# ANNUAL INFORMATION FORM

# OF

# YOGEN FRÜZ WORLD-WIDE INCORPORATED

**January 18, 1999**

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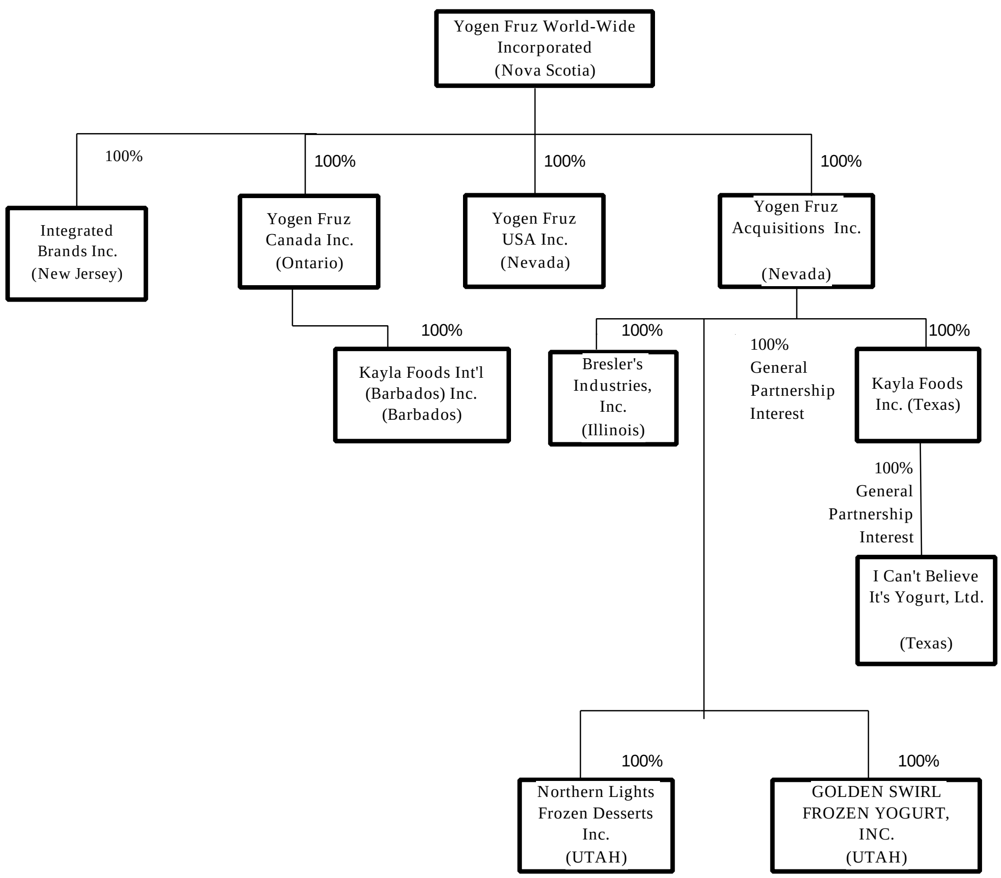
## ITEM 1: INCORPORATION

Yogen Früz World-Wide Incorporated ("Yogen Früz" or the "Corporation") was formed under the laws of Nova Scotia by memorandum of association and articles of association dated March 18, 1998. The principal office of the Corporation is located at 8300 Woodbine Avenue, 5th Floor, Markham, Ontario, L3R 9Y7. The registered address of the Corporation is Suite 800, 1959 Upper Water Street, Halifax, Nova Scotia, Canada, B3J 2X2.

### Corporate Chart

The following chart illustrates all of the principal wholly-owned subsidiaries and other entities of the Corporation and their jurisdiction of incorporation



**ITEM 2: GENERAL DEVELOPMENT OF THE BUSINESS**

The Corporation is the world's largest franchisor and licensor of stores and other locations serving primarily frozen yogurt with approximately 4,900 locations, through company owned, franchised and non-traditional partnership locations, in 82 countries. The Corporation operates a Family of Brands under the names Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's® Ice Cream and Premium Frozen Yogurt, Swensen's® Ice Cream, Ice Cream Churn®, Paradise® , Golden Swirl® and certain other names. The Corporation also franchises and licenses 347 gourmet coffee shop outlets in 22 countries under the name Java Coast® Fine Coffees and produces frozen yogurt and ice cream at its production facility in Carrolton, Texas. The Corporation also sells pre-packaged frozen dessert products under the Tropicana®**,** Betty Crocker®, Yoplait®, Trix®, Colombo® trademarks and a variety of other trademarks, pursuant to exclusive long-term license agreements. The Corporation commenced operations in August 1986 with the opening of the first Yogen Fruz® store in Vaughan, Ontario. The store served yogurt as a frozen dessert under a unique concept pursuant to which individually packaged portions of frozen yogurt were blended with fresh frozen fruit in front of the customer. The Yogen Fruz® concept was developed by the Corporation's founders, Michael Serruya, Co-Chairman, Co-President and Co-Chief Executive Officer of the Corporation, and his brother, Aaron Serruya, Executive Vice-President of the Corporation.

The first Yogen Früz® store experienced immediate success, prompting the Corporation to commence a franchising program. The first franchised Yogen Fruz® store opened in London, Ontario in August 1987 with an additional 62 stores opening in Canada over the next four years. The expansion of the Corporation's operations was further accelerated by the establishment of an international master franchise program in June 1991, when a regional franchise was granted in Latin America. As of August 31, 1998, the Corporation had 291 franchised and licensed Yogen Fruz® outlets in Canada and 859 franchised outlets in 45 other countries.

The Corporation's operations have also been significantly expanded through a series of strategic acquisitions and through the development of strategic partnerships. In June 1991, Yogen Früz Canada Inc. ("YF Canada"), a subsidiary of the Corporation through which all of the Corporation's operations were then carried on, acquired its largest competitor in Canada, Yogurty's Yogurt Discovery, from Silcorp Limited. In November 1991, a strategic alliance was formed with Ontario-based Country Style Donuts, a chain of coffee and doughnut shops, pursuant to which Yogen Früz® mini-counters have been installed in approximately 139 Country Style Donut shops. Similar strategic partnerships were recently established by the Corporation with Mrs. Fields Cookies, Amigos Restaurants, National Amusements Inc., Walmart and Taco Time Restaurants in the United States, Tricon Global Restaurants (Canada) Inc. in Ontario, Canada and internationally by master franchisees with such chains as Dunkin Donuts, Kentucky Fried Chicken, KLM Dutch Airlines and Esso. In July 1995, the Corporation completed the acquisition of Bresler's Industries, Inc. ("Bresler's Industries"), an established U.S. franchisor and licensor of ice cream and frozen yogurt outlets. In March 1996, the Corporation completed the acquisition of ICBY, the then second largest franchisor and licensor of frozen yogurt outlets in the United States and a significant franchisor of frozen yogurt outlets outside North America. In June 1996, the Corporation completed the acquisition of Golden Swirl Frozen Yogurt Inc. and GS Associates Inc., the sole partners of Golden Swirl Management Company, an owner and operator of a chain of frozen yogurt stores in Utah, California, Nevada, and Arizona under the name Golden Swirl. In January 1998, the Corporation acquired the business of U.S.-based Ice Cream Churn Inc. and Ice Cream Churn Enterprises, which have the right to operate outlets in Wal-Mart Stores Inc. stores. In March 1998, the Corporation acquired Integrated Brands Inc. ("Integrated Brands") which markets, sells and distributes Tropicana® frozen desserts, as well as a variety of other branded frozen dessert products under the Betty Crocker®, Yoplait®, Colombo®, Trix®, Lucky Charms® and Yoo Hoo® brand names pursuant to long term exclusive license agreements. Integrated Brands, directly and through subsidiaries, also operates, franchises and licenses Swensen's® Ice Cream, Steve's® Ice Cream and triple trademark frozen dessert stores throughout the United States and certain foreign countries.

