

MAGICAL CRUISE COMPANY, LIMITED
Registered No: 3157553

DIRECTORS' REPORT AND ACCOUNTS
YEAR ENDED 30 SEPTEMBER 1998



MAGICAL CRUISE COMPANY, LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 1998

The directors present their report and the audited accounts of the Company for the year ended 30 September 1998.

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 and will be launched shortly. The promotion of the cruises and ticket sales commenced in 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 loss for the financial year is \$47,544,000 (1997: \$17,430,000). The directors do not recommend the payment of a dividend (1997: \$Nil).

DIRECTORS

The directors who held office during the year and up to, but not including, the date of the Annual General Meeting are given below:

AA Rodney	SR Salter
SE Davies	S Warrener
T McAlpin (Appointed 23 October 1997)	
P Wiley (Appointed 29 September 1998)	
M Ouimet (Appointed 29 September 1998)	
JH Smith (Resigned 29 September 1998)	
B Ellis (Appointed 13 May 1999)	
C Rose (Appointed 23 October 1997; Resigned 29 September 1998)	

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.

MAGICAL CRUISE COMPANY, LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

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.

YEAR 2000

The Company has recognised the need to review its business systems to establish the potential exposure of Year 2000 non-compliance. The Company has completed a review of its business critical operations and has a project team in place to rectify any areas of identified non-compliance. The directors believe that the cost of this will not be material to the Company. Management is confident there will be uninterrupted service to their customers.

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.

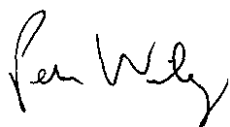
EMPLOYEE INVOLVEMENT

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. Communication with all employees continues through newsletters, briefing groups and the availability of the annual report.

AUDITORS

Our auditors, Price Waterhouse, merged with Coopers & Lybrand on 1 July 1998. Price Waterhouse has resigned as auditors and a resolution was passed for the new firm, PricewaterhouseCoopers, to fill the casual vacancy. PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution concerning their reappointment as auditors will be proposed at the Annual General Meeting.

By Order of the Board on 21 July 1999



Director

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

We have audited the financial statements on pages 4 to 13 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

The directors are responsible for preparing the Annual Report, including as described on pages 1 and 2 of the financial statements. Our responsibilities, as independent auditors, are established 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 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.

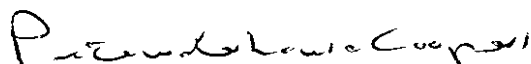
Basis of opinion

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 as at 30 September 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
London

21 July 1999

MAGICAL CRUISE COMPANY, LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 1998**

	Note	1998 \$'000	1997 \$'000
Turnover – Continuing operations	2	58,040	1,572
Cost of sales		(55,998)	-
Gross Profit		2,042	1,572
Distribution expenses – Selling and other		(25,041)	(71)
Administrative expenses		(23,060)	(16,231)
OPERATING LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(46,059)	(14,730)
Tax on loss on ordinary activities	4	(1,485)	(2,700)
LOSS FOR THE FINANCIAL YEAR		(47,544)	(17,430)
Dividends		-	-
RETAINED LOSS FOR THE FINANCIAL YEAR		(47,544)	(17,430)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
30 SEPTEMBER 1998**

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


The notes on pages 6 to 13 form part of these accounts.

MAGICAL CRUISE COMPANY, LIMITED

BALANCE SHEET AS AT 30 SEPTEMBER 1998

	Note	\$'000	1998 \$'000	\$'000	1997 \$'000
Fixed assets					
Tangible assets	5		26,974		12,673
Current assets					
Stock	6	4,158		831	
Debtors	7	83,977		17,358	
Cash at bank and in hand		964		7	
			89,099		18,196
Creditors – Amounts falling due within one year	8		(175,799)		(45,599)
Net current liabilities			(86,700)		(27,403)
Total assets less current liabilities			(59,726)		(14,730)
Provision for liabilities & charges	13		(4,185)		(2,700)
Net liabilities			(63,911)		(17,430)
Equity capital and reserves (deficit) 9, 10, & 11					
Called up share capital			-		-
Share premium account		1,063			-
Profit and loss account		(64,974)		(17,430)	
Total shareholders' (deficit)			(63,911)		(17,430)

Approved By The Board On 21 July 1999


Director

The notes on pages 6 to 13 form part of these accounts.

