

THE MAGIC RAILROAD COMPANY LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 2000

3819082



LD4
COMPANIES HOUSE

NLP3US69LW

0119
30/04/01

THE MAGIC RAILROAD COMPANY LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 2000

INDEX	<u>Page</u>
Directors' Report	1 - 2
Auditors' Report	3
Profit and Loss Account	4
Balance Sheet	5
Notes to the Accounts	6 - 7

THE MAGIC RAILROAD COMPANY LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 30 JUNE 2000

The directors submit their annual report and the audited accounts of the company for the period ended 30 June 2000. The company was incorporated on 29 July 1999.

PRINCIPAL ACTIVITY

The principal activity of the company is that of ownership and development of intellectual property rights.

REVIEW OF THE BUSINESS

The company was involved in the production of the film 'Thomas and the Magic Railroad' during the period. The film was completed in July 2000.

FUTURE DEVELOPMENTS

Exploitation of the company's intellectual property rights is anticipated during 2000/2001.

DIRECTORS

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

WS Harris (appointed 29 July 1999)
TJ Hilton (appointed 29 July 1999)

DIRECTORS' INTERESTS

None of the directors had any interest in the share capital of the company during the year. Their interests in the shares of the parent undertaking are disclosed in the accounts of that company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking steps for the prevention and detection of fraud and other irregularities.

THE MAGIC RAILROAD COMPANY LIMITED

DIRECTORS' REPORT
FOR THE PERIOD ENDED 30 JUNE 2000 (continued)

REGISTERED NUMBER

The registered number of the company is 3819082.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to be reappointed and a resolution concerning their appointment will be proposed at the next Annual General Meeting.

By order of the Board



TJ Hilton
Secretary
30 April 2001

Stoneham Gate
Stoneham Lane
Eastleigh
Hampshire
SO50 9NW

THE MAGIC RAILROAD COMPANY LIMITED

AUDITORS' REPORT TO THE MEMBERS OF THE MAGIC RAILROAD COMPANY LIMITED

We have audited the financial statements on pages 4 to 7 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 1, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

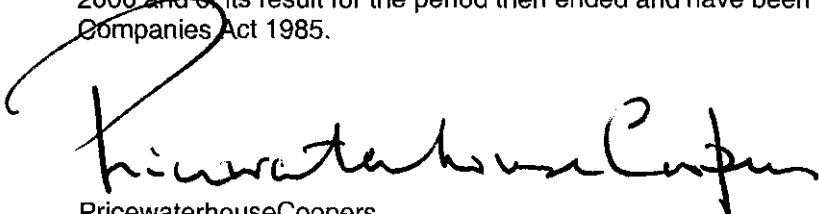
BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 2000 and of its result for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Southampton

30 April 2001

THE MAGIC RAILROAD COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30 JUNE 2000

	<u>Note</u>	From 29 July 99 ...To 30 June 00
TURNOVER		-
COST OF SALES		-
GROSS PROFIT		-
ADMINISTRATIVE EXPENSES		-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	-
TAX ON PROFIT ON ORDINARY ACTIVITIES		-
RETAINED PROFIT FOR THE FINANCIAL PERIOD		-

There are no recognised gains and losses other than the result for the period and all of the amounts above are in respect of continuing operations.

THE MAGIC RAILROAD COMPANY LIMITED

BALANCE SHEET AT 30 JUNE 2000

	<u>Note</u>	<u>2000</u> <u>£000</u>
CURRENT ASSETS		
Investment in programme portfolio	4	14,617
Debtors	5	151
		14,768
CREDITORS - amounts falling due within one year	6	(6,708)
NET CURRENT ASSETS		8,060
TOTAL ASSETS LESS CURRENT LIABILITIES		8,060
DEFERRED INCOME	7	(8,060)
		-
SHARE CAPITAL AND RESERVES		
Called up share capital	8	-
SHAREHOLDERS' FUNDS (all equity)		-



TJ Hilton - Director

THE MAGIC RAILROAD COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 2000

1. ACCOUNTING POLICIES

Historical Cost Convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Turnover

Turnover represents royalty and licence fee income. Royalties are recognised as income when reported to the company. Licence fee income in respect of television screening rights is recognised on the later of first exploitation of the rights licensed or when the fee is due. Film distribution revenue is recognised when reported to the company.

Investment in Programme Portfolio

Investment in programme portfolio is stated at the lower of cost and net realisable value. Film series are charged to profit over 2 to 15 year so as to write off that proportion of the cost calculated by dividing the revenue generated by the film series and any related character properties during the financial period by the total of such revenue estimated to be earned over the useful life of the film.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Auditors' remuneration has been borne by the parent undertaking.

3. EMPLOYEES AND DIRECTORS

Staff services are provided by the parent undertaking, Gullane Entertainment plc. The company does not employ any staff directly.

The services of all of the directors are provided under an agreement with the parent undertaking, Gullane Entertainment plc. The company did not pay emoluments directly to any director. The emoluments have been apportioned to group undertakings in which the directors hold directorships and where the activities of the directors are more than merely incidental to their other activities within Gullane Entertainment plc. No directors' emoluments were apportioned to this company during the period since incorporation.

4. INVESTMENT IN PROGRAMME PORTFOLIO

	<u>2000</u> £000
Completed programmes	14,617 =====

5. DEBTORS

	<u>2000</u> £000
Amount owed by group undertakings	151 =====

6. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>2000</u> £000
Amounts due to Group undertakings	6,708 =====

THE MAGIC RAILROAD COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 2000 (continued)

7. DEFERRED INCOME

	<u>2000</u> <u>£000</u>
Royalties and licence fees received in advance	8,060
	=====
Royalties and licence fees received in advance represent deferred income and are non-refundable.	

8. SHARE CAPITAL

<u>Ordinary shares of £1 each</u>	No	<u>2000</u> <u>£</u>
Authorised	1,000	1,000
	=====	=====
Allotted, called up and fully paid	2	2
	=====	=====

9. ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking and controlling party of The Magic Railroad Company Limited is Gullane Entertainment plc. A copy of that company's financial statements can be obtained from Stoneham Gate, Stoneham Lane, Eastleigh, Hampshire SO50 9NW.

10. CASH FLOW STATEMENT

Gullane Entertainment plc financial statements for the year ended 30 June 2000 contain a consolidated statement of cash flows. The company has taken advantage of the exemption granted by Financial Reporting Standard 1 (Revised 1996) whereby it is not required to publish its own cash flow statement.

11. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption provided by paragraph 3(c) of Financial Reporting Standard 8 not to disclose transactions with entities that are part of Gullane Entertainment plc group.

12. APPROVAL OF ACCOUNTS

The accounts were approved by the directors on 30 April 2001.