

Magical Cruise Company, Limited

(Registered Number 3157553)

Directors' Report and Accounts Year Ended 30 September 1999





Magical Cruise Company, Limited

Directors' Report For The Year Ended 30 September 1999

The directors present their report and the audited accounts of the Company for the year ended 30 September 1999.

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 loss for the financial year is \$30,502,000 (1998: \$47,544,000). The directors do not recommend the payment of a dividend (1998: \$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 (Resigned 21 July 1999)	SR Salter
SE Davies	S Warrener
T McAlpin	
P Wiley	
M Ouimet	
B Ellis (Appointed 13 May 1999)	
F Ioppolo (Appointed 1 July 1999)	

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

Year 2000

The Company experienced no disruption or malfunctions since the turn of the year arising from its own Computer system or equipment with embedded date – reliant computer chips.

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.

Magical Cruise Company, Limited

Report Of The Directors For The Year Ended 30 September 1999 (Continued)

Auditors

A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Company will be put to the Annual General Meeting.

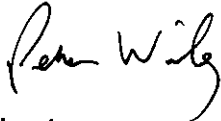
Statement Of Directors' Responsibilities

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 7 September 2000



Director

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

We have audited the financial statements on pages 5 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on pages 1 and 2, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

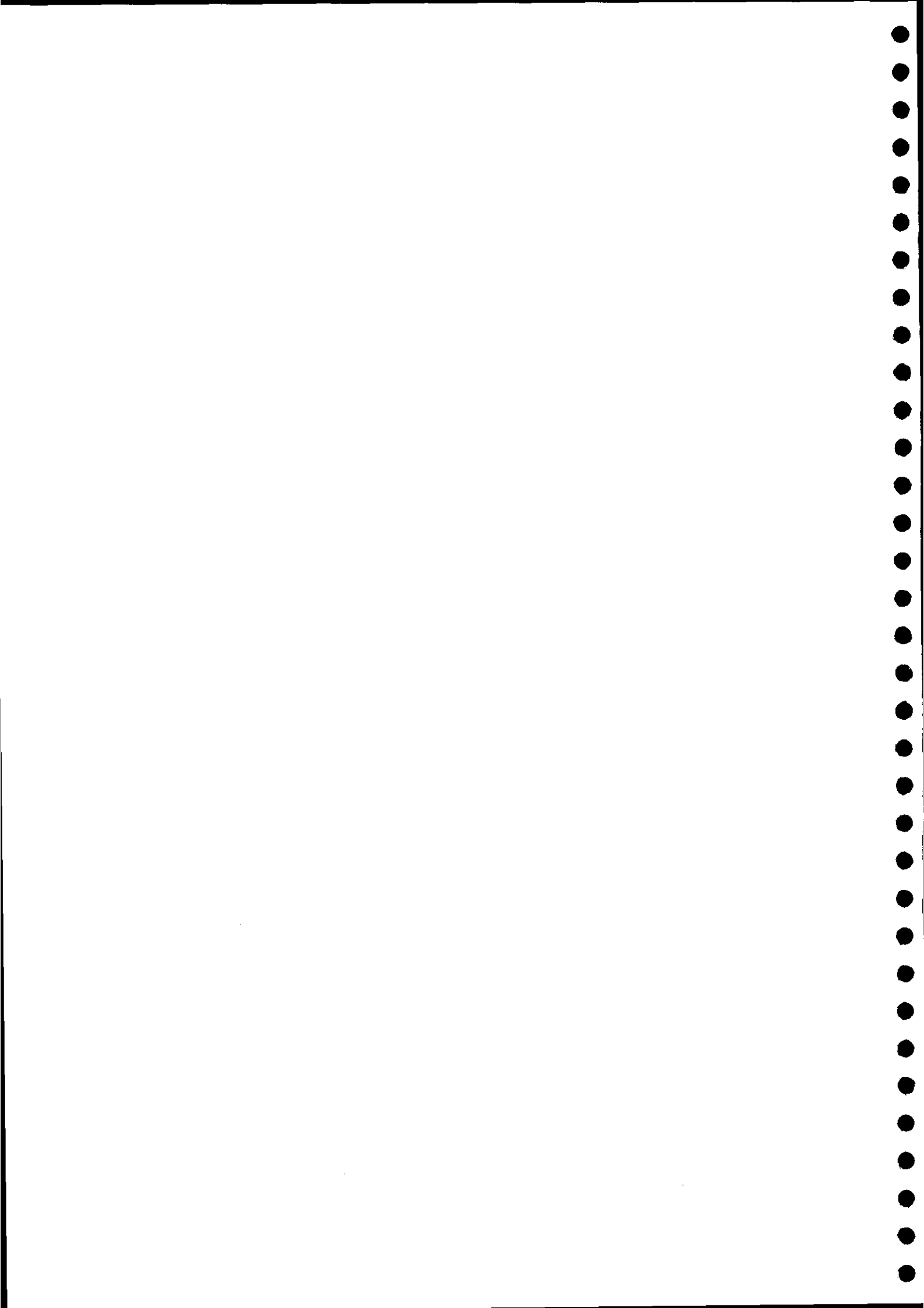
We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company 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.



