

FC-19197

Bandai B.V.

Report concerning the financial
statements for the year 1997

KPMG Accountants N.V.
Amstelveen, 26 February 1998
This report consists of 12 pages
JH/e/J.84-00960

NM ✓

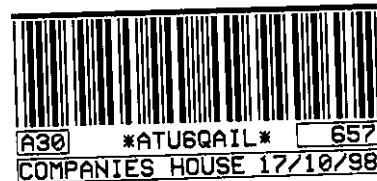


Table of contents

Report

1	Auditor's report	2
2	Electronic Data Processing Systems	2

Financial report

Directors' report	4
Financial statements	
Balance sheet as at 31 December 1997	5
Profit and loss account for the year 1997	6
Notes	7
Other information	12

Office address
KPMG Building
Burg. Rijnderslaan 10
1185 MC Amstelveen
The Netherlands

Mail Address
P.O. Box 74500
1070 DB Amsterdam
The Netherlands

Telephone 31(20)6567890
Telex 16506 audit nl
Telefax 31(20)6567700

To the Managing Directors and Shareholders of
Bandai B.V.
Amsterdam

Amstelveen, 26 February 1998

Dear Sirs,

In compliance with your request to examine the financial statements of Bandai B.V. for the year 1997 we take pleasure in submitting our report to you.

1 Auditor's report

Introduction

We have audited the financial statements for the year 1997 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 at 31 December 1997 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.

2 Electronic Data Processing Systems

General

Following Part 9, Article 393 (4), Book 2, of the Netherlands Civil Code, we are obliged to report to you on the reliability and continuity of the electronic data processing of the company. The procedures performed by us did not reveal issues that would severely threaten the continuity of the electronic data processing. A new EDP system has been put into use during December 1997.

Year 2000 problem

The reliability and continuity of the data processing and the effectiveness of the related controls may be disadvantaged by the transition to the year 2000 or by other date changes that may be critical for the processing of data. These data changes may result in incorrect balances in electronic systems or lead to other failures in the event that insufficient positions have been reserved for date fields or date fields have been used incorrectly or due to other related causes.

In this respect, we have company's management advised to enquire in co-operation with the supplier(s) of the new EDP system (including software) whether the organisation is aware of the possible effects for its data processing and, if necessary, to start-up a project which should result in timely measures being taken to warrant that the electronic data processing systems are prepared for the year 2000.

Please note that our work, based on the results of any projects as indicated in the last sentence, regarding the year 2000 problem will be of a limited nature and neither warrants that your electronic data processing systems will be prepared for the transition to the year 2000 or any other data changes that may be critical for the processing of data nor that your projects and control measures in this regard are effective.

We shall be pleased to provide you with further information on these statements, if so required.

Yours faithfully,

KPMG Accountants N.V.

Directors' report

The management of Bandai B.V. hereby submits its financial statements for the year ended 31 December 1997.

Overview of activities

While demand for our character toy "Power Rangers" remained somewhat subdued, our new product "Tamagotchi", a portable virtual pet, has instantly become hot selling merchandise, and we saw explosive growth in its sales. As a result, our sales increased from NLG 62 million in 1996 to NLG 98 million in 1997.

However, our profit slightly decreased to NLG 2.7 million from previous year's NLG 3.2 million due to relatively high import charges to Tamagotchi and lower foreign exchange profit.

Finance

Bandai Co. Ltd, our parent company, issued to the banks a letter of guarantee for the amount of NLG 32 million for the period of one year on 31 March 1997, replacing the previous one for the amount of NLG 40 million.

In addition to the above, Bandai Co. Ltd renewed a letter of awareness to the banks for the like period for the amount of NLG 200 million to cover foreign exchange forward contract facilities.

Personnel

On 1 April 1997, Mr Jun Kondo resigned from Managing Director B, and on 26 June 1997, Mr Shigeyuki Asano resigned from Managing Director A. On 1 July 1997, Mr Yasuichi Asai was appointed as Managing Director A.

Further, on 20 January 1998, Mr Jean Paul Hazera resigned from Managing Director B, and Mr T. Takasu and Mr S. Ino were appointed as Managing Director B.

