

## 1. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The preparation of accounts 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 accounts and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

### (b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to the end of the year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than that which is temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (c) Investment in associated company

Investments in associated 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.

Equity accounting involves recognising in the consolidated profit and loss account the Group's share of the associated company's profit or loss for the year. The Group's interest in an associated company is carried in the balance sheet at an amount that reflects its share of the net assets of the associated company and includes goodwill on the acquisition.

## 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (d) Intangible assets

Intangible assets consist of goodwill, trade names and trademarks. Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable assets and liabilities of subsidiaries and associated companies acquired, is recognised as an asset and amortised by equal annual instalments over its estimated useful economic life of 40 years. Negative goodwill which represents the excess, as at the date of acquisition, of the Group's interests in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition is included in the balance sheet under "intangible assets" and is recognised as income in the profit and loss account on a systematic basis over 40 years.

Trade names and trademarks of Norwegian Cruise Line and Orient Lines recorded on acquisition of NCL Holding ASA ("NCL") are being amortised on a straight-line basis over their estimated useful economic lives of 40 years.

### (e) Foreign currency

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 consolidated profit and loss account.

For those subsidiaries which do not have the US dollar as their reporting currency, translation of their foreign currency accounts 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 reserve, "Foreign currency translation adjustment".

### (f) Revenue and expense recognition

Revenues are recognised when the relevant services have been rendered. Cruise revenue, and all associated direct costs of a voyage, are generally recognised on a pro rata basis over the period. 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 recognised evenly over the period of the charter-hire.

Deposits received from customers for future voyages are recorded as advance ticket sales until such passenger revenue is earned.

## 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (f) Revenue and expense recognition *(continued)*

Interest income and expense is recognised on a time proportion basis, taking into account the principal amount outstanding and the interest rates applicable.

### (g) Drydocking expenses

Costs, associated with drydocking a ship, are deferred and expensed over the period to that ship's next scheduled drydocking which is generally two to three years.

### (h) Advertising costs

The Group's advertising costs are generally expensed as incurred. Costs incurred that result in tangible assets, including brochures are treated as prepaid supplies and expensed as consumed. Direct-response advertising costs are capitalised and amortised over the period when revenues are realised from the related advertising.

### (i) 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.

### (j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

### (k) 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.

### (l) Restricted cash

Restricted cash consists of cash collateral in respect of certain loan agreements, financial instruments, letters of credit and other obligations.

### (m) Loan arrangement fees

Costs incurred in connection with the arranging of loan financing have been deferred and amortised on a straight-line basis over the life of the loan agreement. The unamortised amount, which is to be amortised within one year is included in prepaid expenses and others. The remaining amount is included in other assets.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### (n) Consumable inventories

Consumable inventories mainly consist of provisions, supplies and engine and ship spare parts and are carried at the lower of cost, determined on a weighted average basis, and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (o) Software development costs

Deferred software development costs consist principally of salaries and fringe benefits of certain programmers and system analysts and outside consultant fees incurred in connection with the enhancement of significant internal data processing systems beyond their original specifications. These costs are recognised as an asset and amortised when the software is available for use using the straight-line method over the estimated useful life, not to exceed five years.

### (p) Operating 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 charged to the profit and loss account on a straight-line basis over the lease term.

### (q) Fixed assets

Fixed assets are stated at cost less accumulated depreciation except for land, leasehold land, jetties, terminal building and improvements which are stated at valuation less accumulated depreciation. Significant cruise ship refurbishing costs are capitalised 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 as follows:

Leasehold land	30 - 99 years
Jetties and terminal building	30 - 99 years
Equipment and motor vehicles	3 - 20 years

No depreciation is provided on fixed assets which are under construction. The Group capitalises interest on cruise ships, catamaran and other capital projects during the period required to get such assets ready for their intended use. Interest capitalisation ceases when the asset is substantially complete.

## 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (q) Fixed assets *(continued)*

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account. Any revaluation reserve balance attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

### (r) Financial instruments

The Group enters into derivative instruments, primarily forward contracts, to limit its exposure to fluctuations in foreign currency exchange rates. Changes in market value of forward contracts related to foreign currency denominated debt are presented in the consolidated profit and loss account net of the change in value of the corresponding debt. Changes in the market value of forward contracts that hedge foreign currency commitments to construct a cruise ship are deferred and included in the cost of the ship when the commitment is paid.

The Group also enters into forward contracts and interest rate swaps to hedge the effects of rate fluctuations of interest; foreign currency commitments and debt denominated in foreign currencies. The differential in interest rates to be paid or received under the interest rate swaps is recognised in the consolidated profit and loss account over the life of the contracts as part of interest expense or interest income. Gains and losses arising from forward contracts and interest rate swaps are deferred on those transactions which qualify as hedges and recognised in the consolidated profit and loss account as offsets of gains and losses resulting from the underlying hedged transaction; otherwise, the effects of such transactions are recognised currently in the consolidated profit and loss account.

Criteria used to determine whether a transaction qualifies for hedge accounting include correlation between fluctuations in the fair value of the hedged item and the fair value of the related derivative instrument and the effectiveness of the hedge.

### (s) Share option expense

The Group accounts for compensation expense in respect of the award of share options to employees based on the excess, if any, of the quoted market price of the share at the date of the grant over the exercise price of the option. The excess has been treated as additional paid in capital and is recognised as an expense over the option periods. The unamortised amount is included as a separate component of reserves.

### (t) Earnings per share

Basic earnings per share is computed by dividing net profit by the weighted average number of ordinary shares outstanding during each year. Fully diluted earnings per share is computed by dividing net profit by the weighted average number of ordinary shares, potential ordinary shares and other potentially dilutive securities outstanding during each period.

## 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(u) Retirement benefit costs**

Contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave employment before being fully vested. The amount of forfeiture depends on how much the employee is vested at the time of departure. The assets of these schemes are held separately from those of the Group.

Expenses in respect of a retirement scheme providing benefits based on final pay are charged to the profit and loss account. The unfunded pension obligations are determined based on the estimates of the effects of future events on the actuarial net present value of accrued pension obligations and are determined by a qualified actuary on an annual basis.

### **(v) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### **(w) Recoverability of assets**

Fixed assets, goodwill and identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset to its fair value. The Company estimates fair value based on the best information available making whatever estimates, judgements and projections considered necessary. The estimation of fair value is generally measured by discounting expected future cash flows at discount rates which will commensurate with the risk involved.

## 2. TURNOVER AND OPERATING PROFIT

The turnover consists of revenues earned from cruise and cruise related activities and charter hire.

The Group is principally engaged in the operation of passenger cruise ships. Cruise and cruise related 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, food and beverage. The charter hire includes the lease operation of one passenger cruise ship and a catamaran to third party customers.

The amounts of each significant category of revenue recognised by the Group were as follows:

	TURNOVER		OPERATING PROFIT	
	2000 US\$'000	1999 US\$'000	2000 US\$'000	1999 US\$'000
Cruise and cruise related activities	1,312,715	372,853	152,306	95,660
Charter hire	14,028	18,832	7,493	11,197
	<u>1,326,743</u>	<u>391,685</u>	<u>159,799</u>	<u>106,857</u>

The Group's turnover in its principal markets of North America, Asia Pacific and Europe is analysed as follows:

	TURNOVER		OPERATING PROFIT	
	2000 US\$'000	1999 US\$'000	2000 US\$'000	1999 US\$'000
Asia Pacific	544,562	391,685	61,857	106,857
North America (note)	701,099	—	88,449	—
Europe	81,082	—	9,493	—
	<u>1,326,743</u>	<u>391,685</u>	<u>159,799</u>	<u>106,857</u>

*Note:* Substantially all this turnover arises in the United States of America.

### 3. IMPAIRMENT OF FIXED ASSETS

	<b>GROUP</b>	
	<b>2000</b>	1999
	<b>US\$'000</b>	US\$'000
Impairment loss - m.v. Star Aquarius		
Ship and onboard equipment	<b>33,604</b>	—
Unamortised drydocking costs and spare parts	<b>4,090</b>	—
	<hr/> <b>37,694</b> <hr/>	<hr/> — <hr/>
Loss on revaluation of property and land assets	<b>969</b>	—
	<hr/> <b>38,663</b> <hr/> <hr/>	<hr/> — <hr/> <hr/>

As part of the Group's long-term fleet modernisation programme, on 19 January 2001, the Group entered into an agreement to dispose of one of its cruise ships m.v. Star Aquarius for a net cash consideration of US\$75 million. m.v. Star Aquarius was delivered to her new owner on 26 February 2001. At 31 December 2000, an impairment loss of US\$37.7 million was recognised in respect of the ship and onboard equipment and other assets related to m.v. Star Aquarius. The impairment loss represented the amount by which the carrying amount of these assets exceeded their fair value of US\$75 million.

