

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

(a) Organization and business

Star Cruises PLC (hereinafter "Star Cruises" or the "Company" references to which include all subsidiaries unless the context otherwise requires) was incorporated in the Isle of Man on November 10, 1993 as Galactica Limited. On incorporation, the Company was a wholly-owned subsidiary of Golden Hope Limited ("GHL"), a company incorporated in the Isle of Man acting as trustee for the Golden Hope Unit Trust, a private unit trust whose beneficiaries include various trusts established for the benefit of Tan Sri Lim Goh Tong, our founding chairman and members of his family. The Company commenced business as a cruise ship operator in December 1993.

On June 1, 1995, GHL sold the Company to Genting International PLC ("GIPLC"), a company listed on the Luxembourg Stock Exchange and controlled by GHL through its ownership of more than 50% of the common stock of GIPLC. Concurrently, the Company disposed of a 50% interest in Star Cruise Services Limited ("SCSL") to GHL. The Company reacquired this 50% interest in SCSL on December 5, 1997 from GIPLC, which had previously acquired this 50% interest from GHL on December 6, 1996 resulting in the Company wholly owning SCSL.

On April 16, 1997, the Company was converted into a public limited company and subsequently changed its name to Star Cruises PLC. The Company was de-merged from GIPLC by means of a distribution in specie to existing shareholders of GIPLC on December 5, 1997. GHL still controlled Star Cruises after the de-merger by virtue of its holding of more than 50% of the common stock of the Company. The Company obtained a listing on the Luxembourg Stock Exchange on March 2, 1998 and was quoted on Central Limit Order Book ("CLOB") International of the Singapore Stock Exchange from April 3, 1998.

In 1997, the Company subscribed for two shares of common stock and 100% of the issued preference shares in Star Cruises Terminal Sdn Bhd (formerly known as Cape Thunder Sdn Bhd) ("SCTSB"), a company incorporated in Malaysia and involved in cruise infrastructure development. Pursuant to a preference share subscription agreement dated August 19, 1997, substantially all the risks and rewards of ownership of SCTSB accrue to the Company as long as the preference shares are outstanding. On this basis, SCTSB has been consolidated as a subsidiary of the Company in the consolidated financial statements. On June 10, 1999, the Company subscribed for and was allotted an additional 9,700 shares of common stock in SCTSB for nominal consideration resulting in the Company owning 99% of SCTSB's common stock. On December 1, 1999, SCTSB became a wholly-owned subsidiary of the Company.

On June 30, 1998, the Company issued 125 million shares of common stock of \$0.10 par value at an issue price of \$2.10 each to Resorts World Limited ("RWL"), a company incorporated in the Isle of Man. RWL is a subsidiary of Resorts World Bhd, a company incorporated in Malaysia whose shares are listed on the Kuala Lumpur Stock Exchange, an affiliate of GHL.

In December 1999, the Company through a wholly-owned subsidiary, Arrasas Limited acquired an interest of approximately 38.6% in NCL Holding ASA, ("NCL") a company incorporated under the laws of the Kingdom of Norway. Certain other companies affiliated to GHL also acquired an interest in NCL of 11% approximately. The Company and these affiliated companies therefore owned approximately 50% of NCL as of December 31, 1999.

As of December 31, 1999, the Company owns and operates eight cruise ships in the Asia Pacific region under the brand name of "Star Cruises". The Company chartered a cruise ship, m.v. SuperStar Taurus which commenced operation in January 2000. The Company is building two additional cruise ships, one of which is expected to be delivered in 2001 and the other in 2002. The Company also owns and has leased under charter hire a cruise ship and a high-speed vehicle and passenger catamaran.

1. GENERAL (CONTINUED)

(b) Basis of presentation

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements include the financial statements of Star Cruises and all its subsidiary companies and have been prepared as if its current structure was in existence on January 1, 1997 and in accordance with accounting principles generally accepted in the United States of America. Accordingly, the consolidated financial statements include the financial statements of all cruise and cruise related activities controlled by GHL, including the financial statements of SCSL and SCTSB as if the Company owned 100% of the common stock of SCSL and SCTSB throughout the period.

Investments in affiliated companies with a 20% or greater ownership interest which enables management to exercise significant influence but not control, are accounted for under the equity method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Revenue and expense recognition

Revenues are recognized when the relevant services have been rendered. Cruise revenue, and all associated direct costs of a voyage, are generally recognized on a pro rata basis. Where services are provided on credit, ongoing credit evaluations are performed and potential credit losses are expensed at the time accounts receivable are estimated to be uncollectible.

Income from charter hire is recognized evenly over the period of the charter hire.

(b) Advertising costs

The Company's advertising costs are charged to expense as incurred. Advertising costs totaled \$14.4 million in 1999, \$7.4 million in 1998 and \$13.9 million in 1997.

(c) Drydocking expenses

Costs associated with drydocking a ship are capitalized as prepaid expenses and charged to expense over the period to that ship's next scheduled drydocking which is generally two years.

(d) Income taxes

As explained in Note 11, the Company is generally not subject to taxation as its earnings are substantially derived in international waters or outside taxing jurisdictions. To the extent the Company's earnings are taxable, related deferred tax assets and liabilities are determined in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", and result from revenue and expenses being recognized in different time periods for financial reporting purposes and for income tax purposes. Under SFAS No. 109, deferred income taxes arise from temporary differences and losses carried forward which are tax-effected at the rates prevailing at the end of the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Stock-based compensation

The Company accounts for stock-based compensation using the intrinsic-value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stocks Issued to Employees", and discloses certain fair market value pro forma information with respect to its stock-based compensation activities as required by SFAS No. 123, "Accounting for Stock-Based Compensation" (see Note 13).

