

BUBBIES HOMEMADE ICE CREAM
AND DESSERTS, INC.

Financial Statements

September 30, 2002



KOBAYASHI, DOI & LUM CPAs LLC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bubbies Homemade Ice Cream
and Desserts, Inc.
Honolulu, Hawaii

We have audited the accompanying balance sheet of Bubbies Homemade Ice Cream and Desserts, Inc. as of September 30, 2002 and the related statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bubbies Homemade Ice Cream and Desserts, Inc. at September 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule I is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Kobayashi, DOI & Lum CPAs LLC

Honolulu, Hawaii
November 20, 2002

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
BALANCE SHEET
September 30, 2002

ASSETS

CURRENT ASSETS:

Cash	\$ 90,214
Accounts receivable	33,169
Prepaid expenses	2,099
Inventory	<u>87,872</u>
 Total current assets	 <u>213,354</u>

PROPERTY, PLANT AND EQUIPMENT

Equipment	527,241
Leasehold improvements	208,100
Furniture and fixtures	38,151
Automobiles	19,127
Accumulated depreciation	<u>(605,998)</u>
 Net property, plant and equipment	 186,621

OTHER ASSETS:

Security deposits and other	10,900
Deferred taxes	<u>9,850</u>
 TOTAL	 \$ <u><u>420,725</u></u>

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
BALANCE SHEET - CONTINUED
September 30, 2002

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 27,477
Insurance payable	3,003
Note payable (Note B)	14,827
Accrued payroll	10,593
Profit sharing contribution	10,000
Deposits - current	1,584
Deferred revenue	<u>5,000</u>
Total current liabilities	72,484

STOCKHOLDERS' EQUITY:

Common stock - \$25 par value. Authorized 200 shares; issued and outstanding 200 shares	5,000
Retained earnings	<u>343,241</u>
	<u>348,241</u>

TOTAL \$ 420,725

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Year Ended September 30, 2002

Net sales		\$ 1,025,091
Royalties		<u>11,529</u>
		1,036,620
Cost of goods sold		<u>(291,047)</u>
Gross profit		745,573
Operating expenses (Schedule I)		<u>(782,334)</u>
Operating loss		(36,761)
Other income:		
Interest income		486
Other income		4,810
Gain on sale of fixed assets		<u>4,451</u>
Net loss before income taxes		(27,014)
Income tax benefit		<u>4,593</u>
Net loss		(22,421)
Retained earnings - beginning of period		<u>365,662</u>
Retained earnings - end of period		<u><u>\$ 343,241</u></u>

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (22,421)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	83,889
Gain on disposal on fixed assets	(4,451)
(Increase) decrease in assets	
Accounts receivable	(3,106)
Prepaid expenses	(487)
Inventory	5,638
Deferred taxes	(4,750)
Increase (decrease) in liabilities	
Accounts payable	(28)
Insurance payable	2,542
Accrued payroll	(212)
Profit sharing contribution	(5,000)
Income taxes payable	(5,743)
Deposits - current	<u>-</u>
Net cash provided by operating activities	45,871
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for property, plant and equipment	(21,393)
Cash received on sale of property, plant and equipment	<u>7,000</u>
Net cash used in investing activities	(14,393)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash paid on principal of notes payable	<u>(49,905)</u>
Net cash used in financing activities	(49,905)
Decrease in cash	(18,427)
Cash, beginning of year	<u>108,641</u>
Cash, end of year	\$ <u><u>90,214</u></u>
Supplemental cash flow information:	
Cash paid for interest	\$ 1,168

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM
AND DESSERTS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Nature of Business

The Company is engaged in the business of manufacturing, wholesaling, and retailing of ice cream and desserts primarily on the island of Oahu, Hawaii.

Inventories

Inventories are priced at the lower of cost or market. Cost is determined using the average weighted method.