Concurrently with the acquisition in March 1998 of Integrated Brands, Yogen Fruz continued under the laws of Nova Scotia and reorganized its share capital. As a result, the share capital of Yogen Fruz consists of Multiple Voting Shares (10 votes per share) and Subordinate Voting Shares (1 vote per share). The Subordinate Voting Shares trade on The Toronto Stock Exchange under the symbol "YF.A".

## ITEM 3: NARRATIVE DESCRIPTION OF THE BUSINESS

### Overview

Yogen Früz franchises and licenses stores and other locations serving frozen desserts, including ice cream, frozen yogurt and related products with approximately 4,900 locations, through company owned, franchised and non-traditional and partnership locations, in 82 countries. The Corporation operates a Family of Brands under the names Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's® Ice Cream and Premium Frozen Yogurt, Swensen's® Ice Cream, Ice Cream Churn®, Paradise® and Golden Swirl®. Yogen Früz also franchises and licenses 347 gourmet coffee shop outlets in 22 countries under the name Java Coast® Fine Coffees and produces frozen yogurt and ice cream at its production facility in Carrollton, Texas, for its I Can't Believe It's Yogurt® brand. Yogen Früz's operations are divided into seven distinct businesses: the franchising and licensing of Yogen Früz® outlets and other activities related thereto (the "Yogen Früz® Business"); the franchising and licensing I Can't Believe It's Yogurt® outlets and other activities related thereto (the "ICBIY Business"); the franchising and licensing of Bresler's® outlets and other activities related thereto (the "Bresler's Business"); the franchising and licensing of Swensen's® Ice Cream outlets and other activities related thereto, and the sale and distribution of pre-packaged frozen dessert products under the Tropicana®, Betty Crocker®, Yoplait®, Colombo®, Trix® trademarks and a variety of other trademarks, pursuant to exclusive long-term license agreements (the "Integrated Brands Business"); the franchising and licensing of Java Coast® Fine Coffees outlets and other activities related thereto (the "Java Coast® Business"); and the franchising of Golden Swirl® outlets and other activities related thereto (the "Golden Swirl® Business").

The Yogen Früz®, Integrated Brands, ICBIY, Bresler's®, Java Coast® and Golden Swirl® Businesses are carried on through Yogen Früz's principal subsidiaries (collectively, the "Operating Entities"): YF Canada, whose activities relate primarily to the franchising and licensing of Yogen Früz® outlets in Canada; ICBIY, whose activities relate primarily to the franchising and licensing of I Can't Believe It's Yogurt® and Java Coast® Fine Coffees outlets and the production of frozen yogurt and ice cream in the United States; Bresler's® Industries, whose activities relate primarily to the franchising and licensing of Bresler's® outlets in the United States; Golden Swirl®, whose activities relate primarily to the franchising of Golden Swirl® outlets in the United States; Kayla Foods International (Barbados) Inc. (formerly, Yogen Früz, Inc. (Barbados)) ("Kayla Barbados") whose activities relate primarily to the franchising and licensing of Yogen Früz®; I Can't Believe It's Yogurt®, Bresler's® and Java Coast® outlets internationally; and Integrated Brands whose activities relate to the franchising of Swensen's® Ice Cream and the sale and distribution of pre-packaged frozen dessert products under the Tropicana®, Betty Crocker®, Yoplait®, Colombo®, Trix® trademarks and a variety of other trademarks, pursuant to exclusive long-term license agreements.

Yogen Früz derives its revenues from the sale of products and franchising, licensing and related operations of the Operating Entities. The revenues can be categorized as follows:

- ***Revenues from Product Sales***: Yogen Früz earns revenues from the sale of a variety of pre-packaged frozen dessert products to supermarkets, grocery stores, club stores, convenience stores, gourmet shops and delicatessens in Canada and the United States, sold under the Tropicana®, Betty Crocker®, Yoplait®, Colombo®, Trix® trademarks and a variety of other trademarks. Yogen Früz also earns revenues on the sale of products which franchisees and licensees are required to purchase from it or from its designated suppliers. These include frozen yogurt, ice cream and other menu items, store supplies such as cups, napkins, uniforms, etc., and required machinery and equipment. Yogen Früz also sells some of its I Can't Believe It's Yogurt® and Bresler's® products, including pre-packaged ready-to-eat single servings, at the locations of various customers, including convenience stores, service stations, fast food chains and food outlet operators. In addition, Yogen Früz manufactures and sells the frozen yogurt served at all I Can't Believe It's Yogurt® outlets in the United States as well as some outlets internationally and all of the soft-serve ice cream and a portion of the hard-packed ice cream served at all Bresler's® outlets in the United States.

- ***Revenues from Franchise, License, Turn-Key, Construction Related Services and Other Fees***: Yogen Früz generally charges its franchisees, master franchisees and some of its licensees an initial fee for the franchise, master franchise or license sold or granted, as well as, in certain cases, a renewal fee upon the expiration of the initial term of the franchise, master franchise or license. In some instances, Yogen Früz charges its franchisees, master franchisees and licensees fees for support, marketing and other services. See "Franchising and Licensing" below. As well, Yogen Früz occasionally builds outlets on a turn-key basis for Yogen Früz® franchisees in Canada and provides other services to U.S. Bresler's® franchisees in connection with the design, layout and construction of Bresler's® shops, and charges fees for those services.

- ***Revenues from Royalties***: Yogen Früz earns royalties from Yogen Früz® Swensen's® and Bresler's® franchisees, master franchisees and certain licensees on the basis of their gross sales. Beginning January 1, 1996, ICBIY eliminated all royalties payable by I Can't Believe It's Yogurt franchisees in the United States. Certain international I Can't Believe It's Yogurt master franchisees continue to pay royalties on the basis of gross sales. See "Franchising and Licensing" below.

- ***Revenues from Corporate Stores***: From time to time, Yogen Früz operates a small number of corporate stores. These stores are usually acquired as a result of acquisitions or from franchisees and are either offered to prospective franchisees or used to test-market new products and train new franchisees. Yogen Früz owns and operates 2 Yogen Früz® stores in Canada, 1 Bresler's® store, 1 ice cream store under the name Larry's® Ice Cream & Yogurt Parlours, 53 Golden Swirl® ice cream stores, 2 Swensen's® ice cream stores and 1 ice cream store under the name Schrafft's® Ice Cream in the United States.

- ***Net Rental Revenues and Other Income***: Yogen Früz, through certain subsidiaries of Bresler's Industries, enters into leases with landlords and then sublets the locations to its U.S. Bresler's® franchisees, often at a mark-up. Yogen Früz also assists its franchisees of Yogen Früz® stores in Canada in securing leases for their premises in return for a one-time flat fee. Other income consists of gain on sale of assets, interest income and foreign exchange gains.

The following table sets forth the percentage contribution of each of the above-described revenue sources to the revenues of each of the Yogen Früz®, Integrated Brands, I Can't Believe It's Yogurt®, Bresler's®, Java Coast® and Golden Swirl® Businesses and of Yogen Früz as a whole for the year ended August 31, 1998:

**Percentage of Revenue by Source**

| Revenue Source | Yogen Früz® Business | I Can't Believe It's Yogurt® Business | Bresler's® Business | Java Coast® Business | Golden Swirl® Business | Integrated Brands Business | Corporation |
|---|---|---|---|---|---|---|---|
| Product Sales | 53% | 86% | 58% | 14% | 27% | 88% | 71% |
| Franchise, License, Turn-key, Construction Services & Other Fees | 14% | 7% | 5% | 73% | 1% | 1% | 4% |
| Royalties | 10% | 1% | 14% | 3% | 3% | 5% | 6% |
| Corporate Stores | 8% | 0% | 12% | 0% | 69% | 5% | 16% |
| Net Rental and Other Income | 15% | 6% | 11% | 10% | 0% | 1% | 3% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

## The Yogen Früz® Business

The Yogen Früz® Business consists primarily of the franchising and licensing of Yogen Früz® outlets in Canada and internationally. In Canada, with the exception of British Columbia (which is covered by a master franchise agreement), Yogen Früz sells franchises for various types of Yogen Früz® outlets and licenses certain other retail chains to operate Yogen Früz® mini-counters and carts at their locations. Internationally, Yogen Früz sells master franchises for specific countries or regions to master franchisees who in turn franchise and license Yogen Früz® outlets in those countries or regions. There are currently Yogen Früz® master franchises covering 43 countries. See "Franchising and Licensing" and "Strategic Partnerships and Cross-Branding" below.

