

# **QKL Stores Inc. Announces Fourth Quarter and Full Year 2008 Financial Results**

- 4Q08 Revenues Increased 178.9% to \$71.1 Million --
- 4Q08 Gross Profit Increased 167.5% to \$13.1 Million --
- 4Q08 Net Income Increased 216.9% to \$4.3 Million --
- FY08 Revenues Increased 74.8% to \$161.5 Million --
- FY08 Gross Profit Increased 82.7% to \$34.3 Million --
- FY08 Net Income Increased 55.6% to \$9.0 Million --

QKL Stores Inc. (the "Company") (OTC Bulletin Board: QKLS), a leading regional supermarket chain in Northeast China, today announced its fourth quarter and full year financial results for the fiscal year ended December 31, 2008.

## **Fourth Quarter 2008 Results**

Fourth quarter revenue increased 178.9% to \$71.1 million compared to \$25.5 million in the fourth quarter of 2007. Retail sales revenue, which consists of revenue derived from 28 supermarkets, represented \$69.7 million, or 98.1% of the quarter's total revenue. This retail revenue was primarily driven by increased sales volume within its existing stores including ten new stores opened in 2008. Comparable store sales for the fourth quarter for the 19 stores opened at least one year, increased 107% to \$52.2 million from \$25.3 million in the fourth quarter of 2007. Other operating income, which includes revenue from the Company's two department stores and from tenants within its supermarket retail locations, represented \$1.4 million, or 1.9% of sales in the fourth quarter of 2008.

In the fourth quarter of 2008, gross profits increased 167.5% to \$13.1 million from \$4.9 million for the fourth quarter of 2007. Gross margin for the fourth quarter decreased 80 basis points to 18.3%, compared to 19.1% in the same period last year. The decrease in gross margin reflected the Company's expansion plans that entail the build out of new stores, which tend to be less profitable during the early months of operation. Additionally, the Company took steps to adjust pricing slightly downward in order to increase market share and long-term sales volume.

Operating income increased 159.9% to \$5.5 million from \$2.1 million in the fourth qua

rtter of 2007. Fourth quarter 2008 selling, general and administrative expenses increased to \$6.3 million, or 8.9% of sales, compared to \$2.3 million, or 8.9% of sales in the prior year period. This increase was primarily due to higher marketing expense related to promotional and advertising events and growing salary expense as the Company hired additional employees to manage the growing business.

Net income in the fourth quarter of 2008 increased 216.9% to \$4.3 million, or \$0.14 per diluted share, from \$1.3 million, or \$0.07 per diluted share, in the prior year's fourth quarter. The diluted share count increased 62.8% to 31.1 million in the fourth quarter 2008 from 19.1 million in the fourth quarter 2007.

Mr. Wang Zhuangyi, Chairman and CEO said, "The 2008 fourth quarter capped a very strong year for QKL Stores, and we were quite pleased with our operational and financial results. Our fourth quarter sales performance was fueled by a 107% increase in same store sales. Our stores are carrying larger quantities of in-demand products, which is yielding strong customer demand. Our overall strategy of opening stores in small- and medium-sized cities where we generally face limited competition coupled with our unique and diversified product offering is showing meaningful results to our financial performance. In the fourth quarter, we opened five new supermarket locations totaling approximately 29,300 square meters (approximately 315,000 sq. feet). We opened nine new supermarkets and one new department store in 2008 totaling 50,000 sq. meters (538,000 sq. feet) of retail space bringing our total store count to 28 supermarkets and two department stores at the end of the year."

#### 12 Months Ended December 31, 2008

For the full year ended December 31, 2008, total net revenues increased 74.8% to \$161.5 million from \$92.4 million in 2007. Comparable store sales for 2008, based on 19 stores opened for a full year, increased 49% to \$134.6 million from \$84.5 million in the prior year. Approximately \$26.6 million was derived from new stores opened during 2008. Other operating income increased 89.5% to \$3.6 million compared to \$1.9 million in 2007.

Gross profit improved 82.7% to \$34.3 million from \$18.8 million, and gross margin increased to 21.3% from 20.3% in the prior year. This increase is due to increased efficiency of our operations, increased profitability in 2008 of the 10 new stores we opened in 2008, and, to a lesser extent, increased sales of higher profit products, such as fresh foods.

Income from operations increased 63.8% to \$14.5 million from \$8.9 million in 2007. Operating income as a percentage of net sales was approximately 9.0% in 2008 compared to 9.6% in 2007.

The effective income tax rate in 2008 was 28.3% in 2008 compared to 34.1% in 2007. In 2009, the income tax rate is expected to be in the 25% range.

Net income for the full year of 2008 was \$9.0 million, or \$0.29 per diluted share, compared with \$5.8 million, or \$0.30 per diluted share in 2007. Net income includes one-time costs of approximately \$1.98 million in relation to our reverse merger and recapitalization transactions.

#### Balance Sheet and Cash Flow

As of December 31, 2008, the Company had \$19.3 million of cash, compared to \$33.2 million of cash at September 30, 2008 and \$29.9 at June 30, 2008. QKL Stores had working capital of approximately \$10.5 million at December 31, 2008. The Company had short-term bank loans of \$2.2 million (part of a revolving credit facility of \$7.1 million) and no long-term bank loans as of December 31, 2008. Net cash flow from operating activities was \$18.7 million in the fiscal year 2008 compared to \$5.4 million in 2007.

Mr. Wang continued, "In 2009, we plan to open an additional 30,000 square meters (approximately 323,000 sq. ft) of retail space on top of the 108,553 sq. meters (approximately 1.2 million sq. ft) at the end of 2008. We continue to expect our average store size will continue to increase. As part of our expansion efforts, we plan on adding an additional 20,000 square meter (200,000 sq. ft) distribution center to better serve our growing store base. We also plan to make improvements to our logistics and information systems to support our supermarkets. We believe these preceding expansion plans will be funded through internally generated funds.

"Continuing to improve the performance of our stores is a major priority for our operating team in the coming year. We see the opportunity to save on costs by acquiring more merchandise directly from manufacturers and relying more on the purchasing power of collective ordering of supplies through IGA, our international trade group. We also plan on offering and selling more self-prepared foods and private label goods, which have higher profit margins.

"We have the right management team in place, a strong operational plan and a sound balance sheet to further expand our retail position and establish QKL Stores as a market leader in the northern China region."

#### About QKL Stores Inc.:

Based in Daqing, China, QKL Stores Inc. is a leading regional supermarket chain company operating in Northeast China. QKL Stores sells a broad selection of mercha

ndise, including groceries, fresh food, and non-food items, through its retail supermarkets, convenience store, and department store; the company also has its own distribution centers that service its supermarkets.

#### 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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(Financial Tables on Following Pages)

QKL STORES INC.

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
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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
 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		--
Additional paid-in capital		21,783,477		4,457,653
Statutory reserves		3,908,247		2,703,742
Retained earnings		14,204,169		9,179,694
Accumulated other comprehensive income		3,859,136		1,424,772
	\$	43,867,087	\$	17,784,943
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$	 77,713,476	 \$	 34,646,839

QKL STORES INC.

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

SOURCE QKL Stores Inc.

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CO: QKL Stores Inc.

ST: China

IN: OTC REA SUP

SU: ERN

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