

QKL Stores Inc. Announces Second Quarter 2011 Financial Results

***-- 2Q11 Revenue Increased 26.3% to \$83.5 million from \$66.1 million in 2Q10--
-- 2Q11 Gross Profit Increased 26.1% to \$14.6 million from \$11.6 million in 2Q10 --***

Daqing, China, August 15, 2011 – QKL Stores Inc. (the “Company”) (Nasdaq: QKLS), a leading regional supermarket chain in Northeastern China, today announced its financial results for the second quarter ended June 30, 2011.

Mr. Zhuangyi Wang, Chairman and CEO, said, “The second quarter was a period in which we focused on opening more of our larger concept stores and improving efficiency in our business. The performance of our existing stores opened for more than a year continued to show stable gross profit margin of 17.8% which helps support the ramp up period of our newer stores, which typically take longer to ramp to reach profitability. In the last 12 months, we have opened 18 new stores, many of which are located in remote areas and require higher marketing expenses to attract large numbers of customers.”

“We plan to open 2-3 additional stores this year. Many of the new stores we open in the future will be in the Liaoning Province where we have stronger relationships with local vendors and the cost of goods is slightly lower than the other two provinces (Heilongjiang and Jilin) in which we operate.”

“As our store opening plan modifies from the first half of the year, we believe that preliminary store opening expenses will decrease in the coming quarters as our total store sales rise, labor & utility costs stabilize and new store marketing expenses ease. For the remaining two quarters of 2011, we believe our gross margin will remain stable in the 17%-18% range, operating expenses as a percent of total revenue will move back into the 14%-15% range and we’ll return to profitability with net income as a percent of total revenue in the 2%-3% range.”

“As QKL expands its market presence in northeast China, we are uniquely positioned against our local competitors through our large product offering, strong supplier relationships, efficient distribution network and state-of-the-art IT system. We are comfortable with our opportunities in the second half of the year and believe we’ll see an improvement in operating expenses and profit growth from the current quarter.”

Second Quarter 2011 Financial Results

Revenue in the second quarter of 2011 increased 26.3% to \$83.5 million from \$66.1 million in the second quarter of 2010. Revenue performance reflected the growth of 33 comparable stores, which are stores that have been open for at least one year before the beginning of the comparison period, or by April 1, 2010, as well as sales from the opening of 18 new stores since April 1, 2010. Same-store sales were approximately \$67.2 million in the second quarter of 2011, an increase of 7.6% from \$62.5 million in the second quarter of 2010. The 18 new stores opened since April 1, 2010 generated approximately

\$14.1 million in the second quarter of 2011.

Gross profit increased 26.1% year-over-year to \$14.6 million, compared to \$11.6 million in the prior year period. Gross margin for the second quarter of 2011 remained flat at 17.5%. The increase in gross profit was primarily attributable to the increase in net sales compared to the second quarter of 2010.

Operating expenses increased 66.1% to \$14.7 million compared to \$8.8 million in the prior year period. This was primarily a result of additional salary, rent and utility expenses, the hiring of more employees, and other operating costs related to the Company's increased store count over the past year as well as from pre-opening expenses from five new stores opened in the second quarter of 2011.

The Company reported a net loss of approximately \$(32,867), or \$(0.001) per diluted share, compared with net income of \$2.1 million, or \$0.05 per diluted share, for the same period in 2010. This decrease was due to higher selling expenses related to new stores opening and higher staff costs in the second quarter of 2011.

As of June 30, 2011, the Company had \$36.0 million in unrestricted cash, compared to \$17.5 million as of December 31, 2010 and no debt or bank loans.

As of June 30, 2011, the Company operated 51 stores totaling 275,000 sq. meters compared to 37 stores totaling 165,000 sq. meters in the prior year period. The Company opened 5 new store locations in the second quarter of 2011.

The number of weighted average shares outstanding used in the computation of diluted EPS (excluding the fair value of the warrants) decreased 25.3% to 29.8 million in the second quarter 2011 from 39.9 million in the second quarter 2010. The decrease is due to the fact that 7.3 million preferred stocks were not included in the computation of diluted net earnings per share as their effects would have been anti-dilutive since the Company had a net loss in the second quarter of 2011.

Net cash provided by operating activities for the six month ended June 30, 2011 and 2010 was \$26.0 million and \$5.3 million, respectively. The increase in cash provided by operating activities for the six month ended June 30, 2011 compared to the same period in 2010 primarily reflects net cash inflow caused by the decrease of inventories and decrease of other receivables. The decrease of inventories was caused by reducing the inventory on hand after the peak Chinese New Year season. The decrease of other receivables is largely attributable to the repayment of money from vendors.

Conference Call

The Company will conduct a conference call to discuss its second quarter 2011 results on Monday, August 15, 2011 at 9:00 am ET. Listeners may access the call by dialing #1-719-457-2506. To listen to the live webcast of the event, please go to <http://www.viavid.net>. Listeners may access the call replay, which will be available through August 22, by dialing # 1-858-384-5517; conference ID: 9495247.

About QKL Stores Inc.:

Based in Daqing, China, QKL Stores, Inc. is a leading regional supermarket chain company operating in Northeastern China. QKL Stores sells a broad selection of merchandise, including groceries, fresh food, and non-food items, through its retail supermarkets, hypermarkets and department stores; the company also has its own distribution centers that service its supermarkets. For more information, please access the Company's website at: www.qklstoresinc.com.

Safe Harbor Statement

Certain statements in this release and other written or oral statements made by or on behalf of the Company are "forward looking statements" within the meaning of the federal securities laws. Statements regarding future events and developments and our future performance, as well as management's expectations, beliefs, plans, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. The forward looking statements are subject to a number of risks and uncertainties including market acceptance of the Company's services and projects and the Company's continued access to capital and other risks and uncertainties. The actual results the Company achieves may differ materially from those contemplated by any forward-looking statements due to such risks and uncertainties. These statements are based on our current expectations and speak only as of the date of such statements.

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QKL STORES INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

| | June 30, 2011 | December 31, 2010 |
|---|--------------------------|----------------------------------|
| | (Unaudited) | |
| 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 | 100,192,977 | 99,746,179 |
| 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 | \$ 186,071,382 | \$ 169,618,717 |
| 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 | 74,607,386 | 63,503,735 |
| Total liabilities | 74,607,386 | 63,503,735 |
| 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) Three Months Ended June 30, | | (Unaudited) Six Months Ended June 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 | 332,622 | (13,352) |
|--|---------|----------|

| | | |
|-----------------------------|-----------------------------|-----------------------------|
| Net increase in cash | 18,572,768 | 13,512,249 |
| Cash – beginning of period | 17,460,034 | 45,912,798 |
| 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 | \$ 220,968 | \$ 344,928 |
| Interest paid | \$ 31,100 | \$ 10,381 |
| Income taxes paid | \$ 2,562,939 | \$ 2,495,550 |