#### 4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	GROUP	
	2000	1999
	US\$'000	US\$'000
Crediting:		
Net foreign currency translation gains	—	92
Charging:		
Net foreign currency translation losses	301	—
Depreciation of fixed assets	107,824	48,863
Amortisation of software development costs	2,401	—
Amortisation of goodwill	7,868	—
Amortisation of trade names and trademarks	6,075	—
Amortisation of dry-docking costs	15,761	4,442
Total depreciation and amortisation	139,929	53,305
- relating to operating function	131,950	49,023
- relating to selling, general and administrative function	7,979	4,282
Staff costs	206,898	84,712
Operating leases - land and buildings	5,794	2,235
- charter hire	18,736	—
Auditors' remuneration	858	282
Amortisation of share option expenses	557	846
Advertising expenses	79,200	14,409
Retirement benefit expense	3,898	—
Impairment of fixed assets (see note 3)	38,663	—

#### 5. FINANCIAL COSTS

	GROUP	
	2000	1999
	US\$'000	US\$'000
Interest on bank loans	149,406	25,675
Interest on other loans wholly repayable within five years	40,430	832
Total borrowing costs incurred	189,836	26,507
Less: interest capitalised in fixed assets	(4,324)	(1,661)
Total financial costs	185,512	24,846

## 6. OTHER NON-OPERATING INCOME/(EXPENSES), NET

	GROUP	
	2000	1999
	US\$'000	US\$'000
(Loss)/Gain on disposal of fixed assets	(396)	23
Loss on extinguishment of debt	(4,189)	—
Gain/(Loss) on foreign exchange and interest rate swaps, net	3,169	(1,065)
Other non operating expenses/(income), net	71	(106)
	<u>(1,345)</u>	<u>(1,148)</u>

## 7. TAXATION

	GROUP	
	2000	1999
	US\$'000	US\$'000
Overseas taxation		
- Current taxation	1,126	1,303
- Deferred taxation	16,906	—
	<u>18,032</u>	<u>1,303</u>
Deferred taxation has been charged in respect of		
- tax losses utilised	13,585	—
- other timing differences	3,321	—
	<u>16,906</u>	<u>—</u>

## 7. TAXATION *(continued)*

The Company, which was incorporated in the Isle of Man and is now domiciled in Bermuda, and the majority of its subsidiaries other than NCL and its subsidiaries, are not subject to income tax as their income is mainly derived in international waters or outside taxing jurisdictions.

NCL and its subsidiaries are subject to tax in Norway. In addition, NCL is also subject to tax in Norway from income related to NCL Cruises Limited and its subsidiaries based on the Norwegian NOKUS tax rules. Although NCL Cruises Limited is incorporated in Bermuda where it is not subject to income tax, NCL would be subject to tax in Norway under the Norwegian NOKUS tax rules on a proportionate share of the income of such a foreign subsidiary, which is based in a country with no or limited income taxation. This liability to Norwegian tax ceases in the year shareholders, who for tax purposes are regarded as Norwegian residents, have reduced their ownership share in NCL Cruises Limited to less than 40% at 31 December of such year or under 50% at the beginning and the end of any given year. The tax assessment of NCL on income from NCL Cruises Limited and its subsidiaries is based on NCL's US Dollar accounts and adjusted for Norwegian tax and accounting rules based on its deemed pro rata share of ownership in NCL Cruises Limited.

NCL Cruises Limited, which operates in the United States, is not subject to United States federal income taxes due to the provisions of Section 883 of the Internal Revenue Code of 1986 (the "Code") which provide NCL with an exemption from income taxation by the United States with respect to its United States source income derived from the international operation of the ships ("Shipping Income"). Section 883 provides that a foreign corporation will qualify for the exemption if (i) the foreign country in which the foreign corporation is organised grants an equivalent exemption for Shipping Income of sufficiently broad scope to a United States corporation ("Equivalent Exemption") and (ii) more than 50% in value of its shares is directly or indirectly owned by individuals who are resident of one or more foreign countries which grant an Equivalent Exemption ("Look-Through Test"). NCL believes that it satisfies the requirements of the Look-Through Test since more than 50% in value of its shares is directly or indirectly owned by individuals in residence in foreign countries granting an Equivalent Exemption. Management believes that NCL's Shipping Income, which is substantially all of NCL's income, is exempt from the United States federal income taxes. If NCL Cruises Limited were found not to be exempt from United States federal income taxes, as described above, then NCL Cruises Limited's Shipping Income, as well as any other income, could be taxed at higher than normal United States corporate federal income tax rates.

## 8. (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share has been calculated as follows:

	GROUP	
	2000	1999
	US\$'000	US\$'000
BASIC		
Net (loss)/profit	<u>(44,000)</u>	<u>84,374</u>
Average outstanding ordinary shares in thousands after adjusting for the effect of bonus issue	<u>3,212,970</u>	<u>3,122,365</u>
Basic (loss)/earnings per share in US cents	<u><u>(US 1.37 cents)</u></u>	<u><u>US 2.70 cents</u></u>
FULLY DILUTED		
Net (loss)/profit	<u>(44,000)</u>	<u>84,374</u>
Average outstanding ordinary shares in thousands after adjusting for the effect of the bonus issue	<u>3,212,970</u>	<u>3,122,365</u>
Effect of dilutive share options after adjusting for the effect of the bonus issue	<u>50,303</u>	<u>41,195</u>
Average number of shares outstanding after adjusting for the effect of bonus issue and assuming dilution	<u>3,263,273</u>	<u>3,163,560</u>
Fully diluted earnings per share in US cents	<u><u>N/A (Note)</u></u>	<u><u>US 2.67 cents</u></u>

On 23 August 2000, the shareholders of the Company approved a bonus issue of new ordinary shares of US\$0.10 each credited as fully paid up on the basis of four new ordinary shares for every one existing ordinary share. Accordingly, the Group retroactively restated its earnings per share for the year ended 31 December 1999 to reflect the effect of the bonus issue.

*Note:* Diluted loss per share for the year ended 31 December 2000 is not shown, as the diluted loss per share is less than the basic loss per share.

## 9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amounts of emoluments payable to Directors of the Company during the years are as follows:

	<b>GROUP</b>	
	<b>2000</b>	1999
	<b>US\$'000</b>	US\$'000
Fees, of which US\$56,000 (1999:US\$-) were to independent non-executive directors	<b>147</b>	86
Other emoluments:		
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	<b>3,739</b>	1,821
Contribution to provident fund	<b>16</b>	11
Ex-gratia emoluments paid to a past Director	<b>746</b>	—
	<b>4,648</b>	1,918

The above emoluments include amounts paid to 3 past Directors up to the date of resignation amounting to US\$1,762,972.

The emoluments of the Directors of the Company fall within the following bands:

	<b>Number of Directors</b>	
	<b>2000</b>	1999
HK\$nil - HK\$1,000,000	<b>4</b>	—
HK\$1,000,001 - HK\$1,500,000	<b>1</b>	2
HK\$1,500,001 - HK\$2,000,000	<b>3</b>	—
HK\$2,500,001 - HK\$3,000,000	—	1
HK\$3,000,001 - HK\$3,500,000	—	1
HK\$4,500,001 - HK\$5,000,000	<b>1</b>	—
HK\$6,000,001 - HK\$6,500,000	—	1
HK\$11,000,001 - HK\$11,500,000	<b>1</b>	—
HK\$14,000,001 - HK\$14,500,000	<b>1</b>	—

The emoluments of the Directors of the Company have been annualised for the year ended 31 December 2000 for the purpose of categorisation into the above bands.

## 9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Details of the emoluments paid to the five highest paid individuals in the Group are as follows:

	<b>GROUP</b>	
	<b>2000</b>	1999
	<b>US\$'000</b>	US\$'000
Fees	<b>65</b>	66
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	<b>3,672</b>	1,997
Contributions to provident fund	<b>56</b>	25
Ex-gratia paid to a past Director	<b>746</b>	—
	<b>4,539</b>	2,088
Number of Directors included in the five highest paid individuals	<b>2</b>	3

The emoluments of the 5 individuals fall within the following bands:

	<b>Number of Directors</b>	
	<b>2000</b>	1999
HK\$1,500,001 - HK\$2,000,000	—	1
HK\$2,000,001 - HK\$2,500,000	—	1
HK\$2,500,001 - HK\$3,000,000	<b>2</b>	1
HK\$3,000,001 - HK\$3,500,000	—	1
HK\$4,500,001 - HK\$5,000,000	<b>1</b>	—
HK\$6,000,001 - HK\$6,500,000	—	1
HK\$11,000,001 - HK\$11,500,000	<b>1</b>	—
HK\$14,000,001 - HK\$14,500,000	<b>1</b>	—

The emoluments of the 5 individuals have been annualised for the year ended 31 December 2000 for the purpose of the categorisation into the above bands.

## 10. INTANGIBLE ASSETS

Intangible assets consist of the following items arising from the acquisition of NCL Holding ASA ("NCL"):

	<b>GROUP</b>	
	<b>2000</b>	1999
	<b>US\$'000</b>	US\$'000
Trade names and trademarks	<b>285,525</b>	—
Goodwill on consolidation	<b>399,379</b>	—
Negative goodwill	<b>(45,868)</b>	—
Net goodwill	<b>353,511</b>	—
	<b>639,036</b>	—

### Trade names and trademarks

	<b>GROUP</b>	
	<b>2000</b>	1999
	<b>US\$'000</b>	US\$'000
Cost		
At 1 January	—	—
Additions	<b>291,600</b>	—
At year end	<b>291,600</b>	—
Accumulated amortisation		
At 1 January	—	—
Amortisation	<b>(6,075)</b>	—
At year end	<b>(6,075)</b>	—
Net book value at year end	<b>285,525</b>	—

## 10. INTANGIBLE ASSETS (continued)

### Goodwill arising on acquisition of 84.5% of NCL

	GROUP	
	2000 US\$'000	1999 US\$'000
Cost		
At 1 January	—	—
Additions	418,436	—
Adjustments (see note below)	(11,189)	—
At year end	407,247	—
Accumulated amortisation		
At 1 January	—	—
Amortisation	(7,868)	—
At year end	(7,868)	—
Net book value at year end	399,379	—

*Note:*

The fair value of certain assets and liabilities of NCL on 29 February 2000, the effective date of acquisition of a majority interest in NCL by the Group, were subsequently revised, based on events subsequent to this date, which provided additional information as to the fair value of such assets and liabilities on 29 February 2000. These adjustments to the fair value of the assets and liabilities of NCL result in a revision to goodwill recognised of US\$11.2 million.