As of August 31, 1998, there were 291 franchised and licensed outlets in Canada and 859 franchised outlets in 45 other countries.

The principal product served by Yogen Früz® stores is hardpack frozen yogurt which is blended with fresh frozen fruit in front of the customer and served in a cup or cone. The frozen yogurt is pre-packaged in single serving bars, comes in vanilla and chocolate flavours and is available in 98% and 100% fat-free versions. The selection of fruit which is used for blending with the yogurt varies from country to country and depends on local availability and customer preferences. The Yogen Früz® standard menu also includes frozen yogurt shakes, cakes and pies, fresh juices and hot and cold non-alcoholic beverages. Yogen Früz® has also developed new flavours, combinations and tastes of Smoothies, which have rapidly won wide consumer appeal. Smoothies can be consumed as a nutritious breakfast, lunch or snack. As a result, many mall-based operators are adding sales early in the day, thus lengthening the typical sales day. Yogen Früz Smoothies are made in dairy and non-dairy versions, with non-fat Yogen Früz® or I Can't Believe It's Yogurt® frozen yogurt and Tropicana® juices. They are offered along with four new Healthy Additions, which augment their nutritional and meal replacement value with Ginseng Root Powder, Vitamin and Protein Powders, Wheat Germ and Wheat Grass Juice Supplement. The Yogen Früz® concept is simple, easy to operate, and can be implemented in a variety of different formats. In addition, Yogen Früz® outlets generally require less space and equipment to operate, and a smaller investment by franchisees, than outlets of other competing frozen yogurt store chains. The cost of construction of a Yogen Früz® store varies depending upon its size and on the level of leasehold improvement allowances received. The typical estimated required investment for a franchisee in Canada for an average size in-line store in a shopping mall is approximately $100,000, inclusive of franchise fees.

All Yogen Früz® outlets have the distinctive black and pantone blue, yellow and pink Yogen Früz® design. Stores in Canada are concentrated primarily in shopping malls and other high-traffic locations. International locations are a mix of street-front, strip malls and enclosed shopping centers. Outlet sizes range from 25 square feet for mini-counters, up to 150 to 500 square feet for traditional stores.

As part of its Yogen Früz® Business, Yogen Früz contracts with manufacturers from around the world for the production of the yogurt used in Yogen Früz® outlets. Yogen Früz buys the frozen yogurt directly from such manufacturers and re-sells it at a mark-up to distributors who supply it to Canadian and international franchisees. In addition, Yogen Früz receives rebates from some of the manufacturers for reaching volume targets.

Other Yogen Früz® related activities include the sourcing and sale of other products and equipment used by Yogen-Früz® outlets world-wide, construction of outlets for Canadian franchisees on a turn-key basis, franchise training and support services, marketing, advertising, and research and development activities. Canadian store franchisees are also provided assistance in arranging for the leases for the locations of their stores for which they pay a one-time $5,000 flat fee. In addition, Yogen Früz currently operates 2 corporate Yogen Früz® stores and is also the franchisor of a chain of 9 frozen yogurt stores in Canada under the name Yogurty's, of which 8 have already been converted into Yogen Früz® and I Can't Believe It's Yogurt® outlets, and a chain of 13 frozen yogurt and natural juice stores in Canada under the name Paradise Frozen Yogurt Juice Bar which Yogen Früz acquired in October 1996.

The Yogen Früz® Businesses' Canadian operations are managed from the head offices of Yogen Früz in Markham, Ontario, while the international operations are managed from the offices of Kayla Barbados in Barbados.

**The ICBIY Business**

The ICBIY Business consists primarily of the production and sale of frozen yogurt and other frozen desserts for distribution to franchised and licensed outlets in the U.S., including retail chains as well as food outlets operating mini-counters and carts that serve I Can't Believe It's Yogurt® brand frozen yogurt. Internationally, Yogen Früz sells master franchises for specific countries or regions to master franchisees who in turn franchise and license I Can't Believe It's Yogurt® outlets in those countries or regions. There are currently I Can't Believe It's Yogurt® master franchises covering 29 countries (not including the United States). See "Franchising and Licensing" below.

As of August 31, 1998, there were 1,103 franchised and licensed outlets in the United States and 972 franchised and licensed outlets in 31 other countries.

The principal product served by I Can't Believe It's Yogurt® stores is frozen yogurt which is available in a variety of flavours and comes in soft-serve and hard-packed "scooped" versions. The soft-serve frozen yogurt is served in different versions, including low fat, non-fat and non-fat with NutraSweet®, while the hard-packed frozen yogurt is sold in low fat and non-fat with NutraSweet® versions. The standard I Can't Believe It's Yogurt® menu also includes frozen yogurt shakes, sorbets, cakes and pies and hot and cold non-alcoholic beverages. As part of Yogen Früz's co-branding programs, approximately 95 I Can't Believe It's Yogurt® outlets in the United States serve a limited selection of Breslers® ice cream. In addition, approximately 60 I Can't Believe It's Yogurt® outlets in the United States have a Java Coast® Fine Coffees mini-counter in their premises.

All I Can't Believe It's Yogurt® outlets feature a distinctive I Can't Believe It's Yogurt® colour scheme (peach and green or yellow and green for older outlets and teal and magenta for all new and remodelled outlets) and feature a talk bubble logo containing the words "I Can't Believe It's Yogurt".

Locations in the United States are concentrated primarily in shopping centers and regional malls as well as other high-traffic locations. International locations are a mix of street-front, non-traditional locations operating within the premises of other stores, enclosed shopping centers and kiosks. Store sizes range from 14 square feet for mini-counters, up to 900 to 1,200 square feet for traditional stores.

ICBIY also produces frozen yogurt, ice cream and other frozen dessert products and ingredients at its manufacturing facility in Carrollton, Texas. Yogen Früz produces frozen yogurt for sale to distributors for resale to all I Can't Believe It's Yogurt® franchisees and licensees in the United States as well as some international franchisees and licensees and a large portion of the ice cream used by Breslers® franchisees and licensees in the United States. Outside of the United States, I Can't Believe It's Yogurt® frozen yogurt products are produced by four manufacturers under contract with Yogen Früz and distributed through local distributors.

Other I Can't Believe It's Yogurt® related activities include the sourcing and sale of various products and merchandise used by I Can't Believe It's Yogurt® outlets world-wide, franchise training and support services, marketing, advertising and research and development activities.

The ICBIY Business' U.S. operations are managed from the head offices of Integrated Brands in Ronkonkoma, NY, while the international operations are managed from the offices of Kayla Barbados in Barbados.

**The Bresler's® Business**

The Bresler's® Businesses consists primarily of the franchising and licensing of Bresler's® outlets in the United States and internationally. In the United States, Yogen Früz sells franchises for Bresler's® outlets and licenses various retail operators to operate smaller non-traditional locations that serve Bresler's® ice cream and frozen yogurt. Internationally, Yogen Früz sells master franchises for specific countries or regions to master franchisees who in turn franchise and license Bresler's® outlets in those countries or regions. There are currently Bresler's® master franchises covering 25 countries. See "Franchising and Licensing" below.

The Bresler's chain is an established U.S. chain of ice cream and frozen yogurt outlets with international operations. As of August 31, 1998, there were 470 franchised and licensed outlets in the United States as well as 72 franchised outlets in 26 other countries.

The products served by Bresler's® stores include premium ice creams, frozen yogurts, sherbets, sorbets and ices. The standard menu includes hard-packed and dipped ice cream, soda fountain products, ice cream specialty items, yogurt products and non-alcoholic beverages. As part of Yogen Früz's co-branding programs, approximately 99 Bresler's® outlets in the United States serve a limited selection of I Can't Believe It's Yogurt® frozen yogurt.

