

JAKKS PACIFIC INC
Form 8-K/A
September 07, 2004

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported):
September 7, 2004 (June 10, 2004)

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

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ITEM 2.01. ACQUISITION OR DISPOSITION OF ASSETS.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

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This Amendment No. 1 to Form 8-K/A is being filed to amend the auditor's report covering the financial statements filed as an exhibit to our Current Report on Form 8-K/A filed on August 6, 2004 (the "8-K/A"), as well as certain of the notes to such financial statements. The financial information included in the 8-K/A was filed as a result of our June 10, 2004 asset acquisition (the "Acquisition") of Play Along, Inc., Play Along (Hong Kong) Limited and PA Distribution, Inc. (collectively, "Play Along").

We intend to file shortly a registration statement on Form S-3 covering the shares issued at the time of the Acquisition to the principals of Play Along (the "Registration Statement"). Play Along's Hong Kong auditor has determined that, in order for it to be able to issue its report in connection with the Registration Statement, it is required to perform certain accounting procedures in support of the financial information included in the 8-K/A.

The performance of these additional procedures did not result in any changes to the financial information included in the 8-K/A. Nevertheless, Play Along's Hong Kong auditor determined that the report it delivered in connection with the financial information included in the 8-K/A, as well as the description of certain applicable accounting policies included in the notes to such financial statements, were required to be amended.

Accordingly, this Amendment No. 1 to Form 8-K/A is being filed to reflect such amendments.

ITEM 2.01. ACQUISITION OR DISPOSITION OF ASSETS.

For a description of the Registrant's asset acquisition of Play Along, refer to Item 2 of the Registrant's Current Report on Form 8-K, filed on June 16, 2004, which Item 2 is incorporated in its entirety herein by reference.

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ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired

1. Play Along, Inc. audited financial statements as of March 31, 2003, March 31, 2002, and December 31, 2003 and for the two years ended March 31, 2003 and 2002 and the nine months ended December 31, 2003.
2. PA Distribution, Inc. audited financial statements as of March 31, 2003, March 31, 2002, and December 31, 2003 and for the two years ended March 31, 2003 and 2002 and the nine months ended December 31, 2003.
3. Play Along (Hong Kong) Limited audited financial statements as of March 31, 2003, March 31, 2002, and December 31, 2003 and for the two years ended March 31, 2003 and 2002 and the nine months ended December 31, 2003.
4. Play Along, Inc. unaudited financial statements as of March 31, 2004 and March 31, 2003 and for the three months ended March 31, 2004 and 2003.
5. PA Distribution, Inc. unaudited financial statements as of March 31, 2004 and March 31, 2003 and for the three months ended March 31, 2004 and 2003.
6. Play Along (Hong Kong) Limited unaudited financial statements as of March 31, 2004 and March 31, 2003 and for the three months ended March 31, 2004 and 2003.

(b) Pro Forma Financial Information

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INDEPENDENT AUDITORS REPORT

The Board of Directors
Play Along, Inc.
Fort Lauderdale, Florida

We have audited the accompanying balance sheets of Play Along, Inc. as of March 31, 2003, 2002 and December 31, 2003 and the related statements of operations, changes in stockholders' equity (deficit) and cash flows for the periods 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managements, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Play Along, Inc. as of March 31, 2003, 2002 and December 31, 2003, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Daszkal Bolton LLP

Boca Raton, Florida
February 13, 2004

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Private Companies Practice Sections Worldwide

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PLAY ALONG, INC.

FINANCIAL STATEMENTS

**FOR THE NINE MONTHS ENDED
DECEMBER 31, 2003 AND
FOR THE YEARS ENDED
MARCH 31, 2003 AND 2002**

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Table of Contents**PLAY ALONG, INC.
BALANCE SHEETS**

	December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets:			
Cash	\$ 218,651	\$ 29,589	\$ 17,698
Prepaid expenses	11,586	19,635	
Deferred tax asset	93,727	102,113	4,877
	<u> </u>	<u> </u>	<u> </u>
Total current assets	<u>323,964</u>	<u>151,337</u>	<u>22,575</u>
Property and equipment, net	<u>94,862</u>	<u>68,249</u>	<u>62,092</u>
Other assets:			
Other receivable	755	644	8,579
Due from related parties		237,338	75,000
Deposits	42,024	42,564	23,556
	<u> </u>	<u> </u>	<u> </u>
Total other assets	<u>42,779</u>	<u>280,546</u>	<u>107,135</u>
Total assets	<u>\$ 461,605</u>	<u>\$ 500,132</u>	<u>\$ 191,802</u>
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable and accrued expenses	\$ 169,092	\$ 622,244	\$ 135,834
Taxes payable		708	
Due to related parties	423,503		
	<u> </u>	<u> </u>	<u> </u>
Total current liabilities	<u>592,595</u>	<u>622,952</u>	<u>135,834</u>
Commitments and Contingencies			
Stockholders equity (deficit):			
Common stock, \$0.01 par value; 20,000 shares authorized; 7,000, 10,000 and 10,000 shares issued and outstanding, respectively	70	100	100

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Additional paid in capital	(970)		
Retained earnings (Accumulated deficit)	<u>(130,090)</u>	<u>(122,920)</u>	<u>55,868</u>
Total stockholders' equity (deficit)	<u>(130,990)</u>	<u>(122,820)</u>	<u>55,968</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 461,605</u>	<u>\$ 500,132</u>	<u>\$ 191,802</u>

See accompanying notes to financial statements.

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Table of Contents**PLAY ALONG, INC.
STATEMENTS OF OPERATIONS**

	Nine months ended December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
Revenues	\$2,774,376	\$3,164,663	\$2,370,200
Operating expenses:			
Selling expenses	50,086	98,938	1,174
Advertising expenses	114,205	168,730	126,702
Royalty expenses		1,194	
Product development expenses	39,785	270,759	62,838
General and administrative expenses	2,547,575	2,877,561	2,024,409
Depreciation	21,120	21,365	20,206
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	2,772,771	3,438,547	2,235,329
	<u> </u>	<u> </u>	<u> </u>
Income (loss) from operations	1,605	(273,884)	134,871
	<u> </u>	<u> </u>	<u> </u>
Other expense:			
Interest expense	389	1,432	377
	<u> </u>	<u> </u>	<u> </u>
Income (loss) before income tax expense	1,216	(275,316)	134,494
Income tax expense (benefit)	8,386	(96,528)	55,233
	<u> </u>	<u> </u>	<u> </u>
Net income (loss)	\$ (7,170)	\$ (178,788)	\$ 79,261
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to financial statements.

Table of Contents**PLAY ALONG, INC.****STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)**

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, March 31, 2001	10,000	\$ 100	\$	\$ (23,393)	\$ (23,293)
Net income				79,261	79,261
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, March 31, 2002	10,000	100		55,868	55,968
Net loss				(178,788)	(178,788)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, March 31, 2003	10,000	100		(122,920)	(122,820)
Repurchase of shares	(3,000)	(30)	(970)		(1,000)
Net loss				(7,170)	(7,170)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2003	<u>7,000</u>	<u>\$ 70</u>	<u>\$ (970)</u>	<u>\$ (130,090)</u>	<u>\$ (130,990)</u>

See accompanying notes to financial statements.

Table of Contents**PLAY ALONG, INC.
STATEMENTS OF CASH FLOWS**

	December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities:			
Net income (loss)	\$ (7,170)	\$(178,788)	\$ 79,261
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation	21,120	21,365	20,206
Provision (benefit) for income taxes	8,386	(96,528)	55,233
(Increase) decrease in:			
Prepays and other receivables	7,938	(11,700)	(7,452)
Deposits	540	(19,008)	7,383
Increase (decrease) in:			
Accounts payable and accrued expenses	(453,152)	486,410	(7,875)
Taxes payable	(708)		(14,870)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	(423,046)	201,751	131,886
	<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities:			
Purchase of equipment	(47,733)	(27,522)	(1,633)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities:			
Advances from (repayments to) related parties	660,841	(162,338)	(147,982)
Repurchase of shares	(1,000)		
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	659,841	(162,338)	(147,982)
	<u> </u>	<u> </u>	<u> </u>
Net increase (decrease) in cash	189,062	11,891	(17,729)
Cash, beginning of period	29,589	17,698	35,427
	<u> </u>	<u> </u>	<u> </u>
Cash, end of period	\$ 218,651	\$ 29,589	\$ 17,698
	<u> </u>	<u> </u>	<u> </u>
Supplemental disclosures:			
Taxes paid	\$	\$ 250	\$
	<u> </u>	<u> </u>	<u> </u>
Interest paid	\$	\$ 1,422	\$ 160



See accompanying notes to financial statements.



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**PLAY ALONG, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 NATURE OF BUSINESS

Play Along, Inc. (the Company) is located in Deerfield Beach, Florida and was incorporated on May 15, 2000 under the statutes of the state of Delaware. The Company is engaged in providing management and marketing services exclusively to its related companies: Play Along (Hong Kong), Ltd. and PA Distribution, Inc. Play Along (Hong Kong), Ltd. is a toy manufacturer. PA Distribution, Inc. is a wholesale distributor of toys. See Note 5 regarding transactions between these entities and the Company.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2003, March 31, 2003 and 2002.

Property and Equipment

Property and equipment are stated at cost. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the asset, which range from three to five years. The Company reviews the valuation of property and equipment and their remaining economic lives annually and adjusts depreciation accordingly.

Use of Estimates

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

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, service has been provided to the customer, price is fixed or determinable and collectibility is reasonably assured.

Fair Value of Financial Instruments

The Company's financial instruments are cash and cash equivalents and accounts payable. The recorded values of cash and cash equivalents and accounts payable approximate their fair values based on their short-term nature.

Advertising Costs

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising event takes place.

Table of Contents**PLAY ALONG, INC.****NOTES TO FINANCIAL STATEMENTS****NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	December 31 2003	March 31 2003	March 31 2002
Office furniture and fixtures	\$ 51,314	\$ 15,190	\$ 8,002
Computer software and equipment	120,470	108,861	88,527
Less: accumulated depreciation	(76,922)	(55,802)	(34,437)
Property and equipment, net	<u>\$ 94,862</u>	<u>\$ 68,249</u>	<u>\$ 62,092</u>

Depreciation expense is \$21,120, \$21,365 and \$20,206 for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002, respectively.

NOTE 4 INCOME TAXES

The non-deductibility of certain expenses and temporary differences in depreciation expense and accrued expenses resulted in an increase in the effective tax rate. Income tax expense consisted of the following:

	December 31 2003	March 31 2003	March 31 2002
Current	\$	\$ 708	\$
Deferred	8,386	(97,236)	55,233
Total income tax expense (benefit)	<u>\$ 8,386</u>	<u>\$(96,528)</u>	<u>\$55,233</u>

Under FAS No. 109, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of deferred tax assets are as follows:

December 31	March 31	March 31
------------------------	-----------------	-----------------

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	<u>2003</u>	<u>2003</u>	<u>2002</u>
Deferred tax asset (liability)			
Accrued expenses	\$ 110,493	\$ 121,610	\$ 13,258
Depreciation	(25,609)	(17,223)	(7,288)
Other	8,843	(2,274)	(1,093)
	<u> </u>	<u> </u>	<u> </u>
Total deferred tax asset (liability)	<u>\$ 93,727</u>	<u>\$ 102,113</u>	<u>\$ 4,877</u>

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Table of Contents**PLAY ALONG, INC.
NOTES TO FINANCIAL STATEMENTS****NOTE 5 RELATED PARTY TRANSACTIONS**

Activity with related parties are summarized below:

	December 31 2003	March 31 2003	March 31 2002
	<hr/>	<hr/>	<hr/>
Receivable from related parties	\$ 141,130	\$ 352,727	\$75,000
Payable to related parties, end of year	(564,633)	(115,389)	<hr/>
	<hr/>	<hr/>	<hr/>
Receivable (Payable) to related parties, end of year	\$(423,503)	\$ 237,338	\$75,000
	<hr/>	<hr/>	<hr/>

During the nine-months ended December 31, 2003 and the years ended March 31, 2003 and 2002, the Company received \$800,000, \$600,000 and \$570,200 in management and marketing fees from a related company, PA Distribution, Inc., for rent, administrative and other related services provided.

During the nine-months ended December 31, 2003 and the years ended March 31, 2003 and 2002, the Company received \$1,974,376, \$2,564,663 and \$1,800,000 in management and marketing fees from a related company, Play Along (Hong Kong), Ltd, for administrative and other related services provided.

NOTE 6 CONCENTRATION OF CREDIT RISK*Cash*

The Company maintains its cash bank deposits at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000 and the balances, at times, may exceed federally insured limits. At December 31, 2003, March 31, 2003 and 2002 the balances in each bank account were over this limit by an aggregate of \$166,035, \$0, and \$0, respectively.

