

JAKKS PACIFIC INC  
Form 8-K/A  
April 26, 2006

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 8-K/A  
Amendment No. 1  
CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported):

April 26, 2006 (February 14, 2006)

**JAKKS PACIFIC, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

0-28104  
(Commission  
File Number)

95-4527222  
(I.R.S. Employer  
Identification No.)

22619 Pacific Coast Highway, Malibu, California  
(Address of principal executive offices)

90265  
(Zip Code)

Registrant's telephone number, including area code:

(310) 456-7799

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written Communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Table of Contents**

This Form 8-K/A is an amendment to the registrant's current report on Form 8-K filed on February 14, 2006 (relating to the registrant's asset acquisition of Creative Designs International, Ltd. and Arbor Toys Company Limited (collectively, "CDI")), to file the financial statements and pro forma financial information omitted from the initial filing of the Current Report, in accordance with Item 9.01.

ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

For a description of the Registrant's asset acquisition of CDI, refer to Item 2.01 of the Registrant's Current Report on Form 8-K, filed on February 14, 2006, which Item 2.01 is incorporated in its entirety herein by reference.

**Table of Contents**

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired

1. Creative Designs International, Ltd. audited financial statements as of December 31, 2002, 2003 and 2004 and for the three years in the period ended December 31, 2004.
2. Arbor Toys Company Limited audited financial statements as of December 31, 2002, 2003 and 2004 and for the three years in the period ended December 31, 2004.
3. Creative Designs International, Ltd. unaudited financial statements as of September 30, 2004 and September 30, 2005 and for the nine months ended September 30, 2004 and 2005.
4. Arbor Toys Company Limited unaudited financial statements as of September 30, 2004 and September 30, 2005 and for the nine months ended September 30, 2004 and 2005.

(b) Pro Forma Financial Information

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**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
DECEMBER 31, 2003  
CONTENTS

|   | Page |
|---|------|
| Independent auditors' report              | 1    |
| Financial statements:                     |      |
| Balance sheets                            | 2    |
| Statements of income                      | 3    |
| Statements of retained earnings           | 4    |
| Statements of cash flows                  | 5-6  |
| Notes to financial statements             | 7-10 |
| Supplemental information:                 |      |
| Independent auditors' supplemental report | 11   |
| Statements of operating expenses          | 12   |

---

**Table of Contents**

**INDEPENDENT AUDITORS REPORT**

To the Board of Directors  
Creative Designs International, Ltd.  
Feasterville, PA 19053

We have audited the accompanying balance sheets of Creative Designs International, Ltd. (A Pennsylvania S Corporation) as of December 31, 2003 and 2002, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Creative Designs International, Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Gable Peritz Mishkin, LLP*

March 30, 2004

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Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.  
BALANCE SHEETS  
DECEMBER 31, 2003 AND 2002

| ASSETS                        | 2003          | 2002          |
|-------------------------------|---------------|---------------|
| Current assets                |               |               |
| Cash                          | \$ 2,171,637  | \$ 4,467,977  |
| Accounts receivable trade     | 8,307,539     | 3,206,612     |
| Accounts receivable affiliate | 12,667,771    | 12,392,780    |
| Miscellaneous receivable      | 798,946       | 505,924       |
| Inventory                     | 1,025,520     | 1,132,240     |
| Prepaid expenses              | 97,554        | 90,405        |
| <br>                          |               |               |
| Total current assets          | 25,068,967    | 21,795,938    |
| <br>                          |               |               |
| Property and equipment        |               |               |
| Fixed assets                  | 3,001,296     | 3,189,607     |
| Less accumulated depreciation | 1,412,712     | 1,250,104     |
| <br>                          |               |               |
| Net property and equipment    | 1,588,584     | 1,939,503     |
| <br>                          |               |               |
| Total assets                  | \$ 26,657,551 | \$ 23,735,441 |

LIABILITIES AND STOCKHOLDERS EQUITY

|  |              |              |
|--|--------------|--------------|
| Current liabilities  |              |              |
| Loan payable affiliate   | \$ 2,000,000 | \$ 3,000,000 |
| Accounts payable trade   | 268,022      | 38,988       |
| Accounts payable affiliate   | 220,712      | 4,428,440    |
| Rebates payable  | 1,077,379    | 1,343,732    |
| Accrued royalties  | 1,373,935    | 826,115      |
| Accrued commissions  | 894,136      | 707,477      |
| Accrued state and local taxes  | 314,486      | 179,058      |
| <br>   |              |              |
| Total current liabilities  | 6,148,670    | 10,523,810   |
| <br>   |              |              |
| Stockholders equity  |              |              |
| Common stock no par value; 200 shares authorized, issued and outstanding | 2,000        | 2,000        |
| Retained earnings  | 20,506,881   | 13,209,631   |

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|  |               |               |
|--|---------------|---------------|
| Total stockholders' equity                 | 20,508,881    | 13,211,631    |
| Total liabilities and stockholders' equity | \$ 26,657,551 | \$ 23,735,441 |

See independent auditors' report and  
accompanying notes to financial statements.

2

---



**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2003 AND 2002

|  | 2003          | 2002          |
|--|---------------|---------------|
| Revenues                                 |               |               |
| Commission income                        | \$ 24,689,165 | \$ 21,474,092 |
| Sales                                    | 18,496,985    | 10,794,760    |
| Design fee                               | 158,710       | 158,710       |
| <br>                                     |               |               |
| Total revenues                           | 43,344,860    | 32,427,562    |
| <br>                                     |               |               |
| Direct costs                             |               |               |
| Cost of sales                            | 13,182,663    | 9,986,791     |
| Direct selling costs                     | 8,320,915     | 4,942,077     |
| Product development costs                | 462,581       | 497,099       |
|  | 21,966,159    | 15,425,967    |
| <br>                                     |               |               |
| Gross profit                             | 21,378,701    | 17,001,595    |
| <br>                                     |               |               |
| General and administrative expenses      | 2,373,439     | 1,842,325     |
| <br>                                     |               |               |
| Income before other income and expenses  | 19,005,262    | 15,159,270    |
| <br>                                     |               |               |
| Other income and expenses                |               |               |
| Interest income                          | 89,750        | 42,254        |
| Other income                             | 18,004        | 3,176         |
| Depreciation                             | (665,767)     | (709,038)     |
| Loss on sale of assets                   | (6,152)       |               |
|  | (564,165)     | (663,608)     |
| <br>                                     |               |               |
| Net income before officer's compensation | 18,441,097    | 14,495,662    |
| <br>                                     |               |               |
| Officer's compensation                   | 2,143,847     | 5,195,545     |
| <br>                                     |               |               |
| Net income                               | \$ 16,297,250 | \$ 9,300,117  |

See independent auditors' report and  
accompanying notes to financial statements.

**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**STATEMENTS OF RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

|                      | 2003          | 2002          |
|----------------------|---------------|---------------|
| Balance, January 1   | \$ 13,209,631 | \$ 7,909,514  |
| Net income           | 16,297,250    | 9,300,117     |
|                      | 29,506,881    | 17,209,631    |
| Less distributions   | 9,000,000     | 4,000,000     |
| Balance, December 31 | \$ 20,506,881 | \$ 13,209,631 |

See independent auditors' report and  
 accompanying notes to financial statements.

4

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**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2003 AND 2002

|   | 2003          | 2002         |
|---|---------------|--------------|
| Cash flows from operating activities  |               |              |
| Net income  | \$ 16,297,250 | \$ 9,300,117 |
| Adjustment to reconcile net income to net cash provided by operating activities |               |              |
| Depreciation  | 665,767       | 709,038      |
| Loss on sale of property and equipment  | 6,152         |              |
| (Increase) decrease in assets   |               |              |
| Accounts receivable trade   | (5,100,927)   | (841,816)    |
| Accounts receivable affiliate   | (274,991)     | (4,191,043)  |
| Miscellaneous receivable  | (293,022)     | (505,924)    |
| Inventory   | 106,720       | 329,816      |
| Prepaid expenses  | (7,149)       | (16,976)     |
| Increase (decrease) in liabilities  |               |              |
| Accounts payable trade  | 229,034       | (9,652)      |
| Accounts payable affiliate  | (4,207,728)   | (338,666)    |
| Rebates payable   | (266,353)     | 239,848      |
| Accrued royalties   | 547,820       | 699,860      |
| Accrued commissions   | 186,659       | 285,847      |
| Accrued state and local taxes   | 135,428       | 38,712       |
| Net cash provided by operating activities                                       | 8,024,660     | 5,699,161    |
| Cash flows from investing activities  | (355,000)     | (1,328,513)  |
| Acquisition of property and equipment   | (355,000)     | (1,328,513)  |
| Proceeds from sale of property and equipment                                    | 34,000        |              |
| Net cash used by investing activities   | (321,000)     | (1,328,513)  |

See independent auditors report and  
accompanying notes to financial statements.

**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2003 AND 2002

|  | 2003           | 2002         |
|--|----------------|--------------|
| Cash flows from financing activities                     |                |              |
| Net advances and repayments of notes payable    officers | \$ (1,000,000) | \$ 3,000,000 |
| Distributions paid                                       | (9,000,000)    | (4,000,000)  |
| Net cash used by financing activities                    | (10,000,000)   | (1,000,000)  |
| Net increase (decrease) in cash                          | (2,296,340)    | 3,370,648    |
| Cash, January 1  | 4,467,977      | 1,097,329    |
| Cash, December 31  | \$ 2,171,637   | \$ 4,467,977 |

See independent auditors' report and  
accompanying notes to financial statements.

6

**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Creative Designs International, Ltd. is presented to assist in understanding the Company's financial statements. The financial statements and accompanying notes are representations of the Company's management, who are also responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

**Business Activity and Concentration of Credit Risk**

The Company is engaged in the development and marketing of toys and related products internationally and the sale of those products to specific customers in the United States.

The Company maintains its checking accounts with one bank. Cash balances with the bank in excess of \$100,000 exceed the insurable limits as allowed by FDIC. Total cash balances with the bank at December 31, 2003 exceeded the insurable limits by \$2,443,222.

**Use of Estimates**

Management has made estimates and assumptions relating to the reporting of assets and liabilities and related reporting of revenues and expenses to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

**Accounts Receivable - Trade**

Accounts receivable - trade is recorded at the amount the Company expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that they anticipate they will not collect as of the time the financial statements are issued.

There was no bad debt expense charged to operations for the years ended December 31, 2003 and 2002.

**Inventory**

Inventory, consisting of finished goods, is valued at the lower of cost (first-in, first-out basis) or market.

**Table of Contents****CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

## 1. Summary of Significant Accounting Policies

**Property and Equipment and Depreciation**

Property and equipment are stated at cost. Depreciation is provided under the straight-line and accelerated methods over the estimated useful lives of the related assets.

Maintenance and repairs are expensed as incurred. Additions, betterments, and renewals, unless of minor amounts, are capitalized and depreciated. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved, and the resulting gain or loss is included in operations.

**Advertising Expense**

The Company's policy is to expense advertising costs as incurred. Advertising expense charged to operations for the years ended December 31, 2003 and 2002 was \$94,783 and \$10,257, respectively.

**Income Taxes**

The Company, with the consent of its shareholders, elected to be taxed as an S corporation for federal and state tax purposes, effective in 1986. Under these provisions, the shareholders are taxed on their proportionate share of the Company's taxable income on their individual tax returns. The Company still pays franchise and gross receipts taxes to various municipalities.

## 2. Property and Equipment

A summary of property and equipment at December 31, 2003 and 2002 is as follows:

|                               | 2003         | 2002         |
|-------------------------------|--------------|--------------|
| Molds                         | \$ 1,690,892 | \$ 1,969,528 |
| Leasehold improvements        | 295,971      | 274,249      |
| Furniture and fixtures        | 137,863      | 137,863      |
| Computer equipment            | 233,247      | 233,247      |
| Transportation equipment      | 643,323      | 574,720      |
|                               | 3,001,296    | 3,189,607    |
| Less accumulated depreciation | 1,412,712    | 1,250,104    |
|                               | \$ 1,588,584 | \$ 1,939,503 |

Depreciation expense charged to operations for the years ended December 31, 2003 and 2002 was \$665,767 and \$709,038, respectively.

**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

3. Major Customers

The Company had a significant customer which represented 90% and 78% of the total sales for the years ended December 31, 2003 and 2002. This customer represented 93% and 64% of the accounts receivable balance at December 31, 2003 and 2002.

4. Related Party Transactions

The Company conducts its primary business operations in a facility leased from its stockholders under a lease which expires in 2010. The rental expense for this property was \$74,142 and \$59,748 for the years ended December 31, 2003 and 2002, respectively.

The following is a schedule of future minimum lease payments as of December 31, 2003:

|                               |           |
|-------------------------------|-----------|
| Year ending December 31, 2004 | \$ 74,340 |
| 2005                          | 78,060    |
| 2006                          | 81,960    |
| 2007                          | 86,064    |
| 2008                          | 90,360    |
| Thereafter                    | 194,508   |

The Company's affiliate, Arbor Toys, Ltd. (Arbor), is a Hong Kong based company. Significant related party transactions with Arbor are as follows:

The Company receives a commission from Arbor Toys, Ltd. on all Arbor sales for its marketing and licensing arrangements with customers. In addition, it receives various overrides on products sold. The total amount is recorded as commission income and was \$24,689,165 and \$21,474,092 for the years ended December 31, 2003 and 2002, respectively.

The Company receives design fees for the development of product lines. Total fees were \$158,710 for both years ended December 31, 2003 and 2002.

The Company purchases all of its toys from Arbor. Total purchases for the year ended December 31, 2003 and 2002 were \$10,720,712 and \$7,288,944, respectively.



**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

5. Commitments and Contingencies

The Company leases showroom space at an industry toy exhibit under a noncancellable operating lease expiring in April, 2010. Future minimum rental payments under operating leases (excluding operating expenses) are as follows:

|                               |           |
|-------------------------------|-----------|
| Year ending December 31, 2004 | \$ 33,150 |
| 2005                          | 33,150    |
| 2006                          | 33,150    |
| 2007                          | 33,150    |
| 2008                          | 33,150    |
| Thereafter                    | 44,202    |

The total rent expense for this and related party leases (See Note 3) was \$113,402 and \$97,942 for the years ended December 31, 2003 and 2002, respectively.

**Table of Contents**

**SUPPLEMENTAL INFORMATION**

11

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**Table of Contents**

**INDEPENDENT AUDITORS REPORT  
ON SUPPLEMENTAL INFORMATION**

To the Board of Directors  
Creative Designs International, Ltd.  
Feasterville, PA 19053

Our report on our audit of the basic financial statements of Creative Designs International, Ltd. for December 31, 2003 and 2002 appears on Page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gable Peritz Mishkin, LLP*

March 30, 2004

11

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**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF GENERAL AND ADMINISTRATIVE EXPENSES  
YEARS ENDED DECEMBER 31, 2003 AND 2002

|                         | 2003         | 2002         |
|-------------------------|--------------|--------------|
| Advertising             | \$ 94,783    | \$ 10,257    |
| Auto expense            | 19,737       | 13,902       |
| Computer expenses       | 98,747       | 62,162       |
| Contributions           | 35,707       | 60,350       |
| Dues and subscriptions  | 12,439       | 12,808       |
| Employee benefits       | 104,058      | 71,887       |
| Equipment rental        | 3,754        | 2,728        |
| Gifts                   | 16,583       | 8,750        |
| Insurance               | 146,753      | 133,706      |
| Interest expense        |              | 4,765        |
| Meals and entertainment | 55,908       | 26,665       |
| Miscellaneous           | 59,303       | 105,709      |
| Professional fees       | 48,193       | 65,093       |
| Office expense          | 111,554      | 58,661       |
| Payroll                 | 660,269      | 375,929      |
| Payroll taxes           | 87,703       | 136,630      |
| Postage                 | 4,543        | 3,514        |
| Rent                    | 113,402      | 97,942       |
| Repairs and maintenance | 13,784       | 15,353       |
| Storage                 | 3,588        | 2,776        |
| Taxes other             | 423,966      | 344,069      |
| Telephone               | 37,986       | 42,419       |
| Travel                  | 191,925      | 175,693      |
| Utilities               | 28,754       | 10,557       |
|                         | \$ 2,373,439 | \$ 1,842,325 |

See independent auditors supplemental report.