All of Bresler's® soft-serve ice cream and a portion of its hard-packed ice cream is produced at ICBIY's Carrollton, Texas manufacturing facility. The remainder of Bresler's® ice cream and frozen yogurt is produced by third party manufacturers in the United States.

The Bresler's® concept can be implemented in a variety of different formats. The cost of construction of a new Bresler's® store varies depending upon its size and level of leasehold improvement allowances received. The estimated required investment for a typical franchisee of a Bresler's® traditional store in the United States varies between US$150,000 and US$197,000, including franchise fees.

Since 1992, all new and remodelled Bresler's® outlets have the distinctive white, teal and magenta Bresler's® design. Locations are concentrated primarily in regional and metropolitan area malls, high-traffic tourist areas, strip malls and metropolitan downtown areas. Shop sizes range from 60 square feet for non-traditional locations up to 400 to 1,000 square feet for traditional stores.

Other Bresler's® related activities include the sourcing and sale of ice cream, frozen yogurt and other products and equipment sold by Bresler's® outlets world-wide, the provision of services in connection with Bresler's® outlet design, layout and construction, franchise training and support services, marketing, advertising and research and development activities. In addition, Yogen Früz, through certain subsidiaries of Bresler's® Industries, enters into leases with landlords and sublets the locations to its U.S. Bresler's® franchisees, often at a mark-up. Yogen Früz operates 1 corporate Bresler's® store in the United States. In addition, Larry's Industries, Inc., a wholly-owned subsidiary of Bresler's® Industries, franchises Larry's Ice Cream & Yogurt Parlours®, a chain with 10 franchised outlets primarily in Florida, 1 of which is owned and operated by Yogen Früz.

The Bresler's® Business' U.S. operations are managed from Integrated Brands' head office in Ronkonkoma, NY. Yogen Früz's international Bresler's® Business operations are managed from the head office of Kayla Barbados in Barbados.

## The Java Coast® Business

The Java Coast® Business, which was acquired by Yogen Früz as part of the acquisition of ICBIY, consists primarily of the licensing and franchising of Java Coast® Fine Coffees outlets in the United States and internationally. The Java Coast Fine Coffees trademark and related symbols are owned in the United States by Superior Coffee and Foods, a division of Sara Lee Corporation, and used by ICBIY pursuant to a trademark and license agreement providing for, among other things, a royalty-free license of such trademark and related symbols in the United States for an unlimited period of time (subject to termination upon the occurrence of certain events such as bankruptcy).

In the United States, Yogen Früz primarily licenses Java Coast® Fine Coffees mini-outlets as add-ons in existing I Can't Believe It's Yogurt® outlets as well as other locations, such as convenience stores and gas station food marts. Internationally, Yogen Früz sells master franchises for specific countries or regions to master franchisees who in turn license and franchise Java Coast® Fine Coffees outlets in those countries or regions. There are currently Java Coast® master franchises covering 22 countries and the Province of Ontario. As of August 31, 1998, there were 264 licensed Java Coast® Fine Coffee outlets in the United States as well as 83 franchised outlets in 14 other countries.

Although the Java Coast® concept can be implemented in a variety of different formats, in North America the concept has been implemented primarily as an add-on to existing I Can't Believe It's Yogurt® franchised outlets. Internationally, most Java Coast® Fine Coffee outlets sell espresso beverages, granita, exotic juices, gourmet coffees and iced/hot teas. The term "gourmet coffee" notes its difference from commercial coffees.

The positioning of the Java Coast® trademark is based on the use of high quality gourmet coffee beans. All Java Coast® coffees are 100% pure high-grown Arabica beans. Superior Coffee and Foods produces Java Coast® coffees for Yogen Früz, and jointly with Yogen Früz, markets and supports Java Coast® locations across the U.S.

Yogen Früz's Java Coast® related activities include the sourcing and sale of fine coffees and other products and equipment used by Java Coast® Fine Coffees outlets world-wide, the provision of services in connection with Java Coast® outlet design, layout and construction, franchise training and support services, marketing, advertising and research and development activities.

The Java Coast® Business' U.S. operations are managed from Integrated Brands' head office in Ronkonkoma, NY. Yogen Früz's international Java Coast® business operations are managed from the head office of Kayla Barbados in Barbados.

**The Golden Swirl® Business**

The Golden Swirl® Business, which was acquired by Yogen Früz in June 1997, is based in Ronkonkoma, NY and operates 53 stores which are corporately owned and operated and 11 stores pursuant to franchise and license agreements, under the name Golden Swirl®.

The Golden Swirl® Business has a strong representation in the Utah, Arizona and California market place . Yogen Früz believes that this strong presence will enable it to achieve stronger penetration in those states in which Yogen Früz had little exposure in the past.

The Golden Swirl® Business has developed a strong relationship with various major supermarket chains in the Southwestern United States , most notably with Smith's, Von's, Ralph's and Albertson's. Under these arrangements, the Golden Swirl® Business operates mini locations within certain supermarkets. The related supermarket lease agreements allow the flexibility for Golden Swirl® to franchise these locations if it chooses to do so.

Golden Swirl® has developed a new generation of store design, which it has implemented in about 50% of its existing stores.

**The Integrated Brands Business**

Integrated Brands sells its variety of pre-packaged frozen dessert products to distributors and various retail establishments including supermarkets, grocery stores, club stores, gourmet shops, delicatessens and convenience stores.

Integrated Brands' products for wholesale sale include: Tropicana® frozen novelties and frozen dessert specialties; Betty Crocker® frozen novelties and frozen dessert specialties, Yoplait® ready to eat frozen yogurt products; Colombo® ready to eat frozen yogurt and sorbet products, Trix® frozen novelties, and a variety of other novelties, including those sold under the "Great American", "Tropical", "Chilly Things" and "Bullet" trademarks, American Glace® no fat, no cholesterol low calorie frozen dessert and Sweet 'N Low® fat free ice cream products. Many of the Betty Crocker®, Yoplait®, Colombo®, Yoo Hoo®, American Glace® and Sweet 'N Low® products appeal to the healthier consumer lifestyle and eating trends toward lower and no fat and lower and no cholesterol products. Integrated Brands has the right to develop and on an on-going basis is developing additional products under the foregoing trademarks. Integrated Brands incurs significant expenses to obtain shelf space in connection with the introduction of its new products.

Integrated Brands purchases packaging and ingredients for its products directly from unaffiliated suppliers. Integrated Brands then sells the packaging and ingredients to unaffiliated manufacturers. Certain of these manufacturers also manufacture other ice cream and related frozen dessert products for other companies, including companies affiliated with Richard E. Smith, who is a significant Yogen Früz Shareholder and Co-Chairman of the Yogen Früz Board, and Co-President and Co-Chief Executive Officer of the Corporation. The manufacturers produce Integrated Brands' products according to Integrated Brands' specifications and formulas under quality control supervision by Integrated Brands. Integrated Brands then purchases the finished products from the manufacturers at a formula price based upon the manufacturers' actual cost of ingredients and packaging plus an agreed upon processing fee which includes a profit for the manufacturers. Integrated Brands believes there are many alternative ice cream and novelty manufacturers available on comparable terms.

Calip Dairies, Inc. ("Calip"), of which Richard E. Smith is Chairman of the Board and Mr. Smith and his family are the sole stockholders, has the exclusive right to distribute the Company's products in the New York Metropolitan region, pursuant to a distribution agreement which remains in effect as long as the Smith family controls Calip.

The Integrated Brands Business, also consists of owning, operating, developing and/or franchising Swensen's® restaurants and ice cream stores in four formats: full food service, limited food service, ice cream only stores and specialty stores.

At August 31, 1998, there were 261 franchised Swensen's® stores, 2 company-owned and operated Swensen's® stores, 2 Steve's® Ice Cream franchised stores and 11 franchised Heidi's® frozen yogurt stores. In addition, a Schrafft's ice cream store operating as a joint venture opened in Las Vegas, Nevada in January 1997.