Property and Equipment

Expenditures for property and equipment and for renewals and betterments which extend the original estimated economic life of assets are capitalized. Expenditures for maintenance, repairs and other renewals of items are charged to expense. When items are disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

Depreciation: The building and leasehold improvements are depreciated on the straight-line method over periods ranging from 5 to 10 years. Furniture and equipment is stated at cost and is being depreciated over lives established by the Modified Accelerated Cost Recovery System (MACRS). Estimated useful lives for purposes of depreciation of these assets range between five and seven years.

Vacation Pay

The Company has not accrued vacation pay because the amount has not been estimated and is not considered material to the financial statements.

Statement of Cash Flows - Supplemental Information

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

BUBBIES HOMEMADE ICE CREAM
AND DESSERTS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Bad Debts

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

NOTE B – NOTES PAYABLE

At September 30, 2002, notes payable consisted of the following:

Non-interest bearing, unsecured note payable to shareholder, with no formal repayment terms	\$ 14,827
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NOTE C – LEASE COMMITMENTS

The Company is obligated under various leases for its factory and its store that expire at various dates. Lease rent expense for the year ended September 30, 2002 amounted to \$153,263.

The Company has entered into an eleven-year lease agreement for the factory effective January 1, 1997. The Company has an option of extending the lease for two additional periods of five years each. The lease is subject to escalation clauses.

BUBBIES HOMEMADE ICE CREAM
AND DESSERTS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE C – LEASE COMMITMENTS (CONTINUED)

The Company also entered into a five-year lease agreement for its retail store effective November 1, 2001. The Company will pay a base rent of \$2,567 per month, plus common area maintenance and applicable taxes.

Future minimum rental commitments under all noncancellable operating leases follows:

Year ending September 30,

2003	\$120,810
2004	121,810
2005	132,810
2006	104,568
2007	<u>127,500</u>
	<u>\$607,498</u>

The Company is a guarantor of a five-year commercial lease at a shopping center related to a retail franchise effective November 1, 2000. The future minimum rental commitment under this lease for the first five years is \$34,560 per year until December 31, 2005. This obligation is paid by the franchisee of the retail location.

NOTE D – PROVISION FOR INCOME TAXES

The components of the provision for income taxes are:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Provision for income taxes currently payable	\$ 95	\$ 62	\$ 157
Non-current deferred tax asset	<u>(3,563)</u>	<u>(1,187)</u>	<u>(4,750)</u>
Total income tax expense (benefit)	\$ <u>(3,468)</u>	\$ <u>(1,125)</u>	\$ <u>(4,593)</u>

The deferred tax asset results from differences in the use of accelerated methods of depreciation of property and equipment.

BUBBIES HOMEMADE ICE CREAM
AND DESSERTS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE E – RETIREMENT PLAN

The Company has a profit sharing retirement plan for the benefit of its employees. Employees become eligible after meeting certain minimum service requirements. The Company's contribution to the plan amounted to \$10,000 for the year ended September 30, 2002.

NOTE F – FRANCHISE AND LICENSING AGREEMENT

The Company entered into two franchise agreements for a store in Kapolei on October 6, 1999 and a store in Mililani on May 15, 2000. The Company, as the franchisor, agreed to grant the franchisee the right to use its trade name and trademarks in accordance with the terms and conditions set forth in the franchise agreement. The Company is also obligated to provide training and consultation to the franchisee. The frozen dessert products sold at the franchisee's premises are provided by the franchisor under the terms set forth in the agreement.

The Kapolei store opening has been postponed indefinitely.

NOTE G – CONCENTRATION OF BUSINESS RISK

The Company purchases substantially all of its cream used in its products from a single vendor in Hawaii.

The Company derives substantially all of its revenues from sales in the State of Hawaii.

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.

