

Qingdao Footwear, Inc.  
Form S-1/A  
August 03, 2010

As filed with the Securities and Exchange Commission on August 2, 2010

Registration No. 333-167003

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM S-1/A  
**Pre-Effective Amendment No.1**  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

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Qingdao Footwear, Inc.

(formerly Datone, Inc.)  
(Exact Name of Registrant as Specified in its Charter)

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Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

5661  
(Primary Standard Industrial  
Classification Code Number)

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

Qingdao Footwear, Inc.  
269 First Huashan Road  
Jimo City, Qingdao, Shandong, PRC  
86-0532-86595999

(Address, including zip code, and telephone number, including  
area code, of principal executive offices)

CT Corporation System  
4701 Cox Road, Suite 301  
Glen Allen, Virginia 23060  
(804) 217-7255

(Name, address, including zip code, and telephone  
number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 2, 2010

Qingdao Footwear, Inc.

Minimum Offering: 833,333 Shares of Common Stock  
 Maximum Offering: 1,000,000 Shares of Common Stock

We are offering a minimum of 833,333 and a maximum of 1,000,000 shares of the common stock of Qingdao Footwear, Inc. We expect that the offering price will be \$6.00 per share. None of our officers, directors or affiliates may purchase shares in this offering.

We are a reporting company under Section 13 of the Securities Exchange Act of 1934, as amended. Our common stock is currently quoted on the OTC Bulletin Board under the symbol "QING" (previously "DATI"). We have applied for approval for quotation of our common stock on the NASDAQ Capital Market under the symbol "FOOT". Although we have not yet been advised that our application has been approved, we will not complete this offering unless and until the NASDAQ Capital Market advises us that our common stock has been approved for listing upon the closing of this offering.

Investing in these shares of common stock involves significant risks. See "Risk Factors" beginning on page 12 of this prospectus.

	Per Share	Minimum Offering	Maximum Offering
Assumed public offering price	\$ 6.00	\$ 4,999,998	\$ 6,000,000
Underwriting discount	\$ 0.42	\$ 350,000	\$ 420,000
Proceeds to us, before expenses	\$ 5.58	\$ 4,649,998	\$ 5,580,000

We expect our total cash expenses for this offering to be approximately \$320,000, exclusive of the above commissions. In addition, we will pay the underwriter an accountable expense allowance of 1% of the amount of the offering, or \$60,000 (maximum offering, exclusive of shares registered under Rule 462(b)) or \$50,000 (minimum offering).

The offering will terminate upon the earlier of: (i) a date mutually acceptable to us and our underwriter after which the minimum offering is sold or (ii) December 31, 2010. The underwriter is required to use only its best efforts to sell the securities offered. The underwriter must sell the minimum number of securities offered (833,333 shares) if any are sold. Until we sell at least 833,333 shares, all investor funds will be held in an escrow account at SunTrust Bank, Richmond, Virginia. If we do not sell at least 833,333 shares by December 31, 2010, all funds will be promptly returned to investors (within one business day) without interest or deduction. If we complete this offering, net proceeds will be delivered to our company on the closing date. We will not be able to use such proceeds in China, however, until we complete certain remittance procedures in China. If we complete this offering, then on the closing date, we will issue shares of common stock to investors in the offering and underwriter warrants to our underwriter exercisable at a rate of one warrant per share to purchase up to 10% of the aggregate number of shares of common stock sold in this offering. We have registered these underwriter warrants and the shares of common stock underlying the underwriter warrants in connection with this offering.

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These securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Anderson & Strudwick,  
Incorporated

Prospectus dated           , 2010

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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

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.

- “shares” and “common stock” refer to our common stock, \$0.001 par value per share;
- “China” and “PRC” refer to the People’s Republic of China, excluding, for the purposes of this prospectus only, Macau, Taiwan and Hong Kong; and
- all references to “RMB,” “Renminbi” and “¥” are to the legal currency of China and all references to “USD,” “U.S. dollars,” “dollars,” and “\$” are to the legal currency of the United States.

For the sake of clarity, this prospectus follows English naming convention of first name followed by last name, regardless of whether an individual’s name is Chinese or English. For example, the name of our chief executive officer will be presented as “Tao Wang”, even though, in Chinese, Mr. Wang’s name would be presented as “Wang Tao.”

Unless otherwise indicated, all information in this prospectus assumes:

- no person will exercise any outstanding options;
- the sale of 1,000,000 shares of common stock, the maximum number of shares offered in this offering;
- an assumed public offering price of \$6.00 per share; and
- the completion of the one-for-twenty-seven (1-for-27) reverse split of the outstanding shares of our common stock and the conversion of all outstanding shares of our Series A Convertible Preferred Stock into shares of common stock at a rate of 970 shares of common stock per share of preferred stock, which became effective on June 10, 2010.

We have relied on statistics provided by a variety of publicly-available sources and research reports regarding China’s expectations of growth, China’s demand for footwear and China’s footwear industry. We did not, directly or indirectly, sponsor or participate in the publication of such materials; however, we did purchase certain previously published research reports.

In particular, we have relied on a September 2009 Industry Profile titled “Footwear in China” from Datamonitor for information related to China’s footwear industry. We have also relied on a July 2007 research report from Gobi International titled “World Statistical Market Forecast: Footwear.” In addition, we have relied on the China Statistical Yearbook for a variety of statistics regarding China’s demographics and economy.

## Prospectus Summary

This summary highlights information that we present more fully in the rest of this prospectus. This summary does not contain all of the information you should consider before buying shares in this offering. This summary contains forward-looking statements that involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “we believe,” “we intend,” “should,” “will,” “could,” and similar expressions denoting uncertainty or an action that may, will or is expected to occur in the future. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances or achievements expressed or implied by the forward-looking statements. You should read the entire prospectus carefully, including the “Risk Factors” section and the financial statements and the notes to those statements.

### Our Company

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 have increased in China, the demand for leather footwear has also grown.

Our principal business includes (1) designing and selecting designs for more than 200 unique styles of 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”). Our designs are on the whole targeted at consumers seeking business casual and formal leather shoes appropriate for an office setting. Approximately 60% of our revenues come from men’s footwear, with women’s footwear making up approximately 40% of our revenues. Similarly, approximately 60% of our revenues come from casual shoes, and approximately 40% of our revenues come from formal shoes.

We do not manufacture or assemble any shoes and instead outsource manufacturing to third parties. 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.

Our company is incorporated in the State of Delaware, but all of our business operations are conducted through our Hong Kong subsidiary, Glory Reach, and our Chinese subsidiary, QHS.

### Our Primary Geographic Market

#### 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)

#### Industry and Market Background

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) 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.



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. ("Footwear in China," [www.datamonitor.com](http://www.datamonitor.com))

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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 Sales Channels

We sell our footwear in three ways. First, we have 12 flagship stores, which bear our Hongguan brand name and exclusively sell our Hongguan footwear. Second, we have 11 third-party-operated retail outlets that we do not control but that exclusively sell our Hongguan footwear and that are branded as Hongguan stores. Third, our footwear is sold at 192 outlets managed by distributors, at which outlets other companies' footwear may also be sold. In the year ended December 31, 2009, revenues from flagship stores, third-party retail outlets and distributor stores constituted approximately 16%, 10% and 74% of our revenues. In the year ended December 31, 2008, revenues from flagship stores, third-party retail outlets and distributor stores constituted approximately 15%, 13% and 72% of our revenues.

## 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 to achieve our goal:

- (1) Continue our marketing and advertising campaigns in order to gain brand awareness.
- (2) Expand distributor and third party operator stores in prime locations to maximize profits.
- (3) Bring more self-owned stores online to increase higher margin sales.
- (4) Continue to strive for excellence in quality, customer service and design in order to attract new and retain repeat customers.
- (5) Leverage our growing purchasing power with manufacturers control costs.

The Offering

Shares Offered:	Minimum: 833,333 shares of common stock(1) Maximum: 1,000,000 shares of common stock(1)
Shares Outstanding Prior to Completion of Offering:	10,000,000 shares of common stock s
Shares to be Outstanding after Offering:	Minimum: 10,833,333 shares of common stock Maximum: 11,000,000 shares of common stock
Assumed Offering Price per Share:	\$6.00
Gross Proceeds:	Minimum: \$4,999,998 Maximum: \$6,000,000
Proposed NASDAQ Capital Market Symbol:	“FOOT” (CUSIP No. 23816A103)
Corporate Information:	Our principal executive office is located at 269 First Huashan Road, Jimo City, Qingdao, Shandong, People’s Republic of China. Our telephone number is (86) 0532-86595999. We do not maintain a corporate website at this time.
Transfer Agent:	Pacific Stock Transfer Company 4045 S. Spencer Street, Suite 403, Las Vegas, NV 89119
Risk Factors:	Investing in these securities involves a high degree of risk. As an investor, you should be able to bear a complete loss of your investment. You should carefully consider the information set forth in the “Risk Factors” section of this prospectus before deciding to invest in our shares of common stock.
Closing of Offering:	The offering contemplated by this prospectus will terminate upon the earlier of: (i) a date mutually acceptable to us and our underwriter after the minimum offering is sold or (ii) December 31, 2010. If we complete this offering, net proceeds will be delivered to our company on the closing date (such closing date being the above mutually acceptable date on or before December 31, 2010, provided the minimum offering has been sold). We will not complete this offering unless our application to list on the NASDAQ Capital Market is approved. We will not be able to use such proceeds in China, however, until we complete certain

remittance procedures in China. If we complete this offering, then on the closing date, we will issue shares to investors and underwriter warrants to our underwriter exercisable at a rate of one warrant per share to purchase up to 10% of the aggregate number of shares of common stock sold in this offering. We have registered these underwriter warrants and the shares of common stock underlying the underwriter warrants in connection with this offering.

