Qingdao Footwear, Inc.
Form 10-Q
May 23, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: **March 31, 2011**

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: **000-53075**

QINGDAO FOOTWEAR, INC.

(Exact name of registrant as specified in its charter)

Delaware	**16-1591157**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

c/o Qingdao Hongguan Shoes Co., Ltd.

269 First Huashan Road

Jimo City, Qingdao, Shandong, PRC

(Address of principal executive office and zip code)

86-0532-86595999

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes o No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No ý

As of May 16, 2011, there were 12,023,679 shares outstanding of the registrant s common stock.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

QINGDAO FOOTWEAR, INC.

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2011 AND DECEMBER 31, 2010

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

QINGDAO FOOTWEAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

UNAUDITED

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

QINGDAO FOOTWEAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

UNAUDITED

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

QINGDAO FOOTWEAR, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - ORGANIZATION AND BUSINESS OPERATIONS

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

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

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

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

Qingdao Shoes was incorporated on March 11, 2003 in Jimo County, Qingdao City, Shandong Province, People s Republic of China (the PRC) with registered capital of $320,480. Prior to December 18, 2009, Mr. Tao Wang owned

80% of Qingdao Shoes and the remaining 20% was owned by Mr. Renwei Ma. Starting from December 18, 2009, Mr. Tao Wang owned 80% of Qingdao Shoes, Mr. Renwei Ma owned 15% and Mr. Wenyi Chen owned the remaining 5%. Qingdao Shoes is the owner of the brand name Hongguan and principally engaged in the wholesale and retail sales of fashion footwear primarily in the northeast region of China.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restatement of Financial Statements

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

The accrual of the tax payable liabilities is reflected as a reduction of retained earnings as of March 31, 2011 and December 31, 2010.

Basis of Presentation

Management acknowledges its responsibility for the preparation of the accompanying interim consolidated financial statements which reflect all adjustments, consisting of normal recurring adjustments, considered necessary in its opinion for a fair statement of its consolidated financial position and the results of its operations for the interim period presented.

The consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to consolidated financial statements included in the Company s Form 10-K annual report for the year ended December 31, 2010.

Use of Estimates

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

Risks and Uncertainties

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and trade receivables. As of March 31, 2011 and December 31, 2010, substantially all of the Company s cash were held by major financial institutions located in the PRC, which management believes are of high credit quality. With respect to trade receivables, the Company generally does not require collateral for trade receivables and has not experienced any credit losses in collecting the trade receivables.

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

Cash

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

Comprehensive Income

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

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

Foreign Currency Translation

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

The financial statements of the Company are translated into United States dollars in accordance with the provisions of ASC 830 Foreign Currency Matters , using the year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses and historical rates for the equity. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive income. At March 31, 2011 and December 31, 2010, the cumulative translation adjustment of $34,561 and $72,040 were classified as an item of accumulated other comprehensive income in the shareholders equity section of the balance sheet respectively. For the three months ended March 31, 2011 and 2010, other comprehensive income (loss) were ($37,479) and $341, respectively.

There were no gains or losses from foreign currency transactions during the three months ended March 31, 2011 and 2010.

The exchange rate used is as follows:

	March 31,	
	2011	2010
RMB: US$ exchange rate	6.5501	6.8161

	Three Months Ended March 31,	
	2011	2010
Average RMB: US$ exchange rate	6.5713	6.8193

Accounts Receivable

Accounts receivable consists of unpaid balances due from the whole-sale customers. Such balances generally are

cleared in the subsequent month when the whole-sale customers place another order. The Company uses the aging method to estimate valuation allowance for anticipated uncollectible receivable balances. Under the aging method, bad debts percentages determined by management based on historical experience as well as current economic climate are applied to customers balances categorized by the number of months the underlying invoices have remained outstanding. The valuation allowance balance is adjusted to the amount computed as a result of the aging method. When facts subsequently become available to indicate that the amount provided as the allowance was incorrect, an adjustment which classified as a change in estimate is made. The Company did not experience any bad debt historically and as of March 31, 2011 and December 31, 2010, there was no allowance for doubtful accounts recorded based on the aging method.

Inventories

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

In addition, the Company estimates net realizable value based on intended use, current market value and inventory aging analysis. The Company writes down inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventories and their estimated market value based upon assumptions about future demand and market conditions. There is no reserve on inventory as of March 31, 2011 and December 31, 2010.

