

# REPORT OF INDEPENDENT AUDITORS

## **To Fox Kids Europe N.V.:**

We have audited the accompanying consolidated balance sheets of Fox Kids Europe N.V. and subsidiaries (the “Company”), as of June 30, 2001 and as of May 31, 2000 and the related consolidated statements of operations, cash flows and shareholders’ equity, for the 13 months ended June 30, 2001 and the years ended May 31, 2000 and May 31, 1999 respectively. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2001 and May 31, 2000, and the results of their operations and their cash flows for the 13 months ended June 30, 2001 and each of the years ended May 31, 2000 and May 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN  
London, England  
September 26, 2001

# CONSOLIDATED BALANCE SHEETS

as of June 30, 2001 and May 31, 2000

<b>ASSETS</b>		<b>June 30</b>	May 31
<i>Notes</i>		<b>2001</b>	2000
		<b>\$'000</b>	\$'000
	Cash and cash equivalents	<b>42,564</b>	51,508
	Accounts receivable, net of allowance of \$1,220 and \$529 respectively	<b>43,218</b>	16,533
	Accounts receivable from related parties	<b>11,247</b>	15,664
<b>7</b>	Programme rights, net	<b>175,353</b>	150,530
<b>9</b>	Deferred income taxes	<b>4,368</b>	–
	Prepays and other current assets	<b>2,385</b>	5,776
<b>4</b>	Investments in equity affiliates	<b>775</b>	9,771
<b>5</b>	Property and equipment, net	<b>5,790</b>	3,426
<b>6</b>	Goodwill, net	<b>9,698</b>	–
	<b>Total assets</b>	<b>295,398</b>	253,208

## LIABILITIES AND SHAREHOLDERS' EQUITY

		<b>June 30</b>	May 31
		<b>2001</b>	2000
		<b>\$'000</b>	\$'000
	Accounts payable	<b>10,611</b>	4,832
	Accrued liabilities	<b>27,766</b>	10,552
	Deferred revenues	<b>6,176</b>	3,217
	Interest payable on long-term note to related party	<b>2,642</b>	5,517
	Amounts due to related parties	<b>10,429</b>	6,243
<b>14</b>	Long-term note payable to related party	<b>104,114</b>	104,114
	Minority interests	<b>54</b>	(444)
	<b>Total liabilities</b>	<b>161,792</b>	134,031
<b>15</b>	Commitments and contingencies		
<b>18</b>	82,519,307 (2000 – 82,519,307) ordinary shares of €0.25 each and 100 (2000 – 100) priority shares of €0.25 each	<b>21,426</b>	21,426
	Additional paid-in capital	<b>442,351</b>	446,095
	Other reserves	<b>(204,114)</b>	(204,114)
<b>14</b>	Note receivable contributed for equity	<b>(107,045)</b>	(109,978)
	Accumulated deficit	<b>(16,838)</b>	(33,913)
	Accumulated other comprehensive income/(loss)	<b>(2,174)</b>	(339)
	<b>Total shareholders' equity</b>	<b>133,606</b>	119,177
	<b>Total liabilities and shareholders' equity</b>	<b>295,398</b>	253,208

The accompanying notes are an integral part of these consolidated balance sheets.

# CONSOLIDATED STATEMENTS OF OPERATIONS

13 months ended June 30, 2001 and years ended May 31, 2000 and 1999

Notes	<b>13 months ended June 30 2001 \$'000</b>	Year ended May 31 2000 \$'000	Year ended May 31 1999 \$'000
14	Revenues (1) – excluding sales to parent company	94,614	76,612
	Revenues – sales to parent company	–	–
16	Revenues	94,614	76,612
11	Operating expenses	(22,283)	(18,292)
	Selling, general and administrative expenses	(37,434)	(32,208)
	Depreciation and amortisation – excluding on sales to parent company	(29,797)	(40,678)
14	Amortisation on sales to parent company	–	–
	Operating income/(loss)	5,100	(14,566)
	Other income/(expense):		
12	Interest income	6,817	154
13	Interest expense	(5,613)	–
	Loss on foreign exchange	(2,945)	–
4	Equity in income/(loss) of affiliates	(2,342)	(5,891)
	Total other income/(expense), net	(4,083)	(5,737)
	Income/(loss) before tax	1,017	(20,303)
9	Income tax – current	(591)	–
9	– deferred	–	–
	Income/(loss) after tax	426	(20,303)
	Minority interest	(153)	456
	Net income/(loss)	273	(19,847)

(1) Excluding our share of equity affiliates' revenues of \$6.8 million for the 13 months ended June 30, 2001 and \$5.8 million and \$2.6 million for the years ended May 31, 2000 and 1999 respectively.

## EARNINGS/(LOSS) PER SHARE (CENTS)

	2001	2000	1999
Earnings/(loss) per share			
– Basic	20.7	0.4	(54.9)
– Diluted	20.7	0.4	(54.9)
Weighted average number of ordinary shares outstanding			
– Basic	82,519	64,078	36,196
– Diluted	82,548	64,429	36,196

The accompanying notes are an integral part of these consolidated statements of operations.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

13 months ended June 30, 2001 and years ended May 31, 2000 and 1999

	<b>13 months ended June 30 2001 \$'000</b>	Year ended May 31 2000 \$'000	Year ended May 31 1999 \$'000
<b>OPERATING ACTIVITIES</b>			
Net income/(loss)	<b>17,075</b>	273	(19,847)
Adjustments to reconcile net income/(loss) to net cash used in operating activities:			
Amortisation of programme rights	<b>41,180</b>	28,469	39,473
Amortisation of goodwill	<b>271</b>	–	–
Depreciation	<b>1,797</b>	1,328	1,205
Contributed income and other non-cash items	<b>(2,068)</b>	–	–
Equity in (income)/loss of affiliates	<b>(1,492)</b>	2,342	3,969
Minority interest	<b>498</b>	153	(456)
Foreign exchange loss	<b>411</b>	2,945	–
Changes in operating assets and liabilities:			
Accounts receivable	<b>(25,038)</b>	(1,093)	5,962
Accounts receivable from related parties	<b>4,417</b>	(14,940)	60
Interest receivable from related party	<b>2,933</b>	(5,864)	–
Programme rights	<b>(66,002)</b>	(48,619)	(80,482)
Prepays and other current assets	<b>(977)</b>	3,352	(6,337)
Accounts payable	<b>4,179</b>	3,225	57
Accrued liabilities	<b>17,100</b>	7,848	(7,568)
Amounts due to related parties	<b>4,186</b>	(579)	(4,633)
Interest payable to related parties	<b>(2,875)</b>	5,517	–
Net cash used in operating activities	<b>(4,405)</b>	(15,643)	(68,597)
<b>INVESTING ACTIVITIES</b>			
Investments in equity affiliates	<b>(110)</b>	(1,922)	(4,631)
Purchase of business	<b>(450)</b>	–	–
Purchases of property and equipment	<b>(3,947)</b>	(1,734)	(1,021)
Net cash used in investing activities	<b>(4,507)</b>	(3,656)	(5,652)
<b>FINANCING ACTIVITIES</b>			
Net proceeds from IPO	–	159,236	–
Programming rights acquisition	–	(100,000)	–
Other issues of common stock and contributions	–	12,512	52,035
Advances from parent company	–	–	13,709
Net cash used/provided by financing activities	–	71,748	65,744
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS FROM OPERATING, INVESTING AND FINANCING ACTIVITIES</b>	<b>(8,912)</b>	52,449	(8,505)
<b>NET (DECREASE)/INCREASE IN CASH DUE FROM FOREIGN CURRENCY FLUCTUATIONS</b>	<b>(32)</b>	(2,945)	960
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(8,944)</b>	49,504	(7,545)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>51,508</b>	2,004	9,549
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>42,564</b>	51,508	2,004
<b>CASH PAID FOR TAXES</b>	<b>10</b>	–	–
<b>CASH PAID FOR INTEREST</b>	<b>14,522</b>	–	–

The accompanying notes are an integral part of these consolidated statements of cash flows.

