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

Channel and online operations began in October 1996 with the launch of the first Fox Kids channel in the United Kingdom. In the last seven years, the Company has established operations in most European countries and together with its affiliates is currently broadcasting 13 children's television channel feeds in 17 different languages in 57 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 the Middle East and Central and Eastern Europe. The Company also operates 17 fully localised websites.

The Company's programme distribution business is based on certain rights to children's programming from the Fox Kids Library. The Fox Kids Library comprises the following rights;

- The rights contributed by, acquired from or co-produced with ABCW or its affiliates.
- Other rights acquired from or co-produced with third parties.

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, the United Kingdom and Israel.

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 overleaf.

On October 24, 2001, The Walt Disney Company (Disney) concluded the acquisition of the Company's majority shareholder, FFWW, and thereby assumed 75.7% ownership of Fox Kids Europe. As of that date, FFWW changed its name to ABC Family Worldwide, Inc. (ABCW). ABCW indirectly holds 75.7% of the shares in Fox Kids Europe at September 30, 2003 (75.7% at September 30, 2002).

Change of year end

During the prior accounting period, the Company changed its year end from June 30 to September 30 to be consistent with Disney.

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 will be available from Fox Kids Europe's registered office, Bergweg 50, 1217 SC, 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[(5)]	Hungary	
Fox Kids Germany GmbH (formerly Fox Kids GmbH)	Germany	
Fox Kids Israel Enterprises B.V.[(2)]	The Netherlands	
Fox Kids Israel Limited[(1)]	Israel	
Fox Kids Italy Srl	Italy	
Fox Kids Poland Limited[(1)]	Isle of Man	80%
Fox Kids Services B.V.	The Netherlands	
Active Licensing UK Ltd (formerly Saban Consumer Products Europe Ltd)[(1)]	United Kingdom	
Ideal Licensing Italy Srl (formerly Saban Consumer Products Italy Srl)[(1)]	Italy	
Active Licensing France SAS (formerly Saban Consumer Products France SAS)[(1)(3)]	France	
Active Licensing Germany GmbH (formerly Saban Consumer Products Germany GmbH)[(1)]	Germany	
Fox Kids Poland NV[(1)]	The Netherlands	
Active Licensing Israel Limited	Israel	
Kids Entertainment Services EPE	Greece	

Fox Kids Scandinavia AS was liquidated during the year ended September 30, 2003.

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%
Fox Kids Play B.V. (formerly Fox Kids International Enterprises B.V.)[(4)]	The Netherlands	50%

(1) These entities were contributed to Fox Kids Europe by ABCW at the IPO.

(2) During the year, the equity interest in Fox Kids Israel Enterprises B.V. increased from 50.5% to 100%. For details of the acquisition refer to note 4.

(3) Effective October 1, 2002, Fox Kids France SAS was merged into Active Licensing France SAS.

(4) During the year, the Company sold 50% of its shares in Fox Kids Play B.V. to Visiware S.A. Accordingly, Fox Kids Play B.V. is equity accounted in the year ended September 30, 2003.

(5) In July 2003 the Company acquired the remaining 2.4% minority interest in Fox Kids Management (Hungary) Limited for a nominal price.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements comprise the accounts of Fox Kids Europe N.V. consolidated with the financial statements of those entities under its control, including those entities and businesses contributed by ABCW at the IPO.

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 N.V. comprising 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.

Channels & Online

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. This is in accordance with SOP 00-2.

Revenue recognition – Consumer Products

Revenues from home entertainment, 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)

Advertising expenses

Advertising costs are expensed as incurred. For the year ended September 30, 2003 and 15 months ended September 30, 2002 the Company incurred advertising expenses totalling $0.9 million and $2.4 million respectively.

Programme rights

The Company adopted 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 that are produced are stated at the lower of cost less accumulated amortisation or fair value. Amortisation charge is based on the ratio of the current period’s gross revenues to estimated remaining total gross revenues from such programmes. Each year management revises estimates, based on historical and anticipated trends, of future revenue for each programme property.

If estimated undiscounted cashflows from a programme are insufficient to recover the unamortised costs, the unamortised programming costs are 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, usually for periods of between 2 and 5 years, these are amortised in accordance with their expected usage over that defined period. Acquired television programme rights and related liabilities are recorded when the licence period begins and the programme is available for use.