12

**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
DECEMBER 31, 2004  
CONTENTS

|  | Page |
|--|------|
| Independent auditors' report                     | 1    |
| Financial statements:                            |      |
| Balance sheets                                   | 2    |
| Statements of income                             | 3    |
| Statements of retained earnings                  | 4    |
| Statements of cash flows                         | 5-6  |
| Notes to financial statements                    | 7-10 |
| Supplemental information:                        |      |
| Independent auditors' supplemental report        | 11   |
| Schedules of general and administrative expenses | 12   |

---

**Table of Contents**

**INDEPENDENT AUDITORS REPORT**

To the Board of Directors  
Creative Designs International, Ltd.  
Feasterville, PA 19053

We have audited the accompanying balance sheets of Creative Designs International, Ltd. (A Pennsylvania S Corporation) as of December 31, 2004 and 2003, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Creative Designs International, Ltd. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

May 6, 2005

Table of ContentsCREATIVE DESIGNS INTERNATIONAL, LTD.BALANCE SHEETSDECEMBER 31, 2004 AND 2003ASSETS

|   | 2004          | 2003          |
|---|---------------|---------------|
| Current assets  |               |               |
| Cash  | \$ 7,574,936  | \$ 2,171,637  |
| Accounts receivable trade                               | 6,019,263     | 8,307,539     |
| Accounts receivable affiliate                           | 27,618,821    | 12,667,771    |
| Miscellaneous receivable                                | 23,091        | 798,946       |
| Due from affiliates                                     | 6,404         |               |
| Inventory   | 3,077,067     | 1,025,520     |
| Prepaid expenses  | 94,524        | 97,554        |
| <br>  |               |               |
| Total current assets                                    | 44,414,106    | 25,068,967    |
| <br>  |               |               |
| Property and equipment, net of accumulated depreciation | 1,940,633     | 1,588,584     |
| <br>  |               |               |
| Total assets  | \$ 46,354,739 | \$ 26,657,551 |

LIABILITIES AND STOCKHOLDERS EQUITY

|  |               |               |
|--|---------------|---------------|
| Current liabilities  |               |               |
| Loan payable affiliate   | \$            | \$ 2,000,000  |
| Accounts payable trade   | 319,165       | 268,022       |
| Accounts payable affiliate   | 15,031,467    | 220,712       |
| Rebates payable  | 2,076,841     | 1,077,379     |
| Accrued royalties  | 3,272,007     | 1,373,935     |
| Accrued commissions  | 484,017       | 894,136       |
| Accrued state and local taxes  | 155,000       | 314,486       |
| Payroll taxes payable  | 4,775         |               |
| <br>   |               |               |
| Total current liabilities  | 21,343,272    | 6,148,670     |
| <br>   |               |               |
| Stockholders equity  |               |               |
| Common stock no par value; 200 shares authorized, issued and outstanding | 2,000         | 2,000         |
| Retained earnings  | 25,009,467    | 20,506,881    |
| <br>   |               |               |
| Total stockholders equity  | 25,011,467    | 20,508,881    |
| <br>   |               |               |
| Total liabilities and stockholders equity                                | \$ 46,354,739 | \$ 26,657,551 |

See independent auditors' report and  
accompanying notes to financial statements.



**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2004 AND 2003

|   | 2004          | 2003          |
|---|---------------|---------------|
| Revenues                                |               |               |
| Commission income                       | \$ 32,692,754 | \$ 24,689,165 |
| Sales                                   | 28,360,733    | 18,496,985    |
| Design fee                              | 164,000       | 158,710       |
| <br>                                    |               |               |
| Total revenues                          | 61,217,487    | 43,344,860    |
| <br>                                    |               |               |
| Direct costs                            |               |               |
| Cost of sales                           | 19,760,539    | 13,182,663    |
| Direct selling costs                    | 12,397,351    | 8,320,915     |
| Product development costs               | 824,809       | 462,581       |
|   | 32,982,699    | 21,966,159    |
| <br>                                    |               |               |
| Gross profit                            | 28,234,788    | 21,378,701    |
| <br>                                    |               |               |
| General and administrative expenses     | 3,137,328     | 2,373,439     |
| <br>                                    |               |               |
| Income before other income and expenses | 25,097,460    | 19,005,262    |
| <br>                                    |               |               |
| Other income and expenses               |               |               |
| Interest income                         | 88,591        | 89,750        |
| Loss on sale of property and equipment  |               | (6,152)       |
| Other income                            |               | 18,004        |
| Depreciation                            | (534,265)     | (665,767)     |
|   | (445,674)     | (564,165)     |
| <br>                                    |               |               |
| Income before officer s compensation    | 24,651,786    | 18,441,097    |
| <br>                                    |               |               |
| Officer s compensation                  | 3,149,200     | 2,143,847     |
| <br>                                    |               |               |
| Net income                              | \$ 21,502,586 | \$ 16,297,250 |

See independent auditors' report and  
accompanying notes to financial statements.

**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**STATEMENTS OF RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

|                      | 2004          | 2003          |
|----------------------|---------------|---------------|
| Balance, January 1   | \$ 20,506,881 | \$ 13,209,631 |
| Net income           | 21,502,586    | 16,297,250    |
|                      | 42,009,467    | 29,506,881    |
| Less distributions   | 17,000,000    | 9,000,000     |
| Balance, December 31 | \$ 25,009,467 | \$ 20,506,881 |

See independent auditors' report and  
 accompanying notes to financial statements.

**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003

|   | 2004          | 2003          |
|---|---------------|---------------|
| Cash flows from operating activities  |               |               |
| Net income  | \$ 21,502,586 | \$ 16,297,250 |
| Adjustment to reconcile net income to net cash provided by operating activities |               |               |
| Bad debts   | 80,033        |               |
| Depreciation  | 534,265       | 665,767       |
| Loss on sale of property and equipment  |               | 6,152         |
| (Increase) decrease in assets   |               |               |
| Accounts receivable trade   | 2,208,243     | (5,100,927)   |
| Accounts receivable affiliate   | (14,951,050)  | (274,991)     |
| Miscellaneous receivable  | 775,855       | (293,022)     |
| Inventory   | (2,051,547)   | 106,720       |
| Prepaid expenses  | 3,030         | (7,149)       |
| Increase (decrease) in liabilities  |               |               |
| Accounts payable trade  | 51,143        | 229,034       |
| Accounts payable affiliate  | 14,810,755    | (4,207,728)   |
| Rebates payable   | 999,462       | (266,353)     |
| Accrued royalties   | 1,898,072     | 547,820       |
| Accrued commissions   | (410,119)     | 186,659       |
| Accrued state and local taxes   | (159,486)     | 135,428       |
| Payroll taxes payable   | 4,775         |               |
| Net cash provided by operating activities                                       | 25,296,017    | 8,024,660     |
| Cash flows from investing activities  |               |               |
| Acquisition of property and equipment   | (965,627)     | (355,000)     |
| Proceeds from sale of property and equipment                                    |               | 34,000        |
| Net cash used by investing activities   | (965,627)     | (321,000)     |

See independent auditors report and  
accompanying notes to financial statements.

**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003

|   | 2004           | 2003           |
|---|----------------|----------------|
| Cash flows from financing activities                          |                |                |
| Net advances and repayments of notes payable officers         | \$ (2,000,000) | \$ (1,000,000) |
| Net advances and repayments of amounts due to/from affiliates | 72,909         |                |
| Distributions paid  | (17,000,000)   | (9,000,000)    |
| Net cash used by financing activities                         | (18,927,091)   | (10,000,000)   |
| Net increase (decrease) in cash                               | 5,403,299      | (2,296,340)    |
| Cash, January 1   | 2,171,637      | 4,467,977      |
| Cash, December 31   | \$ 7,574,936   | \$ 2,171,637   |

See independent auditors report and  
accompanying notes to financial statements.

**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

This summary of significant accounting policies of Creative Designs International, Ltd. is presented to assist in understanding the Company's financial statements. The financial statements and accompanying notes are representations of the Company's management, who are also responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

**Business Activity and Concentration of Credit Risk**

The Company is engaged in the development and marketing of toys and related products internationally and the sale of those products to specific customers in the United States.

The Company maintains its checking accounts with one bank. Cash balances with the bank in excess of \$100,000 exceed the insurable limits as allowed by FDIC. Total cash balances with the bank at December 31, 2004 exceeded the insurable limits by \$8,572,038.

The Company had a significant customer which represented 83% and 90% of the total sales for the years ended December 31, 2004 and 2003. This customer represented 46% and 93% of the accounts receivable balance at December 31, 2004 and 2003.

**Use of Estimates**

Management has made estimates and assumptions relating to the reporting of assets and liabilities and related reporting of revenues and expenses to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

**Accounts Receivable Trade**

Accounts receivable trade is recorded at the amount the Company expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that they anticipate they will not collect as of the time the financial statements are issued.

Bad debt expense charged to operations for the years ended December 31, 2004 and 2003 were \$80,033 and \$0-, respectively.

**Inventory**

Inventory, consisting of finished goods, is valued at the lower of cost (first-in, first-out basis) or market.

**Table of Contents****CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

## 1. Summary of Significant Accounting Policies

**Property and Equipment and Depreciation**

Property and equipment are stated at cost. Depreciation is provided under the straight-line and accelerated methods over the estimated useful lives of the related assets.

Maintenance and repairs are expensed as incurred. Additions, betterments, and renewals, unless of minor amounts, are capitalized and depreciated. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved, and the resulting gain or loss is included in operations.

**Shipping and Handling Costs**

The company's policy is to reflect shipping and handling costs associated with the sale of inventory as a component of cost of goods sold.

**Advertising Expense**

The Company's policy is to expense advertising costs as incurred. Advertising expense charged to operations for the years ended December 31, 2004 and 2003 was \$24,183 and \$94,783, respectively.

**Income Taxes**

The Company, with the consent of its shareholders, elected to be taxed as an S corporation for federal and state tax purposes, effective in 1986. Under these provisions, the shareholders are taxed on their proportionate share of the Company's taxable income on their individual tax returns. The Company still pays franchise and gross receipts taxes to various municipalities.

## 2. Property and Equipment

A summary of property and equipment at December 31, 2004 and 2003 is as follows:

|                               | 2004         | 2003         |
|-------------------------------|--------------|--------------|
| Molds                         | \$ 2,249,497 | \$ 1,690,892 |
| Leasehold improvements        | 308,186      | 295,971      |
| Furniture and fixtures        | 163,001      | 137,863      |
| Computer equipment            | 233,247      | 233,247      |
| Transportation equipment      | 532,393      | 643,323      |
|                               | 3,486,324    | 3,001,296    |
| Less accumulated depreciation | 1,545,691    | 1,412,712    |
|                               | \$ 1,940,633 | \$ 1,588,584 |

**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

2. Property and Equipment (Cont d.)

Depreciation expense charged to operations for the years ended December 31, 2004 and 2003 was \$534,265 and \$665,767, respectively.

3. Royalties

The Company has entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 6% to 15% of net sales with minimum guarantees and advance payments. The agreements expire at various intervals through December 31, 2007. Royalties expense was \$9,191,707 and \$5,395,227 for the years ended December 31, 2004 and 2003, respectively, and is included in direct selling costs.

4. Related Party Transactions and Commitments and Contingencies

The Company conducts its primary business operations in a facility leased from its stockholders under a lease which expires in 2010. The rental expense for this property was \$70,800 for both years ended December 31, 2004 and 2003. The following is a schedule of future minimum lease payments as of December 31, 2004:

|                               |          |
|-------------------------------|----------|
| Year ending December 31, 2005 | \$81,960 |
| 2006                          | 86,064   |
| 2007                          | 90,360   |
| 2008                          | 94,878   |
| 2009                          | 99,622   |

The Company's affiliate, Arbor Toys, Ltd. (Arbor), is a Hong Kong based company. Significant related party transactions with Arbor are as follows:

The Company receives a commission from Arbor Toys, Ltd. on all Arbor sales for its marketing and licensing arrangements with customers. In addition, it receives various overrides on products sold. The total amount is recorded as commission income and was \$32,692,754 and \$24,689,165 for the years ended December 31, 2004 and 2003, respectively.

The Company receives design fees for the development of product lines. Total fees received were \$164,000 and \$158,710 for the years ended December 31, 2004 and 2003, respectively.



**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

4. Related Party Transactions and Commitments and Contingencies (Cont d.)

The Company purchases all of its toys from Arbor. Total purchases for the year ended December 31, 2004 and 2003 were \$18,096,759 and \$10,720,712, respectively.

The Company leases showroom space at an industry toy exhibit under a noncancellable operating lease expiring in April, 2010. Future minimum rental payments under operating leases (excluding operating expenses) are as follows:

|                               |          |
|-------------------------------|----------|
| Year ending December 31, 2005 | \$33,150 |
| 2006                          | 33,150   |
| 2007                          | 33,150   |
| 2008                          | 33,150   |
| 2009                          | 33,130   |
| Thereafter                    | 11,052   |

The total rent expense for all operating leases was \$114,373 and \$113,402 for the years ended December 31, 2004 and 2003, respectively.

**Table of Contents**

**SUPPLEMENTAL INFORMATION**

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**Table of Contents**

**INDEPENDENT AUDITORS REPORT  
ON SUPPLEMENTAL INFORMATION**

To the Board of Directors  
Creative Designs International, Ltd.  
Feasterville, PA 19053

Our report on our audit of the basic financial statements of Creative Designs International, Ltd. for December 31, 2004 and 2003 appears on Page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 6, 2005

**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF GENERAL AND ADMINISTRATIVE EXPENSES  
YEARS ENDED DECEMBER 31, 2004 AND 2003

|                         | 2004         | 2003         |
|-------------------------|--------------|--------------|
| Advertising             | \$ 24,183    | \$ 94,783    |
| Auto expense            | 21,590       | 19,737       |
| Bad debts               | 80,033       |              |
| Computer expenses       | 48,744       | 98,747       |
| Contributions           | 12,884       | 35,707       |
| Dues and subscriptions  | 26,195       | 12,439       |
| Employee benefits       | 121,176      | 104,058      |
| Equipment rental        | 14,632       | 3,754        |
| Gifts                   | 46,965       | 16,583       |
| Insurance               | 213,589      | 146,753      |
| Meals and entertainment | 39,355       | 55,908       |
| Miscellaneous           | 28,150       | 59,303       |
| Professional fees       | 161,277      | 48,193       |
| Office expense          | 71,689       | 111,554      |
| Payroll                 | 976,277      | 660,269      |
| Payroll taxes           | 127,260      | 87,703       |
| Postage                 | 4,019        | 4,543        |
| Rent                    | 114,373      | 113,402      |
| Repairs and maintenance | 13,147       | 13,784       |
| Storage                 | 3,731        | 3,588        |
| Taxes other             | 640,204      | 423,966      |
| Telephone               | 31,074       | 37,986       |
| Travel                  | 285,991      | 191,925      |
| Utilities               | 30,790       | 28,754       |
|                         | \$ 3,137,328 | \$ 2,373,439 |

See independent auditors' supplemental report.