Revenues

In the periods ended December 31, 2003, March 31, 2003 and March 31, 2002, 100% of all revenues were earned from related companies as noted in Note 5. One of these two customers is Play Along (Hong Kong), Ltd which is located in the People's Republic of China (PRC). The loss of this customer could have a material adverse effect on the Company. The customer's operations in the PRC are subject to special consideration and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The customer's production and therefore, the Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

NOTE 7 DEFINED CONTRIBUTION PENSION PLAN

The Company sponsors a simplified employers' pension plan covering all eligible employees. The Company funds the plan at its discretion. Pension expense for the Company was \$30,759, \$23,078 and \$13,436 for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002, respectively.

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Table of Contents**PLAY ALONG, INC.
NOTES TO FINANCIAL STATEMENTS****NOTE 8 COMMITMENTS**

The Company leases its office facilities under long-term operating lease agreements. Rent expense for all operating leases was \$195,973, \$275,336 and \$187,938 for the nine-months ended December 31, 2003 and the years ended March 31, 2003 and 2002, respectively.

At December 31, 2003, future minimum lease payments for these leases are as follows:

Year ending December 31	Operating Leases
_____	_____
2004	\$ 192,288
2005	124,671
2006	114,934
2007	43,587
2008	11,391
Thereafter	949

Total minimum lease payments	\$487,820

NOTE 9 LITIGATION

The Company is a defendant in a lawsuit with respect to a claim of infringement of patent on certain products sold by its related companies: Play Along (Hong Kong), Ltd. (PAHK) and PA Distribution, Inc. (PAD). The plaintiff in the suit is seeking unspecified damages. PAHK has accrued \$1,844,626 as a liability under this lawsuit as of December 31, 2003, based on legal counsel's assessment of the estimated damages that could be awarded and the fees that may be incurred if a Court were to find in favor of the plaintiff. As of December 31, 2003, the Company has been fully indemnified for all costs and expenses in this claim by its related company, PAHK. Therefore, no additional liability is reflected in these financial statements of the Company as of December 31, 2003, March 31, 2003 or March 31, 2002.

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INDEPENDENT AUDITORS REPORT

The Board of Directors
PA Distribution, Inc.
Fort Lauderdale, Florida

We have audited the accompanying balance sheets of PA Distribution, Inc. as of March 31, 2003, 2002 and December 31, 2003 and the related statements of operations, changes in stockholders' deficit and cash flows for the periods 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managements, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 PA Distribution, Inc. as of March 31, 2003, 2002 and December 31, 2003, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Daszkal Bolton LLP

Boca Raton, Florida
February 13, 2004

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PA DISTRIBUTION, INC.

FINANCIAL STATEMENTS

**FOR THE NINE MONTHS ENDED
DECEMBER 31, 2003 AND
FOR THE YEARS ENDED
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Table of Contents**PA DISTRIBUTION, INC.
BALANCE SHEETS**

	<u>December 31, 2003</u>	<u>March 31, 2003</u>	<u>March 31, 2002</u>
ASSETS			
Current assets:			
Cash	\$ 3,927,375	\$ 107,411	\$ 15,540
Accounts receivable, net	6,701,152	9,590,481	658,764
Inventory	11,158,415	6,571,787	1,127,524
Prepaid expenses	31,648		
	<u>21,818,590</u>	<u>16,269,679</u>	<u>1,801,828</u>
Total current assets			
Property and equipment, net	<u>156,168</u>	<u>46,257</u>	<u>31,054</u>
Other assets:			
Other receivable	11,803	1,401	5,001
Employee receivable	25,000	14,430	
Certificate of deposit	160,000	160,000	
	<u>196,803</u>	<u>175,831</u>	<u>5,001</u>
Total other assets			
Total assets	<u>\$22,171,561</u>	<u>\$16,491,767</u>	<u>\$ 1,837,883</u>
LIABILITIES AND STOCKHOLDERS DEFICIT			
Current liabilities:			
Accounts payable and accrued expenses	\$ 451,510	\$ 834,341	\$ 201,772
Note payable		940,053	191,907
Taxes payable		150,070	
Due to related parties	22,815,866	15,650,500	3,644,922
	<u>23,267,376</u>	<u>17,574,964</u>	<u>4,038,601</u>
Total current liabilities			
Commitments and Contingencies			
Stockholders deficit:			
Common stock, \$0.01 par value; 20,000 shares authorized; 7,000, 10,000 and 10,000 shares issued and outstanding, respectively	70	100	100

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Additional paid in capital	(970)		
Accumulated deficit	<u>(1,094,915)</u>	<u>(1,083,297)</u>	<u>(2,200,818)</u>
Total stockholders deficit	<u>(1,095,815)</u>	<u>(1,083,197)</u>	<u>(2,200,718)</u>
Total liabilities and stockholders deficit	<u>\$22,171,561</u>	<u>\$16,491,767</u>	<u>\$ 1,837,883</u>

See accompanying notes to financial statements.

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Table of Contents**PA DISTRIBUTION, INC.
STATEMENTS OF OPERATIONS**

	Nine Months ended December 31, 2003	March 31, 2003	March 31, 2002
Sales	\$37,345,315	\$31,814,828	\$ 5,591,420
Cost of goods sold	<u>32,050,589</u>	<u>26,703,568</u>	<u>5,946,788</u>
Gross profit (loss)	<u>5,294,726</u>	<u>5,111,260</u>	<u>(355,368)</u>
Operating expenses:			
Selling expenses	77,958	31,739	28,489
Advertising expenses	800,790	794,565	570,700
General and administrative expenses	4,178,221	2,839,789	1,413,465
Depreciation	<u>18,866</u>	<u>11,248</u>	<u>5,377</u>
Total operating expenses	<u>5,075,835</u>	<u>3,677,341</u>	<u>2,018,031</u>
Income (loss) from operations	<u>218,891</u>	<u>1,433,919</u>	<u>(2,373,399)</u>
Other income (expense):			
Other income	104,027	145,740	64,664
Interest income	7,108	130	76
Interest and factoring expense	<u>(304,267)</u>	<u>(312,198)</u>	<u>(80,148)</u>
Total other income (expense)	<u>(193,132)</u>	<u>(166,328)</u>	<u>(15,408)</u>
Income (loss) before income tax expense	25,759	1,267,591	(2,388,807)
Income tax expense	<u>37,377</u>	<u>150,070</u>	<u>160</u>
Net income (loss)	<u>\$ (11,618)</u>	<u>\$ 1,117,521</u>	<u>\$ (2,388,967)</u>

See accompanying notes to financial statements.

Table of Contents**PA DISTRIBUTION, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS DEFICIT**

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, March 31, 2001	10,000	\$ 100	\$	\$ 188,149	\$ 188,249
Net loss				(2,388,967)	(2,388,967)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, March 31, 2002	10,000	100		(2,200,818)	(2,200,718)
Net income				1,117,521	1,117,521
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, March 31, 2003	10,000	100		(1,083,297)	(1,083,197)
Repurchase of common stock	(3,000)	(30)	(970)		(1,000)
Net loss				(11,618)	(11,618)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2003	<u>7,000</u>	<u>\$ 70</u>	<u>\$ (970)</u>	<u>\$ (1,094,915)</u>	<u>\$ (1,095,815)</u>

See accompanying notes to financial statements.

Table of Contents**PA DISTRIBUTION, INC.
STATEMENTS OF CASH FLOWS**

	Nine Months ended December 31, 2003	March 31, 2003	March 31, 2002
Cash flows from operating activities:			
Net income (loss)	\$ (11,618)	\$ 1,117,521	\$(2,388,967)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	18,866	11,248	5,377
Sales returns and allowance for chargebacks	1,476,704	689,250	
(Increase) decrease in:			
Accounts receivable	1,412,625	(9,620,967)	689,125
Inventory	(4,586,628)	(5,444,263)	2,291,657
Prepaid expense and other current assets	(52,620)	(110,771)	
Increase (decrease) in:			
Accounts payable and accrued expenses	(111,090)	633,098	(63,746)
Taxes payable	(150,070)	150,070	
	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(2,003,831)	(12,574,814)	533,446
	<hr/>	<hr/>	<hr/>
Cash flows from investing activities:			
Purchase of certificate of deposit		(160,000)	
Purchase of equipment	(128,777)	(27,040)	(26,697)
	<hr/>	<hr/>	<hr/>
Net cash used in operating activities	(128,777)	(187,040)	(26,697)
	<hr/>	<hr/>	<hr/>
Cash flows from financing activities:			
Advances from factor	34,040,000	24,755,000	5,275,000
Repayments to factor	(35,251,794)	(24,006,854)	(5,083,093)
Advances from related parties	7,165,366	12,105,579	(907,495)
Repurchase of common stock	(1,000)		
	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) financing activities	5,952,572	12,853,725	(715,588)
	<hr/>	<hr/>	<hr/>
Net increase (decrease) in cash	3,819,964	91,871	(208,839)

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Cash, beginning of year	<u>107,411</u>	<u>15,540</u>	<u>224,379</u>
Cash, end of year	<u>\$ 3,927,375</u>	<u>\$ 107,411</u>	<u>\$ 15,540</u>
Supplemental disclosures:			
Income taxes paid	<u>\$ 37,377</u>	<u>\$ 166,000</u>	<u>\$ 312,198</u>
Interest paid	<u>\$ 304,267</u>	<u>\$ 312,198</u>	<u>\$ 71,178</u>

See accompanying notes to financial statements.

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**PA DISTRIBUTION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 NATURE OF BUSINESS

PA Distribution, Inc. (the Company) is engaged in the wholesale distribution of toys. The Company is located in Deerfield Beach, Florida. The Company was incorporated on May 15, 2000 under the statutes of the state of Delaware. The Company does business with two related entities which are under common ownership, Play Along (Hong Kong), Ltd. and Play Along, Inc. Play Along (Hong Kong), Ltd. is a toy manufacturer and primary supplier for the Company. Play Along, Inc. is a management and marketing company. The Company also does business with Art Asylum LLC, a toy product design company. Art Asylum LLC is majority owned by stockholders of the Company. See Note 6 regarding transactions between these entities and the Company.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2003, March 31, 2003 and 2002.

Property and Equipment

Property and equipment are stated at cost. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the asset, which range from three to five years. The Company reviews the valuation of property and equipment and their remaining economic lives annually and adjusts depreciation accordingly.

Inventories

Inventories consist of twelve product toy lines. The inventory has been valued at the lower of cost or market using the first-in, first-out (FIFO) method.

Use of Estimates

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

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, shipment has occurred, price is fixed or determinable and collectibility is reasonably assured. Provision is made for an estimate of product returns, chargeback allowances and doubtful accounts and is based on historical experience.

Fair Value of Financial Instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable, certificate of deposit, accounts payable and note payable. The recorded values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values based on their short-term nature. The recorded values of the certificate

of deposit and note payable approximate their fair values, as interest approximates market rates.

Table of Contents**PA DISTRIBUTION, INC.
NOTES TO FINANCIAL STATEMENTS****NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued***Advertising Costs*

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising event takes place.

Shipping and Handling Fees

The Company follows the provisions of Emerging Issues Task Force Issue No. 00-10, Accounting for Shipping and Handling Fees and Costs. Any amounts billed to third-party customers for shipping and handling is included as a component of revenue. Shipping and handling costs incurred are included as a component of cost of sales. Shipping and handling costs is \$2,752,714, \$2,027,811 and \$347,263 for the nine months ended December 31, 2003 and the years ended March 31, 2003 and 2002, respectively.

NOTE 3 FACTORING AGREEMENT

Accounts receivable consisted of the following at December 31, 2003, March 31, 2003 and 2002:

	<u>December 31, 2003</u>	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Accounts receivable	\$ 8,215,356	\$ 10,317,231	\$ 696,264
Less: allowance for doubtful accounts	(37,500)	(37,500)	(37,500)
Less: allowance for sales returns and chargebacks	(1,476,704)	(689,250)	_____
	<u> </u>	<u> </u>	<u> </u>
Accounts receivable, net	<u>\$ 6,701,152</u>	<u>\$ 9,590,481</u>	<u>\$ 658,764</u>

There is \$388,562, \$48,272 and \$33,389 in bad debt expense for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002, respectively.