## SIGNIFICANT NON-CASH TRANSACTION

On November 30, 2000, a subsidiary of Fox Kids Europe acquired the business and assets relating to the Fox Kids day part of the TV10 channel for non-cash consideration (see Note 3).

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Ordinary and priority shares (Note 18) \$'000	Additional paid-in capital \$'000	Other reserves \$'000	Note receivable contributed for equity (Note 14) \$'000	Accum- ulated deficit \$'000	Accumulated other compre- hensive income (loss) \$'000	Compre- hensive income (loss) \$'000
<b>BALANCE AT MAY 31, 1998</b>	7,679	108,561	–	–	(14,339)	(49)	
Net loss	–	–	–	–	(19,847)	–	(19,847)
13,239,707 shares issued	3,438	48,597	–	–	–	–	–
Foreign currency translation adjustments	–	–	–	–	–	960	960
Comprehensive loss							<b>(18,887)</b>
<b>BALANCE AT MAY 31, 1999</b>	<b>11,117</b>	<b>157,158</b>	<b>–</b>	<b>–</b>	<b>(34,186)</b>	<b>911</b>	
Net income	–	–	–	–	273	–	273
7,507,591 shares issued for a note receivable	1,949	103,314	–	(104,114)	–	–	–
19,676,771 shares issued in satisfaction of rights	5,109	(5,109)	–	–	–	–	–
12,519,307 shares issued for cash	3,251	155,985	–	–	–	–	–
Deemed distribution – cash	–	–	(100,000)	–	–	–	–
Deemed distribution – note payable	–	–	(104,114)	–	–	–	–
Interest receivable on note contributed for equity	–	–	–	(5,864)	–	–	–
Foreign currency translation adjustments	–	–	–	–	–	(1,250)	(1,250)
Other	–	34,747	–	–	–	–	–
Comprehensive loss							<b>(977)</b>
<b>BALANCE AT MAY 31, 2000</b>	<b>21,426</b>	<b>446,095</b>	<b>(204,114)</b>	<b>(109,978)</b>	<b>(33,913)</b>	<b>(339)</b>	
Net Income	–	–	–	–	17,075	–	17,075
Foreign currency translation adjustments	–	–	–	–	–	(1,835)	(1,835)
Interest receivable on note contributed for equity	–	–	–	(11,906)	–	–	–
Interest received on note contributed for equity	–	–	–	14,839	–	–	–
Other	–	(3,744)	–	–	–	–	–
Comprehensive income							<b>15,240</b>
<b>BALANCE AT JUNE 30, 2001</b>	<b>21,426</b>	<b>442,351</b>	<b>(204,114)</b>	<b>(107,045)</b>	<b>(16,838)</b>	<b>(2,174)</b>	

The accompanying notes are an integral part of these consolidated statements of shareholders' equity.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. DESCRIPTION OF BUSINESS, ORGANISATION AND BASIS OF PRESENTATION

### Description of business

Fox Kids Europe N.V. (together with its subsidiaries, “the Company”) is a pan-European integrated children’s entertainment company with programme distribution, localised television channels, consumer products (licensing, merchandising and home video) and online & interactive businesses.

The Company’s programme distribution business is based on certain rights to children’s programming produced or acquired from the Saban International division of Fox Family Worldwide, Inc. (the “Fox Kids Library”). The Fox Kids Library is one of the largest and most recognised libraries of children’s programming in the world.

Channel operations began in October 1996 with the launch of the first Fox Kids channel in the United Kingdom. In the last five years, the Company has established operations in several European countries and together with its affiliates is currently broadcasting eleven children’s television channel feeds in sixteen different languages in fifty-four countries via cable and DTH satellite transmission. Main channel markets currently include France, Germany, Italy, the Netherlands, Poland, Scandinavia, Spain, the United Kingdom and various countries in Central and Eastern Europe.

The Company’s consumer products business covers many European countries and includes operations in France, Germany, Italy, Spain, the Netherlands and the United Kingdom. The Company also operates an online & interactive business with seventeen fully localised websites.

### Organisation

Fox Kids Europe N.V. (“Fox Kids Europe”) was incorporated in the Netherlands in November 1999. At the initial public offering of the ordinary shares of Fox Kids Europe (“IPO”) in November 1999, in consideration for 62.5 million shares in Fox Kids Europe, Fox Family Worldwide, Inc. (“FFWW”) contributed to Fox Kids Europe, at book value, its interests in the subsidiaries and businesses specifically noted below, which are involved in programme distribution, the operation of children’s television channels, the licensing and merchandising of characters, the distribution of videos and online & interactive activities. FFWW indirectly held 75.7% of the shares in Fox Kids Europe at June 30, 2001 (75.7% at May 31, 2000).

### Change of year end

During the year Fox Kids Europe changed its year end from May 31 to June 30 to be consistent with its parent, FFWW.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. DESCRIPTION OF BUSINESS, ORGANISATION AND BASIS OF PRESENTATION (continued)

### Basis of presentation

These consolidated financial statements do not constitute statutory accounts under Dutch Law. Dutch statutory accounts are being produced and will be filed at the Chamber of Commerce, PO Box 378, 1200 AJ, Hilversum, The Netherlands. A copy of the Dutch statutory accounts can be obtained from Fox Kids Europe's registered office, Sumatralaan 45, 1217 GP, Hilversum, The Netherlands.

The consolidated financial statements of Fox Kids Europe reflect the financial statements of:

Company Name		Country of Incorporation	Equity Interest (100% unless otherwise stated)
Fox Kids AB		Sweden	
Fox Kids Entertainment Limited		United Kingdom	
Fox Kids Entertainment Spain SL		Spain	
Fox Kids Europe Channels B.V.		The Netherlands	
Fox Kids Europe Limited	(1)	United Kingdom	
Fox Kids Europe Properties Sarl		Luxembourg	
Fox Kids Financial Management (Hungary) Limited		Hungary	
Fox Kids France Sarl	(1)	France	
Fox Kids GmbH		Germany	
Fox Kids International Enterprises B.V.		The Netherlands	
Fox Kids Israel Enterprises B.V.		The Netherlands	50.5%
Fox Kids Israel Limited (formerly FKI Communication (Israel) 2000 Limited)		Israel	50.5%
Fox Kids Italy Srl		Italy	
Fox Kids Poland Limited	(1)	Isle of Man	80%
Fox Kids Scandinavia AS		Norway	
Saban Consumer Products Europe Limited	(1)	United Kingdom	
Saban Consumer Products France SAS		France	
Saban Consumer Products Germany GmbH	(1)	Germany	
Saban Consumer Products Italy Srl (formerly Saban Entertainment Italy Srl)	(1)	Italy	

- (1) These companies, together with the European operations of the Saban International division of FFWW and the merchandising operations of Saban International Paris Sarl (together "Saban"), are included in the consolidated financial statements prior to November 1999. During the period prior to November 17, 1999, these businesses were controlled as integral parts of FFWW's overall operations, hence for the periods prior to that date, these combined financial statements were prepared from FFWW's historical accounting records and present all of the operations of the businesses that are now owned and operated by the Company.