MAGICAL CRUISE COMPANY, LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 1998

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.

Reporting currency and presentation

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

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.

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
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Depreciation commences one month after the ships are placed in service.

Drydock costs

Drydock costs are capitalised and amortised over the shorter of the estimated useful life of the asset, the period until the next scheduled drydock, or the vessel's remaining lease term on a straight-line basis.

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 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.

Cruise Deposits

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

Operating leases

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

MAGICAL CRUISE COMPANY, LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

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).

Comparative balances

Deposits received on cruises are now recognised upon receipt by the Company's agent, a fellow group undertaking. Previously they were recorded when received by the Company. Comparative balances have been restated (see note 8).

2 TURNOVER

	1998 \$'000	1997 \$'000
Cruise income	30,451	-
Other operating income	27,589	1,572
	58,040	1,572

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 vessel commissioning labour and related costs, general accounting, human resources, and other administrative services.

3 OPERATING LOSS

	1998 \$'000	1997 \$'000
Operating loss is stated after charging		
Wages and salaries	25,136	2,971
Social security costs	1,018	272
Other pension costs	164	154
Staff costs	26,318	3,397
Depreciation of tangible fixed assets	616	-
Operating lease charges – Cruise vessel	9,236	-

MAGICAL CRUISE COMPANY, LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (Continued)

3 OPERATING LOSS (continued)

	1998 \$'000	1997 \$'000
Auditors' remuneration		
Audit services	75	44
Non-audit services	-	-

The average number of persons employed by the Company during the year was 764 consisting of 632 shipboard personnel and 132 administrative personnel (1997: 106 administrative personnel).

4 TAX ON LOSS ON ORDINARY ACTIVITIES

	1998 \$'000	1997 \$'000
Taxation on the loss for the year		
UK corporation tax at 31.0% (1997: 32.0%)	-	-
Deferred taxation	(1,485)	(2,700)
	(1,485)	(2,700)

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

5 TANGIBLE FIXED ASSETS

	Assets under course of construction \$'000	Stage Shows & other on board entertainment & programming costs \$'000	Total \$'000
Cost			
At 27 September 1997	12,673	-	12,673
Additions	15,077	86	15,163
Transfers	(21,809)	21,809	-
Disposals	(246)	-	(246)
At 30 September 1998	5,695	21,895	27,590
Accumulated depreciation			
At 27 September 1997	-	-	-
Charge for the year	-	(616)	(616)
Disposals	-	-	-
At 30 September 1998	-	(616)	(616)
Net book amount at 30 September 1998	5,695	21,279	26,974
At 27 September 1997	12,673	-	12,673

MAGICAL CRUISE COMPANY, LIMITED

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 1998 (Continued)**

5 TANGIBLE FIXED ASSETS (continued)

Assets under course of construction represent costs associated with the development of the stage shows and other on board entertainment and programming. Interest cost of \$865,000 has been included in the amounts capitalised at 30 September 1998 (1997: \$654,000).

6 STOCK

	1998 \$'000	1997 \$'000
Food and beverage	1,148	-
Merchandise goods for resale	2,750	831
Consumables	260	-
	4,158	831

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

7 DEBTORS

	1998 \$'000	1997 \$'000
Trade debtors	1,135	-
Amounts owed by group undertakings	81,217	16,600
Other debtors	464	758
Pre-paid expenses	1,161	-
	83,977	17,358

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

	1998 \$'000	1997 \$'000
Bank overdrafts	9,838	3,433
Amounts due to group undertakings	117,286	30,346
Trade creditors	7,254	243
Taxation and social security	678	102
Deposits received on cruises	37,102	10,620
Other accrued expenses	3,641	855
	175,799	45,599

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.

