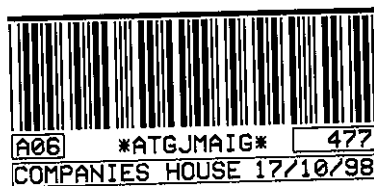


**MAGICAL CRUISE COMPANY, LIMITED**  
**(Formerly Devonson Cruise Company, Limited)**  
**Registered No: 3157553**

**DIRECTORS' REPORT AND ACCOUNTS**  
**YEAR ENDED 27 SEPTEMBER 1997**



## **MAGICAL CRUISE COMPANY, LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 27 SEPTEMBER 1997**

The directors present their report and the audited accounts of the Company for the year ended 27 September 1997.

#### **REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS**

The company's principal activity is the operation of a luxury cruise vessel. A second vessel is in the course of construction. The promotion of the cruises and ticket sales commenced in 1996.

The company changed its name from Devonson Cruise Company, Limited on 1 October 1996.

#### **RESULTS AND DIVIDENDS**

The company's loss for the financial year is \$17,429,891 (1996: \$Nil). The directors do not recommend the payment of a dividend (1996: \$Nil).

#### **DIRECTORS**

The directors who held office during the year and to the date of this report are given below

SE Davies  
AA Rodney  
SR Salter  
JH Smith  
S Warrener  
T McAlpin (Appointed 23 October 1997)  
C Rose (Appointed 23 October 1997)

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

#### **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.

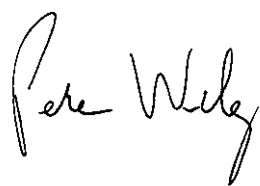
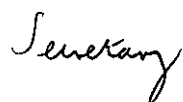
**MAGICAL CRUISE COMPANY, LIMITED**

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 27 SEPTEMBER 1997 (Continued)**

**AUDITORS**

Our auditors, Price Waterhouse, have merged with Coopers & Lybrand on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors will be proposed at the annual general meeting.

By Order of the Board on 29 September 1998

A handwritten signature in cursive script that reads "Peter Wiley".A handwritten signature in cursive script that reads "Secretary".

*Price Waterhouse*



## REPORT OF THE AUDITORS TO THE MEMBERS OF MAGICAL CRUISE COMPANY, LIMITED

We have audited the accounts on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

### Respective responsibilities of directors and auditors

As described on page 1 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### Basis of 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 accounts, 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 accounts.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 27 September 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

Price Waterhouse  
Registered Auditors  
London

29 September 1998

**MAGICAL CRUISE COMPANY, LIMITED**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 27 SEPTEMBER 1997**

	Note	\$	1997 \$
<b>TURNOVER</b>			-
Other operating income	2		1,572,450
			1,572,450
Administrative expenses		(16,231,448)	
Other operating charges		(70,893)	
			(16,302,341)
<b>OPERATING LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			(14,729,891)
Tax on loss on ordinary activities	4		(2,700,000)
			(17,429,891)
<b>LOSS FOR THE FINANCIAL YEAR</b>			(17,429,891)
Dividends			-
			(17,429,891)
<b>RETAINED LOSS FOR THE FINANCIAL YEAR</b>			(17,429,891)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR  
ENDED 30 SEPTEMBER 1997**

The company had no recognised gains or losses during the year other than those reflected in the profit and loss account above.

**PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 28 SEPTEMBER 1996**

There were no recognised or unrecognised gains or losses during the period ended 28 September 1996. As a result, no profit and loss account is presented.

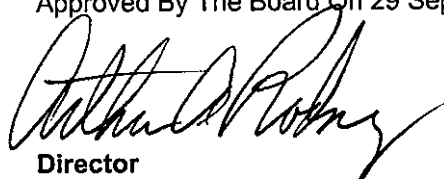
The notes on pages 6 to 11 form part of these accounts.