Pursuant to a factoring agreement with HSBC Business Credit, the Company is allowed to borrow up to 70% of the outstanding accounts receivable balance at a rate of prime rate (4.0%, 4.25% and 4.75% at December 31, 2003, March 31, 2003 and 2002, respectively) plus 1.25%. The Company's obligations to the factor are collateralized by all the Company's accounts receivable, inventories, and equipment. The balance due at December 31, 2003, March 31, 2003 and 2002 are \$0, \$940,053, \$191,907, respectively. Interest and factoring expense for the nine months ended December 31, 2003 and the years ended March 31, 2003 and 2002 are \$304,267, \$312,198 and \$80,148, respectively.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
Office equipment, computers and software	\$ 189,192	\$ 60,415	\$ 37,886
Less: accumulated depreciation and amortization	(33,024)	(14,158)	(6,832)
	<u> </u>	<u> </u>	<u> </u>
Property and equipment, net	<u>\$ 156,168</u>	<u>\$ 46,257</u>	<u>\$ 31,054</u>

Table of Contents**PA DISTRIBUTION, INC.
NOTES TO FINANCIAL STATEMENTS****NOTE 4 PROPERTY AND EQUIPMENT, continued**

Depreciation expense is \$18,866, \$11,248 and \$5,377 for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002, respectively.

NOTE 5 INCOME TAXES

The non-deductibility of certain expenses and temporary differences in depreciation expense and inventory costs capitalized for tax purposes resulted in an increase in the effective tax rate. Income tax expense consisted of the following:

	December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
Current	\$	\$ 150,070	\$
Deferred	—	—	—
Total income tax expense	<u>\$</u>	<u>\$ 150,070</u>	<u>\$</u>

Reconciliation of the federal statutory income tax rate to the Company's effective tax rate is as follows:

	December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
Taxes computed at combined federal and state tax rate	\$ (3,950)	\$ 410,195	\$(812,249)
Non-deductible expenses	9,734	3,015	2,922
State income taxes, net of federal income tax benefit	843	60,158	(117,828)
Increase (decrease) in deferred tax asset valuation allowance	<u>30,750</u>	<u>(323,298)</u>	<u>927,315</u>
Provision for income taxes	<u>\$ 37,377</u>	<u>\$ 150,070</u>	<u>\$ 160</u>

Under FAS No. 109, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of deferred tax assets are as follows as of:

	December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
Deferred tax asset:			
Accrued expenses	\$	\$ 4,895	\$ 99,046
Allowance for sales returns		275,011	
Depreciation	(7,588)	7,283	(1,591)
Allowance for uncollectible accounts	14,963	14,963	14,963
Net operating loss carryforward	151,620	224,133	933,102
	<u> </u>	<u> </u>	<u> </u>
Total deferred tax asset	158,995	526,285	1,045,520
Valuation allowance	(158,995)	(526,285)	(1,045,520)
	<u> </u>	<u> </u>	<u> </u>
Net deferred tax asset	\$	\$	\$
	<u> </u>	<u> </u>	<u> </u>

The Company has a net operating loss of approximately \$380,000 as of December 31, 2003 that expires in 2022.

Table of Contents**PA DISTRIBUTION, INC.
NOTES TO FINANCIAL STATEMENTS****NOTE 6 RELATED PARTY TRANSACTIONS**

Activity with related parties are summarized below:

	<u>December 31, 2003</u>	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Payable to related parties	\$(23,380,499)	\$(15,765,889)	\$(3,644,922)
Receivable from related party	564,633	115,389	
	<u> </u>	<u> </u>	<u> </u>
Payable to related party, end of year	<u>\$(22,815,866)</u>	<u>\$(15,650,500)</u>	<u>\$(3,644,922)</u>

As of December 31, 2003, March 31, 2003 and 2002 the payable to related parties included \$23,270,385, \$15,209,018 and \$3,514,228, payable to the Company's primary supplier, Play Along (Hong Kong), Ltd., respectively. The payable to the Company's primary supplier is subordinated to a maximum of \$3,500,000 to the indebtedness to HSBC Business Credit.

Receivables from related party consisted of \$564,633, \$115,389 and no amounts due from Company's marketing supplier, Play Along, Inc. as of December 31, 2003, March 31, 2003 and 2002, respectively. During the nine-months ended December 31, 2003, the Company paid \$800,000 in management and marketing fees to a related party, Play Along, Inc., for rent, administrative and other related services. During the years ended March 31, 2003 and 2002, the Company paid \$600,000 and \$570,200 in management and marketing fees to Play Along, Inc.

As of December 31, 2003, March 31, 2003 and 2002, the payable to related parties included \$110,114, \$556,871 and \$130,694, respectively, due for commissions on sales of goods on behalf of, Art Asylum LLC, an entity majority owned by stockholders of the Company. Other income for the nine-months ended December 31, 2003 and for the years ended March 31, 2003 and 2002 includes commissions received from Art Asylum, LLC of \$104,027, \$145,740 and \$43,993, respectively.

NOTE 7 CONCENTRATIONS*Cash*

The Company maintains its cash bank deposits at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000 and the balances, at times, may exceed federally insured limits. At December 31, 2003, March 31, 2003 and 2002 the balances in each bank account were over this limit by an aggregate of \$3,894,938, \$101,506, \$0, respectively.

Sales

Sales to two customers for the nine months ended December 31, 2003 represented approximately 43% and 15% of total sales. Approximately 35% and 20% of total accounts receivable at December 31, 2003 is due from these two customers, respectively.

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Sales to two customers for the year ended March 31, 2003 represented approximately 60% and 20% of total sales. Approximately 64% and 15% of total accounts receivable at March 31, 2003 is due from these two customers, respectively.

Sales to two customers for the year ended March 31, 2002 represented approximately 66% and 7% of total sales. Approximately 69% and 5% of total accounts receivable at March 31, 2002 is due from these two customers, respectively.

In the nine-months ended December 31, 2003 and the years ended March 31, 2003 and 2002, approximately 67%, 81% and 56% of sales were from one product.

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**PA DISTRIBUTION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 CONCENTRATIONS, continued

Accounts Receivable

The Company performs on-going credit evaluations of its customer base including those included in accounts receivable at December 31, 2003, March 31, 2003 and 2002 and generally does not require collateral. The Company maintains reserves for potential credit losses and such losses have been both immaterial and within management's expectations.

Supplier

The Company is dependent on one supplier (a related party) for all of its inventory merchandise (See Note 6). This supplier is located in Hong Kong within the People's Republic of China (PRC). The loss of this supplier or a significant reduction in product availability from this supplier could have a material adverse effect on the Company. The supplier's operations in the PRC are subject to special consideration and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The supplier's production and therefore, the Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. The Company believes that its relationship with its supplier is satisfactory.

NOTE 8 DEFINED CONTRIBUTION PENSION PLAN

The Company sponsors a simplified employers' pension plan covering all eligible employees. The Company funds the plan at its discretion. Pension expense for the Company was \$19,909, \$12,165 and \$12,629 for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002, respectively.

NOTE 9 LITIGATION

The Company's related company, Play Along, Inc. (PAI) is a defendant in a lawsuit with respect to a claim of infringement of patent on certain products sold by the Company and its related company, Play Along (Hong Kong) Ltd (PAHK). The plaintiff in the suit is seeking unspecified damages. PAHK has accrued \$1,844,626 as a liability under this lawsuit as of December 31, 2003, based on legal counsel's assessment of the estimated damages that could be awarded and the fees that may be incurred if a court were to find in favor of the plaintiff. As of December 31, 2003, the Company has not been named in the lawsuit and is fully indemnified for all costs and expenses in this claim by PAHK. Therefore, no additional liability is reflected in these financial statements as of December 31, 2003, March 31, 2003 and 2002.

NOTE 10 RECLASSIFICATIONS

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

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Play Along (Hong Kong) Limited

Reports and Financial Statements

For the year ended 31 March 2003

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Play Along (Hong Kong) Limited

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Play Along (Hong Kong) Limited

Directors report
for the year ended 31 March 2003

The directors present their report and the audited financial statements for the year ended 31 March 2003.

PRINCIPAL ACTIVITY

The principal activity of the company is the trading of toys.

RESULTS AND APPROPRIATIONS

The results of the company for the year ended 31 March 2003 and the state of its affairs at that date are set out in the financial statements on pages 4 to 18.

The directors do not recommend the payment of a dividend.

DIRECTORS

The directors of the company during the year were as follows:

Mr. Steven Edward Geller
Ms. Tam Sui Ying
Mr. Jay Bruce Foreman
Mr. Charles Edward Emby
Mr. Chow Pui Mau, William

In accordance with the company's articles of association, all directors remain in office for the ensuing year.

DIRECTORS' INTERESTS

During the year, the directors of the company had interests in the following transactions :

- (i) During the year, the company made purchases of HK\$32,507,606 and HK\$4,123,251 from Wealthwise Industrial Limited and Root Land Limited respectively. Mr. Chow Pui Mau, William has equity interests in these companies.
- (ii) During the year, the company paid marketing fees of HK\$18,638,750 to Play Along Inc. Mr. Jay Bruce Foreman, Mr. Charles Edward Emby and Mr. Chow Pui Mau, William have equity interests in this company.
- (iii) During the year, the company earned sales revenue of HK\$226,046,140 from PA Distribution, Inc. Mr. Jay Bruce Foreman and Mr. Charles Edward Emby have equity interests in this company.

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Play Along (Hong Kong) Limited

DIRECTORS INTERESTS (Continued)

(iv) During the year, the company earned commission and agency income of HK\$5,256,708 from Art Asylum LLC. Mr. Jay Bruce Foreman and Mr. Charles Edward Emby have equity interests in this company. In connection with the rendering of such agency services, the company made purchases and sales of approximately HK\$16 million and HK\$40 million on behalf of Art Asylum LLC during the year ended 31 March 2003. These purchases and sales were not regarded or included as part of the company's own purchases and sales.

Save as aforesaid, no other contract of significance to which the company or its holding company was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

AUDITORS

The company's auditors, Grant Thornton retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

Chairman

6 June 2003

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**Certified Public Accountants
Auditors report**

**To the members of Play Along (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)**

We have audited the financial statements on pages 4 to 18 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 and standards of the Public Company Accounting Oversight Board (United States). 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2003 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Grant Thornton
Certified Public Accountants
Hong Kong

6 June 2003

Member of Grant Thornton International

Table of Contents**Play Along (Hong Kong) Limited**

Income statement
for the year ended 31 March 2003

	Notes	2003 HK\$	2002 HK\$
Turnover	3	440,379,441	105,210,916
Cost of sales		(204,364,180)	(62,288,576)
Gross profit		236,015,261	42,922,340
Other revenue		11,207,609	10,077,473
Selling and distribution costs		(125,019,609)	(49,909,460)
Administrative expenses		(20,323,755)	(14,742,200)
Profit/(Loss) from operations		101,879,506	(11,651,847)
Finance costs	4(b)	(767,633)	(850,884)
Profit/(Loss) before taxation	4(a)	101,111,873	(12,502,731)
Taxation	5	(13,488,247)	
Profit/(Loss) for the year		87,623,626	(12,502,731)

Table of Contents**Play Along (Hong Kong) Limited**

Balance sheet
as at 31 March 2003

	Notes	2003 HK\$	2002 HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	6	1,048,211	1,169,405
Investment securities	7, 9	3,875,000	
		<hr/>	<hr/>
		4,923,211	1,169,405
Current assets			
Inventories	8	170,807	869,599
Trade and other receivables		10,186,812	5,948,577
Amounts due from related companies		117,310,934	27,290,474
Pledged bank deposits	9	3,908,017	7,750,000
Tax recoverable			401,494
Cash at banks and in hand		60,708,387	2,091,597
		<hr/>	<hr/>
		192,284,957	44,351,741
Current liabilities			
Bank overdrafts (secured)	9		693,396
Trade and other payables		66,051,473	32,217,964
Bills payable (secured)	9	20,805,433	6,162,008
Amounts due to related companies		6,857,684	2,647,301
Bank loan (secured)	9, 10	31,514	840,544
Provision for tax		12,878,505	
		<hr/>	<hr/>
		106,624,609	42,561,213
Net current assets			
		<hr/>	<hr/>
		85,660,348	1,790,528
Net assets			
		<hr/>	<hr/>
		90,583,559	2,959,933
CAPITAL AND RESERVES			
Share capital	11	20,000	20,000
Retained profits		90,563,559	2,939,933
		<hr/>	<hr/>