## 10. INTANGIBLE ASSETS (continued)

### Negative goodwill arising on acquisition of remaining 15.5% of NCL

	GROUP	
	2000 US\$'000	1999 US\$'000
Cost		
At 1 January	—	—
Additions	(45,868)	—
At year end	(45,868)	—
Accumulated amortisation		
At 1 January	—	—
Amortisation	—	—
At year end	—	—
Net book value at year end	(45,868)	—

### Acquisition of NCL

In December 1999, the Group through a wholly-owned subsidiary, Arrasas Limited, acquired an interest of approximately 38.6% of the then outstanding shares of NCL as at 31 December 1999, a company incorporated under the laws of the Kingdom of Norway. As at 31 December 1999, this investment was accounted for under the equity method of accounting. As this acquisition was completed close to the balance sheet date, the Group did not include the results of NCL in the consolidated profit and loss account for the year ended 31 December 1999 on the basis that the effect of accounting for its share of such results would not be material. As at 31 December 1999, the cost in excess of the fair value of NCL's net assets acquired was US\$203.5 million.

In January and February 2000, NCL issued a total of 16,613,517 shares as a result of the conversion of its convertible debts and options exercised under its share option plan. Following issuance of such shares, the Group's interest in NCL was 36.2%.

Certain related companies of the Group also acquired NCL's shares resulting in the Group and these related companies owning approximately 50% of NCL's shares as at 17 December 1999. Pursuant to the Norwegian Securities Trading Act (1997), the Group was required to make a mandatory offer for all outstanding ordinary shares and American Depository Shares ("ADS") of NCL not already owned by the Group and these related companies.

## 10. INTANGIBLE ASSETS *(continued)*

This mandatory offer was made on 13 January 2000 to each NCL shareholder (except for such shareholders who were US persons and all holders of NCL ADS (each ADS representing four ordinary shares)) at a price of 35 Norwegian Kronor ("NOK") (US\$3.931 approximately based on the exchange rate at 31 December 2000) per share. In connection with this mandatory offer, the Group made a concurrent offer to purchase all outstanding ordinary shares of NCL that were held by US persons and all outstanding ADSs at the same price of NOK35 (US\$3.931) per share, (NOK140 (US\$15.722) per ADS). The offers were not subject to any conditions and expired on 10 February 2000.

As a result of these mandatory offers, the Group acquired a further interest of approximately 48.3% in NCL resulting in the Group owning, including ordinary shares previously held by the Group, a total interest of about 84.5% of NCL's outstanding shares. Approximately 10.9% of the NCL's outstanding shares were held by companies related with, but not subsidiaries of the Group.

Prior to this further acquisition of a 48.3% interest in NCL, the Group equity accounted for its share of the results of NCL, net of amortisation of goodwill of US\$0.7 million as share of losses from associated company, in the consolidated profit and loss account. The Group's investment in NCL was reported in the accompanying balance sheets as "investment in associated company". Subsequent to the acquisition of this further interest in February 2000, the results of the operations of NCL have been consolidated using the purchase method of accounting.

As part of the NCL acquisition, on 29 March 2000, the Group acquired the other 50% interest in Norwegian Capricorn Line Limited ("Norwegian Capricorn") in which NCL owned a 50% interest with the intention of closing down the operation ("the joint venture acquisition"). Norwegian Capricorn operated a passenger cruise ship in and around Australia.

The Group recorded an amount of approximately US\$10.9 million as a liability in respect of the acquisition of the other 50% interest in Norwegian Capricorn. Of the US\$10.9 million, US\$9.5 million represents the liabilities assumed by the Group in excess of assets acquired at the time the Group decided to acquire the remaining 50% interest in the joint venture. In connection with this joint venture acquisition, one of the former joint venture partners committed to provide additional funding in the amount of US\$2.0 million provided that the Group continued the operations of the joint venture for a period of time. Such amount was paid to the Group subsequent to 29 March 2000 and was determined to be a contingent asset at the date of the joint venture acquisition. As such, this amount reduced the US\$9.5 million loss recorded by the Group at the time of the acquisition. The remaining US\$1.4 million relates to termination costs, (primarily severance costs and lease termination costs) that will be incurred as a result of the decision to terminate the joint venture operation.

## 10. INTANGIBLE ASSETS *(continued)*

In addition, the Group also recorded approximately US\$11.5 million as part of the liabilities assumed to effect acquisition of NCL. Such liabilities are for nonrecurring expenses consisting principally of severance and related benefits to former employees of NCL, legal and other expenses associated with environmental violations, and other costs incurred by NCL due to implementation of various changes in operating strategies as a result of the acquisition of NCL by the Group. Such amounts relate primarily to severance and related benefit expense of NCL executives and officers amounting to approximately US\$7.8 million of which approximately US\$2.0 million was paid as at 31 December 2000. The Group anticipates paying the remaining balance in 2001. Legal and other expenses associated with environmental violations amounted to approximately US\$2.8 million.

The Group recorded the assets acquired and liabilities assumed of NCL as at 1 March 2000. The excess of the total cost of acquisition over the fair value of assets acquired and liabilities assumed is classified as goodwill and is being amortised over 40 years.

Subsequently on 29 November 2000, the Group acquired a further 10.9% equity interest in NCL from these certain other companies related to the Group for a total cash consideration of approximately US\$46 million resulting in the Group holding approximately 95.4% equity interest in NCL. The Group therefore on 30 November 2000, exercised its right under the Norwegian Public Limited Liability Company Act to initiate a compulsory acquisition of the remaining ordinary shares of NCL that it does not own at an offer price of NOK13 per share. In addition, the Group also purchased 47,194 ordinary shares that were held in treasury by NCL for approximately US\$66,000. The fair value of NCL's net assets acquired in relation to the approximately 15.5% interest in NCL was in excess of the cost of acquisition in the amount of US\$45.9 million and was taken to reduce the goodwill previously recorded. Following the compulsory acquisition, the ordinary shares and ADS of NCL were delisted from the Oslo Stock Exchange and the New York Stock Exchange in December 2000.

The compulsory offer period lapsed on 7 February 2001. As at 8 February 2001, persons holding 8,916,969 shares accepted the offer and persons holding 1,845,677 shares rejected the offer. The persons holding the remaining 1,618,172 shares have not responded to the offer, and pursuant to Norwegian law are deemed to have accepted the offer. The persons who have explicitly accepted the offer and those who are deemed to have accepted the offer were paid for their shares on 23 February 2001. In relation to those persons who have not accepted the offer, Arrasas Limited is in a position to raise a valuation request to Oslo City Court for the court to determine the offer price resulting in a collective offer price to each of those persons. In the event that the court determines an offer price that is higher than NOK13 per share, Arrasas Limited would be required to pay all persons subject to this compulsory offer the difference between the such higher price and NOK13 per share.

## 11. FIXED ASSETS

Fixed assets consist of the following:

### GROUP

Year ended 31 December 2000	Cruise ships	Land, leasehold land, jetties, terminal building and improvements	Equipment and motor vehicles	Cruise ships under construction	Jetties, terminal and other construction in progress	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Cost and valuation</b>						
At 1 January 2000	1,250,226	51,435	128,650	67,869	4,545	1,502,725
Exchange differences	—	(22)	(260)	—	(414)	(696)
Assets of subsidiary acquired	1,293,298	1,009	15,136	96,254	—	1,405,697
Reclassification of asset	3,157	3,151	—	—	(6,308)	—
Additions	56,340	70	31,633	170,232	10,754	269,029
Assets written off	—	—	(436)	—	—	(436)
Revaluation	—	(3,562)	—	—	353	(3,209)
Disposals	(16,500)	—	(7,175)	—	—	(23,675)
<b>At 31 December 2000</b>	<b>2,586,521</b>	<b>52,081</b>	<b>167,548</b>	<b>334,355</b>	<b>8,930</b>	<b>3,149,435</b>
<b>Accumulated depreciation</b>						
At 1 January 2000	(101,802)	(1,920)	(38,777)	—	—	(142,499)
Exchange differences	—	9	148	—	—	157
Impairment of fixed assets	(27,873)	—	(5,731)	—	—	(33,604)
Charge for the year	(88,569)	(1,136)	(18,119)	—	—	(107,824)
Revaluation	—	2,240	—	—	—	2,240
Assets written off	—	—	125	—	—	125
Disposals	397	—	6,259	—	—	6,656
<b>At 31 December 2000</b>	<b>(217,847)</b>	<b>(807)</b>	<b>(56,095)</b>	<b>—</b>	<b>—</b>	<b>(274,749)</b>
<b>Net book value</b>						
<b>At 31 December 2000</b>	<b>2,368,674</b>	<b>51,274</b>	<b>111,453</b>	<b>334,355</b>	<b>8,930</b>	<b>2,874,686</b>
At 31 December 1999	1,148,424	49,515	89,873	67,869	4,545	1,360,226

Net book value of land, leasehold land, jetties, terminal building and improvements comprises:

	GROUP	
	2000	1999
	US\$'000	US\$'000
Hong Kong:	—	—
Outside Hong Kong:		
Freehold	6,508	—
Long leasehold (not less than 50 years)	43,725	48,542
Medium leasehold (less than 50 years but not less than 10 years)	1,041	973
	<b>51,274</b>	<b>49,515</b>

## 11. FIXED ASSETS (continued)

The analysis of the cost or valuation at 31 December 2000 of the above assets is as follows:

### GROUP

Year ended	Cruise ships	Land, leasehold land, jetties, terminal building and improvements	Equipment and motor vehicles	Cruise ships under construction	Jetties, terminal and other construction in progress	Total
31 December 2000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At cost	2,586,521	4,297	167,548	334,355	3,353	3,096,074
At 2000 valuation	—	47,784	—	—	5,577	53,361

In conjunction with the listing of the Company's entire share capital on The Stock Exchange of Hong Kong Limited, certain of the Group's properties were revalued at 30 September 2000 by the Directors on the basis of an open market valuation by Jones Lang LaSalle Limited, an independent property valuer.

