

## 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 (“HKSA”). 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.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statement
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

Where necessary, comparative figures have been reclassified to conform to the current year’s presentation.

NCLL, a Group subsidiary that owns and operates nine of the Group’s ships, has a sizeable funding requirement during 2003 that will require support from the Group. Loan repayments, together with collateral requirements in connection with entering into a new credit card processor relationship, amount to US\$351 million, with US\$143 million of this figure due in December 2003. It is expected that US\$100 million of the total figures will be met by issuance of a letter of credit to be obtained by Star Cruises. The balance is expected to be met by a combination of cash flow from operations and funding from Star Cruises.

The Group generally needs approval from its bankers before advancing funds to its major US-based subsidiaries. In this instance Star’s bankers have consented to the obtaining of a letter of credit, and have issued a preliminary consent to the infusion of additional cash into Arrasas Limited (the immediate holding company of NCLL).

The Group’s Directors are confident that the Group has various options to fund NCLL and has sufficient cash reserves to assist, as necessary, in meeting all NCLL obligations.

### (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.

In the Company’s balance sheet, investments in subsidiaries are stated at cost less any impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 1. Principal Accounting Policies *(continued)*

### (c) 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 in the profit and loss account over 26 years, the remaining weighted average useful life of the non-monetary assets acquired.

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.

The Group is currently amortising goodwill and trade names and trademarks over useful lives of 40 years which is in excess of the rebuttable presumption in SSAP 29 "Intangible Assets" and SSAP 30 "Business Combinations" that the useful lives of such assets should not exceed 20 years.

- (i) The Group amortises goodwill on a straight-line basis over 40 years which is consistent with the useful life of goodwill adopted by other leading cruise companies. The Group believes that 40 years is a reasonable estimate of the useful lives of this goodwill as NCL business has been in operation since the 1960s and operates in a market that is expected to grow and in which there are barriers to entry given the major capital investment required.
- (ii) Trade names and trademarks of Norwegian Cruise Line and Orient Lines recorded on the acquisition of NCL is being amortised on a straight-line basis over 40 years. The Group considers that 40 years is a reasonable estimate of the useful live of these assets as the trade names and trademarks have already been in existence for many years (since 1960s). In addition, the Group incurs and intends to continuously incur significant advertising expenditure which supports the selection of a long useful life for these assets.

As the Group amortises goodwill and intangible assets over a period exceeding twenty years, the recoverable amounts of goodwill and intangible assets are assessed annually (See note 1(x)).

### (d) Translation of foreign currencies

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".

## 1. Principal Accounting Policies *(continued)*

### (e) **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.

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

### (f) **Drydocking expenses**

Drydocking costs represent major inspection and overhaul costs and are depreciated to reflect the consumption of benefits, which are to be replaced or restored by the subsequent drydocking generally every two to three years. The Group has included these drydocking costs as a separate component of the ship costs in accordance with revised SSAP 17 “Property, Plant and Equipment”.

### (g) **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.

### (h) **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.

### (i) **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 an asset is expected to be payable or recoverable in the foreseeable future.

### (j) **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.

### (k) **Restricted cash**

Restricted cash consists of cash collateral in respect of certain loan agreements, letters of credit and other obligations including requirements imposed by the Group’s bank card processor.

### (l) **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)*

### **(m) 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.

### **(n) 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 exceeding five years.

### **(o) Provisions, contingent liabilities and contingent assets**

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, the asset is recognised.

### **(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 buildings 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, catamaran and passenger ferry 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 buildings	28 - 99 years
Equipment and motor vehicles	3 - 20 years

## 1. Principal Accounting Policies *(continued)*

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

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.

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 and interest rate swaps to limit its exposures to fluctuations in foreign currency exchange rates, and to modify its exposure to interest rate movements and to manage its interest costs.

The Group uses forward contracts to manage foreign currency exchange rate risk related to certain projected cash flows. These instruments are carried at fair value in the balance sheet. Changes in the fair value of forward contract are recognised in the profit and loss account.

Interest rate swaps allow the Group to convert long-term borrowings from floating rates and swap them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amount. The differential in interest rates to be paid or received under interest rate swaps is recognised during the financial year in the consolidated profit and loss account as part of interest expense. These instruments are carried at fair value in the balance sheet. Changes in the fair value of the interest rate swaps are deferred, included as a separate component of reserves, and recognised in the profit and loss account as the underlying hedged items are recognised.