Shareholders funds

90,583,559

2,959,933

Director

Director

5

Table of Contents**Play Along (Hong Kong) Limited**

Cash flow statement
for the year ended 31 March 2003

	Note	2003 HK\$	2002 HK\$
Cash flow from operating activities			
Profit/(Loss) before taxation		101,111,873	(12,502,731)
Adjustments for :			
Depreciation		699,772	680,244
Interest expense		767,633	850,884
Interest income		(41,216)	(257,985)
Gain on disposal of property, plant and equipment			(44,521)
Provision for obsolete stocks			510,832
Stock written off		789,899	
Write-back of provision for bad and doubtful debts		(4,000,000)	
Provision for bad and doubtful debts		733,597	216,672
Bad debts written off		346,460	
		<hr/>	<hr/>
Operating profit/(loss) before working capital changes		100,408,018	(10,546,605)
Increase in inventories		(91,107)	(109,424)
Increase in trade and other receivables		(5,318,292)	(199,161)
(Increase)/Decrease in amounts due from related companies		(86,020,460)	8,556,368
Increase in trade and other payables		33,833,509	8,234,161
Increase/(Decrease) in bills payable		14,643,425	(7,469,014)
Increase in amounts due to related companies		4,210,383	2,647,301
		<hr/>	<hr/>
Cash generated from operations		61,665,476	1,113,626
Interest received		41,216	257,985
Interest paid		(767,633)	(850,884)
Profits tax paid		(208,248)	(1,008,653)
		<hr/>	<hr/>
<i>Net cash from/(used in) operating activities</i>		60,730,811	(487,926)
		<hr/>	<hr/>
Cash flow from investing activities			
Payments to acquire property, plant and equipment		(578,578)	(668,725)
Receipts from disposal of property, plant and equipment			363,312
Payments to acquire investment securities		(3,875,000)	
Decrease in pledged bank deposits		3,841,983	
		<hr/>	<hr/>
<i>Net cash used in investing activities</i>		(611,595)	(305,413)

Cash flow from financing activities	15		
New bank loan			1,008,653
Repayment of bank loan		(809,030)	(168,109)
Net cash (used in)/from financing activities		(809,030)	840,544
Net increase in cash and cash equivalents		59,310,186	47,205
Cash and cash equivalents at 1 April 2002		1,398,201	1,350,996
Cash and cash equivalents at 31 March 2003		60,708,387	1,398,201
Analysis of balances of cash and cash equivalents			
Cash at banks and in hand		60,708,387	2,091,597
Bank overdrafts			(693,396)
		60,708,387	1,398,201

Table of Contents**Play Along (Hong Kong) Limited**

Statement of changes in equity
for the year ended 31 March 2003

	Share capital HK\$	Retained profits HK\$	Total HK\$
Balance at 1 April 2001	20,000	15,442,664	15,462,664
Net loss for the year	<u> </u>	<u>(12,502,731)</u>	<u>(12,502,731)</u>
Balance at 31 March 2002 and 1 April 2002	20,000	2,939,933	2,959,933
Net profit for the year	<u> </u>	<u>87,623,626</u>	<u>87,623,626</u>
Balance at 31 March 2003	<u>20,000</u>	<u>90,563,559</u>	<u>90,583,559</u>

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Play Along (Hong Kong) Limited

**Notes to the financial statements
for the year ended 31 March 2003**

1. GENERAL INFORMATION

The principal activity of the company is the trading of toys. The directors consider the ultimate holding company as at 31 March 2003 to be Bright Wealth Enterprises Limited, incorporated in the British Virgin Islands.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 4 to 18 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.

Adoption of new and revised SSAPs

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

Adoption of these new and revised SSAPs has led to additional and revised disclosure in these financial statements, as explained below.

(i) SSAP 1 (Revised) Presentation of financial statements

In adopting SSAP 1 (Revised) the company is required to present a statement of changes in equity instead of a statement of recognised gains and losses. Comparative amounts have been restated to achieve a consistent presentation.

(ii) SSAP 15 (Revised) Cash flow statement

In adopting SSAP 15 (Revised) the company is required to present a cash flow statement to report cash flows during the year classified by operating, investing and financing activities only. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits, short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Comparative amounts have been restated to achieve a consistent presentation.

Table of Contents**Play Along (Hong Kong) Limited****2. PRINCIPAL ACCOUNTING POLICIES (Continued)****(a) Basis of preparation (Continued)**

(iii) SSAP 34 - Employee benefits

Employee entitlements

In adopting SSAP 34, employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences, such as sick leave and maternity leave are not recognised until the time of leave.

In prior year, no provision was made for employee annual leave and long service payment entitlements. The adoption of SSAP 34 has not resulted in any significant changes to the prior years' net assets and results and accordingly, no prior year adjustment is required.

(b) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum :

Leasehold improvements	50%
Furniture and fixtures	20%
Office equipment	20%
Computer equipment	30%

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

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Play Along (Hong Kong) Limited

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Property, plant and equipment (Continued)

(ii) Measurement bases (Continued)

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(c) Investment securities

Investment securities are securities which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated in the balance sheet at cost less any provisions for impairment losses. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises the cost of purchased goods calculated using the first-in first-out method. Net realisable value is calculated as the actual or estimated selling price less all further costs of marketing, selling and distribution.

(e) Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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Play Along (Hong Kong) Limited

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Impairment (Continued)

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease term.

(h) Deferred tax/ Future tax benefits

Deferred tax is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallise in the foreseeable future.

Future tax benefit is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

(i) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

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Play Along (Hong Kong) Limited

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(k) Recognition of revenue

Revenue from the sale of goods are recognised when they are delivered to customers.

Interest income is recognised on a time proportion basis.

(l) Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefit costs

The company contributes to a Mandatory Provident Fund Scheme which is a defined contribution retirement benefit scheme, and is available to all employees. Contributions to the scheme by the company and its employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the company to the scheme.

The assets of the scheme are held separately from those of the company in an independently administered fund.

Table of Contents**Play Along (Hong Kong) Limited****3. TURNOVER**

Turnover represents the total invoiced value of goods supplied less returns and discounts.

4(a). PROFIT/(LOSS) BEFORE TAXATION

	2003	2002
	HK\$	HK\$
Profit/(Loss) before taxation is arrived at after charging :		
Auditors remuneration	80,600	75,000
Cost of inventories recognised as expenses (including provision/write-off of HK\$789,899 (2002 : HK\$510,832)	205,154,079	62,799,408
Depreciation	699,772	680,244
Impairment on advanced payment of royalty fee	11,237,500	3,975,936
Licence and royalty fees	47,286,717	17,479,625
Operating lease charges in respect of office premises	499,554	419,368
Product development and sampling	4,737,082	3,441,866
Provision for bad and doubtful debts	733,597	216,672
Marketing, promotion and advertising	39,650,980	17,368,785
Contributions to retirement benefit scheme	265,137	220,790
Staff costs (including directors remuneration and contributions to retirement benefit scheme)	11,591,497	7,669,666
and crediting :-		
Commission and agency income	5,256,708	7,230,558
Write-back of provision for bad and doubtful debts	4,000,000	
Exchange gain	205,418	75,767
Gain on disposal of property, plant and equipment		44,521
Bank interest income	41,216	257,985

4(b). FINANCE COSTS

	2003	2002
	HK\$	HK\$
Interest charges on bank loan and other borrowings repayable within five years	767,633	850,884

Table of Contents**Play Along (Hong Kong) Limited****5. TAXATION**

	2003	2002
	HK\$	HK\$
The charge comprises:		
Hong Kong profits tax		
Current year	13,711,497	
Overprovision in prior years	(223,250)	
	13,488,247	—

Hong Kong profits tax is provided at the rate of 16% on the estimated assessable profit of the year after setting off available tax losses brought forward from the prior year amounting to approximately HK\$12.5 million. No Hong Kong profits tax was provided in the previous year as the company did not derive any assessable profit for that year.

No deferred tax has been provided in the financial statements as there are no material timing differences.

6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer equipment	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Cost					
At 1 April 2002	796,843	326,310	117,661	1,479,366	2,720,180
Additions		82,508	17,776	478,294	578,578
At 31 March 2003	796,843	408,818	135,437	1,957,660	3,298,758
Accumulated depreciation					
At 1 April 2002	707,435	149,931	48,399	645,010	1,550,775
Charge for the year	85,658	72,767	24,474	516,873	699,772
At 31 March 2003	793,093	222,698	72,873	1,161,883	2,250,547
Net book value					
At 31 March 2003	3,750	186,120	62,564	795,777	1,048,211

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	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2002	89,408	176,379	69,262	834,356	1,169,405
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**Play Along (Hong Kong) Limited****7. INVESTMENT SECURITIES**

	2003	2002
	HK\$	HK\$
HSBC Asia Select Guaranteed Fund, at cost	3,875,000	-
Market value	3,891,523	-

The investment is pledged as a security against the company's banking facilities (note 9).

8. INVENTORIES

	2003	2002
	HK\$	HK\$
Packing material	170,807	
Goods purchased for resale, at cost		1,380,431
Less : Provision for slow-moving inventories		(510,832)
	170,807	869,599

During the year the company reversed inventory provisions of HK\$510,832 made in 2002 as the related inventory items were subsequently scrapped in the current year.

9. BANKING FACILITIES

At 31 March 2003, general banking facilities granted to the company to the extent of approximately HK\$29,800,000 were secured by:

- (a) a charge over the company's investment securities of HK\$3,875,000 (note 7).
- (b) a charge over the company's bank deposits amounting to HK\$3,908,017 as at 31 March 2003;
- (c) undertaking to maintain a minimum net worth of not less than HK\$10,000,000;
- (d) guarantee of HK\$36,500,000 in aggregate from a third party; and
- (f) assignment of certain documentary credit loan proceeds amounting to US\$150,000 (approximately HK\$1,170,000) from the company to a bank.

Table of Contents**Play Along (Hong Kong) Limited****10. BANK LOAN (SECURED)**

	2003	2002
	HK\$	HK\$
Bank loan, secured - repayable within one year	31,514	840,544

11. SHARE CAPITAL

	2003	2002
	HK\$	HK\$
Authorised, issued and fully paid : 20,000 ordinary shares of HK\$1 each	20,000	20,000

12. OPERATING LEASE COMMITMENTS

At 31 March 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows :

	2003	2002
	HK\$	HK\$
Within one year	503,959	77,875
In the second to fifth years	625,998	—
	1,129,957	77,875

The company leases office premises under operating leases. The leases run for a period of one to three years without an option for renewal. None of the leases includes contingent rentals.

Table of Contents**Play Along (Hong Kong) Limited****13. OTHER COMMITMENTS**

During the year, the company had entered into royalty agreements with certain licensors, under which the company was granted the rights to use certain materials and trademarks which are owned by these licensors in a number of merchandising activities and endeavours. Total royalty commitments are as follows :

	2003 HK\$
Non-refundable royalty guaranteed payments contracted but not provided for in the financial statements :	
Payable within one year	10,288,125
Payable in the second to fifth years	6,781,250
	<hr/>
	17,069,375
	<hr/>

14. DIRECTORS REMUNERATION

Remuneration of the directors disclosed pursuant to section 161 of the Companies Ordinance is as follows:-

	2003 HK\$	2002 HK\$
Fees		
Other emoluments	728,000	560,000
	<hr/>	<hr/>

15. NOTE TO THE CASH FLOW STATEMENT

Analysis of changes in financing during the year are as follows:

	Bank loan	
	2003 HK\$	2002 HK\$
Balance at 1 April 2002	840,544	
New bank loan raised		1,008,653
Repayment of bank loan	(809,030)	(168,109)
	<hr/>	<hr/>
Balance at 31 March 2003	31,514	840,544
	<hr/>	<hr/>

Table of Contents**Play Along (Hong Kong) Limited****16. RELATED PARTY TRANSACTIONS**

The following transactions were carried out with related parties :

	2003	2002
	HK\$	HK\$
Related companies with common directors and shareholders		
- Purchases	36,630,857	
- Marketing fees expense	18,638,750	13,950,000
- Sales	226,046,140	22,896,325
- Commission and agency income	5,256,708	2,760,045
	_____	_____

During the year, the company provided agency services to a related company and earned commission and agency income of HK\$5,256,708 per above. In connection with the rendering of such agency services, the company made purchases and sales of approximately HK\$16 million and HK\$40 million on behalf of the related company during the year ended 31 March 2003. These purchases and sales were not regarded or included as part of the company's own purchases and sales.

17. POST BALANCE SHEET EVENT

Pursuant to the resolutions of all directors and all members and an agreement entered into by the company dated 14 April 2003, the company agreed to purchase 11,600 of its own fully paid-up ordinary shares from one of its shareholders, Bright Wealth Enterprises Limited (being the ultimate holding company as at 31 March 2003) for a consideration of US\$8,650,000 (approximately HK\$67 million).

The consideration will be paid by the company out of its distributable profits as follows:

- (a) US\$5,000,000, on or before 15 April 2003;
- (b) US\$1,650,000, on or before 10 October 2003; and
- (c) US\$2,000,000, on or before 10 December 2003.

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 4 to 18 were approved by the board of directors on 6 June 2003.

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Play Along (Hong Kong) Limited

Reports and Financial Statements

For the period from 1 April 2003 to 31 December 2003

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Play Along (Hong Kong) Limited

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Expressed in Hong Kong dollars (HK\$)

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Play Along (Hong Kong) Limited

Directors' report
for the period from 1 April 2003 to 31 December 2003

The directors present their report and the audited financial statements for the period from 1 April 2003 to 31 December 2003.

