REPORT OF INDEPENDENT AUDITORS

To the Shareholders of Fox Kids Europe N.V.

We have audited the accompanying consolidated balance sheet of Fox Kids Europe N.V. and subsidiaries ("the Company"), as of September 30, 2002, and the related consolidated statements of operations, cash flows and shareholders' equity for the 15-month period then ended which have been prepared on the basis of accounting principles generally accepted in the United States of America. 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. The financial statements of the Company as of June 30, 2001 and for the 13-month period then ended were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated September 26, 2001.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fox Kids Europe N.V. and its subsidiaries at September 30, 2002 and the results of their operations and their cash flows for the 15-month period then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Company adopted Statement of Position 00-2 regarding the accounting for film costs as of July 1, 2001.

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London, England
December 18, 2002

CONSOLIDATED BALANCE SHEETS

as of September 30, 2002 and June 30, 2001

ASSETS

Notes		September 30 2002 $'000	June 30 2001 $'000
2	Cash and cash equivalents	**61,200**	42,564
	Accounts receivable, net of allowance of $3,577 and $1,220 respectively	**32,274**	43,218
	Accounts receivable from related parties	**5,160**	11,247
	Prepaids and other current assets	**7,412**	2,385
7	Programme rights, net	**128,130**	175,353
10	Deferred income taxes	**10,155**	4,368
4	Investments in equity affiliates	**1,960**	775
5	Property and equipment, net	**4,914**	5,790
6	Goodwill, net	**9,698**	9,698
	Total assets	**260,903**	295,398

LIABILITIES AND SHAREHOLDERS' EQUITY

Notes		September 30 2002 $'000	June 30 2001 $'000
	Accounts payable	**9,351**	10,611
	Accrued liabilities	**35,134**	27,766
	Deferred revenues	**7,248**	6,176
	Interest payable on long-term note to related party	**5,314**	2,642
	Amounts due to related parties	**9,976**	10,429
15	Long-term note payable to related party	**104,114**	104,114
	Minority interests	**1,037**	54
	Total liabilities	**172,174**	161,792
18	82,519,307 (2001 – 82,519,307) ordinary shares of €0.25 each and 100 (2001 – 100) priority shares of €0.25 each	**21,426**	21,426
	Additional paid-in capital	**442,351**	442,351
	Other reserves	**(204,114)**	(204,114)
15	Note receivable contributed for equity	**(109,782)**	(107,045)
	Accumulated deficit	**(61,784)**	(16,838)
	Accumulated other comprehensive income/(loss)	**632**	(2,174)
	Total shareholders' equity	**88,729**	133,606
	Total liabilities and shareholders' equity	**260,903**	295,398

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

CONSOLIDATED STATEMENTS OF OPERATIONS

15 months ended September 30, 2002 and 13 months ended June 30, 2001

Notes		**15 months ended September 30 2002 $'000**	13 months ended June 30 2001 $'000
17	Revenues	**155,466**	129,331
12	Costs and expenses	**(96,611)**	(75,428)
	Depreciation and amortisation	**(93,473)**	(43,248)
	Operating (loss)/income	**(34,618)**	10,655
	Other income/(expense):		
13	Interest income	**14,538**	13,734
14	Interest expense	**(13,532)**	(11,660)
	Loss on foreign exchange	**(611)**	(379)
4	Equity in income of affiliates	**1,190**	1,492
	Total other income, net	**1,585**	3,187
	(Loss)/income before tax	**(33,033)**	13,842
10	Income tax – current	**(1,688)**	(637)
10	– deferred	**5,787**	4,368
	(Loss)/income after tax	**(28,934)**	17,573
	Minority interest	**(950)**	(498)
	Net (loss)/income before cumulative effect of change in accounting principle	**(29,884)**	17,075
7	Cumulative effect of change in accounting principle, net of tax	**(15,062)**	–
	Net (loss)/income after cumulative effect of change in accounting principle	**(44,946)**	17,075

(LOSS)/EARNINGS PER SHARE (CENTS)

