

Magical Cruise Company, Limited

(Registered Number 3157553)

**Directors' Report and Financial
Statements
Year Ended 30 September 2002**



Magical Cruise Company, Limited

Directors' Report For The Year Ended 30 September 2002

The directors present their report and the audited financial statements of the Company for the year ended 30 September 2002.

Review of activities and future developments

The Company's principal activity is the operation of two luxury cruise vessels. The Company commenced trading in September 1996. The directors are satisfied with the performance of the Company and look forward to the future with optimism.

Results and dividends

The Company's profit for the financial year is \$18,265,000 (2001: (restated) \$9,831,000). The directors do not recommend the payment of a dividend (2001: \$Nil).

Directors

The directors who held office during the year, and up to the date of approval of the accounts, are given below:

A Asquith	(appointed 6 December 2001, resigned 24 September 2002)
B Ellis	
J Heaney	(appointed 24 September 2002)
F Ioppolo	(resigned 31 December 2001)
T McAlpin	(resigned 24 September 2002)
M Ouimet	
C Rose	(appointed 24 September 2002)
SR Salter	
J Smith	(appointed 6 December 2001)
S Warrener	
A Weiss	(appointed 6 December 2001)
P Wiley	

None of the directors have an interest in the shares of the Company.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made which are likely to affect their interests, and that all employees are aware of the financial and economic performance of their business units, and of the Company as a whole.

Magical Cruise Company, Limited

Directors' Report For The Year Ended 30 September 2002 (Continued)

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, a resolution to appoint the new firm, PricewaterhouseCoopers LLP, as auditors to the company will be proposed at the annual general meeting.

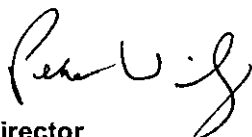
Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial 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 financial statements, 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 being disclosed and explained in the financial statements; and
- 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 financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board on *28 January* 2003



Director

Magical Cruise Company, Limited

Independent Auditors' Report To The Members Of Magical Cruise Company, Limited

We have audited the financial statements on pages 4 to 17.

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. This report, including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. 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 to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 judgments 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 September 2002 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
London

28 January 2003
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Magical Cruise Company, Limited

Profit And Loss Account For The Year Ended 30 September 2002

	<i>Note</i>	2002 \$'000	2001 restated \$'000
Turnover – Continuing operations	2	376,386	380,477
Cost of sales		(247,124)	(257,260)
Gross profit		129,262	123,217
Distribution expenses – Selling and other		(74,889)	(81,790)
Administrative expenses		(26,482)	(26,860)
Operating profit – Continuing operations	3	27,891	14,567
Operating profit on ordinary activities before taxation		27,891	14,567
Tax on profit on ordinary activities	4	(9,626)	(4,736)
Retained profit for the financial year		18,265	9,831

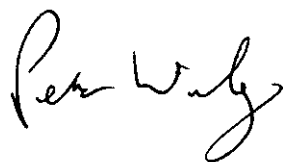
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Magical Cruise Company, Limited

Balance sheet as at 30 September 2002

		2002	2001
	Note	\$'000	restated \$'000
Fixed assets			
Tangible assets	5	15,558	20,668
Current assets			
Stock	6	2,239	2,845
Debtors	7	887,373	648,154
Cash at bank and in hand		1,595	1,837
		891,207	652,836
Creditors – amounts falling due within one year	8	(974,218)	(759,222)
Net current liabilities		(83,011)	(106,386)
Total assets less current liabilities		(67,453)	(85,718)
Capital and reserves			
Called up share capital	10	-	-
Share premium account	11	1,063	1,063
Profit and loss account	11	(68,516)	(86,781)
Total shareholders' deficit	12	(67,453)	(85,718)

The financial statements on pages 4 to 17 were approved by the Board of Directors on 28 January 2003 and were signed on its behalf by:



Director

The notes on pages 7 to 17 form part of these accounts.