The activities of the Company prior to November 17, 1999 were not all carried out in separate legal entities and as such some of the operations comprising the Company were carved out from the financial statements of FFWW. Consequently, certain revenues, costs, assets and liabilities previously reported within legal entities comprising FFWW have been allocated to the Company from FFWW, reflecting the assets and liabilities attributable to the Company and the results of such operations for the periods shown. See Note 17 for further details.

The financial information included herein may not necessarily reflect the consolidated results of operations, financial position, shareholders' equity and cash flows of the Company in the future or what they would have been had it been a separate, stand-alone entity throughout the periods prior to November 17, 1999.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of consolidation

The consolidated financial statements include the accounts of the Company consolidated with the financial statements of those entities and businesses contributed by FFWW, as described in Note 1, which include the accounts of their majority owned and controlled subsidiaries. For financial reporting purposes, control generally means ownership of a majority interest in an entity but may, in certain instances, result from other considerations, including a company's capacity to dominate decision making in relation to the financial and operating policies of the consolidated entity.

The Company uses the equity method of accounting for investments in affiliates where it exercises significant influence but does not have control.

All material intercompany accounts and transactions have been eliminated in the consolidated financial statements of the Company and those entities and businesses contributed by FFWW, as described in Note 1.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

### Revenue recognition

Programme distribution revenue is recognised when the relevant agreement has been entered into and all the Company's contractual obligations have been satisfied.

Subscriber fees receivable from cable operators and DTH broadcasters are recognised as revenue over the period for which the channels are provided and to which the fees relate. Subscriber revenue is recognised as contracted based upon the level of subscribers. In accordance with SFAS No. 63, "Financial Reporting by Broadcasters" ("SFAS No. 63"), television advertising revenue is recognised as the commercials are aired. In certain countries, the Company commits to provide advertisers with certain rating levels in connection with their advertising. Revenue is recorded net of estimated shortfalls, which are usually settled by providing the advertiser additional advertising time. In accordance with EITF 99-17, "Accounting for Advertising Barter Transactions", barter revenues, representing the exchange of goods and services for advertising time on a television station, are recognised upon the airing of an advertisement during such advertising time, where the fair value of the advertising surrendered is determinable based on the Company's own historical practice of receiving cash or other consideration that is readily convertible to a known cash amount for similar advertising from buyers unrelated to the counterparty in the barter transaction. Revenues from home video and licensing and merchandising agreements which provide for the receipt by the Company of non-refundable guaranteed amounts, are recognised when the licence or distribution period begins, the payments are due under the terms of the contract, collectability is reasonably assured and the character rights or programmes are available pursuant to the terms of the agreement. Amounts in excess of minimum guarantees under these agreements are recognised when earned. Amounts received in advance of recognition of revenue are recorded as deferred revenue.

Revenue is recorded net of Value Added Tax ("VAT").

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Programme rights

In accordance with SFAS No. 53, programme rights are stated at cost less accumulated amortisation. Amortisation is based on the estimated ultimate revenues of each programme property. Each year management revises estimates, based on historical trends, of future revenue for each programme property and amortises that portion of the net book value at the beginning of the period that relates to revenue recognised this period.

If estimated ultimate revenues from a programme are not sufficient to recover the unamortised costs, the unamortised programming cost will be written down to net realisable value. Where television programme rights are acquired from third parties for a defined period (window), generally for broadcasting on the Company's channels and usually for periods of between 2 and 5 years, these are amortised over that window.

### Minority interest

Minority interests in loss-making subsidiaries are recognised only to the extent of the minority's share of net assets or when the minority shareholder has an obligation and an ability to fund such losses.

### Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over an estimated useful life as follows:

Property and equipment ... 3 to 10 years

Leasehold improvements are amortised over the shorter of the term of the lease or the estimated life of the improvements. Repair and maintenance costs are expensed as incurred.

The Company periodically reviews the carrying amount of long-lived assets to determine whether current events or circumstances warrant adjustments to the carrying value and/or the estimates of useful lives. This evaluation consists of the Company's projection of undiscounted operating income before depreciation, amortisation and interest over the remaining lives of the assets, in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of". No impairments have been recognised in any of the periods presented.

### Goodwill

Goodwill is stated at cost less accumulated amortisation. Amortisation is provided using the straight-line method over its estimated useful life up to a maximum of 40 years.

### Investments in equity affiliates

Investments in and advances to affiliates in which the Company has a substantial ownership interest of approximately 20% to 50%, or for which the Company owns more than 50% but does not have operational and policy control, are accounted for by the equity method. Under this method of accounting, the carrying value of the investment is increased or decreased by the Company's share of income or losses and dividends.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currency translation

The functional currency of each of Fox Kids Europe's subsidiaries is the currency of the primary economic environment in which each subsidiary operates. Accordingly, assets and liabilities recorded in foreign currencies in the balance sheets of Fox Kids Europe's subsidiaries are translated at the exchange rate between such foreign currency and the US dollar on the balance sheet date.

Revenues and expenses are translated at the average rate of exchange prevailing during the period. Translation adjustments resulting from this process are charged or credited to accumulated other comprehensive income.

Gains and losses borne by individual companies arising from foreign currency transactions are included in determining net income for the period.

### Fair value of financial instruments

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" requires disclosure of fair value information about financial instruments whether or not recognised in the consolidated balance sheets. The amounts reported in the consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term maturity of these instruments. The amounts included on the consolidated balance sheets relating to the Company's long-term notes payable (\$104.1 million) and receivable (\$104.1 million) have fair values of \$136.6 million and \$138.4 million respectively.

### Income taxes

Deferred income taxes are recognised using the asset and liability method whereby deferred tax balances are established for the difference between the financial reporting and income tax basis of assets and liabilities as well as operating loss and tax credit carry-forwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realised. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

### Earnings per share

Basic earnings per ordinary share is calculated using income available to ordinary shareholders divided by the weighted average number of shares outstanding. The difference between basic and diluted earnings per share for the Company is solely attributable to stock options.

### Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Stock option plan

The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees", and related interpretations. There are no performance criteria attached to the exercise of the options. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of Fox Kids Europe's stock at the date of grant over the amount an employee must pay to acquire the stock. SFAS No. 123, "Accounting for Stock-Based Compensation" requires companies that have adopted APB No. 25 to disclose the impact on earnings that would result if stock options had been valued at their fair value at the grant date.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Recently issued accounting pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement was subsequently amended by SFAS No. 137, which changed the effective date to fiscal years beginning after June 15, 2000 and SFAS No. 138 which made certain technical changes to the statement. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company adopted the new accounting standard on July 1, 2001. This statement is not expected to have a material impact on the financial statements.

In June 2000, the Accounting Standards Executive Committee ("AcSEC") of the American Institute of Certified Public Accountants issued Statement of Position 00-02 "Accounting by Producers and Distributors of Films" (the "SOP") which established new accounting standards for producers and distributors of films and will supersede Statement of Financial Accounting Standard No. 53. The SOP requires that advertising costs for television product be expensed as incurred. This compares to the Company's existing policy of capitalising and then amortising advertising costs associated with distribution over the related revenue streams. In addition, the SOP requires development costs for abandoned projects and certain indirect overhead costs to be charged directly to expense, instead of those costs being capitalised to programming costs and then amortised. At the time that the Company adopts the SOP, it expects to record a one-time, non-cash charge of approximately \$20 million as a cumulative effect of a change in accounting principles. The provisions of the SOP are effective for the Company beginning in the year ended June 30, 2002.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognised if they arise from contractual or legal rights or are "separable", i.e. it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognised under SFAS No. 141 than its predecessor, APB Opinion No.16 although in some instances previously recognised intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortised on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Additionally, goodwill on equity method investments will no longer be amortised; however, it will continue to be tested for impairment in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. Under SFAS No. 142 intangible assets with indefinite lives will not be amortised. Instead they will be carried at the lower of cost or market value and tested for impairment at least annually. All other recognised intangible assets will continue to be amortised over their estimated useful lives.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortised. On adoption, goodwill on prior business combinations will cease to be amortised. Had the Company adopted SFAS No. 142 on June 1, 2000 the Company would not have recorded a goodwill amortisation charge of \$271,000 and the equity in income of affiliates would have increased by \$129,000.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires the fair value of the liability for any asset retirement obligations to be recognised in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not have significant obligations relating to the retirement of assets. Accordingly, the Company does not believe that the potential impact of the adoption SFAS No. 143 will be material.

