

QKL STORES INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	March 31, 2010	December 31, 2009
ASSETS		
Cash	\$ 46,529,122	\$ 45,912,798
Restricted cash	146,962	181,836
Accounts receivable	177,124	283,929
Inventories	17,809,700	24,691,156
Other receivables	19,942,503	13,980,572
Prepaid expenses	2,478,182	2,993,191
Advances to suppliers	3,396,668	2,965,139
Deferred income tax assets	523,180	417,788
Total current assets	91,003,441	91,426,409
Property, plant and equipment, net	28,996,193	29,402,630
Land use rights, net	744,348	753,226
Goodwill	19,227,147	19,280,509
Other assets	389,677	408,391
Total assets	\$ 140,360,806	\$ 141,271,165
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 25,116,808	\$ 29,244,923
Cash card and coupon liabilities	8,415,859	7,721,630
Customer deposits received	777,700	3,862,890
Accrued expenses and other payables	6,963,358	6,656,089
Income taxes payable	1,932,381	1,154,229
Total current liabilities	43,206,106	48,639,761
Warrant liabilities	-	44,304,034
Total liabilities	43,206,106	92,943,795
Commitments and contingencies	-	-
Stockholders' equity		
Common stock, \$.001 par value per share, authorized 100,000,000 shares, issued and outstanding 29,653,431 and 29,475,983 shares at March 31,	29,653	29,476
Series A convertible preferred stock, par value \$0.01, authorized 10,000,000 shares, issued and outstanding 7,370,898 and 7,548,346 at March 31, 2010	73,709	75,483
Additional paid-in capital	90,265,420	53,191,217
Retained earnings – appropriated	4,913,072	4,913,072
Accumulated deficit	(2,353,260)	(14,236,111)
Accumulated other comprehensive income	4,226,106	4,354,233
Total stockholders' equity	97,154,700	48,327,370
Total liabilities and stockholders' equity	\$ 140,360,806	\$ 141,271,165

QKL STORES INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

	(Unaudited)	
	Three Months Ended March	
	2010	2009
Net sales	\$ 82,279,287	\$ 67,099,111
Cost of sales	67,753,173	55,329,600
Gross profit	14,526,114	11,769,511
Operating expenses:		
Selling expenses	6,866,038	5,189,088
General and administrative expenses	2,167,258	1,479,598
Total operating expenses	9,033,296	6,668,686
Income from operations	5,492,818	5,100,825
Non-operating income (expense):		
Changes in fair value of warrants	7,801,649	359,521
Interest income	146,938	63,670
Interest expense	-	(20,786)
Total non-operating income	7,948,587	402,405
Income before income taxes	13,441,405	5,503,230
Income taxes	1,558,554	1,469,191
Net income	\$ 11,882,851	\$ 4,034,039
Comprehensive income statement:		
Net income	\$ 11,882,851	\$ 4,034,039
Foreign currency translation adjustment	(128,127)	352,188
Comprehensive income statement	\$ 11,754,724	\$ 4,386,227
Weighted average number of shares outstanding:		
Basic	29,558,976	20,882,353
Diluted	40,356,404	30,000,000
Earnings per share:		
Basic	\$ 0.40	\$ 0.19
Diluted	\$ 0.29	\$ 0.13

QKL STORES INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	(Unaudited)	
	Three Months Ended	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 11,882,85	\$ 4,034,03
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation – property, plant and equipment	1,182,186	569,605
Amortization	6,793	6,782
Share-based compensation	570,222	-
Deferred income tax	(106,549)	-
Loss on disposal of property, plant and equipment	-	-
Change in fair value of warrants	(7,801,64	(359,521)
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	106,019	-
Inventories	6,813,119	1,533,60
Other receivables	(6,000,62	1,160,70
Prepaid expenses	524,309	(158,048))
Advances to suppliers	330,749	452,468
Accounts payable	(4,047,17	618,116
Cash card and coupon liabilities	715,600	494,734
Customer deposits received	(3,074,49	(1,459,22
Accrued expenses and other payables	(413,901)	(97,515)
Income taxes payable	781,347	215,210
Net cash provided by operating activities	1,468,796	7,010,94
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(888,146)	(1,612,40
Decrease of restricted cash	34,874	62,799
Net cash used in investing activities	(853,272)	(1,549,60
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bank loan	-	(2,190,87
Net cash used in financing activities	-	(2,190,87
Effect of foreign currency translation	800	71,220
Net increase in cash	616,324	3,341,68
Cash – beginning of period	45,912,79	19,285,0
Cash – end of period	\$ 46,529,12	\$ 22,626,7
Supplemental disclosures of cash flow information:		
Interest paid	-	\$ 20,786
Income taxes paid	\$ 964,883	\$ 1,220,80