Property, Plant and Equipment

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

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

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

Intangibles

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

Impairment of Long-Lived Assets

The Company accounts for impairment of property and equipment and amortizable intangible assets in accordance with ASC 360, Accounting for Impairment of Long-Lived Assets to be Disposed Of , which requires the Company to evaluate a long-lived asset for recoverability when there is event or circumstance that indicate the carrying value of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset or asset group is not recoverable (when carrying amount exceeds the gross, undiscounted cash flows from use and disposition) and is measured as the excess of the carrying amount over the asset s (or asset group s) fair value. There was no impairment of long-lived assets for the three months ended March 31, 2011 and year ended December 31, 2010.

Revenue Recognition

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

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

Cost of Sales

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

Advertising Expenses

The Company expenses cost of advertising, including the cost of TV commercials, outdoor bulletin boards, promotional materials, and in-store displays as advertising expense, when incurred. Advertising expenses included in selling, general and administrative expenses were $160,327 and $5,409 for the three months ended March 31, 2011 and 2010, respectively.

Shipping and Handling

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

Shipping and handling costs were the packing and transportation expenses for the goods sold. For the three months ended March 31, 2011 and 2010, shipping and handling costs were nil and nil respectively.

Store Opening Costs

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

Income Taxes

The Company accounts for income taxes in accordance with ASC 740 Income Taxes . ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. There was no deferred tax asset or liability for the three months ended March 31, 2011 and 2010.

Value Added Taxes

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

VAT on sales and VAT on purchases amounted to $932,496 and $555,003, respectively, for the three month ended March 31, 2011. VAT on sales and VAT on purchases amounted to $810,528 and $25,356, respectively, for the three month ended March 31, 2010. Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government.

Fair Value of Financial Instruments

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

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

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

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

It is management s opinion that as of March 31, 2011 and December 31, 2010, the estimated fair values of the financial instruments were not materially different from their carrying values as presented on the balance sheets. This is attributed to the short maturities of the instruments (less than two years) and that interest rates on the borrowing approximately those that would have been available for loans of similar remaining maturity and risk profile at respective balance sheet dates. The carrying amounts of the loans approximately their fair values because the applicable interest rates approximate current market rates.

Segment Reporting

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

Earnings per Share

Basic earnings per share is computed by dividing net income by weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. As the exercise price of the option granted to Crone Law Group (Note 13) is higher than the current share price of common stock, the option did not affect the weighted average number of shares of common stock as of March 31, 2011. At March 31, 2011 and December 31, 2010, respectively, the Company had no common stock equivalents that could potentially dilute future earnings per share.

Recent Accounting Pronouncements

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

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

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

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

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

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

NOTE 3 - INVENTORY

As of March 31, 2011 and December 31, 2010, inventory consisted of the following:

	March 31, 2011	**December 31, 2010**

Finished goods	$	816,471	$	545,051
Raw materials		29,378		85,650
Total inventories	$	845,849	$	630,701

NOTE 4 - PREPAID EXPENSES

As of March 31, 2011 and December 31, 2010, the prepaid expenses consisted of the following:

		March 31, 2011		**December 31, 2010**
Prepaid rent	$	3,143,560	$	3,073,106
Prepaid adverting fee		974,413		1,068,516
Prepaid maintenance fee		305,339		322,370
Prepaid miscellaneous fee		65,711		13,662
Total		4,489,023		4,477,654
Minus: current portion		591,289		604,577
Long-term portion	$	3,897,734	$	3,873,077

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

NOTE 5 - OTHER RECEIVABLES

As of March 31, 2011 and December 31, 2010, the Company s other receivables consisted of the following:

		March 31, 2011		December 31, 2010
Receivable for sale of fixed assets & land use right	$	3,259,492	$	3,542,280
Others		4,580		4,572
Total other receivables, net	$	**3,264,072**	$	**3,546,852**