Schedule I - Operating Expenses

Year Ended September 30, 2002

Salaries and wages	\$	269,637
Rent		153,263
Depreciation and amortization		83,889
Electricity		66,817
Repairs and maintenance		26,206
Legal and accounting		32,938
Printing		1,614
Employee benefits		21,208
Insurance		24,463
Taxes-payroll and other		22,665
Interest		1,168
General excise tax		22,692
Auto expense		9,324
Telephone		8,384
Contract services		2,036
Entertainment		2,934
Office expense		3,429
Travel		3,103
Advertising		2,613
Licenses and fees		1,678
Water		795
Alarm service		1,046
Dues and subscriptions		1,671
Gas		1,163
Postage		518
Parking		690
Profit sharing expense		10,000
Leased equipment		6,107
Other		283
	\$	<u>782,334</u>

**BUBBIES HOMEMADE ICE CREAM
AND DESSERTS, INC.**

Financial Statements

September 30, 2001

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bubbies Homemade Ice Cream
and Desserts, Inc.
Honolulu, Hawaii

We have audited the accompanying balance sheet of Bubbies Homemade Ice Cream and Desserts, Inc. as of September 30, 2001 and the related statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bubbies Homemade Ice Cream and Desserts, Inc. at September 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule I is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Kobayashi Dini Jun

Honolulu, Hawaii
November 6, 2001

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
BALANCE SHEET
September 30, 2001

ASSETS

CURRENT ASSETS:

Cash	\$ 108,641
Accounts receivable	30,063
Prepaid expenses	1,612
Inventory	<u>93,510</u>
 Total current assets	 <u>233,826</u>

PROPERTY, PLANT AND EQUIPMENT

Equipment	507,971
Leasehold improvements	208,100
Furniture and fixtures	36,027
Automobiles	23,497
Accumulated depreciation	<u>(523,929)</u>
 Net property, plant and equipment	 251,666

OTHER ASSETS:

Security deposits and other	10,900
Deferred taxes	<u>5,100</u>
 TOTAL	 \$ <u><u>501,492</u></u>

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
BALANCE SHEET - CONTINUED
September 30, 2001

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 27,505
Insurance payable	461
Current portion of long term debt (Note B)	64,732
Accrued payroll	10,805
Income taxes payable	5,743
Pension payable	15,000
Deposits - current	1,584
Deferred revenue	<u>5,000</u>
Total current liabilities	130,830

STOCKHOLDERS' EQUITY:

Common stock - \$25 par value. Authorized 200 shares; issued and outstanding 200 shares	5,000
Retained earnings	<u>365,662</u>
	<u>370,662</u>
 TOTAL	 \$ <u><u>501,492</u></u>

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Year Ended September 30, 2001

Net sales	\$ 1,037,357
Royalties	<u>8,184</u>
	1,045,541
Cost of goods sold	<u>(273,403)</u>
Gross profit	772,138
Operating expenses (Schedule I)	<u>(743,557)</u>
Operating income	28,581
Other income:	
Interest income	114
Other income	<u>7,881</u>
Net income before income taxes	36,576
Income tax benefit	<u>3,565</u>
Net income	40,141
Retained earnings - beginning of period	<u>325,521</u>
Retained earnings - end of period	<u>\$ 365,662</u>

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income:	\$ 40,141
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	107,461
(Increase) Decrease in assets	
Accounts receivable	(5,791)
Prepaid expenses	1,161
Inventory	(10,370)
Deferred taxes	(9,150)
Security deposits	6,000
Increase (Decrease) in liabilities	
Accounts payable	9,044
Insurance payable	461
Accrued payroll	1,664
Pension payable	15,000
Income taxes payable	5,743
Deposits - current	<u>(10,323)</u>
Net cash provided by operating activities	151,041
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for property, plant and equipment	<u>(14,326)</u>
Net cash used in investing activities	(14,326)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash paid on principal of long-term debt	<u>(86,272)</u>
Net cash used in financing activities	(86,272)
Increase in cash	50,443
Cash, beginning of year	<u>58,198</u>
Cash, end of year	<u>\$ 108,641</u>
Supplemental cash flow information:	
Cash paid for interest	\$ 8,126

See accompanying notes to financial statements

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2001

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

The accounting principles relating to the significant items contained in the financial statements of the Company are indicated below:

Nature of Business

The Company is engaged in the business of manufacturing, wholesaling, and retailing of ice cream and desserts primarily on the island of Oahu, Hawaii.