(f) Earnings per share

The Company follows SFAS No. 128, "Earnings Per Share" which requires the dual presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and other potentially dilutive securities outstanding during each period.

In accordance with the provisions of SFAS No. 128, the Company has retroactively restated its earnings per share for the year ended December 31, 1997, after taking into consideration common stock issued in 1997 to retire amounts due to GIPLC (see Note 12).

(g) Cash and cash equivalents

Cash and cash equivalents include investments with original maturities of three months or less that are readily convertible to known amounts of cash with no significant risk of changes in value and are stated at cost which approximates market value.

(h) Foreign currency

The Company's financial statements are presented in United States ("US") dollars. The US dollar is also the functional currency of the Company and the majority of its subsidiaries. Transactions in currencies other than US dollars ("foreign currencies") are translated into US dollars at exchange rates in effect at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated at exchange rates at the balance sheet date. All such exchange differences are reflected in the statement of operations. Net foreign currency translation gains and (losses) included in net income for the years ended December 31, 1999, 1998 and 1997 were \$0.1 million, \$1.6 million and (\$3.6) million respectively.

For those subsidiary companies which do not have the US dollar as their functional currency, translation of their foreign currency financial statements is dealt with as follows:

- (i) assets and liabilities are translated at exchange rates at the balance sheet date; and
- (ii) income and expense items are translated at average exchange rates prevailing during the year.

The resulting translation gains and losses arising from remeasurement are included as a separate component of shareholders' equity, "foreign currency translation adjustment".

(i) Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payments applicable to such operating leases are recognized over the lease term.

Leases which meet the capital lease criteria specified in SFAS No. 13, "Accounting for Leases", are accounted for as capital leases. Interest costs associated with such leases are recognized on an effective yield basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Property and equipment

Property and equipment are stated at cost and include premiums paid in respect of land held under long term leases. Significant cruise ship refurbishing costs are capitalized as additions to the cruise ship while costs of repairs and maintenance are expensed as incurred.

Cruise ships and catamaran are depreciated to their estimated residual value on a straight-line basis over periods ranging from 13 to 30 years. Other assets are depreciated on a straight-line basis over their estimated useful lives of 50 years for terminal building, 30 to 99 years for jetties and 3 to 20 years for other assets. Premiums in respect of leasehold land are amortized on a straight-line basis over the lives of the leases of between 30 and 99 years.

The Company capitalizes interest on cruise ships, catamaran and other capital projects during the period required to get such assets ready for their intended use. Interest capitalization ceases when the asset is substantially complete and ready for its intended use. Interest capitalized totaled \$7.5 million in 1999, \$6.8 million in 1998 and \$3.2 million in 1997.

The Company reviews its long-lived operating assets based upon estimated future undiscounted cash flows, whenever events or changes in circumstances indicate the carrying amount of these assets may not be fully recoverable, in accordance with the requirements of SFAS No. 121 "Accounting for the Impairment of Long-lived assets and for Long-lived assets To Be Disposed Of".

(k) Consumable inventories

Consumable inventories mainly consist of provisions, supplies, engine and ship spare parts and are carried at the lower of cost determined on a weighted average basis and net realizable value.

(l) Loan arrangement fees

Costs incurred in connection with the arranging of loan financing have been deferred and amortized on a straight-line basis over the life of the loan agreement. The amortization expense for the year ended December 31, 1999 was \$0.2 million. The unamortized amount is included in prepaid expenses and others as of December 31, 1999.

(m) Financial instruments

The Company enters into various forward and swap contracts to limit its exposures to fluctuations in foreign currency exchange rates, and to modify its exposure to interest rate movements and to manage its interest costs. The differential in interest rates to be paid or received under these contracts is recognized in income over the life of the contracts as part of interest expense or interest income. Foreign exchange forward contracts are revalued as of the balance sheet date based on forward contracts with comparable characteristics, and the resulting gains and losses are recognized in income.

(n) Start up expenses

Start up expenses, which primarily comprise expenses of deploying a ship from the dockyard to its port of operations and repositioning a ship to develop a new market, including crew payroll and ship expenses, are expensed as incurred and included in operating expenses. Marketing expenses incurred during this period are included in selling, general and administrative expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Restricted cash

Restricted cash consists of cash collateral in respect of certain financial instruments transacted by the Company.

3. SEGMENT INFORMATION

The Company has two segments, cruise and cruise related activities and charter hire.

The cruise segment currently operates passenger cruise ships. Cruise revenues comprise sales of passenger tickets, including, in some cases, air transportation to and from the cruise ship, and revenues from onboard services and other related services, including gaming and food and beverage. The charter hire segment leases one passenger cruise ship and the catamaran on operating leases to third party customers.