The Company entered an agreement, dated in December 2010, to sell its land use right and plant with original values of $3,792,591 (RMB 25,000,000) and $587,093 (RMB 3,870,000) respectively. The selling prices of the land use right and plant were $3,747,080 (RMB 24,700,000) and $553,718 (RMB 3,650,000) respectively, which resulted in a loss on the sale of $3,258 (RMB 22,222) and $33,375 (RMB 220,000) for the land use right and plant, respectively. As of March 31, 2011, the Company had received the proceeds of sale of land use right and plant of $509,154 and $553,718 respectively.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

As of March 31, 2011 and December 31, 2010, property, plant and equipment consisted of the following:

		March 31, 2011		December 31, 2010
Plant and building	**$**	1,195,308	**$**	1,187,748
Office furniture and equipment		29,740		29,553
Transportation equipment		293,541		265,208
Others		133,143		132,298

Total at cost		**1,651,732**		**1,614,807**
Less: Accumulated depreciation		(505,221)		(461,691)
Total property, plant and equipment, net	**$**	**1,146,511**	**$**	**1,153,116**

Depreciation for the three months ended March 31, 2011 and 2010 was $40,460 and $16,794 respectively.

As of March 31, 2011 and December 31, 2010, the cost of fixed assets pledged for bank loan was $379,562 and $377,161 respectively.

NOTE 7 - INTANGIBLE ASSETS

The Company obtained the right from the relevant PRC land authority for 50 years to use the land on which the office premises and warehouse of the Company are situated. As of March 31, 2011 and December 31, 2010, intangible assets consisted of the following:

		March 31, 2011		**December 31, 2010**
Cost of land use right	$	251,905	$	250,311
Less: Accumulated amortization		(41,565)		(40,050)
Total intangible assets, net	**$**	**210,340**	**$**	**210,261**

Amortization expense for the three months ended March 31, 2011 and 2010 was $1,255 and $1,210, respectively.

As of March 31, 2011 and December 31, 2010, the land use rights were pledged for bank loan.

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

Year Ended December 31,	
2011Apr.-Dec.	$ 3,765
2012	5,020
2013	5,020
2014	5,020
2015	5,020
Thereafter	186,495
	$ 210,340

NOTE 8 - SHORT TERM LOANS

Short-term loans are due to two financial institutions which are normally due within one year. As of March 31, 2011 and December 31, 2010, the Company s short term loans consisted of the following:

	March 31, 2011	**December 31, 2010**
Jimo Rural Cooperative Bank of Qingdao (JMRB), two 12-month bank loans both due in November 2011, bears annual interest at 8.896% average, secured by third parties	$ 305,339	$ 303,407
JMRB, two years bank loan due in December 2011, bears annual interest at 7.02%, secured by third party s building	259,538	257,896
Bank of Qingdao Jimo Branch (BOQ), 12-month bank loan due in September 2011, bears annual interest at 6.372%, pledged by Company s building and land use right	763,347	758,518
JMRB, 12-month bank loan due in December 2011, bears annual interest at 8.896%, secured by third party	458,008	455,111
Total	**$ 1,786,232**	**$ 1,774,932**

The above indebtedness to JMRB at March 31, 2011 and December 31, 2010 has been guaranteed by two unrelated companies.

NOTE 9 - OTHER PAYABLES

As of March 31, 2011 and December 31, 2010, other payables of the Company are summarized as follows:

		March 31, 2011		December 31, 2010
Store rent	$	362,101	$	966,625
Other		-		12,137
Total	$	362,101	$	978,762

In July 2, 2010 the Company entered into agreement with Qingdao Jialejia Market Service Ltd. to rent a store for 10 years from August 1, 2010 to July 31, 2020. According to the lease agreement the Company was to prepay the total amount of rent before commencing operations at the store location. As of March 31, 2011 and December 31, 2010 the unpaid amount store rent due on the lease was $362,101 and $966,625 respectively.

NOTE 10 - RELATED PARTY BALANCES AND TRANSCATIONS

Related party transactions

The Company leases one of its stores from Mr. Tao Wang under a four-year operating lease expiring August 2011. For the three months ended March 31, 2011 and 2010, related party rent expense of $8,674 and $4,400, respectively, was included in total rent expense of the year.

The Company leases one of its warehouse buildings to Weidong Liang, brother-in-law of Mr. Tao Wang, for three years starting May 2008. Per the agreement, the lessee shall pay equal amount of advertising expense on behalf of the lessor as the lease payment. For the three months ended March 31, 2011 and 2010, the Company recorded other income of $22,827 and $21,998 respectively, from leasing the aforementioned building and advertising expense of the same amount respectively.