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 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 the year/period presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", as of July 1, 2001. In accordance with SFAS No. 142, goodwill recognised on an acquisition is calculated as the excess of the fair value of the consideration over the fair value of the assets and liabilities acquired. The goodwill arising on the acquisition of TV10 BV represents primarily the difference between the carrying value of the investment in TV10 BV and the net book value of the assets of TV10 BV, which were transferred from the Company's equity affiliate, TV 10 BV, to the Company. This transaction has been accounted for as a reorganisation between companies under common control and therefore no profit was recognised on the reorganisation.

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 at a reporting unit level. The reporting units are the Company's business segments, as set out in Note 16. As a result of the impairment review, there was no impairment charge for the year ended September 30, 2003 (15 months ended September 30, 2002 – $nil).

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 at 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 sheet. 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 in the prior period consolidated balance sheet relating to the Company's long-term notes payable ($104.1 million) and long-term notes receivable ($104.1 million) had fair values of $133.3 million and $133.9 million respectively at September 30, 2002. During the year, the long-term note receivable was transferred to a subsidiary of ABCW against the assumption of the long-term note payable (see note 14) and, accordingly, no amounts are included in the consolidated balance sheet as at September 30, 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

In accordance with SFAS 109 "Accounting for Income Taxes" deferred income taxes are recognised using the asset and liability method. 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. 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 accounting principles generally accepted in the United States of America (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".

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 $32,000 (15 months to September 30, 2002 – $223,000) 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	2003 $'000	2002 $'000
Net income/(loss)		
As reported	**3,828**	(44,946)
Pro forma net income/(loss)	**2,648**	(48,051)
Basic and diluted earnings/(loss) per share (cents)		
As reported	**4.6**	(54.5)
Pro forma earnings/(loss) per share	**3.2**	(58.2)

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 $2.88 (15 months to September 30, 2002 – $3.25).

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:

	2003	2002
Risk free interest rate	**4.0%**	4.25%
Expected years from grant until exercise	**4**	2
Expected stock volatility	**60%**	60%
Dividend yield	**0%**	0%

3. REORGANISATION

Effective October 1, 2002, Fox Kids France SAS was merged with Active Licensing France SAS (formerly Saban Consumer Products France SAS).

4. ACQUISITION

On December 19, 2002, as a direct consequence of the change of control of our majority shareholder triggering an option held by Middle East Communication Holdings B.V. (MECH BV), the Company purchased the 49.5% of shares in Fox Kids Israel Enterprises B.V. not owned by the Company from MECH BV as well as the Israeli rights to the Saban programme library and certain other Israeli rights outside the formal process set out in the option agreement. The total consideration for the above transaction was $20.8 million, comprised of $20.5 million of cash and professional fees directly associated with the acquisition.

4. ACQUISITION

The following table summarises the final purchase price allocation of the programme library and Fox Kids Israel Enterprises B.V.'s assets acquired and liabilities assumed at the date of acquisition.

	$'000
Assets	4,873
Liabilities	(4,125)
	748
Share of 49.5% acquired	370
Programme Library	2,112
Fair value of net assets and programme library acquired	2,482
Goodwill	18,318
Purchase consideration	20,800

The excess of the purchase price over the fair value of the identifiable net assets acquired of $370,000 and fair value of the programme library of $2,112,000 was allocated to goodwill, which was assigned to the Channels & Online business segment.

5. INVESTMENTS IN EQUITY AFFILIATES

Fox Kids Play B.V. (Fox Kids Play)

In December 2002, the Company sold 50% of its shares in Fox Kids Play to Visiware S.A. for a consideration equal to the nominal value of the shares sold. Fox Kids Play was an existing entity owned by the Company that had been used as a vehicle for the joint venture with Visiware to develop its interactive game business.

See note 1 for a full list of investments in equity affiliates.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2003 $'000	2002 $'000
Property and equipment	**12,454**	11,636
Leasehold improvements	**1,317**	1,190
	13,771	12,826
Less accumulated depreciation and amortisation	**(9,741)**	(7,912)
	4,030	4,914

7. GOODWILL

Goodwill consists of the following:

	2003 $'000	2002 $'000
Goodwill	**28,287**	9,969
Less accumulated amortisation	**(271)**	(271)
	28,016	9,698

At September 30, 2003, goodwill was comprised mainly of the goodwill arising on the acquisition of the minority interest in Fox Kids Israel during the year (see note 4) and the acquisition of TV10 BV on December 1, 2000. The goodwill arising on the acquisition of TV10 BV represents primarily the difference between the carrying value of the investment in TV10 BV and the net book value of the assets of TV10 BV, which were transferred from the Company's equity affiliate, TV10 BV, to the Company. This transaction has been accounted for as a reorganisation between companies under common control and therefore no fair value was recognised on the reorganisation.