Segment information for the two years ended December 31, 1998 and 1997 derived from management accounts historically prepared under International Accounting Standards ("IAS") and segment information for the year ended December 31, 1999 derived from management accounts prepared under US GAAP are as follows (in thousands of US dollars):

	Years ended December 31,		
	1999	1998	1997
Revenues			
Cruise and cruise related activities	\$372,853	\$261,655	\$303,595
Charter hire	18,832	14,286	1,016
	\$391,685	\$275,941	\$304,611
Segment net income			
Cruise and cruise related activities	\$95,738	\$6,252	\$13,362
Charter hire	9,971	7,794	491
	\$105,709	\$14,046	\$13,853
Depreciation and amortization			
Cruise and cruise related activities	(\$40,566)	(\$29,445)	(\$28,347)
Charter hire	(8,297)	(5,939)	(524)
	(\$48,863)	(\$35,384)	(\$28,871)

Reconciliations of segment net income to income before income tax expense is as follows (in thousands of US dollars):

	Years ended December 31,		
	1999	1998	1997
Segment net income	\$105,709	\$14,046	\$13,853
Interest income	4,814	4,038	155
Interest expense	(19,011)	(4,776)	(559)
Adjustments to conform to US GAAP	-	3,875	8,511
Minority interests	-	401	522
Income before income tax expense	91,512	17,584	22,482
Income tax expense	(1,303)	(519)	(1,386)
Net income in consolidated financial statements	\$90,209	\$17,065	\$21,096

3. SEGMENT INFORMATION (CONTINUED)

Reconciliations of depreciation and amortization derived from management accounts historically prepared under IAS to depreciation and amortization prepared in accordance with US GAAP is as follows (in thousands of US dollars):

	Years ended December 31,		
	1999	1998	1997
Depreciation and amortization	(\$48,863)	(\$35,384)	(\$28,871)
Adjustments to conform to US GAAP	-	984	6,248
Depreciation and amortization in consolidated financial statements	(\$48,863)	(\$34,400)	(\$22,623)

Segment net income for the years ended December 31, 1998 and 1997 was derived from management accounts historically prepared under IAS and before interest income and expense. The main adjustments to reconcile segment net income as reflected in such management accounts to consolidated net income prepared in accordance with US GAAP are:

- Adjustments to amend depreciation previously based on re-valued property and equipment to depreciation based on cost.
- Drydocking expense calculated on the basis set out in Note 2(c) rather than on an accrual basis.

The cruise segment's eight ships are currently all deployed in the Asia Pacific region. In the fourth quarter of 1998, the Company discontinued its North American operations and transferred the cruise ship operating in this market to the charter hire segment. The Company's operating results in North America and Asia Pacific for the years ended December 31, 1999, 1998 and 1997 are analysed as follows (in thousands of US dollars):

	Years ended December 31,						
	1999	1998			1997		
	Asia Pacific	Asia Pacific	North America	Total	Asia Pacific	North America	Total
Revenues	\$391,685	\$270,721	\$7,433	\$278,154	\$304,611	\$-	\$304,611
Intersegment revenue	-	(2,213)	-	(2,213)	-	-	-
	\$391,685	\$268,508	\$7,433	\$275,941	\$304,611	\$-	\$304,611
Earnings (losses) before interest, tax, depreciation and amortization	\$155,720	\$77,265	(\$20,357)	\$56,908	\$51,787	(\$4,276)	\$47,511
Depreciation and amortization	(48,863)	(33,334)	(1,066)	(34,400)	(22,623)	-	(22,623)
Operating income (loss)	106,857	43,931	(21,423)	22,508	29,164	(4,276)	24,888
Non-operating income (expense)	(16,648)	(4,794)	(649)	(5,443)	(4,502)	710	(3,792)
Net income (loss)	\$90,209	\$39,137	(\$22,072)	\$17,065	\$24,662	(\$3,566)	\$21,096

3. SEGMENT INFORMATION (CONTINUED)

Since the Company entered the North American market during the fourth quarter of 1997 and exited during 1998, assets located in this market were immaterial at December 31, 1999 and 1998. At December 31, 1997, the assets located in North America were \$2.8 million of which \$1.3 million were long lived.

The Company's ships have berths in Singapore, Malaysia, Hong Kong, Thailand, Japan, Taiwan, Vietnam and China. Revenues are generated from customers resident in these countries, customers from other countries who travel to these countries to board the Company's ships and customers who board the Company's ships at embarkation points in other Asia Pacific countries. It is not practicable to analyze revenue on the basis of the country of source of the customer, the country of embarkation or any other meaningful measure. It is also not practicable to analyze long lived assets located in individual countries, other than North America.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands of US dollars):

	As of December 31,	
	1999	1998
Cruise ships and catamaran	\$1,252,941	\$883,276
Cruise ships under construction	70,949	105,400
Jetties and terminal building under construction	1,143	233
Other construction in progress	3,442	-
Leasehold land, jetties, terminal building and improvements	51,435	50,597
Equipment and motor vehicles	128,650	93,670
	1,508,560	1,133,176
Less : Accumulated depreciation and amortization	(142,499)	(94,410)
	\$1,366,061	\$1,038,766
Cruise ships, catamaran and onboard equipment under charter hire are as follows:		
Cost	\$110,018	\$184,755
Less : Accumulated depreciation	(15,670)	(12,859)
	\$94,348	\$171,896

5. INVESTMENT IN UNCONSOLIDATED AFFILIATE

In December 1999, the Company through a wholly-owned subsidiary, Arrasas Limited acquired an interest of approximately 38.6% in NCL, a company incorporated under the laws of the Kingdom of Norway.