**Auditors' Report To The Members
Of Magical Cruise Company, Limited** (Continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30 September 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse Coopers

Chartered Accountants and
Registered Auditors
London

7 September 2000

Magical Cruise Company, Limited

Profit And Loss Account For The Year Ended 30 September 1999

	<i>Note</i>	1999 \$'000	1998 \$'000
Turnover – Continuing operations	2	224,723	58,040
Cost of sales		<u>(167,194)</u>	<u>(55,998)</u>
Gross Profit		57,529	2,042
Distribution expenses – Selling and other		(58,215)	(25,041)
Administrative expenses		<u>(29,492)</u>	<u>(23,060)</u>
Operating loss on ordinary activities before taxation		(30,178)	(46,059)
Tax on loss on ordinary activities	4	<u>(324)</u>	<u>(1,485)</u>
Retained loss for the financial year		<u>(30,502)</u>	<u>(47,544)</u>

Statement Of Total Recognised Gains And Losses For The Year Ended 30 September 1999

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

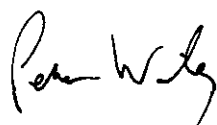
The notes on pages 7 to 15 form part of these accounts.

Magical Cruise Company, Limited

Balance Sheet As At 30 September 1999

	Note	\$'000	1999 \$'000	1998 \$'000
Fixed assets				
Tangible assets	5		30,493	26,974
Current assets				
Stock	6	6,232		4,158
Debtors	7	135,641		83,977
Cash at bank and in hand		1,404		964
			143,277	89,099
Creditors – Amounts falling due within one year	8		(263,674)	(175,799)
Net current liabilities			(120,397)	(86,700)
Total assets less current liabilities			(89,904)	(59,726)
Provision for liabilities & charges	13		(4,509)	(4,185)
Net liabilities			(94,413)	(63,911)
Equity capital and reserves (deficit) 9, 10, 11				
Called up share capital		-		-
Share premium account		1,063		1,063
Profit and loss account		(95,476)		(64,974)
Total shareholders' (deficit)			(94,413)	(63,911)

Approved By The Board On 7 September 2000



Director

The notes on pages 7 to 15 form part of these accounts.

Magical Cruise Company, Limited

Notes To The Accounts For The Year Ended 30 September 1999

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

d) 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.