## 3. ACQUISITION

On March 11, 1997, the Company acquired from an unrelated Dutch company a 90% equity interest in TV10 B.V., which operated the TV10 television station in the Netherlands. In addition to this 90% equity interest, the Company was granted an option to acquire the remaining 10% of TV10 B.V. at a later date. This option was exercised later in 1997. The total cost of this investment was approximately \$10.4 million, which was paid in cash. This transaction was accounted for using the purchase method of accounting and resulted in goodwill of approximately \$6.8 million, which is being amortised over 40 years.

In June 1997, another unrelated Dutch company agreed to contribute to TV10 B.V. a total of 16.5 million Dutch Guilders (approximately \$8.6 million), payable in four equal annual instalments, in exchange for a 50% economic interest in TV10 B.V. and an option to acquire a 50% equity interest in TV10 B.V.

In March 1998, the unrelated Dutch company terminated its economic interest in TV10 B.V. As part of this transaction, TV10 B.V. retained, as a capital contribution, the initial installment of 4.125 million Dutch Guilders (approximately \$2.1 million) and received as a further capital contribution promotional airtime with a fair market value of approximately 1.0 million Dutch Guilders (approximately \$0.5 million). This transaction was accounted for using purchase accounting, resulting in goodwill of approximately \$6.9 million, which is being amortised over 40 years.

On August 1, 1998, the Company contributed its 100% interest in TV10 B.V. and a \$20.0 million note payable to TV10 Holdings, L.L.C. ("TV10 Holdings") in exchange for a 50% equity interest in TV10 Holdings. The other 50% equity interest in TV10 Holdings was issued to Fox TV10 Holdings, Inc. ("Fox"), an indirect subsidiary of The News Corporation Limited, in exchange for its initial capital contribution of \$20.0 million. This transaction resulted, inter alia, in a \$20.0 million increase in paid-in capital.

On November 30, 2000 TV10 B.V. sold the business and assets relating to the Fox Kids day part of the TV10 channel to Fox Kids Europe Channels B.V. ("FKECBV") for \$6.5 million. The consideration was made up of a note payable to TV10 B.V. of \$4.8 million and the cancellation of a loan of \$1.7 million payable from FKECBV to TV10 B.V. A capital reimbursement of \$4.8 million was then made by TV10 B.V. to TV10 Holdings and TV10 Holdings then repaid FKECBV partners' capital of \$4.8 million. This has been accounted for as a reorganisation between companies under common control and therefore no profit was recognised on the reorganisation. Fox performed a similar reorganisation for the evening part of the TV10 channel and sold its interest to SBS Broadcasting B.V.

The investment in TV10 B.V. has been accounted for under the equity method throughout the period covered by these financial statements because during the arrangements with the Dutch company and Fox, no party had operating or policy control of TV10 B.V. and, throughout the interim periods, it was always the Company's intention to enter into these or similar arrangements to share ownership of TV10 B.V.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 4. INVESTMENTS

### TV10 B.V.

The Company's investment in TV10 B.V. is discussed in Note 3.

### Fox Kids España SL ("Fox Kids Spain")

In December 1998, the Company established Fox Kids Spain, a joint venture with a subsidiary of Sogecable S.A., to develop a children's television channel. The Company has a 50% equity interest in Fox Kids Spain and has advanced \$189,000 to the joint venture for its share of initial capital.

Both of the above-mentioned investments are accounted for under the equity method of accounting. The difference between the share of net assets in these investments and the carrying value is the goodwill arising on consolidation of TV10 B.V. In the 13 months ended June 30, 2001 this was reclassified as goodwill (see Note 6). In the years ended May 31, 2000 and 1999 the value of this goodwill was \$9,378,000 and \$9,636,000 respectively.

### SUMMARISED CONSOLIDATED FINANCIAL DATA

Summarised financial data for 100% of the affiliated companies in local GAAP is presented below:

	<b>2001<sup>(1)</sup></b>	2000	1999
	<b>\$'000</b>	\$'000	\$'000
<b>TV10 B.V.</b>			
Current assets	<b>2,447</b>	13,179	6,279
Non-current assets	<b>163</b>	30,291	5,533
Current liabilities	<b>(2,059)</b>	(63,747)	(12,208)
Revenues	<b>13,750</b>	13,507	4,420
Operating loss	<b>(23,387)</b>	(18,049)	(17,067)
Net loss	<b>(26,357)</b>	(21,064)	(17,606)

(1) The statutory accounts in Dutch GAAP of TV10 B.V. for the 13 months ended June 30, 2001 have yet to be signed.

Through a shareholder agreement with Fox, up to December 1, 2000 the revenues and direct costs of the daytime programming were attributed to the Company, with those of the evening programming attributed to Fox. Subject to certain limits, indirect costs were allocated between the Company and Fox in proportion to revenue. Since December 1, 2000 any material costs as well as revenues of TV10 B.V. in which the Company has an interest, are recharged to the Company. The Company's share of the revenues of TV10 B.V. for the 13 months ended June 30, 2001 and the years ended May 31, 2000 and 1999 was \$3,799,000, \$3,967,000 and \$1,742,000 respectively. The Company's share of the net income/(loss) of TV10 B.V. for the 13 months ended June 30, 2001 and the years ended May 31, 2000 and 1999 was \$894,000, (\$2,317,000) and (\$6,018,000) respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 4. INVESTMENTS (continued)

	2001 \$'000	2000 \$'000	1999 \$'000
<b>FOX KIDS SPAIN</b>			
Current assets	<b>2,793</b>	4,785	100
Non-current assets	<b>381</b>	270	–
Current liabilities	<b>(1,732)</b>	(5,168)	(709)
Non-current liabilities	<b>(28)</b>	–	–
Revenues	<b>5,959</b>	3,664	1,615
Operating income/(loss)	<b>1,802</b>	466	(709)
Net income/(loss)	<b>1,197</b>	466	(709)

The Company's share of the net income/(loss) of Fox Kids Spain for the 13 months ended June 30, 2001 and the years ended May 31, 2000 and 1999 was \$598,000, \$233,000 and (\$355,000) respectively.

## 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2001 \$'000	2000 \$'000
Property and equipment	<b>9,627</b>	5,684
Leasehold improvements	<b>869</b>	651
	<b>10,496</b>	6,335
Less accumulated depreciation	<b>(4,706)</b>	(2,909)
	<b>5,790</b>	3,426

## 6. GOODWILL

Goodwill consists of the following:

	2001 \$'000	2000 \$'000
Goodwill	<b>9,969</b>	–
Less accumulated amortisation	<b>(271)</b>	–
	<b>9,698</b>	–

The goodwill represents the difference between the carrying value of the investment in TV10 B.V. and the net book value of the assets of TV10 B.V., which were transferred from the Company's equity affiliate, TV10 B.V., to the Company on December 1, 2000 (see Note 3).