Certain affiliated companies of the Company also acquired NCL's shares resulting in the Company and these affiliated companies owning approximately 50% of NCL's shares as of December 17, 1999. As described in note 15(a), the Company was required to make a mandatory offer for all outstanding ordinary shares and American Depository Shares ("ADS") of NCL not already owned by the Company and certain affiliated companies. These mandatory offers were made on January 13, 2000 and expired on February 10, 2000. As a result of these mandatory offers, the Company owned, including ordinary shares previously held by it, approximately 84.5% of NCL's outstanding shares on February 17, 2000.

5. INVESTMENT IN UNCONSOLIDATED AFFILIATE (CONTINUED)

As of December 31, 1999, this investment has been accounted for under the equity method of accounting. As this acquisition was completed close to the balance sheet date, the Company has not included the results of NCL in the consolidated statement of operations for the year ended December 31, 1999 on the basis that the effect of accounting for its share of such results would not be material.

The Company's underlying equity in the net assets of NCL as of December 31, 1999 according to the audited financial statements of NCL is approximately \$224.8 million. The difference between this amount and the carrying cost of the Company's investment in NCL of \$203.5 million will be allocated over the Company's share of the fair value of the assets and liabilities of NCL which is expected to be mainly cruise ships, which will be depreciated over the remaining useful lives of the cruise ships. Any amount remaining will be classified as goodwill and amortized over a period not exceeding 40 years. Should the fair value of the Company's share of the assets and liabilities of NCL exceed the carrying cost of its investment then such excess will be applied to reduce the Company's share of the fair value of the assets of NCL. The Company has commissioned a valuation of the assets and liabilities of NCL which is currently in progress.

Summarized financial information for NCL for the year ended December 31, 1999 and as of December 31, 1999 is as follows (in thousands of US dollars):

Assets and Liabilities:

Total long lived assets (including goodwill)	\$1,628,844
Current assets	\$99,059
Current liabilities	\$349,530
Long term debt and other liabilities	\$795,961
Shareholders' equity	\$582,412

Results of operations:

Revenues	\$870,493
Operating income	\$65,086
Net income	\$14,000

6. SHORT-TERM BORROWINGS

On December 19, 1999, Arrasas Limited, a wholly-owned subsidiary of the Company obtained a short-term loan facility of \$600 million to part finance the purchase of an equity interest in NCL. As of December 31, 1999, approximately \$123.5 million of this term loan facility was drawdown. This term loan bears interests at a rate which varies according to the London Interbank Offer Rate.

This term loan is secured by guarantees from the Company and its other subsidiaries and a pledge of the NCL shares owned by Arrasas Limited. In addition, the Company and its other subsidiaries have agreed that, subject to various consents being obtained, they will grant security interests to secure this term loan over all of their assets which were not encumbered when this term loan agreement was entered into. This facility contains covenants that require the Company, among other things, to maintain minimum debt service coverage and limit debt to capital ratios.

In connection with the above term loan facility, Joondalup Limited's right, title and interest under the loan agreement dated December 20, 1999 (see note 8) was subordinated to this term loan.

7. LONG-TERM DEBT

Long-term debt consists of the following (in thousands of US dollars):

	As of December 31,	
	1999	1998
\$521.6 million syndicated term loan	\$504,000	\$264,000
Less : Current portion	(34,773)	(17,600)
	\$469,227	\$246,400

\$521.6 million syndicated term loan

On January 22, 1998, a syndicated term loan for an amount up to \$521.6 million was obtained by two subsidiaries, Superstar Leo Limited and Superstar Virgo Limited, as joint and several borrowers to part finance the construction of m.v. SuperStar Leo and m.v. SuperStar Virgo. The Company has fully drawdown this syndicated term loan during the year ended December 31, 1999.

This syndicated term loan is secured by the following:

- First preferred Panamanian ship mortgages over assets with a carrying value of \$700.5 million as of December 31, 1999
- Guarantees given by the Company and SCSL
- Issue of debentures for fixed and floating charges over the assets of these two subsidiaries
- First fixed charges over shares of these two subsidiaries
- The charter and earnings assignments by these two subsidiaries
- The charter and insurance assignments by these two subsidiaries
- The charterer's subordination and assignments together with insurance assignments
- The sub-charterer's subordination and assignments together with insurance assignments
- The operator's and manager's undertakings in respect of obligations under the operating and management agreements

This syndicated term loan bears interest at a rate which varies according to the London Interbank Offer Rate and is repayable in 24 equal half yearly instalments commencing 6 months from the relevant ship delivery date, with a maturity date payment to be paid on the relevant maturity dates. These facilities contain covenants that require the Company, among other things, to maintain minimum debt service coverage and limit debt to capital ratios.

The following is a schedule of principal repayments of the long-term debt (in thousands of US dollars) in respect of the loan outstanding as of December 31, 1999.

Year ending December 31,	
2000	\$34,773
2001	34,773
2002	34,773
2003	34,773
2004	34,773
Thereafter	330,135
	<u>\$504,000</u>

7. LONG-TERM DEBT (CONTINUED)

\$604.8 million syndicated term loan

On June 26, 1999, a syndicated term loan for an amount up to \$604.8 million was obtained by another two subsidiaries, Superstar Libra Limited and Superstar Scorpio Limited, as joint and several borrowers to part finance the construction of m.v. SuperStar Libra and m.v. SuperStar Scorpio, respectively. No amount was drawdown as of December 31, 1999.

As of June 26, 1999, the syndicated term loan was secured by the following:

- Guarantees given by the Company and SCSL
- Issue of debentures for fixed and floating charges over the assets of these two subsidiaries
- First fixed charges over shares of these two subsidiaries
- Assignment of the shipbuilding contract and the benefit of the refund guarantees from the builder pursuant to the shipbuilding contract.

