

**Magical Cruise Company, Limited**  
(Registered Number 3157553)

**Directors' Report and Financial Statements**  
**Year Ended 1 October 2005**



# **Magical Cruise Company, Limited**

## **Directors' Report For The Year Ended 1 October 2005**

The Directors present their report and the audited financial statements of the Company for the 52 weeks to 1 October 2005.

### **Review of activities and future developments**

The Company's principal activity is the operation of two luxury cruise vessels. The Directors are satisfied with the performance of the Company and look forward to the future with optimism.

It is considered that the Company's activities will remain unchanged for the foreseeable future.

### **Results and dividends**

The Company's profit for the financial year is \$31,133,000 (2004: \$32,298,000). The Directors do not recommend the payment of a dividend (2004: \$Nil).

### **Directors**

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

B Ellis	(resigned 13 February 2006)
J Heaney	
K Holz	(resigned 5 October 2004)
C Rose	
SR Salter	
J Smith	
S Warrener	(resigned 5 November 2004)
A Weiss	
P Wiley	
N Cook	(appointed 5 November 2004)
T McAlpin	(appointed 5 October 2004)
J James	(appointed 6 October 2005)

None of the directors have a beneficial 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 1 October 2005 (Continued)

### Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period that 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. The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 1 October 2005 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and 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.

### Auditors

An elective resolution has been passed to dispense with the obligation to annually reappoint the auditors, and therefore PricewaterhouseCoopers LLP are deemed to be reappointed for the next financial year.

By Order of the Board on 28<sup>th</sup> July 2006

Director

A handwritten signature in black ink, appearing to be 'NACody', written over a horizontal line.

## **Magical Cruise Company, Limited**

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

We have audited the financial statements which comprise the profit and loss account, balance sheet and related notes.

#### **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.

#### **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 1 October 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
London

28<sup>th</sup> July 2006

## Magical Cruise Company, Limited

### Profit And Loss Account For The Year Ended 1 October 2005

		2005	2004
	<i>Note</i>	\$'000	\$'000
Turnover – continuing operations	2	441,345	413,640
Cost of sales		(290,376)	(274,653)
<b>Gross profit</b>		<b>150,969</b>	<b>138,987</b>
Distribution expenses – selling and other		(83,599)	(81,304)
Administrative expenses		(24,718)	(23,592)
<b>Operating profit – continuing operations</b>	3	<b>42,652</b>	<b>34,091</b>
<b>Profit on ordinary activities before taxation</b>		<b>42,652</b>	<b>34,091</b>
Tax on profit on ordinary activities	4	(11,519)	(1,793)
<b>Retained profit for the financial year</b>		<b>31,133</b>	<b>32,298</b>

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.

There were no gains or losses other than those recognised in the profit and loss account.

The notes on pages 6 to 15 form part of these accounts.

# Magical Cruise Company, Limited

## Balance sheet as at 1 October 2005

		2005	2004
	Note	\$'000	\$'000
<b>Fixed assets</b>			
Tangible assets	5	43,334	26,412
<b>Current assets</b>			
Stock	6	2,475	2,307
Debtors	7	539,479	1,399,977
Cash at bank and in hand		3,501	4,496
		545,455	1,406,780
<b>Creditors – amounts falling due within one year</b>	8	(569,177)	(1,446,491)
<b>Net current liabilities</b>		(23,722)	(39,711)
<b>Total assets less current liabilities</b>		19,612	(13,299)
<b>Provision for liabilities and charges</b>	9	(2,346)	(568)
<b>Net assets/(liabilities)</b>		17,266	(13,867)
<b>Capital and reserves</b>			
Called up share capital	10	-	-
Share premium account	11	1,063	1,063
Profit and loss account	11	16,203	(14,930)
<b>Total shareholders' funds/(deficit)</b>	12	17,266	(13,867)

The financial statements on pages 4 to 15 were approved by the Board of Directors on 28 July 2006 and were signed on its behalf by:



Director

The notes on pages 6 to 15 form part of these accounts.

# Magical Cruise Company, Limited

## Notes To The Accounts For The Year Ended 1 October 2005

### 1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards on a basis consistent with the prior year. The principal accounting policies are set out below.

#### a) Accounting reference date

The Company has taken advantage of flexibility under the Companies Act 1985 to end the accounting period on the closest Saturday to 30 September each year. An accounting reference date of 1 October 2005 has been adopted for the current year.