The carrying amount of these certain properties would have been US\$56.5 million (1999: US\$53.4 million) had they been stated at cost less accumulated depreciation.

The Group contracted for the sale of MegaStar Capricorn and MegaStar Sagittarius for a total cash consideration of US\$33.0 million which approximates their carrying value. MegaStar Capricorn was delivered to the new owner in November 2000 and MegaStar Sagittarius was delivered to the new owner in March 2001. These sales had no material impact on the results of operations for the year ended 31 December 2000 and are not expected to have a material impact on the results of operations for the year ending 31 December 2001.

At 31 December 2000, the net book value of fixed assets pledged as security for the Group's long-term bank loans amounted to US\$2.2 billion (1999: US\$0.7 billion).

## 12. INVESTMENT IN ASSOCIATED COMPANY

	GROUP	
	2000	1999
	US\$'000	US\$'000
Share of net assets other than goodwill	—	224,811
Goodwill	—	203,535
	—	428,346
Listed investment at cost:		
Shares	—	428,346
Market value of listed shares	—	416,961

In December 1999, the Group 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. This investment has been accounted for under the equity method of accounting last year. During the year, the Group acquired the remaining interest in NCL and has included the results and assets and liabilities of NCL in the consolidated accounts of the Group from 1 March 2000. The ordinary shares and ADS of NCL were delisted from the Oslo Stock Exchange and the New York Stock Exchange in December 2000 (see note 10 above).

### 13. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2000	1999
	US\$'000	US\$'000
Investment at cost:		
Unlisted shares	1,234	60
Amount due from subsidiaries	2,039,506	1,113,447
Amount due to subsidiaries	(32,075)	(346)
	<u>2,008,665</u>	<u>1,113,161</u>

Amount due from/(to) subsidiaries has no fixed repayment terms.

Approximately US\$647.5 million of the amount due from subsidiaries in 2000 bears interest at a rate which varies according to the London Interbank Offer Rate. The remaining balance is interest free.

A list of principal subsidiaries is included in note 32 to the accounts.

### 14. OTHER ASSETS

	GROUP	
	2000	1999
	US\$'000	US\$'000
Loan arrangement fees	14,085	—
Software development costs, net	4,730	—
Others	1,547	—
	<u>20,362</u>	<u>—</u>

## 15. CONSUMABLE INVENTORIES

	GROUP	
	2000	1999
	US\$'000	US\$'000
Food and beverages	5,846	2,680
Supplies, spares and consumables	22,483	15,035
	<u>28,329</u>	<u>17,715</u>

## 16. TRADE RECEIVABLES

	GROUP	
	2000	1999
	US\$'000	US\$'000
Trade receivables	22,300	8,053
Less: Provisions	(2,380)	(2,176)
	<u>19,920</u>	<u>5,877</u>

Credit terms generally range from payment in advance to 30 days credit terms.

At 31 December 2000, the ageing analysis of the trade receivables were as follows:

	GROUP
	2000
	US\$'000
Current to 30 days	13,625
31 days to 60 days	2,223
61 days to 120 days	1,642
121 days to 180 days	929
181 days to 360 days	2,093
Over 360 days	1,788
	<u>22,300</u>

## 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	GROUP		COMPANY	
	2000	1999	2000	1999
	US\$'000	US\$'000	US\$'000	US\$'000
Deposits with banks -				
maturing within 3 months	190,518	9,856	175,978	3,405
Cash and bank balances	101,990	42,867	10	5
	<u>292,508</u>	<u>52,723</u>	<u>175,988</u>	<u>3,410</u>

## 18. RELATED PARTY TRANSACTIONS AND BALANCES

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, and certain members of his family controls the Group.

Dato' Lim Kok Thay, the Chairman, President and Chief Executive Officer of the Group, is a son of Tan Sri Lim Goh Tong.

Kien Huat Development Sdn Bhd ("Kien Huat") is a company in which a brother of Dato' Lim Kok Thay has a substantial interest.

Genting Berhad ("GB"), a company in which Dato' Lim Kok Thay has a deemed interest and is listed on the Kuala Lumpur Stock Exchange, controls Genting Overseas Holdings Limited ("GOHL") which in turn controls Genting International PLC ("GIPLC"), a company listed on the Luxembourg Stock Exchange. GB also controls Resorts World Bhd ("RWB"), a company also listed on the Kuala Lumpur Stock Exchange which in turn controls Resorts World Limited ("RWL") which is a substantial shareholder of the Company.

## 18. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

A description of certain other material transactions between the Group and these companies are set out below:

- (a) The Company demerged from GIPLC on 5 December 1997. Prior to this demerger, the Company entered into certain transactions with GIPLC and other companies controlled by GHK to align all cruise and cruise related activities under the Company including 50% of Star Cruise Services Limited (“SCSL”) which was transferred to the Company for US\$1 and to transfer all non-cruise and non-cruise related activities to GIPLC or other parties in which Dato’ Lim Kok Thay, has a deemed interest. As a result of these transfers, the Company received consideration of US\$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 GIPLC 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 US\$8.7 million in respect of this guarantee. This amount was accrued as a liability at 31 December 1997 and offset against the US\$91.4 million (net amount of US\$82.7 million) credit to additional paid-in-capital and was fully repaid in the year ended 31 December 1999. No further amounts are payable or receivable by the Company in respect of this guarantee.
- (b) Kien Huat, together with its related companies, is involved in constructing a terminal building and rehabilitating a ship berth in Laem Chabang, Bangkok, Thailand. In addition, Kien Huat is also involved in port improvements of the Group’s berthing facilities and other infrastructure facilities. Amount charged to the Group in respect of these services totaled US\$4.0 million and US\$5.2 million in the years ended 31 December 1999 and 2000 respectively.
- (c) On 22 March 1999, the Group purchased a parcel of land from a subsidiary of RWB for approximately US\$1.1 million. The Group made a deposit of US\$0.1 million on this property. Subsequently by a deed of revocation dated 1 August 2000, this agreement was revoked and rescinded and the deposit was refunded to the Group.
- (d) On 19 May 2000, the Company announced its intention to list its shares on a major stock exchange together with an accompanying equity fund raising. In this regard, the Company has obtained shareholders’ approval for the issue of up to 300 million new ordinary (or up to 1,500 million after the bonus issue) shares of the Company. The Company invited RWB to participate in the proposed issue. RWL advanced the Company US\$52 million. This advance bore interest at a rate equal to the one month US dollar Singapore Interbank Offer Rate plus 1% per annum and was advance subscription monies for the proposed issue of new ordinary shares and/or new securities convertible into ordinary shares.

## 18. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

On 4 October 2000 and 11 October 2000, the Company issued US\$213 million and US\$267 million respectively in principal amount Floating Rate Convertible Unsecured Loan Notes due 2001 ("Convertible Notes") in two tranches to RWL. Subsequently on 29 November 2000, US\$442.5 million of the Convertible Notes were mandatorily converted into 609,781,993 ordinary shares of the Company at a subscription price of approximately HK\$5.66 (US\$0.726) per share pursuant to the terms of the Convertible Notes. The Company repaid the remaining Convertible Notes not converted into ordinary shares at their principal amount on the same date.

- (e) GOHL advanced the Group US\$62 million on 17 February 2000; this advance was repaid on 2 October 2000. The advance bore interest at a rate equal to the one month US dollar Singapore Interbank Offer Rate plus 1% per annum.
- (f) GB and its related companies provide or have provided certain services to the Group, including internal audit, treasury services, secretarial services, certain information technology support services and other support services. In May 1999, GB ceased to provide internal audit services to the Group as the Group had established an internal audit group. The Group also purchased air tickets from a subsidiary of RWB. Amounts charged to the Group in respect of these services totaled US\$1.6 million each in the years ended 31 December 1999 and 2000.

On 1 August 2000, the Group entered into a joint promotion programme with RWB for the allocation of the cabins onboard one of its cruise ships to members of RWB's loyalty programme. The allocation of cabin forms part of the reward available to the members of RWB's loyalty programme. The amount charged to RWB was approximately US\$40,000 in the year ended 31 December 2000.

