THE MAGIC RAILROAD COMPANY LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 JUNE 2001



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THE MAGIC RAILROAD COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2001

The directors submit their annual report and the audited accounts of the company for the year ended 30 June 2001.

PRINCIPAL ACTIVITY

The principal activity of the company is that of ownership and development of intellectual property rights, of Thomas and the Magic Railroad feature film.

REVIEW OF THE BUSINESS

The profit for the year amounted to £2,464,000 (2000 – nil). The directors do not recommend the payment of a dividend and the profit will be transferred to reserves.

FUTURE DEVELOPMENTS

Further exploitation of the company's intellectual property rights in additional territories is anticipated during 2001/2002.

DIRECTORS

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

B Allcroft (resigned 7 September 2000)
WS Harris
TJ Hilton (resigned 26 October 2001)
TW Ricketts (appointed 26 October 2001)

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.

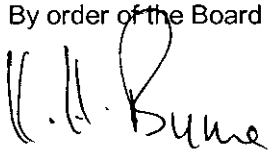
REGISTERED NUMBER

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



K H Byrne
Secretary
24 July 2002

Stoneham Gate
Stoneham Lane
Eastleigh
Hampshire
SO50 9NW

Independent auditors' report to the members of The Magic Railroad Company Limited

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors` responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 Companies Act 1985. 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 of our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

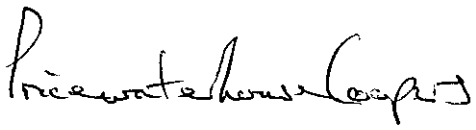
Basis of audit opinion

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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Southampton

24 July 2002

THE MAGIC RAILROAD COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2001

	Note	2001 £000	2000 £000
TURNOVER	2	9,939	-
COST OF SALES		(5,951)	-
GROSS PROFIT		3,988	-
ADMINISTRATIVE EXPENSES		(194)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	3,794	-
TAX ON PROFIT ON ORDINARY ACTIVITIES	5	(1,330)	-
RETAINED PROFIT FOR THE YEAR	13	2,464	-

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

There is no difference between the profit on ordinary activities and the retained profit for the year stated above and their historical cost equivalents.

THE MAGIC RAILROAD COMPANY LIMITED

BALANCE SHEET AT 30 JUNE 2001

	Note	2001 £000	2000 £000
CURRENT ASSETS			
Investment in programme portfolio	6	11,035	14,617
Debtors	7	710	151
		11,745	14,768
CREDITORS - Amounts falling due within one year	8	(7,951)	(6,708)
NET CURRENT ASSETS		3,794	8,060
TOTAL ASSETS LESS CURRENT LIABILITIES		3,794	8,060
ACCRUALS AND DEFERRED INCOME	10	-	(8,060)
PROVISIONS FOR LIABILITIES AND CHARGES	11	(1,330)	-
		2,464	-
SHARE CAPITAL AND RESERVES			
Called up share capital	12	-	-
Profit and loss account	13	2,464	-
SHAREHOLDERS' FUNDS (all equity)	14	2,464	-

The financial statements on pages 4 to 10 were approved by the board of directors on 24 July 2002 and were signed on its behalf by:

TW Ricketts - Director

THE MAGIC RAILROAD COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 2001

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. Distribution 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.

Programme Costs

Directly attributable and incremental costs incurred in the production of investments in programme portfolio are capitalised. These costs are charged to the profit and loss account over the expected useful economic life of the programmes. The profit and loss charge is calculated 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. The total revenue estimated to be earned over the useful life of the film is reviewed by the Directors on an annual basis.

Investment in Programme Portfolio

Completed films represent the costs incurred less amounts charged to the profit and loss account as described under the accounting policy for programme costs.

Deferred Taxation

Full provision is made for taxation at effective rates on timing differences, except where in the opinion of the directors, the deferred taxation liability is not expected to crystallise in the foreseeable future.

Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at rates prevailing at the year-end or at the contracted forward rate where appropriate.

Transactions arising in foreign currency are translated at spot rates or the exchange rate of a related forward exchange contract or option where appropriate.

Exchange differences on trading and other items are taken to the profit and loss account. Any premiums arising from the use of foreign exchange options are written off to the profit and loss account as incurred.

2. TURNOVER

Turnover is wholly derived from distribution operations.

The turnover for the year may be analysed as follows:

	2001 £000	2000 £000
United Kingdom	2,165	-
Europe	290	-
Australasia	140	-
Japan	1,206	-
North America	6,005	-
Other	133	-
	9,939	-

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging:-

	2001 £000	2000 £000
Write down of investment in programme portfolio	5,506	-

Auditors' remuneration has been borne by the parent undertaking.

4. 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 year.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge for the year is as follows:

	2001 £000	2000 £000
Deferred tax	1,330	-

6. INVESTMENT IN PROGRAMME PORTFOLIO

	2001 £000	2000 £000
Completed programmes	11,035	14,617

7. DEBTORS

	2001 £000	2000 £000
Amount owed by parent undertaking	494	-
Amount owed by group undertakings	216	151
	710	151

8. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £000	2000 £000
Trade creditors	2	-
Amounts owed to group undertakings	7,597	6,708
Amounts owed to associate undertaking	179	-
Other creditors	146	-
Accruals	27	-
	7,951	6,708

9. BANK LOANS AND OVERDRAFTS

The company has entered into a composite bank accounting agreement together with the companies in the group. Consequently the company has guaranteed the bank indebtedness of the co-signatory group companies. The company has also granted the bank a fixed and floating charge over its assets to secure an loan or overdraft the group may have from time to time.

10. ACCRUALS AND DEFERRED INCOME

	2001 £000	2000 £000
Royalties and licence fees received in advance	-	8,060

Royalties and licence fees received in advance represent deferred income and are non-refundable.

11. PROVISION FOR LIABILITIES AND CHARGES

	Deferred Tax £000
Balance at 1 July 2000	-
Charge for the year	1,330
Balance at 30 June 2001	1,330

The analysis of the deferred taxation balance is as follows:

	2001 £000	2000 £000
Accelerated capital allowances	1,330	-

12. SHARE CAPITAL

Ordinary shares of £1 each	2001 No	2000 £
Authorised	1,000	1,000
Allotted, called up and fully paid	2	2

13. RESERVES

	Profit and Loss Account £000
Balance at 1 July 2000	-
Retained profit for the year	2,464
Balance at 30 June 2001	2,464

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £000	2000 £000
Opening shareholders' funds	-	-
Retained profit for year	2,464	-
Closing shareholders' funds	2,464	-

15. CAPITAL COMMITMENTS

At 30 June 2001 the company had capital expenditure contracted for but not provided of £nil (2000 - £nil).

16. 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.

17. CASH FLOW STATEMENT

Gullane Entertainment plc financial statements for the year ended 30 June 2001 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.

18. 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. Details of other related party transactions during the year are shown below. Fees of £179,000 (2000 - £nil) were charged by Catalyst Entertainment Inc.

The amount due to associated undertakings are as follows:

	Creditors	
	2001	2000
	£000	£000
Catalyst Entertainment Inc.	179	-