PRINCIPAL ACTIVITY

The principal activity of the company is the trading of toys.

CHANGE OF NAME

Pursuant to a directors' resolution passed on 23 January 2004, the company will change its name from Play Along (Hong Kong) Limited to Play Along (Hong Kong) Limited with effect from 4 February 2004.

CHANGE OF FINANCIAL YEAR END

Pursuant to a directors' resolution passed on 30 May 2003, the company changed its financial year end from 31 March to 31 December in order to facilitate the overseas tax reporting requirements of its shareholders.

RESULTS AND APPROPRIATIONS

The results of the company for the period ended 31 December 2003 and the state of its affairs at that date are set out in the financial statements on pages 5 to 24.

The directors have declared an interim dividend of HK\$5,535.71 per share, totalling HK\$46,500,000 which was paid on 21 November 2003.

The directors do not recommend the payment of a final dividend.

DIRECTORS

The directors of the company during the period were as follows:

Mr. Steven Edward Geller	
Ms. Tam Sui Ying	(resigned on 10 October 2003)
Mr. Jay Bruce Foreman	
Mr. Charles Edward Emby	
Mr. Chow Pui Mau, William	(resigned on 10 December 2003)

In accordance with the company's articles of association, all the present directors remain in office for the ensuing year.

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Play Along (Hong Kong) Limited

DIRECTORS INTERESTS

During the period, the directors of the company had interests in the following transactions :

- (i) During the period ended 31 December 2003, the company made purchases of HK\$21,030,784 and HK\$23,416,352 from Wealthwise Industrial Limited and Root Land Limited respectively. Mr. Chow Pui Mau, William has equity interests in these companies.
- (ii) During the period ended 31 December 2003, the company paid marketing fees of HK\$15,301,413 to Play Along Inc. Mr. Jay Bruce Foreman, Mr. Charles Edward Emby and Mr. Chow Pui Mau, William have equity interests in this company.
- (iii) During the period ended 31 December 2003, the company earned sales revenue of HK\$263,505,020 from PA Distribution, Inc. Mr. Jay Bruce Foreman and Mr. Charles Edward Emby have equity interests in this company.
- (iv) During the period ended 31 December 2003, the company earned commission and agency income of HK\$2,366,182 from Art Asylum LLC. Mr. Jay Bruce Foreman and Mr. Charles Edward Emby have equity interests in this company. In connection with the rendering of such agency services, the company made purchases and sales of approximately HK\$10 million and HK\$12 million respectively on behalf of Art Asylum LLC during the period ended 31 December 2003. These purchases and sales were not regarded or included as part of the company's own purchases and sales.

Save as aforesaid, no other contract of significance to which the company was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

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

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Play Along (Hong Kong) Limited

AUDITORS

The company's auditors, Grant Thornton retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

Chairman

19 February 2004

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Certified Public Accountants

Auditors report

**To the members of Play Along (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)**

We have audited the financial statements on pages 5 to 24 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 and standards of the Public Company Accounting Oversight Board (United States). 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit and cash flows for the period from 1 April 2003 to 31 December 2003 and have been properly prepared in accordance with the Companies Ordinance.

Grant Thornton

Certified Public Accountants

Hong Kong

19 February 2004

Member of Grant Thornton International

Table of Contents**Play Along (Hong Kong) Limited**

Income statement
for the period from 1 April 2003 to 31 December 2003

	Notes	Period from 1 April 2003 to 31 December 2003 HK\$	Year ended 31 March 2003 HK\$
Turnover	3	1,023,688,809	440,379,441
Cost of sales		(458,730,013)	(204,364,180)
		<hr/>	<hr/>
Gross profit		564,958,796	236,015,261
Other revenue		3,466,328	11,207,609
Selling and distribution costs		(274,320,691)	(125,019,609)
Administrative expenses		(36,723,328)	(20,323,755)
		<hr/>	<hr/>
Profit from operations		257,381,105	101,879,506
Finance costs	4(b)	(253,302)	(767,633)
		<hr/>	<hr/>
Profit before taxation	4(a)	257,127,803	101,111,873
Taxation	5	(45,144,125)	(13,488,247)
		<hr/>	<hr/>
Profit for the period/year		211,983,678	87,623,626
		<hr/>	<hr/>
Dividends	6	46,500,000	
		<hr/>	<hr/>

Table of Contents**Play Along (Hong Kong) Limited**

Balance sheet
as at 31 December 2003

	Notes	31 December 2003 HK\$	31 March 2003 HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	1,449,679	1,048,211
Investment securities	8, 12	3,875,000	3,875,000
		<u>5,324,679</u>	4,923,211
Current assets			
Inventories	9	157,632	170,807
Trade and other receivables		40,660,311	10,186,812
Amount due from related company		180,345,252	117,310,934
Pledged bank deposits	12	3,926,287	3,908,017
Cash and cash equivalents	10	210,365,140	60,708,387
		<u>435,454,622</u>	192,284,957
Current liabilities			
Trade and other payables		166,477,846	66,051,473
Provisions	11	23,605,756	
Bills payable (secured)	12		20,805,433
Amounts due to related companies		2,810,340	6,857,684
Bank loan (secured)	12,13		31,514
Provision for tax		58,855,622	12,878,505
		<u>251,749,564</u>	<u>106,624,609</u>
Net current assets		<u>183,705,058</u>	<u>85,660,348</u>
Net assets		<u>189,029,737</u>	<u>90,583,559</u>
CAPITAL AND RESERVES			
Share capital	14	8,400	20,000
Reserves	15	189,021,337	90,563,559

Shareholders funds

189,029,737

90,583,559

Director

Director

6

Table of Contents**Play Along (Hong Kong) Limited**

Cash flow statement
for the period from 1 April 2003 to 31 December 2003

	Notes	Period from 1 April 2003 to 31 December 2003 HK\$	Year ended 31 March 2003 HK\$
Cash flow from operating activities			
Profit before taxation		257,127,803	101,111,873
Adjustments for :			
Depreciation		561,337	699,772
Interest expense		253,302	767,633
Interest income		(322,305)	(41,216)
Stock written off			789,899
Write-back of provision for bad and doubtful debts		(524,288)	(4,000,000)
Provision for bad and doubtful debts			733,597
Bad debts written off			346,460
		<hr/>	<hr/>
Operating profit before working capital changes		257,095,849	100,408,018
Decrease/(Increase) in inventories		13,175	(91,107)
Increase in trade and other receivables		(29,949,211)	(5,318,292)
Increase in amount due from a related company		(63,034,318)	(86,020,460)
Increase in trade and other payables		100,426,373	33,833,509
Increase in provisions		23,605,756	
(Decrease)/Increase in bills payable		(20,805,433)	14,643,425
(Decrease)/Increase in amounts due to related companies		(4,047,344)	4,210,383
		<hr/>	<hr/>
Cash generated from operations		263,304,847	61,665,476
Interest received		322,305	41,216
Interest paid		(253,302)	(767,633)
Profits tax refunded/(paid)		832,992	(208,248)
		<hr/>	<hr/>
<i>Net cash from operating activities</i>		264,206,842	60,730,811
		<hr/>	<hr/>
Cash flows from investing activities			
Payments to acquire property, plant and equipment		(962,805)	(578,578)
Payments to acquire investment securities			(3,875,000)
(Increase)/Decrease in pledged bank deposits		(18,270)	3,841,983
		<hr/>	<hr/>

<i>Net cash used in investing activities</i>	(981,075)	(611,595)
	<hr/>	<hr/>
Cash flows from financing activities		
Payment for repurchase of shares	(67,037,500)	
Repayment of bank loan	(31,514)	(809,030)
Dividends paid	(46,500,000)	
	<hr/>	<hr/>
Net cash used in financing activities	(113,569,014)	(809,030)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	149,656,753	59,310,186
Cash and cash equivalents at beginning of the period/year	60,708,387	1,398,201
	<hr/>	<hr/>
Cash and cash equivalents at end of the period/year	210,365,140	60,708,387
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Cash at banks and in hand	93,848,716	60,708,387
Short-term investments	116,516,424	
	<hr/>	<hr/>
	210,365,140	60,708,387
	<hr/>	<hr/>

Table of Contents**Play Along (Hong Kong) Limited**

Statement of changes in equity
for the period from 1 April 2003 to 31 December 2003

	Share capital HK\$	Capital redemption reserve HK\$	Retained profits HK\$	Total HK\$
Balance at 1 April 2002	20,000		2,939,933	2,959,933
Net profit for the year			87,623,626	87,623,626
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2003 and 1 April 2003	20,000		90,563,559	90,583,559
Repurchase of shares (Note 14)	(11,600)	11,600	(67,037,500)	(67,037,500)
Dividends (Note 6)			(46,500,000)	(46,500,000)
Net profit for the period			211,983,678	211,983,678
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2003	8,400	11,600	189,009,737	189,029,737
	<hr/>	<hr/>	<hr/>	<hr/>

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Play Along (Hong Kong) Limited

**Notes to the financial statements
for the period from 1 April 2003 to 31 December 2003**

1. GENERAL INFORMATION

The principal activity of the company is the trading of toys.

Pursuant to a directors' resolution passed on 23 January 2004, the company will change its name from Play Along (Hong Kong) Limited to Play Along (Hong Kong) Limited with effect from 4 February 2004.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 5 to 24 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice (SSAPs) 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, except for the remeasurement of investments in securities as further explained in (c) below.

Adoption of revised SSAP

In the current period, the company has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. As a result the company has changed its accounting policies for deferred taxation as detailed in note 2(i) below. The adoption of SSAP 12 (Revised) has not resulted in any significant changes to the current and prior year's net assets and results and accordingly, no prior year adjustment is required.

Table of Contents**Play Along (Hong Kong) Limited****2. PRINCIPAL ACCOUNTING POLICIES (Continued)****(b) Property, plant and equipment****(i) Depreciation and amortisation**

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum :

Leasehold improvements	50%
Furniture and fixtures	20%
Office equipment	20%
Computer equipment	30%
Computer software	50%

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(c) Investments in securities

Investment securities are securities which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated in the balance sheet at cost less any provisions for impairment losses. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

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Play Along (Hong Kong) Limited

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Investments in securities (Continued)

All other securities, whether held for trading or otherwise, are stated in the balance sheet at fair value. Changes in value are recognised as an expense in the income statement.

Provisions against the carrying value of investment securities are written back to income when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises the cost of purchased goods calculated using the first-in first-out method. Net realisable value is calculated as the actual or estimated selling price less all further costs of marketing, selling and distribution.

(e) Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Table of Contents

Play Along (Hong Kong) Limited

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease term.

(h) Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Income tax

Income tax for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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Play Along (Hong Kong) Limited

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Income tax (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(j) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(k) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

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Play Along (Hong Kong) Limited

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Recognition of revenue

Revenue from the sale of goods are recognised when they are delivered to customers.

Interest income is recognised on a time proportion basis.

(m) Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefit costs

The company contributes to a Mandatory Provident Fund Scheme which is a defined contribution retirement benefit scheme, and is available to all eligible employees. Contributions to the scheme by the company and its employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the company to the scheme.

The assets of the scheme are held separately from those of the company in an independently administered fund.

3. TURNOVER

Turnover represents the total invoiced value of goods supplied less returns and discounts.

Table of Contents**Play Along (Hong Kong) Limited****4(a). PROFIT BEFORE TAXATION**

	Period from 1 April 2003 to 31 December 2003 HK\$	Year ended 31 March 2003 HK\$
Profit before taxation is arrived at after charging :		
Cost of inventories recognised as expenses	458,730,013	205,154,079
<i>Administrative expenses:</i>		
Auditors remuneration	150,000	80,600
Depreciation	561,337	699,772
Operating lease charges in respect of office premises	347,427	499,554
Provision for bad and doubtful debts		733,597
Staff costs (including directors remuneration and contributions to retirement benefit scheme)	23,489,542	11,591,497
Contributions to retirement benefit scheme	344,159	265,137
<i>Selling and distribution costs:</i>		
Provision for impairment on advanced payment of royalty fee *	17,437,500	11,237,500
Licence and royalty fees	109,639,573	47,286,717
Provision for infringement of patent (note 11)	14,295,851	
Product development and sampling	7,904,167	4,737,082
Marketing, promotion and advertising and crediting :	94,598,620	39,650,980
Commission and agency income	2,366,182	5,256,708
Write-back of provision for bad and doubtful debts	524,288	4,000,000
Exchange gain	139,223	205,418
Bank interest income	55,880	41,216
Interest income from short-term investments	266,425	

* The directors considered that there are uncertainties about the recoverable amount of the advanced payments of royalty fee of HK\$17,437,500 as at 31 December 2003 (31 March 2003 : HK\$11,237,500) which would depend on the future sales demand of the related licensed products and therefore, a full provision was made against the advanced payments in the financial statements.