e) Capitalised Interest

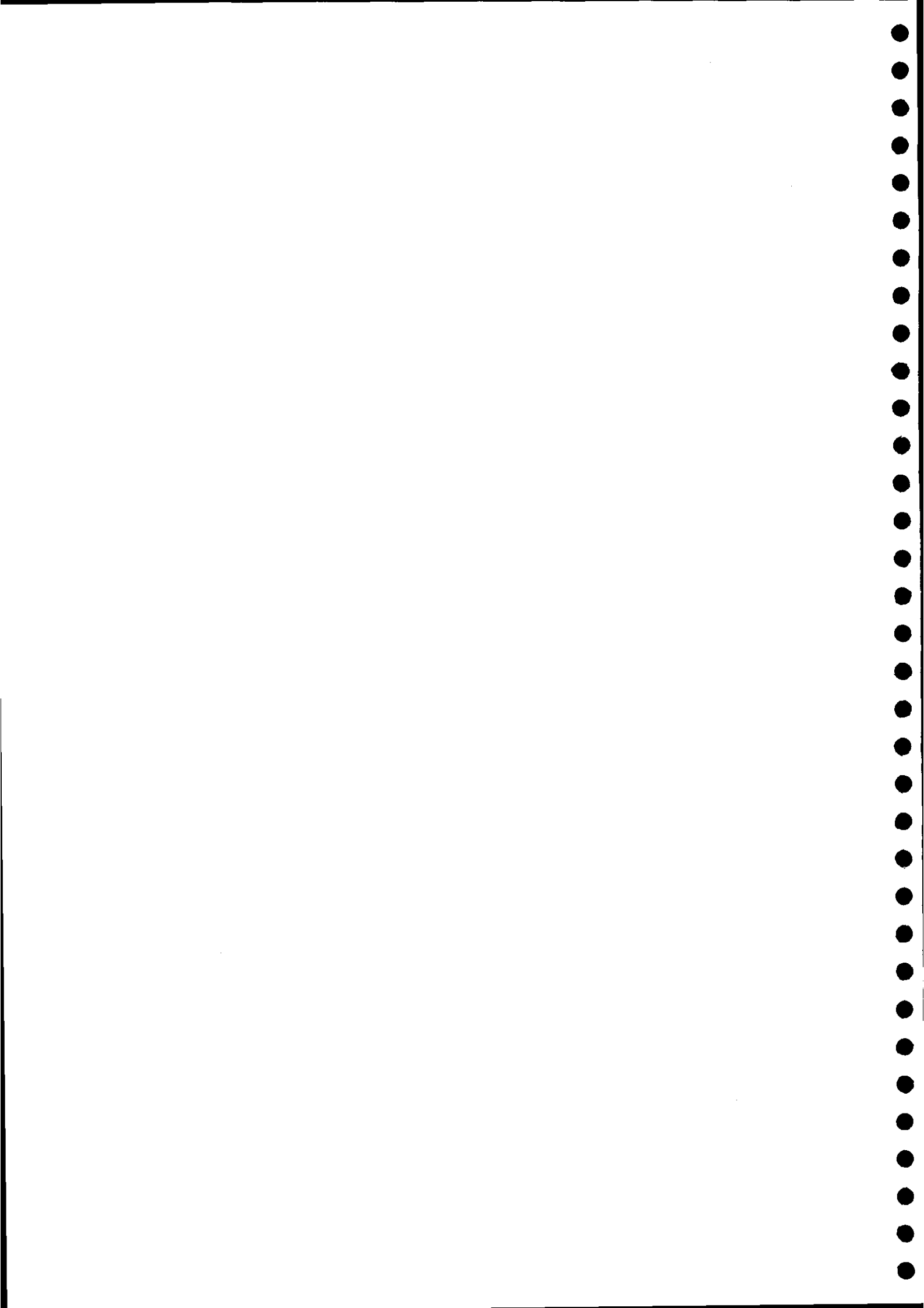
Interest borne by the Company in relation to the funding of the tangible fixed assets is capitalised within tangible fixed assets.

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 Accounts For The Year Ended 30 September 1999

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

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.

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).