The goodwill is being amortised over 40 years of which 37.5 years remain as of December 1, 2000. As the goodwill has only been separately reported from December 1, 2000 the accumulated amortisation also represents the charge for the year.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 7. PROGRAMMING RIGHTS

Programming rights consist of the following:

	2001 \$'000	2000 \$'000
Programming rights cost	347,514	281,511
Less accumulated amortisation	(172,161)	(130,981)
	<b>175,353</b>	150,530

Of the net book value of programming rights at June 30, 2001, \$171,412,000 (2000 – \$149,512,000) represents the rights of the Fox Kids Library in the Company's territory, with the remainder being programming acquired from third parties for broadcasting by the channels operated by the Company. At June 30, 2001 the net book value of programming rights included work in process of \$20,461,000 (2000 – \$15,984,000).

The amortisation charge relating to programming rights for the 13 months ended June 30, 2001 was \$41,180,000 (2000 – \$28,469,000)

## 8. BORROWINGS

All borrowings are from other FFWW group companies and are detailed in Note 14.

## 9. INCOME TAXES

The benefit (provision) for income tax consists of the following:

	2001 \$'000	2000 \$'000
Income taxes	(87)	(414)
Other taxes	(550)	(177)
Deferred taxes	4,368	–
	<b>3,731</b>	(591)

The components of the benefit (provision) for income taxes for the 13 months ended June 30, 2001 and year ended May 31, 2000 were based upon the following sources of pre-tax income (loss)

	2001 \$'000	2000 \$'000
The Netherlands	(2,263)	(2,334)
Others	16,105	3,351
	<b>13,842</b>	1,017

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. INCOME TAXES (continued)

and are as follows:

	2001 \$'000	2000 \$'000
The Netherlands – Current	77	(77)
– Deferred	–	–
Others – Current	(714)	(514)
– Deferred	4,368	–
	<b>3,731</b>	(591)

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory income tax rate of the Netherlands of 35% (2000 – 35%) to income before provision for income taxes is as follows:

	2001 \$'000	2000 \$'000
Income before tax and minority interests	13,842	1,017
Computed expected tax	4,844	356
Equity in income of affiliates	(522)	820
Statutory differences	(9,198)	(10,603)
Permanent differences	2,959	1,982
Variation in valuation allowance	(2,364)	7,859
Other taxes	550	177
Income tax charge	<b>(3,731)</b>	591

Where the Company has provided for income taxes, the provisions have been calculated at the statutory rates in the relevant jurisdictions.

### Deferred taxes

Principal components of the deferred tax assets and liabilities are as follows:

	2001 \$'000	2000 \$'000
Deferred tax assets		
Net operating losses carried forward	36,221	20,199
Fixed assets	823	452
Other assets and liabilities	12,482	26,871
Total	<b>49,526</b>	47,522
Valuation Allowance	<b>(45,158)</b>	(47,522)
Deferred tax	<b>4,368</b>	–

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. INCOME TAXES (continued)

Management has determined that as of June 30, 2001 approximately \$45.2 million (2000 – \$47.6 million) of deferred tax assets do not satisfy the recognition criteria set forth in SFAS No 109. Accordingly a valuation allowance has been recorded for that amount.

The above amount relating to net operating losses results from approximately \$210 million of tax net operating loss carryforwards as at June 30, 2001, of which approximately \$72 million have no expiry date and approximately \$138 million expire between 2002 and 2008. Realisation of these net operating losses is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards, subject to any limitations on their use.

## 10. PENSION PLANS

Fox Kids Europe Limited operates a defined contribution group personal pension plan (the “Plan”) for United Kingdom employees. The Plan is effectively a collection of individual personal pension plans. Fox Kids Europe Limited contributes a percentage of eligible employees’ annual compensation, provided that the employee contributes a minimum percentage. The costs associated with making matching contributions for employee voluntary contributions to the Plan were approximately \$187,000, \$148,000 and \$98,000 for the 13 months ended June 30, 2001 and the years ended May 31, 2000 and 1999 respectively.

## 11. OPERATING EXPENSES

Operating expenses include an exceptional charge of \$1,200,000 (2000 – \$1,809,000, 1999 – \$nil) representing the accelerated write-off of lease payments payable to a related party, British Sky Broadcasting Limited (“BSkyB”), arising from the termination of the analogue transponder lease on February 1, 2001.

## 12. INTEREST INCOME

	2001 \$'000	2000 \$'000	1999 \$'000
Interest receivable on bank deposits	1,828	953	154
Interest receivable from related party on long-term note	11,906	5,864	–
	<b>13,734</b>	6,817	154

## 13. INTEREST EXPENSE

	2001 \$'000	2000 \$'000	1999 \$'000
Interest payable to related party on short-term loan	–	96	–
Interest payable to related party on long-term note	11,660	5,517	–
	<b>11,660</b>	5,613	–

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 14. RELATED PARTY TRANSACTIONS

### Sales to Parent Company

During the 13 months ended June 30, 2001 the Company, for the first time, secured non-European distribution rights to certain properties (in addition to the European rights). The Company sold the rights to the US and other non-European markets to subsidiaries of its parent company, FFWW. The revenue and cost recorded relating to these sales are as follows:

	<b>13 months to June 30 2001</b>
Revenue	<b>5,816</b>
Amortisation	<b>(5,552)</b>
Operating income	<b>264</b>

### Inter-company Debt Arrangements

During the year ended May 31, 1999, Fox Kids Europe Limited received loans from Saban Entertainment, Inc. (“SEI”) on which no interest was charged. As at May 31, 1999, cumulative funding of \$13.3 million had been provided. Following a capital contribution of \$25.0 million in November 1999 a balance of \$6.4 million remained. After the IPO, the loan was subject to an interest charge at the Federal short-term rate. The loan was repaid during the year ended May 31, 2000. Fox Kids Europe Holdings, Inc. (“FKEHI”) contributed 100% of the share capital of Fox Kids Europe Limited to the Company during the reorganisation of the businesses of the Company which took effect at the same time as the IPO (the “Reorganisation”).

As at May 31, 1999, FKEHI had loaned Fox Kids France Sarl FF26.8 million (approximately \$4.4 million), interest free and repayable on demand. In November 1999, Fox Kids France Sarl issued 302,770 shares of FF100 each to FKEHI in consideration for \$4.8 million, thereby reducing the balance to \$nil. FKEHI contributed 100% of the share capital of Fox Kids France Sarl to the Company during the Reorganisation.

As at May 31, 1999, a funding balance of \$0.5 million was due to SEI from Saban Entertainment (UK) Limited, the Company’s United Kingdom consumer products operation. In November 1999, Saban Entertainment (UK) Limited issued 2 ordinary shares of £1 each to SEI in consideration for the balance outstanding, thereby converting these balances to equity. SEI contributed 100% of the share capital of Saban Entertainment (UK) Limited to the Company during the Reorganisation. Saban Entertainment (UK) Limited subsequently changed its name to Saban Consumer Products Europe Limited.

As at May 31, 1999, a funding balance of \$0.1 million was due to SEI from Saban Entertainment Italy Srl, the Company’s Italian consumer products operation. In November 1999, SEI made a capital contribution of \$0.4 million to Saban Entertainment Italy Srl, in addition to converting these balances to equity. SEI contributed 100% of the share capital of Saban Entertainment Italy Srl to the Company during the Reorganisation.