Inventories

Inventories are priced at the lower of cost or market. Cost is determined using the average weighted method.

Property and Equipment

Expenditures for property and equipment and for renewals and betterments which extend the original estimated economic life of assets are capitalized. Expenditures for maintenance, repairs and other renewals of items are charged to expense. When items are disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

Depreciation: The building and leasehold improvements are depreciated on the straight-line method over periods ranging from 5 to 10 years. Furniture and equipment is stated at cost and is being depreciated over lives established by the Modified Accelerated Cost Recovery System (MACRS). Estimated useful lives for purposes of depreciation of these assets range between five and seven years.

Vacation Pay

The Company has not accrued vacation pay because the amount has not been estimated and is not considered material to the financial statements.

Statement of Cash Flows - Supplemental Information

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2001

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Bad Debts

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

NOTE B – NOTES PAYABLE

At September 30, 2001, notes payable consisted of the following:

Note payable to a director, interest at 7%, payable in monthly installments of \$2,035, including interest, due May 2002.	\$ 15,864
Note payable to a commercial bank, interest at the bank's base rate plus 1.5% (7.5% at September 30, 2001), payable in monthly installments of \$2,020, including interest, due December 2001, secured by equipment, fixtures, leased facilities, inventory and receivables.	6,881
Note payable to a shareholder, interest at 10%, payable in monthly installments of \$2,266, including interest, due May 2002.	17,473

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2001

NOTE B – NOTES PAYABLE (CONTINUED)

Note payable to a shareholder, interest at 10%. payable in monthly installments of \$756, including interest, due October 2001.	\$ 750
Non-interest bearing, unsecured note payable to shareholder, with no formal repayment terms	<u>23,764</u>
	64,732
Less: current installments of long term debt	<u>(64,732)</u>
Long term debt, excluding current installments	<u>\$ —</u>

NOTE C – LEASE COMMITMENTS

The Company is obligated under various leases for its factory and its store that expire at various dates. Lease rent expense for the year ended September 30, 2001 amounted to \$135,687.

The Company has entered into an eleven-year lease agreement for the factory effective January 1, 1997. The Company has an option of extending the lease for two additional periods of five years each. The lease is subject to escalation clauses.

The Company also entered into a five-year lease agreement for the store effective November 1, 2001. The Company will pay a base rent of \$2,567 per month, plus common area maintenance and applicable taxes.

Future minimum rental commitments under all noncancellable operating leases (excluding the lease obligation described in the following paragraph) follows:

Year ending September 30,

2002	\$120,810
2003	120,810
2004	121,810
2005	132,810
2006	104,568
Thereafter	<u>127,500</u>
	<u>\$728,308</u>

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2001

NOTE C – LEASE COMMITMENTS (CONTINUED)

The Company is a guarantor of a five-year commercial lease at a shopping center related to a retail franchise effective November 1, 2000. The future minimum rental commitment under this lease for the first five years is \$34,560 per year until December 31, 2005. This obligation is paid by the franchisee of the retail location.

NOTE D – PROVISION FOR INCOME TAXES

The components of the provision for income taxes are:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Provision for income taxes currently payable	\$ 4,405	\$ 1,180	\$ 5,585
Non-current deferred tax asset	<u>(6,862)</u>	<u>(2,288)</u>	<u>(9,150)</u>
Total income tax expense (benefit)	\$ <u>(2,457)</u>	\$ <u>(1,108)</u>	\$ <u>(3,565)</u>

The deferred tax asset results from differences in the use of accelerated methods of depreciation of property and equipment.