Goodwill has been fully allocated to the Channels & Online business segment (see note 16).

The Company adopted SFAS No. 142 as of July 1, 2001. Accordingly there has been no amortisation charge since that date. As a result of the annual impairment review as required by SFAS 142, there was no impairment charge for the year ended September 30, 2003 (15 months ended September 30, 2002 – $nil).

8. PROGRAMME RIGHTS

Programme rights consist of the following:

	2003 $'000	2002 $'000
Programme rights cost	**436,355**	405,807
Less accumulated amortisation and impairment	**(311,130)**	(262,615)
Less cumulative effect of change in accounting principle	**–**	(15,062)
	125,225	128,130

The Company implemented SOP 00-2 as at July 1, 2001 and recorded in the 15 months ended September 30, 2002 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. During the year the Company recorded a non-cash impairment charge of $4.7m (15 months ended September 30, 2002 – $26.1m).

8. PROGRAMME RIGHTS (continued)

Of the net book value of programme rights at September 30, 2003, $105,000,000 (15 months ended September 30, 2002 – $110,400,000) 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, 2003 the net book value of programme rights included programmes in production of $4,806,000 (2002 – $11,995,000).

The amortisation and impairment charge relating to programme rights for the year ended September 30, 2003 and 15 months ended September 30, 2002, was $49,373,000 and $90,454,000 respectively.

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

Within one year	30-40%
Within three years	55-65%
Within six years	>90%

9. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	September 30 2003 $'000	September 30 2002 $'000
Participation and royalty costs	**9,404**	8,795
Accrued programme costs	**7,972**	9,507
Payroll liabilities	**4,318**	2,618
Taxation	**2,289**	2,235
Other accruals	**15,209**	11,979
	39,192	35,134

10. INCOME TAXES

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

	2003 $'000	2002 $'000
Income taxes	**(1,050)**	(947)
Other taxes	**(804)**	(741)
Deferred taxes	**615**	5,787
	(1,239)	4,099

10. INCOME TAXES (continued)

The components of the (provision)/benefit for income taxes for the year ended September 30, 2003 and the 15 months ended September 30, 2002 were based upon the following sources of pre-tax income/(loss).

	2003 $'000	2002 $'000
The Netherlands	**(7,573)**	(4,591)
Others	**13,196**	(28,442)
	5,623	(33,033)

and are as follows:

		2003 $'000	2002 $'000
The Netherlands	– Current	**(123)**	(49)
Others	– Current	**(1,731)**	(1,639)
	– Deferred	**615**	5,787
		(1,239)	4,099

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory income tax rate of the Netherlands of 34.5% (2002 – 35%) to income before provision for income taxes is as follows:

	2003 $'000	2002 $'000
Income/(loss) before tax and minority interests	**5,623**	(33,033)
Computed expected tax	**1,940**	(11,562)
Equity in income of affiliates	**(571)**	(417)
Statutory differences	**716**	14,802
Permanent differences	**(1,035)**	(1,875)
Gross deferred tax movement	**(9,240)**	(12,086)
Variation in valuation allowance	**8,625**	6,299
Other taxes	**804**	740
Income tax charge/(benefit)	**1,239**	(4,099)

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

10. INCOME TAXES (continued)

Deferred taxes

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

	2003 $'000	2002 $'000
Deferred tax assets		
Net operating losses carried forward	**63,907**	49,901
Fixed assets	**1,360**	1,334
Other assets and liabilities	**5,585**	10,377
Total	**70,852**	61,612
Valuation Allowance	**(60,082)**	(51,457)
Deferred tax	**10,770**	10,155

Management has determined that as of September 30, 2003 approximately $60.1 million (15 months ended September 30, 2002 – $51.5 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 $424.5 million of tax net operating loss carryforwards as at September 30, 2003, of which approximately $101.7 million have no expiry date and approximately $322.8 million expire between 2004 and 2010. 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 for the year ended September 30, 2003 were approximately $398,000 (15 months ended September 30, 2002 – $309,000).