As at May 31, 1999, a funding balance of \$0.2 million was due to Saban International Services, Inc. (“SISI”) from Saban Merchandising and Licensing GmbH, the Company’s German consumer products operation. In November 1999, SEI made a capital contribution in cash to Saban Merchandising and Licensing GmbH for an equivalent amount which was used to reimburse SISI. SEI contributed 100% of the share capital of Saban Merchandising and Licensing GmbH to the Company during the Reorganisation. Saban Merchandising and Licensing GmbH subsequently changed its name to Saban Consumer Products Germany GmbH.

As at June 30, 2001 and May 31, 2000, Saban International N.V. had provided cumulative funding of \$1.6 million to Fox Kids Poland Limited. This funding remains repayable.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 14. RELATED PARTY TRANSACTIONS (continued)

The long-term note payable to a subsidiary of FFWW of \$104.1 million was assumed as part of the Reorganisation in partial consideration for the transfer of rights to the Company. The note bears interest quarterly, commencing December 31, 1999, at an annual rate of 10.18%. The term of the note is 19 years and six months and annual repayments of principal in the amount of \$5.2million began to fall due on June 30, 2000. Under the terms of the note if repayments exceed cash receipts under the note receivable (see below) then payments can be deferred until such time as cash receipts exceed payments but all deferrals shall fall due for payment on October 31, 2005. No repayments were made in the 13 months ended June 30, 2001.

The long-term note receivable of \$104.1m from International Family Entertainment, Inc., an affiliate of FFWW, was assigned to the Company as part of the Reorganisation in exchange for ordinary shares. This note is included within shareholders' equity as required by EITF 85-01, "Classifying Notes Received for Capital Stock". The note bears interest quarterly, commencing December 31, 1999, at an annual rate of 10.43%. The term of the note is 19 years and six months and annual repayments of principal in the amount of \$5.2 million begin to fall due on June 30, 2006 with a voluntary annual prepayment schedule of such amounts from June 30, 2000. No repayments were received in the 13 months ended June 30, 2001.

The deemed cash distribution of \$100 million included within shareholders' equity in the year ended May 31, 2000 relates to the transfer of programming rights referred to in Note 17.

A FFWW affiliate also provides logistical services to the Company in connection with its third party distribution agreements. The Company pays for these services on the basis of cost plus a 10% mark up. The amount paid in the 13 months to June 30, 2001 was \$4,929,000 (2000 – \$5,897,000).

### Other Related Party Arrangements

#### Arrangements with Middle East Communication Holdings B.V. (MECH BV)

MECH BV, a company controlled by the brother of Mr. Haim Saban (a member of the Supervisory Board and director and shareholder of FFWW) owns the shares in Fox Kids Israel Enterprises B.V. not owned by the Company. At the end of the period, the Company owed \$106,000 to Israel Audiovisual Corporation, a related party of MECH BV, which supplies the Israeli channel with programming.

#### Arrangements with Stream SpA (Stream)

The Company's Italian channel is distributed on the DTH satellite platform in Italy operated by Stream. Stream is part owned by The News Corporation Limited, a company chaired by Mr. Rupert Murdoch, a director of FFWW. The revenue earned from Stream in the 13 months to June 30, 2001 was \$4,412,000 (2000 – \$679,000) At the end of the period amounts receivable from Stream totalled \$2,211,000.

#### Arrangements with Sogecable S.A.

As described in Note 4, the Fox Kids channel in Spain is operated by Fox Kids España SL, a company jointly owned by a subsidiary of Sogecable S.A. and the Company. Sogecable S.A. and its subsidiaries provide office and sales administration, programming and production facilities and services to Fox Kids Spain.

#### Arrangements with United Pan-Europe Communications N.V.

The minority shareholder in Fox Kids Poland Limited, a subsidiary of United Pan-Europe Communications N.V., provides certain transmission and programming services to the Fox Kids channel in Poland.

#### Trademark Arrangements

Twentieth Century Fox Film Corporation has granted the Company a trademark licence without a fixed term to use the "Fox Kids" name and related logos without material charge.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 14. RELATED PARTY TRANSACTIONS (continued)

### Arrangements With BSkyB

As of July 24, 2001, BSkyB's parent company, British Sky Broadcasting Group plc ("BSkyB Group plc") was approximately 36.3% owned, indirectly, by The News Corporation Limited. In addition, Mr. Rupert Murdoch, a director of FFWW, serves as Chairman of BSkyB Group plc.

BSkyB has agreed to act as the Company's exclusive DTH satellite platform in the United Kingdom until October 19, 2004. The Company receives a monthly fee related to the number of subscribers. In addition, for an annual fee, BSkyB provides the Company with uplink facilities and subleases transponder capacity on the Astra satellites. The Company is responsible for maintaining the satellite television services licence throughout the term of the agreement, as well as any other licences, as required. BSkyB is responsible for maintaining any Telecommunications Act licences required.

In the prior year, the Company agreed with BSkyB to terminate the analogue transponder sublease from BSkyB with effect from February 1, 2001. The sublease costs were previously being amortised over the period to October 19, 2002, the original expected duration of the lease. The remaining sublease costs of approximately \$3 million were written off over the shorter period to February 1, 2001, the date of the sublease termination. This gave rise to an additional charge in the year of \$1.2 million (2000 – \$1.8 million). The charge has been included within Operating Expenses (see Note 11).

In the United Kingdom, advertising is sold by three Fox Kids employees based at BSkyB's sales department. In consideration for a commission, BSkyB provides the Company with computer support, market research and scheduling and compliance services.

The Company believes all transactions with BSkyB result from arm's length negotiations and reflect a fair market rate.

## 15. COMMITMENTS AND CONTINGENCIES

### Operating Leases

The Company leases transponders, office facilities, and certain programme related equipment. These leases, which qualify as operating leases, expire at various dates through 2008.

Non-cancellable future minimum payments for the remainder of the initial, non-cancellable lease periods are as follows:

Year Ending June 30,	\$'000
2002	3,288
2003	2,142
2004	991
2005	410
2006	410
Thereafter	264
	7,505

Total operating lease expenses were approximately \$8.6 million, \$11.4 million and \$7.9 million for the 13 months ended June 30, 2001 and the years ended May 31, 2000 and May 31, 1999 respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 15. COMMITMENTS AND CONTINGENCIES (continued)

### Litigation

In the ordinary course of business, the Company has become involved in disputes or litigation. While the result of such disputes cannot be predicted with certainty, in management's opinion, the ultimate resolution of these disputes will not have a material adverse effect on the Company's financial position or the results of its operations.

### Guarantees of Debt

In October 1997, certain members of the FFWW group of companies entered into a Credit Agreement (the "Agreement"), with a syndicate of banks, under which they and certain other subsidiaries of FFWW may from time to time borrow up to a maximum of \$710.0 million. Under the Agreement the Company is generally prevented from incurring any additional indebtedness or prepaying indebtedness prior to scheduled repayment dates, granting liens on any assets, undergoing a merger or selling assets, making equity investments in, or loans to, any other person, and making distributions of its capital or assets or paying dividends and creating or acquiring new subsidiaries. In addition, the Agreement contains certain restrictions in relation to the payment of dividends. The debt under the Agreement is secured by pledges of the shares of certain of FFWW's subsidiaries and liens on certain other assets.

At the time the Agreement was entered into, Fox Kids Europe Limited executed a subsidiary's guarantee (the "Guarantee") in favour of the banks under the Agreement. Thus, Fox Kids Europe Limited guaranteed payments due from the borrowers under the Agreement. The borrowers include subsidiaries of FFWW which are not subsidiaries of the Company.

