

1st Quarter 2005

FINANCIAL INFORMATION

The accompanying financial statements are unaudited for the interim periods, but include all adjustments (consisting only of normal recurring accruals) which our management considers necessary for the fair presentation of results for the three months ended March 31, 2005.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with generally accepted accounting principles and should be read in conjunction with our audited financial statements at, and for the fiscal year ended December 31, 2004.

The results reflected for the three months ended March 31, 2005 are not necessarily indicative of the results for the entire fiscal year.

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Unaudited)

Assets

	December 31, 2004	March 31, 2005
Current Assets		
Cash and cash equivalents	\$1,229,305	\$1,186,175
Accounts receivable	110,479	107,662
Income Taxes receivable	92,521	117,521
Inventory	4,815,770	4,591,277
Prepaid expenses	<u>319,980</u>	<u>401,575</u>
TOTAL CURRENT ASSETS	<u>6,568,055</u>	<u>6,404,210</u>
PROPERTY AND EQUIPMENT, NET	<u>1,361,539</u>	<u>1,417,813</u>
OTHER ASSETS		
Deposits	<u>73,451</u>	<u>78,694</u>
Patents and trademarks, net		
	<u>\$8,003,045</u>	<u>\$7,900,718</u>

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Current portion of long term debt	\$28,930	\$29,257
Accounts payable and accrued expenses	224,738	174,502

Income taxes payable	0	0
TOTAL CURRENT LIABILITIES	<u>253,668</u>	<u>203,759</u>
LONG TERM DEBT		
Mortgage payable	337,601	325,976
Deferred income taxes	<u>65,000</u>	<u>65,000</u>
	<u>402,601</u>	<u>390,976</u>
TOTAL LIABILITES	<u>656,270</u>	<u>594,735</u>
STOCKHOLDERS' EQUITY		
Common stock-authorized 30,000,000 shares, \$.001 per value, issued and outstanding 6,146,446 shares in 2004 and 2005	6,147	6,147
Additional paid in capital	3,914,509	3,914,509
Retained earnings	3,510,128	3,469,335
Less treasury stock at cost (62,067 shares in 2004 and 2005)	<u>(84,008)</u>	<u>(84,008)</u>
	<u>7,346,775</u>	<u>7,305,983</u>
	<u>\$8,003,045</u>	<u>\$7,900,718</u>

See accompanying notes to Consolidated Condensed Financial Statements

**ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2005
(Unaudited)**

	<u>2004</u>	<u>2005</u>
REVENUES	\$2,361,851	\$1,926,054
COST OF GOODS SOLD	610,664	484,000
GROSS PROFITS	<u>1,751,187</u>	<u>1,442,055</u>
EXPENSES		
SELLING, GENERAL AND ADMINISTRATION	1,647,883	1,432,298
DEPRECIATION, AND AMORTIZATION	81,797	71,285
INTEREST EXPENSE	<u>3,459</u>	<u>4,263</u>
	<u>1,733,139</u>	<u>1,507,847</u>
INCOME (LOSS) BEFORE INCOME TAXES	18,048	(65,792)

PROVISION FOR INCOME TAXES	<u>7,000</u>	<u>(25,000)</u>
NET INCOME (LOSS)	<u>\$11,048</u>	<u>(\$40,792)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>6,084,379</u>	<u>6,084,379</u>
BASIC AND DILUTED INCOME (LOSS) PER SHARE	<u>\$0.00</u>	<u>(\$0.01)</u>

See accompanying notes to Consolidated Condensed Financial Statements

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS
ENDED MARCH 31, 2004 AND 2005
(Unaudited)

	<u>2004</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$11,048	(\$40,792)
Adjustments to reconcile net income		
To net cash provided by (used in) operating activities		
Depreciation and amortization	81,797	71,285
Abandonment of property and equipment		
Changes in operating assets and liabilities		
(Increase) Decrease in:		
Accounts receivable	(2,864)	2,817
Inventory	(29,107)	224,492
Prepaid expenses	(13,338)	(81,594)
Income tax receivable		(25,000)
Increase (Decrease in)		
Accounts payable and accrued expenses	11,657	(50,237)
Income taxes payable	<u>(60,580)</u>	<u>0</u>
NET CASH PROVIDED BY OPERATIONS	<u>(1,388)</u>	<u>100,971</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(24,180)	(127,560)
Other assets	<u>(474)</u>	<u>(5,243)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(24,654)</u>	<u>(132,803)</u>
CASH FLOW FROM FINANCING ACTIVITIES		

Mortgages payable	<u>(11,298)</u>	<u>(11,298)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(11,298)</u>	<u>(11,298)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(37,339)</u>	<u>(43,129)</u>
CASH AND CASH EQUIVALENT BALANCE		
Beginning of period	<u>1,294,713</u>	<u>1,229,305</u>
CASH AND CASH EQUIVALENT BALANCE		
End of Period	<u>\$1,257,374</u>	<u>1,186,175</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest Paid	<u>\$3,459</u>	<u>\$4,263</u>
Income taxes paid	<u>\$57,247</u>	<u>0</u>

See accompanying notes to Consolidated Condensed Financial Statements

ELEGANT ILLUSIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. COMMENTS

The accompanying unaudited consolidated condensed financial statements, which are for interim periods, do not include all disclosure provided in the annual consolidate financial statements. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto contained in the Annual Report for the year ended December 31, 2004 of Elegant Illusions, Inc (the "Company") The December 31, 2004 consolidated condensed balance sheet was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles.

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full fiscal year.