## Summary Financial Information

In the table below, we provide you with summary financial data of our company. This information is derived from our consolidated financial statements included elsewhere in this prospectus. Historical results are not necessarily indicative of the results that may be expected for any future period. When you read this historical selected financial data, it is important that you read it along with the historical statements and notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

	For the Fiscal Year ended		For the three months ended	
	December 31,		March 31,	
	2009	2008	2010	2009
Gross profit	\$ 7,701,113	\$ 5,657,722	\$ 2,109,057	\$ 1,933,560
Income from Operations	\$ 6,731,468	\$ 4,842,892	\$ 1,388,331	\$ 1,701,880
Other Income (Expense)	\$ 27,318	\$ 4,704	\$ (819)	\$ 9,011
Income Taxes	\$ 1,689,697	\$ 1,211,899	\$ 457,531	\$ 427,723
Net Income	\$ 5,069,089	\$ 3,635,697	\$ 929,981	\$ 1,283,168
Other Comprehensive Income (loss)	\$ 3,110	\$ 232,047	\$ 341	\$ (6,705)
Comprehensive Income	\$ 5,072,199	\$ 3,867,744	\$ 930,322	\$ 1,276,463
Basic Earnings per Share (based on 10,000,000, 9,700,000, 9,700,000 and 9,700,000 shares outstanding, on March 31, 2010 and 2009, December 31, 2009 and 2008, respectively)(1)	\$ 0.52	\$ 0.37	\$ 0.09	\$ 0.13

	December 31,		March 31,
	2009		2010
	2008	(Unaudited)	
Total Assets	\$ 1,700,534	\$ 5,559,520	\$ 4,358,257
Total Liabilities	\$ 1,208,445	\$ 706,820	\$ 2,871,440
Shareholders’ Equity	\$ 492,089	\$ 4,852,700	\$ 1,486,817
Total Liabilities and Shareholders’ Equity	\$ 1,700,534	\$ 5,559,520	\$ 4,358,257

(1) We have presented earnings per share after giving retroactive effect to the 1-for-27 reverse share split of our common stock and the conversion of all shares of our Series A Convertible Preferred Stock into shares of common stock at a rate of 970 shares of common stock per share of preferred stock that was completed on or about June 10 2010.

## Risk Factors

Investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this prospectus before making an investment decision. The risks and uncertainties described below represent our known material risks to our business. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, you may lose all or part of your investment. You should not invest in this offering unless you can afford to lose your entire investment.

### Risks Related to our Business

We have a short operating history.

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

Some of our senior management lacks experience managing a public company and complying with laws applicable to operating as a U.S. public company.

Prior to the completion of this offering, Glory Reach and QHS completed a merger with Datone, Inc., the result of which was for Glory Reach and QHS to become wholly-owned subsidiaries of Datone, Inc., a U.S. public company. At the same time, however, the management of Datone resigned from its positions within Datone, Inc., and the management of Glory Reach became the management of our company. While the previous management of Datone, Inc. had experience in managing a U.S. publicly traded company, the management of Glory Reach did not. Prior to the completion of that merger, Glory Reach and QHS were operated as a private company located in China. While our chief financial officer has experience in working with U.S. public companies, some of our current senior management has experience managing a U.S. public company.

As a result of these transactions, our company will become subject to laws, regulations and obligations that did not previously apply to it, and our senior management currently has limited experience in complying with such laws, regulations and obligations. For example, we will need to comply with the Delaware laws applicable to companies that are domiciled in that state. By contrast, such senior management is currently experienced in operating the business of QHS in compliance with Chinese law. Similarly, by virtue of these transactions we will be required to file quarterly and annual reports and to comply with U.S. securities and other laws, which may not have applied to our company in the past. These obligations can be burdensome and complicated, and failure to comply with such obligations could have a material adverse effect on our company. In addition, we expect that the process of learning about such new obligations as a public company in the United States will require senior management to devote time and resources to such efforts that might otherwise be spent on the operation of the business of operating a footwear business.

While we have invited three independent directors (Troy Mao, Susan Woo and John Zhang) with experience in working with China-based companies listed in the United States to serve on our board and they have agreed to do so following the completion of this offering, these individuals do not currently serve on our board. Moreover, they will not join our board until the completion of this offering. These individuals will not review financial statements or otherwise exercise board oversight until they join our board of directors, so we will not benefit from their experience until after such completion.





We face risks related to general domestic and global economic conditions and to the current credit crisis.

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

Our business is subject to the health of the PRC economy and our growth may be inhibited by the inability of potential customers to fund purchases of our products and services.

Our products are dependent on the disposable income of PRC citizens, which could be adversely affected by an economic downturn. Because much of our target consumer group consists of office workers who have benefitted from growth in the PRC economy, we believe that a weakening of the Chinese economy would disproportionately and materially affect our company. First, such a weakening could hurt consumer spending generally. Second, to the extent our products would be seen as a luxury by such consumers, we would expect that demand for our products would be further weakened.

We may be unable to compete effectively in China's competitive footwear industry.

We face a variety of competitive challenges from other footwear retailers and wholesalers, including a number of competitors that have substantially greater financial and marketing resources than we do. We compete with other footwear retailers on the basis of:

- developing fashionable, high-quality merchandise in an assortment of sizes, colors and styles that appeals to our target consumers;
  - anticipating and responding to changing consumer demands in a timely manner;
  - ensuring product availability and optimizing supply chain effectiveness;
  - the pricing of our merchandise;
  - creating an acceptable value proposition for consumers;
  - providing an inviting, customer-friendly shopping environment; and
- using our sales staff to provide attentive, product knowledgeable customer service at our flagship locations.

Competition in the retail footwear industry has increased. Accordingly, there is substantial pressure on us to maintain the value proposition of our footwear and the convenience of our store locations. In addition, it is possible that our competitors will increase their investment in their retail footwear operations, thereby achieving greater market penetration and placing additional competitive pressures on our business. If we are unable to respond effectively to these competitive pressures, our business, results of operations and financial condition could be adversely affected.

A majority of our operating expenses at our flagship stores are fixed costs that are not directly dependent upon our sales performance. As a result, declines in our operating performance may be magnified if we are unable to reduce expenses in response to a sales shortfall.

A majority of our operating expenses at our flagship stores are fixed costs that are not directly dependent on our sales performance, as opposed to variable costs, which increase as sales volume increases. These fixed costs include the leasing and operating costs associated with our flagship stores and, because flagship stores require minimum staffing levels, the majority of our labor expenses. If our sales were to decline, we may be unable to reduce or offset these fixed operating expenses in the short term. Accordingly, the effect of any sales decline is likely to be magnified

because a larger percentage of our earnings are committed to paying these fixed costs. As a result, our net earnings and cash flow could be disproportionately negatively affected as a result of a decline in sales.

We may have insufficient liquidity and capital resources to meet our obligations as they become due.

As of March 31, 2010, we had cash and cash equivalents of \$378,219. These cash and cash equivalents consist primarily of cash on hand and demand deposits. We require substantial cash flow in order to fund our operations, to purchase stock or choose, to pay our lease obligations and employment obligations. The amount of cash and cash equivalents on hand is insufficient to pay such obligations. In the event our cash flow decreased or our receivables were paid more slowly than we expect, we might be unable to pay our obligations as they become due.

We may have unseasonable weather where our stores are concentrated.

We increase our inventory levels to support the increased demand for our products, as well as to offer styles particularly suited for the relevant season. If the weather conditions for a particular season vary significantly from those typical for such season, such as an unusually cold early summer or an unusually warm winter, consumer demand for the seasonally appropriate merchandise that we have available in our stores could be adversely affected and negatively affect our net sales and margins. Lower demand for seasonally appropriate merchandise may leave us with an excess inventory of our seasonally appropriate products and/or basic products, forcing us to sell both types of products at significantly discounted prices and adversely affecting our net sales margins and operating cash flow. Conversely, if weather conditions permit us to sell our seasonal product early in the season, this may reduce inventory levels needed to meet our customers' needs later in that same season. Consequently, our results of operations are highly dependent on potentially unpredictable weather conditions.