- (g) On 24 November 2000, Arrasas Limited entered into separate Stock Purchase Agreements with RWL, GOHL and Palomino Limited (an indirect subsidiary of GB) to acquire in aggregate of 29,110,200 ordinary shares representing approximately 10.9% of the issued share capital of NCL for a total cash consideration of NOK436,653,000 (US\$45,746,299) or NOK15 (US\$1.572) per share. The transaction was completed on 29 November 2000. The agreements require that in the event Arrasas Limited pays more than NOK15 (US\$1.572) per share in any subsequent transactions, Arrasas Limited will be required to pay to these related companies the difference between the such higher price per share and NOK15 per share (US\$1.572).

Amounts outstanding at the end of each fiscal year in respect of the above transactions (a) to (g) are included in the balance sheets within amounts due to related companies.

## 18. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(h) US\$260 million Subordinated loan

	GROUP		COMPANY	
	2000	1999	2000	1999
	US\$'000	US\$'000	US\$'000	US\$'000
Subordinated loan	—	260,000	—	260,000

On 20 December 1999, the Group obtained a short-term US\$260 million loan facility from Joondalup Limited, (“JL”) a wholly-owned company of GHL as trustee 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 on demand. JL has fully advanced the US\$260 million to the Group as at 31 December 1999. This term loan facility was subordinated to the US\$600 million short-term loan facility obtained on 19 December 1999.

On 24 November 2000, the Group entered into an agreement with JL where JL subscribed for 330,729,329 ordinary shares of US\$0.10 each in the capital of the Company at a subscription price of approximately HK\$5.66 (US\$0.726) per share upon capitalisation of US\$240 million of the US\$260 million subordinated loan. The Group repaid the remaining balance of the subordinated loan in December 2000.

(i) Transaction with a Director

On 7 January 2000, the Company entered into a service contract with Mr. David Colin Sinclair Veitch, a Director of the Company, as amended by letters dated 29 September 2000 and 30 October 2000 under which Mr. Veitch was granted an option to subscribe for US\$200,000 in value of new ordinary shares of the Company before the listing of the Company on The Stock Exchange of Hong Kong Limited (“Listing”). The option was exercised by Mr. Veitch before the Listing arising from which 275,000 new ordinary shares of US\$0.10 each of the Company were allotted and issued to him at the placement price of HK\$5.66 (US\$0.726) per share on 29 November 2000.

## 19. TRADE CREDITORS

	<b>GROUP</b>	
	<b>2000</b>	1999
	<b>US\$'000</b>	US\$'000
Trade creditors	<b>76,092</b>	21,312

The ageing of trade creditors as at 31 December 2000 is as follows:

	<b>GROUP</b>
	<b>2000</b>
	<b>US\$'000</b>
Current to 60 days	<b>68,994</b>
61 days to 120 days	<b>3,138</b>
121 days to 180 days	<b>3,381</b>
Over 180 days	<b>579</b>
	<b>76,092</b>

Credit terms granted to the Group generally vary from no credit to 45 days credit.

## 20. SHORT-TERM BANK LOANS

During the year ended 31 December 2000, the Group obtained unsecured short-term bank loans of US\$80.0 million. An amount of approximately US\$79.6 million was drawdown and repaid during the year. These short-term loans bear interest at rates which vary with the banks' cost of funds. As at 31 December 2000, the Group has a short-term revolving credit facility up to a maximum of US\$50 million which is available to be drawn down.

## 21. ACCRUALS AND OTHER LIABILITIES

Accruals and other liabilities consists of the following:

	GROUP		COMPANY	
	2000	1999	2000	1999
	US\$'000	US\$'000	US\$'000	US\$'000
Payroll, taxes and related benefits	13,706	6,437	—	—
Interest	34,878	13,247	—	—
Forward contracts	26,971	—	—	—
Others	85,782	40,455	1,692	1,018
	<u>161,337</u>	<u>60,139</u>	<u>1,692</u>	<u>1,018</u>

## 22. LONG-TERM BANK LOANS

Long-term bank loans consist of the following:

		GROUP		COMPANY	
		2000	1999	2000	1999
		US\$'000	US\$'000	US\$'000	US\$'000
US\$521.6 million syndicated term loan	(i)	469,227	504,000	—	—
US\$600 million term loan	(ii)	600,000	123,485	600,000	—
US\$210 million DnB Loan Agreement	(iii)	196,000	—	—	—
US\$623 million Fleet Loan	(iv)	597,600	—	—	—
1999 KfW Loan Agreement	(v)	96,790	—	—	—
Total liabilities		<u>1,959,617</u>	<u>627,485</u>	<u>600,000</u>	<u>—</u>
Less: Current portion		<u>(263,573)</u>	<u>(34,773)</u>	<u>(150,000)</u>	<u>—</u>
Long-term portion		<u>1,696,044</u>	<u>592,712</u>	<u>450,000</u>	<u>—</u>

## 22. LONG-TERM BANK LOANS (continued)

The following is a schedule of principal repayments of the long-term debts in respect of the loans outstanding as at 31 December 2000 and 1999.

	GROUP		COMPANY	
	2000 US\$'000	1999 US\$'000	2000 US\$'000	1999 US\$'000
Within one year	263,573	34,773	150,000	—
In the second year	128,573	34,773	—	—
In the third to fifth years	1,109,319	227,804	450,000	—
After the fifth year	458,152	330,135	—	—
	<u>1,959,617</u>	<u>627,485</u>	<u>600,000</u>	<u>—</u>

### (i) US\$521.6 million syndicated term loan

On 22 January 1998, a syndicated term loan for an amount up to US\$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 Group has fully drawdown this syndicated term loan during the year ended 31 December 1999.

This syndicated term loan is secured by the following:

- First preferred Panamanian ship mortgages over assets with a carrying value of US\$681.8 million as at 31 December 2000
- Guarantees given by the Company and a subsidiary, 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 ("LIBOR") 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, which have been modified from time to time, requiring the Group, among other things, to maintain minimum debt service coverage and limit debt to capital ratios.

## 22. LONG-TERM BANK LOANS *(continued)*

### (ii) US\$600 million term loan

On 19 December 1999, Arrasas Limited, a wholly-owned subsidiary of the Company obtained a short-term loan facility of US\$600 million to part finance the purchase of an equity interest in NCL. As at 31 December 1999, approximately US\$123.5 million of this term loan facility was drawdown. This term loan which bears interest at a rate which varies according to the London Interbank Offer Rate was fully drawdown in year 2000.

This term loan was secured by guarantees from the Company and its other subsidiaries and a pledge of the NCL shares owned by Arrasas Limited. This facility contained covenants that required the Company, among other things, to maintain minimum debt service coverage and limit debt to capital ratios.

On 18 August 2000, the Group entered into an agreement to refinance this US\$600 million short-term loan with a 5-year medium term loan. Subsequently on 12 October 2000, the Group drewdown this medium term loan. Based on the refinancing of this short-term loan, its outstanding balance as at 31 December 1999 was classified as a long-term bank loan in the accompanying balance sheet.

The 5-year medium term loan is secured by guarantees from certain subsidiaries and a pledge on shares of Arrasas Limited owned by the Company. The Group will repay US\$150 million of this loan in 2001 and this amount has been classified as a current liability as at 31 December 2000 (see note 33). Other than this payment, there are no other principal repayments in the three year period ending 18 August 2003.

The Group would have been in breach of one of the financial covenants relating to this 5-year medium term loan as at 31 December 2000. However, the Group has obtained a waiver from the need to comply with this covenant from its bank lenders.

The Group also has the following long-term bank loans as a result of the acquisition of NCL.

### (iii) US\$210 million DnB Loan Agreement

NCL entered into a non-cancelable loan agreement with a syndicate of banks (the "DnB Loan Agreement") to finance repayment of an existing loan and payments in connection with the construction of M/S Norwegian Sky (the "Vessel"). Under the terms of the DnB Loan Agreement, NCL may borrow the lesser of 60% of the market value of the Vessel or US\$210 million. In July 1999, NCL borrowed US\$210 million under this Loan Agreement. This term loan which bears interest at a rate which varies according to the London Interbank Offer Rate is repayable in 20 equal half yearly instalments with a maturity date payment to be paid on the maturity date.

### (iv) US\$623 million fleet loan

In December 1999, NCL obtained a US\$510 million reducing revolving credit facility with a syndicate of banks (the "Facility") to refinance certain debt facilities of NCL. In November 2000, the Group amended the Facility to provide for borrowings of up to US\$623 million. The additional proceeds were used to repay other debt outstanding at such time. The Facility matures in December 2004 with interest at LIBOR plus a margin of 1.10% to 1.60%. The margin is based on the ratio of NCL's funded debt to consolidated Earnings Before Interest, Taxation, Depreciation and Amortisation ("EBITDA"), as defined, for the latest 12-month period.

## 22. LONG-TERM BANK LOANS *(continued)*

### (v) **1999 KfW Loan Agreement**

In October 1999, in connection with the construction of the M/S Norwegian Sun, NCL entered into a loan agreement with a syndicate of banks (the "Construction Loan") to borrow up to US\$150 million. The Construction Loan is repayable upon delivery of the cruise ship by the shipyard but no later than 31 December 2001. During the year ended 31 December 2000, the Group began to drawdown amounts under the Construction Loan to pay the shipyard.