In February 1989, Integrated Brands, through a wholly-owned subsidiary, acquired approximately 85% of the outstanding stock of Heidi's Frogen Yozurt Shoppes, Inc. ("Heidi's"). Integrated Brands has entered into agreements with Heidi's pursuant to which Integrated Brands has received a license from Heidi's to (i) use the Heidi's trademark in the manufacture of frozen dessert products, including distribution to Heidi's® stores, and to (ii) offer Heidi's products in its Steve's® and Swensen's® stores.

Integrated Brands offers "triple-trademark" franchises, featuring independent sections of Swensen's ice cream, David's cookies, pursuant to an arrangement with Specialty Foods Management, Inc. ("Davids") and Heidi's frozen yogurt, with David's cookies being deemed "approved products" which are permitted to be sold by the franchise and Heidi's frozen yogurt being licensed to the franchisee. The initial franchise fee for a Swensen's full-service food store is U.S.$25,000. The initial franchise fee for a Swensen's only or "triple trademark store" is U.S.$10,000. The "triple-trademark" concept was developed in response to the high real estate costs likely to be incurred by prospective franchisees. The concept allows franchisees to offer a range of dessert products while dividing the real estate costs and overhead among three synergistic businesses.

Where conditions do not permit a triple trademark franchise operation, Integrated Brands franchises four basic Swensen's® store types in the following formats:

1. Full-Service Food Store, old fashioned ice cream family-style restaurants with full service and food, featuring Swensen's ice cream and fountain products.

2. Ice-Cream-Only Store, with the same decor and featuring only Swensen's ice cream and ice cream related products.

3. Modified Full-Service Store, offering partial self-service of a limited food menu, having approximately 1,800 to 2,000 square feet and generally 50 to 60 seats.

4. Specialty Stores, which include kiosks or other approved types of outlets of a special nature.

Integrated Brands also offers, where permitted, existing Steve's and Swensen's franchisees the right to sell Heidi's® frozen yogurt and existing Heidi's franchises the right to sell Steve's® or Swensen's® ice cream.

Swensen's standard franchise agreements provide for initial ten year term for food menu and ice cream-only stores, and options to renew for up to the same period. The agreements grant the franchisee the right to use the Swensen's name, goodwill and trade secrets, and to develop and operate the store in accordance with the Swensen's® system. The initial franchise fee is US$25,000 for a full service food store. Beginning in April 1997, the initial franchise fee for ice cream only stores was reduced to U.S.$10,000 in an effort to sell and open additional domestic franchise stores. In addition, the current franchise agreement requires domestic franchises to pay Swensen's a royalty of 3% of gross sales, and foreign franchisees to pay 3% (in US Dollars) of their gross sales as royalties. The current weighted average royalty rate is 3.2% for domestic franchises and 2% for foreign franchises. Swensen's current franchise agreement provides that domestic franchisees must contribute, 1% of gross sales to a fund which is used for national advertising.

Integrated Brands markets its franchises through magazine and newspaper advertisements, by attending new business opportunity conventions and through franchise brokers, as well as by responding to inquiries from potential franchisees who have seen Integrated Brands' products or one of its franchise stores.

All franchisees are required to purchase their ice cream and yogurt products from Integrated Brands or approved affiliates or suppliers and to purchase other proprietary products from Integrated Brands-approved sources. The Swensen's bulk ice cream is offered in approximately 46 flavours, the Steve's bulk ice cream is offered in approximately 24 flavours and the Heidi's yogurt mix is offered in approximately 45 flavours (6 base mixes plus flavouring syrups). The number of flavours actually available at any one time varies. Integrated Brands also offers a variety of flavours of Swensen's no sugar added, low fat and no fat ice creams and Swensen's frozen yogurt products to the Swensen's franchised stores.

**Franchising and Licensing**

*Overview*

A full franchising program has been developed for each of the Yogen Früz®, Bresler's®, Swensen's®, Java Coast® Fine Coffees and Golden Swirl® chains. Although developed separately, each of the programs (except for Golden Swirl®) is substantially similar and is organized on two levels: master franchising, pursuant to which master franchises are sold for specific regions, countries or other geographical areas; and retail franchising and licensing, pursuant to which franchises are sold, and licenses are granted, by master franchisees to retail outlet operators in the master franchisee's territory. Generally, retail franchising is used for larger locations such as traditional stores or kiosks which offer a full range of products. Licensing is used primarily for smaller locations such as mini-counters or carts which are located within the premises of strategic partners and typically offer a more limited selection of products.

Master franchisees and franchisees are selected on their basis of their financial resources, operational skills and business experience. Master franchisees and franchisees are required to complete in-depth training programs. The training programs typically include instruction relating to business management, accounting, operations, ordering, store opening and closing procedures and staff hiring. Franchisees are also provided with detailed operating procedures and marketing, construction, employee and management manuals. Generally, preliminary layouts and plans for all new sites are reviewed and representatives of Yogen Früz are sent to the opening of each new location. Representatives of Yogen Früz also make visits to sites around the world. Local master franchisees are required to visit each site in their franchise area.

Yogen Früz acts as its own master franchisee in the U.S. and Canada (except for Yogen Früz franchisees in British Columbia).

*Retail Franchising Arrangements*

Yogen Früz, either directly-or through a master franchisee, enters into a franchise agreement with each franchisee for each location. The franchise agreement authorizes the franchisee to operate the location under the Yogen Früz®, Bresler's®, Swensen's®, Java Coast® Fine Coffees or Golden Swirl® name and trade-marks in accordance with such methods, standards, specifications and procedures as Yogen Früz may prescribe from time to time. Only products approved by Yogen Früz may be sold at the location and the franchisee must buy such products solely from Yogen Früz or from suppliers and manufacturers designated by it. The franchisee must pay the costs of leasehold improvements and must purchase the necessary equipment to operate the location from Yogen Früz or suppliers designated by it. Generally, Yogen Früz®, Bresler's®, Swensen's®, Java Coast® Fine Coffees or Golden Swirl® franchisees are required to devote their full time and best efforts to their franchise.

Except for Bresler's® franchises, which are granted for as long as the franchisee holds a lease for the franchise location, franchises are granted for a specific term and are usually renewable if certain conditions are satisfied, including, in some instances, the achievement of minimum sales levels. Yogen Früz® franchises are granted for periods varying between five and ten years (often corresponding to the term of the lease for the location of the franchise) and are usually renewable for an additional period of five years.

Franchisees must pay their master franchisee an initial franchise fee as well as royalties based on their gross sales. In addition, a renewal fee is usually paid on the renewal of the franchise. The franchise fee for a Yogen Früz® store franchise in Canada is $25,000. Internationally, franchise fees are set by master franchisees and, for a Yogen Früz® store, typically vary between US$10,000 and US$25,000. All Yogen Früz® franchisees must pay royalties to their master franchisee equal to 6% of their gross sales.

As of January 1, 1996, Yogen Früz no longer charges ongoing royalties on gross sales to its existing United States I Can't Believe It's Yogurt® franchisees. Yogen Früz, however, now charges fees for support and other services which were previously provided free of charge. The royalty fees paid by franchisees to their master franchisees outside the United States vary between 0% and 3% of gross sales.

Franchisees of Bresler's®, Golden Swirl® and Swensen's® stores in the United States pay an initial franchise fee of US$15,000, US$15,000 and US$10,000, respectively. Bresler's® and Swensen's® franchisees also pay royalties equal to 6% and 3% of their gross sales, respectively. Golden Swirl® franchisees have to pay royalties equal to US$4.40 per 3 gallon case of frozen yogurt purchased from company designated distributors.

There are currently no Java Coast® Fine Coffees franchises in the United States. Internationally, franchise fees for Java Coast® Fine Coffees franchises are set by master franchisees.

Yogen Früz is currently seeking to franchise the Golden Swirl® locations.

*Licensing Arrangements*

Yogen Früz, either directly or through master franchisees, enters into a license agreement with each licensee for each location. The license agreement authorizes the licensee to operate a Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's® or Java Coast® Fine Coffees mini-counter or similar outlet within the licensee's place of business. The licensee must operate the outlet in accordance with the methods, standards, specifications and procedures which are prescribed by

Yogen Früz. Generally, the licensee must purchase products used within the outlet from Yogen Früz or from suppliers and manufacturers designated by it.