We may be unable to adjust to constantly changing fashion trends.

Our success depends, in large part, upon our ability to gauge the evolving fashion tastes of our consumers and to provide merchandise that satisfies such fashion tastes in a timely manner. China's footwear retailing industry fluctuates according to changing fashion tastes and seasons, and merchandise usually must be ordered in advance of the season, frequently before consumer fashion tastes are evidenced by consumer purchases. In addition, the cyclical nature of China's footwear retailing industry also requires us to maintain substantial levels of inventory, especially prior to peak selling seasons when we build up our inventory levels. As a result, if we fail to properly gauge the fashion tastes of consumers, or to respond in a timely manner, this failure could adversely affect consumer acceptance of our merchandise and leave us with substantial unsold inventory. If that occurs, we may be forced to rely on markdowns or promotional sales to dispose of excess, slow-moving inventory, which would negatively impact financial results.

The results of our wholesale businesses are also affected by the buying plans of our customers, which include footwear retailers. No customer accounts for 10% or more of our wholesale business. Our wholesale customers may not inform us of changes in their buying plans until it is too late for us to make the necessary adjustments to our product lines and marketing strategies. While we believe that purchasing decisions in many cases are made independently by individual stores or chains, we are exposed to decisions by the controlling owner of a store chain that could decrease the amount of footwear products purchased from us. In addition, the retail industry periodically experiences consolidation. We face a risk that our wholesale customers may consolidate, restructure, reorganize or otherwise realign in ways that could decrease the number of stores that carry our products or the amount of shelf space devoted to our products. We also face a risk that our wholesale customers could develop in-house brands or utilize the private labeling of footwear products, which would negatively impact financial results.

We may be unsuccessful in opening new stores or relocating existing stores to new locations, adversely affecting our ability to grow.

Our growth, in part, is dependent upon our ability to expand our retail operations by opening and operating new stores, as well as relocating existing stores to new locations, on a profitable basis.

Our ability to open new stores and relocate existing stores to new locations on a timely and profitable basis is subject to various contingencies, some of which are beyond our control. These contingencies include our ability to:

- - locate suitable store sites;
  - negotiate acceptable lease terms;
- build-out or refurbish sites on a timely and cost effective basis;
- hire, train and retain qualified managers and personnel;
- identify long-term shopping patterns;
- obtain adequate capital resources; and
- successfully integrate new stores into our existing operations.

We may be unsuccessful in opening new stores or relocating existing stores for any of these reasons. In addition, we cannot assure you that, even if we are successful in opening new stores or relocating existing stores, those stores will achieve levels of sales and profitability comparable to our existing stores.

In order to grow at the pace expected by management, we will require additional capital to support our long-term growth strategies. If we are unable to obtain additional capital in future years, we may be unable to proceed with our plans and we may be forced to curtail our operations.

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

We rely on third parties to manufacture and distribute our products.

We depend on contract manufacturers to manufacture the merchandise that we sell. If these contract manufacturers are unable to secure sufficient supplies of raw materials, or maintain adequate manufacturing and shipping capacity, they may be unable to provide us with timely delivery of products of acceptable quality. In addition, if the prices charged by these contractors increase for reasons such as increases in the price of raw materials, increases in labor costs or currency fluctuations, our cost of manufacturing would increase, adversely affecting our results of operations. We also depend on third parties to transport and deliver our products. Due to the fact that we do not have any independent transportation or delivery capabilities of our own, if these third parties are unable to transport or deliver our products for any reason, or if they increase the price of their services, including as a result of increases in the cost of fuel, our operations and financial performance may be adversely affected.

We require our contract manufacturers to meet our standards in terms of working conditions and other matters before we are willing to contract with them to manufacture our merchandise. As a result, we may not be able to obtain the lowest possible manufacturing costs. In addition, any failure by our contract manufacturers to meet these standards, to adhere to labor or other laws or to diverge from our mandated labor practices, and the potential negative publicity relating to any of these events, could harm our business and reputation.

We do not have long-term agreements with any of our contract manufacturers, and any of these manufacturers may unilaterally terminate their relationship with us at any time. There is also substantial competition among footwear retailers for quality manufacturers. To the extent we are unable to secure or maintain relationships with quality manufacturers, our business could be harmed.

If we are unable to attract and retain senior management and qualified technical and sales personnel, our operations, financial condition and prospects will be materially adversely affected.

Our future success depends in part on the contributions of our management team and key technical and sales personnel and our ability to attract and retain qualified new personnel. In particular, our success depends on the continuing employment of our Chief Executive Officer, Mr. Tao Wang, our Chief Operating Officer, Shi Wenmao;

and our Chief Financial Officer, Mr. Joseph Meuse. There is significant competition in our industry for qualified managerial, technical and sales personnel and we cannot assure you that we will be able to retain our key senior managerial, technical and sales personnel or that we will be able to attract, integrate and retain other such personnel that we may require in the future. If we are unable to attract and retain key personnel in the future, our business, operations, financial condition, results of operations and prospects could be materially adversely affected.

We do not carry business interruption or other insurance, so we have to bear losses ourselves.

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

A major failure of our information systems could harm our business.

We depend on information systems to process transactions, manage inventory, purchase, sell and ship goods on a timely basis, and maintain cost-efficient operations. Any material disruption or slowdown of our systems could cause information to be lost or delayed, which could have a negative effect on our business. We may experience operational problems with our information systems as a result of system failures, viruses, computer “hackers” or other causes. We cannot be assured that our systems will be adequate to support future growth.

Our quarterly operating results are likely to fluctuate, which may affect our stock price.

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

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

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

Our limited ability to protect our intellectual property, and the possibility that our technology could inadvertently infringe technology owned by others, may adversely affect our ability to compete.

We believe that our trademarks and other intellectual property are important to our business and are generally sufficient to permit us to carry on our business as presently conducted. We cannot, however, know whether we will be able to secure protection for our intellectual property in the future or whether that protection will be adequate for future products.

We rely on a combination of trade secret laws and confidentiality procedures to protect the patents, copyrights and technological know-how that comprise our intellectual property. We protect our technological know-how pursuant to non-disclosure and non-competition provisions contained in our employment agreements, and agreements with them to keep confidential all information relating to our customers, methods, business and trade secrets during and after their employment with us. Our employees are also required to acknowledge and recognize that all inventions, trade secrets, works of authorship, developments and other processes made by them during their employment are our property. We have been granted the use of brand name “Hongguan” (sometimes presented as “HonGung”).

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



Our business may be subject to seasonal and cyclical fluctuations in sales.

We may experience seasonal fluctuations in our revenue in some regions in the PRC, based on the seasonal changes in the weather and the tendency of customers to make purchases relating to their apparel suitable for the time of year. Any seasonality may cause significant pressure on us to monitor the development of materials accurately and to anticipate and satisfy these requirements. Our revenues are usually higher in the fourth and first quarters due seasonal purchases. This seasonality limits our ability to make accurate long-term predictions about our performance and makes it difficult to compare our revenues across quarters.

#### Risks Related to Doing Business in China

Changes in China's political or economic situation could harm us and our operating results.

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

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

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

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

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

You may have difficulty enforcing judgments against us, as almost all of our assets and all of our officers and directors are located outside the United States.

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

The PRC government exerts substantial influence over the manner in which we must conduct our business activities.

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

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

Future inflation in China may inhibit our ability to conduct business in China.

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

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

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

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

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

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

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

Restrictions under PRC law on our PRC subsidiary's ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses.

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

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially adversely affect us.

In October 2005, SAFE, issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75, which required PRC residents to register with the competent local SAFE branch before establishing or acquiring control over an offshore special purpose company, or SPV, for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines issued by SAFE, which became public in June 2007 (known as Notice 106), expanded the reach of Circular 75 by (1) purporting to cover the establishment or acquisition of control by PRC residents of offshore entities which merely acquire "control" over domestic companies or assets, even in the absence of legal ownership; (2) adding requirements

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

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

Our business and financial performance may be materially adversely affected if the PRC regulatory authorities determine that our acquisition of QHS constitutes a Round-trip Investment without MOFCOM approval.

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

The general manager of QHS, our chief executive officer, Mr. Tao Wang, as a PRC citizen, entered into a option agreement ("Incentive Option Agreement") and an entrustment agreement ("Entrustment Agreement") with Renhuan Shi, a Korean passport holder. Mr. Shi currently holds all of the equity of Swift Dynamic Limited ("Swift Dynamic"), the majority shareholder of Glory Reach. This equity is held by a non-Chinese citizen in order to comply with Chinese law. Shi is obligated under the terms of the Incentive Option Agreement to transfer the equity of Swift Dynamic to Mr. Wang in the event Mr. Wang exercises his option to purchase such equity after such option vests. Vesting will occur at a rate of 1/3 per year for the next three years so long as our company meets revenue targets of RMB95,200,000 in 2009 (approximately \$13,965,907), RMB96,150,000 in 2010 (approximately \$14,105,282) and RMB97,100,000 in 2011 (approximately \$14,244,638) and Mr. Wang has been retained as our chief executive officer and a director of our company for at least three years. In connection with the Incentive Option Agreement, Mr. Shi may not transfer the equity of Swift Dynamic other than to Mr. Wang or Mr. Wang's designees. Under the terms of the Entrustment Agreement, Mr. Shi has granted to Mr. Wang the right to control the voting of Swift Dynamic. Because of the rights granted to Mr. Wang under these agreements, Mr. Wang is deemed the beneficial owner.

