

Disney Magic Company Limited
(Registered Number 3585635)

Directors' Report and Financial Statements
Year Ended 30 September 2002



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Disney Magic Company Limited

Directors' Report For The Year Ended 30 September 2002

The Directors present their Report and Accounts of the Company for the year ended 30 September 2002.

Review of activities and future developments

The Company's principal activity is the leasing of a luxury cruise vessel. The Company was incorporated and commenced trading in June 1998. 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 loss for the period is \$17,696,000 (2001: (restated) \$999,000 loss). The decline in results as compared to the prior year is due to unfavourable changes in foreign currency rates in the current year. 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:

Keith Porritt
Peter Wiley

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

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.

Disney Magic Company Limited

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

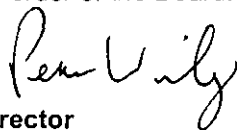
Statement of Directors' Responsibilities

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:



Director

28 January 2003

Independent Auditors' Report To The Members Of Disney Magic Company Limited

We have audited the financial statements on pages 4 to 13.

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 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

28 January 2003

Disney Magic Company Limited

Profit And Loss Account For The Year Ended 30 September 2002

	<i>Note</i>	2002 \$'000	2001 restated \$'000
Turnover		33,711	33,711
Cost of sales		(14,234)	(14,209)
Gross profit		19,477	19,502
Administrative expenses		(31)	(9)
Profit on ordinary activities before interest and taxation	2	19,446	19,493
Net interest payable and similar charges	3	(35,600)	(19,995)
(Loss) on ordinary activities before taxation		(16,154)	(502)
Taxation	4	(1,542)	(497)
(Loss) transferred from reserves		(17,696)	(999)

All turnover and losses/profits arise from continuing operations.

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

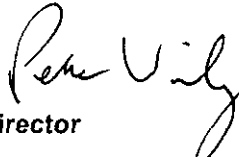
The notes on pages 7 to 13 form part of these accounts.

Disney Magic Company Limited

Balance Sheet As At 30 September 2002

	Note	2002 \$'000	2001 restated \$'000
Tangible fixed assets	5	314,164	328,317
Current assets			
Debtors	6	143,324	111,236
Creditors – amounts falling due within one year	7	(128,038)	(118,261)
Net current assets / (liabilities)		15,286	(7,025)
Total assets less current liabilities		329,450	321,292
Creditors – amounts falling due after more than one year	8	(335,345)	(309,491)
Net (liabilities) / assets		(5,895)	11,801
Equity capital and reserves			
Called up share capital	10	-	-
Other reserves	11	1,179	1,179
Profit and loss account	11	(7,074)	10,622
Total shareholders' (deficit) / funds (all equity interests)	12	(5,895)	11,801

The financial statements on pages 4 to 13 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 13 form part of these accounts.

Disney Magic 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
Loss for the financial year	(17,696)	(999)
Total recognised (losses) / gains relating to the financial year	(17,696)	<u>(999)</u>
Prior year adjustment (note 4 - FRS 19 "Deferred Taxation")	3,137	
Total losses recognised since last financial statements	(14,559)	

Disney Magic Company Limited

Notes To The Accounts 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.

a) Reporting currency and presentation

The accounts are presented in US dollars as that is the functional currency in which the Company operates.

b) Turnover

Operating lease income is derived from a 15 year operating lease, which includes a one year lease holiday, between the Company and a fellow subsidiary undertaking and is recognised on a straight-line basis over the term of the lease.

c) Tangible fixed assets

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term and is stated at cost less accumulated depreciation. The corresponding lease commitments are shown as obligations to the lessor.

Depreciation on the relevant assets and interest are charged to the profit and loss account. Depreciation is calculated to write off the cost of these assets to estimated residual value, on a straight-line basis over the expected useful life of the asset concerned; for cruise ships this is 30 years and for leasehold improvements this is 10 years.

d) Capitalised interest

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

e) Operating leases

Rental revenues under operating leases are recognised on a straight-line basis over the lease term.

f) Foreign currencies

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable and any exchange differences arising are taken to the profit and loss account.

The principal exchange rates against the US dollar affecting the Company were:

	2002		2001	
	Year end	Average	Year end	Average
British pound sterling	£0.64	£0.68	£0.68	£0.69

Disney Magic Company Limited **Notes To The Accounts For The Year Ended 30 September 2002** (Continued)

1 Accounting Policies (Continued)

g) 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).

h) 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 term of Financial Reporting Standard 1 (Revised 1996).

2 Profit On Ordinary Activities Before Interest And Taxation

Operating profit is stated after charging the following items:

	2002 \$'000	2001 \$'000
Depreciation of assets held under finance leases	10,890	10,890
Depreciation of other assets	3,344	3,319
Auditors' remuneration for audit work	20	10

The Company had no employees during the period ended 30 September 2002.