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

A long-term loan for $259,538, was issued in December 2009 by JMRB, with a 2 year repayment period and annual interest rate of 7.02%. The loan is guaranteed by the relative of Mr. Tao Wang, the CEO and major shareholder of the Company and is collateralized by the property of his relative.

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

NOTE 11 - OPERATING LEASES

The Company leases store spaces under non-cancelable operating leases expiring at various dates through 2013. Rent expenses were $83,583 and $25,919, for the three months ended March 31, 2011 and 2010, respectively.

Future minimum lease payments at March 31, 2011 are as follows:

Year:		
2011	$	182,173
2012		99,540
2013		68,192
	$	**349,905**

NOTE 12 - INCOME TAX

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

Accordingly, the net deferred tax asset related to the U.S. net operating loss carryforward has been fully offset by a valuation allowance. The Company is governed by the Income Tax Law of the People s Republic of China and the United States. In 2010 and

2009, under the Income Tax Laws of PRC, Chinese companies are generally subject to an income tax at an effective rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments. The Company s PRC subsidiaries are subject to these statutory rates. The Company s wholly-owned subsidiary, Glory Reach was incorporated in Hong Kong, and is subject to their income tax rules and regulations. Currently, the Company s mamagement believes that they have no Hong Long liability as their Hong Kong subsidiary has conducted no operations in Hong Kong.

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

The table below summarizes the differences between the U.S. statutory federal rate and the Company s effective tax rate and as follows for the three months ended March 31, 2011 and 2010:

	2011	2010
U.S. statutory rates	34.0 %	34.0 %
U.S. effective rate in excess of China tax rate	(9.0) %	(9.0) %
Permanent difference	-	8%
Total provision for income taxes	25.0 %	33.0 %

For the three months ended March 31, 2011 and 2010, income tax expense related to our operations in the PRC and amounted to $477,018 and $457,531, respectively.

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

	December 31, 2010	December 31, 2009
Deferred tax asset:		
Net U.S. operating loss carryforward	$ 800,000	$ 800,000
Less: valuation allowance	(800,000)	(800,000)
Net deferred tax asset	$ -	$ -

The Company is governed by the Income Tax Law of the PRC concerning the private-run enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriated tax adjustments in the three months ended March 31, 2011 and 2010 respectively.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Income before income taxes	$ 1,933,938	$ 1,387,512
Income taxes	**$ 477,018**	**$ 457,531**

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

The Company has no United States income tax liabilities as of March 31, 2011 and December 31, 2010.

NOTE 13 - SHAREHOLDERS EQUITY

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

Series A Convertible Preferred Stock

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

Shares of Series A Preferred Stock had automatically convert into shares of common stock on the basis of one share of Series A Preferred Stock for 970 shares of common stock immediately. Upon the reverse merger the 10,000 outstanding shares of Series A Preferred Stock had automatically convert into 9,700,000 shares of common stock, which constitutes 97% of the outstanding common stock of the Company subsequent to the reverse stock split.

Holders of Series A Preferred Stock vote with the holders of common stock on all matters on an as-converted to common stock basis, based on an assumed post 1-for-27 reverse split (to retroactively take into account the reverse stock split) on June 9, 2010.

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

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

The 1-for-27 Reverse Stock Split

The Company s board of directors unanimously approved, subject to stockholder approval, the 1-for-27 Reverse Split of our issued and outstanding common stock. The reverse split will reduce the number of issued and outstanding shares of the Company s common stock outstanding prior to the split. The reverse split increases the total number of issued and outstanding shares of the Company s common stock subsequent to the split by triggering the automatic

conversion of the Company s Series A Preferred Stock into 9,700,000 shares of common stock. The reverse split had become effective on June 10, 2010, the date when the Company filed with the Secretary of State of the State of Delaware following the expiration of the 20 day period mandated by Rule 14c of the Exchange Act.

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

Common Stock Options

In March 2010, the Company granted common stock purchase options to purchase 100,000 shares of our common stock at an exercise price of $4.00 per share to the Crone Law Group. for services provided related to the reverse merger. The options are exercisable for three years after the issue dates of the options.