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED  
FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**MICHAEL YAM & COMPANY**  
*Certified Public Accountants*  
**HONG KONG**

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ARBOR TOYS COMPANY LIMITED  
CONTENTS

|   | <u>Page</u> |
|---|-------------|
| <u>Company Information</u>                | 2           |
| <u>Report of the Directors</u>            | 3-4         |
| <u>Report of the Auditors</u>             | 5-6         |
| <u>Balance Sheet</u>                      | 7           |
| <u>Profit and Loss Statement</u>          | 8           |
| <u>Statement of Changes in Equity</u>     | 9           |
| <u>Notes to Financial Statements</u>      | 10-15       |
| <u>Cash Flow Statement</u>                | 16          |
| <u>Detailed Profit and Loss Statement</u> | 17-18       |
| <b>MICHAEL YAM &amp; CO.</b>              |             |

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**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**COMPANY INFORMATION**

**DIRECTORS**

Mr. Marvin Greenberg  
Mr. Ho Chiu Ming  
M. Y. Director No. 1 Limited  
Mr. Ho Wai Kam Jimmy

**SECRETARY**

M. Y. Secretaries Limited  
23rd Floor  
Chekiang First Bank Building  
58-63 Gloucester Road  
Wanchai

HONG KONG

**REGISTERED OFFICE**

Suite 816  
Chinachem Golden Plaza  
77 Mody Road  
Tsimshatsui East  
Kowloon

HONG KONG

**COMPANY NUMBER**

265154

**AUDITORS**

Michael Yam & Company  
23rd Floor  
Chekiang First Bank Building  
58-63 Gloucester Road  
Wanchai

HONG KONG

**MICHAEL YAM & CO.**

- 2 -

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**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**REPORT OF THE DIRECTORS**

The Directors present their annual report and the audited financial statements for the year ended December 31, 2002.

1. **PRINCIPAL ACTIVITY**

The Company's principal activity is trading in toys and related products.

2. **FINANCIAL STATEMENTS**

The profit of the Company for the year ended December 31, 2002 and the state of the Company's affairs at that date are set out in the financial statements on pages 7 to 16.

3. **DIVIDEND AND RESERVE**

An interim dividend of HK\$287 per ordinary share, totalling HK\$28,700,000 was paid during the year.

The Directors do not recommend the payment of a final dividend or the transfer of any amount to reserve for the financial year ended December 31, 2002.

4. **FIXED ASSETS**

Movements in fixed assets during the year are set out in note 6 to the financial statements.

5. **DIRECTORS**

During the year and up to the date of this report, the following Directors held office :-

Mr. Marvin Greenberg

Mr. Ho Chiu Ming

M. Y. Director No. 1 Limited

Mr. Ho Wai Kam Jimmy

In accordance with the Company's Articles of Association, all the Directors retire from the Board and, being eligible, offer themselves for re-election.

**MICHAEL YAM & CO.**



**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**REPORT OF THE DIRECTORS**  
(CONTINUED)

6. **DIRECTORS INTERESTS IN CONTRACTS**

No contracts of significance to which the Company was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

7. **DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year was the Company a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

8. **AUDITORS**

Michael Yam & Company have expressed their willingness to continue as Auditors of the Company.

9. **OTHER MATTERS**

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

FOR AND ON BEHALF OF THE BOARD

/s/ Ho Chiu Ming

CHAIRMAN/SECRETARY

DATE : 30 JUN 2003  
**MICHAEL YAM & CO.**

**Table of Contents**

**MICHAEL YAM & COMPANY**

**23RD FLOOR, CHEKIANG FIRST BANK BUILDING  
58-63, GLOUCESTER ROAD, WANCHAI, HONG KONG**

**TEL.: (852) 2529 9301 FAX: (852) 2529 7920 E-MAIL:**

**mychk@myc.com.hk**

**AUDITORS REPORT TO THE SHAREHOLDERS OF  
ARBOR TOYS COMPANY LIMITED**

**(Incorporated in Hong Kong with limited liability)**

We have audited the financial statements on pages 7 to 16 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Table of Contents**

**MICHAEL YAM & COMPANY**

**23RD FLOOR, CHEKIANG FIRST BANK BUILDING  
58-63 GLOUCESTER ROAD, WANCHAI, HONG KONG**

**TEL.: (852) 2529 9301 FAX: (852) 2529 7920 E-MAIL:**

**mychk@myc.com.hk**

**AUDITORS REPORT TO THE SHAREHOLDERS OF  
ARBOR TOYS COMPANY LIMITED**

**(Incorporated in Hong Kong with limited liability)**

**(CONTINUED)**

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at December 31, 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

MICHAEL YAM & COMPANY

/s/ Michael Yam & Company

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG: 30 JUN 2003

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
BALANCE SHEET AS AT DECEMBER 31, 2002  
(Amounts Expressed In Hong Kong Dollars)

|                |  |               |                |
|----------------|--|---------------|----------------|
| 12/31/2001     |  |               |                |
|                | CURRENT ASSETS                           |               |                |
| \$ 36,610,576  | Cash                                     | \$ 63,052,640 |                |
| 31,200,000     | Time deposits                            | -0-           |                |
| 14,046,551     | Bills receivable                         | 33,838,466    |                |
| 8,742,749      | Accounts receivable                      | 9,984,072     |                |
| 6,021,121      | Prepayments, rental and utility deposits | 5,242,044     |                |
| 3,000,000      | Trade deposits                           | 230,989       |                |
| 10,079         | Inventories                              | -0-           |                |
| 99,631,076     |  |               | \$ 112,348,211 |
| 706,490        | FIXED ASSETS (Note 6)                    |               | 1,855,829      |
| \$ 100,337,566 |  |               | \$ 114,204,040 |
|                | CURRENT LIABILITIES                      |               |                |
| \$ 37,119,661  | Accounts payable and accrued charges     | \$ 79,257,997 |                |
| 28,988,250     | Dividend payable                         | -0-           |                |
| 4,440,000      | Provision for taxation                   | 5,335,000     |                |
| 70,547,911     |  |               | \$ 84,592,997  |
|                | SHAREHOLDERS EQUITY                      |               |                |
| 1,000,000      | Share capital (Note 7)                   | 1,000,000     |                |
| 28,789,655     | Retained profits                         | 28,611,043    |                |
| 29,789,655     |  |               | 29,611,043     |

THE FINANCIAL STATEMENTS ON PAGES 7 TO 16 WERE APPROVED  
AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON  
30 JUN 2003

/s/ Marvin Greenberg

/s/ Ho Chiu Ming

DIRECTOR

DIRECTOR

\$ 100,337,566

\$ 114,204,040

**MICHAEL YAM & CO.**

- 7 -

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**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
PROFIT AND LOSS STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2002  
(Amounts Expressed In Hong Kong Dollars)

|                |                                 |                |
|----------------|---------------------------------|----------------|
| 01/01/2001     |                                 |                |
| to             |                                 |                |
| 12/31/2001     |                                 |                |
| \$ 504,594,262 | TURNOVER (Note 2)               | \$ 661,475,210 |
| 2,023,553      | OTHER REVENUE                   | 3,486,715      |
| (4,078,227)    | CHANGES IN INVENTORIES          | (10,079)       |
| (359,436,166)  | PURCHASES AND DIRECT COSTS      | (475,406,385)  |
| (102,876,312)  | SELLING EXPENSES                | (142,949,384)  |
| (7,719,866)    | STAFF COSTS                     | (8,784,421)    |
| (334,190)      | DEPRECIATION AND AMORTISATION   | (521,132)      |
| (2,468,691)    | OTHER OPERATING EXPENSES        | (3,438,957)    |
| 29,704,363     | PROFIT BEFORE TAXATION (Note 3) | 33,851,567     |
| (4,438,775)    | TAXATION (Note 5)               | (5,330,179)    |
| \$ 25,265,588  | PROFIT AFTER TAXATION           | \$ 28,521,388  |
| \$ -0-         | INTERIM DIVIDEND                | \$ 28,700,000  |

MICHAEL YAM &amp; CO.

- 8 -

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**  
(Amounts Expressed In Hong Kong Dollars)

|                       | SHARE<br>CAPITAL | RETAINED<br>PROFITS | TOTAL         |
|-----------------------|------------------|---------------------|---------------|
| AT JANUARY 1, 2001    | \$ 1,000,000     | \$ 49,724,067       | \$ 50,724,067 |
| FINAL DIVIDEND PAID   | -0-              | (46,200,000)        | (46,200,000)  |
| PROFIT FOR THE YEAR   | -0-              | 25,265,588          | 25,265,588    |
| AT DECEMBER 31, 2001  | \$ 1,000,000     | \$ 28,789,655       | \$ 29,789,655 |
| AT JANUARY 1, 2002    | \$ 1,000,000     | \$ 28,789,655       | \$ 29,789,655 |
| PROFIT FOR THE YEAR   | -0-              | 28,521,388          | 28,521,388    |
| INTERIM DIVIDEND PAID | -0-              | (28,700,000)        | (28,700,000)  |
| AT DECEMBER 31, 2002  | \$ 1,000,000     | \$ 28,611,043       | \$ 29,611,043 |

**MICHAEL YAM & CO.**

- 9 -

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**

**NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002**

**1. PRINCIPAL ACCOUNTING POLICIES**

(a) Basis of Accounting

The financial statements on pages 7 to 16 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ( SSAP ) and Interpretations issued by the Hong Kong Society of Accountants which does not differ significantly from accounting principles generally accepted in the United States of America ( US GAAP ) except that certain disclosures as required under US GAAP have not been included in these financial statements. The financial statements are prepared under the historical cost convention.

(b) Fixed Assets

Fixed assets, comprising furniture and fixtures, office machinery and equipment and leasehold improvements, are stated at cost less accumulated depreciation.

Depreciation is provided to write off the cost of depreciable assets over their estimated useful lives on a straight line basis at the following annual rates :-

|                                |                        |
|--------------------------------|------------------------|
| Furniture and fixtures         | 10%                    |
| Office machinery and equipment | 20%                    |
| Leasehold improvements         | Over the term of lease |

(c) Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong Dollars at the rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into Hong Kong Dollars at the rates of exchange ruling at the dates of the transactions.

All exchange differences arising from the above are included in the profit and loss statement.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on actual basis.

(e) Deferred Taxation

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future.

**MICHAEL YAM & CO.**



**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002**  
**(CONTINUED)**

1. PRINCIPAL ACCOUNTING POLICIES (CONT D)

(f) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposit held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

(g) Retirement Benefits

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme ( the Scheme ) under the Mandatory Provident Fund Schemes Ordinance, for all its employees. The Scheme was effective from December 1, 2000. Contributions to the Scheme are based on a percentage of the employees basic salaries and are recognised as an expense in the profit and loss statement.

(h) Operating Leases

Payments under operating leases are charged to the profit and loss statement on a straight line basis over the period of the respective leases.

(i) Revenue Recognition

Sales are recognised as revenue when the risks and rewards of ownership of the goods have passed to customers. Bank interest earned is recognised on an accrual basis.

2. TURNOVER

Turnover represents gross sales less returns.

**MICHAEL YAM & CO.**

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002  
(Continued)

## 3. PROFIT BEFORE TAXATION

Profit before taxation is arrived at

|   | 2002       | 2001         |
|---|------------|--------------|
| after charging :-   |            |              |
| Auditors remuneration                                       | \$ 52,000  | \$ 52,000    |
| Depreciation  | 521,132    | 334,190      |
| Fixed assets written off                                    | 40,478     | 17,621       |
| Rental payable on land and buildings under operating leases | 1,670,385  | 926,040      |
| Retirement benefit costs                                    | 300,431    | 266,264      |
| and crediting :-  |            |              |
| Bank interest earned  | \$ 492,384 | \$ 1,665,138 |
| Exchange gain   | 37,720     | 114,021      |

## 4. DIRECTORS EMOLUMENTS

The aggregate amounts of the Directors emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows :-

|              | 2002         | 2001         |
|--------------|--------------|--------------|
| As director  | \$ -0-       | \$ -0-       |
| As executive | 1,287,000    | 1,259,800    |
|              | \$ 1,287,000 | \$ 1,259,800 |

**MICHAEL YAM & CO.**

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002  
(Continued)

## 5. TAXATION

|                              | 2002         | 2001         |
|------------------------------|--------------|--------------|
| Hong Kong profits tax        |              |              |
| Provision for the year       | \$ 5,335,000 | \$ 4,440,000 |
| Over-provision in prior year | (4,821)      | (1,225)      |
|                              | \$ 5,330,179 | \$ 4,438,775 |

Provision for Hong Kong profits tax has been calculated by applying the statutory rate of taxation of 16% (2001 16%) to the estimated assessable profits of the Company which were derived from Hong Kong during the reporting year. No deferred taxation is recorded in the financial statements as there is no material timing difference.

## 6. FIXED ASSETS

|                           | Furniture<br>and<br>Fixtures | Office<br>Machinery<br>and<br>Equipment | Leasehold<br>Improvements | Total        |
|---------------------------|------------------------------|---|---------------------------|--------------|
| Cost                      |                              |   |                           |              |
| At January 1, 2002        | \$ 242,176                   | \$ 1,090,311                            | \$ 1,181,990              | \$ 2,514,477 |
| Additions during the year | 161,970                      | 326,431                                 | 1,222,548                 | 1,710,949    |
| Disposals during the year | (5,515)                      | (64,838)                                | (1,206,845)               | (1,277,198)  |
| At December 31, 2002      | 398,631                      | 1,351,904                               | 1,197,693                 | 2,948,228    |
| Accumulated Depreciation  |                              |   |                           |              |
| At January 1, 2002        | 170,868                      | 481,008                                 | 1,156,111                 | 1,807,987    |
| Charge for the year       | 28,543                       | 240,437                                 | 252,152                   | 521,132      |
| Written back on disposals | (5,513)                      | (55,830)                                | (1,175,377)               | (1,236,720)  |
| At December 31, 2002      | 193,898                      | 665,615                                 | 232,886                   | 1,092,399    |
| Net Book Value            |                              |   |                           |              |
| At December 31, 2002      | \$ 204,733                   | \$ 686,289                              | \$ 964,807                | \$ 1,855,829 |
| At December 31, 2001      | \$ 71,308                    | \$ 609,303                              | \$ 25,879                 | \$ 706,490   |

**MICHAEL YAM & CO.**

- 13 -

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**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002  
 (CONTINUED)

## 7. SHARE CAPITAL

|  | 2002         | 2001         |
|--|--------------|--------------|
| Authorised capital 100,000 shares of HK\$10.00 each            | \$ 1,000,000 | \$ 1,000,000 |
| Issued and fully paid capital 100,000 shares of HK\$10.00 each | \$ 1,000,000 | \$ 1,000,000 |

## 8. COMMITMENTS UNDER OPERATING LEASES

At December 31, 2002, the Company had future aggregate minimum lease payments on land and buildings under non-cancellable leases as follows :-

|   | 2002         | 2001         |
|---|--------------|--------------|
| Not later than one year                           | \$ 1,744,025 | \$ 1,432,080 |
| Later than one year and not later than five years | 2,682,585    | 596,700      |
|   | \$ 4,426,610 | \$ 2,028,780 |

**MICHAEL YAM & CO.**

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002  
(Continued)

9. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

|  | 2002          | 2001          |
|--|---------------|---------------|
| Profit before taxation                             | \$ 33,851,567 | \$ 29,704,363 |
| Adjustments for :-                                 |               |               |
| Bank interest earned                               | (492,384)     | (1,665,138)   |
| Depreciation                                       | 521,132       | 334,190       |
| Fixed assets written off                           | 40,478        | 17,621        |
| Operating profit before working capital changes    | 33,920,793    | 28,391,036    |
| Change in bills receivable                         | (19,791,915)  | (592,693)     |
| Change in accounts receivable                      | (1,241,323)   | (2,608,267)   |
| Change in prepayments, rental and utility deposits | (339,519)     | 88,068        |
| Change in trade deposits                           | 2,769,011     | (3,000,000)   |
| Change in inventories                              | 10,079        | 4,078,227     |
| Change in accounts payable and accrued charges     | 42,138,336    | (17,290,125)  |
| Cash generated from operations                     | 57,465,462    | 9,066,246     |
| Hong Kong profits tax paid                         | (3,316,583)   | (8,206,136)   |
| Net cash inflow from operating activities          | \$ 54,148,879 | \$ 860,110    |

10. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current year's presentation. This had no effect on the profit reported in the 2001 profit and loss statement.