Magical Cruise Company, Limited

Statement of Total Recognised Gains and Losses For the Year Ended 30 September 2002

	<u>2002</u>	<u>2001</u>
	\$'000	restated \$'000
Profit for the financial year	<u>18,265</u>	9,831
Total recognised gains relating to the financial year	18,265	<u>9,831</u>
Prior year adjustment (note 4 - FRS 19 "Deferred Taxation")	881	
Total profits recognised since last financial statements	<u>19,146</u>	

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002

1 Accounting policies

These accounts are prepared under the historical cost convention and in accordance with applicable accounting standards on a basis consistent with the previous year.

a) Reporting currency and presentation

The Financial Statements are presented in US dollars as that is the currency in which the Company generates its net cash flows.

b) Turnover

Revenue related to the provision of cruise berths is recognised using the accruals method. All other revenue, including the sale of merchandise, beverage, amenities, and recreational activities provided during the cruises as well as other operating income, is recognised when the good is delivered or service is provided.

c) Fixed assets and depreciation

Fixed assets are stated at cost. When brought into service, tangible fixed assets are depreciated on a straight-line basis over their estimated useful economic life or the life of the lease, whichever is shorter. The useful economic life of the assets are estimated to be as follows:

Stage show and other on-board entertainment and programming costs	5 years
Furniture, fixtures, leasehold improvements and equipment	3 to 13 years

d) Drydock costs

Drydock costs are broken into two categories:

Overhaul Costs – costs which are typically more repair and maintenance in nature and do not generally add economic value to the vessel. These costs are expensed as incurred;

Additions/Improvements – costs are typical capital costs and add economic value to the vessel. When these assets can be identified and quantified separately, they are depreciated over the shorter of the normal useful life of the asset or the length of the vessel lease.

e) Capitalised Interest

Interest borne by the Company in relation to the funding of the tangible fixed assets is capitalised within tangible fixed assets.

f) Stock

Stock is stated at the lower of cost or market value.

g) Pension Costs

Contributions are made on behalf of the Company by the parent undertaking to a defined contribution pension plan and are charged to the profit and loss account when they fall due. Pension costs are allocated to the Company based on its share of the cost of contributions for the group as a whole.

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

1 Accounting policies (Continued)

h) Cruise deposits

Cruise deposits are recorded upon receipt by the Company's agents.

i) Operating leases

Rental costs under operating leases are charged to operating profit on a straight-line basis over the lease term.

j) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

On adoption of Financial Reporting Standard (FRS)19 "Deferred Taxation," the Company has changed its accounting policy in respect of deferred taxation, and restated prior year results accordingly (note 4).

k) Cash flow statement

The Company is a wholly owned subsidiary of The Walt Disney Company, incorporated in the United States of America, and is included in its consolidated financial statements, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996).

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

1 Accounting policies (Continued)

i) Accounting Policy change

Revenue collected on behalf of third parties was previously recorded as turnover and the payment on to the third party was recorded as a cost of sale. In the current year the policy has been changed so that only the commission element of the monies collected is recorded as revenue.

As a result, comparative figures for the year ended 30 September 2001 have been adjusted as follows:

	Turnover \$'000	Cost of Sales \$'000	Operating Profit \$'000
As previously reported	387,070	263,853	14,567
Effect of change in accounting policy	(6,593)	(6,593)	-
Total	380,477	257,260	14,567

2 Turnover

	2002 \$'000	2001 \$'000
Cruise income	368,997	371,254
Other operating income	7,389	9,223
Total	376,386	380,477

Cruise income consists of amounts earned for the provision of cruise berths as well as amounts earned from the sale of merchandise, beverage, amenities, and recreational activities provided during the cruises. Other operating income, all of which was earned from group undertakings, represents fees charged for the provision of labour and related costs, general accounting, human resources and other administrative services.

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

3 Operating profit

	2002 \$'000	2001 \$'000
Operating profit is stated after charging		
Wages and salaries	44,529	47,645
Social security costs	480	555
Other pension costs	340	206
Staff costs	45,349	48,406
Depreciation of tangible fixed assets	7,799	8,881
Operating lease charges – Cruise vessel	65,160	65,160
Auditors' remuneration		
Audit services	94	96
Non-audit services	-	-

The average number of persons employed by the Company during the year was 2,020 consisting of 1,904 shipboard personnel and 116 administrative personnel (2001: 1,900 shipboard personnel and 125 administrative personnel).