Table of Contents**Play Along (Hong Kong) Limited****4(b). FINANCE COSTS**

	Period from 1 April 2003 to 31 December 2003 HK\$	Year ended 31 March 2003 HK\$
Interest charges on bank loan and other borrowings repayable within five years	253,302	767,633

5. TAXATION

	Period from 1 April 2003 to 31 December 2003 HK\$	Year ended 31 March 2003 HK\$
The charge comprises :		
Hong Kong profits tax		
Current year	45,183,402	13,711,497
Over-provision in prior years	(39,277)	(223,250)
	45,144,125	13,488,247

Hong Kong profits tax is provided at the rate of 17.5% (31 March 2003 : 16%) on the estimated assessable profit of the period/year.

Table of Contents**Play Along (Hong Kong) Limited****5. TAXATION (Continued)**

The income tax expenses for the period/year can be reconciled to the profit before taxation per the income statement as follows :

	Period from 1 April 2003 to 31 December 2003 HK\$	Year ended 31 March 2003 HK\$
Profit before taxation	257,127,803	101,111,873
Tax at applicable tax rate	44,997,365	16,177,900
Tax effect of non-deductible expenses	361,952	134,363
Tax effect of non-taxable revenue	(53,662)	(621,259)
Tax effect on temporary differences not recognised	(122,253)	19,190
Tax effect of prior year's tax losses utilised in current period		(1,998,697)
Over-provision in prior year	(39,277)	(223,250)
Actual tax expense	45,144,125	13,488,247

No deferred tax has been provided in the financial statements as there are no material temporary differences.

Table of Contents**Play Along (Hong Kong) Limited****6. DIVIDENDS**

	Period from 1 April 2003 to 31 December 2003 HK\$	Year ended 31 March 2003 HK\$
Interim dividend of HK\$5,535.71 (31 March 2003: NIL) per share	46,500,000	—

7. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Computer equipment HK\$	Computer software HK\$	Total HK\$
Cost						
At 1 April 2003	796,843	408,818	135,437	1,957,660		3,298,758
Additions	247,990	158,705	171,020	215,750	169,340	962,805
At 31 December 2003	1,044,833	567,523	306,457	2,173,410	169,340	4,261,563
Accumulated depreciation						
At 1 April 2003	793,093	222,698	72,873	1,161,883		2,250,547
Charge for the period	38,997	72,090	41,937	395,651	12,662	561,337
At 31 December 2003	832,090	294,788	114,810	1,557,534	12,662	2,811,884
Net book value						
At 31 December 2003	212,743	272,735	191,647	615,876	156,678	1,449,679
At 31 March 2003	3,750	186,120	62,564	795,777		1,048,211

Table of Contents**Play Along (Hong Kong) Limited****8. INVESTMENT SECURITIES**

	31 December 2003	31 March 2003
	HK\$	HK\$
HSBC Asia Select Guaranteed Fund, at cost	3,875,000	3,875,000
	_____	_____
Market value	3,894,375	3,891,523
	_____	_____

The investment is pledged as a security against the company's banking facilities (note 12).

9. INVENTORIES

	31 December 2003	31 March 2003
	HK\$	HK\$
Packing material	157,632	170,807
	_____	_____

10. CASH AND CASH EQUIVALENTS

	31 December 2003	31 March 2003
	HK\$	HK\$
Cash at banks and in hand	93,848,716	60,708,387
Short-term investments - investment in money market fund, at fair value	116,516,424	_____
	_____	_____
	210,365,140	60,708,387
	_____	_____

Table of Contents**Play Along (Hong Kong) Limited****11. PROVISIONS**

	Provision for infringement of patent on certain products (note 11(a)) HK\$	Provision for royalties (note 11(b)) HK\$	Total HK\$
Balance at 1 April 2003			-
Provision made during the period	14,295,851	9,309,905	23,605,756
	<u>14,295,851</u>	<u>9,309,905</u>	<u>23,605,756</u>
Balance at 31 December 2003	<u>14,295,851</u>	<u>9,309,905</u>	<u>23,605,756</u>

- (a) The company has made a provision of HK\$14,295,851 in respect of a claim of infringement of patent on certain products sold by the company. Pursuant to the complaint filed by the plaintiff against Play Along Inc., a related company, the plaintiff is seeking unspecified damages. Based on the directors' best estimate, the provision was calculated at by estimating the damages that could be awarded and the fees that may be incurred if a Court were to find in favor of the plaintiff. Although the company was not the named defendant in the court order, the company manufactured and distributed the products in question and has agreed to indemnify the related company for all the costs and expenses in this claim. Up to the date of the approval of these financial statements, the case has not been finalised and the outcome was uncertain.
- (b) The provision of HK\$9,309,905 was for the estimated royalties payable on sales made by the company on certain products during the period. Up to the date of approval of these financial statements, the company has not yet arrived at an agreement with the licensor for the royalties payable on these sales.

Table of Contents**Play Along (Hong Kong) Limited****12. BANKING FACILITIES**

At 31 December 2003, general banking facilities granted to the company to the extent of approximately HK\$29,920,000 were secured by:

- (a) a charge over the company's investment securities of HK\$3,875,000 (note 8).
- (b) a charge over the company's bank deposits amounting to HK\$3,926,287 as at 31 December 2003;
- (c) undertaking to maintain a minimum net worth of not less than HK\$10,000,000; and
- (d) guarantee of HK\$36,500,000 in aggregate from a third party.

13. BANK LOAN (SECURED)

	31 December 2003 HK\$	31 March 2003 HK\$
Bank loan, secured - repayable within one year	<u> </u>	<u>31,514</u>

14. SHARE CAPITAL

	31 December 2003 HK\$	31 March 2003 HK\$
Authorised :		
20,000 ordinary shares of HK\$1 each	<u>20,000</u>	<u>20,000</u>
	Number of ordinary shares of HK\$1 each	HK\$
Issued and fully paid :		
At 1 April 2003	20,000	20,000
Repurchase of ordinary shares **	<u>(11,600)</u>	<u>(11,600)</u>
At 31 December 2003	<u>8,400</u>	<u>8,400</u>
At 31 March 2003	<u>20,000</u>	<u>20,000</u>

Table of Contents**Play Along (Hong Kong) Limited****14. SHARE CAPITAL (Continued)**

** Pursuant to the resolutions by all directors and all members and an agreement entered into by the company dated 14 April 2003, the company agreed to purchase 11,600 of its own fully paid-up ordinary shares from one of its shareholders, Bright Wealth Enterprises Limited (being the then ultimate holding company as at 31 March 2003) for a consideration of HK\$67,037,500 (equivalent to US\$8,650,000). The consideration was paid by the company out of its distributable profits.

15. RESERVES

	31 December 2003	31 March 2003
	HK\$	HK\$
Capital redemption reserve	11,600	
Retained profits	189,009,737	90,563,559
	<u>189,021,337</u>	<u>90,563,559</u>

Details of the movements in the above reserves are set out in the statement of changes in equity on page 8.

16. OPERATING LEASE COMMITMENTS

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows :

	31 December 2003	31 March 2003
	HK\$	HK\$
Within one year	1,064,484	503,959
In the second to fifth years	337,824	625,998
	<u>1,402,308</u>	<u>1,129,957</u>

The company leases office premises under operating leases. The leases run for a period of one year to two years without an option for renewal. None of the leases includes contingent rentals.

Table of Contents**Play Along (Hong Kong) Limited****17. OTHER COMMITMENTS**

During the period, the company had entered into royalty agreements with certain licensors, under which the company was granted the rights to use certain materials and trademarks which are owned by these licensors in a number of merchandising activities and endeavours. Total royalty commitments are as follows:

	31 December 2003	31 March 2003
	HK\$	HK\$
Non-refundable royalty guaranteed payments contracted but not provided for in the financial statements :		
Payable within one year	6,975,000	10,288,125
Payable in the second to fifth years	3,681,250	6,781,250
	<u>10,656,250</u>	<u>17,069,375</u>

18. DIRECTORS REMUNERATION

Remuneration of the directors disclosed pursuant to section 161 of the Companies Ordinance is as follows:

	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
	HK\$	HK\$
Fees		
Other emoluments	4,072,097	728,000
	<u>4,072,097</u>	<u>728,000</u>

Table of Contents**Play Along (Hong Kong) Limited****19. RELATED PARTY TRANSACTIONS**

The following transactions were carried out with related parties :

	Period from 1 April 2003 to 31 December 2003 HK\$	Year ended 31 March 2003 HK\$
Related companies with common directors and shareholders		
- Marketing fees expense	15,301,413	18,638,750
- Sales	263,505,020	226,046,140
- Commission and agency income #	2,366,182	5,256,708
- Salary paid to a shareholder	939,216	
Related companies in which a director of the company has equity interest		
- Purchases	44,447,136	36,630,857

During the period, the company provided agency services to a related company and earned commission and agency income of HK\$2,366,182 per above. In connection with the rendering of such agency services, the company made purchases and sales of approximately HK\$10 million and HK\$12 million respectively on behalf of the related company during the period ended 31 December 2003. These purchases and sales were not regarded or included as part of the company's own purchases and sales.

20. COMPARATIVE FIGURES

The company changed its financial year end from 31 March to 31 December in order to facilitate the overseas tax reporting requirements of its shareholders. The financial statements in the current period therefore cover a period of 9 months from 1 April 2003 to 31 December 2003 and may not be comparable with the figures presented in the income statement, cash flow statement, statement of changes in equity and the notes thereon for the prior year.

21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 5 to 24 were approved by the board of directors on 19 February 2004.

Table of Contents**Play Along, Inc.
Balance Sheets**

	March 31, 2003	March 31, 2004
	(Unaudited) US\$	US\$
Current Assets		
Petty Cash	750	
Cash In Banks	28,839	214,661
Security Deposit	42,565	39,524
Accounts Receivable, net		1,755
Amount due from related companies	237,338	
Other Receivable	644	93,727
Prepayment & Deposits	19,635	11,586
Deferred tax asset	102,113	
	<hr/>	<hr/>
	431,884	361,253
	<hr/>	<hr/>
Non Current Assets		
Fixed Assets		
Furniture & Fixtures	15,191	53,613
Computers	98,443	120,265
Computer Software	10,417	10,951
Accumulated Depreciation	(55,802)	(85,823)
	<hr/>	<hr/>
	68,249	99,006
	<hr/>	<hr/>
Total Assets	500,133	460,259
	<hr/>	<hr/>
Current Liabilities		
Accounts Payable	78,677	45,343
Accrual	543,568	115,250
Taxes Payable	708	
Amount due to related companies		492,383
	<hr/>	<hr/>
	622,953	652,976
	<hr/>	<hr/>
Shareholders Equity		
Common Stock	100	70
Additional Paid In Capital		(970)

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Retained Earnings	55,868	(130,090)
Profit and Loss (Current Year)	<u>(178,788)</u>	<u>(61,727)</u>
	<u>(122,820)</u>	<u>(192,717)</u>
Total Liabilities & Equity	<u>500,133</u>	<u>460,259</u>

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Play Along, Inc.
Statements of Operations
Three months ended March 31, 2004 and 2003 (Unaudited)

	Three Months Ended	
	March 31, 2003	March 31, 2004
	US\$	US\$
Revenues		
Marketing fee	1,349,163	855,000
Selling Expenses		
Promotion & Advertising	13,140	25,790
Shipping, Freight & Transportation	28,609	37
Total Selling Expenses	41,749	25,827
Marketing Expenses		
Show Room	29,931	
Others	16,351	3,688
Total Marketing Expenses	46,282	3,688
Product Development Expenses		
Design & Development	259,124	27,818
Others	3,368	
Total Product Development Expenses	262,492	27,818
General & Admin. Expenses		
Bank Charges	1,736	140
Communication Expenses	10,087	11,084
Depreciation	21,165	8,901
Insurance		24,883
Meals & Entertainment	4,884	3,757
Office Expenses	6,615	21,601
Payroll Expenses	886,034	472,843
Professional Fee	46,036	110,585
Rents & Rates	32,932	74,303

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Repair & Maintenance	27,943	11,737
Staff Benefits	51,891	20,726
Travelling	45,939	44,614
Utilities	3,955	(2,840)
Sundry Expenses	13,318	6,535
Postage	1,580	42,844
Other Expense	41,014	7,681
	<u> </u>	<u> </u>
Total General & Admin. Expenses	1,195,129	859,394
	<u> </u>	<u> </u>
Operating Income (Loss)	(196,489)	(61,727)
Other Income		
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Total Profits before Tax	(196,489)	(61,727)
Provision For Income Tax	99,358	
	<u> </u>	<u> </u>
Net Profits (Loss)	(97,131)	(61,727)
	<u> </u>	<u> </u>

