

QKL STORES INC.**CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2008 AND DECEMBER 31, 2007
(Stated in US Dollars)**

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 29,908,003	\$ 10,742,064
Pledged deposits	300,000	-
Other receivables	3,821,284	3,190,205
Prepaid expenses	1,742,923	909,587
Advances to suppliers	1,045,210	1,005,824
Inventories and consumables	7,907,723	8,239,770
Total current assets	\$ 44,725,143	\$ 24,087,450
Property, plant and equipment, net	10,196,727	9,806,545
Lease prepayments, net	798,046	752,844
TOTAL ASSETS	\$ 55,719,916	\$ 34,646,839
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term bank loans	\$ 2,182,834	\$ 2,734,444
Accounts payable	11,646,927	7,856,753
Cash card and coupon liabilities	2,138,578	1,814,229
Deposits received	52,719	873,657
Accruals	745,712	347,486
Other PRC taxes payable	322,584	16,115
Other payables	1,072,729	793,484
Income taxes payable	493,698	374,895
Total current liabilities	\$ 18,655,781	\$ 14,811,063
Long-term bank loans	-	2,050,833
TOTAL LIABILITIES	\$ 18,655,781	\$ 16,861,896
Commitments and contingencies	\$ -	\$ -

STOCKHOLDERS' EQUITY

Common stock, par value \$0.001, 100,000,000 shares authorized, 20,882,353 and 19,082,299 issued and outstanding, respectively	\$ 20,882	\$ 19,082
Series A convertible preferred stock, par value \$0.01, 10,000,000 shares authorized, 9,117,647 and nil issued and outstanding respectively	91,176	-
Additional paid-in capital	21,783,477	4,457,653
Statutory reserves	2,703,742	2,703,742
Retained earnings	8,826,902	9,179,694
Accumulated other comprehensive income	3,637,956	1,424,772
	<u>\$ 37,064,135</u>	<u>\$ 17,784,943</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 55,719,916</u>	<u>\$ 34,646,839</u>

QKL STORES INC.

CONSOLIDATED STATEMENTS OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Stated in US Dollars)(Unaudited)

	Six months ended June 30,	
	2008	2007
Net revenues		
Direct sales	\$ 57,344,322	\$ 44,356,746
Other operating income	<u>1,449,015</u>	<u>1,060,542</u>
	\$ 58,793,337	\$ 45,417,288
Cost of inventories sold	<u>(45,310,247)</u>	<u>(35,774,150)</u>
Gross profit	\$ 13,483,090	\$ 9,643,138
Selling	(6,350,502)	(4,495,920)
General and administrative	<u>(1,198,919)</u>	<u>(373,361)</u>
Operating income	\$ 5,933,669	\$ 4,773,857
Transaction cost of reverse merger	(1,976,470)	-
Interest income	107,198	21,876
Interest expenses	<u>(128,651)</u>	<u>(80,727)</u>

Income before income taxes	\$ 3,935,746	\$ 4,715,006
Income taxes	<u>(1,520,450)</u>	<u>(1,544,193)</u>
Net income	<u>\$ 2,415,296</u>	<u>\$ 3,170,813</u>
Basic earnings per share	<u>\$ 0.12</u>	<u>\$ 0.17</u>
Diluted earnings per share	<u>\$ 0.08</u>	<u>\$ 0.17</u>
Basic weighted average share outstanding	<u>20,882,353</u>	<u>19,082,299</u>
Diluted weighted average share outstanding	<u>30,753,466</u>	<u>19,082,299</u>

QKL STORES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Stated in US Dollars)(Unaudited)

	Six months ended June	
	30,	
	2008	2007
Cash flows from operating activities		
Net income	\$ 2,415,296	\$ 3,170,813
Depreciation	872,058	711,906
Amortization	15,874	1,731
Loss on disposal of plant and equipment	184,684	22,536
Adjustments to reconcile net income to net cash provided by operating activities:		
Other receivables	(413,108)	(3,620,377)
Inventories and consumables	837,907	869,052
Advances to suppliers	24,633	854,490
Prepaid expenses	(749,020)	519,965
Accounts payable	3,191,214	249,305
Cash card and coupon liabilities	201,683	373,288
Deposits received	(852,263)	(849,228)
Accruals	344,202	154,563
Other PRC taxes payable	296,759	(55,740)
Other payables	(13,089)	427,938

Income taxes payable	91,984	(325,224)
Net cash provided by operating activities	<u>\$ 6,448,814</u>	<u>\$ 2,505,018</u>
Cash flows from investing activities		
Purchase of plant and equipment	\$ (822,573)	\$ (979,087)
Payment of lease prepayments	(12,712)	(3,816)
Increase in pledged deposits	<u>(300,000)</u>	<u>-</u>
Net cash used in investing activities	<u>\$ (1,135,285)</u>	<u>\$ (982,903)</u>
Cash flows from financing activities		
Issuance of Series A convertible preferred stock	\$15,500,000	\$ -
Bank borrowings	-	4,527,820
Bank repayments	<u>(2,827,802)</u>	<u>(5,045,285)</u>
Net cash provided by (used in) financing activities	<u>\$12,672,198</u>	<u>\$ (517,465)</u>
Net cash and cash equivalents sourced	\$17,985,727	\$1,004,650
Effect of foreign currency translation on cash and cash equivalents	1,180,212	117,897
Cash and cash equivalents—beginning of period	<u>10,742,064</u>	<u>4,116,600</u>
Cash and cash equivalents—end of period	<u><u>\$29,908,003</u></u>	<u><u>\$5,239,147</u></u>
Supplementary cash flow information:		
Interest received	\$ 107,199	\$ 21,876
Interest paid	128,651	80,727
Tax paid	<u>1,428,466</u>	<u>1,869,417</u>