### (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.

### (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 in the period to which they relate. The pension obligations, which are wholly unfunded, are determined based on the estimates of the effects of future events on the actuarially determined net present value of accrued pension obligations and are determined by a qualified actuary on a regular basis. Actuarial gains and losses are recognised as an expense over the average remaining service lives of employees.

## 1. Principal Accounting Policies *(continued)*

### (v) **Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

### (w) **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.

### (x) **Recoverability of assets**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets, goodwill and other intangible assets, trade names and trademarks are impaired. If any indication of impairment of an asset exists, and annually for goodwill and other intangible assets (as such assets are being amortised over 40 years (see note 1(c)), the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for the same asset, in which case it is treated as a revaluation decrease. 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 Group measures the amount of the impairment by comparing the carrying amount of an asset to its recoverable amount which is the higher of an asset's net selling price or its value in use. The Group estimates recoverable amount based on the best information available making whatever estimates, judgements and projections considered necessary. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties less costs of disposal. The estimation of value in use is measured using various financial modeling techniques such as discounting future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life at discount rates which are commensurate with the risk involved.

### (y) **Segment reporting**

The Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, intangible assets other than goodwill, inventories, receivables and cash and cash equivalents. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and intangible assets other than goodwill, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, turnover is based on the country in which the customer is located.

## 2. Turnover, Operating Profit and Segment Information

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. Charter hire revenue includes the lease operation of a catamaran to a third party customer.

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

2002	Cruise and cruise related activities	Charter Hire	Total
	US\$'000	US\$'000	US\$'000
Turnover	1,570,507	3,081	1,573,588
Operating profit	160,510	332	160,842
Interest income			3,325
Financial costs			(99,326)
Other non-operating expenses, net			(12,435)
Profit before taxation			52,406
Taxation			(1,475)
Net profit for the year			50,931
Segment assets	4,133,351	32,627	4,165,978
Goodwill	338,788		338,788
Other unallocated assets			253,931
Total assets			4,758,697
Segment liabilities	503,453	228	503,681
Tax liabilities			1,461
Long-term bank loans			2,434,025
Total liabilities			2,939,167
Capital expenditure	420,648	11	420,659
Depreciation and amortisation	173,866	2,300	176,166
<b>2001</b>			
Turnover	1,369,051	12,515	1,381,566
Operating profit	73,406	11,135	84,541
Interest income			6,821
Financial costs			(118,492)
Other non-operating income, net			12,846
Loss before taxation			(14,284)
Taxation			(1,759)
Net loss for the year			(16,043)

## 2. Turnover, Operating Profit and Segment Information *(continued)*

	<b>Cruise and cruise related activities</b>	<b>Charter Hire</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Segment assets	3,836,754	34,329	3,871,083
Goodwill	347,903		347,903
Total assets			4,218,986
Segment liabilities	427,030	414	427,444
Tax liabilities			2,186
Long-term bank loans			2,215,115
Total liabilities			2,644,745
Capital expenditure	645,564	3	645,567
Depreciation and amortisation	148,303	6,114	154,417
Impairment of fixed assets	8,430	—	8,430

The Group's turnover, operating profit/(loss) and assets in its principal markets of Asia Pacific and North America are analysed as follows:

	<b>Turnover</b>	<b>Operating Profit/(Loss)</b>	<b>Total Assets</b>	<b>Capital expenditure</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>2002</b>				
Asia Pacific	466,696	93,868	1,201,591	29,850
North America (note)	1,015,474	69,738	2,964,387	390,809
Others	91,418	6,351	—	—
	<u>1,573,588</u>	<u>169,957</u>	<u>4,165,978</u>	<u>420,659</u>
Goodwill		(9,115)	338,788	
Other unallocated assets		—	253,931	
		<u>160,842</u>	<u>4,758,697</u>	
<b>2001</b>				
Asia Pacific	511,669	94,171	1,277,949	34,375
North America (note)	765,585	(2,425)	2,593,134	611,192
Others	104,312	1,065	—	—
	<u>1,381,566</u>	<u>92,811</u>	<u>3,871,083</u>	<u>645,567</u>
Goodwill		(8,270)	347,903	
		<u>84,541</u>	<u>4,218,986</u>	

Note: Substantially, all this turnover and operating profit/(loss) arises in the United States of America.

### 3. Impairment of Fixed Assets

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Impairment loss - ship	<u>—</u>	<u>8,430</u>

In December 2001, the Group carried out an impairment assessment on certain of its cruise ships. As a result of this assessment, the Group wrote down the carrying value of a ship in the amount of US\$8.4 million.

