

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

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 19,285,021	\$ 10,742,064
Pledged deposits	293,149	-
Trade receivables	793,352	-
Other receivables	4,189,140	3,190,205
Prepaid expenses	1,862,591	909,587
Advances to suppliers	3,342,756	1,005,824
Inventories and consumables	14,544,341	8,239,770
Total current assets	\$ 44,310,350	\$ 24,087,450
Property, plant and equipment, net	12,960,303	9,806,545
Intangible assets, net	19,655,082	752,844
Long term prepayment	787,741	-
TOTAL ASSETS	\$ 77,713,476	\$ 34,646,839
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term bank loans	\$ 2,188,439	\$ 2,734,444
Accounts payable	21,283,818	7,856,753
Cash card and coupon liabilities	3,858,514	1,814,229
Deposits received	2,901,205	873,657
Accruals	681,969	347,486
Other PRC taxes payable	203,443	16,115
Other payables	1,476,665	793,484
Income taxes payable	1,252,336	374,895
Total current liabilities	\$ 33,846,389	\$ 14,811,063
Long-term bank loans	-	2,050,833
TOTAL LIABILITIES	\$ 33,846,389	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 at December 31,
2008 and 2007 respectively

	\$	20,882	\$	19,082
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Series A convertible preferred stock,
par value \$0.01, 10,000,000 shares
authorized, 9,117,647 and nil issued
and outstanding at December 31,
2008 and 2007 respectively

	91,176	-
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Additional paid-in capital	21,783,477	4,457,653
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Statutory reserves	3,908,247	2,703,742
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Retained earnings	14,204,169	9,179,694
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Accumulated other comprehensive income	3,859,136	1,424,772
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	\$	43,867,087	\$	17,784,943
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**TOTAL LIABILITIES AND
STOCKHOLDERS' EQUITY**

	\$	77,713,476	\$	34,646,839
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**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Stated in US Dollars)**

	2008	2007
Net revenues		
Direct sales	\$ 157,841,011	\$ 90,464,198
Other operating income	3,640,342	1,908,614
	\$ 161,481,353	\$ 92,372,812
Cost of inventories sold	(127,172,246)	(73,597,592)
Gross profit	\$ 34,309,107	\$ 18,775,220
Selling expenses	(16,558,820)	(8,620,735)
General and administrative expenses	(3,249,506)	(1,303,130)
Income from operation	\$ 14,500,781	\$ 8,851,355
Transaction cost of reverse merger	(1,976,470)	-
Interest income	272,551	58,641
Interest expenses	(240,330)	(169,375)

Other expenses	(2,990)	-
Other income – government grant	-	39,385
Income before income taxes	\$ 12,553,542	\$ 8,780,006
Income taxes	(3,556,474)	(2,997,615)
Net income	\$ 8,997,068	\$ 5,782,391
Other comprehensive income:		
Foreign currency translation adjustment	2,434,364	997,088
Comprehensive income	\$ 11,431,432	\$ 6,779,479
Basic earnings per share	\$ 0.43	\$ 0.30
Diluted earnings per share	\$ 0.29	\$ 0.30
Basic weighted average share outstanding	20,882,353	19,082,299
Diluted weighted average share outstanding	31,137,642	19,082,299

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Stated in US Dollars)**

	2008	2007
Cash flows from operating activities		
Net income	\$ 8,997,068	\$ 5,782,391
Depreciation	1,727,668	1,481,161
Amortization	26,679	23,654
Loss on disposal of plant and equipment	-	75,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Trade receivables	(781,040)	-
Other receivables	(771,775)	(1,589,221)
Inventories and consumables	(5,265,816)	(1,783,189)
Advances to suppliers	(2,234,224)	635,264
Prepaid expenses	(874,300)	255,815
Accounts payable	12,699,697	(12,480)
Cash card and coupon liabilities	1,892,717	920,616
Deposits received	1,938,371	(22,910)
Accruals	307,278	(226,622)
Other PRC taxes payable	183,356	(103,858)
Other payables	(23,471)	434,576
Income taxes payable	839,059	(453,983)
Net cash provided by operating activities	\$ 18,661,267	\$ 5,417,099

Cash flows from investing activities		
Purchase of plant and equipment	\$ (3,819,945)	\$ (1,467,398)
Payment of long term prepayments	(775,516)	-
Acquisition of business	(19,640,200)	-
Sale proceeds of plant, and equipment	-	39,559
Increase in pledged deposits	(293,149)	-
Net cash used in investing activities	\$ (24,528,810)	\$ (1,427,839)
Cash flows from financing activities		
Issuance of Series A convertible preferred stock	\$ 15,500,000	\$ -
Bank borrowings	-	4,594,864
Bank repayments	(2,872,635)	(2,494,355)
Net cash provided by financing activities	\$ 12,627,365	\$ 2,100,509
Net cash and cash equivalents sourced	\$ 6,759,822	\$ 6,089,769
Effect of foreign currency translation on cash and cash equivalents	1,783,135	535,695
Cash and cash equivalents—beginning of year	10,742,064	4,116,600
Cash and cash equivalents—end of year	\$ 19,285,021	\$ 10,742,064
Supplementary cash flow information:		
Interest paid	\$ 240,330	\$ 169,375
Tax paid	2,472,229	2,543,633