In May 2000, NCL obtained a permanent financing commitment from a syndicate of banks to provide up to US\$225 million in loans to refinance the Construction Loan and to finance the final payment to the shipyard. Amounts may be drawdown under this commitment until 31 December 2001. Based on this long term financing commitment, the Construction Loan is classified as long-term bank loans in the accompanying balance sheet at 31 December 2000.

### **Security for NCL bank loans (iii) to (v) above**

NCL's ships and its other property are pledged as collateral for NCL's long-term bank loans as at 31 December 2000. In addition, the ordinary shares of NCL Cruises Limited are pledged as collateral for Norwegian Cruise Line Limited's long-term bank loans.

Various debt agreements of NCL contain restrictive covenants, which have been modified from time to time, and among other things, limit the payment of dividends and capital expenditures, and require compliance with certain financial ratios.

### **US\$604.8 million syndicated term loan**

On 26 June 1999, a syndicated term loan for an amount up to US\$604.8 million was obtained by 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 at 31 December 2000.

As at 26 June 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.

## 22. LONG-TERM BANK LOANS *(continued)*

The Company has also 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

## 23. SHARE CAPITAL

	GROUP/COMPANY			
	Authorised share capital			
	Preference shares of US\$0.10 each		Ordinary shares of US\$0.10 each	
	No of shares	US\$'000	No of shares	US\$'000
At 1 January 1999 and 2000	10,000	1	999,990,000	99,999
Increase in authorised ordinary share capital	—	—	9,000,000,000	900,000
At 31 December 2000	10,000	1	9,999,990,000	999,999

### 23. SHARE CAPITAL (continued)

	GROUP/COMPANY	
	Issue and fully paid	
	Ordinary shares of US\$0.10 each	
	No of Shares	US\$'000
At 1 January 1999	624,447,243	62,445
Issuance of shares pursuant to Star Cruises Employees Share Option Scheme	220,000	22
	<u>624,667,243</u>	<u>62,467</u>
At 31 December 1999		
At 1 January 2000	624,667,243	62,467
Issuance of shares pursuant to Star Cruises Employees Share Option Scheme	403,500	40
Bonus issue on the basis of 4 new ordinary shares for every one existing ordinary shares	2,499,432,972	249,943
Issuance of ordinary shares on redemption of Convertible Notes issued to RWL	609,781,993	60,978
Issuance of ordinary shares upon capitalisation of US\$240 million of the US\$260 million subordinated loan from a related company (note 18)	330,729,329	33,073
Issuance of ordinary shares to independent placees, net of issuance costs of approximately US\$9 million	75,792,000	7,579
Issuance of ordinary shares to a Director pursuant to his service contract with the Company	275,000	28
	<u>4,141,082,037</u>	<u>414,108</u>

The net proceeds of approximately US\$490 million from the issue of approximately US\$442.5 million in principal amount of the Convertible Notes which were subsequently converted to ordinary shares and the placement of shares to the independent placees and after deducting related expenses has been applied as follows during the year ended 31 December 2000:

	US\$'000
Repayment of indebtedness	50,052
Repayment of indebtedness related to Genting Berhad, its subsidiaries and Joondalup Limited (including accrued interest)	176,471
Acquisition of the approximately 15.5% remaining interest in NCL, including related expenses	72,613
General working capital	61,457
	<u>360,593</u>

Approximately US\$54 million of the unapplied proceeds as at 31 December 2000 will be used to fund the Group's newbuildings programme in respect of SuperStar Scorpio, of which approximately US\$18 million was paid in February 2001. The remaining of US\$75 million will be used to repay long-term bank loans.

As at 31 December 2000, the balance of unapplied proceeds of US\$191 million was on deposit with banks.

## 24. RESERVES

GROUP	Share premium	Additional paid-in capital	Foreign currency translation adjustment	Unamortised share option expense	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 1999	675,547	84,130	(23,842)	(492)	27,138	762,481
Exchange translation differences	—	—	17	—	—	17
Net profit for the year	—	—	—	—	84,374	84,374
Issue of ordinary shares pursuant to Star Cruises Employees Share Option Scheme	276	—	—	—	—	276
Issuance of share options	—	5,246	—	(5,246)	—	—
Amortisation of share option expense	—	—	—	846	—	846
At 31 December 1999	<u>675,823</u>	<u>89,376</u>	<u>(23,825)</u>	<u>(4,892)</u>	<u>111,512</u>	<u>847,994</u>
At 1 January 2000	675,823	89,376	(23,825)	(4,892)	111,512	847,994
Exchange translation differences	—	—	(1,752)	—	—	(1,752)
Net loss for the year	—	—	—	—	(44,000)	(44,000)
Issue of ordinary shares pursuant to Star Cruises Employees Share Option Scheme	285	—	—	—	—	285
Bonus issue on the basis of four new ordinary shares for every one of existing share	(249,943)	—	—	—	—	(249,943)
Issue of ordinary shares on redemption of Convertible Notes issued to RWL	381,522	—	—	—	—	381,522
Issue of ordinary shares in satisfaction of US\$240 million of the US\$260 million subordinated loan	206,927	—	—	—	—	206,927
Issue of ordinary shares to independent placees, net of issuance costs of approximately US\$9 million	39,067	—	—	—	—	39,067
Issue of ordinary shares to a Director pursuant to his service contract with the Company	172	—	—	—	—	172
Issuance of share options	—	4,576	—	(4,576)	—	—
Amortisation of share option expense	—	—	—	557	—	557
At 31 December 2000	<u>1,053,853</u>	<u>93,952</u>	<u>(25,577)</u>	<u>(8,911)</u>	<u>67,512</u>	<u>1,180,829</u>

## 24. RESERVES (continued)

COMPANY	Share premium	Additional paid-in capital	Unamortised share option expense	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 1999	675,547	83,881	(492)	37,116	796,052
Net loss for the year	—	—	—	(4,039)	(4,039)
Issue of ordinary shares pursuant to Star Cruises Employees Share Option Scheme	276	—	—	—	276
Issuance of share options	—	5,246	(5,246)	—	—
Amortisation of share option expenses	—	—	846	—	846
At 31 December 1999	<u>675,823</u>	<u>89,127</u>	<u>(4,892)</u>	<u>33,077</u>	<u>793,135</u>
At 1 January 2000	675,823	89,127	(4,892)	33,077	793,135
Net profit for the year	—	—	—	256	256
Issue of ordinary shares pursuant to Star Cruises Employees Share Option Scheme	285	—	—	—	285
Bonus issue on the basis of four new ordinary shares for every one of existing share	(249,943)	—	—	—	(249,943)
Issue of ordinary shares on redemption of Convertible Notes issued to RWL	381,522	—	—	—	381,522
Issue of ordinary shares upon capitalisation of US\$240 million of the US\$260 million subordinated loan	206,927	—	—	—	206,927
Issue of ordinary shares to independent placees, net of issuance costs of approximately US\$9 million	39,067	—	—	—	39,067
Issue of ordinary shares to a Director pursuant to his service contract with the Company	172	—	—	—	172
Issuance of share options	—	3,059	(3,059)	—	—
Amortisation of share option expense	—	—	358	—	358
At 31 December 2000	<u>1,053,853</u>	<u>92,186</u>	<u>(7,593)</u>	<u>33,333</u>	<u>1,171,779</u>

## 25. OTHER LONG-TERM LIABILITIES

	GROUP		COMPANY	
	2000	1999	2000	1999
	US\$'000	US\$'000	US\$'000	US\$'000
Deferred gains on derivative instruments	2,830	—	858	—
Deferred lease liability	2,962	—	—	—
Pension plan	2,021	—	—	—
Others	2,212	—	—	—
	<u>10,025</u>	<u>—</u>	<u>858</u>	<u>—</u>

## 26. DEFERRED TAXATION

	GROUP	
	2000	1999
	US\$'000	US\$'000
Excess of capital allowances over depreciation	168	30
	<u>168</u>	<u>30</u>

## 27. 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 realised as at the balance sheet date or that will be realised 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 Group's financial instruments:

### (a) Certain short-term financial instruments

The carrying amounts of cash, cash equivalents, trade receivables, trade creditors, short-term bank loans and accrued liabilities approximate their fair values due to the short-term maturities of these instruments.

### (b) Long-term bank loans

As at 31 December 2000, the fair value of the long-term bank loans, including the current portion, was approximately US\$1,958.0 million, which was approximately US\$1.6 million less than the carrying values. The difference between the fair value and carrying value of the long-term bank loan is due to NCL's fixed rate and variable rate debt obligations carrying interest rates that are above or below market rates at the measurement dates. The fair value of long-term bank loans is estimated based on rates currently available to the Company for the same or similar terms and remaining maturities.

