

QKL STORES INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2009	December 31, 2008
ASSETS		
Cash	\$ 45,912,798	\$ 19,285,021
Pledged deposits	181,836	293,149
Accounts receivable, net of allowance for doubtful accounts of nil and nil, respectively	283,929	793,352
Inventories	24,691,156	14,544,341
Other receivables	13,980,572	4,189,140
Prepaid expenses	2,993,191	1,862,591
Advances to suppliers	2,965,139	3,342,756
Deferred income tax assets	417,788	-
Total current assets	91,426,409	44,310,350
Property, plant equipment, net	29,402,630	12,960,303
Land use rights, net	753,226	776,259
Goodwill	19,280,509	18,878,823
Other assets	408,391	787,741
Total assets	\$ 141,271,165	\$ 77,713,476
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term bank loans	\$ -	\$ 2,188,439
Accounts payable	29,244,923	21,283,818
Cash card and coupon liabilities	7,721,630	3,858,514
Customer deposits received	3,862,890	2,901,205
Accrued expenses and other payables	6,656,089	2,362,077
Income taxes payable	1,154,229	1,252,336
Total current liabilities	48,639,761	33,846,389
Warrant liabilities	44,304,034	
Total liabilities	92,943,795	33,846,389
Commitments and contingencies		

Stockholders' equity

Common stock, \$.001 par value per share, authorized 100,000,000, shares, issued and outstanding 29,475,983 and 20,882,353 at December 31, 2009 and December 31, 2008, respectively	29,476	20,882
Series A convertible preferred stock, par value \$0.01, 10,000,000 shares authorized, 7,548,346 and 9,117,647 shares outstanding at December 31, 2009 and 2008, respectively	75,483	91,176
Additional paid-in capital	53,191,217	21,783,477
Retained earnings – appropriated	4,913,072	3,908,247
Retained earnings	14,236,111	14,204,169
Accumulated other comprehensive income	4,354,233	3,859,136
Total stockholders' equity	48,327,370	43,867,087
Total liabilities and stockholders' equity	\$ 141,271,165	\$ 77,713,476

QKL STORES INC. AND SUBSIDIARIES

Consolidated Statements of Income

	Years Ended December 31,	
	2009	2008
Net sales	\$ 247,594,272	\$ 160,129,600
Cost of sales	206,639,561	129,739,748
Gross profit	40,954,711	30,389,852
Selling expenses	21,680,096	12,639,565
General and administrative expenses	4,802,262	3,249,506
Income from operations	14,472,353	14,500,781
Other expenses	14,253	1,979,460
Changes in fair value of warrants	35,492,017	
Interest income	(222,007)	(272,551)
Interest expense	23,734	240,330
Income before income tax	(20,835,644)	12,553,542
Income tax expense	3,807,794	3,556,474
Net income	\$ (24,643,438)	\$ 8,997,068

Weighted average number of shares outstanding

Basic	21,885,423	20,882,353
Diluted	31,922,995	31,137,642

Earnings per share

Basic	\$ (1.13)	\$ 0.43
Diluted	(0.77)	0.29

QKL STORES INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ (24,643,438)	\$ 8,997,068
Depreciation	2,721,636	1,727,668
Amortization	27,967	26,679
Deferred income tax	(416,944)	--
Loss on disposal of property, plant and equipment	36,938	--
Change in fair value of warrants	35,492,017	
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	512,692	(781,040)
Inventories	(10,047,537)	(5,265,816)
Other receivables	(9,749,527)	(771,775)
Prepaid expenses	(327,811)	(874,300)
Advances to suppliers	1,686,988	(2,234,224)
Accounts payable	7,829,738	12,699,697
Cash card and coupon liabilities	3,834,412	1,892,717
Customer deposits received	944,028	1,938,371
Accrued expenses and other payables	3,069,863	467,163
Income taxes payable	(104,692)	839,059
Net cash provided by operating activities	10,866,330	18,661,267
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(19,566,327)	(4,595,461)
Acquisition of business, net	--	(19,640,200)
Increase(Decrease) pledged deposits	111,313	(293,149)
Net cash used in investing activities	(19,455,014)	(24,528,810)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of Common stock	37,406,389	--
Proceeds from issuance of Series A convertible preferred stock		15,500,000
Repayment of bank loan	(2,195,872)	(2,872,635)
Net cash provided by financing activities	35,210,517	12,627,365
Net increase in cash	26,621,833	6,759,822
Effect of foreign currency translation	5,944	1,783,135
Cash at beginning of period	19,285,021	10,742,064
Cash at end of period	\$ 45,912,798	\$ 19,285,021

Supplemental disclosures of cash flow information:

Interest paid		23,734		240,330
Income taxes paid	\$	4,120,045	\$	2,472,229