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Play Along, Inc.
Statements of Cash Flows
Three months ended March 31, 2004 and 2003 (Unaudited)

	Three Months Ended	
	March 31,	March 31,
	2003	2004
	US\$	US\$
Cash flows from operating activities		
Net Income	(97,131)	(61,727)
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation and amortization	21,165	8,901
Changes in operating assets and liabilities:		
Accounts receivable	500	
Amount due from related company	(352,727)	318,880
Other receivable		(1,000)
Prepaid expenses and deposit	14,428	2,500
Deferred tax asset	(102,113)	
Accounts payable	1,972	22,935
Accrued Expenses	543,568	(31,433)
Income taxes payable	708	
Amount due to related companies	(9,611)	(250,000)
Deferred income taxes		
	117,890	70,783
Total adjustments		
Net Cash provided (used) by operating activities	20,759	9,056
Cash flows from investing activities		
Purchase of Property and equipment	(21,502)	(13,046)
Net Cash provided (used) by investing activities	(21,502)	(13,046)
Cash flows from financing activities		

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Net Cash provided (used) by financing activities	_____	_____
Net increase (decrease) in cash and cash equivalents	(743)	(3,990)
Cash and cash equivalents, beginning of year	30,332	218,651
	_____	_____
Cash and cash equivalents, end of quarter	29,589	214,661
	_____	_____
Cash paid during the period for:		
Interest	_____	_____
Income taxes	_____	_____

Table of Contents**PA Distribution, Inc.
Balance Sheets**

	<u>March 31, 2003</u>	<u>March 31, 2004</u>
	(Unaudited) US\$	US\$
Current Assets		
Cash In Banks	107,411	1,871,474
Certificate of deposit	160,000	160,000
Accounts Receivable, net	9,590,481	7,667,780
Amount due from related companies		314,633
Other Receivable	15,831	38,905
Prepayment & Deposits		17,230
Inventory	<u>6,571,787</u>	<u>10,284,056</u>
	<u>16,445,510</u>	<u>20,354,078</u>
Non Current Assets		
Fixed Assets		
Furniture & Fixtures		35,119
Office Equipment	46,257	15,975
Leasehold Improvement		1,800
Computer Software		<u>141,868</u>
	<u>46,257</u>	<u>194,762</u>
Total Assets	<u>16,491,767</u>	<u>20,548,840</u>
Current Liabilities		
Accounts Payable	834,341	114,359
Accrual		102,245
Other Payable		2,268
Taxes Payable	150,070	
Note Payable	940,053	
Amount due to related companies	<u>15,650,500</u>	<u>20,543,010</u>
	<u>17,574,964</u>	<u>20,761,882</u>
Shareholders Equity		
Common Stock	100	70

Additional Paid In Capital		(970)
Retained Earnings	(2,200,818)	(1,094,915)
Profit and Loss (Current Year)	1,117,521	882,773
	<u> </u>	<u> </u>
	(1,083,197)	(213,042)
	<u> </u>	<u> </u>
Total Liabilities & Equity	16,491,767	20,548,840
	<u> </u>	<u> </u>

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PA Distribution, Inc.
Statements of Operations
Three months ended March 31, 2004 and 2003 (Unaudited)

	Three Months Ended	
	March 31, 2003	March 31, 2004
	US\$	US\$
Revenues		
Commercial Sales	13,260,814	11,767,806
Sales Allowance & Discount	(1,024,895)	(127,264)
Total Net Sales	12,235,919	11,640,542
Cost of Goods Sold	10,107,534	9,437,773
Gross Profit	2,128,385	2,202,769
Selling Expenses		
Promotion & Advertising	211,760	10,146
Sales Samples		403
Others	(955)	
Total Selling Expenses	210,805	10,549
Marketing Expenses		
Marketing Fee	150,000	300,000
Show Room	17,170	
Total Marketing Expenses	167,170	300,000
Product Development Expenses		
Total Product Development Expenses		
General & Admin. Expenses		
Written back on Bad and Doubtful Debts	46,373	
Bank Charges	855	1,092
Communication Expenses	3,369	7,647
Depreciation	11,248	17,042

Insurance	3,000	14,417
Meals & Entertainment	6,166	14,900
Payroll Expenses	874,797	390,931
Professional Fee	14,191	37,403
Rents & Rates		1,749
Repair & Maintenance	18,293	1,994
Staff Benefits	81,141	33,600
Travelling	34,873	97,796
Sundry Expenses	6,225	10,013
Warehouse Expense	354,602	344,458
Postage	3,777	1,650
Other expense	11,363	
	<hr/>	<hr/>
Total General & Admin. Expenses	1,470,273	974,692
	<hr/>	<hr/>
Operating Income (Loss)	280,137	917,528
Other Income		
Interest Expense	(160,058)	(47,746)
Bank Interest Income	137	364
Commission Income	66,182	12,627
	<hr/>	<hr/>
	(93,739)	(34,755)
	<hr/>	<hr/>
Total Profits before Tax	186,398	882,773
Provision For Income Tax	(150,230)	
	<hr/>	<hr/>
Net Profits (Loss)	36,168	882,773
	<hr/>	<hr/>

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PA Distribution, Inc.
Statements of Cash Flows
Three months ended March 31, 2004 and 2003 (Unaudited)

	Three Months Ended	
	March 31,	March 31,
	2003	2004
Cash flows from operating activities		
Net Income	36,168	882,773
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation and amortization	11,248	17,042
Bad & doubtful debt	46,373	
Accounts receivable	120,138	510,077
HSBC factoring receivable		3,783,546
Amount due from related company		250,000
Other receivable		(2,102)
Inventory	(288,819)	874,359
Prepaid expenses and other	50,000	14,417
Accounts payable	721,415	91,973
Accrued Expenses		(324,611)
Reserve for sales returns and allowances		(1,476,704)
Income taxes payable	150,070	
Bills payable	917,679	
Amount due to related companies	(1,756,129)	(2,837,489)
Deferred income taxes		
Total adjustments	(28,025)	900,508
Net Cash provided (used) by operating activities	8,143	1,783,281
Cash flows from investing activities		
Purchase of Property and equipment	(31,289)	(55,636)
Net Cash provided (used) by investing activities	(31,289)	(55,636)
Cash flows from financing activities		

	_____	_____
Net Cash provided (used) by financing activities		
	_____	_____
Net increase (decrease) in cash and cash equivalents	(23,146)	1,727,645
Cash and cash equivalents, beginning of year 1st January	290,557	303,829
	_____	_____
Cash and cash equivalents, end of quarter	267,411	2,031,474
	_____	_____
Cash paid during the period for:		
Interest	160,058	47,746
	_____	_____
Income taxes		
	_____	_____

Table of Contents**Play Along (Hong Kong) Limited
Balance Sheets**

	March 31, 2003	March 31, 2004
	(Unaudited) US\$	US\$
Current Assets		
Petty Cash	1,290	2,581
Cash In Banks	7,832,050	7,227,396
Cash Deposits in Goldman Sachs		15,034,377
Pledged Deposits	504,260	507,166
Accounts Receivable, net	1,058,791	3,564,011
Amount due from related companies	15,136,895	20,660,328
Other Receivable	21,999	31,095
Prepayment & Deposits	233,637	382,381
Inventory	22,040	20,340
	<hr/>	<hr/>
	24,810,962	47,429,675
	<hr/>	<hr/>
Non Current Assets		
Fixed Assets		
Furniture & Fixtures	24,015	32,314
Office Equipment	8,073	22,987
Computers	102,681	65,236
Leasehold Improvement	484	23,209
Computer Software		17,652
	<hr/>	<hr/>
	135,253	161,398
	<hr/>	<hr/>
Unit Trusts Investment in HSBC	500,000	500,000
Total Assets	25,446,215	48,091,073
	<hr/>	<hr/>
Current Liabilities		
Accounts Payable	1,824,956	3,381,965
Accrual and Provisions	6,630,442	10,164,294
Other Payable	67,373	229,938
Taxes Payable	1,661,743	4,171,401
Bills Payable	2,684,572	
Bank Loan secured	4,066	
Amount due to related companies	884,862	97,782
	<hr/>	<hr/>

	<u>13,758,014</u>	<u>18,045,380</u>
Shareholders Equity		
Paid Up Capital	2,581	1,084
Capital Redemption Reserve		1,497
Retained Earnings	379,346	24,388,353
Profit and Loss (Current Year)	<u>11,306,274</u>	<u>5,654,759</u>
	<u>11,688,201</u>	<u>30,045,693</u>
Total Liabilities & Equity	<u>25,446,215</u>	<u>48,091,073</u>

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Play Along (Hong Kong) Limited
Statements of Operations
Three months ended March 31, 2004 and 2003 (Unaudited)

	Three Months Ended	
	March 31, 2003	March 31, 2004
	US\$	US\$
Revenues		
Commercial Sales	9,513,876	15,428,187
Sales to PAD	9,375,406	7,697,565
Sales Allowance & Discount	(878,252)	(100,314)
Total Net Sales	18,011,030	23,025,438
Cost of Goods Sold	9,267,433	10,342,232
Gross Profit	8,743,597	12,683,206
Selling Expenses		
Customs & Declaration	16,786	3,278
Inspection Charges		4,671
Packing Charges	7,324	7,184
Printing Charges	10,487	28,560
Promotion & Advertising	1,025,808	1,722,328
Sales Commission	270,532	347,656
Sales Samples	47,903	12,676
Shipping, Freight & Transportation	27,942	93,009
Testing Charges	30,851	19,618
Others	1,114	2,751
Total Selling Expenses	1,438,747	2,241,731
Marketing Expenses		
License & Royalty	2,927,498	2,485,059
Marketing Fee	1,148,640	555,000
Show Room	28,719	96,640
Others		12,498
Total Marketing Expenses	4,104,857	3,149,197
Product Development Expenses		

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Design & Development	249,093	243,472
Development Samples	68	1,595
Packaging	5,945	92
Tooling Charges	359,061	70,343
Others	102,654	377
	<hr/>	<hr/>
Total Product Development Expenses	716,821	315,879
	<hr/>	<hr/>
General & Admin. Expenses		
Stock Write Off	101,922	
Written back on Bad and Doubtful Debts	(421,471)	
Bank Charges	30,678	72,992
Communication Expenses	6,926	13,308
Courier	42,704	53,932
Depreciation	19,245	30,435
Exchange Difference	(9,330)	(7,312)
Insurance	60,837	67,366
Interest Expenses	20,970	2
Management Fee	5,539	11,134
Meals & Entertainment	4,720	9,366
Office Expenses	12,463	16,664
Payroll Expenses	625,326	922,368
Bonus Provision		45,161
Professional Fee	15,670	37,411
Rents & Rates	18,678	36,837
Repair & Maintenance	9,281	38,994
Staff Benefits	2,008	6,792
Travelling	60,117	48,820
Utilities	2,871	5,332
Sundry Expenses	2,661	897
	<hr/>	<hr/>
Total General & Admin. Expenses	611,815	1,410,499
	<hr/>	<hr/>
Operating Income	1,871,357	5,565,900
Other Income		
Bank Interest Income	1,080	2,204
Commission Income	17,879	45,108
Others	24,872	41,547
	<hr/>	<hr/>
	43,831	88,859
	<hr/>	<hr/>
Total Profits before Tax	1,915,188	5,654,759
Provision For Income Tax	(335,158)	
	<hr/>	<hr/>

Net Profits

1,580,030

5,654,759

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Play Along (Hong Kong) Limited
Statements of Cash Flows
Three months ended March 31, 2004 and 2003 (Unaudited)

	Three Months Ended	
	March 31,	March 31,
	2003	2004
	US\$	US\$
Cash flows from operating activities		
Net Income	1,580,030	5,654,759
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation and amortization	19,245	30,435
Written back on bad & doubtful debt	(421,471)	
Changes in operating assets and liabilities:		
Accounts receivable	1,596,630	1,258,372
Amount due from related companies	2,024,003	2,610,027
Other receivable	(13,580)	164,678
Inventory	118,668	
Prepaid expenses and other	(98,843)	(206,637)
Accounts payable	666,106	(664,895)
Accrued Expenses and Provisions	(999,546)	(8,425,715)
Other payable	(253,742)	(56,482)
Reserve for sales returns and allowances	816,727	(1,551,036)
Income taxes payable	335,158	(3,422,873)
Bills payable	1,083,303	
Amount due to related companies	365,050	(264,842)
Total adjustments	5,237,708	(10,528,968)
Net Cash provided (used) by operating activities	6,817,738	(4,874,209)
Cash flows from investing activities		
Purchase of Property and equipment	(24,924)	(4,778)
Net Cash provided (used) by investing activities	(24,924)	(4,778)

Cash flows from financing activities

Repayment of long term debt	(17,920)	_____
Net Cash provided (used) by financing activities	(17,920)	_____
Net increase (decrease) in cash and cash equivalents	6,774,894	(4,878,987)
Cash and cash equivalents as at 1 January	1,562,706	27,650,507
	_____	_____
Cash and cash equivalents, end of quarter	8,337,600	22,771,520
	_____	_____
Cash paid during the period for:		
Interest	(78,079)	(2)
	_____	_____
Income taxes		(3,422,873)
	_____	_____

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENT

The following unaudited pro forma consolidated financial statements as of March 31, 2004 and for the year ended December 31, 2003 and the three months ended March 31, 2004 give effect to the asset acquisition of Play Along. The pro forma consolidated balance sheet presents our financial position as if the asset acquisition of Play Along had occurred on March 31, 2004. The pro forma consolidated statement of operations presents our results as if the acquisition of Play Along had occurred on January 1, 2003. Our fiscal year end is December 31 and Play Along's fiscal year end is December 31. Effective April 1, 2003, Play Along changed its fiscal year end from March 31 to December 31. The pro forma consolidated balance sheet as of March 31, 2004 is based upon our historical consolidated balance sheet as of March 31, 2004 which has been adjusted for the effects of the Play Along asset acquisition. The pro forma consolidated statement of operations for the year ended December 31, 2003 and three months ended March 31, 2004 is based on our historical consolidated statement of operations and the statement of operations of Play Along for the nine months ended December 31, 2003 and the three months ended March 31, 2004.

