(Financial Tables on Following Pages)

QKL STORES INC. AND SUBSIDIARIES

Income Statements

	Years Ended December 31, 2010	Years Ended December 31, 2009
Net sales	$ 298,399,394	$ 247,594,272
Cost of sales	245,548,576	203,994,809
Gross profit	52,850,818	43,599,463
Operating expenses:		
Selling expenses	32,348,721	24,324,848
General and administrative expenses	8,151,742	4,802,262
Total operating expenses	40,500,463	29,127,110
Income from operations	12,350,355	14,472,353
Non-operating income(expense):		
Other income (expenses)	-	(14,253)
(Increase) decrease in fair value of warrants	7,801,649	(35,492,017)
Interest income	670,245	222,007
Interest expense	(10,469)	(23,734)
Total non-operating income (loss)	8,461,425	(35,307,997)
Income (loss) before income tax	20,811,780	(20,835,644)
Income taxes	3,381,216	3,807,794
Net income (loss)	$ 17,430,564	$ (24,643,438)
Weighted average number of shares outstanding:		
Basic	29,670,468	21,885,423
Diluted	39,411,282	21,885,423
Earnings (loss) per share		
Basic	$ 0.59	$ (1.13)
Diluted	$ 0.44	$ (1.13)

QKL STORES INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
ASSETS		
Cash	$ 17,460,034	$ 45,912,798
Restricted cash	77,205	181,836
Accounts receivable	167,509	283,929
Inventories	44,467,265	24,691,156
Other receivables	28,236,397	13,980,572
Prepaid expenses	5,088,825	2,993,191
Advances to suppliers	3,740,327	2,965,139
Deferred income tax assets	508,617	417,788
Total current assets	99,746,179	91,426,409
Property, plant equipment, net	24,792,149	29,402,630
Land use rights, net	748,533	753,226
Goodwill	43,863,929	19,280,509
Other assets	467,927	408,391
Total assets	**$169,618,717**	**$141,271,165**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	38,944,917	29,244,923
Cash card and coupon liabilities	10,814,546	7,721,630
Customer deposits received	1,495,059	3,862,890
Accrued expenses and other payables	9,883,282	6,656,089
Income taxes payable	2,365,931	1,154,229
Total current liabilities	63,503,735	48,639,761
Warrant liabilities	-	44,304,034
Total liabilities	63,503,735	92,943,795
Commitments and contingencies	-	-
Stockholders' equity		
Common stock, $.001 par value per share, authorized 100,000,000, shares, issued and outstanding 29,743,811 and 29,475,983 at December 31, 2010 and December 31, 2009, respectively	29,744	29,476
Series A convertible preferred stock, par value $0.01, 10,000,000 shares authorized, 7,295,382 and 7,548,346 shares outstanding at December 31, 2010 and 2009, respectively	72,953	75,483
Additional paid-in capital	90,710,619	53,191,217

Retained earnings – appropriated	6,012,675	4,913,072
Retained earnings (accumulated deficit)	2,094,850	(14,236,111)
Accumulated other comprehensive income	7,194,141	4,354,233
Total stockholders' equity	106,114,982	48,327,370
Total liabilities and stockholders' equity	**$169,618,717**	**$141,271,165**

QKL STORES INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 17,430,564	$(24,643,438)
Depreciation-property, plant and equipment	4,858,011	2,721,636
Amortization	28,294	27,967
Deferred income tax	(77,850)	(416,944)
Loss on disposal of property, plant and equipment	180,304	36,938
Share-based compensation	1,014,755	-
Change in fair value of warrants	(7,801,649)	35,492,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	125,240	512,692
Inventories	(19,009,023)	(10,047,537)
Other receivables	(13,821,470)	(9,749,527)
Prepaid expenses	(2,038,694)	(327,811)
Advances to suppliers	(2,043,610)	1,686,988
Accounts payable	8,791,436	7,829,738
Cash card and coupon liabilities	2,853,026	3,834,412
Customer deposits received	(2,487,840)	944,028
Accrued expenses and other payables	1,748,832	3,069,863
Income taxes payable	1,175,844	(104,692)
Net cash provided by operating activities	(9,073,830)	10,866,330
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(8,618,288)	(19,566,327)
Acquisition of business, net	(23,984,428)	-
Refund of office building purchase	11,343,373	-
Sales proceeds of fixed assets disposal	11,533	-

Decrease of restricted cash	104,631	111,313
Net cash used in investing activities	(21,143,179)	(19,455,014)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of Common stock	-	37,406,389
Repayment of bank loan	-	(2,195,872)
Net cash provided by financing activities	-	35,210,517
Net increase in cash	(30,217,009)	26,621,833
Effect of foreign currency translation	1,764,245	5,944
Cash at beginning of period	45,912,798	19,285,021
Cash at end of period	$ 17,460,034	$ 45,912,798
Supplemental disclosures of cash flow information:		
Interest received	206,003	222,007
Interest paid	10,469	23,734
Income taxes paid	$ 2,260,343	$ 4,120,045

QKL STORES INC. AND SUBSIDIARIES

Income Statements

	Three Months ended December 31, 2010	Three Months ended December 31, 2009
Net sales	$ 85,823,938	$ 73,184,213
Cost of sales	70,388,146	60,171,683
Gross profit	15,435,792	13,012,530
Operating expenses:		
Selling expenses	10,547,065	8,068,950
General and administrative expenses	2,129,623	1,585,004
Total operating expenses	12,676,688	9,653,954

Income from operations		2,759,104		3,358,576
Non-operating income(expense):				
Other income (expenses)		-		(14,253)
(Increase) decrease in fair value of warrants		-		9,558,621
Interest income		160,030		33,559
Interest expense		(53)		(2,934)
Total non-operating income		159,977		9,574,994
Income before income tax		2,919,081		12,933,569
Income taxes		515,602		821,195
Net income	$	2,403,479	$	12,112,374
Weighted average number of shares outstanding:				
Basic		29,738,659		24,858,989
Diluted		37,694,475		36,254,460
Earnings (loss) per share				
Basic	$	0.08	$	0.49
Diluted	$	0.06	$	0.33