
Tax per financial statements	25.0%	25.0%

#### NOTE 12 – SHAREHOLDERS' EQUITY

During year 2009 and 2008, the Company distributed \$9,904,176 and \$7,999,779, respectively, to its two owners, Mr. Tao Wang and Mr. Renwei Ma.

#### NOTE 13 – COMMITMENTS AND CONTINGENCIES

##### Social insurance for employees

According to the prevailing laws and regulations of the PRC, the Company is required to cover its employees with medical, retirement and unemployment insurance programs. Management believes that due to the transient nature of its employees, the Company does not need to provide all employees with such social insurances, and has paid the social insurances for the Company's employees who have completed three months' continuous employment with the Company.

In the event that any current or former employee files a complaint with the PRC government, the Company may be subject to making up the social insurances as well as administrative fines. As the Company believes that these fines would not be material, no provision has been made in this regard.

##### Guarantees

As of December 31, 2009 and 2008, 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 7). If Company A and B default on the repayment of their bank loans when they fall 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 1,000,000 (\$293,400) and RMB 1,000,000 (\$146,700), respectively. As of December 31, 2008, the guarantee provided for the bank loans borrowed by Company A and B were approximately RMB 500,000 (\$73,350) and RMB 1,200,000 (\$176,040), respectively.

The guarantee period is from January 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 .

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 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 and 2008, the assumed amount was \$12,549,060 and \$7,599,595, respectively, 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. Please refer to the restatement footnote 17. According to PRC tax law, late or deficient tax payment could subject the Company to significant tax penalty.

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#### NOTE 14 - 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, 2009 and 2008 and believes its exposure to interest rate risk is not material.

#### NOTE 15 – CONCENTRATION

During the years ended December 31, 2009 and 2008, the sales generated by the Company's owned stores accounted for 15.6% and 15% of total sales, respectively.

#### NOTE 16 - SUBSEQUENT EVENTS

On February 12, 2010, the Company entered into and closed a Share Purchase and Exchange Agreement (the "Exchange Agreement") with Datone, Inc., a Delaware public shell company. Pursuant to the Exchange Agreement, Datone, Inc. acquired all of the outstanding shares of the Company. In exchange, Datone, Inc. issued to the Company shareholders, their designees or assigns, 10,000 shares of its Series A Preferred stock, which constituted 97% of its 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 Exchange Agreement. Therefore, the Company became a wholly-owned subsidiary of Datone, Inc. The share exchange resulted in a change in control of Datone, Inc. The transaction is deemed as a reverse merger and the Company is deemed as the accounting acquirer.

The Company obtained an eleven-month loan from JMRB in January 2010, with principal amount of \$440,100 bearing monthly interest of 0.66375% and matures in December 2010.

#### Series A Convertible Preferred Stock

The Company issued 10,000 shares of our Series A Preferred Stock in February 2010 related to the reverse merger.

Shares of Series A Preferred Stock had automatically convert into shares of common stock on the basis of one share of Series A Preferred Stock for 970 shares of common stock immediately subsequent to the effectiveness of a planned

1-for-27 reverse split of the Company's outstanding common stock, which had become effective on June 10, 2010. Upon the reverse split the 10,000 outstanding shares of Series A Preferred Stock had automatically convert into 9,700,000 shares of common stock, which constitutes 97% of the outstanding common stock of the Company subsequent to the reverse stock split.

Holders of Series A Preferred Stock vote with the holders of common stock on all matters on an as-converted to common stock basis, based on an assumed post 1-for-27 reverse split (to retroactively take into account the reverse stock split).

Following the effectiveness of the Reverse Stock Split and conversion of Series A Preferred Stock into common stock, there are approximately 10,000,000 shares of our common stock issued and outstanding and no shares of preferred stock issued and outstanding.

For accounting purposes, we treated the series A convertible preferred stock as being converted fully to common stock on a post reverse stock split basis.

#### 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 will reduce 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. On June 10, 2010, 27 shares of Common Stock had automatically been combined and changed into one share of common stock.

For accounting purposes, we treated the reverse stock split as being effective and all shares are retroactively restated to reflect the reverse stock split.

## NOTE 17 – RESTATEMENTS

Subsequent to the issuance of the Company's 2009 consolidated financial statements, the Company's management determined that corrections were required to the previously reported financial statements to reflect the Company as the primary obligor of the tax liabilities (including VAT liabilities and income tax liabilities). As a result, the consolidated balance sheets as of December 31, 2009 and 2008, the consolidated statements of cash flows for the years ended December 31, 2009 and 2008, and the consolidated statements of changes in owners' equity for the year ended December 31, 2009 and 2008 have been restated from the amounts previously reported. The restatement has no effect on operating income, net income or cash flows from operating activities.