After Mr. Wang exercises this option, he will, through his ownership of Swift Dynamic, be our controlling stockholder. His acquisition of our equity interest, or the Acquisition, is required to be registered with the competent Administration of Industry and Commerce authorities, or AIC, in Beijing. Mr. Wang will also be required to make filings with the SAFE to register the Company and its non-PRC subsidiaries to qualify them as SPVs, pursuant to Circular 75 and Circular 106.



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

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

If we make equity compensation grants to persons who are PRC citizens, they may be required to register with the State Administration of Foreign Exchange of the PRC, or SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt an equity compensation plan for our directors and employees and other parties under PRC law.

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

Under the New EIT Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.



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

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

We may be deemed to be a resident enterprise by Chinese tax authorities. If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on financing proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the New EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as “tax-exempt income,” we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares. We are actively monitoring the possibility of “resident enterprise” treatment for the 2009 tax year.

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

We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption laws, and any determination that we violated these laws could have a material adverse effect on our business.

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

Risks Associated with this Offering

We must remit the offering proceeds to China before they may be used to benefit our business in China, and this process may take a number of months.

The proceeds of this offering must be sent back to the PRC, and the process for sending such proceeds back to the PRC may take several months after the closing of this offering. We may be unable to use these proceeds to grow our business until we receive such proceeds in the PRC. In order to remit the offering proceeds to China, we will take the following actions:

First, we will open a special foreign exchange account for capital account transactions. To open this account, we must submit to SAFE certain application forms, identity documents, transaction documents, form of foreign exchange registration of overseas investments of the domestic residents, and foreign exchange registration certificate of the invested company.

- Second, we will remit the offering proceeds into this special foreign exchange account.

Third, we will apply for settlement of the foreign exchange. In order to do so, we must submit to SAFE certain application forms, identity documents, payment order to a designated person, and a tax certificate.

The timing of the process is difficult to estimate because the efficiencies of different SAFE branches can vary materially. Ordinarily the process takes several months but is required to be accomplished within 180 days of application by law.

You will experience immediate and substantial dilution upon completion of this offering.

The offering price of our shares is expected to be substantially higher than the pro forma net tangible book value per share of our common stock. Assuming the completion of the minimum offering, if you purchase shares in this offering, you will incur immediate dilution of approximately \$5.49 in the pro forma net tangible book value per share from the price per share that you pay for the shares. Assuming the completion of the maximum offering, if you purchase shares in this offering, you will incur immediate dilution of approximately \$5.41 in the pro forma net tangible book value per share from the price per share that you pay for the common shares. Accordingly, if you purchase shares in this offering, you will incur immediate and substantial dilution of your investment.

Provisions in our Certificate of Incorporation and Bylaws or Delaware law might discourage, delay or prevent a change of control of us or changes in our management and, therefore depress the trading price of the common stock.

Our certificate of incorporation authorizes our board of directors to issue up to 10,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the board of directors without further action by stockholders. These terms may include preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of our board of directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change-in-control, which in turn could prevent our stockholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our common stock.

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

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

We do not intend to pay dividends for the foreseeable future.

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

Our controlling stockholder holds a significant percentage of our outstanding voting securities, which could hinder our ability to engage in significant corporate transactions without his approval.

Swift Dynamic, which is run by Mr. Tao Wang, is the beneficial owner of approximately 63% of our outstanding voting securities. As a result, Swift Dynamic and Mr. Tao Wang possess significant influence, giving them the ability, among other things, to elect a majority of our board of directors and to authorize or prevent proposed significant corporate transactions. Their ownership and control may also have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discourage a potential acquirer from making a tender offer.

Since public trading in our common stock is limited and sporadic, there can be no assurance that our stockholders will be able to liquidate their holdings of our common stock.

Our common stock price is currently quoted on the OTC Bulletin Board under the symbol “QING” (previously “DATI”). However, trading has been limited and sporadic and we can provide no assurance that the market for our common stock will be sustained. We cannot guarantee that any stockholder will find a willing buyer for our common stock at any price, much less a price that will result in realizing a profit on an investment in our shares. There may be limited opportunity for stockholders to liquidate any of their holdings in common stock of the Company. Trading volume may be insignificant and stockholders may be forced to hold their investment in Company shares for an extended period of time. The lack of liquidity may also cause stockholders to lose part or all of their investment in our common stock.

Since public trading in our common stock is limited and sporadic, the market price of our common stock may be subject to wide fluctuations.

There is currently a limited public market for our common stock and we can provide no assurance that the market for our common stock will be sustained. If a market is sustained, however, we anticipate that the market price of our common stock will be subject to wide fluctuations in response to several factors, including:

- (1) actual or anticipated variations in our results of operations;
- (2) our ability or inability to generate new revenues;
- (3) increased competition; and
- (4) conditions and trends in the shoe industry.

Further, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations, may adversely affect the market price of our common stock.

An active, liquid trading market for our common stock may not develop following this offering.

Although we have applied for listing of our common stock on the NASDAQ Capital Market, investors will commit funds prior to the commencement of trading on the NASDAQ Capital Market. An active trading market for our common stock may not develop or be sustained following this offering. You may not be able to sell your shares at the market price, if at all, if trading in our shares is not active. The offering price was determined by negotiations between us and the underwriter based upon a number of factors. The public offering price may not be indicative of prices that will prevail in the trading market.

Investors risk loss of use of funds allocated for purchases, with no right of return, during the offering period.

We cannot assure you that all or any shares will be sold. Anderson & Strudwick, our underwriter, is offering our shares on a “best efforts, minimum-maximum basis.” We have no firm commitment from anyone to purchase all or any of the shares offered. If offers to purchase a minimum of 833,333 shares are not received on or before December 31, 2010, escrow provisions require that all funds received be promptly refunded. If refunded, investors will receive no interest on their funds. During the offering period, investors will not have any use or right to return of the funds. None of our officers, directors or affiliates may purchase shares in this offering.

The market price for our common stock may be volatile, which could result in substantial losses to investors.

The market price for our common stock is likely to be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in the Chinese economy;
- announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel; or
- potential litigation.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. As a result, to the extent shareholders sell our shares in negative market fluctuation, they may not receive a price per share that is based solely upon our business performance. We cannot guarantee that shareholders will not lose some of their entire investment in our common stock.

If our financial condition deteriorates, we may not meet initial objective listing standards related to net income on the NASDAQ Capital Market (or, if we are listed at such time, continued listing standards) and our shareholders could find it difficult to sell our shares.

We have applied to list our common stock for trading on the NASDAQ Capital Market. We have not yet been informed that our common stock will trade on the NASDAQ Capital Market and can provide no assurance that our NASDAQ Capital Market listing application will be approved. Additionally, we will not complete this offering unless our application to list on the NASDAQ Capital Market is approved. In order to qualify for initial listing on the NASDAQ Capital Market upon the completion of this offering, we must meet the following criteria:

- (i) We must have been in operation for at least two years, must have shareholder equity of at least \$5,000,000 and must have a market value for our publicly held securities of at least \$15,000,000; or (ii) we must have shareholder equity of at least \$4,000,000, must have a market value for our publicly held securities of at least \$15,000,000 and must have a market value of our listed securities of at least \$50,000,000; OR (iii) we must have net income from continuing operations in our last fiscal year (or two of the last three fiscal years) of at least \$750,000, must have shareholder equity of at least \$4,000,000 and must have a market value for our publicly held securities of at least \$5,000,000; and
  - The market value of our shares held by non-affiliates must be at least \$1,000,000;
  - The market value of our shares must be at least \$5,000,000;
  - The minimum bid price for our shares must be at least \$4.00 per share;
  - We must have at least 300 round-lot shareholders;
  - We must have at least 3 market makers; and
- We must have adopted NASDAQ-mandated corporate governance measures, including a Board of Directors comprised of a majority of independent directors, an Audit Committee comprised solely of independent directors and the adoption of a code of ethics among other items.

As to the first objective listing requirement, we have applied for listing on the NASDAQ Capital Market in reliance on the third test (“net income from continuing operations in our last fiscal year (or two of the last three fiscal years) of at least \$750,000, must have shareholder equity of at least \$4,000,000 and must have a market value for our publicly held securities of at least \$5,000,000”). While our net income for 2009 and 2008 satisfied this objective requirement, a deterioration in our financial status combined with a protracted registration and offering period could cause us to fail to meet this requirement.



