

**QKL STORES INC.**  
**FINANCIAL STATEMENTS**

**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**  
**(Stated in US Dollars)**

	September 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 33,208,616	\$ 10,742,064
Pledged deposits	300,000	-
Other receivables	6,647,808	3,190,205
Prepaid expenses	1,994,083	909,587
Advances to suppliers	1,565,659	1,005,824
Inventories and consumables	9,681,491	8,239,770
	<u>                    </u>	<u>                    </u>
Total current assets	\$ 53,397,657	\$ 24,087,450
Property, plant and equipment, net	10,649,082	9,806,545
Lease prepayments, net	811,551	752,844
	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<b>\$ 64,858,290</b>	<b>\$ 34,646,839</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Short-term bank loans	\$ 2,188,152	\$ 2,734,444
Accounts payable	16,704,677	7,856,753
Cash card and coupon liabilities	2,993,684	1,814,229
Deposits received	262,986	873,657
Accruals	786,289	347,486
Other PRC taxes payable	87,729	16,115
Other payables	1,629,013	793,484
Income taxes payable	824,082	374,895
	<u>                    </u>	<u>                    </u>
Total current liabilities	\$ 25,476,612	\$ 14,811,063
Long-term bank loans	-	2,050,833
	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES</b>	<b>\$ 25,476,612</b>	<b>\$ 16,861,896</b>
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		11,067,640		9,179,694
Accumulated other comprehensive income		3,714,761		1,424,772
	\$	39,381,678	\$	17,784,943
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$	64,858,290	\$	34,646,839

**QKL STORES INC.****CONSOLIDATED STATEMENTS OF INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007  
(Stated in US Dollars)(Unaudited)**

	Nine months ended September 30,	
	2008	2007
Net revenues		
Direct sales	\$ 87,880,021	\$ 65,268,033
Other operating income	2,456,883	1,599,610
	\$ 90,336,904	\$ 66,867,643
Cost of inventories sold	(69,080,122)	(52,971,984)
Gross profit	\$ 21,256,782	\$ 13,895,659
Selling	(10,280,984)	(6,374,245)
General and administrative	(2,025,131)	(805,374)
Operating income	\$ 8,950,667	\$ 6,716,040

Transaction cost of reverse merger	(1,976,470)	-
Interest income	196,143	36,610
Interest expenses	<u>(170,675)</u>	<u>(120,847)</u>
Income before income taxes	\$ 6,999,665	\$ 6,631,803
Income taxes	<u>(2,343,631)</u>	<u>(2,218,857)</u>
Net income	<u>\$ 4,656,034</u>	<u>\$ 4,412,946</u>
Basic earnings per share	<u>\$ 0.22</u>	<u>\$ 0.23</u>
Diluted earnings per share	<u>\$ 0.15</u>	<u>\$ 0.23</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 NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (Stated in US Dollars)(Unaudited)**

	Nine months ended September 30,	
	2008	2007
Cash flows from operating activities		
Net income	\$ 4,656,034	\$ 4,412,946
Depreciation	1,300,368	1,034,211
Amortization	24,026	21,962
Loss on disposal of plant and equipment	37,295	23,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Other receivables	(3,199,657)	(2,884,414)
Inventories and consumables	(871,726)	936,322
Advances to suppliers	(482,372)	(2,016,879)
Prepaid expenses	(998,758)	395,771
Accounts payable	8,150,921	1,577,923
Cash card and coupon liabilities	1,036,247	1,187,735
Deposits received	(655,423)	(803,619)
Accruals	393,631	(14,019)

Other PRC taxes payable	69,085	(82,516)
Other payables	539,059	2,858,953
Income taxes payable	<u>415,374</u>	<u>(143,997)</u>
Net cash provided by operating activities	<u>\$ 10,414,104</u>	<u>\$ 6,503,767</u>
Cash flows from investing activities		
Purchase of plant and equipment	\$ (1,612,321)	\$ (1,167,454)
Payment of lease prepayments	(32,154)	19,693
Sale proceeds of plant, and equipment	92,561	-
Increase in pledged deposits	<u>(300,000)</u>	<u>-</u>
Net cash used in investing activities	<u>\$ (1,851,914)</u>	<u>\$ (1,147,761)</u>
Cash flows from financing activities		
Issuance of Series A convertible preferred stock	\$ 15,500,000	\$ -
Bank borrowings	-	2,605,605
Bank repayments	<u>(2,857,608)</u>	<u>(2,475,325)</u>
Net cash provided by financing activities	<u>\$ 12,642,392</u>	<u>\$ 130,280</u>
Net cash and cash equivalents sourced	<u>\$ 21,204,582</u>	<u>\$ 5,486,286</u>
Effect of foreign currency translation on cash and cash equivalents	1,261,970	279,651
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>\$ 33,208,616</u>	<u>\$ 9,882,537</u>
Supplementary cash flow information:		
Interest received	\$ 196,143	\$ 36,610
Interest paid	170,675	120,847
Tax paid	<u>1,928,258</u>	<u>2,362,854</u>