

AMERICAN PACKAGING, INC.

FINANCIAL REPORT

DECEMBER 31, 2003

CONTENTS

<hr/> INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheets	2
Statements of Operations	3
Statements of Retained Earnings	4
Statements of Cash Flows	5
Notes to Financial Statements	6-8
<hr/> INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	9
SUPPLEMENTAL INFORMATION:	
Schedules of Expenses	10

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Packaging, Inc.
New York, New York

We have audited the accompanying balance sheets of American Packaging, Inc. as of December 31, 2002 and 2001, and the related statements of operations, retained earnings and cash flows 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Packaging, Inc. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

New York, New York
December 21, 2003

SABBADINI OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Organization and Business:

American Packaging, Inc. (Company) was incorporated in Delaware on October 31, 1973 and is a wholly-owned subsidiary of Amercian Packaging, Corp., an Asian corporation (Parent). Operations began in April 1974. The Company is and exclusive distributor of Emballages France products in the United States.

Inventory:

Inventory is stated at the lower of cost or market (cost being determined by the specific identification method).

Advertising:

Advertising costs \$255,015 (2003) and \$214,870 (2002) are charged to operations as incurred.

Property and Equipment:

Property and equipment are stated at cost. Depreciation is provided using accelerated methods over recovery periods of 39 years for the building and improvements using the straight-line method and five to seven years for equipment, using an accelerated method

In 2001, the Company sold its operating facility and concurrently purchased a nearby property as its new operating facility. The gain on sale was reported in 2001 operations for financial reporting purposes. For income tax reporting, a portion of the gain is deferred and reported over the life of the new property through annual depreciation adjustments. Accordingly, a deferred tax liability has been recorded for this temporary difference.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Revenue Recognition:

The Company recognizes sales when merchandise is shipped or given to a customer.

Shipping and Handling:

Shipping and handling costs are included in cost of sales.

Deferred Taxes:

SABBADINI OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax

SABBADINI OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The deferred income tax liability of \$125,461 at December 31, 2002 is net of a deferred tax asset of \$57,423.

Deferred Rent:

Deferred rent represents rent expense recognized on a straight-line basis over rent received pursuant to the applicable lease provisions.

Allowance for Doubtful Accounts:

The allowance for doubtful accounts is established through a provision for bad debts charged to expense. Accounts receivable are charged against the allowance for bad debts when management believes that collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing accounts receivable, based on an evaluation of the collectibility of accounts receivable and prior bad debt experience.

2. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts receivable, net of allowances for doubtful accounts, consists of the following:

	<u>2002</u>	<u>2001</u>
Accounts receivable – trade *	\$1,290,064	\$1,053,208
Due from Parent and affiliates	<u>204,200</u>	<u>88,702</u>
	<u>\$1,494,264</u>	<u>\$1,141,910</u>

Accounts payable and accrued expenses consists of the following:

	<u>2002</u>	<u>2001</u>
Accounts payable – trade and accrued expenses	\$ 1,631,892	\$ 1,457,164
Accounts payable – Parent	<u>211,794</u>	<u>102,487</u>
	<u>\$</u>	<u>\$</u>
	<u>1,851,686</u>	<u>1,559,651</u>

Transactions with the Parent include:

- a. Purchases of \$2,513,525 (2002) and \$1,665,343 (2001).

SABBADINI OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

- b. Sales of \$1,190,940 (2002) and \$727,454 (2001).

SABBADINI OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

3. INCOME TAXES

Income tax expense (benefit) consists of the following:

	<u>2002</u>	<u>2001</u>
Current:		
Federal	\$ 132,323	\$ 76,453
New York State	12,312	13,223
New York City	<u>37,546</u>	<u>34,343</u>
	182,181	124,019
Deferred	<u>(9,882)</u>	<u>122,323</u>
	<u>\$ 172,299</u>	<u>\$ 246,342</u>

The tax effect of temporary differences that give rise to deferred tax assets consist of allowances for doubtful accounts and deferred rent. The reason for the difference between the federal statutory rate and the annual effective tax rate is state taxes and the graduated federal rates.

5. TAXES OTHER THAN ON INCOME

	<u>2002</u>	<u>2001</u>
Federal employment taxes	\$ 53,232	\$ 53,832
New York State employment taxes	33,727	29,649
Other	<u>19,587</u>	<u>15,123</u>
Total	106,546	98,604

During the fiscal years 2001 and 2002, the Company accumulated delinquent liabilities to the Internal Revenue Service (IRS) and the State of New York (NYS), including assessed and estimated accrued interest and penalties. These employment tax liabilities comprise employee Federal and NYS taxes withheld by the Companies, plus the Companies' Federal FICA and Medicare tax contributions, for quarterly periods ranging between March 31, 1999 through December 31, 2002.

Management engaged outside counsel during fiscal year 2001 to negotiate repayment terms, interest and penalty charges with the IRS and NYS.

The Companies are continuing to negotiate with NYS regarding delinquent taxes, interest and penalties.

SABBADINI OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

6. DEFERRED COMPENSATION

In 2001, the Company entered into an Executive Retirement Agreement (the "Agreement") with an officer under which he will be paid \$35,000 per annum for 20 years beginning at retirement or termination. Accordingly, the Company recorded a charge to officer retirement at \$258,657, the present value of the total payments under the Agreement. In addition, interest is imputed at 8% per annum through the officer's expected retirement date. Interest expense totaling \$17,725 in 2002 and 10,524 in 2001 has been credited to liability for Deferred Compensation.

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors
American Packaging, Inc.
New York, New York

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

New York, New York
December 21, 2003