**MICHAEL YAM & CO.**

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**  
(Amounts Expressed In Hong Kong Dollars)

|   | 2002           | 2001          |
|---|----------------|---------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 9)    | \$ 54,148,879  | \$ 860,110    |
| INVESTMENTS ACTIVITIES                                |                |               |
| Purchase of fixed assets                              | \$ (1,710,949) | \$ (631,330)  |
| Bank interest earned                                  | 492,384        | 1,665,138     |
| NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES   | (1,218,565)    | 1,033,808     |
| NET CASH INFLOW BEFORE FINANCING                      | 52,930,314     | 1,893,918     |
| FINANCING ACTIVITIES                                  |                |               |
| Final dividend paid                                   | (28,988,250)   | (17,211,750)  |
| Interim dividend paid                                 | (28,700,000)   | -0-           |
| NET CASH OUTFLOW FROM FINANCING                       | (57,688,250)   | (17,211,750)  |
| DECREASE IN CASH AND CASH EQUIVALENTS                 | (4,757,936)    | (15,317,832)  |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR    | 67,810,576     | 83,128,408    |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR          | \$ 63,052,640  | \$ 67,810,576 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS |                |               |
| Cash at bank and in hand                              | \$ 63,052,640  | \$ 36,610,576 |
| Time deposits   | -0-            | 31,200,000    |
|   | \$ 63,052,640  | \$ 67,810,576 |

**MICHAEL YAM & CO.**

**Table of Contents**

(FOR MANAGEMENT PURPOSES ONLY)

**ARBOR TOYS COMPANY LIMITED**  
**DETAILED PROFIT AND LOSS STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**  
(Amounts Expressed In Hong Kong Dollars)

|                |  |             |               |
|----------------|--|-------------|---------------|
| 01/01/2001     |  |             |               |
| to             |  |             |               |
| 12/31/2001     |  |             |               |
| \$ 504,594,262 | SALES                                    |             | \$661,475,210 |
|                | LESS : COST OF SALES                     |             |               |
| 4,088,306      | Opening inventories                      | \$ 10,079   |               |
| 348,910,298    | Purchases                                | 460,202,725 |               |
| 352,998,604    |  | 460,212,804 |               |
| 10,079         | Less : Closing inventories               | -0-         |               |
| 352,988,525    |  |             | 460,212,804   |
| 151,605,737    |  |             | 201,262,406   |
|                | LESS : DIRECT COSTS                      |             |               |
| 19,340         | Packaging charges                        | 17,099      |               |
| 10,506,528     | Transportation                           | 15,186,561  |               |
| 10,525,868     |  |             | 15,203,660    |
| 141,079,869    | GROSS PROFIT                             |             | 186,058,746   |
|                | ADD : OTHER INCOME                       |             |               |
| 1,665,138      | Bank interest earned                     | 492,384     |               |
| 114,021        | Exchange gain                            | 37,720      |               |
| 189,727        | Miscellaneous income                     | 2,956,611   |               |
| 54,667         | Provision for pension funds written back | -0-         |               |
| 2,023,553      |  |             | 3,486,715     |



|               |                                     |               |
|---------------|-------------------------------------|---------------|
| 143,103,422   |                                     | 189,545,461   |
|               | LESS : SELLING EXPENSES             |               |
| 1,518,467     | Bank charges                        | 1,622,428     |
| 100,003,971   | Commission paid                     | 139,878,221   |
| 123,874       | Customs declaration charges         | 211,443       |
| 1,230,000     | Design fees                         | 1,230,000     |
| -0-           | Sample charges                      | 7,292         |
| 102,876,312   |                                     | 142,949,384   |
| 40,227,110    |                                     | 46,596,077    |
|               | LESS: GENERAL AND<br>ADMINISTRATIVE |               |
| 10,522,747    | EXPENSES (Page 18)                  | 12,744,510    |
| \$ 29,704,363 | PROFIT BEFORE TAXATION              | \$ 33,851,567 |

**MICHAEL YAM & CO.**

- 17 -

**Table of Contents**

(FOR MANAGEMENT PURPOSES ONLY)

ARBOR TOYS COMPANY LIMITED  
GENERAL AND ADMINISTRATIVE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2002  
(Amounts Expressed In Hong Kong Dollars)

|              |                               |               |
|--------------|-------------------------------|---------------|
| 01/01/2001   |                               |               |
| to           |                               |               |
| 12/31/2001   |                               |               |
| \$ 52,000    | Auditors remuneration         | \$ 52,000     |
| 51,724       | Claims paid                   | 7,370         |
| 25,800       | Cleaning expenses             | 27,700        |
| 334,190      | Depreciation                  | 521,132       |
| 1,259,800    | Directors emoluments          | 1,263,000     |
| 58,253       | Electricity                   | 78,604        |
| 84,130       | Entertainment                 | 116,847       |
| 17,621       | Fixed assets written off      | 40,478        |
| 92,261       | Insurance                     | 114,605       |
| 16,500       | Legal and professional fees   | 20,000        |
| 157,452      | Local travelling              | 161,003       |
| 266,264      | Provident funds               | 300,431       |
| 86,508       | Miscellaneous expenses        | 95,390        |
| 144,071      | Overseas travelling           | 116,186       |
| -0-          | Provision for pension funds   | 146,678       |
| 270,994      | Printing and stationery       | 335,673       |
| 1,289,420    | Rent and rates                | 2,129,716     |
| 30,613       | Repairs and maintenance       | 41,591        |
| 6,193,802    | Salaries                      | 7,074,312     |
| 91,344       | Telecommunication and postage | 101,794       |
|              |                               |               |
| \$10,522,747 |                               | \$ 12,744,510 |

**MICHAEL YAM & CO.**

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
**MICHAEL YAM & COMPANY**  
*Certified Public Accountants*  
**HONG KONG**

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**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**CONTENTS**

|                                       | Page  |
|---------------------------------------|-------|
| <u>Company Information</u>            | 2     |
| <u>Report of the Directors</u>        | 3-4   |
| <u>Report of the Auditors</u>         | 5-6   |
| <u>Balance Sheet</u>                  | 7     |
| <u>Profit and Loss Statement</u>      | 8     |
| <u>Statement of Changes in Equity</u> | 9     |
| <u>Notes to Financial Statements</u>  | 10-16 |
| <u>Cash Flow Statement</u>            | 17    |
| Detailed Profit and Loss Statement    | 18-19 |
| <b>MICHAEL YAM &amp; CO.</b>          |       |

---

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**COMPANY INFORMATION**

**DIRECTORS**

Mr. Geoffrey Robert Greenberg

Mr. Ho Chiu Ming

Mr. Ho Wai Kam Jimmy

M. Y. Director No. 1 Limited

**SECRETARY**

M. Y. Secretaries Limited

23rd Floor

Wing Hang Finance Centre

60 Gloucester Road

Wanchai

HONG KONG

**REGISTERED OFFICE**

Suite 816

Chinachem Golden Plaza

77 Mody Road

Tsimshatsui East

Kowloon

HONG KONG

**COMPANY NUMBER**

265154

**AUDITORS**

Michael Yam & Company

23rd Floor

Wing Hang Finance Centre

60 Gloucester Road

Wanchai

HONG KONG

**MICHAEL YAM & CO.**

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**REPORT OF THE DIRECTORS**

The Directors present their annual report and the audited financial statements for the year ended December 31, 2004.

1. **PRINCIPAL ACTIVITY**

The Company's principal activity is trading in toys and related products.

2. **FINANCIAL STATEMENTS**

The profit of the Company for the year ended December 31, 2004 and the state of the Company's affairs at that date are set out in the financial statements on pages 7 to 17.

3. **DIVIDEND AND RESERVE** .

The Director recommend the declaration of a final dividend of HK\$333 per ordinary share, totalling HK\$33,300,000.

The Directors do not recommend the transfer of any amount to reserve for the year ended December 31,2004.

4. **FIXED ASSETS**

Movements in fixed assets during the year are set out in note 7 to the financial statements.

5. **DIRECTORS**

During the year and up to the date of this report, the following Directors held office :-

Mr. Geoffrey Robert Greenberg

Mr. Ho Chiu Ming

Mr. Ho Wai Kara Jimmy

M. Y. Director No. 1 Limited

In accordance with the Company's Articles of Association, all the Directors retire from the Board and, being eligible, offer themselves for re-election.

**MICHAEL YAM & CO.**

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**REPORT OF THE DIRECTORS**  
(CONTINUED)

6. **DIRECTORS INTERESTS IN CONTRACTS**

No contracts of significance to which the Company was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

7. **DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year was the Company a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

8. **AUDITORS**

Michael Yam & Company have expressed their willingness to continue as Auditors of the Company.

9. **OTHER MATTERS**

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

FOR AND ON BEHALF OF THE BOARD

/s/ Ho Chiu Ming

CHAIRMAN/SECRETARY

DATE: 30 JUN 2005  
MICHAEL YAM & CO.

**Table of Contents**

MICHAEL YAM & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
23RD FLOOR, WING HANG FINANCE CENTRE  
60 GLOUCESTER ROAD, WANCHAI, HONG KONG  
TEL: (852) 2529 9301 FAX: (852) 2529 7920 EMAIL: mychk@myc.com.hk  
AUDITORS REPORT TO THE SHAREHOLDERS OF  
ARBOR TOYS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 7 to 17 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

- 5 -

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**Table of Contents**

MICHAEL YAM & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
23RD FLOOR, WING HANG FINANCE CENTRE  
60 GLOUCESTER ROAD, WANCHAI, HONG KONG  
TEL: (852) 2529 9301 FAX: (852) 2529 7920 EMAIL: mychk@myc.com.hk  
AUDITORS REPORT TO THE SHAREHOLDERS OF  
ARBOR TOYS COMPANY LIMITED  
(Incorporated in Hong Kong with limited liability)  
(CONTINUED)

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at December 31, 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

MICHAEL YAM & COMPANY

/s/ Michael Yam & Company

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG : 30 JUN 2005

- 6 -

---

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
BALANCE SHEET AS AT DECEMBER 31, 2004  
(Amounts Expressed In Hong Kong Dollars)

12/31/2003

## CURRENT ASSETS

|                |  |                |                |
|----------------|--|----------------|----------------|
| \$ 106,823,615 | Cash                                     | \$ 120,644,769 |                |
| 11,275,307     | Time deposits                            | -0-            |                |
| 40,058,322     | Bills receivable                         | 43,428,700     |                |
| 15,862,320     | Accounts receivable                      | 35,591,175     |                |
| 6,920,049      | Prepayments, rental and utility deposits | 8,171,302      |                |
| 26,832         | Trade deposits                           | -0-            |                |
| 180,966,445    |  |                | \$ 207,835,946 |
| 1,368,217      | FIXED ASSETS (Note 7)                    |                | 965,387        |
| \$ 182,334,662 |  |                | \$ 208,801,333 |

## CURRENT LIABILITIES

|                |                                      |                |                |
|----------------|--------------------------------------|----------------|----------------|
| \$ 112,518,632 | Accounts payable and accrued charges | \$ 124,626,989 |                |
| 7,086,124      | Provision for taxation               | 8,790,052      |                |
| 119,604,756    |                                      |                | \$ 133,417,041 |

## SHAREHOLDERS EQUITY

|            |                         |            |            |
|------------|-------------------------|------------|------------|
| 1,000,000  | Share capital (Note 8)  | 1,000,000  |            |
| 33,303,906 | Retained profits        | 41,084,292 |            |
| 28,426,000 | Proposed final dividend | 33,300,000 |            |
| 62,729,906 |                         |            | 75,384,292 |

THE FINANCIAL STATEMENTS ON PAGES 7 TO 17 WERE APPROVED  
AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON  
30 JUN 2005

|                |  |  |                |
|----------------|--|--|----------------|
| \$ 182,334,662 |  |  | \$ 208,801,333 |
|----------------|--|--|----------------|

**MICHAEL YAM & CO.**

/s/ Geoffrey Robert Greenberg

DIRECTOR

/s/ Ho Chiu

Ming

DIRECTOR

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**PROFIT AND LOSS STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
(Amounts Expressed In Hong Kong Dollars)

|                |                                 |                |
|----------------|---------------------------------|----------------|
| 01/01/2003     |                                 |                |
| to             |                                 |                |
| 12/31/2003     |                                 |                |
| \$ 748,476,591 | TURNOVER (Note 2)               | \$ 994,199,406 |
| 298,668        | OTHER REVENUE                   | 107,707        |
| (526,001,772)  | PURCHASES AND DIRECT COSTS      | (703,180,885)  |
| (168,220,674)  | SELLING EXPENSES                | (224,813,387)  |
| (9,950,722)    | STAFF COSTS                     | (11,367,306)   |
| (708,359)      | DEPRECIATION AND AMORTISATION   | (784,737)      |
| (3,687,484)    | OTHER OPERATING EXPENSES        | (4,290,360)    |
| 40,206,248     | PROFIT BEFORE TAXATION (Note 3) | 49,870,438     |
| (7,087,385)    | TAXATION (Note 5)               | (8,790,052)    |
| \$ 33,118,863  | PROFIT AFTER TAXATION           | \$ 41,080,386  |
| \$ 28,426,000  | DIVIDENDS (Note 6)              | \$ 33,300,000  |

**MICHAEL YAM & CO.**

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

(Amounts Expressed In Hong Kong Dollars)

|                              | SHARE<br>CAPITAL | RETAINED<br>PROFITS | PROPOSED<br>DIVIDENDS | TOTAL         |
|------------------------------|------------------|---------------------|-----------------------|---------------|
| AT JANUARY 1, 2003           | \$ 1,000,000     | \$ 28,611,043       | \$ -0-                | \$ 29,611,043 |
| PROFIT FOR THE YEAR          | -0-              | 33,118,863          | -0-                   | 33,118,863    |
| 2003 FINAL DIVIDEND PROPOSED | -0-              | (28,426,000)        | 28,426,000            | -0-           |
| AT DECEMBER 31, 2003         | \$ 1,000,000     | \$ 33,303,906       | \$ 28,426,000         | \$ 62,729,906 |
| AT JANUARY 1, 2004           | \$ 1,000,000     | \$ 33,303,906       | \$ 28,426,000         | \$ 62,729,906 |
| 2003 FINAL DIVIDEND PAID     | -0-              | -0-                 | (28,426,000)          | (28,426,000)  |
| PROFIT FOR THE YEAR          | -0-              | 41,080,386          | -0-                   | 41,080,386    |
| 2004 FINAL DIVIDEND PROPOSED | -0-              | (33,300,000)        | 33,300,000            | -0-           |
| AT DECEMBER 31, 2004         | \$ 1,000,000     | \$ 41,084,292       | \$ 33,300,000         | \$ 75,384,292 |

**MICHAEL YAM & CO.**

- 9 -

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**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**

**NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004**

**1. PRINCIPAL ACCOUNTING POLICIES**

(a) Basis of Accounting

The financial statements on pages 7 to 17 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ( SSAP ) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants which does not differ significantly from accounting principles generally accepted in the United States of America ( US GAAP ) except that certain disclosures as required under US GAAP have not been included in these financial statements. The financial statements are prepared under the historical cost convention.