### 4. Operating Profit

Operating profit is stated after charging the following:

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Charging:		
Net foreign currency translation losses	<b>466</b>	3,639
Amortisation of goodwill	<b>10,286</b>	9,441
Amortisation of negative goodwill	<b>(1,171)</b>	(1,171)
Depreciation of fixed assets	<b>158,698</b>	135,453
Amortisation of software development costs	<b>1,063</b>	3,404
Amortisation of trade names and trademarks	<b>7,290</b>	7,290
Total depreciation and amortisation	<b>176,166</b>	154,417
- relating to operating function	<b>163,756</b>	145,403
- relating to selling, general and administrative function	<b>12,410</b>	9,014
Staff costs (see note 9)	<b>261,658</b>	237,674
Operating leases - land and buildings	<b>6,895</b>	6,536
- charter hire	<b>664</b>	21,002
Auditors' remuneration	<b>912</b>	1,073
Advertising expenses	<b>84,497</b>	85,985
Impairment of fixed assets (see note 3)	<b>—</b>	8,430
(Write back)/expenses related to the early termination of ship charters	<b>(2,566)</b>	22,816
Other expenses, net	<b>6,147</b>	8,000
Total (see note below)	<b>3,581</b>	30,816

Note :

For the year ended 31 December 2002, the Group recorded other expenses of approximately US\$3.6 million, consisting principally of an additional liability of US\$6.1 million primarily in relation to the arbitration settlement award for damages relating to the return of M/S Leeward to her owner, including additional legal and lease expenses and the write back of approximately US\$2.5 million in over-provision relating to early termination of the M/S Norwegian Star 1 lease.

The Group recorded other expenses of approximately US\$30.8 million for the year ended 31 December 2001, consisting principally of expenses in relation to the ship charters terminated or in the process of termination as a result of the rationalisation of the North Asia operations, legal and other costs associated with certain claims against the Group.

## 5. Financial Costs

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Interest on bank loans	<b>99,326</b>	125,160
Less: interest capitalised in fixed assets	—	(6,668)
Total financial costs	<b>99,326</b>	118,492

The capitalisation rate applied to funds borrowed and used for the construction of m.v. Norwegian Sun in 2001 was between 5.9% and 8.5% per annum.

## 6. Other Non-Operating (Expenses)/Income, Net

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
(Loss)/Gain on disposal of fixed assets	<b>(41)</b>	389
(Loss)/Gain on foreign exchange	<b>(4,452)</b>	13,501
Loss on extinguishment of debts	<b>(5,927)</b>	—
Other non-operating expenses, net	<b>(2,015)</b>	(1,044)
	<b>(12,435)</b>	12,846

## 7. Taxation

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Overseas taxation		
- Current taxation	<b>1,475</b>	1,756
- Deferred taxation	—	3
	<b>1,475</b>	1,759
Deferred taxation has been charged in respect of timing differences	—	3

The Company, which is domiciled in Bermuda, and the majority of its subsidiaries, are not subject to income tax as their income is mainly derived in international waters or outside taxing jurisdictions.

## 7. Taxation *(continued)*

The Company's subsidiaries, NCLL, which is incorporated in Bermuda, and Norwegian Star Limited and Norwegian Dawn Limited, which are both incorporated in the Isle of Man, all of which operate in the United States, are 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 these subsidiaries 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"). The Group 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 these subsidiaries' Shipping Income, which is substantially all of their income, is exempt from the United States federal income taxes. If these subsidiaries were found not to be exempt from United States federal income taxes, as described above, then their Shipping Income, as well as any other income, could be taxed at higher than normal United States corporate federal income tax rates.

## 8. Earnings/(Loss) Per Share

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

	Note	GROUP	
		2002	2001
		US\$'000	US\$'000
BASIC			
Net profit/(loss)		<u>50,931</u>	<u>(16,043)</u>
Average outstanding ordinary shares in thousands after adjusting for the effect of rights issue		<u>4,433,371</u>	<u>4,287,655</u>
Basic earnings/(loss) per share in US cents	(i)	<u>1.15</u>	<u>(0.37)</u>
FULLY DILUTED			
Net profit/(loss)		<u>50,931</u>	<u>(16,043)</u>
Average outstanding ordinary shares in thousands after adjusting for the effect of rights issue		<u>4,433,371</u>	<u>4,287,655</u>
Effect of dilutive ordinary shares in thousands after adjusting for the effect of rights issue		<u>11,626</u>	<u>17,163</u>
Average number of ordinary shares outstanding in thousands after adjusting for the effect of rights issue and assuming dilution		<u>4,444,997</u>	<u>4,304,818</u>
Fully diluted earnings per share in US cents	(i) & (ii)	<u>1.15</u>	N/A