The Company has however agreed to grant in the future the following security, guarantees, indemnities and other assurances of a similar nature:-

- First preferred Panamanian ship mortgages over assets of these two subsidiaries
- The charter and earnings assignments by these two subsidiaries
- The charter and insurance assignments by these two subsidiaries
- The charterer's subordination and assignments together with insurance assignments
- The sub-charterer's subordination and assignments together with insurance assignments
- The operator's and manager's undertakings in respect of obligations under the operating and management agreements.

8. RELATED PARTY TRANSACTIONS

GHL controls the Company. A description of certain transactions between the Company and both GHL and certain entities under the control of GHL is set out in Note 1.

Transactions with former holding company

The Company was substantially funded by GIPLC by means of shareholders loans in prior years. GHL sold the Company to GIPLC on June 1, 1995 and on that date, amounts due to GHL by the Company of \$151.6 million were assigned to GIPLC. A total of \$275.5 million was capitalized by the issue of new common stock to GIPLC with a share premium in the year ended December 31, 1997. The remaining balance of these loans of \$20.9 million was repaid during the fiscal year ended December 31, 1998. Interest was charged on the outstanding amount as at January 1, 1998 to the date of repayment based on a rate which varied with the Singapore Interbank Offer Rate. The pro forma interest expense for the year ended December 31, 1997 would have been \$0.3 million had GIPLC charged interest on the borrowings not capitalized on the same basis as that used in the year ended December 31, 1998.

The Company also had certain other transactions with related parties. The material transactions were as follows:

Transactions with affiliated companies

- (a) Prior to the Company's demerger from GIPLC on December 5, 1997, the Company entered into certain transactions with GIPLC and other companies controlled by GHL to bring all cruise and cruise related activities under the Company and to transfer all non-cruise and non-cruise related activities to GIPLC or other parties controlled by GHL. As a result of these transfers, the Company received consideration of \$91.4 million in excess of the carrying cost of subsidiary companies transferred from the Company. This consideration was satisfied through a reduction of the amount due to former holding company and has been treated as additional paid-in-capital. The Company guaranteed to refund any reduction in the value of certain non-cruise properties sold to RWL. Subsequent to the demerger, the Company was required to refund \$8.7 million in respect of this guarantee. This amount has been accrued as a liability at December 31, 1997 and offset against the \$91.4 million credit to additional paid-in-capital and was fully repaid in the year ended December 31, 1999. No further amounts are payable or receivable by the Company in respect of this guarantee.

8. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with affiliated companies (continued)

- (b) Kien Huat Development Sdn Bhd, an affiliate of GHL, together with its affiliated companies, constructed certain terminal building and jetties owned and occupied by the Company. The cumulative progress payments made on these properties were \$51.7 million, \$47.7 million and \$42.7 million respectively as of December 31, 1999, 1998 and 1997.
- (c) The Company borrowed amounts up to \$30.5 million from GHL over the period from March 1998 to June 1998. Interest was payable on these amounts at interest rates ranging from 8.49% to 8.55% per annum. These amounts were fully repaid in June 1998.
- (d) On March 22, 1999, the Company purchased a parcel of land from a subsidiary of Resorts World Bhd for approximately \$1.1 million. As of December 31, 1999, the Company made a deposit of \$0.1 million on this property.
- (e) GIPLC and its affiliates provide certain services to the Company, including internal audit, treasury services, secretarial services, certain information technology support services and other support services. The Company also purchased air tickets from a subsidiary of Resorts World Bhd. In May 1999, GIPLC and its affiliates ceased to provide internal audit services to the Company as the Company had established an internal audit group. Amounts charged to the Company in respect of these services totaled \$1.6 million, \$0.8 million and \$1.0 million respectively in the years ended December 31, 1999, 1998 and 1997.

Amounts outstanding at the end of each fiscal year in respect of the above transactions are included in the balance sheets within amounts due to affiliated companies.

Subordinated payable

On December 20, 1999, the Company obtained a short-term \$260 million loan facility from Joondalup Limited, ("JL") a wholly-owned corporation of Golden Hope Unit Trust. This term loan bears interests at a rate equal to the aggregate of the cost of funds incurred by JL and 4% per annum and is repayable in demand. JL has fully advanced the \$260 million to the Company as of December 31, 1999. This term loan facility has been subordinated to the \$600 million short-term loan facility obtained on December 19, 1999 (see note 6).

Transaction with a director

The Company extended a short-term loan of \$2.4 million in October 1998 to an executive director of the Company. An amount of \$18,000 was repaid during the year ended December 31, 1998 and the balance outstanding was included in prepaid expenses and others as of December 31, 1998. This loan which bore interest at a rate equal to the deposit rate available to the Company has been fully repaid in the year ended December 31, 1999.

9. FINANCIAL INSTRUMENTS

The fair values of financial instruments including derivatives are based on a variety of factors and assumptions. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of December 31, 1999 and 1998 or that will be realized in the future and do not include expenses that could be incurred in an actual sale or settlement. The following are the fair values and methods used to estimate the fair values of the Company's financial instruments, none of which are held for trading or speculative purposes:

9. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Certain short-term financial instruments

The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable, short-term borrowings and accrued liabilities approximate their fair values due to the short-term maturities of these instruments.