(b) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight line basis at the following annual rates :-

|                                |                        |
|--------------------------------|------------------------|
| Furniture and fixtures         | 10%                    |
| Office machinery and equipment | 20%                    |
| Leasehold improvements         | Over the term of lease |

(c) Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong Dollars at the rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into Hong Kong Dollars at the rates of exchange ruling at the dates of the transactions.

All exchange differences arising from the above are included in the profit and loss statement.

(d) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposit held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

**MICHAEL YAM & CO.**

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004**  
**(CONTINUED)**

1. PRINCIPAL ACCOUNTING POLICIES (CONT D)

(e) Deferred Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(f) Employee Benefits

(i) Long Service Payments

The Company's net obligation in respect of long service payment under the Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated according to the provision of the above Ordinance.

(ii) Retirement Benefits

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme ( the Scheme ) under the Mandatory Provident Fund Schemes Ordinance, for all its employees. Contributions to the Scheme are based on a percentage of the employees' basic salaries and are recognised as an expense in the profit and loss statement.

(g) Operating Leases

Payments under operating leases are charged to the profit and loss statement on a straight line basis over the period of the respective leases.

(h) Revenue Recognition

Sales are recognised as revenue when the risks and rewards of ownership of the goods have passed to customers. Bank interest earned is recognised on an accrual basis.

**MICHAEL YAM & CO.**

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004**  
**(CONTINUED)**

**2. TURNOVER**

Turnover represents gross sales less returns.

**3. PROFIT BEFORE TAXATION**

Profit before taxation is arrived at

|   | 2004      | 2003      |
|---|-----------|-----------|
| after charging :-   |           |           |
| Auditors remuneration                                       | \$ 52,000 | \$ 52,000 |
| Depreciation  | 784,738   | 708,359   |
| Fixed assets written off                                    | 41,053    | 2,403     |
| Rental payable on land and buildings under operating leases | 1,987,565 | 1,744,025 |
| Retirement benefit costs                                    | 337,186   | 278,230   |

and crediting :-

|                      |           |           |
|----------------------|-----------|-----------|
| Bank interest earned | \$ 51,818 | \$ 71,883 |
| Exchange gain        | 36,874    | 22,984    |

**4. DIRECTORS EMOLUMENTS**

The aggregate amounts of the Directors emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows :-

|              | 2004         | 2003         |
|--------------|--------------|--------------|
| As director  | \$ -0-       | \$ -0-       |
| As executive | 1,419,000    | 1,396,500    |
|              | \$ 1,419,000 | \$ 1,396,500 |

**MICHAEL YAM & CO.**



**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004  
(Continued)

## 5. TAXATION

|                                      | 2004         | 2003         |
|--------------------------------------|--------------|--------------|
| Hong Kong profits tax                |              |              |
| Provision for current year           | \$ 8,790,052 | \$ 7,086,124 |
| Under/(Over)-provision in prior year | -0-          | 1,261        |
|                                      | \$ 8,790,052 | \$ 7,087,385 |

The provision for Hong Kong profits tax has been calculated by applying the statutory rate of taxation of 17.5% (2003 17.5%) to the estimated assessable profits of the Company which were derived from Hong Kong during the reporting year.

No provision for deferred taxation has been made in the financial statements as the effect of temporary differences is insignificant.

Reconciliation between taxation expense and accounting profit at applicable taxation rates :-

|   | 2004          | 2003          |
|---|---------------|---------------|
| Profit before taxation  | \$ 49,870,438 | \$ 40,206,248 |
| Tax at taxation tax rate of 17.5%   | \$ 8,727,326  | \$ 7,036,093  |
| Tax effect of expenses that are not deductible in determining taxable profits | 155,013       | 134,768       |
| Tax effect on income that is not assessable in determining taxable profits    | (9,068)       | (30,974)      |
| Tax effect on allowances claimed  | (83,219)      | (53,763)      |
| Under-provision in prior years  | -0-           | 1,261         |
| Taxation expense for the year   | \$ 8,790,052  | \$ 7,087,385  |

**MICHAEL YAM & CO.**

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004  
(Continued)

## 6. DIVIDENDS

|   | 2004          | 2003          |
|---|---------------|---------------|
| Proposed final dividend of HK\$333.00<br>(2003 HK\$284.26) per ordinary share | \$ 33,300,000 | \$ 28,426,000 |

## 7. FIXED ASSETS

|                                     | Furniture<br>and<br>Fixtures | Office<br>Machinery<br>and<br>Equipment | Leasehold<br>Improvements | Total            |
|-------------------------------------|------------------------------|---|---------------------------|------------------|
| <b>Cost</b>                         |                              |   |                           |                  |
| At January 1, 2004                  | \$ 400,831                   | \$ 1,474,031                            | \$ 1,236,076              | \$ 3,110,938     |
| Additions during the year           | 26,358                       | 367,545                                 | 29,058                    | 422,961          |
| Disposals during the year           | (5,310)                      | (250,171)                               | -0-                       | (255,481)        |
| <br>At December 31, 2004            | <br>421,879                  | <br>1,591,405                           | <br>1,265,134             | <br>3,278,418    |
| <br><b>Accumulated Depreciation</b> |                              |   |                           |                  |
| At January 1, 2004                  | 222,659                      | 872,974                                 | 647,088                   | 1,742,721        |
| Charge for the year                 | 30,576                       | 321,455                                 | 432,707                   | 784,738          |
| Written back on disposals           | (5,309)                      | (209,119)                               | -0-                       | (214,428)        |
| <br>At December 31, 2004            | <br>247,926                  | <br>985,310                             | <br>1,079,795             | <br>2,313,031    |
| <br><b>Net Book Value</b>           |                              |   |                           |                  |
| At December 31, 2004                | \$ 173,953                   | \$ 606,095                              | \$ 185,339                | \$ 965,387       |
| <br>At December 31, 2003            | <br>\$ 178,172               | <br>\$ 601,057                          | <br>\$ 588,988            | <br>\$ 1,368,217 |

**MICHAEL YAM & CO.**

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004  
 (CONTINUED)

## 8. SHARE CAPITAL

|                                  | 2004         | 2003         |
|----------------------------------|--------------|--------------|
| Authorised capital               |              |              |
| 100,000 shares of HK\$10.00 each | \$ 1,000,000 | \$ 1,000,000 |
| Issued and fully paid capital    |              |              |
| 100,000 shares of HK\$10.00 each | \$ 1,000,000 | \$ 1,000,000 |

## 9. COMMITMENTS UNDER OPERATING LEASES

At December 31, 2004, the Company had future aggregate minimum lease payments on land and buildings under non-cancellable leases as follows :-

|   | 2004       | 2003         |
|---|------------|--------------|
| Not later than one year                           | \$ 695,020 | \$ 1,987,565 |
| Later than one year and not later than five years | - 0 -      | 695,020      |
|   | \$ 695,020 | \$ 2,682,585 |

## 10. MATERIAL COMMITMENTS

At December 31, 2004, the Company had committed to purchase merchandise for an amount of approximately \$244,969 (2003 nil).

**MICHAEL YAM & CO.**

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004  
 (CONTINUED)

11. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

|  | 2004          | 2003          |
|--|---------------|---------------|
| Profit before taxation                             | \$ 49,870,438 | \$ 40,206,248 |
| Adjustments for :-                                 |               |               |
| Bank interest earned                               | (51,818)      | (71,883)      |
| Depreciation                                       | 784,738       | 708,359       |
| Fixed assets written off                           | 41,053        | 2,403         |
| Operating profit before working capital changes    | 50,644,411    | 40,845,127    |
| Change in bills receivable                         | (3,370,378)   | (6,219,856)   |
| Change in accounts receivable                      | (19,728,855)  | (5,878,248)   |
| Change in prepayments, rental and utility deposits | (1,665)       | (276,648)     |
| Change in trade deposits                           | 26,832        | 204,157       |
| Change in accounts payable and accrued charges     | 12,108,357    | 33,260,635    |
| Cash generated from operations                     | 39,678,702    | 61,935,167    |
| Hong Kong profits tax paid                         | (8,335,712)   | (6,737,618)   |
| Net cash inflow from operating activities          | \$ 31,342,990 | \$ 55,197,549 |

**MICHAEL YAM & CO.**

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
(Amounts Expressed In Hong Kong Dollars)

|   | 2004           | 2003           |
|---|----------------|----------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 11)   | \$ 31,342,990  | \$ 55,197,549  |
| INVESTMENTS ACTIVITIES                                |                |                |
| purchase of fixed assets                              | \$ (422,961)   | \$ (226,950)   |
| Sales proceeds of fixed assets                        | - 0 -          | 3,800          |
| Bank interest earned                                  | 51,818         | 71,883         |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES            | (371,143)      | (151,267)      |
| NET CASH INFLOW BEFORE FINANCING                      | 30,971,847     | 55,046,282     |
| FINANCING ACTIVITIES                                  |                |                |
| Final dividend paid                                   | (28,426,000)   | - 0 -          |
| NET CASH OUTFLOW FROM FINANCING                       | (28,426,000)   | - 0 -          |
| INCREASE IN CASH AND CASH EQUIVALENTS                 | 2,545,847      | 55,046,282     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR    | 118,098,922    | 63,052,640     |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR          | \$ 120,644,769 | \$ 118,098,922 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS |                |                |
| Cash at bank and in hand                              | \$ 120,644,769 | \$ 106,823,615 |
| Time deposits   | - 0 -          | 11,275,307     |
|   | \$ 120,644,769 | \$ 118,098,922 |

**MICHAEL YAM & CO.**

**Table of Contents**

(FOR MANAGEMENT PURPOSES ONLY)

**ARBOR TOYS COMPANY LIMITED**  
**DETAILED PROFIT AND LOSS STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
(Amounts Expressed In Hong Kong Dollars)

|                   |  |            |               |
|-------------------|--|------------|---------------|
| 01/01/2003        |  |            |               |
| to                |  |            |               |
| <u>12/31/2003</u> |  |            |               |
| \$748,476,591     | SALES                                    |            | \$994,199,406 |
|                   |  |            |               |
|                   | LESS : COST OF SALES                     |            |               |
| 510,079,989       | Purchases                                |            | 684,312,480   |
|                   |  |            |               |
| 238,396,602       |  |            | 309,886,926   |
|                   |  |            |               |
|                   | LESS : DIRECT COSTS                      |            |               |
| 12,994            | Packaging charges                        | \$ 14,479  |               |
| 15,908,789        | Transportation                           | 18,853,926 |               |
|                   |  |            |               |
| 15,921,783        |  |            | 18,868,405    |
|                   |  |            |               |
| 222,474,819       | GROSS PROFIT                             |            | 291,018,521   |
|                   |  |            |               |
|                   | ADD : OTHER INCOME                       |            |               |
| 71, 883           | Bank interest earned                     | 51,818     |               |
| 22,984            | Exchange gain                            | 36,874     |               |
| 98,690            | Miscellaneous income                     | 19,015     |               |
| 105,111           | Provision for pension funds written back | - 0 -      |               |
|                   |  |            |               |
| 298,668           |  |            | 107,707       |
|                   |  |            |               |
| 222,773,487       |  |            | 291,126,228   |
|                   |  |            |               |
|                   | LESS : SELLING EXPENSES                  |            |               |
| 1,653,804         | Bank charges                             | 2,654, 892 |               |

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|               |                                   |               |
|---------------|-----------------------------------|---------------|
| 165,155,690   | Commission paid                   | 220,702,290   |
| 181,180       | Customs declaration charges       | 226,205       |
| 1,230,000     | Design fees                       | 1,230,000     |
| 168,220,674   |                                   | 224,813,387   |
| 54,552,813    |                                   | 66,312,841    |
|               | LESS : GENERAL AND ADMINISTRATIVE |               |
| 14,346,565    | EXPENSES (Page 19)                | 16,442,403    |
| \$ 40,206,248 | PROFIT BEFORE TAXATION            | \$ 49,870,438 |

**MICHAEL YAM & CO.**

- 18 -

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**Table of Contents**

(FOR MANAGEMENT PURPOSES ONLY)

**ARBOR TOYS COMPANY LIMITED**  
**GENERAL AND ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
(Amounts Expressed In Hong Kong Dollars)

01/01/2003

to

12/31/2003

|               |                               |               |
|---------------|-------------------------------|---------------|
| \$ 52,000     | Auditors remuneration         | \$ 52,000     |
| 5,625         | Claims paid                   | 3,918         |
| 30,300        | Cleaning expenses             | 31,200        |
| 708,359       | Depreciation                  | 784,738       |
| 1,372,500     | Directors emoluments          | 1,395,000     |
| 107,832       | Electricity                   | 118,688       |
| 40,369        | Entertainment                 | 116,765       |
| 2,403         | Fixed assets written off      | 41,053        |
| 145,138       | Insurance                     | 134,584       |
| 19,433        | Legal and professional fees   | 14,500        |
| 187,499       | Local travelling              | 219,322       |
| 128,126       | Miscellaneous expenses        | 123,632       |
| 109,109       | Overseas travelling           | 90,017        |
| 455,710       | Printing and stationery       | 654,286       |
| 278,230       | Provident funds               | 377,186       |
| - 0 -         | Provision for pension funds   | 60,000        |
| 2,237,035     | Rent and rates                | 2,515,275     |
| 64,823        | Repairs and maintenance       | 68,849        |
| 8,299,992     | Salaries                      | 9,535,120     |
| 102,082       | Telecommunication and postage | 106,270       |
| <br>          |                               |               |
| \$ 14,346,565 |                               | \$ 16,442,403 |

**MICHAEL YAM & CO.**

- 19 -



**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**

**SEPTEMBER 30, 2005**

(Unaudited)

CONTENTS

|  | Page |
|--|------|
| Financial statements:                            |      |
| Balance sheets                                   | 1    |
| Statements of income                             | 2    |
| Statements of retained earnings                  | 3    |
| Statements of cash flows                         | 4-5  |
| Notes to financial statements                    | 6-9  |
| Supplementary information:                       |      |
| Schedules of general and administrative expenses | 10   |

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Table of ContentsCREATIVE DESIGNS INTERNATIONAL, LTD.BALANCE SHEETSSEPTEMBER 30, 2005 AND 2004ASSETS

|   | 2005<br>(Unaudited) | 2004<br>(Unaudited) |
|---|---------------------|---------------------|
| Current assets  |                     |                     |
| Cash  | \$ 4,196,327        | \$ 1,526,042        |
| Accounts receivable trade                               | 10,527,086          | 12,038,230          |
| Accounts receivable affiliate                           | 34,546,940          | 18,724,890          |
| Miscellaneous receivable                                | 1,258               | 283,081             |
| Due from affiliates                                     | 6,404               |                     |
| Inventory   | 5,532,816           | 4,695,841           |
| Prepaid expenses  | 123,555             | 38,140              |
| <br>  |                     |                     |
| Total current assets                                    | 54,934,386          | 37,306,224          |
| <br>  |                     |                     |
| Property and equipment, net of accumulated depreciation | 2,386,194           | 2,258,629           |
| <br>  |                     |                     |
| Total assets  | \$ 57,320,580       | \$ 39,564,853       |

LIABILITIES AND STOCKHOLDERS EQUITY

|  | 2005         | 2004         |
|--|--------------|--------------|
| Current liabilities  |              |              |
| Loans payable officers   | \$ 5,543,000 | \$ 2,500,000 |
| Accounts payable trade   | 680,341      | 173,703      |
| Accounts payable affiliate   | 16,451,923   | 12,190,640   |
| Rebates payable  | 948,755      | 1,147,500    |
| Accrued royalties  | 6,087,413    | 3,625,953    |
| Accrued commissions  | 1,477,856    | 1,294,711    |
| Accrued state and local taxes  | 1,052,203    | 109,476      |
| Advertising advances   | 1,171,519    |              |
| <br>   |              |              |
| Total current liabilities  | 33,413,010   | 21,041,983   |
| <br>   |              |              |
| Stockholders equity  |              |              |
| Common stock no par value; 200 shares authorized, issued and outstanding | 2,000        | 2,000        |
| Retained earnings  | 23,905,570   | 18,520,870   |
| <br>   |              |              |
| Total stockholders equity  | 23,907,570   | 18,522,870   |

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|   |               |               |
|---|---------------|---------------|
| Total liabilities and stockholders equity | \$ 57,320,580 | \$ 39,564,853 |
|---|---------------|---------------|

See accompanying notes to financial statements.