NOTE E – RETIREMENT PLAN

The Company has a profit sharing retirement plan for the benefit of its employees. Employees become eligible after meeting certain minimum service requirements. The Company's contribution to the plan amounted to \$15,000 for the year ended September 30, 2001.

NOTE F – FRANCHISE AND LICENSING AGREEMENT

The Company entered into two franchise agreements for a store in Kapolei on October 6, 1999 and a store in Mililani on May 15, 2000. The Company, as the franchisor, agreed to grant the franchisee the right to use its trade name and trademarks in accordance with the terms and conditions set forth in the franchise agreement. The Company is also obligated to provide training and consultation to the franchisee. The frozen dessert products sold at the franchisee's premises are provided by the franchisor under the terms set forth in the agreement.

NOTE G – CONCENTRATION OF BUSINESS RISK

The Company purchases substantially all of its cream used in its products from a single vendor in Hawaii.

The Company derives substantially all of its revenues from sales in the State of Hawaii.

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.

Schedule I - Operating Expenses

Year Ended September 30, 2001

Salaries and wages	\$	230,904
Rent		135,687
Depreciation and amortization		107,461
Electricity		73,752
Repairs and maintenance		14,082
Legal and accounting		22,090
Printing		4,039
Employee benefits		19,339
Insurance		21,371
Taxes-payroll and other		20,447
Interest		8,126
General excise tax		22,224
Auto expense		10,913
Telephone		7,776
Contract services		2,140
Entertainment		3,168
Office expense		5,393
Travel		3,868
Advertising		2,409
Licenses and fees		1,851
Water		573
Alarm service		1,241
Dues and subscriptions		1,260
Gas		1,173
Postage		473
Parking		712
Pension expense		15,000
Other		6,085
	\$	<u>743,557</u>

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BUBBIES HOMEMADE ICE CREAM
AND DESSERTS, INC.

Financial Statements

September 30, 2000



KOBAYASHI, DOI & LUM • CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bubbies Homemade Ice Cream
and Desserts, Inc.
Honolulu, Hawaii

We have audited the accompanying balance sheet of Bubbies Homemade Ice Cream and Desserts, Inc. as of September 30, 2000 and the related statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bubbies Homemade Ice Cream and Desserts, Inc. at September 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule I is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Kobayashi Doi & Lum

Honolulu, Hawaii
November 8, 2000

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
BALANCE SHEET
September 30, 2000

ASSETS

CURRENT ASSETS:

Cash	\$ 58,198
Accounts receivable	24,272
Prepaid expenses	2,773
Inventory	<u>83,140</u>
 Total current assets	 <u>168,383</u>

PROPERTY, PLANT AND EQUIPMENT

Equipment	497,318
Leasehold improvements	204,427
Furniture and fixtures	36,027
Automobiles	23,497
Accumulated depreciation	<u>(416,468)</u>
 Net property, plant and equipment	 344,801

OTHER ASSETS:

Security deposits and other	<u>16,900</u>
 TOTAL	 \$ <u><u>530,084</u></u>

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
BALANCE SHEET - CONTINUED
September 30, 2000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 18,461
Current portion of long term debt (Note B)	116,917
Accrued payroll	9,141
Deposits - current	11,907
Deferred revenue	<u>5,000</u>
Total current liabilities	161,426

NON-CURRENT LIABILITIES:

Notes payable, net of current portion (Note B)	34,087
Deferred taxes	<u>4,050</u>
Total liabilities	199,563

STOCKHOLDERS' EQUITY:

Common stock - \$25 par value. Authorized 200 shares; issued and outstanding 200 shares	5,000
Retained earnings	<u>325,521</u>
	<u>330,521</u>

TOTAL	\$ <u><u>530,084</u></u>
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See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Year Ended September 30, 2000