4 Tax on profit on ordinary activities

The charge for taxation is based upon the taxable profit for the year and comprises:

	2002 \$'000	2001 restated \$'000
Tax on profit on ordinary activities:		
Analysis of charge in period		
Current tax:		
UK corporation tax at 30% (2001: 30%)	9,263	-
Prior year under provision	220	-
Total current tax	9,483	-
Deferred tax:		
Origination and reversal of timing differences	(624)	4,736
Prior year under provision	767	-
Total deferred tax	143	4,736
Tax on profit on ordinary activities	9,626	4,736

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

Tax on profit on ordinary activities (Continued)

(a) Factors affecting tax charge for the period:

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 \$'000	2001 \$'000
Profit on ordinary activities before tax	27,891	14,567
Expected tax at 30%	8,367	4,370
Effects of:		
Expenses not deductible for tax purposes	272	315
Depreciation in excess of capital allowances	624	690
Losses of prior periods utilised	-	(5,375)
Adjustments relating to prior years	220	-
Current tax charge for period	9,483	-

The Group has adopted FRS 19 "Deferred tax," and has restated prior year figures accordingly. Adoption has resulted in the recognition of deferred tax assets in respect of losses and other timing differences incurred in prior years, and corresponding restatement of the prior year results. The effect of the FRS 19 restatement is as follows:

	2002 \$'000	2001 as previously reported \$'000	FRS19 restatement \$'000	2001 (restated) \$'000
Tax on profit on ordinary activities				
UK corporation tax	9,483	-	-	-
Deferred tax	143	(415)	5,151	4,736
	9,626	(415)	5,151	4,736
Balance sheet				
Deferred tax asset	230	(508)	881	373

The impact of adopting this standard in 2002 has been to increase the tax charge by \$143,000.

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

5 Tangible fixed assets

	Assets under course of construction \$'000	Stage Shows & other on board entertainment & programming costs \$'000	Furniture, fixtures, leasehold improvements and equipment \$'000	Total \$'000
Cost				
At 30 September 2001	19	33,914	6,750	40,683
Additions	117	222	2,350	2,689
Transfers	-	-	-	-
Disposals	-	(3,572)	-	(3,572)
At 30 September 2002	136	30,564	9,100	39,800
Accumulated depreciation				
At 30 September 2001	-	(18,593)	(1,422)	(20,015)
Charge for the year	-	(6,634)	(1,165)	(7,799)
Disposals	-	3,572	-	3,572
At 30 September 2002	-	(21,655)	(2,587)	(24,242)
Net book amount				
at 30 September 2002	136	8,909	6,513	15,558
At 30 September 2001	19	15,321	5,328	20,668

Assets under course of construction represent costs associated with the development of the stage shows and on-board entertainment and programming. Interest cost of \$218,000 is included in the amounts capitalized at the year ended 28 September 2002 (2001: \$376,000).

6 Stock

	2002 \$'000	2001 \$'000
Food and beverage	853	1,038
Merchandise goods for resale	1,086	1,397
Consumables	300	410
Total	2,239	2,845

The replacement cost of stock does not materially differ from the cost.

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

7 Debtors

	2002	2001
	\$'000	restated \$'000
Trade debtors	2,279	1,439
Amounts owed by group undertakings	882,788	645,513
Deferred tax asset	230	373
Prepayments	2,076	829
Total	887,373	648,154

Amounts owed by group undertakings, a portion representing amounts due under management service agreements, are unsecured, interest free, and have no fixed date of repayment.

8 Creditors – amounts falling due within one year

	2002	2001
	\$'000	\$'000
Bank overdrafts	1,151	1,651
Amounts due to group undertakings	873,785	669,108
Trade creditors	3,316	7,682
Taxation and social security	10,003	269
Deposits received on future cruises	82,404	77,639
Other accrued expenses	3,559	2,873
Total	974,218	759,222

The amounts owed to group undertakings are unsecured and bear no interest. The amounts have no set repayment date and, therefore, have been classified as due on demand.

9 Deferred Taxation

The deferred tax asset comprises the following amounts:

	2002	2001
	\$'000	\$'000
Accelerated Capital Allowances	156	(508)
Tax losses carried forward	-	657
Other short term timing differences	74	224
Undiscounted deferred tax asset	230	373
Asset at start of period	373	
Deferred tax charge in profit and loss account	(143)	
Asset at end of period	230	

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

10 Called up equity share capital

	2002 \$	2001 \$
Authorised: 100 Ordinary shares of £1 each converted at an exchange rate of \$1.57 (2001: \$1.48)	157	148
Allotted and called up: 2 ordinary shares of £1 each (1 converted at an exchange rate of \$1.70 and 1 converted at \$1.54)	3	3