1

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**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**STATEMENTS OF INCOME**  
**NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**

|   | 2005<br>(Unaudited) | 2004<br>(Unaudited) |
|---|---------------------|---------------------|
| Revenues                                |                     |                     |
| Commission income                       | \$ 32,426,886       | \$ 20,276,949       |
| Sales                                   | 18,636,966          | 16,591,845          |
| Design fee                              | 123,000             | 123,000             |
|   | 51,186,852          | 36,991,794          |
| Direct costs                            |                     |                     |
| Cost of sales                           | 14,966,397          | 10,902,119          |
| Direct selling costs                    | 12,100,166          | 7,776,546           |
| Product development costs               | 895,482             | 619,168             |
|   | 27,962,045          | 19,297,833          |
| Gross profit                            | 23,224,807          | 17,693,961          |
| General and administrative expenses     | 3,677,413           | 2,319,810           |
| Income before other income and expenses | 19,547,394          | 15,374,151          |
| Other income and expenses               |                     |                     |
| Interest income                         | 96,497              | 34,260              |
| Depreciation                            | (652,177)           | (394,422)           |
|   | (555,680)           | (360,162)           |
| Net income                              | \$ 18,991,714       | \$ 15,013,989       |

See accompanying notes to financial statements.

**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**STATEMENTS OF RETAINED EARNINGS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**

|                       | 2005<br>(Unaudited) | 2004<br>(Unaudited) |
|-----------------------|---------------------|---------------------|
| Balance, January 1    | \$ 25,009,466       | \$ 20,506,881       |
| Net income            | 18,991,714          | 15,013,989          |
|                       | 44,001,180          | 35,520,870          |
| Less distributions    | 20,095,610          | 17,000,000          |
| Balance, September 30 | \$ 23,905,570       | \$ 18,520,870       |

See accompanying notes to financial statements.

3

---

**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

|   | 2005<br>(Unaudited) | 2004<br>(Unaudited) |
|---|---------------------|---------------------|
| Cash flows from operating activities  |                     |                     |
| Net income  | \$ 18,991,714       | \$ 15,013,989       |
| Adjustment to reconcile net income to net cash provided by operating activities |                     |                     |
| Depreciation  | 652,177             | 394,422             |
| (Increase) decrease in assets   |                     |                     |
| Accounts receivable trade   | (4,507,823)         | (3,730,691)         |
| Accounts receivable affiliate   | (6,928,119)         | (6,057,119)         |
| Miscellaneous receivable  | 21,833              | 515,865             |
| Inventory   | (2,455,749)         | (3,670,321)         |
| Prepaid expenses  | (29,032)            | 59,414              |
| Increase (decrease) in liabilities  |                     |                     |
| Accounts payable trade  | 361,176             | (94,319)            |
| Accounts payable affiliate  | 1,420,456           | 11,969,928          |
| Rebates payable   | (1,128,086)         | 70,121              |
| Accrued royalties   | 2,815,406           | 2,252,018           |
| Accrued commissions   | 993,839             | 400,575             |
| Accrued state and local taxes   | 892,428             | (205,010)           |
| Advertising advances  | 1,171,519           |                     |
| Net cash provided by operating activities                                       | 12,271,739          | 16,918,872          |
| Cash flows from investing activities  |                     |                     |
| Acquisition of property and equipment   | (1,097,738)         | (1,064,467)         |

See accompanying notes to financial statements.

**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

|   | 2005<br>(Unaudited) | 2004<br>(Unaudited) |
|---|---------------------|---------------------|
| Cash flows from financing activities                  |                     |                     |
| Net advances and repayments of loans payable officers | \$ 5,543,000        | \$ 500,000          |
| Distributions paid                                    | (20,095,610)        | (17,000,000)        |
| Net cash used by financing activities                 | (14,552,610)        | (16,500,000)        |
| Net decrease in cash                                  | (3,378,609)         | (645,595)           |
| Cash, January 1                                       | 7,574,936           | 2,171,637           |
| Cash, September 30                                    | \$ 4,196,327        | \$ 1,526,042        |

See accompanying notes to financial statements.

5

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**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Creative Designs International, Ltd. ( the Company) is presented to assist in understanding the Company s financial statements. The financial statements and accompanying notes are representations of the Company s management, who are also responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

**Business Activity and Concentration of Credit Risk**

The Company is engaged in the development and marketing of toys and related products internationally and the sale of those products to specific customers in the United States.

The Company maintains its checking accounts with one bank. Cash balances with the bank in excess of \$100,000 exceed the insurable limits as allowed by FDIC. Total cash balances with the bank at September 30, 2005 exceeded the insurable limits by \$4,388,483.

The Company had a significant customer which represented 74% and 93% of the total sales for the nine months ended September 30, 2005 and 2004. Receivables from this customer represented 72% and 92% of the accounts receivable trade balance at September 30, 2005 and 2004.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Accounts Receivable Trade**

Accounts receivable trade is recorded at the amount the Company expects to collect on balances outstanding at the balance sheet date. Management closely monitors outstanding balances and writes off, as of the balance sheet date, all balances that they anticipate they will not collect as of the time the financial statements are issued.

There were no bad debts charged to operations for the periods ended September 30, 2005 and 2004.

**Inventory**

Inventory, consisting of finished goods, is valued at the lower of cost (first-in, first-out basis) or market.



**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
(Unaudited)

## 1. Summary of Significant Accounting Policies

**Depreciation**

Depreciation is provided under the straight-line and accelerated methods over the estimated useful lives of the related assets.

Maintenance and repairs are expensed as incurred. Additions, betterments, and renewals, unless of minor amounts, are capitalized and depreciated. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved, and the resulting gain or loss is included in operations.

**Shipping and Handling Costs**

The Company's policy is to reflect shipping and handling costs associated with the sale of inventory as a component of cost of goods sold.

**Advertising Expense**

The Company's policy is to expense advertising costs as they are incurred. Advertising expenses charged to operations for the nine months ended September 30, 2005 and 2004 were \$78,380 and \$15,516, respectively.

**Income Taxes**

The Company, an S corporation, is not a taxpaying entity for federal and state income tax purposes, and thus, no income tax expense has been recorded in the financial statements. Income from the Company is taxed to the stockholders on their individual tax returns. The Company still pays capital stock and gross receipts taxes to various municipalities.

## 2. Property and Equipment

A summary of property and equipment at September 30, 2005 and 2004 is as follows:

|                               | 2005         | 2004         |
|-------------------------------|--------------|--------------|
| Molds                         | \$ 3,344,410 | \$ 2,395,007 |
| Leasehold improvements        | 308,186      | 308,186      |
| Furniture and fixtures        | 165,826      | 142,113      |
| Computer equipment            | 233,247      | 233,247      |
| Transportation equipment      | 532,393      | 643,323      |
|                               | 4,584,062    | 3,721,876    |
| Less accumulated depreciation | 2,197,868    | 1,463,247    |
|                               | \$ 2,386,194 | \$ 2,258,629 |

**Table of Contents**

**CREATIVE DESIGNS INTERNATIONAL, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

2. Property and Equipment (Cont d.)

Depreciation expense charged to operations for the nine months ended September 30, 2005 and 2004 was \$652,177 and \$394,422, respectively.

3. Loans Payable – Officers

The Company had loans payable to officers of \$5,543,000 and \$2,500,000 at September 30, 2005 and 2004, respectively. The loans do not bear interest and are expected to be repaid within the year.

4. Advertising Advances

The Company received an advance from a customer to produce a commercial for the Christmas retail season. The costs were not expended as of September 30, 2005. In addition, the Company received a reimbursement from a licensor for goods to be used in a promotion at a customer's retail location. The goods had not been acquired as of September 30, 2005.

The total amount of advertising advances was \$1,171,519 at September 30, 2005.

5. Royalties

The Company has entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 6% to 15% of net sales with minimum guarantees and advance payments. The agreements expire at various intervals through December 31, 2007. Royalties expense was \$9,591,332 and \$5,775,428 for the nine months ended September 30, 2005 and 2004, respectively, and is included in direct selling costs. Accrued royalties were \$6,087,413 and \$3,625,953 as of September 30, 2005 and 2004, respectively.

6. Related Party Transactions

The Company conducts its primary business operations in a facility leased from its stockholders under a lease which expires in 2010. The rental expense for this property was \$53,100 for both nine month periods ended September 30, 2005 and 2004.

The following is a schedule of future minimum lease payments as of September 30, 2005:

|                                |            |
|--------------------------------|------------|
| Year ending September 30, 2006 | \$ 79,170  |
| 2007                           | 85,038     |
| 2008                           | 89,268     |
| 2009                           | 93,680     |
| 2010                           | 98,413     |
|                                | \$ 445,569 |

**Table of Contents****CREATIVE DESIGNS INTERNATIONAL, LTD.****NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

## 6. Related Party Transactions (Cont d.)

The Company's affiliate, Arbor Toys, Ltd. (Arbor), is a Hong Kong based company. Significant related party transactions with Arbor are as follows:

The Company receives a commission from Arbor on all Arbor sales for its marketing and licensing arrangements with customers. In addition, it receives various overrides on products sold. The total amount is recorded as commission income and was \$32,426,886 and \$20,276,949 for the nine months ended September 30, 2005 and 2004, respectively. The Company receives design fees for the development of product lines from Arbor. Total fees received were \$123,000 each for the nine months ended September 30, 2005 and 2004.

The Company purchases all of its toys from Arbor. Total purchases for the nine months ended September 30, 2005 and 2004 were \$16,451,923 and \$14,962,571, respectively.

The Company leases showroom space at an industry toy exhibit under a noncancelable operating lease expiring in April 2010. Future minimum rental payments under operating leases (excluding operating expenses) are as follows:

|                                |            |
|--------------------------------|------------|
| Year ending September 30, 2006 | \$ 33,150  |
| 2007                           | 33,150     |
| 2008                           | 33,150     |
| 2009                           | 33,150     |
| 2010                           | 19,326     |
|                                | \$ 151,926 |

The total rent expense for all operating leases was \$87,916 and \$90,694 for the nine months ended September 30, 2005 and 2004, respectively.

**Table of Contents**

**SUPPLEMENTARY INFORMATION**

---

**Table of Contents**

CREATIVE DESIGNS INTERNATIONAL, LTD.  
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES  
NINE MONTHS ENDED SEPTEMBER 30, 2005

|                         | 2005<br>Unaudited | 2004<br>Unaudited |
|-------------------------|-------------------|-------------------|
| Advertising             | \$ 78,380         | \$ 15,516         |
| Auto expense            | 13,478            | 17,707            |
| Computer expenses       | 65,361            | 47,324            |
| Contributions           | 1,000             | 4,384             |
| Dues and subscriptions  | 8,665             | 15,722            |
| Employee benefits       | 102,004           | 93,837            |
| Equipment rental        |                   | 8,866             |
| Gifts                   | 5,216             | 39,200            |
| Insurance               | 122,530           | 108,939           |
| Meals and entertainment | 35,477            | 28,676            |
| Miscellaneous           | 42,357            | 22,075            |
| Professional fees       | 53,120            | 72,894            |
| Office expense          | 73,887            | 42,106            |
| Payroll                 | 1,180,259         | 882,131           |
| Payroll taxes           | 87,292            | 75,260            |
| Postage                 | 3,500             | 2,519             |
| Rent                    | 87,916            | 90,694            |
| Repairs and maintenance | 7,223             | 6,797             |
| Storage                 | 2,771             | 2,718             |
| Taxes other             | 1,505,590         | 477,080           |
| Telephone               | 26,613            | 20,905            |
| Travel                  | 149,968           | 219,732           |
| Utilities               | 24,806            | 24,728            |
|                         | \$ 3,677,413      | \$ 2,319,810      |

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
Contents

|   | Page |
|---|------|
| Balance Sheet (Unaudited)                     | 1    |
| Profit and Loss Statement (Unaudited)         | 2    |
| Notes to the Financial Statements (Unaudited) | 3-11 |

---

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**Balance Sheet as at September 30, 2005**  
**(Amounts Expressed in Hong Kong Dollars)**

| 9/30/04<br>(Unaudited)           |                                      | 9/30/05<br>(Unaudited) |
|----------------------------------|--------------------------------------|------------------------|
| <b>FIXED ASSETS</b>              |                                      |                        |
| \$ 425,359                       | Furniture & Fixture                  | \$ 465,611             |
| 245,424                          | Less: Provision for Depreciation     | 273,257                |
| 179,935                          |                                      | 192,354                |
| 1,690,935                        | Office Equipment                     | 2,135,332              |
| 1,078,650                        | Less: Provision for Depreciation     | 1,247,092              |
| 612,285                          |                                      | 888,240                |
| 1,265,134                        | Leasehold Improvement                | 1,330,133              |
| 968,591                          | Less: Provision for Depreciation     | 1,303,815              |
| 296,543                          |                                      | 26,318                 |
| 1,088,763                        |                                      | 1,106,912              |
| <b>CURRENT ASSETS</b>            |                                      |                        |
| 10,000                           | Cash in Hand                         | 10,000                 |
| 8,483,999                        | Hong Kong Bank HKD C/A               | 1,997,920              |
| 7,955,727                        | Hong Kong Bank HKD Savings           | 7,969,873              |
| 21,583,240                       | Hong Kong Bank USD Savings           | 37,646,660             |
| 599,875                          | Hong Kong Bank USD Statement Savings | 1,090,200              |
| 32,550,769                       | Hong Kong Bank Call Deposits         | 52,040,654             |
|                                  | Fixed Deposits                       | 20,000,000             |
| 245,035,287                      | Trade Debtors                        | 358,514,326            |
| 18,988                           | Accounts Receivable Others           | (3,912)                |
| 143,034                          | Advance to Supplier                  | 300,441                |
| 366,399                          | Prepayment                           | 7,644,975              |
| 681,595                          | Rental & Utility Deposits            | 695,140                |
| 317,428,913                      |                                      | 487,906,277            |
| <b>LESS: CURRENT LIABILITIES</b> |                                      |                        |
| 92,814,433                       | Trade Creditors                      | 118,308,698            |
| 2,097,186                        | Accounts Payable Others              | 3,428,144              |
| 1,077,908                        | Advance from Customers               | 1,001,990              |
| 145,117,901                      | Commission Payable                   | 267,738,790            |
|                                  | Dividend Payable                     |                        |
| 41,250                           | Provision for Audit Fees             | 41,250                 |
| 1,085,326                        | Provision for Staff Bonus            | 1,709,176              |
| 871,900                          | Provision for Pension                | 931,900                |

