QKL STORES INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

	(Unaudited) Six Months Ended June 30,		(Unaudited) Three Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net sales	$ 147,705,707	$ 117,842,219	$ 66,099,594	$ 51,037,146
Cost of sales	121,584,917	97,002,702	54,504,918	41,967,140
Gross profit	26,120,790	20,839,517	11,594,676	9,070,006
Operating expenses:				
Selling expenses	13,983,993	10,631,419	7,117,955	5,443,808
General and administrative expenses	3,898,871	2,165,650	1,731,613	685,644
Total operating expenses	17,882,864	12,797,069	8,849,568	6,129,452
Income from operations	8,237,926	8,042,448	2,745,108	2,940,554
Non-operating income (expense):				
Increase (decrease) in fair value of warrants	7,801,649	(13,438,420)	-	-13,797,941
Interest income	344,928	153,106	195,810	89,447
Interest expense	(10,381)	(20,796)	(8,201)	-
Total non-operating income (loss)	8,136,196	(13,306,110)	187,609	-13,708,494
Income (loss) before income taxes	16,374,122	(5,263,662)	2,932,717	(10,767,940)
Income taxes	2,378,902	2,156,759	820,348	687,178
Net income (loss)	$ 13,995,220	$ (7,420,421)	$ 2,112,369	$ (11,455,118)
Comprehensive income statement:				
Net income (loss)	$ 13,995,220	$ (7,420,421)	$ 2,112,369	$ (11,455,118)
Foreign currency translation adjustment	45,485	355,807	173,612	3,619
Comprehensive income (loss)	$ 14,040,705	$ (7,064,614)	$ 2,285,981	$ (11,451,499)
Weighted average number of shares outstanding:				
Basic	29,613,671	20,882,353	29,667,924	20,882,353
Diluted	40,332,126	20,882,353	39,859,213	20,882,353
Earnings per share:				

Basic	$ 0.47	$ (0.36)	$ 0.07	$ (0.55)
Diluted	$ 0.35	$ (0.36)	$ 0.05	$ (0.55)

QKL STORES INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	30-Jun-10 (Unaudited)	31-Dec-09
ASSETS		
Cash	$ 59,425,047	$ 45,912,798
Restricted cash	126,071	181,836
Accounts receivable	251,257	283,929
Inventories	19,015,610	24,691,156
Other receivables	14,035,311	13,980,572
Prepaid expenses	3,278,525	2,993,191
Advances to suppliers	3,006,059	2,965,139
Deferred income tax assets	675,142	417,788
Total current assets	99,813,022	91,426,409
Property, plant and equipment, net	18,765,300	29,402,630
Land use rights, net	741,833	753,226
Goodwill	19,304,862	19,280,509
Other assets	399,593	408,391
Total assets	**$ 139,024,610**	**$ 141,271,165**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 22,887,547	$ 29,244,923
Cash card and coupon liabilities	7,562,001	7,721,630
Customer deposits received	694,888	3,862,890
Accrued expenses and other payables	7,110,101	6,656,089
Income taxes payable	1,307,798	1,154,229
Total current liabilities	39,562,335	48,639,761
Warrant liabilities	-	44,304,034
Total liabilities	39,562,335	92,943,795
Commitments and contingencies	-	-
Stockholders' equity		
Common stock, $.001 par value per share, authorized 100,000,000 shares, issued and outstanding 29,682,441 and 29,475,983 shares at June 30, 2010 and December 31, 2009, respectively	29,682	29,476
Series A convertible preferred stock, par value $0.01, authorized 10,000,000 shares, issued and outstanding 7,356,698 and 7,548,346 at June 30, 2010 and December 31, 2009, respectively	73,567	75,483

Additional paid-in capital	90,287,127	53,191,217
Retained earnings – appropriated	4,913,072	4,913,072
Accumulated deficit	-240,891	(14,236,111
Accumulated other comprehensive income	4,399, 718	4,354,233
Total stockholders' equity	99,462,275	48,327,370
Total liabilities and stockholders' equity	**$ 139,024,610**	**$ 141,271,165**

QKL STORES INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	(Unaudited) Six Months Ended June 30,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,995,220	$ -7,420,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation – property, plant and equipment	2,309,342	1,163,183
Amortization	13,662	13,571
Share-based compensation	591,814	
Deferred income tax	(256,827)	
Change in fair value of warrants	(7,801,649)	13,438,420
Adjustments to reconcile net income to net cash provided by operating activities:		
Accounts receivable	33,031	
Inventories	5,706,734	1,188,388
Other receivables	(37,080)	162,191
Prepaid expenses	(272,240)	23,547
Advances to suppliers	401,054	530,497
Accounts payable	(6,394,315)	-535,559
Cash card and coupon liabilities	(169,382)	476,596
Customer deposits received	(3,172,881)	(1,634,551)
Accrued expenses and other payables	187,656	319,162
Income taxes payable	152,112	(573,684)
Net cash provided by operating activities	5,286,251	7,151,340
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(2,831,895)	(3,103,502)
Refund of office building purchase payment	11,015,480	
Decrease of restricted cash	55,765	90,677
Net cash used in investing activities	8,239,350	(3,012,825)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bank loan	-	(2,191,947)
Net cash used in financing activities	-	(2,191,947)
Effect of foreign currency translation	(13,352)	45,256
Net increase in cash		
Cash – beginning of period	45,912,798	19,285,021
Cash – end of period	$ 59,425,047	$ 21,276,845

Supplemental disclosures of cash flow information:		
Interest received	344,928	153,106
Interest paid	$ 10,381	$ 20,796
Income taxes paid	$ 2,495,550	$ 2,681,834