(b) Long-term debt

The fair value of the Company's long-term debt approximates its carrying value as this debt bears a variable interest rate.

(c) Interest rate swaps and foreign exchange forward contracts

In the year ended December 31, 1998, the Company entered into certain financial instruments to effectively convert part of the US dollar term loan into a Japanese Yen ("JPY") fixed rate liability. At December 31, 1998, the fair values of the Company's interest rate swap contracts was \$37.7 million and its foreign exchange forward contract was \$16.8 million. These contracts were terminated in January 1999.

The Company also entered into an amortizing interest rate swap to effectively convert the interest rate on \$30 million of the term loan from a floating rate obligation to a fixed rate obligation in the year ended December 31, 1998. The fair market value of the amortizing interest rate swap approximated its carrying value at inception date as of December 31, 1998 and was \$2 million, which was favorable to the Company as of December 31, 1999. Under this interest rate swap, the Company will exchange at six monthly intervals, the difference between the fixed rate and the floating rate interest amount calculated by reference to the agreed amortizing notional principal amount. The notional principal amount will decrease equally over the specified interval to an amount of \$7 million on March 25, 2010. This swap terminates on September 25, 2010.

In the year ended December 31, 1999, the Company entered into interest rate collar swap agreements with a total notional amount of \$70 million to limit its exposure to fluctuations in interest rate movements. The fair market value of these interest rate collar swap agreements was approximately \$0.6 million as of December 31, 1999, which was favorable to the Company. Under the interest rate collar swap agreements, the Company pays the other party the difference between the floating interest rate and an agreed floor interest rate of 6.4% should actual interest rates fall below this floor interest rate and is entitled to receive the difference between the floating interest rate and an agreed cap interest rate of between 7.27% and 7.4% should actual interest rates exceed these cap interest rates at six monthly intervals. These differences are calculated by reference to an agreed amortizing principal amount as the notional principal amount will decrease equally over the specified interval to an approximate amount of \$19 million in September 2010. The Company is required to place cash of approximately \$2.2 million with the other party as collateral for these swaps.

The fair values of these instruments have been estimated using public market prices or quotes from reputable financial institutions.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" which requires all derivative instruments to be carried at fair market value on the balance sheet with changes in fair value recognized in the period in which they occur. SFAS No. 133 is effective for fiscal quarters of all fiscal years beginning after June 15, 2000. The Company does not expect SFAS No. 133 to have a significant impact on its financial position or results of operations.

The Company had no significant concentrations of credit risk as of December 31, 1999 other than deposits of cash with reputable financial institutions.

10. COMMITMENTS AND CONTINGENCIES

(a) Capital expenditure

Apart from the commitment for the acquisition of NCL as described in note 15(a), the Company also had the following commitments as of December 31, 1999 (in thousands of US dollars):

	Contract price *	Remaining cost to be paid
Cruise ships under construction:		
m.v. SuperStar Libra	\$392,606	\$356,359
m.v. SuperStar Scorpio	392,606	374,487
	<u>\$785,212</u>	<u>\$730,846</u>

* Inclusive of certain revised specifications and modifications to the cruise ship.

m.v. SuperStar Libra is expected to generate revenue in 2001 and m.v. SuperStar Scorpio in 2002. The Company also had other commitments as of December 31, 1999 of approximately \$1.8 million in respect of the construction of three units of passenger craft.

(b) Operating leases

- (i) Rent payable under non-cancelable operating lease commitments in respect of office premises was \$1.4 million, \$1.5 million and \$1.7 million in the years ended December 31, 1999, 1998 and 1997, respectively.

At December 31, 1999, minimum annual rentals for leases with initial or remaining terms in excess of one year were as follows (in thousands of US dollars):

Year ending December 31,	
2000	\$858
2001	391
2002	289
2003	10
Thereafter	<u>2</u>
	<u>\$1,550</u>

- (ii) On October 15, 1999, the Company entered into a contract to charter a cruise ship from Crown Jewel Inc. The charter period is for three years. The Company took delivery of the cruise ship on December 22, 1999. However, payment of charter hire commenced from January 9, 2000.

At December 31, 1999, minimum annual rentals payable for leases with initial or remaining terms in excess of one year, were as follows (in thousands of US dollars):

Year ending December 31,	
2000	\$11,885
2001	12,150
2002	12,150
2003	265
	<u>\$36,450</u>

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Operating leases (continued)

(iii) Charter hire revenue receivable under non-cancelable operating lease commitments in respect of cruise ships, catamaran and onboard equipment was \$18.8 million, \$14.3 million and \$1.0 million in the years ended December 31, 1999, 1998 and 1997 respectively.

At December 31, 1999, minimum annual rentals receivable for leases with initial or remaining terms in excess of one year, were as follows (in thousands of US dollars):

Year ending December 31,	
2000	\$14,268
2001	14,241
2002	6,669
	<u>\$35,178</u>

(c) Material Litigation

In the normal course of business, various lawsuits and other claims typical to the cruise industry have been filed or are pending against the Company. The majority of these lawsuits and claims are covered by insurance. Management believes the outcome of any such suits and claims which are not covered by insurance would not have a material adverse effect on the Company's financial conditions or results of operations.

11. INCOME TAXES

The Company, which is incorporated in the Isle of Man, and the majority of its subsidiaries are not subject to income tax in the Isle of Man or elsewhere as their income is mainly derived in international waters or outside taxing jurisdictions. Income tax expense related to the Company's remaining subsidiaries is not significant.