Notes:

- (i) In December 2002, the Company issued 607,420,455 rights shares of US\$0.10 each in the proportion of 7 rights shares for every 50 shares held. Accordingly, the Group retroactively restated its earnings per share for the year ended 31 December 2001 to reflect the effect of the rights issue.
- (ii) Diluted loss per share for the year ended 31 December 2001 is not shown, as the diluted loss per share is less than the basic loss per share.

## 9. Staff Costs

Staff costs include employee salaries and other employee related benefits but excluding directors' remuneration.

	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Wages and salaries	<b>249,577</b>	224,823
Unutilised annual leave	<b>892</b>	181
Termination benefits	<b>303</b>	1,498
Social security costs	<b>5,522</b>	4,988
Non-cash share option expenses	<b>948</b>	1,131
Pension costs - defined contribution plans (Note 29(a))	<b>4,416</b>	5,053
	<b>261,658</b>	237,674

## 10. Emoluments of Directors and Senior Management

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

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Fees, of which US\$180,000 (2001:US\$180,000) were to independent non-executive directors	<b>228</b>	228
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	<b>3,363</b>	3,102
Contribution to provident fund	<b>23</b>	32
Accrued unfunded pension liability (see note below)	<b>1,255</b>	—
Non-cash share option expenses	<b>1,074</b>	1,330
	<b>5,943</b>	4,692

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

	<b>Number of Directors</b>	
	<b>2002</b>	2001
HK\$nil - HK\$1,000,000	<b>3</b>	3
HK\$2,000,001 - HK\$2,500,000	—	1
HK\$2,500,001 - HK\$3,000,000	<b>1</b>	—
HK\$3,000,001 - HK\$3,500,000	—	1
HK\$3,500,001 - HK\$4,000,000	<b>1</b>	—
HK\$13,500,001 - HK\$14,000,000	—	1
HK\$14,500,001 - HK\$15,000,000	<b>1</b>	—
HK\$15,500,001 - HK\$16,000,000	—	1
HK\$23,500,001 - HK\$24,000,000	<b>1</b>	—

*Note: In addition, the Group has also recorded an expense in the year ended 31 December 2002 of approximately US\$3.9 million of unfunded pension liability in respect of prior years.*

## 10. Emoluments of Directors and Senior Management *(continued)*

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

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Fees	<b>36</b>	36
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	<b>3,920</b>	3,611
Contributions to provident fund	<b>27</b>	39
Accrued unfunded pension liability (see note above)	<b>1,255</b>	—
Non-cash share option expenses	<b>1,093</b>	1,351
	<b>6,331</b>	5,037
Number of Directors included in the five highest paid individuals	<b>3</b>	3

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

	<b>Number of individuals</b>	
	<b>2002</b>	2001
HK\$3,000,001 - HK\$3,500,000	<b>1</b>	3
HK\$3,500,001 - HK\$4,000,000	<b>2</b>	—
HK\$13,500,001 - HK\$14,000,000	—	1
HK\$14,500,001 - HK\$15,000,000	<b>1</b>	—
HK\$15,500,001 - HK\$16,000,000	—	1
HK\$23,500,001 - HK\$24,000,000	<b>1</b>	—

## 11. Intangible Assets

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

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Trade names and trademarks	<b>270,945</b>	278,235
Goodwill on consolidation	<b>382,314</b>	392,600
Negative goodwill	<b>(43,526)</b>	(44,697)
Net goodwill	<b>338,788</b>	347,903
	<b>609,733</b>	626,138

## 11. Intangible Assets *(continued)*

### Trade names and trademarks

	GROUP	
	2002 US\$'000	2001 US\$'000
Cost		
At 1 January and year end	<u>291,600</u>	<u>291,600</u>
Accumulated amortisation		
At 1 January	(13,365)	(6,075)
Amortisation	<u>(7,290)</u>	<u>(7,290)</u>
At year end	<u>(20,655)</u>	<u>(13,365)</u>
Net book value at year end	<u><u>270,945</u></u>	<u><u>278,235</u></u>