The NASDAQ Capital Market also requires companies to fulfill specific requirements in order for their shares to continue to be listed. In order to qualify for continued listing on the NASDAQ Capital Market, we must meet the following criteria:

• Our shareholders' equity must be at least \$2,500,000; or the market value of our listed securities must be at least \$35,000,000; or our net income from continuing operations in our last fiscal year (or two of the last three fiscal years) must have been at least \$500,000;

- The market value of our shares held by non-affiliates must be at least \$500,000;
- The market value of our shares must be at least \$1,000,000;

- The minimum bid price for our shares must be at least \$1.00 per share;
  - We must have at least 300 shareholders;
  - We must have at least 2 market makers; and
- We must have adopted NASDAQ-mandated corporate governance measures, including a Board of Directors comprised of a majority of independent directors, an Audit Committee comprised solely of independent directors and the adoption of a code of ethics among other items.

Although we have applied to have our common stock trade on the NASDAQ Capital Market upon closing of this offering, investors should be aware that they will be required to commit their investment funds prior to the approval or disapproval of our listing application by the NASDAQ Capital Market. We will not close this offering unless our listing application is approved. If our shares are delisted from the NASDAQ Capital Market at some later date, our shareholders could find it difficult to sell our shares.

In addition, we have relied on an exemption to the blue sky registration requirements afforded to “covered securities”. Securities listed on the NASDAQ Capital Market are “covered securities.” If we were unable to meet the NASDAQ Capital Market’s listing standards, then we would be unable to rely on the covered securities exemption to blue sky registration requirements and we would need to register the offering in each state in which we planned to sell shares. Consequently, we will not complete this offering unless we meet the NASDAQ Capital Market’s listing requirements.

In addition, if our common stock is delisted from the NASDAQ Capital Market at some later date, we may apply to have our common stock quoted on the Bulletin Board or in the “pink sheets” maintained by the National Quotation Bureau, Inc. The Bulletin Board and the “pink sheets” are generally considered to be less efficient markets than the NASDAQ Capital Market. In addition, if our common stock is not so listed or is delisted at some later date, our common stock may be subject to the “penny stock” regulations. These rules impose additional sales practice requirements on broker-dealers that sell low-priced securities to persons other than established customers and institutional accredited investors and require the delivery of a disclosure schedule explaining the nature and risks of the penny stock market. As a result, the ability or willingness of broker-dealers to sell or make a market in our common stock might decline. If our common stock is not so listed or is delisted from the NASDAQ Capital Market at some later date or were to become subject to the penny stock regulations, it is likely that the price of our shares would decline and that our shareholders would find it difficult to sell their shares.

Shares eligible for future sale may adversely affect the market price of our common stock, as the future sale of a substantial amount of outstanding common stock in the public marketplace could reduce the price of our common stock.

The market price of our shares could decline as a result of sales of substantial amounts of our shares in the public market, or the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future offerings of our common stock. An aggregate of 10,000,000 shares will be outstanding before the consummation of this offering and 11,000,000 shares will be outstanding immediately after this offering, if the maximum offering is raised. All of the shares sold in the offering will be freely transferable without restriction or further registration under the Securities Act. The remaining shares will be “restricted securities” as defined in Rule 144. These shares may be sold in the future without registration under the Securities Act to the extent permitted by Rule 144 or other exemptions under the Securities Act. See “Shares Eligible for Future Sale.”

We have not determined a specific use for a significant portion of the proceeds from this offering, and we may use the proceeds in ways with which you may not agree.

Our management will have considerable discretion in the application of the net proceeds received by us. We have allocated 10% of the net proceeds from this offering to working capital. In addition, in the event we are unable to

locate favorable locations for additional sales points, we have reserved the right to re-allocate funds currently allocated to that purpose to our general working capital. If that were to happen, then our management would have significant discretion over even more of the net proceeds to be received by our company in this offering. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our efforts to achieve profitability or increase our stock price. The net proceeds from this offering may be placed in investments that do not produce income or that lose value. See “Use of Proceeds.”

Entities controlled by our employees, officers and/or directors will control a majority of our common stock, decreasing your influence on shareholder decisions.

Assuming the sale of the maximum offering, entities controlled by our employees, officers and/or directors will, in the aggregate, beneficially own approximately 60% of our outstanding shares, including those shares owned by our current director, Lanhai Sun, who is expected to resign upon completion of the offering. Assuming the sale of the minimum offering, entities controlled by our employees, officers and/or directors will, in the aggregate, beneficially own approximately 61% of our outstanding common stock, including those shares owned by our current director, Lanhai Sun, who is expected to resign upon completion of the offering. As a result, our employees, officers and directors will possess substantial ability to impact our management and affairs and the outcome of matters submitted to shareholders for approval. These shareholders, acting individually or as a group, could exert control and substantial influence over matters such as electing directors and approving mergers or other business combination transactions. This concentration of ownership and voting power may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our common stock. These actions may be taken even if they are opposed by our other shareholders, including those who purchase shares in this offering. See “Principal Shareholders.”

We will have an ongoing relationship with our underwriter that may impact our ability to obtain additional capital.

In connection with this offering, we will, for a nominal amount, sell our underwriter warrants exercisable at a rate of one warrant per share to purchase up to ten percent of the shares sold in the offering. We have registered these underwriter warrants and the shares of common stock underlying the underwriter warrants in connection with this offering. These warrants are exercisable for a period of five years from the effective date at a price equal to 120% of the price of the shares in this offering. During the term of the warrants, the holders thereof will be given the opportunity to profit from a rise in the market price of our common stock, with a resulting dilution in the interest of our other shareholders. The term on which we could obtain additional capital during the life of these warrants may be adversely affected because the holders of these warrants might be expected to exercise them when we are able to obtain any needed additional capital in a new offering of securities at a price greater than the exercise price of the warrants. See “Underwriting.”

### Forward-Looking Statements

We have made statements in this prospectus, including under “Prospectus Summary,” “Risk Factors,” “Capitalization,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Our Business” and elsewhere that constitute forward-looking statements. Forward-looking statements involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “we intend,” “may,” “should,” “will,” “could” and similar expressions denoting uncertainty or an action that may, will or is expected to occur in the future. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances or achievements expressed or implied by the forward-looking statements.

Examples of forward-looking statements include:

- the timing of the development of future products;
- projections of revenue, earnings, capital structure and other financial items;
- the development of future company-owned and franchised stores;
- statements of our plans and objectives;
- statements regarding the capabilities of our business operations;
- statements of expected future economic performance;
- statements regarding competition in our market; and
- assumptions underlying statements regarding us or our business.

The ultimate correctness of these forward-looking statements depends upon a number of known and unknown risks and events. We discuss our known material risks under the heading “Risk Factors” above. Many factors could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Consequently, you should not place undue reliance on these forward-looking statements.

The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

## Use of Proceeds

After deducting the estimated underwriting discount and offering expenses payable by us, we expect to receive net proceeds of approximately \$4,279,998 from this offering if the minimum offering is sold and \$5,200,000 if the maximum offering is sold. The net proceeds from this offering must be remitted to China before we will be able to use the funds to grow our business. The procedure to remit funds may take several months after completion of this offering, and we will be unable to use the funds in China until remittance is completed. See “Risk Factors – We must remit the offering proceeds to China before they may be used to benefit our business in China, and this process may take a number of months.”

We intend to use the net proceeds of this offering as follows after we complete the remittance process, and we have ordered the specific uses of proceeds in order of priority. We do not expect that our priorities for fund allocation would change if the amount we raise in this offering exceeds the size of the minimum offering but is less than the maximum offering.

Description of Use	Percentage of Net Proceeds
Increase the number of sales points	50%
Advertising	20%
Increase inventory	20%
Working capital	10%
Total	100%

We anticipate using one-half of the proceeds of this offering to increase the number of sales points for our products. We currently sell our products through distributors, flagship stores and third-party operators, and we believe it is important to our growth strategy to continue to expand the number of locations our products are available in our area of competition. We have focused our efforts on growing our sales in Shandong province generally and Qingdao city in particular, and we expect to devote much of the proceeds from this offering to increasing the number of sales points for our products in our region. 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.

To the extent we are unable to locate suitable locations for sales points on terms that are acceptable to our company, we reserve the right to allocate such unused funds to our general working capital purposes. We currently believe we will be able to locate such suitable locations; however, if we are unable to do so, we expect that we will allocate these working capital funds to purchase footwear stock from suppliers, to advertise our products, to continue to build our brand recognition and to develop new product designs. We have not determined the amount of such re-allocated funds to devote to each of these purposes, and we would have significant flexibility in such decisions. See “Risk Factors – We have not determined a specific use for a significant portion of the proceeds from this offering, and we may use the proceeds in ways with which you may not agree.”

Pending use of the net proceeds, we intend to invest our net proceeds in short-term, interest bearing, investment-grade obligations.