The effects of the restatements are shown in the following tables.

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED BALANCE SHEETS

	2009 (Original)	Adjustment	2009 (Restated)
<b>ASSETS</b>			
Current assets			
Cash	\$ 61,131	\$	\$ 61,131
Accounts receivable	98,962		98,962
Inventories	344,512		344,512
Prepaid expenses	57,311		57,311
Total current assets	561,916		561,916
Property, plant and equipment, net	930,451		930,451
Intangible assets	208,167		208,167
Total Assets	\$ 1,700,534		\$ 1,700,534
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Short-term loans	\$ 718,830		\$ 718,830
Accounts payable	15,727		15,727
Taxes payable	2,627	12,549,060	12,551,687
Due to related parties	221,871	(104,511)	117,360
Total current liabilities	959,055	12,444,549	13,403,604
Long-term debt	249,390		249,390
Total Liabilities	\$ 1,208,445	12,444,549	\$ 13,652,994
Shareholders' Equity			
Preferred stock, .0001 par value, 10,000,000 shares authorized, none issued and outstanding	-		-
Common shares, .0001 par value, 100,000,000 shares authorized, 9,700,000 shares issued and outstanding	970		970
Additional paid-in capital	319,510		319,510

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Accumulated other comprehensive income	440,775		440,775
Retained deficits	(269,166)	(12,444,549)	(12,713,715)
Total Shareholders' Equity	\$ 492,089	(12,444,549)	\$ (11,952,460)
Total Liabilities and Shareholders' Equity	\$ 1,700,534	\$ -	\$ 1,700,534

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As a result of restatement of the consolidated balance sheet as of December 31, 2009, total liabilities increased from \$1,208,445 as originally reported, to \$13,652,994, an increase of \$12,444,549. The increase of total liabilities was derived from an increase of \$12,549,060 in taxes payable, and a decrease of \$104,511 in due to related parties.

The total stockholders' equity was restated from \$492,089 as originally reported, to (\$11,952,460), a decrease of \$12,444,549. The decrease of total stockholders' equity was derived from the increase in retained deficits due to a reclassification of the amount due from shareholder to stockholders' equity.

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED BALANCE SHEETS

	2008 (Original)	Adjustment	2008 (Restated)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	\$ 118,534	\$	\$ 118,534
Accounts receivable	3,534		3,534
Inventories	189,535		189,535
Prepaid expenses	58,490		58,490
Due from related parties	4,373,588	(4,373,588)	-
Total current assets	4,743,681	(4,373,588)	370,093
Property, plant and equipment, net	602,831		602,831
Intangible assets	213,008		213,008
<b>Total Assets</b>	<b>\$ 5,559,520</b>	<b>\$ (4,373,588)</b>	<b>\$ 1,185,932</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term loans	\$ 704,160	\$	\$ 704,160
Accounts payable	546		546
Taxes payable	2,114	7,599,595	7,601,709
Total current liabilities	706,820	7,599,595	8,306,415
<b>Total Liabilities</b>	<b>\$ 706,820</b>	<b>\$ 7,599,595</b>	<b>\$ 8,306,415</b>
<b>Shareholders' Equity</b>			
Preferred stock, .0001 par value, 10,000,000 shares authorized, none issued and outstanding	-		-
Common shares, .0001 par value, 100,000,000 shares authorized, 9,700,000 shares issued and outstanding	970		970
Additional paid-in capital	319,510		319,510
Accumulated other comprehensive income	437,665		437,665
Retained earnings (deficits)	4,094,555	(11,973,183)	(7,878,628)
<b>Total Shareholders' Equity</b>	<b>\$ 4,852,700</b>	<b>\$ (11,973,183)</b>	<b>\$ (7,120,483)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 5,559,520</b>	<b>\$ (4,373,588)</b>	<b>\$ 1,185,932</b>



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As a result of restatement of the consolidated balance sheet as of December 31, 2008, total assets decreased from \$5,559,520 as originally reported, to \$1,185,932, a decrease of \$4,373,588. The decrease of total assets was derived from the decrease of due from related parties from \$4,373,588 as originally reported to \$Nil.

Total liabilities increased from \$706,820 as originally reported, to \$8,306,415, an increase of \$7,599,595. The increase of total liabilities was derived from the increase in taxes payable from \$2,114 as originally reported to \$7,601,709.