Stock option activity for the three months ended March 31, 2011 is summarized as follows:

	Number of Shares	Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Outstanding at December 31, 2010	100,000	$ 4.00	2.17
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at March 31, 2011	100,000	$ 4.00	1.93

The options as of March 31, 2011, had no intrinsic value as their exercise price was greater than the current market price.

Issuance of Common Shares

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

Statutory Surplus Reserve

The Company is required to make appropriations to statutory surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC (the PRC GAAP). Appropriations to the statutory surplus reserve should be 10% of the after-tax net income determined in accordance with the PRC GAAP until the reserve equals 50% of the entities registered capital or members equity. We appropriated $160,240 to the statutory surplus reserve in the year of 2010. As of March 31, 2011, the Company s statutory surplus reserve amounted to $160,240.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Tax liabilities

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

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

Mr. Tao Wang entered into the contract with the Company to assume fiscal responsibilities for all tax liabilities recorded and potential penalties relating to all the tax liabilities before December 31, 2009. As of December 31, 2009, the assumed amount was $12,549,060, which mainly included VAT tax payable and income tax payable. However, these tax amounts transferred to Mr. Tao Wang were never paid to the government. As a result, the historical financial

statements of the Company were restated to reflect the Company as the primary obligor of the tax liabilities. According to PRC tax law, late or deficient tax payment could subject the Company to significant tax penalty.

NOTE 15 - OPERATING RISKS

(a) Country risk

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

(b) Exchange risk

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

(c) Interest risk

The Company is exposed to interest rate risk arising from short-term variable rate borrowings from time to time. The Company s future interest expense will fluctuate in line with any change in borrowing rates. The Company does not have any derivative financial instruments as of March 31, 2011 and December 31, 2010 and believes its exposure to interest rate risk is not material.

NOTE 16 SUBSEQUENT EVENTS

Issuance of Common Shares

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

On April 15, 2011, the Company issued 260,000 shares to Lanhai Sun for his consulting services to be provided from April 1, 2011 to June 30, 2011, 600,000 shares to Mr. Tao Wang for the services to be provided from April 1, 2011 to June 30, 2011 and 500,000 shares to Mr. Chongliang Liu for his commission during April 1, 2011 to June 30, 2011.

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

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, including statements that include the words believes, expects, anticipates, or similar expressions. These forward-looking statements include, among others, statements concerning our expectations regarding our working capital requirements, financing requirements, business, growth prospects, competition and results of operations, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this report on Form 10-Q for the quarter ended March 31, 2011, involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by the forward-looking statements contained herein.

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

Overview

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

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

Principal Factors Affecting Our Financial and Operational Results

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

Growth in the broader PRC economy

Our financial condition and results of operations have been driven by macro-economic conditions, increased disposable income and consumer spending in the PRC. Since our formation, we have derived 100% of our income from operations in China. Along with growth in the economy as a whole, Chinese domestic consumption has increased in line with rapid urbanization and increases in disposable income over the past 15 years. Per capita urban disposable income has increased by an annualized rate of 12.9% over the 5 years ending in 2008, and is anticipated to top $2,000 in 2012. The urban population as a percentage of the total population increased from 40.6% in 2003 to 46.6% at the end of 2009, and this trend is expected to continue into the future (National Bureau of Statistics of China, www.stats.gov.cn). 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). 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). For this reason, we expect the market to continue to grow for the immediate future.

Management and Expansion of Our Distribution Network

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

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

Effective cost management and quality control in our supply chain

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

Competitive Pricing Points and Attractive Product Designs

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

We pursue a variety of designs that offer a diversified product mix and provide a wide range of leather footwear styles to our customers, which we believe to be vital to attracting customers and to increasing our revenue. Our designers have historically produced more than 300 unique designs annually which vary by season and target demographic. We strive to find innovative styles and technologies to incorporate into our shoes and always meet the highest and most popular styles for our customers. In the coming years, we will monitor demand and adjust our products accordingly to maximize sales and profit.

Ability to maintain brand recognition and marketing success

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

Previous Organization and Reverse Acquisition

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

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

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

Results of Operations

Three Months Ended March 31, 2011 Compared to March 31, 2010

The following table sets forth key components of our results of operations during the three months ended March 31, 2011 and 2010, both in dollars and as a percentage of our net sales.