The number of employees was fifteen (15) including ten (10) at our Southampton Branch at the end of December 1997.

Outlook 1998

Management expects to successfully continue the company's operations in 1998.

Amsterdam, 26 February 1998

Board of Directors:

Y. Asai
M. Kanai
S. Ino
T. Takasu



Balance sheet as at 31 December 1997

(before proposed appropriation of net result)

	Notes	31 Dec. 1997	31 Dec. 1996
(in Dutch guilders)			
Fixed assets			
Tangible fixed assets	5	321,645	413,677
Current assets			
Inventories	6	4,977,287	6,516,079
Accounts receivable	7	53,411,455	21,439,517
Cash	8	3,747,025	2,898,060
		<u>62,135,767</u>	<u>30,853,656</u>
Current liabilities	9	<u>74,447,368</u>	<u>45,980,481</u>
Working capital		(12,311,601)	(15,126,825)
Total assets less current liabilities		<u>(11,989,956)</u>	<u>(14,713,148)</u>
Capital and reserves			
	10		
Issued and paid-up capital		2,000,000	2,000,000
Retained earnings		(16,713,148)	(19,945,295)
Result for the year		2,723,192	3,232,147
		<u>(11,989,956)</u>	<u>(14,713,148)</u>

Profit and loss account for the year 1997

	Notes	1997	1996
(in Dutch guilders)			
Sales	12	97,959,981	62,314,035
Cost of sales		<u>86,284,699</u>	<u>54,856,262</u>
Gross margin		11,675,282	7,457,773
Selling expenses	13	3,625,816	3,300,638
General and administrative expenses		<u>5,346,385</u>	<u>3,505,670</u>
		<u>8,972,201</u>	<u>6,806,308</u>
Operating result		2,703,081	651,465
Financial result			
Interest expense		(933,113)	(852,991)
Interest received		191,980	235,234
Exchange result		<u>761,244</u>	<u>3,198,439</u>
		<u>20,111</u>	<u>2,580,682</u>
Result before tax		2,723,192	3,232,147
Taxation	14	-	-
Net result		<u>2,723,192</u>	<u>3,232,147</u>

Notes

General

1 Relationship with parent company and principal activities

Bandai B.V. (the company) is a limited liability company, 100% of its shares being held by Bandai Co., Ltd, Japan. The company acts as a (wholesale) trading company in toys.

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. The financial statements are on a going concern basis. Net equity is negative. The parent company Bandai Co., Ltd has issued a letter of comfort to the company, stating the financial support which the company may require to satisfy all its commitments and obligations to its creditors, at least during the period 1 January 1998 - 31 December 1998.

3 Branch office

As from 1 July 1996, the company has a branch office in Southampton in the United Kingdom. The branch office is engaged in the business of customs clearance, warehousing and management of delivery of goods and quality control of 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:

- Property improvements, computer equipment 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.

Recognition of income and expenses

Income and expenses are recorded in the period to which they relate.

Sales

Sales are net of value added taxes and discounts.

Balance sheet as at 31 December 1997**5 Tangible fixed assets**

The tangible fixed assets consist of property improvements, computer equipment, office furniture and company cars.

	Property improvements	Computer equipment	Office furniture	Company cars	Total
(in Dutch guilders)					
Purchase value					
31 December 1996	217,837	64,887	180,127	42,978	505,829
Investments 1997	–	110,726	43,054	25,440	179,220
Desinvestments 1997	–	–	(4,609)	–	(4,609)
Total purchase value	217,837	175,613	218,572	68,418	680,440
Depreciation till					
31 December 1996	21,784	16,790	48,206	5,372	92,152
Depreciation 1997	108,918	45,760	92,492	24,082	271,252
Desinvestments 1997	–	–	(4,609)	–	(4,609)
Total depreciation	130,702	62,550	136,089	29,454	358,795
Book value					
31 December 1997	87,135	113,063	82,483	38,964	321,645
Book value					
31 December 1996	196,053	48,097	131,921	37,606	413,677

6 Inventories

	31 Dec. 1997	31 Dec. 1996
(in Dutch guilders)		
Goods in stock	1,335,367	3,569,483
Goods in transit	3,641,920	2,946,596
	4,977,287	6,516,079