FFWW issued several series of Senior Notes and Senior Discount Notes pursuant to Indentures dated October 28, 1997 (the "Indentures"). The Company is subject to certain affirmative and negative covenants contained in the Indentures, which also place certain restrictions on the scope of the Company's activities. Generally, the Company may not incur additional indebtedness unless the aggregate debt of FFWW and its subsidiaries meets certain criteria. The Indentures also place limits on the Company's ability to make certain payments, including dividends and investments.

While the above restrictions over the Company remain in place under both the Agreement and Indentures, with effect from November 17, 1999, the lenders under the Agreement released Fox Kids Europe Limited from the Guarantee and all pledges, liens and charges over the assets of the Company entered into pursuant to the Agreement.

## 16. SEGMENT INFORMATION

During the periods presented, the Company operated in four business segments, based on its products and services: Programme Distribution (which principally consists of the sale of programming to third parties), Channel Operations (which principally consist of the operation and broadcast of television stations), Consumer Products (licensing and merchandising operations and home video) and Online & Interactive operations (which principally consist of providing children's entertainment via the Internet and other interactive media).

The accounting policies of the segments are the same as those described in Note 2 except that for segment reporting, the Company includes its share of revenues of equity affiliates in total revenues. In addition, for segment reporting, the Company measures profitability based on Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA").

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. SEGMENT INFORMATION (continued)

### Business Segments

#### Revenues

	2001 \$'000	2000 \$'000	1999 \$'000
Programme Distribution	61,389	54,100	47,038
Channel Operations <sup>(1)</sup>	64,431	39,774	23,999
Consumer Products	9,291	6,508	8,125
Online & Interactive	997	31	–
Total Revenues (including unconsolidated revenues of equity affiliates)	136,108	100,413	79,162
Less: unconsolidated revenues of equity affiliates	(6,777)	(5,799)	(2,550)
Revenues	129,331	94,614	76,612

(1) The Company's share of revenues of equity affiliates is included within channel operations.

### Business Segments

#### EBITDA

	2001 \$'000	2000 \$'000	1999 \$'000
Programme Distribution	51,245	40,767	34,144
Channel Operations	13,402	1,448	(8,543)
Consumer Products	5,155	2,221	4,319
Online & Interactive	(6,423)	(1,703)	–
Shared costs not allocated to segments	(9,476)	(7,836)	(3,808)
EBITDA	53,903	34,897	26,112
Less: Depreciation and amortisation	(43,248)	(29,797)	(40,678)
Operating income/(loss)	10,655	5,100	(14,566)

### Business Segments

#### Depreciation and amortisation

	2001 \$'000	2000 \$'000	1999 \$'000
Programme Distribution	(38,625)	(27,262)	(39,228)
Channel Operations	(3,857)	(2,227)	(961)
Consumer Products	(118)	(35)	(28)
Online & Interactive	(462)	(34)	–
Shared costs not allocated to segments	(186)	(239)	(461)
	(43,248)	(29,797)	(40,678)

The above reflects management's attribution of all amortisation of the Company's rights from the Fox Kids Library to programme distribution.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. SEGMENT INFORMATION (continued)

### Identifiable assets

	2001 \$'000	2000 \$'000	1999 \$'000
Programme Distribution	249,019	217,647	140,514
Channel Operations	41,971	32,879	28,965
Consumer Products	3,402	2,235	1,200
Online & Interactive	1,006	447	–
	<b>295,398</b>	253,208	170,679

The investment in equity affiliates is included within channel operations.

### Geographic Segments

#### Revenues

	2001 \$'000	2000 \$'000	1999 \$'000
United Kingdom and Ireland	29,350	22,603	18,661
Germany	25,901	22,033	17,283
France	17,793	16,632	16,528
Italy	13,515	8,393	12,859
Spain and Portugal <sup>(1)</sup>	10,838	10,225	1,643
Benelux <sup>(1)</sup>	9,161	7,992	5,501
Poland	7,909	5,276	1,966
Central and Eastern Europe	7,104	2,582	50
USA	5,844	–	–
Nordic Region	5,558	3,685	2,062
Israel	2,233	–	–
Other	902	992	2,609
Total Revenues	<b>136,108</b>	100,413	79,162
Less: unconsolidated revenues of equity affiliates	<b>(6,777)</b>	(5,799)	(2,550)
Revenues	<b>129,331</b>	94,614	76,612

(1) Includes the Company's share of revenues of equity affiliates and sales of programming to its equity affiliates.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. SEGMENT INFORMATION (continued)

### Geographic Segments

EBITDA	2001 \$'000	2000 \$'000	1999 \$'000
United Kingdom and Ireland	13,347	1,535	(833)
Germany	16,596	15,897	11,556
France	8,104	7,274	7,341
Italy	8,476	4,995	9,364
Spain and Portugal	4,913	6,321	583
Benelux	747	3,030	3,187
Poland	4,123	2,434	(1,015)
Central and Eastern Europe	1,883	534	(801)
USA	4,878	–	–
Nordic Region	965	(33)	(1,759)
Israel	(1,403)	–	–
Other	751	746	2,297
Shared costs not allocated to segments	(9,477)	(7,836)	(3,808)
EBITDA	53,903	34,897	26,112
Less: depreciation and amortisation	(43,248)	(29,797)	(40,678)
Operating income/(loss)	10,655	5,100	(14,566)

### Geographic Segments

#### Identifiable assets

	2001 \$'000	2000 \$'000	1999 \$'000
United Kingdom and Ireland	15,277	18,463	14,887
France	7,427	2,889	2,941
Benelux	264,485	231,147	152,243
Other	8,209	709	608
	295,398	253,208	170,679

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. SEGMENT INFORMATION (continued)

Revenues are attributed to geographic segments based on the destination of the sale. Assets are attributed to geographic segments based on the location of individual assets.

Significant customers which have had revenues greater than 10% of the revenues for at least one of the periods presented are as follows:

	<b>Revenue</b>	<b>%</b>	Revenue	<b>%</b>	Revenue	<b>%</b>
	<b>2001</b>	<b>2001</b>	2000	2000	1999	1999
	<b>\$'000</b>		\$'000		\$'000	
Customer A	<b>8,197</b>	<b>6.3</b>	15,980	16.9	10,622	13.9
Customer B	<b>5,906</b>	<b>4.6</b>	4,018	4.2	9,523	12.4
Customer C	<b>18,839</b>	<b>14.6</b>	15,575	16.5	10,435	13.6

## 17. TRANSFER OF RIGHTS

At the IPO, the Company entered into certain arrangements with FFWW and its subsidiaries. The consolidated financial statements present all of the operations of the businesses that were owned and operated by the Company at the date of the IPO, as if the Company had entered into the arrangements detailed in this Note on June 1, 1999, since these businesses had been under common control throughout that period.

In connection with the Reorganisation, Saban transferred to the Company all of the existing programme broadcast and distribution rights to all existing children's television series and specials controlled by it in the Company's territory. The programme rights included the right to broadcast and distribute by most media, including, without limitation, the following media: (1) analogue and digital terrestrial; (2) analogue and digital satellite, cable, SMATV, MMDS, MUDS and online; and (3) home video.

The Company has the right to acquire future rights held by Saban at any time within 15 years from the date of the IPO. In the event that negotiations are not successful in respect of any programme, the Company has the absolute right to acquire the rights to that programme for 50% of FFWW's (including Saban's) production budget or 50% of its worldwide acquisition costs. The Company is entitled both to use these rights for its channels and to exploit the rights with third parties.

The Company holds all rights acquired for their outstanding copyright term or the outstanding term during which they are held by Saban, whichever is shorter.