Fox Kids Europe Channels BV 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. INTEREST INCOME

	2003 $'000	2002 $'000
Interest receivable on bank deposits	**593**	942
Interest receivable from related party on long-term note	**9,957**	13,596
	10,550	14,538

Included in interest receivable from related party on the long-term note for the year ended September 30, 2003 is $1.3m, received on the transfers of the loan notes receivable and payable (see note 14).

13. INTEREST EXPENSE

	2003 $'000	2002 $'000
Interest payable to related party on short-term loan	**430**	262
Interest payable to related party on long-term note	**8,449**	13,270
	8,879	13,532

14. RELATED PARTY TRANSACTIONS

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.

Change in Ownership of Parent Company

The Company's majority shareholder, FFWW, was acquired by Disney on October 24, 2001 and subsequently changed its name to ABCW. 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.

14. RELATED PARTY TRANSACTIONS (continued)

Sales to Parent Company

The Company has secured non-European distribution rights to certain properties (in addition to the European rights). The Company sold these 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:

	Year ended September 30 2003	15 months ended September 30 2002
Revenue	**9,440**	13,988
Amortisation	**(6,889)**	(11,945)
Operating income	**2,551**	2,043

Inter-company Debt Arrangements

Prior to September 3, 2003, a subsidiary of ABCW, also a shareholder of the Company, had provided cumulative funding of $2.8 million to Fox Kids Poland Limited (FKP). On September 3, 2003, the subsidiary made a capital contribution of its loan receivable to the Company.

The long-term note payable of $104.1 million to a subsidiary of ABCW was assumed in partial consideration for the transfer of certain rights to the Saban library to the Company at the IPO. The note bore interest quarterly, commencing December 31, 1999, at an annual rate of 10.18%. The term of the note was 19 years and six months and annual repayments of principal in the amount of $5.2 million began to fall due on June 30, 2000. Under the terms of the note if repayments exceeded cash receipts under the note receivable (see below) then payments could be deferred until such time as cash receipts exceeded payments but all deferrals would have fallen 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 $104.1 million from an affiliate of ABCW, was assigned to the Company in exchange for ordinary shares. This note was included within shareholders' equity in the prior year as required by EITF 85-01, "Classifying Notes Received for Capital Stock". The note bore interest quarterly, commencing December 31, 1999, at an annual rate of 10.43%. The term of the note was 19 years and six months and annual repayments of principal in the amount of $5.2 million would have begun 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.

On July 18, 2003, the long-term note receivable of $104.1 million from a subsidiary of ABCW was transferred to another subsidiary of ABCW against the assumption of the long-term note payable to an affiliate of ABCW of $104.1 million. Additionally, an amount of $1.3 million, being the excess of the fair market value of the loan note receivable over the fair market value of the loan note payable as of the date of the agreement, has been recognised as income in the year to September 30, 2003 (see note 12).

Logistical Services

Buena Vista International Television (BVITV), a Disney subsidiary, provides logistical services to the Company in connection with its third party programme distribution agreements. The Company pays on the basis of cost plus a margin of 5% – 10% dependent on the service performed. Services were previously provided by an ABCW affiliate, under an agreement which was terminated on May 1, 2002, whereby the agreement with BVITV commenced. The amount charged in the income statement relating to services provided by BVITV for the year ended September 30, 2003 was $3,949,000 (15 months ended September 30, 2002 – $1,840,000). The amount owed to BVITV as at September 30, 2003 was $1,834,000 (2002 – $57,000).

14. RELATED PARTY TRANSACTIONS (continued)

Other Related Party Arrangements

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

At the start of the year, MECH BV owned the shares in Fox Kids Israel Enterprises B.V. (FKI) not owned by the Company. On December 19, 2002, the Company purchased MECH BV's shares in FKI as well as the Israeli rights to the Saban programme library and certain other Israeli rights (see note 4). For the year ended September 30, 2003, the Company incurred charges of $564,000 (15 months ended September 30, 2002 – $2,101,000) relating to the provision of programming and other services by Israel Audiovisual Corporation (IAC) a related party of MECH BV. At the end of the year, the Company owed $nil (2002 – $75,000) to IAC.

Arrangements with Sogecable S.A. (Sogecable)

The Fox Kids channel in Spain is operated by Fox Kids España SL, a company jointly owned by a subsidiary of Sogecable and the Company. Sogecable 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 year ended September 30, 2003 was $1,182,000 (15 months to September 30, 2002 – $1,331,000).