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|   |                                    |               |
|---|------------------------------------|---------------|
| 8,229,931                                       | Provision for Taxation             | 16,552,716    |
| 251,335,835                                     |                                    | 409,712,664   |
| 66,093,078                                      | NET CURRENT ASSETS / (LIABILITIES) | 78,193,613    |
| 67,181,841                                      | TOTAL NET ASSETS                   | \$ 79,300,525 |
| FINANCED BY:                                    |                                    |               |
| SHARE CAPITAL                                   |                                    |               |
| Authorized Capital                              |                                    |               |
| 100,000 shares of HKD10.00 each HKD1,000,000,00 |                                    |               |
| Issued and fully paid capital                   |                                    |               |
| \$ 1,000,000                                    | 100,000 shares of HKD10.00 each    | \$ 1,000,000  |
| 33,303,906                                      | Retained Profit / (Loss)           | 41,084,292    |
| 32,877,935                                      | Current Year Profit / (Loss)       | 37,216,233    |
| \$ 67,181,841                                   | SHAREHOLDERS EQUITY                | \$ 79,300,525 |

- 1 -

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**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**Profit & Loss Statement**  
**For the Nine Months ended September 30, 2005**  
**(Amounts Expressed in Hong Kong Dollars)**

| 01/01/04<br>to<br>9/30/04<br>(Unaudited) |   | 01/01/05<br>to<br>9/30/05<br>(Unaudited) |
|--|---|--|
| \$723,718,946                            | Gross Sales                             | \$922,648,525                            |
| 157,146,354                              | Less: Commission                        | 251,308,372                              |
| 566,572,592                              | Net Sales                               | 671,340,153                              |
| 512,051,255                              | Cost of Goods Sold                      | 608,416,843                              |
| 54,521,337                               | Gross Profit                            | 62,923,310                               |
|  | Add: Other Income                       |  |
| 15,600                                   | Interest income                         | 665,815                                  |
| 23,510                                   | Exchange Difference                     | 46,921                                   |
| 39,110                                   |   | 712,736                                  |
| 54,560,447                               | Operation Income /(Loss)                | 63,636,046                               |
|  | Operating Expenses                      |  |
| 2,668,626                                | Selling Expenses                        | 4,629,559                                |
| 12,033,543                               | General & Administrative Expenses       | 14,027,590                               |
| 14,702,169                               |   | 18,657,149                               |
| 39,858,278                               | Profit/(Loss ) from Operation           | 44,978,897                               |
| 6,980,343                                | Taxation                                | 7,762,664                                |
| 32,877,935                               | Profit After Taxation                   | 37,216,233                               |
| 33,303,906                               | Retained Profit/(Loss) Brought Forward  | 41,084,292                               |
| 66,181,841                               |   | 78,300,525                               |
|  | Appropriation                           |  |
|  | Interim Dividend                        |  |
|  | Final Dividend                          |  |
| \$66,181,841                             | Retained Profits/(Loss) Carried Forward | \$78,300,525                             |



**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2005  
(Unaudited)

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Society of Accountants.

(b) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight line basis at the following annual rates :-

|                                |                        |
|--------------------------------|------------------------|
| Furniture and fixtures         | 10%                    |
| Office machinery and equipment | 20%                    |
| Leasehold improvements         | Over the term of lease |

(c) Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong Dollars at the rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into Hong Kong Dollars at the rates of exchange ruling at the dates of the transactions.

All exchange differences arising from the above are included in the profit and loss statement.

(d) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposit held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2005**

(Unaudited)  
(CONTINUED)

1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(e) Deferred Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(f) Employee Benefits

(i) Long Service Payments

The Company's net obligation in respect of long service payment under the Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated according to the provision of the above Ordinance.

(ii) Retirement Benefits

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the Scheme) under the Mandatory Provident Fund Schemes Ordinance, for all its employees. Contributions to the Scheme are based on a percentage of the employees' basic salaries and are recognised as an expense in the profit and loss statement.

(g) Operating Leases

Payments under operating leases are charged to the profit and loss statement on a straight line basis over the period of the respective leases.

(h) Revenue Recognition

Sales are recognised as revenue when the risks and rewards of ownership of the goods have passed to customers. Bank interest earned is recognised on an accrual basis.

**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2005  
(Unaudited)  
(CONTINUED)

## 2. PROFIT BEFORE TAXATION

Profit before taxation is arrived at

|   | 2005       | 2004      |
|---|------------|-----------|
| after charging :-   |            |           |
| Auditors remuneration                                       | \$ 39,000  | \$ 39,000 |
| Depreciation  | 514,416    | 574,964   |
| Fixed assets written off                                    | 1          | 12,510    |
| Rental payable on land and buildings under operating leases | 1,076,160  | 1,466,300 |
| Retirement benefit costs                                    | 352,442    | 278,914   |
| and crediting :-  |            |           |
| Bank interest earned  | \$ 665,815 | \$ 15,600 |
| Exchange gain   | 46,921     | 23,510    |

## 3. DIRECTORS EMOLUMENTS

The aggregate amounts of the Directors emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows :-

|              | 2005       | 2004       |
|--------------|------------|------------|
| As director  | \$         | \$         |
| As executive | 794,500    | 771,000    |
|              | \$ 794,500 | \$ 771,000 |

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2005**  
(Unaudited)  
(Continued)

## 4. TAXATION

|                            | 2005         | 2004         |
|----------------------------|--------------|--------------|
| Hong Kong profits tax      |              |              |
| Provision for current year | \$ 7,737,816 | \$ 7,015,940 |

The provision for Hong Kong profits tax has been calculated by applying the statutory rate of taxation of 17.5% to the estimated assessable profits of the Company which were derived from Hong Kong during the reporting period.

No provision for deferred taxation has been made in the financial statements as the effect of temporary differences is insignificant.

Reconciliation between taxation expense and accounting profit at applicable taxation rates :-

|   | 2005          | 2004          |
|---|---------------|---------------|
| Profit before taxation  | \$ 44,978,896 | \$ 39,858,278 |
| Tax at taxation tax rate of 17.5%   | \$ 7,871,307  | \$ 6,975,198  |
| Tax effect of expenses that are not deductible in determining taxable profits | 97,898        | 110,683       |
| Tax effect on income that is not assessable in determining taxable profits    | (116,518)     | (2,730)       |
| Tax effect on allowances claimed  | (114,871)     | (67,211)      |
| Taxation expense for the period   | \$ 7,737,816  | \$ 7,015,940  |

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2005**

(Unaudited)  
(Continued)

## 5. FIXED ASSETS

|  | Furniture<br>and<br>Fixtures | Machinery<br>and<br>Equipment | Leasehold<br>Improvement | <b>Total</b> |
|--|------------------------------|-------------------------------|--------------------------|--------------|
| <b><u>Cost</u></b>                     |                              |                               |                          |              |
| At January 1, 2005                     | \$ 421,879                   | \$ 1,591,405                  | \$ 1,265,134             | \$ 3,278,418 |
| Additions during the year              | 43,732                       | 547,210                       | 64,999                   | 655,941      |
| disposals during the year              |                              | (3,284)                       |                          | (3,284)      |
| At September 30, 2005                  | 465,611                      | 2,135,331                     | 1,330,133                | 3,931,075    |
| <b><u>Accumulated Depreciation</u></b> |                              |                               |                          |              |
| At January 1, 2005                     | 247,926                      | 985,310                       | 1,079,795                | 2,313,031    |
| Charge for the year                    | 25,330                       | 265,065                       | 224,021                  | 514,416      |
| Written back on disposals              |                              | (3,283)                       |                          | (3,283)      |
| At September 30, 2005                  | 273,256                      | 1,247,092                     | 1,303,816                | 2,824,164    |
| <b><u>Net Book value</u></b>           |                              |                               |                          |              |
| At September 30, 2005                  | \$ 192,355                   | \$ 888,239                    | \$ 26,317                | \$ 1,106,911 |
| At September 30, 2004                  | \$ 179,936                   | \$ 612,285                    | \$ 296,542               | \$ 1,088,763 |

- 7 -

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**Table of Contents**

ARBOR TOYS COMPANY LIMITED  
NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2005

(Unaudited)  
(Continued)

## 6. SHARE CAPITAL

|                                  | 2005         | 2004         |
|----------------------------------|--------------|--------------|
| Authorised capital               |              |              |
| 100,000 shares of HK\$10.00 each | \$ 1,000,000 | \$ 1,000,000 |
| <br>                             |              |              |
| Issued and fully paid capital    |              |              |
| 100,000 shares of HK\$10.00 each | \$ 1,000,000 | \$ 1,000,000 |

## 7. COMMITMENTS UNDER OPERATING LEASES

At September 30, 2005, the Company had future aggregate minimum lease payments on land and buildings under non-cancellable leases as follows :-

|   | 2005         | 2004         |
|---|--------------|--------------|
| Not later than one year                           | \$ 2,325,070 | \$ 1,216,285 |
| Later than one year and not later than five years | 1,705,790    |              |
|   | \$ 4,030,860 | \$ 1,216,285 |



**Table of Contents**

ARBOR TOYS CO., LTD  
NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2005  
(Unaudited)

## 8. RECONCILIATION OF PROFIT BEFORE TAXATION TO NEW CASH INFLOW FROM OPERATING ACTIVITIES

|  | 09/30/2005    | 09/30/2004     |
|--|---------------|----------------|
|  | HK\$          | HK\$           |
| Profit before taxation                             | \$ 44,978,897 | \$ 39,858,278  |
| Adjustments for:-                                  |               |                |
| Bank Interest earned                               | (665,815)     | (15,600)       |
| Depreciation                                       | 514,416       | 574,964        |
| Fixed Assets Written off                           | 1             | 12,510         |
| Operating profit before working capital changes    | 44,827,499    | 40,430,152     |
| Change in bills receivable                         | (118,121,483) | (67,542,704)   |
| Change in accounts receivable                      | (37,979,637)  | (30,161,126)   |
| Change in prepayments, rental and utility deposits | (168,813)     | 35,519         |
| Change in trade deposits                           | (300,441)     | (116,202)      |
| Change in accounts payable and accrued charges     | 145,143,539   | 39,157,470     |
| Cash generated from operations                     | 33,400,664    | (18,196,891)   |
| Hong Kong profits tax paid                         | 0             | 0              |
| Net cash inflow from operating activities          | \$ 33,400,664 | \$(18,196,891) |

Table of Contents

ARBOR TOYS COMPANY LIMITED  
STATEMENT OF CASH FLOW  
NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004  
(AMOUNTS EXPRESSED IN HONG KONG DOLLARS)

|   | 2005<br>(Unaudited) | 2004<br>(Unaudited) |
|---|---------------------|---------------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES (Notes)     | \$ 33,400,664       | \$ (18,196,891)     |
| INVESTMENTS ACTIVITIES                                |                     |                     |
| Purchase of fixed assets                              | (655,942)           | (308,020)           |
| Sales proceeds of fixed assets                        | 0                   | 0                   |
| Bank interest earned                                  | 665,815             | 15,600              |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES            | 9,873               | (292,420)           |
| NET CASH INFLOW BEFORE FINANCING                      | 33,410,537          | (18,489,311)        |
| FINANCING ACTIVITIES                                  |                     |                     |
| Final dividend paid                                   | (33,300,000)        | (28,426,000)        |
| Interim dividend paid                                 | 0                   | 0                   |
| NET CASH OUTFLOW FROM FINANCING                       | (33,300,000)        | (28,426,000)        |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS      | 110,537             | (46,915,311)        |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR    | 120,644,769         | 118,098,922         |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR          | \$ 120,755,306      | \$ 71,183,611       |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS |                     |                     |
| Cash at bank and in hand                              | \$ 100,755,306      | \$ 71,183,611       |
| Time Deposits   | 20,000,000          | 0                   |
|   | \$ 120,755,306      | \$ 71,183,611       |

**Table of Contents**

**ARBOR TOYS COMPANY LIMITED**  
**GENERAL AND ADMINISTRATIVE EXPENSES**  
**For the Nine Months Ended September 30, 2005**  
**(Amounts Expressed in Hong Kong Dollars)**

(For Management Purposes only)

| 01/01/04<br>to<br>9/30/04<br>(Unaudited) |                                  | 01/01/05<br>to<br>9/30/05<br>(Unaudited) |
|--|----------------------------------|--|
| \$11,432                                 | Advertising                      | \$720                                    |
| 27,000                                   | Recruitment Fees                 | 58,838                                   |
| 39,000                                   | Audit Fees                       | 39,000                                   |
| 10,875                                   | Legal & Professional Fees        | 10,875                                   |
| 0  | Business Registration Fees       | 0  |
| 8,933                                    | Licence & Subscription Fees      | 8,141                                    |
| 21,600                                   | Cleaning Expenses                | 23,400                                   |
| 22,765                                   | Depn Furniture & Fixture         | 25,330                                   |
| 230,696                                  | Depn Office Equipment            | 265,065                                  |
| 321,504                                  | Depn Leasehold Improvement       | 224,021                                  |
| 0  | Donation                         | 5,000                                    |
| 76,168                                   | Entertainment                    | 51,487                                   |
| 32,697                                   | Fax & Cable Charges              | 33,193                                   |
| 7,579                                    | Postage                          | 7,838                                    |
| 41,213                                   | Telephone Expenses               | 59,708                                   |
| 17,237                                   | Office Supplies                  | 20,976                                   |
| 450,882                                  | Printing & Stationary            | 640,781                                  |
| 1,859,270                                | Rent & Rates                     | 1,532,080                                |
| 87,066                                   | Electricity                      | 104,851                                  |
| 6,348,446                                | Staff Salary                     | 7,968,658                                |
| 1,360,000                                | Staff Bonus                      | 1,800,000                                |
| 45,000                                   | Pension                          | 45,000                                   |
| 278,914                                  | Mandatory Provident Fund         | 352,442                                  |
| 306,000                                  | Directors Housing Allowance      | 306,000                                  |
| 74,356                                   | Staff Welfare                    | 70,827                                   |
| 25,964                                   | Insurance                        | 30,262                                   |
| 22,405                                   | Sundry Expenses                  | 24,838                                   |
| 44,625                                   | Repairs & Maintenance            | 47,796                                   |
| 166,317                                  | Local Travelling                 | 245,280                                  |
| 83,089                                   | Overseas Travelling              | 25,382                                   |
| 12,510                                   | Fixed Assets Written Off         | 1  |
| 0  | F. Assets Disposal (Gain) / Loss | (200)                                    |
| <b>\$12,033,543</b>                      |                                  | <b>\$14,027,590</b>                      |



**Table of Contents**

**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENT**

The following unaudited pro forma consolidated financial statements as of September 30, 2005 and for the year ended December 31, 2004 and the nine months ended September 30, 2005 give effect to the asset acquisition of CDI. The pro forma consolidated balance sheet presents our financial position as if the asset acquisition of CDI had occurred on September 30, 2005. The pro forma consolidated statement of operations presents our results as if the acquisition of CDI had occurred on January 1, 2004. Our fiscal year end is December 31 and CDI's fiscal year end is December 31. The pro forma consolidated balance sheet as of September 30, 2005 is based upon our historical consolidated balance sheet as of September 30, 2005 which has been adjusted for the effects of the CDI asset acquisition. The pro forma consolidated statements of operations for the year ended December 31, 2004 and nine months ended September 30, 2005 are based on our historical consolidated statements of operations and the statements of operations of CDI for the year ended December 31, 2004 and the nine months ended September 30, 2005.

