

FC 19197

Bandai B.V.

Report concerning the financial
statements for the year 1996

KPMG Accountants N.V.
Amstelveen, 17 February 1997
This report consists of 12 pages
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To the Managing Board of
Bandai B.V.
Amsterdam

Amstelveen, 17 February 1997

Dear Sirs,

In compliance with your request to examine the financial statements of Bandai B.V. for the year 1996 we take pleasure in submitting our report to you.

Auditor's report

Introduction

We have audited the accompanying financial statements 1996 of Bandai B.V., Amsterdam. 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 audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. 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 audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31 December 1996 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2, of the Netherlands Civil Code.

Yours faithfully,

KPMG Accountants N.V.

Ref.: J. Humme

Director's report

The management of Bandai B.V. hereby submits its financial statements for the year ended 31 December 1996.

General

The Articles of Association of Bandai B.V. have been changed as from 14 August 1996 and registered at the Chamber of Commerce in Amsterdam on 26 August 1996. Main points of the change are:

1. The authorised capital increased from Dfl. 3,000,000 to Dfl. 10,000,000.
2. The corporate seat moved from Utrecht to Amsterdam.
3. The function of supervisory director was abolished and the function of managing director was divided into managing director A and managing director B.

Overview of activities

Previous years' strong demand for our character toy "Power Rangers" eased in 1996, and our sales dropped from previous year's Dfl. 112 million to Dfl. 62 million in 1996. Although the sales decrease was substantial, we could manage to get a profit of Dfl. 3.2 million, partly due to foreign exchange profit through our reversing operations of surplus foreign exchange forward contracts and exercising surplus buying currency option in the favourable financial environment. On 1 July 1996, we opened a branch office in Southampton in the United Kingdom and immediately started the operation of customs clearance, warehousing and management of delivering of goods and quality control of our goods.

Finance

Bandai Co. Ltd renewed the letters of guarantee to the banks on 31 March 1996, for the same amount of Dfl. 40 million as before. This guarantee will expire on 31 March 1997. In addition to the above letters of guarantee, Bandai Co. Ltd renewed the letter of awareness to the banks for the same period as above, for an amount of Dfl. 200 million for foreign exchange forward contract credit facilities.

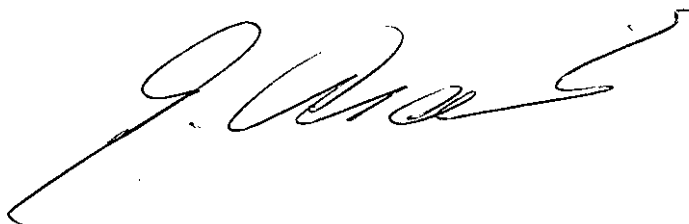
Personnel

On 1 April 1996, Mr Y. Hirano resigned as supervisory director and Mr J. Kondo was appointed as supervisory director. On the same day Mr M. Kanai was appointed as managing director. On 14 August 1996, Mr J.P. Hazera and Mr J. Kondo resigned as supervisory director. At the same date Mr S. Asano and Mr M. Kanai were appointed as managing director A and Mr J.P. Hazera and Mr J. Kondo were appointed as managing director B. The number of employees was fifteen (15), including eleven (11) in our Southampton Branch at the end of December 1996.

Amsterdam, 17 February 1997

Board of Directors:

S. Asano
M. Kanai
J.P. Hazera
J. Kondo

A handwritten signature in black ink, appearing to read 'J.P. Hazera', is written over the list of names. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Balance sheet as at 31 December 1996

(before proposed appropriation of net result)

	Notes	31 Dec. 1996	31 Dec. 1995
(in Dutch guilders)			
Fixed assets			
Tangible fixed assets	5	413,677	87,272
Current assets			
Inventories	6	6,516,079	5,220,846
Accounts receivable	7	21,439,517	36,636,938
Cash	8	2,898,060	8,490,067
		<u>30,853,656</u>	<u>50,347,851</u>
Current liabilities	9	<u>45,980,481</u>	<u>68,380,418</u>
Working capital		(15,126,825)	(18,032,567)
Total assets less current liabilities		<u>(14,713,148)</u>	<u>(17,945,295)</u>
Capital and reserves			
	10		
Issued and paid-up capital		2,000,000	2,000,000
Retained earnings		(19,945,295)	(30,027,167)
Result for the year		3,232,147	10,081,872
		<u>(14,713,148)</u>	<u>(17,945,295)</u>