Arrangements with United Pan-Europe Communications N.V. (UPC)

The minority shareholder in Fox Kids Poland Limited, a subsidiary of UPC, provided certain transmission, programming and marketing services to the Fox Kids channels in Poland and Central and Eastern Europe during the year. The charge to income in relation to these services for the year ended September 30, 2003 was $1,255,000 (15 months to September 30, 2002 – $853,000). There were no amounts payable to UPC for these services at September 30, 2003, (September 30, 2002 – $nil).

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.

Buena Vista Home Entertainment (BVHE)

On May 5, 2003, the Company entered into an agreement with BVHE, a subsidiary of Disney, to grant BVHE the sole and exclusive right to exercise on VHS and DVD formats all home entertainment distribution and exhibition rights for certain major programmes including *Power Rangers* and programmes based upon Marvel comics characters. The Company will receive from BVHE a minimum guarantee against certain royalties during the term of the agreement, which ends on May 4, 2006, of which $1.0 million was earned in the year ended September 30, 2003.

Super RTL

On September 30, 2003, the Company entered into a co-production agreement with Super RTL, a Disney affiliate. Under the terms of the deal the Company will co-produce two series with Super RTL and a third party.

Arrangements with Visiware S.A. (Visiware)

In December 2002, the Company sold 50% of its shares in Fox Kids Play B.V. to Visiware. Fox Kids Play was an existing entity owned by the Company that has been used as a vehicle for the joint venture with Visiware to develop the interactive gaming business.

14. RELATED PARTY TRANSACTIONS (continued)

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.

Subsequent to October 24, 2001, Stream ceased to be a related party (see "Change in Ownership of Parent Company").

Arrangements with British Sky Broadcasting plc (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.

Subsequent to October 24, 2001, BSkyB ceased to be a related party (see "Change in Ownership of Parent Company").

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 2010.

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

Year Ending September 30,	$'000
2004	6,126
2005	4,346
2006	3,947
2007	3,772
2008	2,279
Thereafter	6,582
	27,052

15. COMMITMENTS AND CONTINGENCIES (continued)

Total operating lease expenses were approximately $5.7 million and $4.1 million for the year ended September 30, 2003 and the 15 months ended September 30, 2002, respectively.

Litigation

As of September 30, 2003, there were no pending disputes or litigation.

16. SEGMENT INFORMATION

During the periods presented, the Company operated in three business segments, based on its products and services: Channels & Online (which principally consists of the operation and broadcast of television channels and websites), Programme Distribution (which principally consists of the sale of programming to third parties) and Consumer Products (licensing and merchandising operations and home entertainment).

Following the integration of the Channel and Online & Interactive operations, in accordance with FAS 131 "Disclosures about Segments of an Enterprise and Related Information", these operations have been aggregated into a single business segment. Prior year comparatives have been reclassified accordingly.

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). EBITDA is stated before depreciation, programme amortisation and impairment. EBITDA less depreciation, amortisation and impairment is equal to operating income.

Business Segments

Revenues

	2003 $'000	2002 $'000
Channels & Online[1]	**109,383**	106,247
Programme Distribution	**31,362**	43,186
Consumer Products	**11,272**	10,731
Total Revenues (including unconsolidated revenues of equity affiliates)	**152,017**	160,164
Less: unconsolidated revenues of equity affiliates	**(5,192)**	(4,698)
Revenues	**146,825**	155,466

[1] The Company's share of revenues of equity affiliates is included within Channels & Online.

Notes to Consolidated Financial Statements

16. SEGMENT INFORMATION

EBITDA

	2003 $'000	2002 $'000
Channels & Online	**41,239**	35,649
Programme Distribution	**20,449**	28,794
Consumer Products	**4,021**	4,860
Shared costs not allocated to segments	**(9,727)**	(10,448)
EBITDA	**55,982**	58,855
Less: depreciation, amortisation and impairment	**(51,824)**	(93,473)
Operating income/(loss)	**4,158**	(34,618)

Business Segments

Depreciation, amortisation and impairment

	2003 $'000	2002 $'000
Channels & Online	**(29,313)**	(28,725)
Programme Distribution	**(17,401)**	(61,299)
Consumer Products	**(4,952)**	(3,044)
Shared costs not allocated to segments	**(158)**	(405)
	(51,824)	(93,473)

Identifiable assets

	2003 $'000	2002 $'000
Channels & Online	**134,044**	86,673
Programme Distribution	**129,352**	162,745
Consumer Products	**11,569**	10,851
Shared assets not allocated to segments	**421**	634 [1]
	275,386	260,903

The investment in equity affiliates is included within Channels & Online.