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Amount	% of Net Sales	Amount	% of Net Sales
Net Sales	$ 5,448,264	100 %	$ 4,765,812	100 %
Cost of sales	3,036,705	56 %	2,656,755	56 %
Gross profit	2,411,559	44 %	2,109,057	44 %
Operating Expenses	480,759	9 %	720,726	15 %
Operating Income	1,930,800	35 %	1,388,331	29 %
Other income /(interest expense)	3,137	0 %	(819)	0 %
Income Before Income Taxes	1,933,938	35 %	1,387,512	29 %
Income taxes	477,018	9 %	457,531	10 %
Net income	$ 1,456,920	26 %	$ 929,981	19 %

Net Sales

Our net sales increased to $5,448,264 in the three months ended March 31, 2011 from $4,765,812 in the same period of 2010, representing 14% 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, 2011, we increased prices by 3% in order to achieve higher gross profit, which resulted in an increase in sales volume of 11% as compared to the same period of 2010.

Net sales from our wholesale operations increased $209,993, or 5.4%, to $4,134,128 for the three months ended March 31, 2011, from $3,924,135 for the three months ended March 31, 2010. The average selling price per pair within our wholesale operations decreased to $18.35 per pair for the three months ended March 31, 2011 from $18.36 per pair in the same period last year, a decrease of 0.1%, primarily due to acceptance of new designs and higher pricing of the products we promoted. However, it resulted in a sales volume increase of 5.4% to 225 thousand pairs of shoes during the three months ended March 31, 2011.

Net sales from our retail operations increased $472,699 to $1,314,136 for the three months ended March 31, 2011, a 56.2% increase over sales of $841,437 for the three months ended March 31, 2010. The average selling price per pair within our retail operations increased 4.9% to $28.37 per pair for the three months ended March 31, 2011, compared to $27.05 for the same period in 2010. Apart from the increase of our selling price, our sales volume also contributed a 48.9% increase as compared to the same period of 2010, which was mainly the result of an increase in the number of our sales outlets from 8 as of March 31, 2010, to 13 as of March 31, 2011, respectively. The increase in our unit selling price was mainly the result of our sales strategy to promote more high-unit price products to the market to achieve higher gross profit. The total size of our stores was 1,250 and 1030 square meters as of March 31, 2011 and 2010, respectively. The average size per store was 96 and 129 square meters as of March 31, 2011 and 2010, respectively. The average size of our newly opened stores is 75 square meters which is lower than our older stores due to limited available locations. Our sales volume per square meter per month was 12 and 10 pairs for the three months ended March 31, 2011 and 2010, respectively. Our sales volume per outlet per month was 1,188 and 1,152 pairs for the three months ended March 31, 2011 and 2010, respectively.

Cost of Sales

For the three months ended March 31, 2011, cost of sales amounted to $3,036,705 or approximately 56% of net revenues as compared to cost of sales of $2,656,755 or approximately 56% of net revenues for the same period of 2010. The increase of cost of sales of 14% over the same period of 2010 was mainly caused by an increase in sales of 14%. The higher increase ratio in sales was mainly the result of a change in our sales mixture resulting in our retail sales increase to 24% of total sales as of March 31, 2011, from 18% comparable period of 2010. Retail sales contribute approximately same margin as wholesale operations.

Gross Profit and Gross Margin

Gross profit for the three months ended March 31, 2011, increased $302,502 to $2,411,559, from $2,109,057 for the same period in 2010. Gross profit as a percentage of net sales, or gross margin, is equal to that of the same period in 2010.

Gross profit for wholesale operations increased $54,831, or 3.4%, to $1,660,042 for the three months ended March 31, 2011, from $1,605,211 for the same period in 2010. Wholesale contribute appropriately same margins of 40.9% for the three months ended March 31, 2011 and 2010.

Gross profit for retail operations increased $247,671, or 49.2%, to $751,517, for the year ended December 31, 2010 from $503,846 for the same period in 2010. Retail margins decreased to 57.2% for the three months ended March 31, 2011, from 59.9% for the same period in 2010. The increase of gross profit was mainly caused by increased unit selling prices and sales volume in retail operations as explained above.