Net sales	\$ 896,729
Royalties	<u>7,214</u>
	903,943
Cost of goods sold	<u>(230,492)</u>
Gross profit	673,451
Operating expenses (Schedule I)	<u>(668,244)</u>
Operating income	5,207
Other income:	
Franchise fee	15,000
Interest income	1,031
Other income	2,956
Settlement income	<u>18,525</u>
Net income before income taxes	42,719
Income taxes	<u>(4,050)</u>
Net income	38,669
Retained earnings - beginning of period	<u>286,852</u>
Retained earnings - end of period	<u><u>\$ 325,521</u></u>

See accompanying notes to financial statements

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2000

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income:	\$ 38,669
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	50,640
(Increase) Decrease in assets	
Accounts receivable	(3,679)
Income taxes receivable	28,509
Prepaid expenses	(989)
Inventory	(7,347)
Increase (Decrease) in liabilities	
Accounts payable	(208)
Accrued general excise tax	(1,523)
Accrued payroll	1,656
Deposits - current	11,907
Deferred - revenue	5,000
Deferred taxes	<u>4,050</u>
Net cash provided by operating activities	126,685
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for property, plant and equipment	<u>(8,301)</u>
Net cash used in investing activities	(8,301)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash paid on principal of long-term debt	<u>(80,249)</u>
Net cash used in financing activities	(80,249)
Increase in cash	38,135
Cash, beginning of year	<u>20,063</u>
Cash, end of year	<u>\$ 58,198</u>
Supplemental cash flow information:	
Cash paid for interest	\$ 15,964

See accompanying notes to financial statements

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2000

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

The accounting principles relating to the significant items contained in the financial statements of the Company are indicated below:

Nature of Business

The Company is engaged in the business of manufacturing, wholesaling, and retailing of ice cream and desserts primarily on the island of Oahu, Hawaii.

Inventories

Inventories are priced at the lower of cost or market. Cost is determined using the average weighted method.

Property and Equipment

Expenditures for property and equipment and for renewals and betterments which extend the original estimated economic life of assets are capitalized. Expenditures for maintenance, repairs and other renewals of items are charged to expense. When items are disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

Depreciation: The building and leasehold improvements are depreciated on the straight-line method over periods ranging from 5 to 10 years. Furniture and equipment is stated at cost and is being depreciated over lives established by the Modified Accelerated Cost Recovery System (MACRS). Estimated useful lives for purposes of depreciation of these assets range between five and seven years.

Vacation Pay

The Company has not accrued vacation pay because the amount has not been estimated and is not considered material to the financial statements.

Statement of Cash Flows - Supplemental Information

For purpose of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2000

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Bad Debts

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

NOTE B – NOTES PAYABLE

At September 30, 2000, notes payable consisted of the following:

Note payable to a director, interest at 7%, payable in monthly installments of \$2,035, including interest, due May 2002.	\$ 38,319
Note payable to a commercial bank, interest at the bank's base rate plus 1.5% (11% at September 30, 2000), payable in monthly installments of \$2,020, including interest, due December 2001, secured by equipment, fixtures, leased facilities, inventory and receivables.	29,225
Note payable to a shareholder, interest at 10%, payable in monthly installments of \$2,266, including interest, due May 2002.	41,599

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2000

NOTE B – NOTES PAYABLE (CONTINUED)

Note payable to a shareholder, interest at 10% payable in monthly installments of \$756, including interest, due October 2001.	\$ 9,281
Note payable to a shareholder, interest at 10%, payable in monthly installments of \$461, including interest, due June 2001.	3,985
Note payable to a shareholder, interest at 10% payable in monthly installments of \$461, including interest, due August 2001.	4,831
Non-interest bearing, unsecured note payable to shareholder, with no formal repayment terms	<u>23,764</u>
	151,004
Less: current installments of long term debt	<u>(116,917)</u>
Long term debt, excluding current installments	<u>\$ 34,087</u>