The financial year represents the 52 weeks ended Saturday 1 October 2005 (prior year the 52 weeks ended 30 September 2004.)

#### b) 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.

#### c) 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 are delivered or service is provided.

#### d) 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	3 to 5 years
Furniture, fixtures, leasehold improvements and equipment	2 to 15 years

#### e) 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.

#### f) Stock

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

# Magical Cruise Company, Limited

## Notes To The Accounts For The Year Ended 1 October 2005 (Continued)

### 1 Accounting policies (Continued)

#### g) Pension Costs

Contributions are made on behalf of the Company by the parent undertaking to a defined benefit 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.

#### 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.

#### 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 Accounts For The Year Ended 1 October 2005 (Continued)

### 2 Turnover

	2005 \$'000	2004 \$'000
Cruise revenue	432,170	404,066
Other revenue	9,175	9,574
<b>Total</b>	<b>441,345</b>	<b>413,640</b>

Cruise revenue 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 revenue, 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.

### 3 Operating profit

	2005 \$'000	2004 \$'000
<b>Operating profit is stated after charging</b>		
Wages and salaries	47,423	47,883
Social security costs	581	561
pension costs	1,605	1,254
<b>Staff costs</b>	<b>49,609</b>	<b>49,698</b>
Depreciation of tangible fixed assets	5,865	4,228
Operating lease charges – Cruise vessel	65,160	65,160
<b>Auditors' remuneration</b>		
Audit services	144	117
Non-audit services	-	-

The average number of persons employed by the Company during the year was 2,056 consisting of 1,938 shipboard personnel and 118 administrative personnel (2004: 1,965 shipboard personnel and 111 administrative personnel).

# Magical Cruise Company, Limited

## Notes To The Accounts For The Year Ended 1 October 2005 (Continued)

### 4 Tax on profit on ordinary activities

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

	2005 \$'000	2004 \$'000
<b>Tax on profit on ordinary activities:</b>		
Analysis of charge in period		
Current tax:		
UK corporation tax at 30% (2004: 30%)	11,668	9,080
Prior year over provision	(1,927)	(8,612)
<b>Total current tax</b>	<b>9,741</b>	<b>468</b>
Deferred tax:		
Origination and reversal of timing differences	1,769	1,091
Prior year under provision	9	234
<b>Total deferred tax</b>	<b>1,778</b>	<b>1,325</b>
<b>Tax on profit on ordinary activities</b>	<b>11,519</b>	<b>1,793</b>

(a) Factors affecting tax charge for the period:

The tax assessed for the period is lower (2004: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 \$'000	2004 \$'000
<b>Profit on ordinary activities before tax</b>	<b>42,652</b>	<b>34,091</b>
Expected tax at 30%	12,796	10,227
Effects of:		
Expenses not deductible for tax purposes	36	36
Capital allowances in excess of Depreciation	(1,792)	(1,183)
Adjustments relating to prior years	(1,927)	(8,612)
Other permanent differences	628	
<b>Current tax charge for period</b>	<b>9,741</b>	<b>468</b>

# Magical Cruise Company, Limited

## Notes To The Accounts For The Year Ended 1 October 2005 (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
<b>Cost</b>				
At 30 September 2004	5,388	31,876	22,686	59,950
Additions	16,052	2,779	4,027	22,858
Transfers	(12,084)	424	11,660	-
Disposals	-	(15)	(343)	(358)
<b>At 1 October 2005</b>	<b>9,356</b>	<b>35,064</b>	<b>38,030</b>	<b>82,450</b>
<b>Accumulated depreciation</b>				
At 30 September 2004	-	28,071	5,467	33,538
Charge for the year	-	1,258	4,607	5,865
Disposals	-	(14)	(273)	(287)
<b>At 1 October 2005</b>	<b>-</b>	<b>29,315</b>	<b>9,801</b>	<b>39,116</b>
<b>Net book amount at 1 October 2005</b>	<b>9,356</b>	<b>5,749</b>	<b>28,229</b>	<b>43,334</b>
At 30 September 2004	5,388	3,805	17,219	26,412

### 6 Stock

	2005 \$'000	2004 \$'000
Food and beverage	1,149	1,034
Merchandise goods for resale	1,041	1,050
Consumables	285	223
<b>Total</b>	<b>2,475</b>	<b>2,307</b>

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

# Magical Cruise Company, Limited

## Notes To The Accounts For The Year Ended 1 October 2005 (Continued)

### 7 Debtors

	2005 \$'000	2004 \$'000
Trade debtors	2,604	3,127
Amounts owed by group undertakings	532,639	1,393,465
Prepayments	4,236	3,385
<b>Total</b>	<b>539,479</b>	<b>1,399,977</b>