12. EARNINGS PER SHARE

Earnings per share have been calculated as follows (in thousands of US dollars, except per share data):

	Years ended December 31,		
	1999	1998	1997
<u>BASIC</u>			
Net income	\$90,209	\$17,065	\$21,096
Average outstanding common shares in thousands	624,473	562,803	499,447
Basic earnings per share in dollars	\$0.1445	\$0.0303	\$0.0422
<u>DILUTED</u>			
Net income	\$90,209	\$17,065	\$21,096
Average outstanding common shares in thousands	624,473	562,803	499,447
Effect of dilutive stock options	8,239	700	1,886
Average number of shares outstanding assuming dilution	632,712	563,503	501,333
Diluted earnings per share in dollars	\$0.1426	\$0.0303	\$0.0421

Options to purchase 2,160,000 shares of common stock at \$2.275 per share outstanding during the year ended December 31, 1998 were anti-dilutive and thus excluded from the computations of diluted earnings per share.

13. STOCK OPTION PLANS

Prior to the de-merger (see Note 1(a)), the employees of Star Cruises were offered share options in GIPLC under the "Genting International Employees' Share Option Scheme for Executives" ("GIESOS"). Subsequently, a stock option scheme known as "The Star Cruises Employees Share Option Scheme" ("SCESOS") was implemented for the benefit of the employees of the Company. The employees of the Company were offered options under the SCESOS in exchange for the unexpired stock options previously granted by GIPLC.

The terms and conditions of the SCESOS are identical to the GIESOS except for the exercise price of stock options which reflected the de-merger. The allocation of the total amount of options under the SCESOS shall not exceed 5% of the issued common stock of the Company at any time during the existence of the SCESOS. Options are generally granted at an exercise price per share equal to the average of the middle market quotation of the share as quoted and shown in the daily official list issued by the Luxembourg Stock Exchange or any approved stock exchange as the Directors may deem relevant for the five market days preceding the date of the offer in writing to the employee. Options generally become exercisable as to 50% of the amount granted 4 years after the grant date and the remaining can be exercised annually in tranches subject to a minimum amount per tranche per year at various dates in the future until the retirement age of the employees, which is 55 years old. However, if the retirement period is less than 10 years from the date of an offer, the option period for the remaining tranches will expire on the tenth year from the grant date or at any age to be determined by the Board.

As permitted by SFAS No. 123, the Company has elected to account for compensation expense in respect of awards of stock options to employees using the intrinsic-value method of accounting for stock-based awards. The following table reflects the Company's pro forma net income and earnings per share for the years ended December 31, 1999, 1998 and 1997, had the Company elected to adopt the fair value approach of SFAS No. 123 (which charges earnings for the estimated fair value of stock options). The weighted average fair values of the Company's stock options granted during the years ended December 31, 1999 and 1997 were \$1.41 and \$2.13 per share respectively.

The fair value of these stock options was estimated using the extended binomial model and the following weighted average assumptions for the years ended December 31, 1999 and 1997, respectively; expected volatility of 66.3% and 32.4%; risk free interest rates of 5.3% and 6.5% and expected option life of 7.1 and 8.1 years respectively.

(in thousands of US dollars, except per share data)	Years ended December 31,		
	1999	1998	1997
Net income as reported	\$90,209	\$17,065	\$21,096
Additional compensation costs	(7,750)	(2,020)	(1,929)
Pro forma net income	\$82,459	\$15,045	\$19,167
Pro forma earnings per share in US dollars			
-Basic	\$0.1320	\$0.0267	\$0.0384
-Diluted	\$0.1303	\$0.0267	\$0.0382

13. STOCK OPTION PLANS (CONTINUED)

A summary of the changes in stock options outstanding during the years ended December 31, 1997, 1998 and 1999 is set out below:

	Options outstanding (No. of shares)	Weighted average price per share	Options exercisable at the end of the year (No. of shares)
Balance at January 1, 1997	5,530,000	\$1.356	-
Options granted	4,970,000	2.261	
Options canceled/forfeited	(3,550,000)	1.743	
Options exercised	-	-	
Balance at December 31, 1997	6,950,000	1.806	-
Options granted	-	-	
Options canceled/forfeited	(1,395,000)	2.173	
Options exercised	-	-	
Balance at December 31, 1998	5,555,000	1.713	-
Options granted	11,370,150	1.709	
Options canceled/forfeited	(1,919,500)	1.820	
Options exercised	(220,000)	1.356	
Balance at December 31, 1999	14,785,650	\$1.701	1,316,000

During the years ended December 31, 1997, 1998 and 1999, the prices of the options granted were \$1.356 and \$2.275. The prices for canceled/forfeited options were also \$1.356 and \$2.275.

A summary of the stock options outstanding at December 31, 1999 is as follows:

Exercise price	Options outstanding		Options exercisable
	Number outstanding	Weighted average remaining life (years)	
\$1.356	9,232,405	5.3	1,316,000
\$2.275	5,553,245	5.9	-
	14,785,650	5.5	1,316,000

14. SUPPLEMENTAL CASH FLOW INFORMATION

(in thousands of US dollars)	Years ended December 31,		
	1999	1998	1997
Cash paid during each respective year for:			
Interest	\$13,350	\$5,599	\$829
Income taxes	\$688	\$1,114	\$1,066
Non cash financing activities :			
Common stocks issued for retirement of debt due to former holding company	\$-	\$-	\$275,492
Dividends to former holding company prior to the de-merger	\$-	\$-	\$44,000

15. SIGNIFICANT SUBSEQUENT EVENTS

(a) Acquisition of NCL

On January 13, 2000, the Company through Arrasas Limited made a mandatory offer to each NCL shareholder (except for such shareholders who are US persons and all holders of NCL ADS (each ADS representing four ordinary shares)) pursuant to the Norwegian Securities Trading Act (1997) to purchase all outstanding ordinary shares of NCL not already owned by the Company and its affiliated companies at a price of 35 Norwegian Kronor ("NOK") per share.