11 Reserves

	Share Premium account \$'000	Profit and Loss Account \$'000	Total Reserves \$'000
At 30 September 2001 as previously stated	1,063	(87,662)	(86,599)
Prior year adjustment	-	881	881
At 30 September 2001 as restated	1,063	(86,781)	(85,718)
Retained profit for the financial year	-	18,265	18,265
At 30 September 2002	1,063	(68,516)	(67,453)

12 Reconciliation of movements in shareholders' deficit

	\$'000
Profit for the year	18,265
Shareholders' deficit as at beginning of year (as previously stated)	(86,599)
Prior year adjustment	881
Shareholders' deficit as at beginning of the year (as restated)	(85,718)
Shareholder's deficit as at 30 September	(67,453)

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

13 Operating lease commitments and other contractual obligations

The Company has entered into operating leases to operate two luxury cruise vessels for a fifteen-year period. Under the lease agreements, the Company makes semi-annual payments on each cruise vessel of \$18,050,000 and \$16,923,000 beginning one year after each respective cruise vessel becomes operational. The total lease payments due during the next year under the operating lease commitments, analysed by the date the commitments expire, are:

	2002 \$'000	2001 \$'000
Within one year	-	-
Between two and five years	-	-
After five years	69,946	69,946

The total lease payment due under the operating leases are \$69,946,000 in financial year 2002, \$279,784,000 from financial year 2003 to 2006 inclusive, and \$489,625,000 thereafter.

The Company has contractual obligations for maintenance and other services of \$4,753,000 at 30 September 2002 (2001: \$6,578,000). The total payments due under maintenance contracts are \$1,887,000 in fiscal 2003; \$1,227,000 in fiscal 2004; \$1,214,000 in fiscal 2005; \$425,000 in fiscal 2006; and \$0 thereafter.

14 Pension commitments

The shoreside employees of the Company participate in the Group defined benefit pension plan. The defined benefit pension plan is provided under the Walt Disney World Co. & Associated Companies' Retirement Plan and the Disney Salaried Retirement Plan. The cost of contributions to the group scheme are based on pension costs across the Group as a whole. Pension costs incurred by the Company for the year amounted to \$340,000 (2001: \$206,000).

Details of the Group defined benefit plan are given in the financial statements of The Walt Disney Company and Subsidiaries. The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore the company accounts for the contributions to the scheme as if it were a defined contribution scheme. Details of the more significant points of the scheme are discussed below.

At the date of the latest actuarial valuation at July 1, 2002, the market value of the assets of the scheme was \$1,150,200,000 (2001: \$1,296,800,000), and the actuarial value of the assets was sufficient to cover 89.5% (2001: 118%) of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The Company also operates a Group defined contribution plan. The defined contribution plan is provided under the Disney Salaried Savings and Investment Plan. The Plan calls for contributions being made by its members and the Company on a matching basis. Pension costs incurred by the Company for fiscal 2002 and 2001 were not material.

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

15 Directors' emoluments

	2002 \$'000	2001 \$'000
Aggregate emoluments	629	544
Company contributions paid to a money purchase scheme	-	5

Highest paid director

	2002 \$'000	2001 \$'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	301	292
Defined benefit pension scheme:		
Accrued pension	269	200

Retirement benefits are accruing to three directors under a defined contribution scheme (2001: five) and to four directors under the defined benefit scheme (2001: three).

16 Ultimate parent undertaking and financial support

Ultimate Parent

The ultimate parent, The Walt Disney Company, incorporated in the United States of America, has indicated its present intention to continue providing support to this entity.

Immediate Parent

The immediate parent is Walt Disney International Limited.

Parent undertaking

The largest and smallest group for which accounts are prepared and of which the Company is a member are as follows:

	<u>Largest</u>	<u>Smallest</u>
Name	The Walt Disney Company	Walt Disney International Limited
Country of incorporation	United States of America	England and Wales
Address from which copies of the group accounts can be obtained	500 South Buena Vista Street Burbank California 91521 USA	3 Queen Caroline Street Hammersmith London W6 9PE

Magical Cruise Company, Limited

Notes To The Financial Statements For The Year Ended 30 September 2002 (Continued)

17 Related Party Transactions

As previously stated, the Company is a wholly owned subsidiary of The Walt Disney Company and utilises the exemption contained in FRS 8, Related Party Disclosures, not to disclose any transactions with entities that are included in the consolidated financial statements of The Walt Disney Company. The address at which the consolidated financial statements of the ultimate parent Company are publicly available is included in note 16.