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Hawaiian Tropic Europe, Inc.

Financial Statements -
Income Tax Basis
December 31, 1998 and 1997



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PricewaterhouseCoopers LLP
390 North Orange Avenue
Suite 2400
Orlando FL 32801
Telephone (407) 236 0550

Report of Independent Certified Public Accountants

To the Shareholders and Board of
Directors of Hawaiian Tropic Europe, Inc.

We have audited the accompanying statements of assets, liabilities and shareholders' equity - income tax basis of Hawaiian Tropic Europe, Inc. (the "Company") as of December 31, 1998 and 1997, and the related statements of revenues and expenses - income tax basis, of changes in shareholders' equity - income tax basis and of cash flows - income tax basis for the years 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 on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the accounting basis used for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements audited by us present fairly, in all material respects, the assets, liabilities, and shareholders' equity of the Company as of December 31, 1998 and 1997, and its revenues and expenses, changes in shareholders' equity and cash flows for the years then ended, on the basis of accounting described in Note 1.

PricewaterhouseCoopers LLP

April 30, 1999

Hawaiian Tropic Europe, Inc.

Statements of Assets, Liabilities and Shareholders' Equity - Income Tax Basis December 31, 1998 and 1997

	1998	1997
Assets		
Current assets:		
Cash	\$ 854,662	\$ 437,584
Accounts receivable	387,438	817,618
Inventories	1,324,399	1,043,074
Prepaid expenses	18,761	30,087
Total current assets	2,585,260	2,328,363
Property and equipment, net	667,033	680,589
Total assets	<u>\$ 3,252,293</u>	<u>\$ 3,008,952</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable to TRL	\$ 1,669,306	\$ 1,156,945
Accounts payable and accrued liabilities	689,820	593,608
Due to TRL	544,165	813,066
Current portion of note payable to TRL	55,015	55,015
Total current liabilities	2,958,306	2,618,634
Note payable to TRL	288,832	343,847
Total liabilities	<u>3,247,138</u>	<u>2,962,481</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$1 par value - 1,000 shares authorized, issued and outstanding	1,000	1,000
Capital in excess of par value	479,000	479,000
Accumulated deficit	(467,021)	(433,529)
Less treasury stock at cost, 16 shares in 1998	(7,824)	-
Total liabilities and shareholders' equity	<u>\$ 3,252,293</u>	<u>\$ 3,008,952</u>

The accompanying notes are an integral part of these financial statements.

Hawaiian Tropic Europe, Inc.

Statements of Revenues and Expenses - Income Tax Basis For the Years Ended December 31, 1998 and 1997

	1998	1997
Product sales, net	<u>\$ 3,670,674</u>	<u>\$ 5,367,578</u>
Costs and expenses:		
Cost of goods sold	1,843,341	2,434,170
Selling, general and administrative	961,973	1,440,573
Advertising and promotion	<u>631,848</u>	<u>691,059</u>
	<u>3,437,162</u>	<u>4,565,802</u>
Other income (expenses):		
Interest income	27,502	25,036
Interest expense	(268,482)	(299,747)
Other, net	<u>(26,024)</u>	<u>(197,414)</u>
	<u>(267,004)</u>	<u>(472,125)</u>
Net income (loss)	<u>\$ (33,492)</u>	<u>\$ 329,651</u>

The accompanying notes are an integral part of these financial statements.