Operating Expenses

Our selling, general and administrative expenses decreased to $480,758 in the three months ended March 31, 2011, from $720,726 in the same period in 2010. This was mainly due to a payment of shares to service providers for services provided in connection with our reverse merger in 2010.

Other Income & Interest Expense

Other income and interest expense increased to $3,137 in the three months ended March 31, 2011, from ($819) in the same period in 2010. This is mainly due to the increase of bank loans this year. Other income and interest expense is a negligible percentage of our revenue.

Income before Income Taxes

Our income before income taxes increased to $1,933,938 in the three months ended March 31, 2011, from $1,387,512 in the same period in 2010. The increase was mainly due to an increase in gross profit offset by increased operating expenses.

Income Taxes

Income tax increased to $477,018 in the three months ended March 31, 2011, from $457,531 in the same period in 2010. 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, 2011, we generated net income of $1,456,920, an increase from $929,981 in the same period in 2010. This increase was primarily due to increased profit before tax as explained above.

Liquidity and Capital Resources

As of March 31, 2011, we had cash and cash equivalents of $415,244, primarily consisting of cash on hand and demand deposits. This compares with December 31, 2010, when we had cash and cash equivalents of $49,325, primarily consisting of cash on hand and demand deposits. The table below provides detailed information about our net cash flow for all financial statement periods presented in this report. To date, we have financed our operations primarily through cash flows from operations and equity contributions by our shareholders. We do not expect our daily operations to be constrained by cash flow as we are currently able to fund our operations through our existing cash flow from operations. However, our future expansion plans (which include increasing the number of sales points, advertising actively, and increasing inventory) rely entirely on the completion of an offering of our common

stock. If an offering is not completed then we will need to rely on organic growth or commercial loans to facilitate our expansion plans and we cannot guarantee that we will be successful at obtaining loans or growing organically at a rate sufficient to support our expansion plans.

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

Cash Flows

(all amounts in U.S. dollars)

	Three Months Ended March 31,	
	2011	**2010**
Net cash provided by operating activities	$ 427,287	$ 916,821
Net cash used in investing activities	(26,645)	(557,460)
Net cash provided by (used in) financing activities	-	(42,616)
Effects of Exchange Rate Change in Cash	(34,723)	343
Net Increase in Cash and Cash Equivalents	365,919	317,088
Cash and Cash Equivalent at Beginning of the Period	49,325	61,131
Cash and Cash Equivalent at End of the Period	415,244	378,219

Operating activities

Net cash provided by operating activities was $427,287 for the three months ended March 31, 2011, compared to $916,821 for the same period in 2010.

The cash provided by operating activities for the three year ended March 31, 2011 was mainly derived from our net profit of $1,456,920, offset by an increase of prepayments of $271,411. Increase of prepayment mainly represents payment during the period for advertising and long term leasing for our newly established outlets. These prepaid amounts are related to rent for operating stores, advertisement board and pole and landscaping maintenance contracts. These prepaid amounts are amortized based on the lease terms (for the prepaid rent), contracted terms for advertisement board and pole and contract terms for landscaping maintenance contract. The amortization expense for the three months ended March 31, 2011, is $216,890. We may choose to lease or buy outlets in future. We may also continue to do advertising to promote our sales and increase our brand acceptance.

The cash provided by operating activities for the three months ended March 31, 2010, was the result of net profit of $929,981, and increase in tax payable of $1,324,682.

Investing activities

Net cash used in investing activities for the three months ended March 31, 2011, was $26,645, as compared to $557,460 net cash used in investing activities during the same period of 2010. The cash used in investing activities during the three months ended March 31, 2011, represents payment of $26,645 to acquire property and equipment. The cash used in investing activities during the three months ended March 31, 2010, represents the loan made to other of $440,100 and advance to related party of $117,360.

Financing activities

Net cash provided by financing activities for the three months ended March 31, 2011 was $0, as compared to $42,616, used in the same period of 2010. The cash used in financing activities during the three months ended March 31, 2010, represents distribution to owner of $482,716 and proceeds from loans of $440,100.

Bank loans

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

Short term loans of $1,786,232 as of March 31, 2011, were issued by Bank of Qingdao and JiMo Rural Bank, with annual interest rates ranging from 6.372% to 8.896%, and with terms of 12 months and 24 months which will mature in September, November and December 2011, respectively. All bank loans were secured either by the property of the Company or third parties.