The pro forma consolidated financial statements include, in our opinion, all material adjustments necessary to reflect the asset acquisition of Play Along. 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 Play Along's financial statements and the related notes thereto included herein.

Table of Contents**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
Pro Forma Consolidated Balance Sheet

	MARCH 31, 2004		
	HISTORICAL	PRO FORMA	PRO FORMA
	JAKKS	ADJUSTMENTS	BALANCE SHEET
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 142,883,608	(\$60,676,057)(1),(2)	\$ 82,207,551
Marketable Securities	13,746,135	15,034,377(2)	28,780,512
Accounts receivable, net	76,462,489	11,303,547(2)	87,766,036
Inventory, net	44,768,062	4,699,063(2)	49,467,125
Prepaid expenses and other current assets	20,321,392	1,185,972(2)	21,507,364
	<u>298,181,686</u>	<u>(28,453,098)</u>	<u>269,728,588</u>
Total current assets			
Property and equipment, at cost	44,561,733	455,166(2)	45,016,899
Less accumulated depreciation and amortization	33,521,780		33,521,780
	<u>11,039,953</u>	<u>455,166</u>	<u>11,495,119</u>
Property and equipment, net			
Other	13,245,759	699,524(2)	13,945,283
Investment in joint venture	3,942,425		3,942,425
Goodwill, net	207,468,716	83,983,526(3)	291,452,242
Trademarks, net	11,795,154		11,795,154
	<u>\$ 545,673,693</u>	<u>\$ 56,685,118</u>	<u>\$ 602,358,811</u>
Total assets			
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 46,166,488	\$ 37,645,968(4)	\$ 83,812,456
Current portion of long term debt	19,353		19,353
Income taxes payable	3,076,790	4,171,401(4)	7,248,191
	<u>49,262,631</u>	<u>41,817,369</u>	<u>91,080,000</u>
Total current liabilities			

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Long term debt	98,037,150		98,037,150
Deferred income taxes	1,164,398		1,164,398
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	148,464,179	41,817,369	190,281,548
	<u> </u>	<u> </u>	<u> </u>
STOCKHOLDERS EQUITY			
Common stock	25,313	749(1)	26,062
Additional paid-in capital	252,373,748	14,867,000(1)	267,240,748
Retained earnings	145,402,452		145,402,452
Accumulated other comprehensive income (loss)	(591,999)		(591,999)
	<u> </u>	<u> </u>	<u> </u>
Total stockholders equity	397,209,514	14,867,749	412,077,263
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and stockholders equity	\$545,673,693	\$ 56,685,118	\$602,358,811
	<u> </u>	<u> </u>	<u> </u>

Table of Contents**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
Unaudited Pro Forma Consolidated Statements Of Operations**YEAR ENDED DECEMBER 31, 2003**

	ACTUAL					
	PA HONG KONG(8)	PLAY ALONG INC.(8)	PA DISTRIBUTION(8)	CONSOLIDATIONS(8)	PA CONSOLIDATED(8)	JAKKS
Net Sales	\$ 132,088,879	\$ 2,774,376	\$ 37,345,315	(\$ 36,775,024)	\$ 135,433,546	\$ 315,776,407
Cost of sales	77,432,638(7)		32,050,589(7)	(28,691,611)	80,791,616	189,141,782
Gross Profit	54,656,241	2,774,376	5,294,726	(8,083,413)	54,641,930	126,634,625
Selling, general and administrative expenses	21,893,044	2,772,771	5,075,835	(2,774,376)	26,967,274	105,771,590
Recall Costs						2,000,000
Income from operations	32,763,197	1,605	218,891	(5,309,037)	27,674,656	18,863,035
Interest, net	(8,904)	389	297,159		288,644	1,405,472
Other (income) expense	(405,680)		(104,027)		(509,707)	(7,351,324)
Income before provision for income taxes	33,177,781	1,216	25,759	(5,309,037)	27,895,719	24,808,887
Provision for income taxes	5,825,048	8,386	37,377		5,870,811	4,204,815
Net income (loss)	\$ 27,352,733	(\$ 7,170)	(\$ 11,618)	(\$ 5,309,037)	\$ 22,024,908	\$ 20,604,072
Basic earnings per share						\$ 0.85
Weighted average shares outstanding						24,262,405
						\$ 0.83

Diluted earnings
per share

Weighted average
shares and
equivalents
outstanding

24,677,333

[Additional columns below]

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

YEAR ENDED DECEMBER 31, 2003

	PRO FORMA COMBINED	PRO FORMA ADJUSTMENTS	RESULTS
Net Sales	\$451,209,953	\$	\$451,209,953
Cost of sales	<u>269,933,398</u>		<u>269,933,398</u>
Gross Profit	181,276,555		181,276,555
Selling, general and administrative expenses	132,738,864		132,738,864
Recall Costs	<u>2,000,000</u>		<u>2,000,000</u>
Income from operations	46,537,691		46,537,691
Interest, net	1,694,116	2,531,329(5)	4,225,445
Other (income) expense	<u>(7,861,031)</u>		<u>(7,861,031)</u>
Income before provision for income taxes	52,704,606	(2,531,329)	50,173,277
Provision for income taxes	<u>10,075,626</u>	<u>1,464,228(6)</u>	<u>11,539,854</u>
Net income	<u>\$ 42,628,980</u>	<u>(\$3,995,557)</u>	<u>\$ 38,633,423</u>
Basic earnings per share			<u>\$ 1.54</u>
Weighted average shares outstanding		<u>749,005</u>	<u>25,011,410</u>

Diluted earnings per share		\$ 1.52
		<u> </u>
Weighted average shares and equivalents outstanding	749,005	25,426,338
	<u> </u>	<u> </u>

Table of Contents**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
Unaudited Pro Forma Consolidated Statements Of Operations**THREE MONTHS ENDED MARCH 31, 2004**

	ACTUAL					JAKKS
	PA HONG KONG	PLAY ALONG INC.	PA DISTRIBUTION	CONSOLIDATING	CONSOLIDATED PA	
Net Sales	\$23,025,438	\$ 855,000	\$ 11,640,542	(\$8,552,565)	\$ 26,968,415	\$73,986,327
Cost of sales	12,920,300(7)		9,437,773(7)	(8,267,317)	14,090,756	43,519,897
Gross Profit	10,105,138	855,000	2,202,769	(285,248)	12,877,659	30,466,430
Selling, general and administrative expenses	4,539,236	916,727	1,285,240	(855,000)	5,886,203	24,700,031
Income (loss) from operations	5,565,902	(61,727)	917,529	569,752	6,991,456	5,766,399
Interest, net	(2,202)		47,383		45,181	480,852
Other (income) expense	(86,655)		(12,627)		(99,282)	(360,142)
Income (loss) before provision for income taxes	5,654,759	(61,727)	882,773	569,752	7,045,557	5,645,689
Provision for income taxes						1,298,508
Net income (loss)	\$ 5,654,759	(\$61,727)	\$ 882,773	\$ 569,752	\$ 7,045,557	\$ 4,347,181
Basic earnings per share						\$ 0.17
Weighted average shares outstanding						25,275,498
						\$ 0.17

Diluted earnings per
share

Weighted average
shares and
equivalents
outstanding

25,775,875

[Additional columns below]

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

THREE MONTHS ENDED MARCH 31, 2004

	COMBINED	PRO FORMA ADJUSTMENTS	PRO FORMA RESULTS
Net Sales	\$ 100,954,742	\$	\$ 100,954,742
Cost of sales	<u>57,610,653</u>		<u>57,610,653</u>
Gross Profit	43,344,089		43,344,089
Selling, general and administrative expenses	<u>30,586,234</u>		<u>30,586,234</u>
Income from operations	12,757,855		12,757,855
Interest, net	526,033	659,812(5)	1,185,845
Other (income) expense	<u>(459,424)</u>		<u>(459,424)</u>
Income before provision for income taxes	12,691,246	(659,812)	12,031,434
Provision for income taxes	<u>1,298,508</u>	<u>1,468,721(6)</u>	<u>2,767,229</u>
Net income	<u>\$ 11,392,738</u>	<u>(\$2,128,533)</u>	<u>\$ 9,264,205</u>
Basic earnings per share			<u>\$ 0.36</u>
Weighted average shares outstanding		<u>749,005</u>	<u>26,024,503</u>

Diluted earnings per share		\$ 0.35
		<u> </u>
Weighted average shares and equivalents outstanding	749,005	26,524,880
	<u> </u>	<u> </u>

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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 Play Along as set forth below:

BALANCE SHEET

(1)	Consideration paid on or about the closing of the Play Along acquisition:	
	Cash paid to stockholders	\$70,202,000
	Other acquisition costs	297,337
		<u>70,499,337</u>
	749,005 Shares of JAKKS common stock issued to Play Along in the acquisition	<u>\$14,867,749</u>
(2)	Assets acquired in Play Along acquisition	<u>\$43,200,928</u>
(3)	Excess of consideration paid over fair market value of Play Along net assets acquired (Goodwill)	<u>\$83,983,526</u>
(4)	Liabilities assumed in the Play Along acquisition:	
	Accounts payable and accrued expenses	\$16,535,817
	Accrued for license concession payment	12,000,000
	Accrual for bonuses	4,026,552
	Accrual for dividend payment	9,255,000
		<u>41,817,369</u>
	Adjusted liabilities assumed	<u>\$41,817,369</u>

STATEMENT OF OPERATIONS

	Pro Forma Year Ended Dec 31, 2003	Pro Forma Three Months Ended Mar 31, 2004
(5)		
Interest, net is adjusted to reflect:		
The elimination of interest expense related to borrowings made by Play Along as if they had been repaid by January 1, 2003	(\$288,644)	(\$45,181)
	2,819,973	704,993

The elimination of interest income related to lower cash balances held by JAKKS

_____	_____
\$ 2,531,329	\$ 659,812
<u> </u>	<u> </u>

(6)	Provision for income taxes is adjusted to reflect the tax effect of pro forma adjustments	\$ 1,464,228	\$ 1,468,721
		<u> </u>	<u> </u>

(7) For consistency purposes, royalty expense was reclassified to cost of sales on Play Along (Hong Kong) Limited and PA Distribution, Inc. Statements of Operations.

(8) Play Along (Hong Kong) Limited, Play Along, Inc. and PA Distribution, Inc. Statements of Operations only include activity for the nine months ended December 31, 2003.

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(c) Exhibits.

<u>Number</u>	<u>Description</u>
10.1	June 10, 2004 Asset Purchase and Sale Agreement(1)
99	June 14, 2004 Press Release(1)

(1) Filed as an exhibit to the Registrant's June 16, 2004 Current Report on Form 8-K and incorporated herein by reference.

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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: September 7, 2004

JAKKS PACIFIC, INC.

By: /s/ JOEL M. BENNETT

Joel M. Bennett
Executive Vice President

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EXHIBIT INDEX

Number	Description
10.1	June 10, 2004 Asset Purchase and Sale Agreements(1)
99	June 14, 2004 Press Release(1)

(1) Filed as an exhibit to the Registrant's June 16, 2004 Current Report on Form 8-K and incorporated herein by reference.