(1) Assets not allocated to business segments are separately disclosed, prior year balances have been reclassified accordingly.

16. SEGMENT INFORMATION (continued)

Geographic Segments

Revenues

	2003 $'000	2002 $'000
United Kingdom and Ireland	**40,075**	36,061
France	**17,113**	23,242
Benelux	**15,286**	12,458
Italy	**14,408**	12,271
Spain and Portugal[1]	**12,649**	12,369
Central and Eastern Europe	**11,679**	11,733
Germany	**9,846**	13,301
Americas	**9,598**	13,988
Middle East	**8,309**	10,317
Nordic Region	**6,514**	5,371
Poland	**6,276**	8,907
Other	**264**	146
Total Revenues	**152,017**	160,164
Less: unconsolidated revenues of equity affiliates	**(5,192)**	(4,698)
Revenues	**146,825**	155,466

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

Geographic Segments

EBITDA

	2003 $'000	2002 $'000
United Kingdom and Ireland	**22,320**	18,214
France	**4,920**	9,765
Benelux	**5,945**	4,164
Italy	**6,351**	5,356
Spain and Portugal	**4,591**	4,732
Central and Eastern Europe	**4,620**	4,873
Germany	**1,916**	3,983
Americas	**6,958**	9,715
Middle East	**3,444**	2,777
Nordic Region	**2,208**	728
Poland	**2,244**	4,893
Other	**192**	103
Shared costs not allocated to segments	**(9,727)**	(10,448)
EBITDA	**55,982**	58,855
Less: depreciation, amortisation and impairment	**(51,824)**	(93,473)
Operating income/(loss)	**4,158**	(34,618)

16. SEGMENT INFORMATION (continued)

Geographic Segments

Identifiable assets

	2003 $'000	2002 $'000
United Kingdom and Ireland	**12,504**	24,897
France	**7,929**	10,285
Benelux	**239,597**	222,110
Other	**15,356**	3,611
	275,386	260,903

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 2003 $'000	**% 2003**	Revenue 2002 $'000	% 2002
Customer A	**25,180**	**17.1**	24,359	15.7

17. 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 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.

18. EARNINGS PER SHARE

The earnings/(loss) per share is computed using the net income/(loss) for each period divided by the weighted average number of shares in issue in each period.

The following table sets forth the computation of basic and diluted earnings per share.

	Year ended September 30 2003	15 months ended September 30 2002
Numerator ($'000)		
Net income/(loss) before change in accounting principle	**3,828**	(29,884)
Cumulative effect of change in accounting principle, net of tax	**–**	(15,062)
Net income/(loss) after change in accounting principle	**3,828**	(44,946)
Denominator ('000)		
Basic – weighted average common shares outstanding	**82,519**	82,519
Dilutive effect of employee stock options	**95**	–
	82,614	82,519
Basic earnings per share (cents)		
Before change in accounting principle	**4.6**	(36.2)
Cumulative effect of change in accounting principle, net of tax	**–**	(18.3)
After change in accounting principle	**4.6**	(54.5)
Diluted earnings per share (cents)	**4.6**	–

For the year ended September 30, 2003 options of 2,545,104 (15 months ended September 30, 2002 – 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, 2003 totalled 4,324,624 (2002 – 4,975,134).

The following table summarises information about stock option transactions:

	2003 Weighted average exercise price (Euro)	**2003 Number of options**	2002 Weighted average exercise price (Euro)	2002 Number of options
Outstanding at beginning of period	**13.48**	**2,840,024**	13.64	2,959,576
Awards granted	**5.06**	**3,055,078**	9.10	31,868
Awards forfeited	**13.52**	**(1,967,795)**	15.68	(151,420)
Outstanding at September 30	**6.92**	**3,927,307**	13.48	2,840,024
Exercisable at September 30	**13.62**	**599,454**	13.41	1,379,672

The following table summarises information about stock options outstanding at September 30, 2003:

	Outstanding			Exercisable	
Exercise prices – Euro	Number of options	Outstanding weighted average remaining years of contractual life	Weighted average exercise price (Euro)	Number of options	Weighted average exercise price (Euro)
3.4 – 5.4	3,055,078	9.84	5.06	–	–
9.1 – 13.5	836,548	6.47	13.70	572,693	13.40
16.5 – 20.2	35,681	6.51	18.42	26,761	18.42