	2002	2001
(Loss)/earnings per share before change in accounting principle, basic and diluted	**(36.2)**	20.7
(Loss)/earnings per share of change in accounting principle, basic and diluted	**(18.3)**	–
(Loss)/earnings per share after change in accounting principle, basic and diluted	**(54.5)**	20.7
Weighted average number of ordinary shares outstanding		
– Basic	**82,519**	82,519
– Diluted	**82,519**	82,548

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

15 months ended September 30, 2002 and 13 months ended June 30, 2001

	15 months ended September 30 2002 $'000	13 months ended June 30 2001 $'000
OPERATING ACTIVITIES		
Net (loss)/income after cumulative change in accounting principle	**(44,946)**	17,075
Adjustments to reconcile net (loss)/income to net cash generated by/ (used in) operating activities:		
Cumulative effect of change in accounting principle	**15,062**	–
Amortisation of programme rights	**90,454**	41,180
Amortisation of goodwill	**–**	271
Depreciation	**3,019**	1,797
Contributed income and other non-cash items	**–**	(2,068)
Equity in (income) of affiliates	**(1,190)**	(1,492)
Minority interest	**950**	498
Deferred tax	**(5,787)**	(4,368)
Changes in operating assets and liabilities:		
Accounts receivable	**12,475**	(20,670)
Accounts receivable from related parties	**6,087**	4,417
Interest receivable from related party	**(2,737)**	2,933
Programme rights	**(58,293)**	(66,002)
Prepaids and other current assets	**(5,027)**	(977)
Accounts payable	**(587)**	4,390
Accrued liabilities	**8,473**	17,300
Amounts due to related parties	**(453)**	4,186
Interest payable to related parties	**2,672**	(2,875)
Net cash generated by/(used in) operating activities	**20,172**	(4,405)
INVESTING ACTIVITIES		
Repayments from/(investments in) equity affiliates	**130**	(110)
Purchase of business	**–**	(450)
Purchases of property and equipment	**(1,666)**	(3,947)
Net cash used in investing activities	**(1,536)**	(4,507)
NET CHANGE IN CASH AND CASH EQUIVALENTS FROM OPERATING, INVESTING AND FINANCING ACTIVITIES	**18,636**	(8,912)
NET DECREASE IN CASH DUE FROM FOREIGN CURRENCY FLUCTUATIONS	**–**	(32)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**18,636**	(8,944)
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL PERIOD	**42,564**	51,508
CASH AND CASH EQUIVALENTS, END OF FISCAL PERIOD	**61,200**	42,564
SUPPLEMENTAL CASH FLOW INFORMATION		
CASH PAID FOR TAXES	**656**	10
CASH PAID FOR INTEREST	**10,599**	14,522

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

SIGNIFICANT NON-CASH TRANSACTIONS

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

The Company implemented SOP 00-2 as at July 1, 2001 and has recorded a non-cash charge of $15.1m accordingly, being the cumulative effect of the change in accounting principle. During the period the Company recorded a non cash impairment charge of $26.1m against the value of the Fox Kids library.

The Company has recorded revenues and costs of $2.5m in relation to non-cash barter transactions during the 15 months to September 30, 2002.

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 15) $'000	Accum-ulated deficit $'000	Accumulated other compre-hensive income (loss) $'000	Compre-hensive income (loss) $'000
BALANCE AT MAY 31, 2000	**21,426**	**446,095**	**(204,114)**	**(109,978)**	**(33,913)**	**(339)**	
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							**15,240**
BALANCE AT JUNE 30, 2001	**21,426**	**442,351**	**(204,114)**	**(107,045)**	**(16,838)**	**(2,174)**	
Net loss	–	–	–	–	(44,946)	–	(44,946)
Foreign currency translation adjustments	–	–	–	–	–	2,806	2,806
Interest receivable on note contributed for equity	–	–	–	(13,596)	–	–	–
Interest received on note contributed for equity	–	–	–	10,859	–	–	
Comprehensive loss							**(42,140)**
BALANCE AT SEPTEMBER 30, 2002	**21,426**	**442,351**	**(204,114)**	**(109,782)**	**(61,784)**	**632**	

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

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 localised television channels, programme distribution, consumer products (licensing, merchandising and home video) and online & interactive businesses.