## 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 WFOE 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 WFOE 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. 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.”

## Exchange Rate Information

Our business is primarily conducted in China. While our functional currency is the RMB, we use the U.S. dollar as our reporting currency; therefore, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then-current exchange rates, for the convenience of the readers. Our financial statements have been translated into U.S. dollars in accordance with Accounting Standards Codification (“ASC”) 830-10, “Foreign Currency Matters.” We have translated our asset and liability accounts using the exchange rate in effect at the balance sheet date. We translated our statements of operations using the average exchange rate for the period. We reported the resulting translation adjustments under other comprehensive income. Unless otherwise noted, we have translated balance sheet amounts with the exception of equity at December 31, 2009 at ¥6.8166 to \$1.00 as compared to ¥6.8166 to \$1.00 at December 31, 2008. The average translation rates applied to income statement accounts for the year ended December 31, 2009 and the year ended December 31, 2008 were ¥6.8208 and ¥6.9372, respectively.

We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On July 23, 2010, the interbank rate was ¥6.7881 to \$1.00. The Company does not currently engage in currency hedging transactions.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Period-End	Interbank Rate		
		Average (RMB per U.S. Dollar)	High	Low
2004	8.2865	8.2872	8.2870	8.2365
2005	8.0734	8.2033	8.2666	8.0566

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2006	7.8175	7.9819	8.0715	7.7845
2007	7.3141	7.6172	7.8062	7.2941
2008	6.8542	6.9623	7.2941	6.7480
2009	6.8372	6.8409	6.8430	6.7880
2010				
January	6.8369	6.8347	6.8295	6.7836
February	6.8367	6.8377	6.8336	6.7941
March	6.8361	6.8359	6.8268	6.8136
April	6.8358	6.8329	6.8280	6.7471
May	6.8315	6.8365	6.8408	6.8360
June	6.8086	6.8309	6.8433	6.8022
July (through July 23, 2010)	6.7881	6.7857	6.7933	6.7816



## Capitalization

The following table sets forth our capitalization as of March 31, 2010 on a pro forma as adjusted basis giving effect to the sale of the minimum and maximum offering at an assumed public offering price of \$6.00 per share and to reflect the application of the proceeds after deducting the estimated underwriting fees. The following pro forma capitalization discussion is forward-looking in nature, and we make no representation that we will be able to complete the minimum, maximum or any offering between the minimum and maximum offering.

You should read this table in conjunction with our financial statements and related notes appearing elsewhere in this prospectus and “Use of Proceeds” and “Description of Capital Stock.”

## Minimum Offering (833,333 shares of common stock)

U.S. Dollars  
March 31, 2010

	As Reported	Pro Forma Adjusted for Offering(1)
<b>COMMON STOCK</b>		
Shares	10,000,000	10,833,333
Amount	\$ 1,000	\$ 1,083
Additional Paid-In Capital	\$ 762,091	\$ 5,042,006 (4)
Retained Earnings	\$ 282,610	\$ 282,610
Accumulated Other Comprehensive Income	\$ 441,116	\$ 441,116
Total Shareholders' Equity	\$ 1,486,817	\$ 5,766,815
Total Liabilities	\$ 2,871,440	\$ 2,871,440
Total Liabilities and Shareholders' Equity	\$ 4,358,257	\$ 8,638,255

## Maximum Offering (1,000,000 shares of common stock)

U.S. Dollars  
March 31, 2010

	As Reported(1)	Pro Forma Adjusted for Offering(2)
<b>COMMON STOCK</b>		
Shares	10,000,000	11,000,000
Amount	\$ 1,000	\$ 1,100
Additional Paid-In Capital	\$ 762,091	\$ 5,961,991 (2)
Retained Earnings	\$ 282,610	\$ 282,610
Accumulated Other Comprehensive Income	\$ 441,116	\$ 441,116
Total Shareholders' Equity	\$ 1,486,817	\$ 6,686,817
Total Liabilities	\$ 2,871,440	\$ 2,871,440
Total Liabilities and Shareholders' Equity	\$ 4,358,257	\$ 9,558,257

(2) Gives effect to the sale of the minimum offering and the maximum offering, as applicable, at an assumed public offering price of \$6.00 per share and to reflect the application of the proceeds after deducting the estimated underwriting discounts and our estimated offering expenses.

(4)

Pro forma adjusted for offering additional paid in capital reflects the net proceeds we expect to receive if we complete the applicable offering, after deducting a 7% underwriting discount, a 1% accountable expense allowance and approximately \$320,000 in expenses. In a minimum offering, we expect to receive net proceeds of \$4,279,998 (\$4,999,998 offering, less underwriting discount of \$350,000, accountable expense allowance of \$50,000 and offering expenses of \$320,000). In a maximum offering, we expect to receive net proceeds of \$5,200,000 (\$6,000,000 offering, less underwriting discount of \$420,000, accountable expense allowance of \$60,000 and offering expenses of \$320,000).

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Disclaimer Regarding Forward-Looking Statements

Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors, Cautionary Notice Regarding Forward-Looking Statements and Business sections in this registration statement. We use terms such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements. The following discussion of the financial condition and results of operation of the Company for the three months ended March 31, 2010 and the fiscal years ended December 31, 2009 and 2008, should be read in conjunction with the selected financial data, the financial statements and the notes to those statements that are included elsewhere in this registration statement.

The discussion of the results of operations below are of Qingdao Footwear and its subsidiaries, Glory Reach and QHS, and have been derived from the financial statements that are included elsewhere in this prospectus. Glory Reach is deemed to be the accounting acquirer in the share exchange transaction consummated as of February 12, 2010, which is further described in the section, “Our Corporate Structure” in this prospectus. 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.

Overview

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

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

Principal Factors Affecting Our Financial and Operational Results

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

Growth in the broader PRC economy

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

Increased consumer demand for leather footwear products in the PRC

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

## Management and Expansion of Our Distribution Network

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

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

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

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

## Competitive Pricing Points and Attractive Product Designs

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

We pursue a variety of designs that offer a diversified product mix and provide a wide range of leather footwear styles to our customers, which we believe to be vital to attracting customers and to increases our revenue. Our designers have historically produced more than 200 unique designs annually which vary by season and target demographic. We strive to find innovative styles and technologies to incorporate into our shoes and always meet the highest and most

popular styles for our customers. In the coming years, we will monitor demand and adjust our products accordingly to maximize sales and profit.

#### Ability to maintain brand recognition and marketing success

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

#### Previous Organization and Reverse Acquisition

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

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

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

### Results of Operations

#### Comparison of Years Ended December 31, 2009 and December 31, 2008

The following table sets forth key components of our results of operations during the twelve months periods ended December 31, 2009 and 2008, both in dollars and as a percentage of our net sales. As the reverse acquisition of Glory Reach was entered into after December 31, 2009 and during the periods indicated QHS was the only entity in our combined business that had operations, the results of operations below refer only to that of QHS.

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Amount	% of Net Sales	Amount	% of Net Sales
Net Sales	\$ 17,863,891	100%	\$ 13,904,314	100%
Cost of sales	10,162,778	57%	8,246,592	59%
Gross profit	7,701,113	43%	5,657,722	41%
Selling, General and Administrative Expenses	969,645	5%	814,830	6%
Operating Income	6,731,468	38%	4,842,892	35%
Other income & interest expense	27,318	0%	4,704	0%
Income Before Income Taxes	6,758,786	38%	4,847,596	35%
Income taxes	1,689,697	9%	1,211,899	9%
Net income	\$ 5,069,089	28%	\$ 3,635,697	26%

Net Sales. Our net sales increased to \$17,863,891 in the year ended December 31, 2009 from \$13,904,314 in 2008, representing a 28% increase year-over-year. In 2009, due to increased competition in the shoe manufacturing industry, we were able to adopt discounted prices to expand our brand's penetration. The average selling price per pair was lowered by 11.1% to \$16.00 in 2009, as opposed to \$17.99 in 2008. We consider the sales incentive to successful as the volume of footwear sold increased 44.5% to 1.1 million pairs in 2009, up from 780 thousand pairs in 2008. We will continue to actively monitor the market and adjust our pricing policy according with our revenue and profit goals. We expect continued positive growth trends in PRC retail sales and the market as a whole will support our further growth.

Included in our net sales for fiscal 2009 were net sales of \$15,071,745 attributable to our wholesale operations (including third party stores and distributor's stores) and net sales of \$2,792,146 attributable to our retail operations. Net sales from our wholesale operations increased \$3,216,960, or approximately 27.1%, to \$15,071,745 in 2009 compared to sales of \$11,854,785 in fiscal 2008. Net sales from our retail operations increased \$742,617, or 36.2% to \$2,792,146 in fiscal 2009, compared to sales of \$2,049,529 in 2008. The average selling price per pair within our wholesale operations decreased to \$15.07 per pair for 2009 from \$16.91 in 2008, a decrease of 10.9% while the average selling price per pair within our retail operations decreased to \$23.95 per pair for 2009 from \$28.47 in 2008, a decrease of 15.9%.