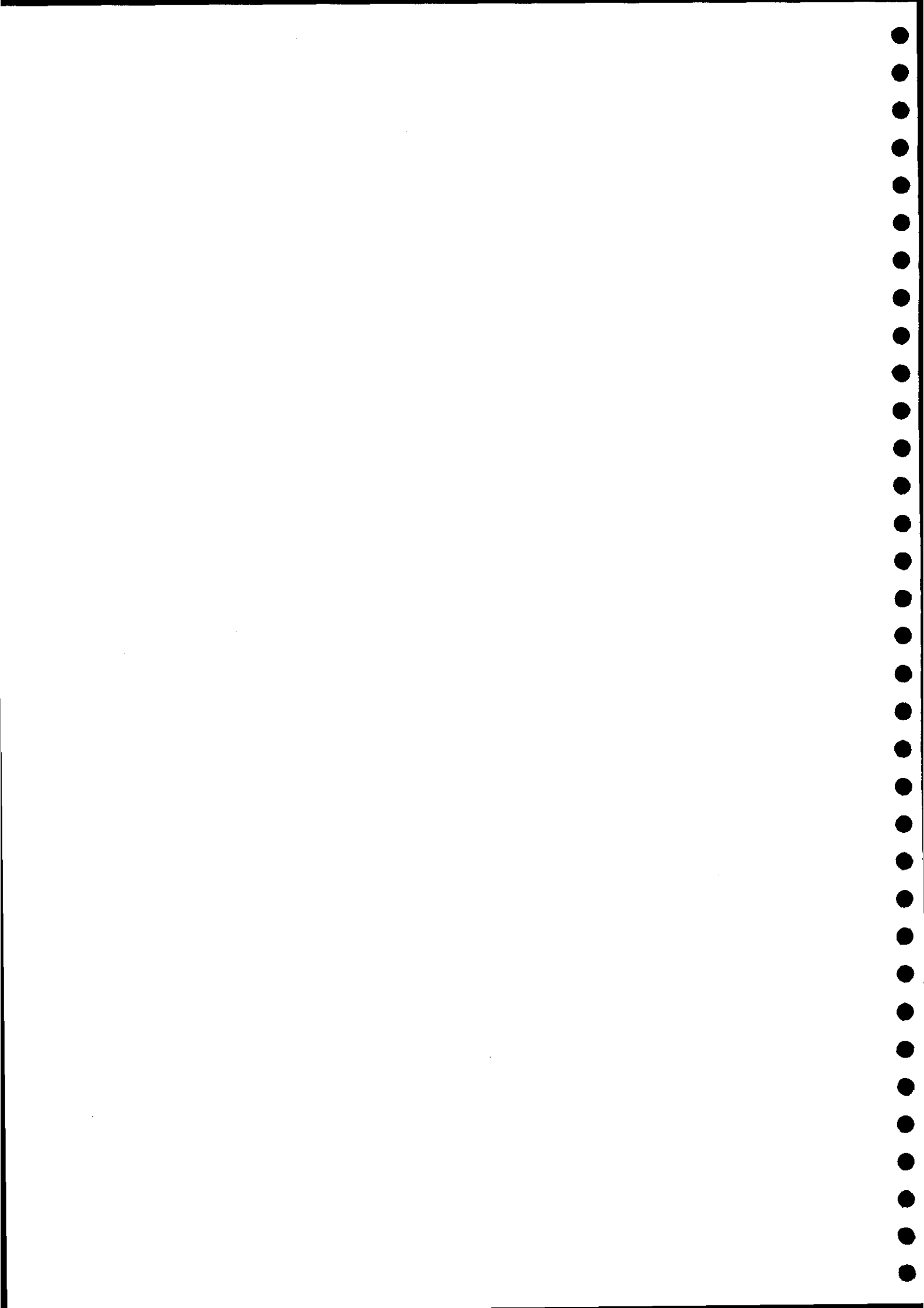
l) Comparative balances

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

	1999 \$'000	1998 \$'000
Cruise income	202,277	30,451
Other operating income	22,446	27,589
	<hr/>	<hr/>
	224,723	58,040

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.



Magical Cruise Company, Limited

Notes To The Accounts For The Year Ended 30 September 1999 (Continued)

3 Operating Loss

	1999 \$'000	1998 \$'000
Operating loss is stated after charging		
Wages and salaries	38,817	25,136
Social security costs	929	1,018
Other pension costs	244	164
Staff costs	39,990	26,318
Depreciation of tangible fixed assets	5,120	616
Operating lease charges – Cruise vessel	42,413	9,236
Auditors' remuneration		
Audit services	85	75
Non-audit services	-	-

The average number of persons employed by the Company during the year was 1,360 consisting of 1,214 shipboard personnel and 146 administrative personnel (1998: 632 shipboard personnel and 132 administrative personnel).

4 Tax On Loss On Ordinary Activities

	1999 \$'000	1998 \$'000
Taxation on the loss for the year		
UK corporation tax at 30.5% (1998: 31.0%)	-	-
Under/(over) provision in respect of previous years	-	-
Deferred taxation	324	1,485
	324	1,485

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 30 September 1999 (Continued)

5 Tangible Fixed Assets

	Assets under course of construction \$'000	Stage Shows & other on board entertainment & programming costs \$'000	Total \$'000
Cost			
At 30 September 1998	5,695	21,895	27,590
Additions	7,685	954	8,639
Transfers	(13,380)	13,380	-
Disposals	-	-	-
At 30 September 1999	-	36,229	36,229
Accumulated depreciation			
At 30 September 1998	-	(616)	(616)
Charge for the year	-	(5,120)	(5,120)
Disposals	-	-	-
At 30 September 1999	-	(5,736)	(5,736)
Net book amount			
at 30 September 1999	-	30,493	30,493
At 30 September 1998	5,695	21,279	26,974

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 \$nil has been included in the amounts capitalised during the year ended 30 September 1999 (1998: \$865,000).