Channel operations began in October 1996 with the launch of the first Fox Kids channel in the United Kingdom. In the last six years, the Company has established operations in several European countries and together with its affiliates is currently broadcasting 12 children's television channel feeds in 17 different languages in 56 countries via cable and DTH satellite transmission. Main channel markets currently include France, Germany, Israel, Italy, the Netherlands, Poland, Scandinavia, Spain, the United Kingdom and various countries in Central and Eastern Europe.

The Company's programme distribution business is based on certain rights to children's programming produced by or acquired from primarily the Buena Vista International division of ABC 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.

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 17 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, ABC Family Worldwide, Inc. ("ABCW") (formerly, Fox Family Worldwide, Inc.) contributed to Fox Kids Europe, at book value, its interests in the subsidiaries and businesses specifically noted overleaf. ABCW indirectly held 75.7% of the shares in Fox Kids Europe at September 30, 2002 (75.7% at June 30, 2001).

On October 24, 2001, The Walt Disney Company ("Disney") concluded the acquisition of the Company's majority shareholder, ABCW, and thereby assumed 75.7% ownership of Fox Kids Europe.

Change of year end

During the prior accounting period, the Company changed its year end from May 31 to June 30 to be consistent with its parent company, ABCW.

During the current accounting period, ABCW changed its year end from June 30 to September 30 to be consistent with Disney, and the Company has changed its year end from June 30 to September 30 accordingly.

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 will be available 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 SAS (formerly Fox Kids France Sarl)[1]	France	
Fox Kids Germany GmbH (formerly Fox Kids GmbH)	Germany	
Fox Kids Play B.V. (formerly 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	
Fox Kids Services B.V.	The Netherlands	
Saban Consumer Products Europe Limited[1]	United Kingdom	
Saban Consumer Products France SAS[1]	France	
Saban Consumer Products Germany GmbH[1]	Germany	
Saban Consumer Products Italy Srl[1]	Italy	

The Company also has the following affiliates accounted for under the equity method:

Company Name	Country of Incorporation	Equity Interest
Fox Kids España SL[1]	Spain	50%
TV10 Holdings LLC[1]	United States of America	50%
TV10 B.V.[1]	The Netherlands	50%

[1] These entities were contributed to Fox Kids Europe by ABCW at the IPO.

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 ABCW. 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 Fox Kids Europe and those entities and businesses set out 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 – Channel Operations and Online & Interactive

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. 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.

Revenue recognition – Programme Distribution

Programme distribution revenue is recognised when the relevant agreement has been entered into, the product is available for delivery, collectability of the cash is reasonably assured and all the Company's contractual obligations have been satisfied.

Revenue recognition – Consumer Products

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 all performance obligations of the Company have been fulfilled. 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").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Programme rights

The Company adopted Statement of Position 00-2, "Accounting by Producers or Distributors of Films" (SOP 00-2) and SFAS No. 139 "Rescission of FASB Statement No. 53 and amendments to SFAS Nos. 63, 89 and 121" as of July 1, 2001. 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 over this period.

If estimated undiscounted cashflows from a programme are insufficient to recover the unamortised costs, the unamortised programming cost will be written down to fair value.

Where television programme rights are licensed from third parties for a defined period for broadcasting on the Company's channels and usually for periods of between 2 and 5 years, these are amortised in accordance with their expected usage over that defined period.

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, consisting mainly of computer equipment and office furniture and fittings, is 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 property and equipment 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 for each of the Company's reporting units, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which was adopted by the Company on July 1, 2001. No impairments have been recognised in any of the periods presented.

Goodwill

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", as of July 1, 2001. Accordingly, goodwill is not amortised over an estimated useful life, but tested for impairment on an annual basis and whenever indicators of impairment arise. Goodwill that existed on adoption has ceased to be amortised. The goodwill impairment test is based on fair value and is performed on a reporting unit level. The reporting units are the Company's business segments, as set out in Note 17.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 functional currency and the US dollar on the balance sheet date except for the share capital and reserves of those subsidiaries, which are translated at historic rates.

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 $133.3 million and $133.9 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Any 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. The Company has also disclosed the impact on earnings that would result if stock options had been valued at their fair value at the grant date, in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation".