MAGICAL CRUISE COMPANY, LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (Continued)

9 CALLED UP EQUITY SHARE CAPITAL

	1998 \$	1997 \$
Authorised: 100 Ordinary shares of £1 each converted at an exchange rate of \$1.70 (1997: converted at an exchange rate of \$1.54)	170	154
Allotted and called up: 2 ordinary shares of £1 each (1 converted at an exchange rate of \$1.54 and 1 converted at \$1.70)	3	2

10 RESERVES

	Share premium account \$'000	Profit and Loss Account \$'000	Reserves \$'000
At 28 September 1997	-	(17,430)	(17,430)
Premium on shares issued	1,063	-	1,063
Retained (loss) for the financial year	-	(47,544)	(47,544)
At 30 September 1998	1,063	(64,974)	(63,911)

On 19 January 1998, the Company issued one ordinary share with nominal value of \$2 and a premium of \$1,062,498 to the immediate parent Company in order to meet working capital requirements.

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	1998 \$'000	1997 \$'000
(Loss) for the year	(47,544)	(17,430)
Dividends	-	-
Movement in Company reserves	(47,544)	(17,430)
Net proceeds of issue of ordinary share capital	1,063	-
Net (decrease) to shareholders' funds	(46,481)	(17,430)
Shareholders' (deficit) as at beginning of year	(17,430)	-
Shareholder's (deficit) as at 30 September	(63,911)	(17,430)

12 OPERATING LEASE COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

The Company has entered into operating leases to operate the luxury cruise vessels for a fifteen year period. The Company will begin making semi-annual payments on each cruise vessel of \$18,050,000 and \$16,923,000 one year after each respective cruise vessel become operational. The total lease payment due in financial year 1999 is \$9,495,000.

The Company has capital commitments of \$2,408,000 at 30 September 1998 (1997: \$3,653,000) which are due within one year.

MAGICAL CRUISE COMPANY, LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (Continued)

13 PROVISION FOR LIABILITIES & CHARGES

	Deferred tax provision \$'000	Total \$'000
At 27 September 1997	2,700	2,700
Charged to the profit and loss account in the year	1,485	-
Utilised during the year	-	-
At 30 September 1998	4,185	2,700

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 \$Nil (1997: \$5,100,000).

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 \$158,000 (1997: \$154,000).

Details of the Group defined benefit plan are given in the financial statements of The Walt Disney Company and Subsidiaries. Details of the more significant points are discussed below.

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 1998 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% (1997: 10.5%) per annum, the rate of salary increase would be 4.4% (1997: 5.4%) per annum, and the discount rate 6.8% (1997: 7.8%).

At the date of the latest actuarial valuation at 1 July 1998, the market value of the assets of the scheme was \$1,050,041,000 (1997: \$892,399,000) and the actuarial value of the assets was sufficient to cover 135% (1997: 157%) 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 the year were not material.

No pension benefits were available for shipboard employees during 1998. A defined contribution plan was put into place subsequent to year end.

MAGICAL CRUISE COMPANY, LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (Continued)

15 DIRECTORS' EMOLUMENTS

	1998 \$'000	1997 \$'000
Aggregate emoluments	356	212
Company contributions paid to a money purchase scheme	7	29
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Highest paid director	1998 \$'000	
<hr/>		
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	214	
Defined benefit pension scheme:		
Accrued pension	191	

Three directors, including the highest paid director, exercised share options in the ultimate parent Company during the year (1997: three). Retirement benefits are accruing to eight directors under a defined contribution scheme (1997: five) and to four directors under the defined benefit scheme (1997: two).

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 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:

	<u>Largest</u>	<u>Smallest</u>
Name	The Walt Disney Company	Walt Disney Holdings (UK) 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 ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (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.