

QKL STORES INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	June 30,	December
	2011	31,
	<u>(Unaudited)</u>	<u>2010</u>
ASSETS		
Cash	\$ 36,032,802	\$ 17,460,034
Restricted cash	35,245	77,205
Accounts receivable	782,281	167,509
Inventories	37,549,843	44,467,265
Other receivables	17,301,351	28,236,397
Prepaid expenses	5,211,102	5,088,825
Advances to suppliers	2,590,634	3,740,327
Deferred income tax assets	689,719	508,617
Total current assets	<u>100,192,977</u>	<u>99,746,179</u>
Property, plant and equipment, net	39,783,641	24,792,149
Land use rights, net	761,134	748,533
Goodwill	44,866,814	43,863,929
Other assets	466,816	467,927
Total assets	<u>\$ 186,071,382</u>	<u>\$169,618,717</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 36,237,786	\$ 38,944,917
Cash card and coupon liabilities	12,256,490	10,814,546
Customer deposits received	1,218,321	1,495,059
Accrued expenses and other payables	23,759,004	9,883,282
Income taxes payable	1,135,785	2,365,931
Total current liabilities	<u>74,607,386</u>	<u>63,503,735</u>
Total liabilities	<u>74,607,386</u>	<u>63,503,735</u>
Shareholders' equity		
Common stock, \$0.001 par value per share, authorized 100,000,000 shares, issued and outstanding 30,269,590 and 29,743,811 shares at June 30, 2011 and December 31, 2010, respectively	30,270	29,744
Series A convertible preferred stock, par value \$0.01, authorized 10,000,000 shares, issued and outstanding 6,769,549 and 7,295,328 at June 30, 2011 and December 31, 2010, respectively	67,695	72,953
Additional paid-in capital	91,147,667	90,710,619
Retained earnings – appropriated	6,012,675	6,012,675
Retained earnings	4,649,112	2,094,850
Accumulated other comprehensive income	9,556,577	7,194,141

Total shareholders' equity	111,463,996	106,114,982
Total liabilities and shareholders' equity	\$ 186,071,382	\$169,618,717

QKL STORES INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income

	(Unaudited)		(Unaudited)	
	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2011	2010	2011	2010
Net sales	\$83,453,372	\$66,099,594	\$184,764,468	\$147,705,707
Cost of sales	68,828,405	54,504,918	152,044,021	121,584,917
Gross profit	14,624,967	11,594,676	32,720,447	26,120,790
Operating expenses:				
Selling expenses	12,749,493	7,117,955	25,286,696	13,983,993
General and administrative expenses	1,946,466	1,731,613	4,150,083	3,898,871
Total operating expenses	14,695,959	8,849,568	29,436,779	17,882,864
Income from operations	(70,992)	2,745,108	3,283,668	8,237,926
Non-operating income (expense):				
(Increase) decrease in fair value of warrants	-	-	-	7,801,649
Interest income	163,762	195,810	453,385	344,928
Interest expense	-	(8,201)	(31,100)	(10,381)
Total non-operating income (loss)	163,762	187,609	422,285	8,136,196
Income (loss) before income taxes	92,770	2,932,717	3,705,953	16,374,122
Income taxes	125,637	820,348	1,151,691	2,378,902
Net income (loss)	\$ (32,867)	\$ 2,112,369	\$ 2,554,262	\$ 13,995,220
Comprehensive income statement:				

Net income (loss)	\$ (32,867)	\$ 2,112,369	\$ 2,554,262	\$ 13,995,220
Foreign currency translation adjustment	1,784,806	173,612	2,362,436	45,485
Comprehensive income	\$ 1,751,939	\$ 2,285,981	\$ 4,916,698	\$ 14,040,705

Weighted average number of shares outstanding:				
Basic	29,755,085	29,667,924	29,771,783	29,613,671
Diluted	29,755,085	39,859,213	37,039,139	40,332,126

Earnings per share:				
Basic	\$ (0.001)	\$ 0.07	\$ 0.09	\$ 0.47
Diluted	\$ (0.001)	\$ 0.05	\$ 0.07	\$ 0.35

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

(Unaudited)
Six Months Ended June
30,
2011 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 2,554,262	\$ 13,995,220
Depreciation – property, plant and equipment	3,566,227	2,309,342
Amortization	15,249	13,662
Share-based compensation	432,316	591,814
Deferred income tax	(169,473)	(256,827)
Change in fair value of warrants	-	(7,801,649)
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	(610,942)	33,031
Inventories	7,934,102	5,706,734

Other receivables	11,580,644	(37,080)
Prepaid expenses	(5,164)	(272,240)
Advances to suppliers	(598,759)	401,054
Accounts payable	(3,597,550)	(6,394,315)
Cash card and coupon liabilities	1,194,685	(169,382)
Customer deposits received	(310,921)	(3,172,881)
Accrued expenses and other payables	5,272,840	187,656
Income taxes payable	(1,284,241)	152,112
Net cash provided by operating activities	<u>25,973,275</u>	<u>5,286,251</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property, plant and equipment	(7,775,089)	(2,831,895)
Refund of office building purchase payment	-	11,015,480
Decrease of restricted cash	41,960	55,765
Net cash provided by (used in) investing activities	<u>(7,733,129)</u>	<u>8,239,350</u>

Effect of foreign currency translation	<u>332,622</u>	<u>(13,352)</u>
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Net increase in cash	18,572,768	13,512,249
Cash – beginning of period	<u>17,460,034</u>	<u>45,912,798</u>
Cash – end of period	<u><u>\$36,032,802</u></u>	<u><u>\$ 59,425,047</u></u>

Supplemental disclosures of cash flow information:

Interest received	<u>\$ 220,968</u>	<u>\$ 344,928</u>
Interest paid	<u>\$ 31,100</u>	<u>\$ 10,381</u>
Income taxes paid	<u><u>\$ 2,562,939</u></u>	<u><u>\$ 2,495,550</u></u>