**MAGICAL CRUISE COMPANY, LIMITED**

**BALANCE SHEET AS AT 27 SEPTEMBER 1997 AND 28 SEPTEMBER 1996**

	Note	\$	1997 \$	\$	1996 \$
<b>Fixed assets</b>					
Tangible assets	5		12,673,203		4,751,469
<b>Current assets</b>					
Stock	6	831,244		-	
Debtors	7	6,738,388		2	
Cash at bank and in hand		6,800		-	
			7,576,432		2
<b>Creditors – Amounts falling due within one year</b>	8		(34,979,524)		(4,751,469)
<b>Net current liabilities</b>			(27,403,092)		(4,751,467)
Total assets less current liabilities			(14,729,889)		(4,751,467)
<b>Provision for liabilities &amp; charges</b>	12		(2,700,000)		-
<b>Net liabilities</b>			(17,429,889)		2
<b>Equity capital and reserves (deficit) 9, 10</b>					
Called up share capital		2		2	
Profit and loss account		(17,429,891)		-	
<b>Total shareholders' funds (deficit)</b>			(17,429,889)		2

Approved By The Board On 29 September 1998

  
Director

The notes on pages 6 to 11 form part of these accounts.

# MAGICAL CRUISE COMPANY, LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 27 SEPTEMBER 1997

### 1 ACCOUNTING POLICIES

These accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### **Reporting currency**

The accounts are presented in US dollars as that is the currency in which the company generates its net cash flows.

#### **Fixed Assets and depreciation**

When brought into service, tangible fixed assets will be 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 various asset categories are estimated to be as follows:

Stage show and other on-board entertainment costs	5 years
Infrastructure costs associated with on-board entertainment	15 years (life of lease)
Landside systems	3 and 5 years
Landside fixtures and fittings	Estimated useful life or life of leases, whichever is shorter

Depreciation for the stage show and infrastructure costs will begin one month after each ship is placed in service. Depreciation of landside items will begin once the asset is completed and placed in service.

#### **Capitalised Interest**

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

#### **Stock**

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

#### **Pension costs**

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

#### **Deferred taxation**

No provision is made for deferred taxation arising from the allocation for taxation purposes of income and expenditure to periods different from those used for accounting purposes unless such timing differences are likely to give rise to a taxation liability in the foreseeable future.

# MAGICAL CRUISE COMPANY, LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 27 SEPTEMBER 1997 (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### *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).

### 2 TURNOVER

The other operating income, all of which was earned from group undertakings, represents fees charged for the provision of general accounting, human resources, and other administrative services.

### 3 OPERATING LOSS

	1997	1996
	\$	\$
<b>Operating profit is stated after charging</b>		
Wages and salaries	2,970,942	-
Social security costs	271,984	-
Other pension costs	153,735	-
<b>Staff costs</b>	<b>3,396,661</b>	

The average number of persons employed by the Company during the year was 106 (1996: Nil).

#### **Auditors' remuneration**

Audit services	44,117	-
Non-audit services	-	-

In 1996, the auditors' remuneration was borne by a fellow subsidiary undertaking. The Company had no employees during 1996.

### 4 TAX ON LOSS ON ORDINARY ACTIVITIES

	1997	1996
	\$	\$
<b>Taxation on the profit for the year</b>		
UK corporation tax at 31.5%	-	-
Deferred taxation	(2,700,000)	-
	<b>(2,700,000)</b>	-

Deferred taxation represents provision for accelerated capital allowances expected to give rise to a taxation liability in the foreseeable future.



**MAGICAL CRUISE COMPANY, LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 27 SEPTEMBER 1997 (Continued)**

**5 TANGIBLE FIXED ASSETS**

	Projects in Progress \$	Total \$
<b>Cost</b>		
At 28 September 1996	4,751,469	4,751,469
Additions	8,026,524	8,026,524
Disposals/write-offs	(104,790)	(104,790)
<b>At 27 September 1997</b>	<b>12,673,203</b>	<b>12,673,203</b>
<b>Net book amount at 27 September 1997</b>	<b>12,673,203</b>	<b>12,673,203</b>
At 28 September 1996	4,751,469	4,751,469

Projects in process represent costs associated with the development of the on-board entertainment and infrastructure of the cruise vessels. Interest cost of \$653,780 has been included in the amounts capitalised at 27 September 1997 (1996: \$197,537).

**6 STOCK**

	1997 \$	1996 \$
Merchandise goods for resale	831,244	-

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

**7 DEBTORS**

	1997 \$	1996 \$
Amounts owed by group undertakings	5,980,404	2
Other debtors	757,984	-
	<b>6,738,388</b>	<b>2</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.