3. REORGANISATION

On November 30, 2000 TV10 B.V., an affiliate of the Company and the operator of the TV10 station in the Netherlands, 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 LLC and TV10 Holdings LLC 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.

4. INVESTMENTS

TV10 B.V.

The Company's investment in TV10 B.V. is discussed in Note 3. The Company owns 50% of the equity of TV10 B.V.

Through a shareholder agreement with Fox TV10 Holdings, Inc. ("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.

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.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2002 $'000	2001 $'000
Property and equipment	**11,636**	9,627
Leasehold improvements	**1,190**	869
	12,826	10,496
Less accumulated depreciation and amortisation	**(7,912)**	(4,706)
	4,914	5,790

6. GOODWILL

Goodwill consists of the following:

	2002 $'000	2001 $'000
Goodwill	**9,969**	9,969
Less accumulated amortisation	**(271)**	(271)
	9,698	9,698

The goodwill represents primarily 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 Company adopted SFAS No. 142 as of July 1, 2001. Accordingly there has been no amortisation charge during the 15 months to September 30, 2002.

7. PROGRAMMING RIGHTS

Programming rights consist of the following:

	2002 $'000	2001 $'000
Programming rights cost	**405,807**	347,514
Less accumulated amortisation and impairment	**(262,615)**	(172,161)
Less cumulative effect of change in accounting principle	**(15,062)**	–
	128,130	175,353

The Company implemented SOP 00-2 as at July 1, 2001 and has recorded a non-cash charge against the net book value of its programme library of $15.1m accordingly, being the cumulative effect of the change in accounting principle. The charge principally represents exploitation costs that were capitalised at July 1, 2001, which have been expensed under SOP 00-2.

In accordance with SOP 00-2, the Company has performed a review of the fair value of the Fox Kids library. This review compared the estimated remaining ultimate revenues to be earned to the net book value by title for all properties in the Fox Kids library. Where the estimated remaining ultimate revenues were lower than the net book value of a title, an impairment was identified.

The impairment for a given title was calculated as the shortfall from the discounted remaining ultimate revenue to the net book value of the title. The total impairment charge recorded was $26.1m.

Of the net book value of programming rights at September 30, 2002, $110,400,000, (2001 – $171,412,000) 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 September 30, 2002 the net book value of programming rights included work in process of $11,995,000, (2001 – $20,461,000).

7. PROGRAMMING RIGHTS (continued)

The amortisation charge relating to programming rights for the 15 months ended September 30, 2002 was $64,391,000 (2001 – $41,180,000).

The Company expects to amortise the net book value of its programme library on the following timescale:

Within one year	15-20%
Within three years	45-55%
Within six years	>80%

8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	September 30 2002 $'000	June 30 2001 $'000
Participation and royalty costs	**8,795**	9,372
Accrued programme costs	**9,507**	7,173
Payroll liabilities	**2,618**	2,302
Taxation	**2,235**	1,203
Other accruals	**11,979**	7,716
	35,134	27,766

9. BORROWINGS

All borrowings are from other ABCW group companies and are detailed in Note 15.

10. INCOME TAXES

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

	2002 $'000	2001 $'000
Income taxes	**(947)**	(87)
Other taxes	**(741)**	(550)
Deferred taxes	**5,787**	4,368
	4,099	3,731

The components of the benefit/(provision) for income taxes for the 15 months ended September 30, 2002 and the 13 months ended June 30, 2001 were based upon the following sources of pre-tax income (loss).

	2002 $'000	2001 $'000
The Netherlands	**(4,591)**	(2,263)
Others	**(28,442)**	16,105
	(33,033)	13,842

and are as follows:

		2002 $'000	2001 $'000
The Netherlands	– Current	**(49)**	77
	– Deferred	**–**	–
Others	– Current	**(1,639)**	(714)
	– Deferred	**5,787**	4,368
		4,099	3,731

10. INCOME TAXES (continued)

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory income tax rate of the Netherlands of 35% (2001 – 35%) to income before provision for income taxes is as follows:

	2002 $'000	2001 $'000
(Loss)/Income before tax and minority interests	**(33,033)**	13,842
Computed expected tax	**(11,562)**	4,844
Equity in income of affiliates	**(417)**	(522)
Statutory differences	**14,802**	(5,254)
Permanent differences	**(1,875)**	1,019
Gross deferred tax movement	**(12,086)**	(2,004)
Variation in valuation allowance	**6,299**	(2,364)
Other taxes	**740**	550
Income tax charge	**(4,099)**	(3,731)

Where the Company has provided for income taxes, the provisions have been calculated at the statutory rates in the relevant jurisdictions. Prior year amounts have been reclassified to conform with current year presentation.