3 Net Interest Payable And Similar Charges

	2002 \$'000	2001 \$'000
Interest payable on finance leases	14,307	17,931
Less interest receivable	-	(95)
Net interest payable	14,307	17,836
Foreign exchange losses on finance lease obligations	21,293	2,159
Total	35,600	19,995

Disney Magic Company Limited
Notes To The Accounts For The Year Ended 30 September 2002 (Continued)

4 Tax On Loss 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%)	-	-
Prior year under provision	-	-
Total current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	1,542	497
Total deferred tax	1,542	497
Tax on profit on ordinary activities	1,542	497

(a) Factors affecting tax charge for the period:

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

	2002 \$'000	2001 restated \$'000
Loss on ordinary activities before tax	(16,154)	(502)
Expected tax at 30%	(4,846)	(151)
Effects of:		
Foreign exchange not deductible for tax purposes	6,388	648
Losses of prior periods utilised	(1,542)	(497)
Current tax charge for period	-	-

Disney Magic Company Limited **Notes To The Accounts For The Year Ended 30 September 2002** (Continued)

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	-	-	-	-
Deferred tax	1,542	-	497	497
	1,542	-	497	497
Balance sheet				
Deferred tax asset	1,595	-	3,137	3,137

The impact of adopting this standard in 2002 has been to increase the tax charge by \$1,542,000.

5 Tangible Fixed Assets

	Leasehold Improvements \$'000	Cruise Ship \$'000	Total \$'000
Cost	26,747	346,431	373,178
Additions	-	81	81
Disposals	-	-	-
At 30 September 2002	26,747	346,512	373,259
Accumulated depreciation	(8,470)	(36,391)	(44,861)
Charge for the year	(2,675)	(11,559)	(14,234)
Disposals	-	-	-
At 30 September 2002	(11,145)	(47,950)	(59,095)
Net book amount			
at 30 September 2002	15,602	298,562	314,164

The net book value of the cruise ship of \$298,561,397 (2001: \$310,039,772) included an amount of \$281,331,630 (2001: \$292,221,882) in respect of an asset held under a finance lease. Cruise ship assets include capitalised interest of \$3,177,412 (2001: \$3,300,412).

Disney Magic Company Limited
Notes To The Accounts For The Year Ended 30 September 2002 (Continued)

6 Debtors

	2002	2001
	\$'000	restated \$'000
Amounts due from group undertakings	141,729	108,099
Deferred tax asset	1,595	3,137
	143,324	111,236

Amounts owed by group undertakings are unsecured, interest free, and have no fixed date of repayment.

7 Creditors – Amounts Falling Due Within One Year

	2002	2001
	\$'000	\$'000
Amounts due to group undertakings	106,966	99,327
Trade creditors	20	16
Obligations under finance leases	21,052	18,918
Total	128,038	118,261

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.

8 Creditors: Amounts Falling Due After More Than One Year

	2002	2001
	\$'000	\$'000
Obligations under finance leases	335,345	309,491

Total obligations under finance leases are payable as follows:

	2002	2001
	\$'000	\$'000
Within one year	21,052	18,918
Between one and two years	20,481	18,404
Between two and five years	58,165	52,268
In five or more years	256,699	238,819
Total	356,397	328,409

Disney Magic Company Limited
Notes To The Accounts For The Year Ended 30 September 2002 (Continued)

9 Deferred Taxation

The deferred tax asset comprises the following amounts:

	2002	2001 restated
	\$'000	\$'000
Tax losses carried forward	1,595	3,137
Undiscounted deferred tax asset	1,595	3,137
Asset at start of period	3,137	
Deferred tax charge in profit and loss account	(1,542)	
Deferred tax provision at end of period	1,595	

10 Called Up 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 fully paid: 1 ordinary share of £1 converted at an exchange rate of \$1.64.	2	2

11 Reserves

	Other reserves \$'000	Profit and Loss Account \$'000	Total Reserves \$'000
At 30 September 2001 as previously stated	1,179	7,485	8,664
Prior year adjustment	-	3,137	3,137
At 30 September 2001 as restated	1,179	10,622	11,801
Retained loss for the financial year	-	(17,696)	(17,696)
At 30 September 2002	1,179	(7,074)	(5,895)

Disney Magic Company Limited
Notes To The Accounts For The Year Ended 30 September 2002 (Continued)

12 Reconciliation Of Movements In Shareholders' Funds

	\$'000
(Loss) for the year	(17,696)
Shareholders' funds as at beginning of year (as previously stated)	8,664
Prior period adjustment	3,137
Shareholders' funds as at beginning of year (as restated)	11,801
Shareholders' (deficit) / funds as at 30 September	(5,895)

13 Directors' Emoluments

The Directors received no remuneration (2001: nil) in respect of their services as a director of the company. No Directors (2001: none) exercised share options in the ultimate parent company during the year. Retirement benefits are accruing to two directors (2001: two) under a defined contribution scheme.

14 Ultimate Parent Undertaking and Financial Support

The immediate parent is Disney Magic Corporation, incorporated in the United States of America.

The ultimate parent undertaking is The Walt Disney Company, incorporated in the United States of America. The ultimate parent undertaking is the parent undertaking of the smallest and largest group to consolidate their financial statements. Copies of the consolidated financial statements of The Walt Disney Company can be requested from The Walt Disney Company, 506 South Buena Vista Street, Burbank, California 91521, USA.

15 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 14.