Profit and loss account for the year 1996

	Notes	1996	1995
(in Dutch guilders)			
Sales		62,314,035	111,988,393
Cost of sales		<u>54,856,262</u>	<u>95,929,714</u>
Gross margin		7,457,773	16,058,679
General and administrative expenses	12	<u>6,806,308</u>	<u>5,383,741</u>
Operating result		651,465	10,674,938
Financial result	13	<u>2,580,682</u>	<u>(2,274,089)</u>
Result before tax		3,232,147	8,400,849
Profit on sale of financial fixed assets		-	1,681,023
Taxation	14	-	-
Net result		<u>3,232,147</u>	<u>10,081,872</u>

Notes

General

1 Relationship with parent company and principal activities

Bandai B.V. (the company) is a limited liability company, 100% of the shares being held by Bandai Co., Japan.

2 Basis of presentation

The accompanying financial statements have been prepared in accordance with principles of accounting generally accepted in the Netherlands and in compliance with the provisions of the Netherlands Civil Code, Book 2, Part 9.

3 Branch office

On 1 July 1996, the company opened a branch office in Southampton in the United Kingdom. The branch office is engaged in the business of customs clearance, warehousing and management of delivering of goods and quality control of our goods.

4 Summary of significant accounting policies

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Dutch guilders at the exchange rates prevailing at the balance sheet date or the forward exchange rate when the balance is hedged.

Foreign currency transactions are converted at exchange rates approximating those prevailing at the time of the transactions or the forward exchange rate when the balance is hedged. Gains and losses resulting from the translation of foreign currencies are taken to the profit and loss account.

Tangible fixed assets

Tangible fixed assets are valued at historical cost less depreciation.

Depreciation is based upon historical cost and the useful economic lives of assets, applying the straight-line method.

Depreciation is calculated on the following terms:

- Computer equipment, property improvements and office furniture: 3 to 5 years.
- Company cars: 4 years.

Inventories

Inventories, which consist entirely of toys, are stated at historical cost.

Accounts receivable

Trade debtors are stated at nominal value. Provisions are made against doubtful debts.

Other assets and liabilities

Other assets and liabilities are stated at nominal value except where a different basis of valuation has been indicated in the financial statements.

Sales

Sales are net of value added taxes and discounts.

Balance sheet as at 31 December 1996**5 Tangible fixed assets**

The tangible fixed assets consist of computer equipment, office furniture, property improvements and company cars which were purchased in, or after, August 1994.

	Computer equipment	Office furniture	Property improvements	Company cars	Total
<i>(in Dutch guilders)</i>					
Purchase value					
31 December 1995	33,712	83,533	-	-	117,245
Investment 1996	40,360	96,594	217,837	42,978	397,769
Desinvestment 1996	9,185	-	-	-	9,185
Total purchase value	64,887	180,127	217,837	42,978	505,829
Depreciation till					
31 December 1995	11,236	18,737	-	-	29,973
Depreciation 1996	11,421	29,469	21,784	5,372	68,046
Desinvestment 1996	5,867	-	-	-	5,867
Total depreciation	16,790	48,206	21,784	5,372	92,152
Book value					
31 December 1996	48,097	131,921	196,053	37,606	413,677
Book value					
31 December 1995	22,476	64,796	-	-	87,272

6 Inventories

	31 Dec. 1996	31 Dec. 1995
<i>(in Dutch guilders)</i>		
Goods in stock	3,569,483	1,064,039
Goods in transit	2,946,596	4,156,807
	6,516,079	5,220,846

7 *Accounts receivable*

	31 Dec. 1996	31 Dec. 1995
<i>(in Dutch guilders)</i>		
Due from group companies	18,466,236	34,595,650
Trade debtors	962,209	724,158
Income tax receivable	72,502	72,502
Other receivables	1,491,017	646,826
Unamortised option premiums	283,337	597,802
Foreign currency forward contracts	164,216	-
	21,439,517	36,636,938

All balances included in this caption are receivable within one year.

The unamortised option premiums are valued at historical cost decreased with straight-line depreciation till expiry date.

8 *Cash*

	31 Dec. 1996	31 Dec. 1995
<i>(in Dutch guilders)</i>		
Petty cash	911	815
Current account	808,731	3,505,600
Deposits	2,088,418	4,983,652
	2,898,060	8,490,067

The deposits are available within one month. Net other cash is available on demand.