## 27. FINANCIAL INSTRUMENTS *(continued)*

### (c) Interest rate swaps and foreign exchange forward contracts

- (i) The Group entered into an amortising interest rate swap to effectively convert the interest rate on US\$30 million of the term loan from a floating rate obligation to a fixed rate obligation in the year ended 31 December 1998. The fair market value of the amortising interest rate swap was US\$2 million as at 31 December 1999, which was favourable to the Group. Under this interest rate swap, the Group will exchange at six monthly intervals, the difference between the fixed rate and the floating rate interest amount calculated by reference to the agreed amortising notional principal amount. The notional principal amount will decrease equally over the specified interval to an amount of US\$7 million on 25 March 2010. This swap terminates on 25 September 2010. In the year ended 31 December 2000, the Group terminated the amortising interest rate swap and recorded a gain of US\$2.1 million. This gain has been deferred under other long-term liabilities and credited to consolidated profit and loss account over the remaining lives of the swaps.
- (ii) In 1999, the Group entered into interest rate collar swap agreements with a total notional amount of US\$70 million to limit its exposure to fluctuations in interest rate movements. The estimated fair market value of these interest rate collar swap agreements was approximately US\$0.6 million as at 31 December 1999, which was favourable to the Group. Under the interest rate collar swap agreements, the Group 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 amortising principal amount as the notional principal amount will decrease equally over the specified interval to an approximate amount of US\$19 million in September 2010. The Group is required to place cash of approximately US\$2.2 million with the other party as collateral for these swaps. In the year ended 31 December 2000, the Group terminated the interest rate collar swaps and recorded a gain of US\$0.9 million. This gain has been deferred under other long-term liabilities and credited to consolidated profit and loss account over the remaining lives of the swaps.
- (iii) On 17 February 2000, the Group entered into a series of forward exchange contracts to hedge NOK commitments for the purchase of the remaining interest in NCL. These contracts were closed following the compulsory acquisition initiated by the Group. Gain or loss resulting from these forward exchange contracts are deferred and included in the cost for purchasing the remaining interest in NCL.
- (iv) The Group entered into forward contracts totalling US\$167.0 million to hedge currency exchange risk relating to its anticipated Singapore dollars' stream of revenue. The estimated fair market value of the forward contracts as at 31 December 2000 was US\$3.7 million which was favourable to the Group. The changes in the fair value of these forward contracts are included in other income.

## 27. FINANCIAL INSTRUMENTS (continued)

- (v) The Group has forward contracts that hedge DEM commitments for construction of a cruise ship. As at 31 December 2000, the notional amount of the contracts was US\$165.6 million and their estimated fair value was approximately US\$148.6 million.
- (vi) The Group has forward contracts relating to French franc mortgage obligations on the *M/S Norwegian Dream*. These forward contracts were closed in conjunction with the refinancing of such debts in year ended 31 December 2000.

The fair values of these instruments have been estimated using public market prices or quotes from reputable financial institutions. The Group had no significant concentrations of credit risk as at 31 December 2000 other than deposits of cash with reputable financial institutions.

## 28. COMMITMENTS AND CONTINGENCIES

- (i) Capital expenditure

The Group had the following commitments as at 31 December 2000 and 1999:

	GROUP	
	2000	1999
	US\$'000	US\$'000
Contracted but not provided for		
- Cruise ships under construction	840,807	730,846
- Cruise terminal under construction	9,547	—
	<u>850,354</u>	<u>730,846</u>
Authorised but not contracted for	—	—

- (ii) Operating leases

- (a) Rent expense under non-cancellable operating lease commitments was US\$5.4 million and US\$1.4 million for the years ended 31 December 2000 and 1999.

At 31 December 2000 and 1999, minimum annual rentals for leases were as follows:

	GROUP	
	2000	1999
	US\$'000	US\$'000
Within one year	4,060	858
In the second to fifth year inclusive	14,587	692
After the fifth year	21,537	—
	<u>40,184</u>	<u>1,550</u>

## 28. COMMITMENTS AND CONTINGENCIES (continued)

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

NCL leases a ship, formerly owned by it and known as the M/S Norwegian Star, from Actinor Cruises AS under an agreement entered into in connection with the sale of the ship in November 1996 (the "Actinor Lease"). The Actinor Lease provides for the charter of the cruise ship for an initial period of six years beginning in November 1996 with two one-year renewal options, which may be exercised by NCL unless an event of termination, as defined, has occurred during the lease term. The Actinor Lease also provides for a purchase option by the Group, which is exercisable beginning on the third anniversary date of the Actinor Lease.

The Group recorded charter expense of approximately US\$18.7 million for the year ended 31 December 2000 as an operating expense under the terms of the leases.

At 31 December 2000 and 1999, minimum annual rentals payable for leases were as follows:

	GROUP	
	2000	1999
	US\$'000	US\$'000
Within one year	20,545	11,885
In the second to fifth year inclusive	19,776	24,565
	<u>40,321</u>	<u>36,450</u>

- (iii) Charter hire revenue

Charter hire revenue receivable under non-cancellable operating lease commitments in respect of cruise ships, catamaran and onboard equipment was US\$14.0 million and US\$18.8 million in the years ended 31 December 2000 and 1999.

At 31 December 2000 and 1999, minimum annual rentals receivable for leases were as follows:

	GROUP	
	2000	1999
	US\$'000	US\$'000
Within one year	14,241	14,268
In the second to fifth year inclusive	6,669	20,910
	<u>20,910</u>	<u>35,178</u>

## 29. CONTINGENT LIABILITIES

### (i) Contingencies

As required by the United States Federal Maritime Commission (“FMC”), NCL maintains a US\$15 million performance guarantee with respect to liabilities for non-performance of transportation and other obligations to passengers. In 1998, NCL obtained a letter of credit to satisfy the FMC requirements. The FMC has proposed rules which, if adopted, would eliminate the US\$15 million ceiling on the performance guarantee requirements and replace it with a sliding scale. The period for public comment has expired. If the proposed rules were to be implemented, NCL’s performance guarantee would increase to approximately US\$100 million. The Group cannot predict if or when such rules will be adopted or the final form of such rules.

### (ii) Material Litigation

- (1) A proposed class action suit was filed in 1995 in the United States District Court for the Southern District of Florida against NCL alleging NCL violated the Florida Unfair and Deceptive Trade Practices Act (the “Act”) by including an element of profit in NCL’s port charges. The District Court granted three motions to dismiss filed by NCL with the final dismissal granted with prejudice. After the dismissal of the case by the District Court, three similar complaints were filed against NCL in Dade County Circuit Court in 1996. The complaints have been consolidated and allege violation of the Act, common law fraud and negligence. The Court has heard arguments on class certification of this case and has taken plaintiffs motion for class certification under advisement. Five similar class actions have been filed in other states against NCL and all of these non-Florida actions have been dismissed due to improper venue based upon a forum selection provision in NCL’s passenger ticket contract. The Court denied class certification of this surviving Florida case. However, the Third District Court of Appeal subsequently reversed the Court’s denial of class certification and remanded the case to the Court with instructions to certify the class. NCL sought a rehearing of the District Court of Appeal’s decision which was denied. NCL will appeal the issue to the Florida Supreme Court. NCL also intends to pursue settlement negotiations with respect to this matter. Settlement agreements entered into by other cruise lines that have settled similar claims have involved the cruise lines issuing cruise credit certificates to the class plaintiffs, paying attorneys’ fees to the class plaintiffs counsel and covering administrative expenses of the class settlement. At 31 December 2000, NCL established a liability for potential payments of attorneys’ fees and administrative expenses of settlement.
- (2) A proposed class action suit was filed in 1995 against NCL and other unrelated cruise lines alleging misrepresentations by owners and operators of cruise ship casinos relating to the use of electronic gaming devices. The suit has been transferred to Federal District Court in Las Vegas, Nevada. Also named as defendants in the case are numerous land-based casinos and manufacturers of electronic gaming devices. On 19 December 1997, the Court entered an order, based on the motions filed by the defendants, dismissing the wire fraud claim, granting a motion to strike certain parts of the amended complaints and denying the remaining motions to dismiss. The Court granted the defendants’ motion to separate discovery into “merits” and “class” phases and to stay “merits” discovery until the Court rules on class certification. The defendants and plaintiffs have filed their arguments regarding class certification with the Court and a decision is pending. No discovery has commenced on the merits of this case. Accordingly, no provision has been made in the accompanying accounts for any liability which may result from this case. Management plans to vigorously defend this suit.

## 29. CONTINGENT LIABILITIES *(continued)*

- (3) On 16 May 2000, NCL voluntarily self reported to the U.S. Attorney's Office for the Southern District of Florida ("U.S. Attorney's Office") a pattern of violations of environmental law on several of its ships. These violations were identified by a detailed internal review and investigation. Management acted immediately to halt the infractions and commenced a comprehensive remedial programme to ensure that there will be no repeat of this problem. The Group is committed to achieving and maintaining the highest operational standards and is cooperating fully with the U.S. Attorney's Office and other authorities to investigate this matter. In June 2000, a federal grand jury in Miami, Florida issued a subpoena to the Group to produce documents relating to these same matters. Since that time, the Group has cooperated with the Government in its investigation and turned over a substantial amount of documents as well as the results of its internal investigation. At this time, the Group cannot predict the ultimate resolution of this matter. Accordingly, no provision has been made in the accompanying accounts for any liability which may result from this matter except for a liability for payment of attorneys' fees and administrative expenses.
- (4) Upon re-delivery of the M/S Leeward to its owners, Effjohn International NV ("Effjohn"), at the time of expiration of the bareboat charter entered into between NCL and Effjohn, Effjohn claimed damages relating to the condition of the ship and its equipment. On 14 July 2000, NCL received written notice from Effjohn of its intent to initiate arbitration proceedings to recover damages relating to the condition of the ship at the time of re-delivery and loss of revenue for the period the ship was out of service for repair. Management intends to vigorously defend this claim.
- (5) The Group is routinely involved in personal injury and personal property damage claims typical of the cruise ship business. After application of deductibles, these claims are covered by insurance and other indemnity arrangements. In the opinion of management, such claims, if decided adversely, individually or in the aggregate, would not have a material adverse effect on the results of operation, cash flows, and financial position of the Group.

