

FINANCIAL INFORMATION

Financial Statements

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 and six months ended June 30, 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. If you would like a copy of such audited financial statements, please contact us and we will send them to you free of charge.

The results reflected for the three and six months ended June 30, 2005 are not necessarily indicative of the results for the entire fiscal year.

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

	December 31, <u>2004</u>	June 30, <u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$1,229,305	\$1,172,235
Accounts receivable	110,479	115,500
Income Taxes receivable	92,521	80,358
Inventory	4,815,770	4,626,009
Prepaid expenses	<u>319,980</u>	<u>342,848</u>
TOTAL CURRENT ASSETS	<u>6,568,055</u>	<u>6,336,950</u>
PROPERTY AND EQUIPMENT, NET	<u>1,361,539</u>	<u>1,453,484</u>
OTHER ASSETS	<u>73,451</u>	<u>77,302</u>
	<u>\$8,003,045</u>	<u>\$7,867,736</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long term debt	\$28,930	\$29,586
Accounts payable and accrued expenses	224,738	105,805
Income taxes payable	<u>0</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	<u>253,668</u>	<u>135,391</u>
LONG TERM DEBT		
Mortgage payable	337,601	314,349
Deferred income taxes	<u>65,000</u>	<u>65,000</u>
	<u>402,601</u>	<u>379,349</u>
TOTAL LIABILITIES	<u>656,270</u>	<u>514,741</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	3,516,348
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>7,352,996</u>
	<u>\$8,003,045</u>	<u>\$7,867,736</u>

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2005
(Unaudited)

	<u>2004</u>	<u>2005</u>
REVENUES	\$4,959,379	\$3,941,638
COST OF GOODS SOLD	<u>1,283,226</u>	<u>944,618</u>
GROSS PROFITS	<u>3,676,153</u>	<u>2,997,020</u>
EXPENSES		
SELLING, GENERAL AND ADMINISTRATION	3,284,375	2,854,557
DEPRECIATION, AND AMORTIZATION	155,975	123,042
INTEREST EXPENSE	<u>6,854</u>	<u>9,200</u>
	<u>3,447,204</u>	<u>2,986,799</u>
INCOME BEFORE INCOME TAXES	228,949	10,221
PROVISION FOR INCOME TAXES	<u>88,000</u>	<u>4,000</u>
NET INCOME	<u>\$140,949</u>	<u>\$6,221</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>6,084,379</u>	<u>6,084,379</u>
BASIC AND DILUTED INCOME (LOSS) PER SHARE	<u>\$0.02</u>	<u>\$0.00</u>

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2004 AND 2005
(Unaudited)

	<u>2004</u>	<u>2005</u>
REVENUES	\$2,597,528	\$2,015,584
COST OF GOODS SOLD	<u>672,562</u>	<u>460,619</u>
GROSS PROFITS	<u>1,924,966</u>	<u>1,554,965</u>
EXPENSES		
SELLING, GENERAL AND ADMINISTRATION	1,636,493	1,422,259
DEPRECIATION, AND AMORTIZATION	74,179	51,756
INTEREST EXPENSE	<u>3,395</u>	<u>4,937</u>
	<u>1,714,067</u>	<u>1,478,952</u>
INCOME BEFORE INCOME TAXES	210,899	76,013
PROVISION(CREDIT) FOR INCOME TAXES	<u>81,000</u>	<u>29,000</u>
NET INCOME (LOSS)	<u>\$129,899</u>	<u>\$47,013</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>6,084,379</u>	<u>6,084,379</u>
BASIC AND DILUTED INCOME (LOSS) PER SHARE	<u>\$0.02</u>	<u>\$0.01</u>

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

ELEGANT ILLUSIONS, INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2005
(Unaudited)

	<u>2004</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$140,949	\$6,221
Adjustments to reconcile net income		
To net cash provided by (used in)		
operating activities		
Depreciation and amortization	155,975	123,042
Abandonment of property and equipment		
Changes in operating assets and liabilities		
(Increase) Decrease in :		
Accounts receivable	9,221	(5,021)
Inventory	(421,043)	189,761
Prepaid expenses	6,208	(22,868)
Income tax receivable		12,163
Increase (Decrease in)		
Accounts payable and accrued expenses	9,320	(118,933)
Income taxes payable	<u>(85,276)</u>	<u>0</u>
NET CASH PROVIDED BY OPERATIONS	<u>(184,646)</u>	<u>184,364</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(58,043)	(214,988)
Other assets	<u>69</u>	<u>(3,850)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(57,974)</u>	<u>(218,838)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Mortgages payable	<u>(22,596)</u>	<u>(22,596)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(22,596)</u>	<u>(22,596)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(265,216)	(57,069)
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>\$1,029,497</u>	<u>1,172,235</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest Paid	<u>\$6,854</u>	<u>\$4,937</u>
Income taxes paid	<u>\$170,414</u>	<u>0</u>

See Accompanying Notes to Unaudited 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 consolidated 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 June 30, 2005 are not necessarily indicative of the results to be expected for the full fiscal year.