In connection with this mandatory offer, the Company made a concurrent offer to purchase all outstanding ordinary shares of NCL that are held by US persons and all outstanding ADSs at the same price of 35 NOK per share, (140 NOK per ADS). The offers were not subject to any conditions and remained open for acceptance through February 10, 2000.

On February 16, 2000, the Company announced that 47,671,648 ordinary shares or approximately 17.8% of the outstanding NCL shares and 5,687,718 ADSs or approximately 73.3% of the outstanding ADSs, were validly tendered prior to the expiration of the offers on February 10, 2000. As of February 17, 2000, the Company owned, approximately 84.5% of NCL's outstanding shares and approximately 10.9% of the NCL's outstanding shares were held by companies affiliated with but not subsidiaries of the Company.

(b) Significant acquisition of property and equipment

On February 14, 2000, the Company entered into an agreement with the Port Authority of Thailand to develop and operate a cruise terminal costing approximately \$15 million at the port of Laem Chabang. This agreement is for a 30-year lease with extension for an additional two periods of 10 years each.

On March 1, 2000, the Company entered into an agreement with Sun Cruises in relation to the purchase of two cruise ships Sun Viva and Sun Viva II for approximately \$17 million each. Sun Viva and Sun Viva II were subsequently renamed as MegaStar Sagittarius and MegaStar Capricorn respectively.

(c) Significant financing arrangements

On May 19, 2000, the Company announced that it has accepted a fully underwritten offer to refinance the \$600 million short-term borrowings with a 5 year medium term loan with no principal repayment for the first 3 years.

On the same date, the Company also announced its intention to list its shares on a major stock exchange together with an accompanying equity fund raising. In this regard, the Company will be seeking shareholders' approval for the issue of up to 200 million new ordinary shares and/or new securities convertible into ordinary shares representing approximately 32% of the existing common stock of the Company. The Company has invited Resorts World Bhd to participate in the proposed issue. Resorts World Bhd has, on May 19, 2000, announced that it will be seeking a mandate from its shareholders to authorize RWL to subscribe in cash up to \$480 million in new equity shares and/or new securities convertible into equity shares of the Company. RWL has advanced \$114 million as subscription monies for the proposed issue of new ordinary shares and/or new securities convertible into ordinary shares. This advance bears interest at a rate equal to the one month US dollar Singapore Interbank Offer Rate plus 1% per annum. The subscription price of the new equity shares and/or new securities convertible into equity shares will be determined by the Company with the advice of its financial advisers.

16. SUPPLEMENTAL INFORMATION PURSUANT TO THE REQUIREMENTS OF THE ISLE OF MAN COMPANIES ACTS, 1931 to 1993.

- (i) The Balance Sheet of Star Cruises PLC as of December 31, 1999 prepared in accordance with US GAAP which has been approved by the Board of Directors on January 26, 2000 is set out below :

(in thousands of US dollars)	As of December 31,	
	1999	1998
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$3,410	\$107,559
Amount due from subsidiaries	1,113,447	767,299
Prepaid expenses and others	40	2,454
Amounts due from an affiliated company	9	17
Total current assets	1,116,906	877,329
Investment in subsidiaries	60	0.011
Total assets	\$1,116,966	\$877,329
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accrued liabilities	\$1,019	\$57
Amount due to subsidiaries	346	10,059
Subordinated payable	260,000	-
Amounts due to an affiliated company	-	8,716
Total current liabilities	261,365	18,832
SHAREHOLDERS' EQUITY		
Common stock at \$0.10 par value, 999,990,000 shares authorized, 624,667,243 shares issued and outstanding (1998 - \$0.10 par value, 624,447,243 shares issued and outstanding)	62,467	62,445
Preference stock at \$0.10 par value; 10,000 shares authorized; none issued and outstanding	-	-
Share premium	675,823	675,547
Additional paid-in-capital	89,127	83,881
Retained earnings	33,076	37,116
Unamortized stock option expense	(4,892)	(492)
Total shareholders' equity	855,601	858,497
Total liabilities and shareholders' equity	\$1,116,966	\$877,329

16. SUPPLEMENTAL INFORMATION PURSUANT TO THE REQUIREMENTS OF THE ISLE OF MAN COMPANIES ACTS, 1931 to 1993. (CONTINUED)

- (ii) Apart from disclosures shown elsewhere in these financial statements, the following charges were also included in net income as reflected in the Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997:

(in thousands of US dollars)	Years ended December 31,		
	1999	1998	1997
Charges:			
Rental of buildings	\$2,235	\$2,274	\$2,814
Auditors' remuneration	\$174	\$224	\$240
Directors' fee	\$86	\$70	\$67
Provision for doubtful debts	\$596	\$1,375	\$711
Fees paid to a firm in which certain directors are members	\$-	\$-	\$47