

QKL STORES INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	September 30, 2011	December 31, 2010
	<u>(Unaudited)</u>	
ASSETS		
Cash	\$ 27,982,089	\$ 17,460,034
Restricted cash	7,252	77,205
Accounts receivable	744,735	167,509
Inventories	42,788,700	44,467,265
Other receivables	10,831,183	28,236,397
Prepaid expenses	4,934,151	5,088,825
Advances to suppliers	4,552,051	3,740,327
Deferred income tax assets	754,117	508,617
Total current assets	92,594,278	99,746,179
Property, plant and equipment, net	43,268,109	24,792,149
Land use rights, net	771,571	748,533
Goodwill	45,302,741	43,863,929
Other assets	179,234	467,927
Total assets	\$ 182,115,933	\$ 169,618,717
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term loans	\$ 3,124,121	\$ -
Accounts payable	36,688,818	38,944,917
Cash card and coupon liabilities	14,193,500	10,814,546
Customer deposits received	1,530,876	1,495,059
Accrued expenses and other payables	14,216,714	9,883,282
Income taxes payable	508,142	2,365,931
Total current liabilities	70,262,171	63,503,735
Total liabilities	70,262,171	63,503,735
Shareholders' equity		
Common stock, \$0.001 par value per share, authorized 100,000,000 shares, issued and outstanding 31,344,590 and 29,743,811 shares at September 30, 2011 and December 31, 2010, respectively	31,345	29,744
Series A convertible preferred stock, par value \$0.01, authorized 10,000,000 shares, issued and outstanding 5,694,549 and 7,295,328 at September 30, 2011 and December 31, 2010, respectively	56,945	72,953
Additional paid-in capital	91,373,502	90,710,619
Retained earnings – appropriated	6,012,675	6,012,675
Retained earnings	3,799,602	2,094,850
Accumulated other comprehensive income	10,579,693	7,194,141
Total shareholders' equity	111,853,762	106,114,982
Total liabilities and shareholders' equity	\$ 182,115,933	\$ 169,618,717

See notes to unaudited condensed consolidated financial statements.

QKL STORES INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income

	(Unaudited)		(Unaudited)	
	Three Months Ended September		Nine Months Ended September	
	30,	30,	30,	30,
	2011	2010	2011	2010
Net sales	\$ 82,068,788	\$ 64,869,749	\$ 266,833,256	\$ 212,575,456
Cost of sales	67,874,242	53,575,513	219,918,263	175,160,430
Gross profit	<u>14,194,546</u>	<u>11,294,236</u>	<u>46,914,993</u>	<u>37,415,026</u>
Operating expenses:				
Selling expenses	13,040,763	7,817,663	38,327,459	21,801,656
General and administrative expenses	2,333,267	2,123,248	6,483,350	6,022,119
Total operating expenses	<u>15,374,030</u>	<u>9,940,911</u>	<u>44,810,809</u>	<u>27,823,775</u>
Income from operations	<u>(1,179,484)</u>	<u>1,353,325</u>	<u>2,104,184</u>	<u>9,591,251</u>
Non-operating income (expense):				
(Increase) decrease in fair value of warrants				7,801,649
Interest income	175,745	165,287	629,130	510,215
Interest expense	(10,593)	(35)	(41,693)	(10,416)
Total non-operating income (loss)	<u>165,152</u>	<u>165,252</u>	<u>587,437</u>	<u>8,301,448</u>
Income (loss) before income taxes	(1,014,332)	1,518,577	2,691,621	17,892,699
Income taxes	(164,822)	486,712	986,869	2,865,614
Net income (loss)	\$ (849,510)	\$ 1,031,865	\$ 1,704,752	\$ 15,027,085
Comprehensive income statement:				
Net income (loss)	\$ (849,510)	\$ 1,031,865	\$ 1,704,752	\$ 15,027,085
Foreign currency translation adjustment	1,023,116	1,697,722	3,385,552	1,743,207
Comprehensive income	\$ 173,606	\$ 2,729,587	\$ 5,090,304	\$ 16,770,292
Net income per common stock – basic	\$ (0.02)	\$ 0.03	\$ 0.05	\$ 0.41
Net income per Series A convertible participating preferred stock – basic	\$ (0.02)	\$ 0.03	\$ 0.05	\$ 0.41
Net income per common stock – diluted	<u>\$ (0.02)</u>	<u>\$ 0.03</u>	<u>\$ 0.05</u>	<u>\$ 0.18</u>
Weighted average shares used in calculating net income per ordinary share – basic	31,122,579	29,714,017	30,300,355	29,647,487
Weighted average shares used in calculating net income per Series A convertible participating preferred stock - basic	5,916,560	7,325,122	6,812,143	7,372,789
Weighted average shares used in calculating net income per ordinary share – diluted	<u>37,039,139</u>	<u>38,529,272</u>	<u>37,112,498</u>	<u>39,800,488</u>

See notes to unaudited condensed consolidated financial statements.

QKL STORES INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

(Unaudited)

Nine Months Ended September 30,

2011 **2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 1,704,752	\$ 15,027,085
Depreciation – property, plant and equipment	5,815,703	3,776,394
Amortization	22,519	30,920
Share-based compensation	648,474	823,540
Deferred income tax	(225,151)	(434,518)
Loss/(profit) on disposal of fixed assets	153,494	-
Change in fair value of warrants	-	(7,801,649)
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	(562,574)	(423,628)
Inventories	3,086,917	1,630,666
Other receivables	18,037,812	(763,314)
Prepaid expenses	604,642	(1,198,263)
Advances to suppliers	(2,500,125)	(938,109)
Accounts payable	(3,476,958)	(361,435)
Cash card and coupon liabilities	2,975,779	1,978,662
Customer deposits received	(13,012)	(2,949,589)
Accrued expenses and other payables	2,996,074	(968,598)
Income taxes payable	(1,904,396)	(95,213)
Net cash provided by operating activities	<u>27,363,950</u>	<u>7,332,951</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property, plant and equipment	(20,686,955)	(5,486,632)
Acquisition of operating rights	-	(11,627,230)
Refund of office building purchase payment	-	11,015,480
Decrease of restricted cash	69,952	83,676
Net cash used in investing activities	<u>(20,617,003)</u>	<u>(6,014,706)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Bank borrowing	3,074,081	-
Net cash provided by financing activities	3,074,081	-
-		
Effect of foreign currency translation	701,027	1,141,629
Net increase in cash	10,522,055	2,459,874
Cash – beginning of period	17,460,034	45,912,798
Cash – end of period	<u>\$ 27,982,089</u>	<u>\$ 48,372,672</u>

Supplemental disclosures of cash flow information:

Interest received	\$ 285,158	\$ 510,215
Interest paid	\$ 41,693	\$ 10,600
Income taxes paid	\$ 3,024,287	\$ 3,528,790