Cost of Sales. For the year ended December 31, 2009, cost of sales grew 23.2% to \$10,162,778 or approximately 56.9% of net revenues as compared to cost of sales of \$8,246,592, approximately 59.3% of net revenues for the year ended December 31, 2008. The primary component of our cost of sales by dollar volume was the purchase of footwear. The increase in cost of sales was largely caused by more footwear purchases. The average unit cost per pair decreased to \$9.10 per pair for 2009 from \$10.67 in 2008, a decrease of 14.7%. Due to the impact of the global

slowdown and subsequent slump in PRC footwear exports, the footwear manufacturing environment is extremely competitive. As a result, we believe we will be able to continue to source high quality products at low costs.

**Gross Profit and Gross Margin.** Our gross profit increased to \$7,701,113 in the year ended December 31, 2009 from \$5,657,722 in 2008. Gross profit as a percentage of net revenue was 43% and 41% for the year ended December 31, 2009 and 2008, respectively. The increase is mainly due to the changes described above. The sales in own stores contributed 15.6% of sales in 2009, up from 15% in 2008. The self owned-stores' gross profit margin is approximately 60%, compared with 40% for third party and distributor sales.

**Selling, General and Administrative Expenses.** Our selling, general and administration grew slightly to \$969,645 in the year ended December 31, 2009 from \$814,830 in year 2008. This increase was mainly due to our rapid growth as we increased sales volume.

**Other Income.** Other income increased to \$27,318 in the year ended December 31, 2009 from \$4,704 in 2008.

**Income Before Income Taxes.** Our income before income taxes increased to \$6,758,786 in the year ended December 31, 2009 from \$4,847,596 in 2008. This increase was due to the general expansion in our operational scope.

**Income Taxes.** Income tax increased to \$1,689,697 in the year ended December 31, 2009 from \$1,211,899 in 2008. The increase was due to an increase in income, as our income tax rate remained the same.



Net Income. In the year ended December 31, 2009, we generated a net income of \$5,069,089, an increase from \$3,635,697 in 2008. This increase was primarily due to successful scaling out of our business model.

### Liquidity and Capital Resources

At December 31, 2009, we had cash and cash equivalents of \$61,131, as compared to cash and cash equivalents of \$118,534 at December 31, 2008, primarily consisting of cash on hand and demand deposits. The following table provides detailed information about our net cash flow for all financial statement periods presented in this report. To date, we have financed our operations primarily through cash flows from operations and equity contributions by our shareholders.

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

#### Cash Flows (all amounts in U.S. dollars)

	Year Ended December 31,	
	2009	2008
Net cash provided by operating activities	\$ 9,846,859	\$ 7,746,685
Net cash used in investing activities	(6,107,882)	(5,823,377)
Net cash used in financing activities	(3,799,530)	(1,874,600)
Effects of Exchange Rate Change on Cash	3,150	35,218
Net Increase (Decrease) in Cash	(57,403)	83,926
Cash at Beginning of the Year	118,534	34,608
Cash at End of the Year	61,131	118,534

#### Operating activities

Net cash provided from operating activities was \$9,846,859 for the fiscal year ended December 31, 2009, as compared to \$7,746,685 of net cash provided by operating activities for the fiscal year ended December 31, 2008, an increase of \$2,100,174. Our primary cash flows from net income were realized through the sale of footwear. Net income after deducting non-cash items provided cash inflows at \$5,069,089 for the fiscal year ended December 31, 2009 as compared to \$3,635,697 for the fiscal year ended December 31, 2008, an increase of \$1,433,392. Cash flows from accounts receivable decreased by \$96,456 for the fiscal year ended December 31, 2009 as compared with the fiscal year ended December 31, 2008. The increase in accounts receivable was primarily due to growth in sales. The ending balance of accounts receivable as of December 31, 2009 was consistent with our normal practice. Additionally, we maintained higher inventory level to ensure timely deliveries at the request of major distributors as of the end of fiscal year ended December 31, 2009 compared with the fiscal year 2008. For fiscal year 2009, the operational net cash outflow included an increase in accounts receivable of \$95,428 and inventories of 154,977 respectively; while offset by an increase in tax payable of \$4,949,978, accounts payable of \$15,180 and a decrease of \$1,179 in prepaid expenses. Our other working capital remained stable throughout the period.

#### Investing activities

Net cash used in investing activities for the year ended December 31, 2009 was \$6,107,882 as compared to \$5,823,377 for the year ended December 31, 2008. The cash used for investing activities of 2009 represents cash advanced to our chief executive officer of \$5,723,550 and purchase of property and equipment of \$384,332. This advance was settled before we became a public company, and we no longer make advances to management.

Financing activities

Net cash used in financing activities for the year ended December 31, 2009 was \$3,799,530, as compared to \$1,874,600 for the year ended December 31, 2008. The cash used in financing activities of 2009 resulted from the dividend payment of \$4,063,590, and the repayment of bank loans of \$1,437,660 by netting off the proceeds from bank loan of \$1,701,720. In the PRC, short term loans are a commonly-used means of financing. Short term loans may need to be renewed under new terms at maturity. Although we have not received any commitments from our lenders to renew our short term loans, we have no reason to believe that our short term financing would not be renewed upon maturity.

## Comparison of Three Months Ended March 31, 2010 and March 31, 2009

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

	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
	Amount	% of Net Sales	Amount	% of Net Sales
Net Sales	\$ 4,765,812	100%	\$ 4,455,898	100%
Cost of sales	2,656,755	56%	2,522,338	57%
Gross profit	2,109,057	44%	1,933,560	43%
Operating Expenses	720,726	15%	231,680	5%
Operating Income	1,388,331	29%	1,701,880	38%
Other income & interest expense	(819)	0%	9,011	0%
Income Before Income Taxes	1,387,512	29%	1,710,891	38%
Income taxes	457,531	10%	427,723	10%
Net income	\$ 929,981	20%	\$ 1,283,168	29%

Net Sales. Our net sales increased to \$4,765,812 in the three months ended March 31, 2010 from \$4,455,898 in the same period in 2009, representing 7% revenue growth. As retail sales trends and broader economic growth in the PRC have been positive despite a global economic downturn, during the three months ended March 31, 2010, we increased prices in order to achieve higher gross profit. The average selling price per pair for the first quarter of 2010 and 2009 was \$19.46 and \$17.69 respectively, representing an increase of 10.0%. In response to the price increase, the volume of footwear sold decreased 2.8% to approximately 245 thousand pairs for the three months ended March 31, 2010 as compared to approximately 252 thousand pairs for the same period last year. We believe our pricing policy for this quarter was a success given the overall growth in revenue. In the future, we may adjust pricing strategy to meet market demand and satisfy our financial goals.

Net sales from our wholesale operations increased \$144,744, or 3.8%, to \$3,924,332 for the three months ended March 31, 2010, from \$3,779,588 for the three months ended March 31, 2009. Net sales from our retail operations increased \$165,170 to \$841,480 for the three months ended March 31, 2010, a 24.4% increase over sales of \$676,310 for the three months ended March 31, 2009. The average selling price per pair within our wholesale operations increased to \$18.36 per pair for the three months ended March 31, 2010 from \$16.67 per pair in the same period last year, an increase of 10.1%, primarily due to acceptance of new designs and styles for our in-season products. The average selling price per pair within our retail operations increased 0.7% to \$27.05 per pair for the three months ended March 31, 2010 compared to \$26.85 for the same period in 2009.

Cost of Sales. For the three months ended March 31, 2010, cost of sales amounted to \$2,656,755 or approximately 55.7% of net revenues as compared to cost of sales of \$2,522,338 or approximately 56.6% of net revenues for the same period of 2009. The average unit cost per pair increased to \$10.85 for the first quarter of 2010 from \$10.01 for the same period of 2009, an increase of 8.4%. This was in line with macroeconomic factors including increased consumer demand driving the use of on-line manufacturing capacity and general wage increases in the PRC. We believe that the supply of low cost footwear will remain available in the future as unused capacity comes on line and lower wage pools are accessed throughout Asia.

Gross Profit and Gross Margin. Gross profit for the three months ended March 31, 2010 increased \$175,497 to \$2,109,057 from \$1,933,560 for the same period in 2009. Gross profit as a percentage of net sales, or gross margin, increased to 44.3% for the three months ended March 31, 2010 from 43.4% for the same period in 2009. The gross

margin increase was primarily attributable to increased margins for both our retail and wholesale operations.

Gross profit for wholesale operations increased \$95,787, or 6.35%, to \$1,605,211 for the three months ended March 31, 2010 from \$1,509,424 for the same period in 2009. Wholesale margins increased to 40.9% for the three months ended March 31, 2010 from 39.9% for the same period in 2009. The increase in wholesale margins was primarily due to increased selling price of wholesale offset decreased sales volume resulting from high competitive local footwear market. Gross profit for retail operations increased \$79,710, or 18.8%, to \$503,846 for the three months ended March 31, 2010 from \$424,136 for the same period in 2009. Retail margins decreased to 59.9% for the three months ended March 31, 2010 from 62.7% for the same period in 2009. The decrease in retail margins was due to seasonal closeout sales in 2010.