7 *Accounts receivable*

	31 Dec. 1997	31 Dec. 1996
<i>(in Dutch guilders)</i>		
Due from group companies	51,639,021	18,466,236
Trade debtors	380,354	962,209
Income tax receivable	-	72,502
Other receivables	1,173,249	1,491,017
Unamortised option premiums	145,936	283,337
Foreign currency forward contracts	72,895	164,216
	53,411,455	21,439,517

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. 1997	31 Dec. 1996
<i>(in Dutch guilders)</i>		
Deposits	2,847,347	2,088,418
Current accounts	898,503	808,731
Petty cash	1,175	911
	3,747,025	2,898,060

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

9 *Current liabilities*

	31 Dec. 1997	31 Dec. 1996
<i>(in Dutch guilders)</i>		
Due to credit institutions	20,000,107	20,081,880
Due to group companies	51,764,447	24,780,026
Trade creditors	716,432	831,766
Taxes and premiums social securities	1,649,833	133,436
Other liabilities and accrued expenses	316,549	153,373
	74,447,368	45,980,481

All liabilities are due and fully payable within one year.

The company has obtained bank credit facilities amounting to NLG 32,000,000 and GBP 48,000 (31 December 1996: NLG 40,000,000). For an amount of NLG 32,000,000 letters of guarantee have been issued by the parent company. These guarantees will expire on 31 March 1998.

10 Capital and reserves

The company's authorised share capital comprises 10,000 ordinary shares with a nominal value of NLG 1,000 each, of which 2,000 shares have been issued and fully paid up as at 31 December 1997.

The movements in capital and reserves are the following:

	Balance as at 31 Dec. 1996	Result for the year	Appropriation of 1996 result	Balance as at 31 Dec. 1997
(in Dutch guilders)				
Issued and paid-up capital	2,000,000	–	–	2,000,000
Retained earnings	(19,945,295)	–	3,232,147	(16,713,148)
Result for the year	3,232,147	2,723,192	(3,232,147)	2,723,192
	(14,713,148)	2,723,192	–	(11,989,956)

11 Commitments not disclosed in the balance sheet

The company has entered into foreign exchange forward contracts amounting to USD 68,700,000 at several exchange rates and expiring in 1998 and 1999 and buying currency option contracts amounting to USD 3,000,000 at several exchange rates and expiring in 1998. Bandai Co. Ltd issued letters of awareness to the banks for an amount of NLG 200 million.

The company is leasing three cars for a total amount of NLG 86,000 per year. The remaining term of agreement is a maximum of 38 months. The rent for the office premises amounts to NLG 98,000 per year until 1 November 2000. The rent for the warehouse in Southampton amounts to GBP 235,000 per year. The term of agreement is till June 2001.

Profit and loss account for the year 1997**12 Sales**

All sales relate to trading within Europe.

13 Selling expenses

Selling expenses represent amounts charged by Bandai S.A., Paris, for coordination of all European activities. The nature of selling expenses is mainly overhead cost, not directly related to the volume of sales in the financial year.

14 Taxation

In the profit and loss account for the year 1997 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 as at 31 December 1997 amounts to approximately NLG 15,000,000. This amount can be offset against any future corporate income tax (tax loss carry forward) indefinitely.

15 Staff numbers

At the end of 1997, the number of employees was 15 (1996: 15). In 1997, gross salaries amounted to NLG 2,216,575 (1996: NLG 1,398,787). The social security charges amounted to NLG 61,265 (1996: NLG 37,995) and the pension premium amounted to NLG 43,164 (1996: NLG 23,897).

Bandai B.V., Amsterdam

16 *Remuneration for directors*

The remuneration for directors amounted to NLG 745,928 (1996: NLG 602,318).

Amsterdam, 26 February 1998

Board of Directors:

Y. Asai
M. Kanai
S. Ino
T. Takasu

A handwritten signature in black ink, appearing to be 'M. Kanai', written in a cursive style.

Other information

Auditor's report

Introduction

We have audited the financial statements for the year 1997 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 at 31 December 1997 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.

Amstelveen, 26 February 1998

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 (NLG 2,723,192) to retained earnings.