

Bandai B.V.

**Report concerning the financial
statements for the year 1998**

KPMG Accountants N.V.
Amstelveen, 10 March 1999
This report consists of 13 pages
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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, 10 March 1999

Dear Sirs,

In compliance with your request to examine the financial statements of Bandai B.V. for the year 1998 we take pleasure in submitting our report to you.

1 Auditor's report

Introduction

We have audited the financial statements for the year 1998 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 1998 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.

Emphasis of matter

Without qualifying our opinion above, we draw attention to note 2 to the financial statements which indicates that the company will be liquidated during 1999.

As a consequence, the valuation principles as at 31 December 1998, have been based on liquidation value where applicable.

2 Electronic Data Processing Systems

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.

Since, as per 1 January 1999, the business activities have been transferred to Bandai companies in England and France respectively and given the intended liquidation of the company in the course of 1999, no year 2000 problems are anticipated to arise within Bandai B.V.

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

Yours faithfully,

KPMG Accountants N.V.

Ref.: J. Humme

Directors' report

The management of Bandai B.V. hereby submits its financial statements for the year ended 31 December 1998.

Overview of activities

During 1998, net sales amounted to NLG 45.4 million, 53.7%, or NLG 52.6 million, less than the last year. The recurring profit on ordinary activities dropped to NLG 0.7 million (1997: NLG 2.7 million).

This decline is based on the proceeds of mainstay products "Power Ranger" having hung low.

In addition, the boom of a portable virtual pet, "Tamagotchi", which had an explosive figure the last fiscal year, also decreased.

Furthermore, in connection with the intended stop of operations in the Netherlands and the related transfer of the business to another jurisdiction in the 1999 fiscal year we considered NLG 1.5 million as an extraordinary loss and added it up. As a consequence, the net loss for the year 1998 amounts to NLG 0.8 million.

Finance

Bandai Co., Ltd, our parent company, issued to the banks a letter of guarantee for the amount of NLG 32 million, outstanding as at 31 December 1998.

In addition to the above, Bandai Co., Ltd renewed a letter of awareness to the banks for the same period for the amount of NLG 250 million to cover foreign exchange forward contract facilities.

Personnel

On 31 December 1998, Mr. Yasuichi Asai resigned from Managing Director A.

The number of employees was twelve (12) including ten (10) at our Southampton Branch at the end of December 1998. In December 1998, two employees of the Amsterdam office left the company.

Subsequent events

On 1 January 1999, Bandai B.V. transferred the distribution work in the Southampton Branch to Bandai UK and also transferred all re-invoicing business to Bandai S.A., France. Accordingly, the company's business operations in the Netherlands have been terminated and management anticipates to start preparations for winding up the company in the near future.

Amsterdam, 10 March 1999

Board of Directors:

M. Kanai
S. Ino
T. Takasu

Balance sheet as at 31 December 1998

(before proposed appropriation of net result)

	Notes	31 Dec. 1998	31 Dec. 1997
(in Dutch guilders)			
Fixed assets			
Tangible fixed assets	5	9,750	321,645
Current assets			
Inventories	6	-	4,977,287
Accounts receivable	7	7,970,460	53,411,455
Cash	8	6,739,569	3,747,025
		<u>14,710,029</u>	<u>62,135,767</u>
Current liabilities	9	<u>27,502,051</u>	<u>74,447,368</u>
Working capital		(12,792,022)	(12,311,601)
Total assets less current liabilities		<u>(12,782,272)</u>	<u>(11,989,956)</u>
Capital and reserves			
	10		
Issued and paid-up capital		2,000,000	2,000,000
Accumulated deficit		(13,989,956)	(16,713,148)
Result for the year		(792,316)	2,723,192
		<u>(12,782,272)</u>	<u>(11,989,956)</u>

Profit and loss account for the year 1998

	Notes	1998	1997
(in Dutch guilders)			
Net sales	12	45,403,128	97,959,981
Cost of sales		<u>37,220,747</u>	<u>86,284,699</u>
Gross margin		8,182,381	11,675,282
Selling expenses	13	3,366,064	3,625,816
General and administrative expenses		<u>4,500,762</u>	<u>5,346,385</u>
		<u>7,866,826</u>	<u>8,972,201</u>
Operating result		315,555	2,703,081
Financial result			
Interest expense		(831,133)	(933,113)
Interest received		465,306	191,980
Exchange result		<u>794,291</u>	<u>761,244</u>
		<u>428,464</u>	<u>20,111</u>
Result on ordinary activities before tax		744,019	2,723,192
Tax on result on ordinary activities	14	<u>-</u>	<u>-</u>
		744,019	2,723,192
Extraordinary loss	15	1,536,335	-
Tax on extraordinary loss	14	<u>-</u>	<u>-</u>
		(1,536,335)	-
Net result after tax		<u>(792,316)</u>	<u>2,723,192</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 acted as a (wholesale) trading company in toys. As per 1 January 1999, the company transferred the distribution work in the Southampton Branch to Bandai UK and also transferred re-invoicing business to Bandai S.A., Paris.

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. 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 1999 to the date of the expected liquidation as intended during 1999. The valuation of all assets and liabilities as of 31 December 1998, has been adjusted to liquidation value where applicable.

3 Branch office

During the period 1 July 1996 - 31 December 1998, the company had a branch office in Southampton in the United Kingdom. The branch office was 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 (31 December 1997: 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 (1997: 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 were valued at historical cost less depreciation.

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

Depreciation was calculated on the following terms:

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

In view of the transfer of all business activities of the company as per 1 January 1999 at nil value, all tangible assets have been written down to zero or net realisable value (one company car).