Saban also transferred to the Company all existing merchandising rights (including rights for toys but excluding sound track albums and music publishing rights) to children's programming and properties (including rights to localisation) controlled by Saban for the Company's territory. The acquisition of rights from Saban included rights held by Saban to third party properties where applicable. The Company also has the right of first negotiation to acquire such merchandising rights to future programming or properties produced or acquired by Saban where the Company acquires the programming rights. Whenever Saban acquires merchandising rights to a children's property other than in connection with programming or other rights, the Company has a right of first negotiation to acquire merchandising rights for its territory, and, in the event the negotiation is not successful, an absolute right to acquire such rights at 50% of FFWW's (including Saban's) acquisition cost.

In the event of world-wide or pan-regional deals which include the Company's territory (in whole or in part), royalties derived from the territory will be receivable by the Company. In the event of toy licence deals covering solely the Company's territory (in whole or in part) any advance or minimum guarantee will be received by the Company. Where a worldwide or pan-regional toy deal includes territories outside the Company's territory, any advance or guarantee shall be payable to Saban.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 17. TRANSFER OF RIGHTS (continued)

Saban has guaranteed, however, that the Company shall receive its share of royalties without giving effect to any advance or minimum guarantee recoupment. The Company will ultimately be entitled to receive its share, by reference to revenues derived from its territory, of any unearned advances and guarantees applicable to its territories.

Saban transferred to the Company all Internet rights controlled by Saban for the Company's territory to: (1) existing children's programming and properties (including third party properties where applicable); and (2) current and future Internet technologies and applications relating to children's programmes and properties. The Company also has the right to negotiate and acquire such Internet rights to children's programming and properties as may be produced or acquired by Saban for their outstanding copyright term or the outstanding term during which they are held by Saban, whichever is shorter. The acquisition of rights from Saban included those held by Saban in relation to third party Internet rights. Saban agreed not to use or authorise others to use the Internet rights on Internet sites aimed at children in the Company's territory. Saban and the Company will cooperate in good faith to maximize the value to be derived from the exploitation of Saban's and the Company's Internet rights in any arrangement involving the Company's territory as well as Saban's territories.

The Company's territory for the purposes of the arrangements with FFWW and its subsidiaries referred to above includes Europe (including Central and Eastern Europe), the Middle East (except Israel) and certain Caribbean and French-speaking African and South Pacific territories.

## 18. SHARE CAPITAL

The authorised share capital of Fox Kids Europe consists of 349,999,900 ordinary shares with a nominal value of €0.25 per share, and 100 priority shares, each with a nominal value of €0.25 per share. 82,519,307 ordinary shares and 100 priority shares are issued and outstanding.

The priority shares are held by SEI, a subsidiary of FFWW. The priority shares can only be transferred with the approval of the Board of Management and the Supervisory Board. The holder or holders of the priority shares have the right, inter alia, to: nominate members for the appointment of the Board of Management and the Supervisory Board; receive a non-cumulative preferential dividend of 5% of the nominal value of each share per annum; propose amendments to the Articles of Association, propose the dissolution, legal merger or split-up of Fox Kids Europe; and receive a preferential liquidation distribution.

The members of the board of directors of SEI are Stan Golden (who is a member of Fox Kids Europe's Board of Management), Julie Wineberg and Tony Howe. SEI is a wholly owned subsidiary of FFWW. The members of the board of directors of FFWW are Rupert Murdoch, Jeff Shaw, Chase Carey, Haim Saban, Mel Woods and Matt Krane. The directors of SEI and FFWW are responsible for the management of their respective companies. In the joint opinion of SEI, FFWW and Fox Kids Europe, none of the priority shares are held by a member of the Board of Management of Fox Kids Europe and no more than 50 per cent of the voting rights of SEI can be exercised by persons who are also members of the Board of Management of Fox Kids Europe.

The amount shown as shares issued in the year ending May 31, 1999 within the Consolidated Statements of Shareholders' Equity represents the historical cost of entities and businesses transferred to Fox Kids Europe by FFWW in exchange for shares. These shares were issued in the Reorganisation prior to the IPO. Where unincorporated businesses were contributed, the equity movement represents the net assets of the businesses; where incorporated entities were transferred, the movement in each period represents additional investments made by the parent company in those entities.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 18. SHARE CAPITAL (continued)

The earnings/(loss) per share is computed using the net income/(loss) for each year divided by the weighted average number of shares in issue in each year. In the year ended May 31, 1999 it is assumed that the share issues shown in the Consolidated Statements of Shareholders' Equity occurred evenly throughout the year. For the year ended May 31, 2000, the weighted average number of shares in issue has been calculated on an actual basis. For the period ended June 30, 2001 options for 98,751 shares were excluded from diluted earnings per share, being anti-dilutive, and 2,860,825 shares have been deemed to be issued on June 30, 2001 in respect of options granted.

## 19. STOCK OPTION PLAN

Under the Fox Kids Discretionary Stock Option Scheme, Fox Kids Europe may grant options to acquire shares to personnel at exercise prices equal to or exceeding the market price at the date of grant. Options vest equally over a four-year period from the date of grant and expire ten years after the date of grant. Shares available for future option grants at June 30, 2001 totalled 5,007,002 (2000 – 5,276,901).

The following table summarises information about stock option transactions:

	2001 Weighted average exercise price (Euro)	2001 Number of options	2000 Weighted average exercise price (Euro)	2000 Number of options
Outstanding at beginning of year	13.62	2,950,780	–	–
Awards granted	14.21	269,899	13.62	2,975,030
Awards forfeited	13.98	(261,103)	13.50	(24,250)
Outstanding at June 30	13.64	2,959,576	13.62	2,950,780
Exercisable at June 30	13.58	681,027	–	–

The following table summarises information about stock options outstanding at June 30, 2001:

Exercise prices – Euro	Number of options	Outstanding weighted average remaining years of contractual life	Weighted average exercise price (Euro)	Exercisable	
				Number of options	Weighted average exercise price (Euro)
10.2 – 13.5	2,860,825	8.6	13.05	681,027	13.58
16.5 – 20.2	98,751	8.9	19.16	–	–

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 19. STOCK OPTION PLAN (continued)

The Company has adopted SFAS No.123 and pursuant to its provision elected to continue using the intrinsic-value method of accounting for stock-based awards granted to employees in accordance with APB 25. Accordingly, the Company has not recognised compensation expense for its stock-based awards to employees but has recognised a charge of \$149,000 in respect of options issued to employees of its equity affiliates. The following table reflects pro forma net income and earnings per share had the Company elected to adopt the fair value approach of SFAS No.123:

	2001 \$'000	2000 \$'000
Net income		
As reported	<b>17,075</b>	273
Pro forma net income/(loss)	<b>11,905</b>	(3,860)
Basic earnings per share (cents)		
As reported	<b>20.7</b>	0.4
Pro forma earnings/(loss) per share	<b>13.7</b>	(6.0)
Diluted earnings per share (cents)		
As reported	<b>20.7</b>	0.4
Pro forma diluted earnings/(loss) per share	<b>13.7</b>	(6.0)

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortised to expense over the vesting period, and additional options may be granted in future years.

The weighted average fair values of options at their date of grant during the year, where the exercise price equalled the market price on the grant date was \$5.13 (2000 – \$4.98).

The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

	2001	2000
Risk free interest rate	<b>4.25%</b>	5.5%
Expected years from grant until exercise	<b>2</b>	2
Expected stock volatility	<b>60%</b>	60%
Dividend yield	<b>0%</b>	0%

## 20. SUBSEQUENT EVENTS

Subsequent to the year end it was announced that The Walt Disney Company entered into an agreement to acquire Fox Kids Europe's majority shareholder, FFWW. This transaction is, inter alia, subject to regulatory approval and had not been completed by the date of these financial statements.