Deferred taxes

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

	2002 $'000	2001 $'000
Deferred tax assets		
Net operating losses carried forward	**49,901**	36,221
Fixed assets	**1,334**	823
Other assets and liabilities	**10,377**	12,482
Total	**61,612**	49,526
Valuation Allowance	**(51,457)**	(45,158)
Deferred tax	**10,155**	4,368

Management has determined that as of September 30, 2002 approximately $51.5 million (2001 – $45.2 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 $316.0 million of tax net operating loss carryforwards as at September 30, 2002, of which approximately $87.0 million have no expiry date and approximately $229.0 million expire between 2003 and 2009. 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.

11. 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 $309,000 and $187,000 for the 15 months ended September 30, 2002, and the 13 months ended June 30, 2001 respectively.

FKECBV operates a multi-employer defined contribution pension plan for employees in the Netherlands. The costs associated with this plan are not material to the Company.

12. COSTS AND EXPENSES

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

13. INTEREST INCOME

	2002 $'000	2001 $'000
Interest receivable on bank deposits	**942**	1,828
Interest receivable from related party on long-term note	**13,596**	11,906
	14,538	13,734

14. INTEREST EXPENSE

	2002 $'000	2001 $'000
Interest payable to related party on short-term loan	**262**	–
Interest payable to related party on long-term note	**13,270**	11,660
	13,532	11,660

15. RELATED PARTY TRANSACTIONS

Change in Ownership of Parent Company

The Company's majority shareholder, ABCW, was acquired by Disney on October 24, 2001. As a result, certain parties ceased to be related to the Company at that date and certain parties related to Disney became related parties of the Company from that date. Where appropriate the disclosures in this note are stated for the relevant pre- and post-acquisition periods accordingly.

Sales to Parent Company

The Company has 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, ABCW. The revenue and costs recorded relating to these sales are as follows:

	15 months to September 2002	13 months to June 30 2001
Revenue	**13,988**	5,816
Amortisation	**(11,945)**	(5,552)
Operating income	**2,043**	264

Inter-company Debt Arrangements

As at September 30, 2002, a subsidiary of ABCW had provided cumulative funding of $2.7 million to Fox Kids Poland Limited. This funding remains repayable.

The long-term note payable to a subsidiary of ABCW of $104.1 million was assumed in partial consideration for the transfer of certain rights to the Saban library to the Company at the IPO. 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 15 months ended September 30, 2002.

The long-term note receivable of $104.1m from an affiliate of ABCW, was assigned to the Company 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 15 months ended September 30, 2002.

Logistical Services

An ABCW affiliate provided logistical services to the Company in connection with its third party programme distribution agreements. The Company paid for these services on the basis of cost plus a 10% mark up. The amount paid in the 15 months to September 30, 2002 was $5,266,000 (2001 – $4,929,000).

The agreement relating to the provision of these services was terminated on May 1, 2002 and on that date the Company entered into an agreement with BVI TV, a Disney company, to provide services in connection with its third party distribution agreements. The Company pays for these services on the basis of cost plus a margin of 5% - 10% dependent on the service performed. The amount charged in the income statement for the 15 months to September 30, 2002 was $1,840,000.

15. RELATED PARTY TRANSACTIONS (continued)

Other Related Party Arrangements

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

MECH BV owns the shares in Fox Kids Israel Enterprises B.V. (“FKI”) not owned by the Company. At the end of the period, the Company owed $75,000 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 former director of ABCW. The revenue earned from Stream in the period from July 1, 2001 to October 24, 2001 was $3,634,000 (2001 – $4,412,000).

Arrangements with Sogecable S.A.