As in the case of franchises, licenses are granted for a specific term and are usually renewable if certain conditions are satisfied. Licensees are usually charged an initial license fee or a charge for start-up and support services, but, are not usually required to pay royalty fees, except outside of North America.

*Master Franchising Arrangements*

Master franchise agreements generally authorize master franchisees to franchise and license Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's® , Swensen's® or Java Coast® Fine Coffees outlets in the territory covered by their respective master franchises. In certain instances, such as where the territory covered by the master franchises is comprised of more than one country, master franchisees may also be allowed to grant master franchises for portions of their territory.

Master franchisees are generally subject to substantially all of the requirements imposed on retail franchisees and are obliged to enforce those requirements in respect of their own franchisees. In addition, master franchisees are usually required to open a minimum number of outlets each year.

Master franchises are generally granted for periods varying between ten and twenty years, and are usually renewable for an additional period of ten to twenty years. Master franchisees pay Yogen Früz an initial fee for their master franchise as well as, in the case of Yogen Früz®, Bresler's® , Swensen's® and Java Coast® Fine Coffees master franchisees, additional fees for each franchise sold or license granted by them, and a portion of the royalties earned by them from their franchisees. The initial fee for a master franchise varies depending on a number of different factors, including the size of the territory covered by the master franchise.

**Strategic Partnerships and Cross-Branding**

Yogen Früz, through subsidiaries and master franchisees, has entered into strategic partnership arrangements with a number of retail chains both in North America and internationally. These arrangements are usually structured as license agreements pursuant to which Yogen Früz or its master franchisee licenses the strategic partner to install Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's®, Java Coast® Fine Coffees and/or Golden Swirl® mini-counters in some or all of its locations. Similarly, a strategic partner may license Yogen Früz to offer that partner's products at Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's® and/or Java Coast® Fine Coffees and/or Golden Swirl® outlets. The mutual offering of products is sometimes referred to as "cross-branding". Yogen Früz views these forms of arrangements as strategic since they typically exploit the complementary name of the Yogen Früz®, ICBIY, Bresler's®, Java Coast® and Golden Swirl® Businesses with the business of the strategic partners and result in incremental business for both parties.

Yogen Früz has established a co-branding program between I Can't Believe It's Yogurt® and Bresler's® outlets in the United States. As a result of this program, 95 I Can't Believe It's Yogurt outlets now feature a limited selection of Bresler's® ice cream and 99 Bresler's® outlets feature a limited selection of I Can't Believe It's Yogurt® frozen yogurt.

Yogen Früz formed a partnership for its I Can't Believe It's Yogurt® brand when the Corporation's Master Franchise in Amsterdam signed an agreement with KLM Dutch Airlines. As a result, our I Can't Believe It's Yogurt® frozen dessert is now served as a complimentary dessert on all KLM flights along its European and Intercontinental routes.

During fiscal 1998, Yogen Früz strengthened its alliance with National Amusements Inc., an international entertainment company operating 1,180 motion picture screens in the US, Great Britain and Latin America. A five year co-marketing pact was signed whereby the Bresler's® and Yogen Früz® mix-in frozen yogurt brands were introduced to more than 50 theatres throughout the US and Great Britain.

The Corporation expanded on its relationship with Walmart during fiscal 1998. In January, the Corporation acquired American-based Ice Cream Churn in January 1998. At the time, Ice Cream Churn had 22 outlets in Walmart stores throughout the Southern US. Further inroads were made in February, when the Corporation signed a deal with American retailer Sam's Club, a division of Walmart, to roll out the Bresler's® yogurt line in 440 Sam's Club locations throughout the US.

Yogen Früz signed an agreement with Tricon Global Restaurants (Canada) Inc. to place I Can't Believe It's Yogurt® on the menu of its 250 Pizza Hut restaurants across Canada. Beginning in June, I Can't Believe It's Yogurt® was served as the centerpiece of a widely publicized launch of Pizza Hut's dessert bar.

### Trademarks

Yogen Früz relies upon copyright, trademark and trade secret laws to protect its proprietary rights in its trademarks and products. Yogen Früz has obtained registrations for a number of trademarks in Canada, the United States and internationally, including registrations for the trademarks and related symbols Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's®, Swensen's®, Steve's®, Java Coast® Fine Coffees and Golden Swirl®. The Java Coast® Fine Coffees trademark and related symbols are owned in the United States by Superior Coffee and Foods, a division of Sara Lee Corporation, and used by ICBIY pursuant to a trademark and license agreement providing for, among other things, a royalty-free license of such trademark and related symbols in the United States for an unlimited period of time (subject to termination upon the occurrence of certain events such as bankruptcy). Yogen Früz also registers the Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's®, Java Coast® Fine Coffees in all countries where Yogen Früz®, I Can't Believe It's Yogurt®, Bresler's®, and Java Coast® Fine Coffees outlets operate where local laws permit trademark registration. Integrated Brands holds long-term trademark license agreements for use in certain countries of the Tropicana®, Betty Crocker®, Yoplait®, Trix®, Colombo®, Lucky Charms® and Yoo Hoo® trademarks in connection with the manufacture, sale and distribution of frozen novelties and other frozen dessert products. In countries lacking trademark and/or service mark legislation, Yogen Früz utilizes alternative measures available to it, including the publication of cautionary notices, to protect its intellectual property interests.

### Regulation

Some states in the United States have statutes regulating franchise operations, including registration and disclosure requirements in the offer and sale of franchises and the application of statutory standards regulating franchise relationships, such as termination and non-renewal of franchises. Yogen Früz is also subject to the U.S. Federal Trade Commission regulations relating to disclosure requirements in the offer and sale of franchises in the United States. In addition, Yogen Früz's frozen yogurt and ice cream products are also subject to licensing and regulation (including good manufacturing practices) by federal, state and municipal authorities at its facility in Carrolltown, Texas and in the states to which it ships its products.

## Seasonality

The industry in which the Corporation operates is highly seasonal with more frozen yogurt and ice cream consumed in warmer months. The Corporation's fourth quarter, during the summer, has historically been the strongest quarter of the year. The fourth quarter accounted for 64% and 48.5% of the Corporation's total revenues and net income, respectively, for the fiscal year ended August 31, 1998 and 45% and 47% of the combined total revenue and net income, respectively, for the fiscal year ended August 31, 1997. The fourth quarter revenues for 1998 were positively impacted by the acquisition of Integrated Brands; however, normally the fourth quarter will contribute 40% to 45% of yearly revenues. See "Item 4: Selected Consolidated Financial Information" for a comparison of seasonal and quarterly results.

## Competition

Yogen Früz competes in the frozen dessert retail market and the gourmet coffee retail market against a large number of competitors. In North America, competitors of Yogen Früz include a number of large chains such as Baskin-Robbins Inc., International Dairy Queen, Inc., Ben & Jerry's Homemade Inc. and Haagen-Dazs Company Inc., TCBY Systems Inc. ("TCBY"), Freshens Premium Yogurt as well as independent retailers. In addition, both ice cream and frozen yogurt have been added as menu items by certain North American fast food restaurant chains and in recent years there has been an overall increase in the number of food service locations serving frozen yogurt, including snack food or dessert item restaurants. Frozen yogurt and ice cream are also offered in supermarkets, grocery stores and wherever convenience food operations are conducted. In the novelty market, Integrated Brands faces substantial competition in connection with the marketing and sales of its products. Among its competitors are Haagen-Dazs, Inc., owned by The Pillsbury Company, Klondike, Popsicle, Breyer's, Good Humor and Sealtest, owned by Unilever PLC, Eskimo Pie and Nestle's. Integrated Brands' products may also be considered to be competing with all ice cream and other frozen desserts for discretionary food dollars. In the gourmet coffee retail market, the company competes against a number of well established chains such as Starbucks, Second Cup and Timothy's as well as a large number of other smaller chains and independent coffee shops and other outlets serving coffee.