9 *Current liabilities*

	31 Dec. 1996	31 Dec. 1995
<i>(in Dutch guilders)</i>		
Due to credit institutions	20,081,880	24,582,752
Due to group companies	24,780,026	42,559,768
Trade creditors	831,766	942,079
Taxes and social securities	133,436	172,545
Other liabilities and accrued expenses	153,373	123,274
	45,980,481	68,380,418

All liabilities are due and fully payable within one year.

The company has obtained bank credit facilities amounting to Dfl. 40,000,000 (31 December 1995: Dfl. 40,000,000), for which amount letters of guarantee have been issued by the parent company. These guarantees will expire on 31 March 1997.

10 Capital and reserves

The company's authorised share capital comprises 10,000 ordinary shares with a nominal value of Dfl. 1,000 each, of which 2,000 shares have been issued and fully paid up as of 31 December 1996.

The movements in capital and reserves are the following:

	Balance as at 31 Dec. 1995	Result for the year	Appropriation of result 1995	Balance as at 31 Dec. 1996
<i>(in Dutch guilders)</i>				
Issued and paid-up capital	2,000,000	—	—	2,000,000
Retained earnings	(30,027,167)	—	10,081,872	(19,945,295)
Result for the year	10,081,872	3,232,147	(10,081,872)	3,232,147
	<u>(17,945,295)</u>	<u>3,232,147</u>	<u>—</u>	<u>(14,713,148)</u>

11 Commitments not disclosed in the balance sheet

The company has entered into foreign exchange forward contracts amounting to US\$ 42,500,000 at several exchange rates and expiring in 1997 and 1998 and buying currency option contracts amounting to US\$ 10,000,000 at several exchange rates and expiring in 1997. Bandai Co. Ltd issued letters of awareness to the banks for an amount of Dfl. 200 million for foreign exchange forward contract credit facilities.

The company is leasing two cars for a total amount of Dfl. 62,724 per year. The remaining term of agreement is a maximum of 25 months. The rent for the office premises amounts to Dfl. 81,000 until 1 November 1997. The rent for the warehouse in Southampton amounts to £ 235,000 per year. The term of agreement is till June 2001.

Profit and loss account for the year 1996**12 General and administrative expenses**

In the general and administrative expenses is included an amount of Dfl. 3,300,638 charged by Bandai S.A., Paris, for coordination of all European activities.

13 Financial result

	1996	1995
<i>(in Dutch guilders)</i>		
Interest expense	(852,991)	(1,660,929)
Interest received	235,234	227,779
Exchange result	3,198,439	(840,939)
	<u>2,580,682</u>	<u>(2,274,089)</u>

14 Taxation

In the profit and loss account for the year 1996, there is no charge included for Dutch corporate income tax.

Actual tax payable on profit differs from the expected tax charge calculated on the basis of the Dutch corporate tax rate, due to the availability of carry forward losses, built up in previous years. The remaining balance of carry forward losses amounts to approximately Dfl. 17,500,000. This amount can be offset against any future corporate income tax (tax loss carry forward) indefinitely.

15 Staff numbers

At the end of 1996, the number of employees was 15 (1995: 4). In 1996, gross salaries amounted to Dfl. 1,398,787 (1995: Dfl. 1,090,513). The social security charges amounted to Dfl. 37,995 (1995: Dfl. 13,413) and the pension premium amounted to Dfl. 23,897 (1995: Dfl. 12,829).

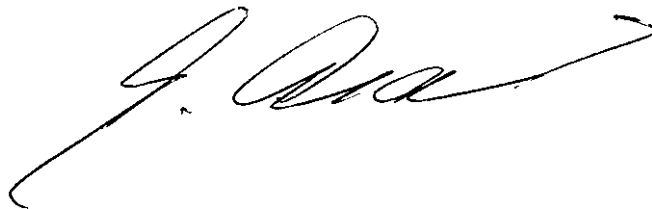
16 Supervisory directors

The supervisory directors received no compensation for their activities in that capacity. The function of supervisory director was abolished as from 14 August 1996.

Amsterdam, 17 February 1997

Board of Directors:

S. Asano
M. Kanai
J.P. Hazera
J. Kondo

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Other information

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Amstelveen, 17 February 1997

KPMG Accountants N.V.

Statutory provisions concerning appropriation of profits

In accordance with article 18.2 of the Articles of Association of the company, the net result for the year is at the disposal of the General Meeting of Shareholders.

Proposed allocation of profit

Management proposes to add the profit for the year to retained earnings.