As described in Note 4, the Fox Kids channel in Spain is operated by Fox Kids Spain, 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. The amount payable to Sogecable for the 15 months ended September 30, 2002 was $1,331,000.

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., provided certain transmission and programming services to the Fox Kids channel in Poland during the period.

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.

Arrangements with BSkyB

BSkyB acts as the Company’s exclusive DTH satellite platform in the United Kingdom until October 19, 2007. 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 United Kingdom, advertising is sold by five 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.

16. 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 September 30,	$'000
2003	5,570
2004	4,211
2005	4,021
2006	4,087
2007	4,129
Thereafter	8,986
	31,004

Total operating lease expenses were approximately $4.1 million and $8.6 million for the 15 months ended September 30, 2002 and the 13 months ended June 30, 2001 respectively.

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.

Purchase of remaining equity of Fox Kids Israel

As a direct consequence of the change in control of our majority shareholder, ABCW, an option held by MECH BV to sell to the Company its 49.5% stake in FKI became exercisable during the period. The Company currently owns 50.5% of FKI which, through a wholly owned local subsidiary, owns and operates the local Fox Kids pay TV channel, game channel and web site, excluding any rights to the Saban library, in the Israeli market. The Company is in advanced negotiations to acquire MECH BV's stake in FKI as well as the Israeli rights to the Saban library and certain other Israeli rights, outside the formal process set out in the option agreement. The Company expects this acquisition to be concluded very shortly for approximately $20 million.

17. SEGMENT INFORMATION

During the periods presented, the Company operated in four business segments, based on its products and services: Channel Operations (which principally consist of the operation and broadcast of television channels), Programme Distribution (which principally consists of the sale of programming to third parties), 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").

In order to reflect the increasing economic benefit derived by the channel business from the Fox Kids library, the amortisation charge on the library has been allocated over the business segments, whereas in prior years the amortisation was allocated to the distribution segment. Prior year amounts have been reclassified accordingly.

Business Segments

Revenues

	2002 $'000	2001 $'000
Channel Operations [1]	**103,537**	64,431
Programme Distribution	**43,186**	61,389
Consumer Products	**10,731**	9,291
Online & Interactive	**2,710**	997
Total Revenues (including unconsolidated revenues of equity affiliates)	**160,164**	136,108
Less: unconsolidated revenues of equity affiliates	**(4,698)**	(6,777)
Revenues	**155,466**	129,331

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

Business Segments

EBITDA

	2002 $'000	2001 $'000
Channel Operations	**38,898**	13,402
Programme Distribution	**28,794**	51,245
Consumer Products	**4,860**	5,155
Online & Interactive	**(3,249)**	(6,423)
Shared costs not allocated to segments	**(10,448)**	(9,476)
EBITDA	**58,855**	53,903
Less: Depreciation, amortisation and impairment	**(93,473)**	(43,248)
Operating (loss)/income	**(34,618)**	10,655

17. SEGMENT INFORMATION (continued)

Business Segments

Depreciation, amortisation and impairment [1]

	2002 $'000	2001 $'000
Channel Operations	**(27,993)**	(18,728)
Programme Distribution	**(61,299)**	(21,433)
Consumer Products	**(3,044)**	(2,439)
Online & Interactive	**(732)**	(462)
Shared costs not allocated to segments	**(405)**	(186)
	(93,473)	(43,248)

(1) Programme amortisation has been attributed to each operating segment. Prior year amounts have been reclassified accordingly.

Identifiable assets

	2002 $'000	2001 $'000
Channel Operations	**86,749**	109,917
Programme Distribution	**162,745**	170,620
Consumer Products	**10,851**	13,855
Online & Interactive	**558**	1,006
	260,903	295,398

The investment in equity affiliates is included within channel operations.