## 30. SHARE OPTION PLANS

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

The terms and conditions of the SCESOS were identical to the GIESOS except for the exercise price of share options which reflected the de-merger. The allocation of the total amount of options under the SCESOS cannot exceed 5% of the issued ordinary shares of the Company at any time during the existence of the SCESOS.

### **30. SHARE OPTION PLANS** *(continued)*

#### **Key terms and conditions for the period to 22 October 2000**

Options were 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 became 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 was 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.

#### **Key terms and conditions for the period from 23 October 2000**

On 23 October 2000, the share option agreement was modified to reflect a four for one share bonus and to accelerate the original vesting period to comply with the requirements of The Stock Exchange of Hong Kong Limited. As a result, options vest over a period of 10 years from their original date of grant. Options generally became exercisable as to 20% and 30% of the amount granted 3 years and 4 years after the grant date and the remaining options can be exercised annually in equal tranches over the remaining option period.

No further options will be granted under the SCESOS after the listing of the Company's entire share capital on The Stock Exchange of Hong Kong Limited.

The Group accounts for compensation expense in respect of awards of shares options to employees based on the excess, if any, of the quoted market price of the share at the date of the grant over the exercise price of the option. The excess has been brought to the additional paid-in-capital reserve and is recognised as an expense over the option periods. The unamortised amount is included as a separate component of reserves.

### 30. SHARE OPTION PLANS (continued)

A summary of the changes in share options outstanding during the years ended 31 December 1999 and 2000 after adopting the effect of bonus issue is set out below:

	<b>Options outstanding (No. of shares in thousands)</b>	<b>Weighted average price per share</b>	<b>Options exercisable at the end of the year (No. of shares in thousands)</b>
		US\$	
Balance at 1 January 1999	27,775	0.3426	—
Options granted	56,851	0.3418	
Options cancelled/forfeited	(9,598)	0.3640	
Options exercised	(1,100)	0.2712	
	<hr/>		
Balance at 31 December 1999	73,928	0.3402	6,580
Options granted	15,206	0.3488	
Options cancelled/forfeited	(9,822)	0.3398	
Options exercised	(3,670)	0.2738	
	<hr/>		
Balance at 31 December 2000	<u>75,642</u>	0.3452	4,537

During the years ended 31 December 1999 and 2000, the prices of the options granted were US\$0.2712 and US\$0.4550. The prices for cancelled/forfeited options were also US\$0.2712 and US\$0.4550.

A summary of the share options outstanding as at 31 December 2000 after adjusting for the effect of bonus issue is as follows:

<b>Exercise price</b>	<b>Options outstanding</b>		<b>Options exercisable</b>
	<b>Number outstanding (in thousands)</b>	<b>Weighted average remaining life (years)</b>	<b>Number (in thousands)</b>
US\$0.2712	45,173	5.4	4,537
US\$0.4550	<hr/> 30,469	<hr/> 5.8	<hr/> —
	<u>75,642</u>	<u>5.6</u>	<u>4,537</u>

### **30. SHARE OPTION PLANS** *(continued)*

On 23 August 2000, a share option scheme ("Scheme") for the benefit of the full time employees of any subsidiary of the Group, including directors of any subsidiary of the Group was adopted by the shareholders of the Company. Pursuant to the Scheme, the Directors of the Company may, at their discretion, grant options to any such employees of any subsidiaries of the Group to subscribe for shares in the Company.

The subscription price for shares under the Scheme shall be determined by the Directors of the Company, being not less than 80% of the average closing prices of the shares of the Company for the five trading days immediately preceding the date of offer of the option, or the nominal value of the shares, whichever is higher. The maximum number of shares in respect of which options may be granted under the Scheme (or under any other employees' share option scheme of the Company pursuant to which options may from time to time be granted to executives and/or employees and including shares which are the subject of call options under the SCESOS outstanding or exercised after the Listing of the Company's shares on The Stock Exchange of Hong Kong Limited) shall not exceed 5% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Scheme or under any other share option scheme as mentioned above.

As at 31 December 2000, no option was granted under the Scheme.

### **31. RETIREMENT BENEFIT COST**

#### **Defined Contribution Plans**

NCL has a defined contribution plan (the "Plan") for its shoreside employees to which NCL contributes 5% of each participant's base annual earnings with an additional 5% contribution for annual earnings in excess of the taxable wage base (with certain limitations) in effect for the Plan year as determined under the Social Security Act. The Plan is subject to the provisions of the Employment Retirement Income Security Act of 1974 ("ERISA").

In addition, NCL maintains a 401(k) Plan (the "401(k) Plan"). The 401(k) Plan covers substantially all its shoreside employees. Subject to certain limitations, participants may elect to contribute to the Plan from 1% to 10% of their compensation for each payroll period. NCL contributes an amount equal to 25% of the participant's contributions not to exceed 6% of each participant's compensation. In addition, NCL may make supplemental matching contributions based on a specific percentage, as determined by NCL, of the participant's contributions, which together with the required match, are not to exceed 6% of each participant's compensation.

NCL maintains a Supplemental Executive Retirement Plan ("SERP Plan") for certain of its key employees whose benefits are limited under the Plan and the 401(k) Plan. NCL contributes to the SERP Plan on behalf of each participant an amount that would have been contributed without regard to any limitations imposed by the Internal Revenue Code.

In July 1992, NCL established a supplemental defined contribution pension plan for deck and engine officers and key personnel working under contracts with NCL. NCL's contribution is in accordance with the Norwegian Social Security provisions for seamen.

### **31. RETIREMENT BENEFIT COST** *(continued)*

Expense related to the benefit plans described above approximated US\$3.9 million in the consolidated profit and loss account for the year ended 31 December 2000 (1999: US\$-).

The Group's contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. US\$0.1 million of the forfeited contribution was utilised during the year ended 31 December 2000 (1999: US\$-). As at 31 December 2000, US\$0.1 million (1999: US\$-) was available to reduce future contribution.

#### **Defined Benefit Plan**

NCL has unfunded pension obligations for certain of its former employees. Net pension cost of US\$0.1 million was included in the consolidated profit and loss account for the year ended 31 December 2000 (1999: US\$-). The liability for these pension obligations amounted to US\$2 million as at 31 December 2000 (1999: US\$-) and was included under other long-term liabilities.

An actuarial valuation was performed in respect of the defined benefit plan as at 31 December 2000 by Storebrand Pensjonstjenster AS of Norway to determine the net present value of future retirement benefits. The plan was valued using the assumption of a discount rate of 5% and annual increase in pension of 2%.

### 32. PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiary companies as at 31 December 2000:

<u>Name of company</u>	<u>Principal country of operation</u>	<u>Country of incorporation</u>	<u>Issued and fully paid up share capital</u>	<u>Effective equity interest in percentage</u>	<u>Principal activities</u>
Subsidiaries held directly:-					
Star Cruise Management Limited	Note (1)	Isle of Man	US\$1,000,000	100.00	Investment holding, ship management and marketing services
Cruise Properties Limited	Isle of Man	Isle of Man	RM2	100.00	Investment holding
Inter-Ocean Limited	Isle of Man	Isle of Man	US\$2	100.00	Investment holding
Star Cruise Services Limited	Isle of Man	Isle of Man	US\$2	100.00	Investment holding and cruise services
Arrasas Limited	Isle of Man	Isle of Man	US\$2	100.00	Investment holding
Subsidiaries held indirectly:-					
Superstar Leo Limited	Note (2)	Isle of Man	US\$2	100.00	Bareboat chartering
Superstar Virgo Limited	Note (2)	Isle of Man	US\$2	100.00	Bareboat chartering
Superstar Libra Limited	—	Isle of Man	US\$2	100.00	Pre-operating
Superstar Scorpio Limited	—	Isle of Man	US\$2	100.00	Pre-operating
Star Cruises Ship Simulator Sdn. Bhd.	Malaysia	Malaysia	RM150,000	100.00	Operator of ship simulator for training purposes
NCL Holding ASA	Norway	Norway	US\$87,803,113	100.00	Investment holding
NCL Cruises Ltd	Note (2)	Bermuda	US\$23,844,904	100.00	Cruise services
Norwegian Cruise Line Limited	Note (2)	Bermuda	US\$317,325,987	100.00	Cruise services

RM: Malaysian Ringgit

- (1) This company provides ship management and marketing services to cruise ships operating substantially in international waters.
- (2) These companies provide cruise services substantially in international waters.

### **33. SIGNIFICANT SUBSEQUENT EVENTS**

- (i) On 19 January 2001, the Group contracted for the sale of m. v. Star Aquarius for a net cash consideration of US\$75 million for delivery at the end of February 2001. The Group recorded an impairment loss of US\$37.7 million in the year ended 31 December 2000 in respect of m.v. Star Aquarius (see note 3).
  
- (ii) In April 2001, the Group signed an amendment agreement in respect of its US\$600 million 5-year term loan. This amendment agreement, inter alia, amends certain terms contained in the original loan agreement. Furthermore, the Group will repay US\$150 million of this loan in 2001 under the terms of this amendment agreement and this amount has been classified as a current liability as at 31 December 2000.