**MAGICAL CRUISE COMPANY, LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 27 SEPTEMBER 1997 (Continued)**

**8 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1997 \$	1996 \$
Bank overdrafts	3,433,278	-
Amounts due to group undertakings	30,345,520	4,751,469
Other creditors	51,560	-
Accruals	1,149,166	-
	<b>34,979,524</b>	<b>4,751,469</b>

The amount owned 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 CALLED UP EQUITY SHARE CAPITAL**

	1997 \$	1996 \$
<b>Authorised:</b> 100 Ordinary shares of £1 each (converted at an exchange rate of \$1.54)	154	154
<b>Allotted and called up:</b> 1 ordinary share of £1 each (converted at an exchange rate of \$1.54)	2	2

**10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	1997 \$	1996 \$
(Loss) for the year	(17,429,891)	-
Dividends	-	-
Movement in company reserves	(17,429,891)	-
Net proceeds of issue of ordinary share capital	-	2
Net increase/(decrease) to shareholders' funds	(17,429,891)	2
Shareholders' funds as at beginning of year/period	2	-
Shareholder' funds as at 30 September 1997	(17,429,889)	2

**11 OPERATING LEASE COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS**

The company had contractual obligations of \$3,653,045 at 27 September 1997 (1996: \$880,719).

The company has entered into operating leases to operate luxury cruise vessels for a fifteen year period. No lease payments are due in the financial year 1998. The Company will begin making semi-annual lease payments on each cruise vessel of \$18,050,024 and \$16,923,133 for the Disney Magic and the Disney Wonder, respectively, one year after each respective cruise vessel becomes operational.

## MAGICAL CRUISE COMPANY, LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 27 SEPTEMBER 1997 (Continued)

#### 12 PROVISION FOR LIABILITIES & CHARGES

	Deferred tax provision \$	Total \$
At 29 September 1996	-	-
Charged to the profit and loss account in the year	2,700,000	2,700,000
Utilised during the year	-	-
<b>At 27 September 1997</b>	<b>2,700,000</b>	<b>2,700,000</b>

The provision for deferred taxation has been made in respect of accelerated capital allowances that are expected to give rise to a taxation liability in the foreseeable future. The unprovided amount of deferred taxation that is not expected to give rise to a taxation liability in the foreseeable future is approximately \$5,100,000.

#### 13 PENSION COMMITMENTS

Pension benefits for non-shipboard employees are provided under the Walt Disney World Co. and Associated Companies' Retirement Plan and the Disney Salaried Retirement Plan. No pension benefits are currently available for shipboard employees.

Pension costs incurred by the Company for the year amounted to \$153,735. The cost is assessed in accordance with the advice of William M. Mercer, Inc., consulting actuaries. The latest actuarial valuation of the scheme was performed as at 1 July 1997 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 10.5% per annum, the rate of salary increase would be 5.4% per annum, and the discount rate 7.8%.

At the date of the latest actuarial valuation at 1 July 1997 the market value of the assets of the scheme was \$892,399,463 and the actuarial value of the assets was sufficient to cover 157% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Details of the group scheme are given in the financial statements of The Walt Disney Company and Subsidiaries. The cost of contributions to the group scheme are based on pension costs across the group as a whole.

#### 14 DIRECTORS' EMOLUMENTS

	1997 \$
Aggregate emoluments	212,242
Company contributions paid to a money purchase scheme	28,878

Three directors, including the highest paid director, exercised share options in the ultimate parent company during the year. Retirement benefits are accruing to five directors under a defined contribution (money purchase) scheme and to two directors under the defined benefit scheme.

## MAGICAL CRUISE COMPANY, LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 27 SEPTEMBER 1997 (Continued)

#### 15 ULTIMATE PARENT UNDERTAKING

##### Ultimate Parent

The ultimate parent is The Walt Disney Company, incorporated in the United States of America. It is the management's present intention to continue providing support to this entity.

##### Immediate Parent

The immediate parent is Walt Disney Holdings (UK) Limited.

##### Parent undertaking

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

	<b>Largest</b>	<b>Smallest</b>
<b>Name</b>	The Walt Disney Company	Walt Disney Holdings (UK) 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

#### 16 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 15.

#### 17 SUBSEQUENT EVENT

On 19 January 1998, the Company issued an additional share of common stock to Walt Disney Holdings (UK) Limited for \$1,063,075.