Amounts owed by group undertakings, representing called up share capital not paid and 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

	2005 \$'000	2004 \$'000
Amounts due to group undertakings	445,056	1,333,839
Trade creditors	8,810	7,297
Taxation and social security	3,612	6,486
Deposits received on future cruises	109,223	97,773
Other accrued expenses	2,476	1,096
<b>Total</b>	<b>569,177</b>	<b>1,446,491</b>

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 Provision for liabilities and charges

The provision relates to deferred tax. The deferred tax liability comprises the following amounts:

	2005 \$'000	2004 \$'000
Capital allowances	(2,346)	(568)
<b>Undiscounted deferred tax liability</b>	<b>(2,346)</b>	<b>(568)</b>
Deferred tax (liability) / asset at start of period	(568)	757
Deferred tax debit in profit and loss account	(1,778)	(1,325)
<b>Deferred tax (liability) at end of period</b>	<b>(2,346)</b>	<b>(568)</b>

# Magical Cruise Company, Limited

## Notes To The Accounts For The Year Ended 1 October 2005 (Continued)

### 10 Share capital

	2005 \$	2004 \$
<b>Authorised:</b> 100 Ordinary shares of £1 each converted at an exchange rate of \$1.76 (2004: \$1.80)	<u>176</u>	<u>180</u>
<b>Allotted and called up:</b> 2 ordinary shares of £1 each (1 converted at an exchange rate of \$1.70 and 1 converted at \$1.54)	<u>3</u>	<u>3</u>

### 11 Reserves

	Share Premium account \$'000	Profit and Loss Account \$'000	Total Reserves \$'000
At 30 September 2004	1,063	(14,930)	(13,867)
Retained profit for the financial year	-	31,133	31,133
<b>At 1 October 2005</b>	<u>1,063</u>	<u>16,203</u>	<u>17,266</u>

### 12 Reconciliation of movements in shareholders' deficit

	\$'000
Profit for the year	31,133
Shareholders' deficit as at beginning of year	<u>(13,867)</u>
Shareholder's funds as at 1 October 2005	<u>17,266</u>

## Magical Cruise Company, Limited

### Notes To The Accounts For The Year Ended 1 October 2005 (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:

	2005 \$'000	2004 \$'000
Within one year	-	-
Between two and five years	-	-
After five years	69,946	69,946

The Company has contractual obligations for maintenance and other services of \$11,810,000 at 1 October 2005 (2004: \$6,988,000). The total payments due under maintenance contracts are \$9,563,000 in financial year 2006, \$1,168,000 in fiscal 2007 and \$1,079,000 in financial year 2008.

#### 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 is based on pension costs across the Group as a whole. Pension costs incurred by the Company for the year amounted to \$1,605,000 (2004: \$1,254,000).

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.

The cost is assessed in accordance with the advice of Mellon Human Resources & Investor Solutions, consulting actuaries. The latest actuarial valuation of the scheme was performed as at 1 July 2004 using the five-year weighted average method. The principal assumptions adopted in the valuation were that, over the long term, the investment return would be 7.5% (2004: 7.5%) per annum, the rate of salary increase would be 3.75% (2004: 4.0%), and the discount rate 6.3% (2004: 6.3%).

At the date of the latest actuarial valuation at July 1, 2005, the market value of the assets of the scheme was \$1,637million (2004: \$1,475million), and the actuarial value of the assets was sufficient to cover 64.9% (2004: 83.5%) 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 2005 and 2004 were not material.

# Magical Cruise Company, Limited

## Notes To The Accounts For The Year Ended 1 October 2005 (Continued)

### 15 Directors' emoluments

	2005 \$'000	2004 \$'000
Aggregate emoluments	493	651
Company contributions paid to pension schemes	-	-
Aggregate gain on share options	90	-

### Highest paid director

	2005 \$'000	2004 \$'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	275	269
Defined benefit pension scheme:		
Accrued pension	227	250

Retirement benefits are accruing to four Directors (2004: three) under a defined benefit scheme in respect of their qualifying services. Six Directors exercised share options in the ultimate parent company in the period (2004: nil) and no Directors received shares under long term incentive schemes (2004:nil).

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

## **Magical Cruise Company, Limited**

### **Notes To The Accounts For The Year Ended 1 October 2005** (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.