Capital Resources

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

Inflation

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

Off Balance Sheet Arrangements

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

Seasonality

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

Critical Accounting Policies

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

Revenue Recognition

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

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

We do not grant any inventory pricing protection or other inventory adjusting policies to our distributors. The distributors are responsible for their purchased products types and volumes, unless any quality problems arise. If quality issues arise with our products, the products will be fully replaced by our manufacturers in accordance with the purchase agreement. As a result, we recognize our sales on delivery of our products to our wholesalers. For the retail customers, we only allow returns due to quality problems. We do not permit returns based on any other reason, and we do not believe such liberal return policies are common in China. Should there be any quality defects; customers have the right to return the shoes to the stores from which they purchased them. The stores then return them to our company, and we negotiate an acceptable solution with the manufacturers, which tend to vary with the facts in each case. According to our historical data, such returns are at approximately 0.01% of total sales and are not material to our financial statements.

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

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

Use of Estimates

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

Accounts Receivable

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

Impairment of Long-Lived Assets

The Company accounts for impairment of property and equipment and amortizable intangible assets in accordance with ASC 360, Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of , which requires the Company to evaluate a long-lived asset for recoverability when there is an event or circumstance that indicates the carrying value of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset or asset group is not recoverable (when the carrying amount exceeds the gross, undiscounted cash flows from use and disposition) and is measured as the excess of the carrying amount over the asset s (or asset group s) fair value. There was no impairment of long-lived assets for the three months ended March 31, 2011 and 2010.

Inventories

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

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

Comprehensive Income

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

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

Foreign Currency Translation

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

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

Segment Reporting

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We do not hold any derivative instruments and do not engage in any hedging activities.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Company s principal executive officer (CEO) and principal financial officer (CFO), evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, the CEO and CFO concluded that, as of the end of such period, the Company s disclosure controls and procedures were not effective to ensure that information that is required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to the Company s management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

(b) Management s Assessment of Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a−15(f) and 15d−15(f) under the Exchange Act. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of March 31, 2011. In making this assessment, management used the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The objective of this assessment is to determine whether our internal control over financial reporting was effective as of March 31, 2011. Based on our assessment utilizing the criteria issued by COSO, management has concluded that our internal control over financial reporting was not effective as of March 31, 2011. Management s assessment identified the following material weaknesses:

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As of March 31, 2011, there was a lack of accounting personnel with the requisite knowledge of Generally Accepted Accounting Principles (GAAP) in the U.S. and the financial reporting requirements of the SEC.

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As of March 31, 2011, there were insufficient written policies and procedures to insure the correct application of accounting and financial reporting with respect to the current requirements of GAAP and SEC disclosure requirements.

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As of March 31, 2011, there was a lack of segregation of duties, in that we only had one person performing all accounting-related duties.

Notwithstanding the existence of these material weaknesses in our internal control over financial reporting, our management believes that the financial statements included in its reports fairly present in all material respects the Company s financial condition, results of operations and cash flows for the periods presented. We continue to evaluate the effectiveness of internal controls and procedures on an on-going basis. We plan to further address these issues once we commence operations and are able to hire additional personnel in financial reporting.

(c) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on May 5, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no unregistered sales of equity securities during the period ended March 31, 2011, that were not otherwise required to be disclosed in a current report on Form 8-K..

Item 3. Defaults Upon Senior Securities.

There has been no default in the payment of principal, interest, sinking or purchase fund installment, or any other material default, with respect to any indebtedness of the Company.

Item 4. (Removed and Reserved).

Item 5. Other Information.

There is no other information required to be disclosed under this item which was not previously disclosed.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of the Principal Executive Officer of the Company*
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of the Principal Accounting Officer of the Company*
32.1	Certification Pursuant to 18 U.S.C. Section 1350 of the Principal Executive Officer of the Company*
32.2	Certification Pursuant to 18 U.S.C. Section 1350 of the Principal Accounting Officer of the Company*

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QINGDAO FOOTWEAR, INC.

Dated: May 20, 2011

/s/ Tao Wang
Tao Wang
Chief Executive Officer (Principal Executive Officer)

Dated: May 20, 2011

/s/ Pin Huang
Pin Huang
Chief Financial Officer (Principal Accounting Officer)