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 within these financial statements.

Recognition of income and expenses

Income and expenses are recorded in the period to which they relate. In view of the transfer of the business activities of the company as per 1 January 1999 and the termination of sales income per the same date, as per 31 December 1998 adequate provisions have been recorded for all ongoing 1999 general and administrative expenses and financial expenses, charged to 1998 extraordinary loss.

Sales

Sales are net of value added taxes and discounts.

Balance sheet as at 31 December 1998**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
<i>(in Dutch guilders)</i>					
Purchase value					
31 December 1997	217,837	175,613	218,572	68,418	680,440
Investments 1998	-	-	-	42,978	42,978
Disinvestments 1998	-	-	-	(42,978)	(42,978)
Total purchase value	217,837	175,613	218,572	68,418	680,440
Depreciation till					
31 December 1997	130,702	62,550	136,089	29,454	358,795
Depreciation 1998	87,135	113,063*	82,483*	39,759	322,440
Disinvestments 1998	-	-	-	(10,545)	(10,545)
Total depreciation	217,837	175,613	218,572	58,668	670,690
Book value					
31 December 1998	-	-	-	9,750	9,750
Book value					
31 December 1997	87,135	113,063	82,483	38,964	321,645

* Inclusive of NLG 62,205 and NLG 17,456 respectively, being extra depreciation, due to transfer of the business activities.

6 Inventories

	31 Dec. 1998	31 Dec. 1997
<i>(in Dutch guilders)</i>		
Goods in stock	-	1,335,367
Goods in transit	-	3,641,920
	-	<u>4,977,287</u>

7 Accounts receivable

	31 Dec. 1998	31 Dec. 1997
<i>(in Dutch guilders)</i>		
Due from group companies	6,620,053	51,639,021
Trade debtors	-	380,354
Other receivables	1,350,407	1,173,249
Unamortised option premiums	-	145,936
Foreign currency forward contracts	-	72,895
	<u>7,970,460</u>	<u>53,411,455</u>

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

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

8 Cash

	31 Dec. 1998	31 Dec. 1997
<i>(in Dutch guilders)</i>		
Deposits	6,351,860	2,847,347
Current accounts	387,709	898,503
Petty cash	-	1,175
	<u>6,739,569</u>	<u>3,747,025</u>

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

9 *Current liabilities*

	31 Dec. 1998	31 Dec. 1997
(in Dutch guilders)		
Due to credit institutions	16,270,000	20,000,107
Due to group companies	8,243,606	51,764,447
Trade creditors	108,935	716,432
Taxes and premiums social securities	1,425,104	1,649,833
Other liabilities and accrued expenses	1,454,406	316,549
	27,502,051	74,447,368

All liabilities are due and fully payable within one year.

The company has obtained bank credit facilities amounting to NLG 32,000,000 (31 December 1997: NLG 32,000,000). 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 1999.

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.

The movements in capital and reserves are the following:

	Balance as at 31 Dec. 1997	Result for the year	Appropriation of 1997 result	Balance as at 31 Dec. 1998
(in Dutch guilders)				
Issued and paid-up capital	2,000,000	-	-	2,000,000
Accumulated deficit	(16,713,148)	-	2,723,192	(13,989,956)
Result for the year	2,723,192	(792,316)	(2,723,192)	(792,316)
	(11,989,956)	(792,316)	-	(12,782,272)

11 *Commitments not disclosed in the balance sheet*

The company has entered into foreign exchange forward contracts amounting to USD 3,900,000 at several exchange rates and expiring in 1999. Bandai Co., Ltd issued letters of awareness to the banks for an amount of NLG 250 million.

Losses arising on the expiry dates of these contracts amounting to NLG 310,594 have been included in the 1998 results based on currency exchange rates applicable as per 10 March 1999. The ultimate result of these items cannot be quantified at the date of preparing these financial statements and accordingly the remainder is to be recognised in 1999.

Profit and loss account for the year 1998

12 *Sales*

All sales relate to trading within Europe.

13 Selling expenses

Selling expenses represent amounts charged by Bandai S.A., Paris, for co-ordination 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 Tax

In the profit and loss account for the year 1998, no charge is 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 1998 amounts to approximately NLG 15,000,000. This amount (tax loss carry forward) can be offset against any 1999 and succeeding years', if any, corporate income tax indefinitely.

15 Extraordinary loss

This represents all general and administrative expenses relating to the transfer of the business activities of the company as per 1 January 1999, inclusive of provisions recorded for all ongoing 1999 general and administrative expenses and financial expenses.

16 Staff numbers

At the end of 1998, the number of employees was 12 (1997: 15). In 1998, gross salaries amounted to NLG 2,550,076 (1997: NLG 2,216,575). The social security charges amounted to NLG 93,651 (1997: NLG 61,265) and the pension premiums amounted to NLG 39,793 (1997: NLG 43,164).

17 Remuneration for directors

The remuneration for directors amounted to NLG 803,654 (1997: NLG 745,928).

Amsterdam, 10 March 1999

Board of Directors:

M. Kanai
S. Ino
T. Takasu



Other information

Auditor's report

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Amstelveen, 10 March 1999

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 result

Management proposes to add the net loss after tax for the year (NLG 792,316) to accumulated deficit.

Subsequent events

Per 1 January 1999, the company's operations have been transferred to other European Bandai companies.

Accordingly, the business operations in the Netherlands have been terminated and management anticipates to start preparations for winding up the company in the near future. It is foreseen that all external debts will be repaid.