The loan agreement with the commercial bank for \$29,225 has been classified as currently due and contains certain restrictive covenants summarized as follows:

The Company must provide various financial reports to the lender, and cannot do the following without prior written consent of the lender:

- make any additional borrowings
- pay dividends to shareholders during the loan period
- pay any stockholder loans during the term of the loan
- invest in fixed assets or incur lease obligations in excess of \$50,000
- increase officer's salary or compensation
- be a party to any merger or consolidation

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2000

NOTE B – NOTES PAYABLE (CONTINUED)

The aggregate maturities of long-term debt for the remainder of their terms are as follows:

Year ending September 30,

2001	\$122,919
2002	<u>35,174</u>
	158,093
Less amount representing interest	<u>(7,089)</u>
	<u>\$151,004</u>

NOTE C – LEASE COMMITMENTS

The Company is obligated under various leases for its factory and its store that expire at various dates. Lease rent expense for the year ended September 30, 2000 amounted to \$137,778.

The Company has entered into a eleven-year lease agreement for the factory effective January 1, 1997. The Company has an option of extending the lease for two additional periods of five years each. The lease is subject to escalation clauses.

Future minimum rental commitments under all noncancellable operating leases (excluding the lease obligation described in the following paragraph) follows:

Year ending September 30,

2001	\$83,000
2002	90,000
2003	90,000
2004	91,000
2005	102,000
Thereafter	<u>229,500</u>
	<u>\$685,500</u>

Bubbies Homemade Ice Cream
and Desserts, Inc.
Notes to Financial Statements
September 30, 2000

NOTE C – LEASE COMMITMENTS (CONTINUED)

The Company is a guarantor of a five-year commercial lease at a shopping center related to a retail franchise effective November 1, 2000. The future minimum rental commitment under this lease for the first five years is \$34,560 per year until December 31, 2005. This obligation is paid by the franchisee of the retail location.

NOTE D – PROVISION FOR INCOME TAXES

The Company has federal and state net operating loss carryovers of approximately \$53,000 which are available to reduce future federal and state income taxes and expires in 2020.

NOTE E – RETIREMENT PLAN

The Company has a profit sharing retirement plan for the benefit of its employees. Employees become eligible after meeting certain minimum service requirements. The Company did not make any contribution to the plan for the year ended September 30, 2000.

NOTE F – FRANCHISE AND LICENSING AGREEMENT

The Company entered into two franchise agreements on October 6, 1999 and May 15, 2000. The Company, as the franchisor, agreed to grant the franchisee the right to use its trade name and trademarks in accordance with the terms and conditions set forth in the franchise agreement. The Company is also obligated to provide training and consultation to the franchisee. The frozen dessert products sold at the franchisee's premises are provided by the franchisor under the terms set forth in the agreement.

NOTE G – CONCENTRATION OF BUSINESS RISK

The Company purchases substantially all of its cream used in its products from a single vendor in Hawaii.

The Company derives substantially all of its revenues from sales in the State of Hawaii.

BUBBIES HOMEMADE ICE CREAM AND DESSERTS, INC.
Schedule I - Operating Expenses
Year Ended September 30, 2000

Salaries and wages	\$ 219,497
Rent	137,778
Depreciation and amortization	50,640
Electricity	68,041
Leased equipment	10,044
Repairs and maintenance	13,482
Legal and accounting	34,971
Printing	1,443
Employee benefits	22,067
Insurance	19,317
Taxes-payroll and other	20,871
Interest	15,964
General excise tax	16,764
Auto expense	4,201
Telephone	6,334
Contract services	2,114
Entertainment	4,168
Office expense	8,147
Travel	2,009
Advertising	1,681
Licenses and fees	1,260
Water	1,111
Alarm service	1,362
Dues and subscriptions	1,287
Gas	993
Postage	454
Seminars and education	680
Parking	866
Other	698
	<u>\$ 668,244</u>