The total stockholders' equity was restated from \$4,852,700 as originally reported, to (\$7,120,483), a decrease of \$11,973,183. The decrease of total stockholders' equity was derived from the increase in retained deficits due to a reclassification of the amount due from shareholder to stockholders' equity.

The total liabilities and stockholders' equity was restated from \$5,559,520 as originally reported, to \$1,185,932, a decrease of \$4,373,588.

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2009 (Original)	Adjustment	2009 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 5,069,089		\$ 5,069,089
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	61,838		61,838
Changes in operating assets and liabilities:			
Accounts receivable	(95,428)		(95,428)
Inventories	(154,977)		(154,977)
Prepaid expenses	1,179		1,179
Accounts payable	15,180		15,180
Tax payable	4,949,978		4,949,978
Net cash provided by operating activities	9,846,859		9,846,859
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Advance to related party	(5,723,550)	5,723,227	(323)
Purchase of property and equipment	(384,332)		(384,332)
Net cash used in investing activities	(6,107,882)	5,723,227	(384,655)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Distribution to shareholders	(4,063,590)	(5,723,227)	(9,786,817)
Proceeds from loans	1,701,720		1,701,720
Repayments on loans	(1,437,660)		(1,437,660)
Net cash used in financing activities	(3,799,530)	(5,723,227)	(9,522,757)
Effect of exchange rate changes on cash	3,150		3,150
Net decrease in cash	\$ (57,403)		\$ (57,403)
Cash, beginning of year	118,534		118,534
Cash, end of year	\$ 61,131		\$ 61,131



SUPPLEMENTARY DISCLOSURE:

Interest paid	\$ 61,792	\$ 61,792
Income tax paid	\$ 3,763	\$ 3,763

NON-CASH INVESTING AND FINANCING ACTIVITIES

Transfer of taxes payable to due from related party	\$ 4,949,466	\$ (4,949,466)	\$ -
Transfer of shareholder distribution to due from related party	\$ 5,251,860	\$ (5,251,860)	\$ -

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As a result of the restatement, the net cash used in investing activities decreased by \$5,723,227 from \$6,107,882 as originally reported, to \$384,655; the net cash used in financing activities increased by \$5,723,227 from \$3,799,530 as originally reported, to \$9,522,757; Transfer of taxes payable to due from related party decreased from \$4,949,466 as originally reported to \$Nil; Transfer of shareholder distribution to due from related party decreased from \$5,251,860 as originally reported to \$Nil.

QINGDAO FOOTWEAR, INC.  
CONSOLIDATED STATEMENTS OF CASH  
FLOWS

	2008 (Original)	Adjustment	2008 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 3,635,697	\$	\$ 3,635,697
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	55,360		55,360
Changes in operating assets and liabilities:			
Accounts receivable	1,028		1,028
Inventories	246,700		246,700
Prepaid expenses	10,427		10,427
Accounts payable	(2,527)		(2,527)
Tax payable	3,800,000		3,800,000
Net cash provided by operating activities	7,746,685		7,746,685
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Advance to related party	(5,785,433)	5,785,433	-
Purchase of property and equipment	(37,944)		(37,944)
Net cash used in investing activities	(5,823,377)	5,785,433	(37,944)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Distribution to shareholders	(1,874,600)	(5,785,433)	(7,660,033)
Proceeds from loans	850,860		850,860
Repayments on loans	(850,860)		(850,860)
Net cash used in financing activities	(1,874,600)	(5,785,433)	(7,660,033)
Effect of exchange rate changes on cash	35,218		35,218
Net increase in cash	\$ 83,926		\$ 83,926
Cash, beginning of year	34,608		34,608
Cash, end of year	\$ 118,534		\$ 118,534
<b>SUPPLEMENTARY DISCLOSURE:</b>			
Interest paid	\$ 61,905		\$ 61,905
Income tax paid	\$ 2,539		\$ 2,539

NON-CASH INVESTING AND FINANCING ACTIVITIES

Transfer of taxes payable to due from related party	\$ 3,799,872	\$(3,799,872)	\$ -
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As a result of the restatement, the net cash used in investing activities decreased by \$5,785,433 from \$5,823,377 as originally reported, to \$37,944; the net cash used in financing activities increased by \$5,785,433 from \$1,874,600 as originally reported, to \$7,660,033; Transfer of taxes payable to due from related party decreased from \$3,799,872 as originally reported to \$Nil.