Operating Expenses. Our selling, general and administrative expenses grew to \$702,721 in the three months ended March 31, 2010 from \$218,547 in the same period in 2009. This was mainly due to a payment of shares to service providers for services provided in connection with our reverse merger.

Other Income & Interest Expense. Other Income & Interest Expense decreased to (\$819) in the three months ended March 31, 2010 from \$9,011 in the same period in 2009. Other Income and Interest Expense is a negligible percentage of our revenue.

Income before Income Taxes. Our income before income taxes decreased to \$1,387,512 in the three months ended March 31, 2010 from \$1,710,891 in the same period in 2009. While our operational scope expanded, the increased selling, general and administrative expenses mentioned above resulted in a decrease in taxable income.

Income Taxes. Income tax increased to \$457,531 in the three months ended March 31, 2010 from \$427,723 in the same period in 2009. The increase was due to an increase in taxable income, as our tax rate remained constant.

Net Income. In the three months ended March 31, 2010, we generated net income of \$929,981, a decrease from \$1,283,168 in the same period in 2009. This decrease was primarily due to the factors discussed above. While our gross profit increased from \$1,933,560 to \$2,109,057 quarter over quarter, the one-time selling, general and administrative expenses mentioned above caused our net income to decrease.

#### Liquidity and Capital Resources

As of March 31, 2010, we had cash and cash equivalents of \$378,219, primarily consisting of cash on hand and demand deposits. This compares with March 31, 2009, when we had cash and cash equivalents of \$240,479, primarily consisting of cash on hand and demand deposits. The following table provides detailed information about our net cash flow for all financial statement periods presented in this report. To date, we have financed our operations primarily through cash flows from operations and equity contributions by our shareholders. We do not expect our daily operations to be constrained by cash flow; however, without additional capital, we may be limited to a lower rate of growth.

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

Cash Flows  
(all amounts in U.S. dollars)

	Three Months Ended March 31,	
	2010	2009
Net cash provided by operating activities	\$ 916,821	\$ 2,076,807
Net cash provided by (used in) investing activities	(661,971)	(1,954,613)
Net cash provided by (used in) financing activities	61,895	0
Effects of Exchange Rate Change in Cash	343	(249)
Net (Decrease) Increase in Cash and Cash Equivalents	317,088	121,945
Cash and Cash Equivalent at Beginning of the Year	61,131	118,534
Cash and Cash Equivalent at End of the Year	378,219	240,479

#### Operating activities

Net cash provided by operating activities was \$916,821 for the three months ended March 31, 2010, as compared to \$2,076,807 for the same period in 2009.

The cash provided by operating activities for the three months ended March 31, 2010 was mainly derived from our net profit of \$929,981, stock-based compensation of \$442,611, an increase of tax liabilities of \$1,324,682, and increase of accounts payables of \$120,086, offset by an increase of accounts receivable of \$1,703,936 and increase of prepayments of \$173,854. The increase of accounts receivable was due to a short-term increased credit period policy designed to enhance sales following a sales fair held in February. We have granted short-term credit extensions as a strategic incentive to our most loyal and profitable distributors to increase our market share following such a sales fair, largely in order to introduce our new models of footwear. Generally, we expect such distributors to pay the purchase prices within sixty days of extension. Because these credit extensions are made to our most loyal and profitable distributors in order to incentivize them to purchase our new footwear models, we expect the accounts receivable to be collectable in the ordinary course, and we encourage such timely repayment by maintaining regular communication with these distributors. The accounts receivable associated with this short-term credit policy have been collected as of May 31, 2010.

The cash provided by operating activities for the three months ended March 31, 2009 was a result of net profit of \$1,283,168, and increase in tax payable of \$1,241,699, offset by the increase of inventory of \$323,926.

#### Investing activities

Net cash used by investing activities for the three months ended March 31, 2010 was \$661,971 as compared to \$1,954,613 net cash used in investing activities during the same period of 2009. The cash used by investing activities during the three months ended March 31, 2010 represents the payment for a note receivable of \$440,100 and advance to owner of \$221,871. The cash used in investing activities during the three months ended March 31, 2009 represents the advance to owner of \$1,879,489 and payment used for construction in progress of \$75,124.

#### Financing activities

Net cash provided by financing activities for the three months ended March 31, 2010 was \$61,895, as compared to \$0 in the same period of 2009. The cash provided by financing activities represents the cash proceeds from bank loans of

\$440,100 by offsetting the distribution to owner of \$378,205.

#### Bank loans

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

Short term loans, totaling \$1,158,930 as of March 31, 2010, were issued by Bank of Qingdao and JiMo Rural Bank, with annual interest rate ranging from 6.372% to 7.965%, and with terms of 12 months which will mature in September, November and December 2010 respectively. All bank loans were secured either by the property of the Company or third parties.

A long-term loan for \$249,390, was issued in December 2009 by JiMo Rural Bank, with 2 years period and annual interest rate of 7.02%. 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.

#### Capital resources

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

#### Inflation

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

### Off Balance Sheet Arrangements

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

### Seasonality

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

### Critical Accounting Policies

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

#### Revenue Recognition

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

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

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

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

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

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

#### Use of Estimates

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

#### Accounts Receivable

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

#### Impairment of Long-Lived Assets

The Company accounts for impairment of property and equipment and amortizable intangible assets in accordance with ASC 360, “Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of”, which requires the Company to evaluate a long-lived asset for recoverability when there is 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.



## Inventories

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

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

## Comprehensive Income

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

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

## Foreign Currency Translation

The Company’s functional currency is Chinese 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.

## 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.

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.

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.

## Our Business

### Overview

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

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

### Corporate History and Background

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

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

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

Immediately following the closing of the reverse acquisition of Glory Reach, one of the Shareholders transferred 337 of the 874 shares of Series A Convertible Preferred Stock issued to him 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.

Upon the closing of the reverse acquisition, Craig H. Burton, our president and director, Joseph J. Passalacqua, 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. Passalacqua 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.

#### 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 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 this 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 this 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.
- (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 200 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 March 31, 2010, men's footwear constituted approximately 60% of revenue and women's footwear the remainder. Approximately 40% of sales were formal shoes, and the remainder is attributed to casual footwear.

### Sourcing and Purchase of Products

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

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

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

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

## Sales Channels

The following diagram details our current distribution channels:

As of March 31, 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%
<b>Total Revenue</b>	<b>\$ 17,863,891</b>	<b>100%</b>	<b>\$ 13,904,314</b>	<b>100%</b>

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 Q1	2008	2009	2010 Q1	2008	2009	2010 Q1	2008	2009	2010 Q1
Shandong (excluding Qingdao)	0	0	0	42	155	155	0	6	6	42	161	161
Qingdao city (including Jimo)	8	11	12	44	26	26	0	4	4	52	41	42
Xinjiang	0	0	0	1	1	3	0	1	1	1	2	4
Shanxi	0	0	0	2	3	2	0	0	0	2	3	2
Tianjiang	0	0	0	0	1	1	0	0	0	0	1	1
Heilongjiang	0	0	0	0	1	1	0	0	0	0	1	1
Hebei	0	0	0	0	2	1	0	0	0	0	2	1
Liaoning	0	0	0	0	1	1	0	0	0	0	1	1
Henan	0	0	0	0	1	1	0	0	0	0	1	1
	8	11	12	89	191	191	0	11	11	97	213	214



## Shandong Province

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

## Qingdao City

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

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

## Flagship Stores

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

During the years ended December 31, 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	30
Total	62

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. 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. 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 200 models of footwear per year.

Description of Property

Our principal executive offices are in Jimo, China.

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

The Company leases one of its stores from Mr. Tao Wang under a four-year operating lease expiring August 2011. For the years ended December 31, 2009 and 2008, rent expense of \$17,593 and \$17,298, respectively, was included in total rent expense for the respective years. The Company leases one of its warehouse buildings to Weidong Liang, brother-in-law of Mr. Tao Wang, for three years starting May 2008. Per the agreement, the lessee shall pay equal amount of advertising expense on behalf of the lessor as the lease payment. For the year ended December 31, 2009, the Company recorded other income of \$87,966 from leasing the aforementioned building and advertising expense.

## Regulation

Because our principal operating subsidiary, QHS, is located in the PRC, our business is regulated by the national and local laws of the PRC. We believe our conduct of business complies with existing PRC laws, rules and regulations.

### General Regulation of Businesses

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 Production Safety Law, the PRC Regulation for Insurance for Labor Injury, 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 from time to time, for our operations in the PRC.

According to the PRC Labor Contract Law, we are required to enter into labor contracts with our employees. We are required to pay no