The pro forma consolidated financial statements include, in our opinion, all material adjustments necessary to reflect the asset acquisition of CDI. The pro forma consolidated financial statements do not represent the Company's actual results of operations, including the acquisitions, nor do they purport to predict or indicate our financial position or results of operations at any future date or for any future period. The pro forma consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and the related notes thereto and CDI's financial statements and the related notes thereto included herein.

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**Table of Contents**
**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**Unaudited Pro Forma Consolidated Balance Sheet**  
(In thousands)

|  | <b>SEPTEMBER 30, 2005</b> |                    |                      |
|--|---------------------------|--------------------|----------------------|
|  | <b>HISTORICAL</b>         | <b>PRO FORMA</b>   | <b>PRO FORMA</b>     |
|  | <b>JAKKS</b>              | <b>ADJUSTMENTS</b> | <b>BALANCE SHEET</b> |
| <b>ASSETS</b>                                  |                           |                    |                      |
| <b>CURRENT ASSETS</b>                          |                           |                    |                      |
| Cash and cash equivalents                      | \$ 228,053                | (\$ 105,253)(1)    | \$ 122,800           |
| Accounts receivable, net                       | 144,334                   | 16,720(2)          | 161,054              |
| Inventory                                      | 73,876                    | 1,394(2)           | 75,270               |
| Prepaid expenses and other current assets      | 30,830                    | 944(2)             | 31,774               |
|  | <u>477,093</u>            | <u>(86,195)</u>    | <u>390,898</u>       |
| Total current assets                           |                           |                    |                      |
| Property and equipment, at cost                | 41,896                    | 1,235(2)           | 43,131               |
| Less accumulated depreciation and amortization | 30,095                    |                    | 30,095               |
|  | <u>11,801</u>             | <u>1,235</u>       | <u>13,036</u>        |
| Property and equipment, net                    |                           |                    |                      |
| Intangibles and Other, net                     | 20,835                    | 17,170(3)          | 38,005               |
| Investment in video game joint venture         | 3,609                     |                    | 3,609                |
| Goodwill, net                                  | 262,880                   | 75,750(3)          | 338,630              |
| Trademarks, net                                | 17,768                    | 1,400(3)           | 19,168               |
|  | <u>\$ 793,986</u>         | <u>\$ 9,360</u>    | <u>\$ 803,346</u>    |
| Total assets                                   |                           |                    |                      |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>     |                           |                    |                      |
| <b>CURRENT LIABILITIES</b>                     |                           |                    |                      |
| Accounts payable and accrued expenses          | \$ 126,357                | \$ 5,919(4)        | \$ 132,276           |
| Reserve for sales returns and allowances       | 27,400                    |                    | 27,400               |
| Income taxes payable                           | 30,162                    | (4)                | 30,162               |
|  | <u>183,919</u>            | <u>5,919</u>       | <u>189,838</u>       |
| Total current liabilities                      |                           |                    |                      |
| Long term debt                                 | 98,000                    |                    | 98,000               |

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|   |           |          |            |
|---|-----------|----------|------------|
| Deferred income taxes                       | 4,237     | _____    | 4,237      |
|   |           |          | _____      |
| Total Liabilities                           | 286,156   | 5,919    | 292,075    |
|   | _____     | _____    | _____      |
| <b>STOCKHOLDERS EQUITY</b>                  |           |          |            |
| Common stock                                | 27        | (1)      | 27         |
| Additional paid-in capital                  | 281,229   | 3,441(1) | 284,670    |
| Retained earnings                           | 231,043   |          | 231,043    |
| Deferred compensation from restricted stock | (2,434)   |          | (2,434)    |
| Accumulated comprehensive loss              | (2,035)   |          | (2,035)    |
|   | _____     | _____    | _____      |
| Total stockholders equity                   | 507,830   | 3,441    | 511,271    |
|   | _____     | _____    | _____      |
| Total liabilities and stockholders equity   | \$793,986 | \$ 9,360 | \$ 803,346 |
|   | _____     | _____    | _____      |

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**Table of Contents**

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**Unaudited Pro Forma Consolidated Statements Of Operations**  
(In thousands, except per share amounts)

**YEAR ENDED DECEMBER 31, 2004**

|   | <b>ACTUAL</b>         |                             |                      |                             |              |
|---|-----------------------|-----------------------------|----------------------|-----------------------------|--------------|
|   | <b>ARBOR<br/>TOYS</b> | <b>CREATIVE<br/>DESIGNS</b> | <b>CONSOLIDATING</b> | <b>CDI<br/>CONSOLIDATED</b> | <b>JAKKS</b> |
| Net Sales   | \$128,284             | \$ 61,217                   | (50,954)             | \$ 138,547                  | \$574,266    |
| Cost of sales                                       | 119,211               | 29,420                      | (50,790)             | 97,841                      | 348,259      |
| Gross Profit  | 9,073                 | 31,797                      | (164)                | 40,706                      | 226,007      |
| Selling, general and administrative expenses        | 2,652                 | 10,383                      | (164)                | 12,871                      | 172,282      |
| Income from operations                              | 6,421                 | 21,414                      |                      | 27,835                      | 53,725       |
| Interest, net                                       |                       | 89                          |                      | 89                          | (2,498)      |
| Other income (expense)                              | 14                    |                             |                      | 14                          | 7,865        |
| Income before provision for income taxes            | 6,435                 | 21,503                      |                      | 27,938                      | 59,092       |
| Provision for income taxes                          | 1,134                 |                             |                      | 1,134                       | 15,533       |
| Net income (loss)                                   | \$ 5,301              | \$ 21,503                   | \$                   | \$ 26,804                   | \$ 43,559    |
| Basic earnings per share                            |                       |                             |                      |                             | \$ 1.69      |
| Weighted average shares outstanding                 |                       |                             |                      |                             | 25,797       |
| Diluted earnings per share                          |                       |                             |                      |                             | \$ 1.49      |
| Weighted average shares and equivalents outstanding |                       |                             |                      |                             | 31,406       |



[Additional columns below]

[Continued from above table, first column(s) repeated]

|   | <b>YEAR ENDED DECEMBER 31, 2004</b> |                                  |                |
|---|-------------------------------------|----------------------------------|----------------|
|   | <b>PRO<br/>FORMA<br/>COMBINED</b>   | <b>PRO FORMA<br/>ADJUSTMENTS</b> | <b>RESULTS</b> |
| Net Sales   | \$712,813                           | \$                               | \$712,813      |
| Cost of sales                                       | 446,100                             | _____                            | 446,100        |
| Gross Profit  | 266,713                             |                                  | 266,713        |
| Selling, general and administrative expenses        | 185,153                             | 6,768(5)                         | 191,921        |
| Income from operations                              | 81,560                              | (6,768)                          | 74,792         |
| Interest, net                                       | (2,409)                             | (4,899)(6)                       | (7,308)        |
| Other income (expense)                              | 7,879                               | _____                            | 7,879          |
| Income before provision for income taxes            | 87,030                              | (11,667)                         | 75,363         |
| Provision for income taxes                          | 16,667                              | 3,143(7)                         | 19,810         |
| Net income  | \$ 70,363                           | \$ (14,810)                      | \$ 55,553      |
| Basic earnings per share                            |                                     |                                  | \$ 2.14        |
| Weighted average shares outstanding                 |                                     | 150                              | 25,947         |
| Diluted earnings per share                          |                                     |                                  | \$ 1.87        |
| Weighted average shares and equivalents outstanding |                                     | 150                              | 31,556         |

**Table of Contents**

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**Unaudited Pro Forma Consolidated Statements Of Operations**  
(In thousands, except per share amounts)

**NINE MONTHS ENDED SEPTEMBER 30, 2005**

|   | <b>ACTUAL</b> |                 |                      |                     |              |
|---|---------------|-----------------|----------------------|---------------------|--------------|
|   | <b>ARBOR</b>  | <b>CREATIVE</b> |                      | <b>CONSOLIDATED</b> |              |
|   | <b>TOYS</b>   | <b>DESIGNS</b>  | <b>CONSOLIDATING</b> | <b>CDI</b>          | <b>JAKKS</b> |
| Net Sales   | \$ 119,051    | \$ 51,187       | \$ (49,002)          | \$ 121,236          | \$495,266    |
| Cost of sales                                       | 110,932       | 25,189          | (48,879)             | 87,242              | 299,529      |
| Gross Profit  | 8,119         | 25,998          | (123)                | 33,994              | 195,737      |
| Selling, general and administrative expenses        | 2,407         | 7,103           | (123)                | 9,387               | 120,229      |
| Income from operations                              | 5,712         | 18,895          |                      | 24,607              | 75,508       |
| Interest, net                                       | 86            | 96              |                      | 182                 | 17           |
| Other income (expense)                              | 6             |                 |                      | 6                   | 140          |
| Income before provision for income taxes            | 5,804         | 18,991          |                      | 24,795              | 75,665       |
| Provision for income taxes                          | 1,002         |                 |                      | 1,002               | 21,186       |
| Net income  | \$ 4,802      | \$ 18,991       | \$                   | \$ 23,793           | \$ 54,479    |
| Basic earnings per share                            |               |                 |                      |                     | \$ 2.04      |
| Weighted average shares outstanding                 |               |                 |                      |                     | 26,673       |
| Diluted earnings per share                          |               |                 |                      |                     | \$ 1.77      |
| Weighted average shares and equivalents outstanding |               |                 |                      |                     | 32,182       |

[Additional columns below]

[Continued from above table, first column(s) repeated]

**NINE MONTHS ENDED SEPTEMBER 30, 2005**

|   | <b>COMBINED</b> | <b>PRO FORMA<br/>ADJUSTMENTS</b> | <b>PRO FORMA<br/>RESULTS</b> |
|---|-----------------|----------------------------------|------------------------------|
| Net Sales   | \$ 616,502      | \$                               | \$ 616,502                   |
| Cost of sales                                       | 386,771         |                                  | 386,771                      |
| Gross Profit  | 229,731         |                                  | 229,731                      |
| Selling, general and administrative expenses        | 129,616         | 3,008(5)                         | 132,624                      |
| Income from operations                              | 100,115         | (3,008)                          | 97,107                       |
| Interest, net                                       | 199             | (3,790)(6)                       | (3,591)                      |
| Other income (expense)                              | 146             |                                  | 146                          |
| Income before provision for income taxes            | 100,460         | (6,798)                          | 93,662                       |
| Provision for income taxes                          | 22,188          | 4,038(7)                         | 26,226                       |
| Net income  | \$ 78,272       | \$ (10,836)                      | \$ 67,436                    |
| Basic earnings per share                            |                 |                                  | \$ 2.51                      |
| Weighted average shares outstanding                 |                 | 150                              | 26,823                       |
| Diluted earnings per share                          |                 |                                  | \$ 2.16                      |
| Weighted average shares and equivalents outstanding |                 | 150                              | 32,332                       |



**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

The unaudited pro forma consolidated financial statements have been adjusted for items relating to the acquisition of CDI as set forth below (in thousands):

**BALANCE SHEET**

|            |   |                   |
|------------|---|-------------------|
| <b>(1)</b> | Consideration paid on or about the closing:   |                   |
|            | Cash paid to or on behalf of stockholders   | \$ 104,489        |
|            | Other acquisition costs   | 764               |
|            |   | <u>          </u> |
|            |   | \$ 105,253        |
|            |   | <u>          </u> |
|            | 150,000 shares of JAKKS common stock issued   | \$ 3,441          |
|            |   | <u>          </u> |
| <b>(2)</b> | Assets acquired   | \$ 20,293         |
|            |   | <u>          </u> |
| <b>(3)</b> | Other assets acquired (see Note A below):   |                   |
|            | Intangible assets   | \$ 17,170         |
|            | Trademarks  | 1,400             |
|            | Excess of consideration paid over fair market value of net assets acquired (Goodwill) | 75,750            |
|            |   | <u>          </u> |
|            |   | \$ 94,320         |
|            |   | <u>          </u> |
| <b>(4)</b> | Liabilities assumed in the acquisition:   |                   |
|            | Accounts payable and accrued expenses   | \$ 5,919          |
|            |   | <u>          </u> |

**STATEMENT OF OPERATIONS**

|            | <b>Pro Forma<br/>Year<br/>Ended<br/>Dec 31,<br/>2004</b>              | <b>Pro Forma<br/>Nine Months<br/>Ended<br/>Sep 30, 2005</b> |
|------------|---|---|
| <b>(5)</b> |   |   |
|            | Selling, general and administrative expenses are adjusted to reflect: |   |
|            |   |   |
|            | Elimination of Hong Kong director fees                                | \$ 180  |
|            | Amortization of intangible assets                                     | 6,588   |
|            |   | <u>          </u>   |
|            |   | \$ 39   |
|            |   | <u>          </u>   |
|            |   | 2,968   |

|   |                   |                   |
|---|-------------------|-------------------|
|   | \$ 6,768          | \$ 3,008          |
|   | <u>          </u> | <u>          </u> |
| (6) Interest, net is adjusted to reflect:   |                   |                   |
| The Elimination of interest income related to CDI cash balance as if they had no cash balance as of January 1, 2004 and September 1, 2005, respectively | \$ 89             | \$ 182            |
| The Elimination of interest income related to lower cash balances held by JAKKS   | 4,810             | 3,608             |
|   | <u>          </u> | <u>          </u> |
|   | \$ 4,899          | \$ 3,790          |
|   | <u>          </u> | <u>          </u> |
| (7) Provision for income taxes is adjusted to reflect the tax effect of pro forma adjustments   | \$ 3,143          | \$ 4,038          |
|   | <u>          </u> | <u>          </u> |

Note A: In accordance with FASB Statement of Financial Accounting Standard No. 141 Business Combinations , the allocation of the purchase price is based on studies and valuations that are currently being performed and is expected to be completed by the second quarter of 2006.

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**Table of Contents**

(d) Exhibits.

| <u>Number</u> | <u>Description</u>                                    |
|---------------|---|
| 10.1          | January 18, 2006 Asset Purchase and Sale Agreement(1) |
| 99            | February 10, 2006 Press Release(2)                    |

(1) Filed as an exhibit to the Registrant s January 24, 2006 Current Report on Form 8-K and incorporated herein by reference.

(2) Filed as an exhibit to the Registrant s February 14, 2006 Current Report on Form 8-K and incorporated herein by reference.

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**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: April 26, 2006

JAKKS PACIFIC, INC.

By: /s/ JOEL M. BENNETT

\_\_\_\_\_  
Joel M. Bennett  
Executive Vice President



**Table of Contents**

EXHIBIT INDEX

| <u>Number</u> | <u>Description</u>                                    |
|---------------|---|
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