In the frozen dessert retail market, the level of competition is highest in the United States where I Can't Believe It's Yogurt®, Bresler's® , Swensen's®, Steve's® and Yogen Früz® outlets not only compete with other frozen yogurt and ice cream chains but, in certain instances, also with each other. In Canada, Yogen Früz® outlets experience lower competition given the absence of any other significant frozen yogurt chain. Although in certain countries Yogen Früz® and I Can't Believe It's Yogurt® outlets compete with TCBY outlets and with each other, markets outside of North America, and particularly in Asia and Latin America, tend to be in their initial stages of development resulting in Yogen Früz's outlets facing little direct competition.

In the United States, Bresler's® Industries and ICBIY also sell some of their products, including pre-packaged pints and bars, manufactured novelty items and ready-to-eat single servings, for in-premises consumption at the locations of various retail food outlets.

While the ice cream and frozen yogurt manufacturing and distribution business is relatively easy to enter due to low entry cost, achieving wide distribution may be more difficult because of the high cost of a national marketing program and limitations on space available in retail freezer compartments.

**Employees**

As of August 31, 1998, Yogen Früz had 518 full-time and part-time employees. Of these, 87 full-time and 53 part-time employees were employed in Yogen Früz owned/operated stores. Yogen Früz believes that its employee relations are good.

**Facilities**

Yogen Früz headquarters are located at 8300 Woodbine Avenue, 5th Floor, Markham, Ontario, Canada, L3R 9Y7 in 6,212 square feet of leased space. Rental payments are $62,120 per annum. The lease expires on August 31, 2005.

Yogen Früz's U.S. office is located at 4175 Veterans Highway, Ronkonkoma, New York, 11779, U.S.A., in 2,245 square feet of leased space. Rental payments are U.S.$34,000 per annum. The lease expires on April 30, 2001. Yogen Früz's manufacturing plant is located in Carrollton, Texas in 48,350 square feet of leased space. Rental payments are U.S.$222,000 per annum. The lease expires on September 30, 1999.

Yogen Früz's international head office is located at "Aberfoyle" 5th Avenue, Belleville, St. Michael, Barbados, W.I. in 1,850 square feet of leased space. Rental payments are U.S.$24,000 per annum. The lease expires on May 1, 2000.

Integrated Brands' executive head offices and Swensen's corporate headquarters are located at 4175 Veterans Highway, Ronkonkoma, New York, 11779. These offices are provided to Integrated Brands at no additional cost by Calip pursuant to the terms of a Management Agreement between Integrated Brands and Calip.

Integrated Brands owns a building in Paradise Valley, Arizona. The building is subject to a ground lease, which expires on December 31, 2005 and contains four five-year renewal options The premises is leased to an unrelated third party. The remaining three Integrated Brands company operated stores are leased for terms ranging through 2007.

Several subsidiaries hold master store leases or have guaranteed store leases, expiring at varying dates to 2006 covering franchised locations. Where a subsidiary holds the master lease, these premises have been subleased to franchisees under terms and rental rates substantially the same as those in master leases. In a majority of these instances, franchisees make all lease payments directly to the landlords. These leases had an aggregate future base rental liability, without regard to percentage rentals or consumer price index increases of approximately $16,067,000 at August 31, 1998. Yogen Früz' current policy is not to lease or sublease premises nor to provide guarantees on leases in any manner with respect to its franchisees and it has not done so except for renewals and in special circumstances.

**Legal Proceedings**

With the exception of certain legal proceedings to which certain subsidiaries of the Corporation are parties and which are described below, the Corporation is not a party to, nor is any of its property subject to, any legal proceeding that may be material to it and no such proceeding is known to be contemplated.

**The Brice Litigation**

This is an action pending in the District Court, 68th Judicial District, Dallas County, Texas, captioned Bill Brice, Jr. and Julie Brice, Plaintiffs v. I Can't Believe It's Yogurt, Ltd., Kayla Foods, Inc. and Yogen Früz Acquisitions Inc., Defendants. The plaintiffs are suing under the terms of indemnity obligations on the part of the then Brice Foods, Inc. (which, as a consequence of the stock purchase became a subsidiary of Yogen Früz Acquisitions Inc. and changed its name to Kayla Foods, Inc.) that are contained in a purchase and sale agreement whereby Yogen Früz Acquisitions Inc. purchased all of the stock of Brice Foods, Inc. from Bill Brice, Julie Brice and others. The plaintiffs seek indemnification from the defendants for legal expenses that they have incurred and potential liabilities that may result from their being named as defendants in certain legal actions instituted by sub-franchisees of Brice Foods, Inc., and legal fees in this action.

The defendants have denied any liability in connection with the matters for which indemnity is currently being sought, and have asserted counterclaims of fraud, non-disclosure and breach of contract against the Brices, claiming that they concealed and/or failed to adequately disclose the sub-franchisee claims for which indemnity is claimed, as well as other liabilities. The defendants have also asserted similar claims against former officers of Brice Foods, Inc. and other selling shareholders.

The trial of the action is set for March 9, 1999. The Corporation believes that it is unlikely that the outcome of this litigation will have a material adverse affect on the Corporation's financial position.

**The Honeycrest Litigation**

This is an action filed in March 1998 and pending in the Supreme Court of the State of New York, County of Queens, captioned Honeycrest Holdings Ltd., Plaintiff against Integrated Brands, Inc., Defendant ("Integrated").

The plaintiff is an exclusive territory licensee of Integrated whereby plaintiff purchases Steve's Homemade Ice Cream and other frozen dessert products from Integrated for sale in the United Kingdom. Plaintiff sought a preliminary injunction restraining Integrated from replacing it as the distributor of such dessert products with another distributor in the U.K. Integrated has denied taking any such action, and the court denied the preliminary injunction. Plaintiff also seeks damages alleging that Integrated sold it substandard and defective products, failed to supply it with new products, and failed to deliver recipes,technology and know how as provided for in the license agreement. Integrated denies that the products were substandard or defective, and in its counterclaims seeks termination of the license agreement and damages by reason of plaintiff's being in default of the license agreement in failing to open the required number of stores in the U.K. and in failing to pay certain royalties due to Integrated. Integrated also maintains that as a result of such breaches, plaintiff is not entitled to the recipes, technology or know how. The action is in the early stages of discovery. The Corporation believes that it is unlikely that the outcome of this litigation will have a material adverse affect on the Corporation's financial position.

## ITEM 4: SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table presents selected historical consolidated financial data of Yogen Früz, including the accounts of all companies acquired, for the periods indicated. These companies, all of which were acquired in transactions accounted for as purchases during the past four (4) years, are included from their respective dates of acquisition. The selected historical consolidated financial data for Yogen Früz as of and for the five years ended August 31, 1998 is derived from the audited Consolidated Financial Statements of Yogen Früz.

**Statement of Operations Data:**

**(000 omitted)**

For the Year Ended

| | August 31, 1998 | August 31, 1997 | August 31, 1996 | August 31, 1995 | August 31, 1994 |
|---|---|---|---|---|---|
| Revenues....... | $89,979 | $43,788 | $30,039 | $9,186 | $4,979 |
| Net Income.... | $12,941 | $9,937 | $5,183 | $1,842 | $756 |
| Earnings per share............ | $0.33 | $0.31 | $0.24 | $0.12 | N/A |
| Fully Diluted Earnings per share............ | $0.31 | $0.30 | $0.20 | $0.11 | N/A |

Balance Sheet Data:

**(000 omitted)**

| | August 31, 1998 | August 31, 1997 | August 31, 1996 | August 31, 1995 | August 31, 1994 |
|---|---|---|---|---|---|
| Working Capital........... | 46,464 | $29,361 | $4,175 | $1,564 | $1,001 |
| Total Assets ... | 171,788 | $85,864 | $47,478 | $12,034 | $2,666 |
| Shareholders' Equity........... | 136,587 | $68,548 | $35,848 | $8,320 | $1,254 |

**Historical Review of the Last Eight Quarters Ending on August 31, 1998**

**(000 omitted)**

The chart below identifies the selected financial information concerning the last eight quarters.

| | August 31, 1998 | May 31, 1998 | February 28, 1998 | November 30, 1997 |
|---|---|---|---|---|
| | | | | - |
| Revenues | $57,526 | $10,361 | $11,162 | $10,930 |
| Net Income | $6,270 | $2,860 | $2,110 | $1,701 |
| Earnings Per Share | | | | |
| - Basic | $0.12 | $0.10 | $0.06 | $0.05 |
| - Fully Diluted | $0.11 | $0.09 | $0.06 | $0.05 |

| | August 31, 1997 | May 31, 1997 | February 28, 1997 | November 30, 1996 |
|---|---|---|---|---|
| Revenues | $20,774 | $10,361 | $7,027 | $7,731 |
| Net Income | $4,626 | $2,860 | $1,349 | $1,102 |
| Earnings Per Share | | | | |
| - Basic | $0.12 | $0.10 | $0.05 | $0.04 |
| - Fully Diluted | $0.12 | $0.09 | $0.05 | $0.04 |

**Dividend Policy**

Determinations to pay future dividends and the amount thereof will be made by the Board of Directors and will depend on future earnings, capital requirements, financial condition and other relevant factors. The Corporation intends to retain future earnings to support current operations and to provide funds for future acquisitions and therefore does not anticipate paying dividends in the foreseeable future.