17. SEGMENT INFORMATION (continued)

Geographic Segments

Revenues

	2002 $'000	2001 $'000
United Kingdom and Ireland	**36,061**	29,350
France	**23,242**	17,793
Americas	**13,988**	5,844
Germany	**13,301**	25,901
Benelux [1]	**12,458**	9,161
Italy	**12,271**	13,515
Spain and Portugal [1]	**12,369**	10,838
Central and Eastern Europe	**11,733**	7,104
Israel	**10,317**	2,233
Poland	**8,907**	7,909
Nordic Region	**5,371**	5,558
Other	**146**	902
Total Revenues	**160,164**	136,108
Less: unconsolidated revenues of joint ventures	**(4,698)**	(6,777)
Revenues	**155,466**	129,331

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

Geographic Segments

EBITDA

	2002 $'000	2001 $'000
United Kingdom and Ireland	**18,214**	13,347
France	**9,765**	8,104
Americas	**9,715**	4,878
Germany	**3,983**	16,596
Benelux	**4,164**	747
Italy	**5,356**	8,476
Spain and Portugal	**4,732**	4,913
Central and Eastern Europe	**4,873**	1,883
Israel	**2,777**	(1,403)
Poland	**4,893**	4,123
Nordic Region	**728**	965
Other	**103**	751
Shared costs not allocated to segments	**(10,448)**	(9,477)
EBITDA	**58,855**	53,903
Less: depreciation, amortisation and impairment	**(93,473)**	(43,248)
Operating (loss)/income	**(34,618)**	10,655

17. SEGMENT INFORMATION (continued)

Geographic Segments

Identifiable assets

	2002 $'000	2001 $'000
United Kingdom and Ireland	**24,897**	15,277
France	**10,285**	7,427
Benelux	**222,110**	264,485
Other	**3,611**	8,209
	260,903	295,398

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:

	Revenue 2002 $'000	**% 2002**	Revenue 2001 $'000	% 2001
Customer A	**24,359**	**15.7**	18,839	14.6

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 Buena Vista Entertainment Inc., ("BVEI", formerly Saban Entertainment Inc) a subsidiary of ABCW. 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 BVEI are Griffith Foxley, Marsha Reed and Joseph Santaniello. BVEI is a wholly owned subsidiary of ABCW. The members of the board of directors of ABCW are Brett Chapman, Marsha Reed and David Thompson. The directors of BVEI and ABCW are responsible for the management of their respective companies. In the joint opinion of BVEI, ABCW and Fox Kids Europe, none of the priority shares are held by a member of the Board of Management of Fox Kids Europe.

The earnings/(loss) per share is computed using the net (loss)/income for each year divided by the weighted average number of shares in issue in each year. For the period ended September 30, 2002 options for 2,808,156 shares were excluded from diluted earnings per share, being anti-dilutive.

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 September 30, 2002 totalled 4,975,134, (2001 – 5,007,002).

The following table summarises information about stock option transactions:

	2002 Weighted average exercise price (Euro)	**2002 Number of options**	2001 Weighted average exercise price (Euro)	2001 Number of options
Outstanding at beginning of year	**13.64**	**2,959,576**	13.62	2,950,780
Awards granted	**9.10**	**31,868**	14.21	269,899
Awards forfeited	**15.68**	**(151,420)**	13.98	(261,103)
Outstanding at September 30	**13.48**	**2,840,024**	13.64	2,959,576
Exercisable at September 30	**13.41**	**1,379,672**	13.58	681,027

The following table summarises information about stock options outstanding at September 30, 2002:

	Outstanding			Exercisable	
Exercise prices – Euro	Number of options	weighted average remaining years of contractual life	Weighted average exercise price (Euro)	Number of options	Weighted average exercise price (Euro)
9.1 – 13.5	2,796,322	7.32	13.41	1,357,821	13.46
16.5 – 20.2	43,702	7.51	18.42	21,851	18.42

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 $223,000 (2001 – $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:

	2002 $'000	2001 $'000
Net (loss)/income		
As reported	**(44,946)**	17,075
Pro forma net (loss)/income	**(48,051)**	11,905
Basic and diluted (loss)/earnings per share (cents)		
As reported	**(54.5)**	20.7
Pro forma (loss)/earnings per share	**(58.2)**	13.7

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 value of options at their date of grant during the year where the exercise price equalled the market price on the grant date was $3.25 (2001 – $5.13).

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:

	2002	2001
Risk free interest rate	**4.25%**	4.25%
Expected years from grant until exercise	**2**	2
Expected stock volatility	**60%**	60%
Dividend yield	**0%**	0%

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