6 Stock

	1999 \$'000	1998 \$'000
Food and beverage	1,468	1,148
Merchandise goods for resale	4,527	2,750
Consumables	237	260
	6,232	4,158

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

Magical Cruise Company, Limited

Notes To The Accounts For The Year Ended 30 September 1999 (Continued)

7 Debtors

	1999 \$'000	1998 \$'000
Trade debtors	1,505	1,135
Amounts owed by group undertakings	132,596	81,217
Other debtors	205	464
Pre-paid expenses	1,335	1,161
	<u>135,641</u>	<u>83,977</u>

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

	1999 \$'000	1998 \$'000
Bank overdrafts	8,297	9,838
Amounts due to group undertakings	175,925	117,286
Trade creditors	13,365	7,254
Taxation and social security	475	678
Deposits received on cruises	64,588	37,102
Other accrued expenses	1,024	3,641
	<u>263,674</u>	<u>175,799</u>

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 Called Up Equity Share Capital

	1999 \$	1998 \$
Authorised: 100 Ordinary shares of £1 each converted at an exchange rate of \$1.65 (1998: converted at an exchange rate of \$1.70)	<u>165</u>	<u>170</u>
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)	<u>3</u>	<u>3</u>

Magical Cruise Company, Limited

Notes To The Accounts For The Year Ended 30 September 1999 (Continued)

10 Reserves

	Share Premium account \$'000	Profit and Loss Account \$'000	Reserves \$'000
At 30 September 1998	1,063	(64,974)	(63,911)
Premium on shares issued			
Retained (loss) for the financial year	-	(30,502)	(30,502)
At 30 September 1999	1,063	(95,476)	(94,413)

11 Reconciliation Of Movements In Shareholders' Deficit

	1999 \$'000	1998 \$'000
(Loss) for the year	(30,502)	(47,544)
Dividends	-	-
Movement in Company reserves	(30,502)	(47,544)
Net proceeds of issue of ordinary share capital	-	1,063
Net (decrease) to shareholders' funds	(30,502)	(46,481)
Shareholders' (deficit) as at beginning of year	(63,911)	(17,430)
Shareholder's (deficit) as at 30 September	(94,413)	(63,911)

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. 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 payment due under the operating leases are \$45,095,000 in financial year 2000, \$279,784,000 from financial year 2001 to 2004 inclusive, and \$629,517,000 thereafter.

The Company has contractual obligations for maintenance and other services of \$6,085,000 at 30 September 1999 (1998: \$2,408,000) which are due within one year.

Magical Cruise Company, Limited

Notes To The Accounts

For The Year Ended 30 September 1999 (Continued)

13 Provision For Liabilities & Charges

	Deferred tax provision \$'000	Total \$'000
At 1 October 1998	4,185	2,700
Charged for the year	324	1,485
<hr/>		
At 30 September 1999	4,509	4,185

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. There are no potential deferred tax liabilities which are unprovided (1998: \$Nil).

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 \$244,000 (1998: \$158,000).

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 1999 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% (1998: 10.5%) per annum, the rate of salary increase would be 5.1% (1998: 4.4%) per annum, and the discount rate 7.5% (1998: 6.8%).

At the date of the latest actuarial valuation at 1 July 1999, the market value of the assets of the scheme was \$1,148,700,000 (1998: \$1,050,041,000) and the actuarial value of the assets was sufficient to cover 133% (1998: 123%) 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 are currently available for shipboard employees.

Magical Cruise Company, Limited

Notes To The Accounts For The Year Ended 30 September 1999 (Continued)

15 Directors' Emoluments

	1999 \$'000	1998 \$'000
Aggregate emoluments	630	356
Company contributions paid to a money purchase scheme	12	7

Highest paid director

	1999 \$'000	1998 \$'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	204	214
Defined benefit pension scheme:		
Accrued pension	246	191

Two directors, including the highest paid director, exercised share options in the ultimate parent Company during the year (1998: three). Retirement benefits are accruing to nine directors under a defined contribution scheme (1998: eight) and to four directors under the defined benefit scheme (1998: four).

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 Accounts

For The Year Ended 30 September 1999 (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.