**ITEM 5: MANAGEMENT DISCUSSION AND ANALYSIS**

Reference is made to the information under the heading "Management's Discussion and Analysis" on pages 16 to 18 inclusive of the Corporation's 1998 Annual Report to Shareholders for management's discussion and analysis of the Corporation for the fiscal year ended August 31, 1998, which discussion and analysis are specifically incorporated herein by reference.

**ITEM 6: MARKET FOR SECURITIES**

The Subordinate Voting Shares of the Corporation are listed and posted for trading on The Toronto Stock Exchange.

## ITEM 7: DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, position held with the Corporation and principal occupation of each of the officers and directors of the Corporation.

Each director holds office until the close of business of the annual meeting of shareholders of the Corporation following his election unless his office is earlier vacated in accordance with the Corporation's articles of association.

| Name and Municipality of Residence | Positions with the Company | Principal Occupation |
|---|---|---|
| Michael Serruya(2)(3)<br>Thornhill, Ontario | Co-Chairman, Co-President, Co-Chief Executive Officer and Director | Officer of the Corporation |
| Richard E. Smith (2)(3)<br>Ronkonkoma, New York | Co-Chairman, Co-President, Co-Chief Executive Officer and Director | Officer of the Corporation |
| Aaron Serruya<br>Thornhill, Ontario | Executive Vice-President, Secretary and Director | Officer of the Corporation |
| David Prussky(2)(3)(4)<br>Toronto, Ontario | Director | Principal, Patica Corporation, an investment banking firm |
| David M. Smith(2)(3)<br>Ronkonkoma, New York | Executive Vice-President and Director | Officer of the Corporation |
| David J. Stein(4)<br>Ronkonkoma, New York | Executive Vice-President and Director | Officer of the Corporation |
| Gary P. Stevens<br>Ronkonkoma, New York | Chief Financial Officer | Officer of the Corporation |

(1) The employment history of the above-noted directors and officers is disclosed below.
(2) Member of Audit Committee.
(3) Member of Compensation Committee.
(4) Member of Corporate Governance Committee.

**Michael Serruya** – Co-Chairman, Co-President, Co-Chief Executive Officer and Director of the Corporation. Mr. Michael Serruya is a co-founder of the Corporation and has been actively involved in its development since its inception in 1986. Together with Mr. Richard E. Smith, he is responsible for development of the Corporation's business plan. He also supervises day-to-day operations at the head office of the Corporation. Michael Serruya was the co-recipient in 1992 and 1993 of the Academy of Collegiate Entrepreneurs Award for North America. Michael Serruya is the brother of Aaron Serruya.

**Richard E. Smith** - Co-Chairman, Co-President, Co-Chief Executive Officer and Director of the Corporation. Mr. Richard E. Smith was Chairman of the Board, Chief Executive Officer and a Director of Integrated Brands Inc. from October 1985 until the merger of Integrated Brands Inc. and a wholly-owned subsidiary of the Corporation in March 1998. Together with Mr. Michael Serruya, he is responsible for development of the Corporation's business plan. Mr. Richard E. Smith has also been the Chairman of the Board, Secretary and a Director of Calip Dairies, Inc. for more than the past five years. Calip Dairies, Inc. owns the trademark and trade names of Dolly Madison Ice Cream. Mr. Smith was the founder of Frusen Gladje Ltd. in 1980 and was its Chairman of the Board and Chief Executive Officer until the sale of Frusen Gladje to Kraft, Inc. in 1985.

**Aaron Serruya** – Executive Vice President and Director of the Corporation. Mr. Aaron Serruya is a co-founder of the Corporation and has been actively involved in its development since its inception in 1986. His day-to-day responsibilities include selling all new franchises and resales, finding new locations, and research and development. Aaron Serruya was the co-recipient in 1992 and 1993 of the Academy of Collegiate Entrepreneurs Award for North America. Aaron Serruya is the brother of Michael Serruya.

**David Prussky** is a graduate of Osgoode Law School (1981) and York University School of Administrative Studies (M.B.A., 1986). From 1989 to 1992, he was an associate with Capital Canada Limited, an investment banking firm. Since 1992, Mr. Prussky has been an officer of Patica Corporation, an investment banking firm which specializes in mergers and acquisitions and private placements.

**David M. Smith** – Executive Vice President and Director of the Corporation. Mr. David M. Smith has been a Vice President of Integrated Brands since December 1989, and a Director of Integrated Brands Inc. since September 1993. Mr. David M. Smith manages the information systems for the Corporation and is involved in the marketing, new product development, sales and distribution functions of the Corporation. Mr. David M. Smith is Mr. Richard E. Smith's son.

**David J. Stein** – Executive Vice President and Director of the Corporation. Mr. David J. Stein is also Vice Chairman and Chief Operating Officer of Integrated Brands, and has been a Vice President of Integrated Brands since December 1989. Mr. David J. Stein manages the marketing and new product development functions of the Corporation, and is also involved in the business planning and acquisitions strategy of the Corporation.

**Gary P. Stevens** – Chief Financial Officer of the Corporation. Mr. Stevens has been President of Integrated Brands Inc. since June 1990 and Treasurer and Chief Financial Officer since April 1989. He was a Vice Chairman of the Board of the Company from August 1988 until June 1990. Mr. Stevens became a Director of Swensen's Inc. in October 1987 and served as President of Swensen's Inc. from October 1987 until June 1990. He joined Swensen's in August 1986 as Senior Executive Vice President – Finance and Administration.

The Corporation does not have an executive committee of its Board of Directors.

As of August 31, 1998, all directors and officers of the Corporation, as a group beneficially own or exercise control of approximately 59.8% of the votes attaching to all outstanding shares of the Corporation, comprised of the following: 155,031 multiple voting shares held directly by The Serruya Family Trust and 4,578,301 multiple voting shares held by 1082272 Ontario Inc., a wholly-owned subsidiary of The Serruya Family Trust; 1,419,467 multiple voting shares held by Richard E. Smith, 288,106 multiple voting shares held by David M. Smith and 45,138 multiple voting shares held by David J. Stein; 28,748 subordinate voting shares (including 27,418 subordinate voting shared held by Prussky Consulting Ltd. and 1,330 subordinate voting shares held by Mr. David Prussky personally; and 149,945 subordinate voting shares held by Gary Stevens, Chief Financial Officer of the Corporation.

**ITEM 8: ADDITIONAL INFORMATION**

(1) The Company shall provide to any person, upon request to the Secretary of the Company at the address shown in item 1 above:

(a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities;

(i) one copy of the annual information form ("AIF") of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF;

(ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Company subsequent to the financial statements for its most recently completed financial year;

(iii) one copy of the information circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate, and

(iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any other documents referred to in (1)(a)(i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company;

(2) Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's information circular for its most recent annual meeting of shareholders that involved the election of directors, and additional financial information is provided in the Company's comparative financial statements for its most recently completed financial year.