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

	GROUP	
	2002 US\$'000	2001 US\$'000
Cost		
At 1 January	409,909	407,247
Adjustments	<u>—</u>	<u>2,662</u>
At year end	<u>409,909</u>	<u>409,909</u>
Accumulated amortisation		
At 1 January	(17,309)	(7,868)
Amortisation	<u>(10,286)</u>	<u>(9,441)</u>
At year end	<u>(27,595)</u>	<u>(17,309)</u>
Net book value at year end	<u><u>382,314</u></u>	<u><u>392,600</u></u>

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

	GROUP	
	2002 US\$'000	2001 US\$'000
Cost		
At 1 January and year end	<u>(45,868)</u>	<u>(45,868)</u>
Accumulated amortisation		
At 1 January	1,171	—
Amortisation	<u>1,171</u>	<u>1,171</u>
At year end	<u>2,342</u>	<u>1,171</u>
Net book value at year end	<u><u>(43,526)</u></u>	<u><u>(44,697)</u></u>

## 11. Intangible Assets *(continued)*

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 a result of the mandatory offers made on 13 January 2000, which expired on 10 February 2000, the Group acquired a further interest 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 to, but not subsidiaries of the Group.

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 thereafter exercised its right under the Norwegian Law to initiate a compulsory acquisition of the remaining NCL ordinary shares that it did not own. On 30 November 2000, NCL became a wholly-owned subsidiary of the Group.

The redemption offer period following the compulsory acquisition lapsed on 7 February 2001. Arrasas Limited was then 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 who rejected the offer. A petition for the valuation request was filed by Arrasas Limited late October 2001 at the Oslo City Court. Pleadings have been exchanged since then between Arrasas Limited and the former NCL minority shareholders. The pleading period is expected to close in mid 2003 and the main hearing is scheduled to be held in autumn 2003.

The decision from the Oslo City Court can be appealed to the Court of Appeal by all parties to the proceeding. In the event that a legally binding decision from the court determines an offer price that is higher than NOK13 ("Norwegian Kroner") per share, Arrasas Limited would be required to pay all persons who are parties to the valuation proceeding, the difference between the such higher price and the deposited NOK13 per share.

In addition, the Group is also involved in other legal actions in connection with the acquisition of NCL. As these legal actions are still at the pre-trial stage, the Group cannot predict the ultimate outcome of these legal actions. However, the Group is vigorously defending these legal actions.

## 12. Fixed Assets

Fixed assets consist of the following:

### GROUP

Year ended 31 December 2002	Cruise ships	Land, leasehold land, jetties, terminal buildings 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 2002	3,326,808	56,495	196,872	66,203	25,234	3,671,612
Exchange differences	—	(28)	96	—	336	404
Reclassification of fixed assets	393,481	30,360	(17,602)	(379,350)	(26,889)	—
Additions	31,125	747	37,534	313,147	38,106	420,659
Assets written off	—	(3,859)	(2,905)	—	—	(6,764)
Disposals	(94)	—	(312)	—	—	(406)
<b>At 31 December 2002</b>	<b>3,751,320</b>	<b>83,715</b>	<b>213,683</b>	<b>—</b>	<b>36,787</b>	<b>4,085,505</b>
<b>Accumulated depreciation</b>						
At 1 January 2002	(308,650)	(3,410)	(62,784)	—	—	(374,844)
Exchange differences	—	(28)	(128)	—	—	(156)
Reclassification of fixed assets	(4,122)	(4,376)	8,498	—	—	—
Charge for the year	(134,622)	(6,855)	(17,221)	—	—	(158,698)
Assets written off	—	3,847	2,529	—	—	6,376
Disposals	4	—	261	—	—	265
<b>At 31 December 2002</b>	<b>(447,390)</b>	<b>(10,822)</b>	<b>(68,845)</b>	<b>—</b>	<b>—</b>	<b>(527,057)</b>
<b>Net book value</b>						
<b>At 31 December 2002</b>	<b>3,303,930</b>	<b>72,893</b>	<b>144,838</b>	<b>—</b>	<b>36,787</b>	<b>3,558,448</b>
At 31 December 2001	3,018,158	53,085	134,088	66,203	25,234	3,296,768
<b>Cost/valuation</b>						
<b>At 31 December 2002</b>						
<b>At cost</b>	<b>3,751,320</b>	<b>35,931</b>	<b>213,683</b>	<b>—</b>	<b>31,210</b>	<b>4,032,144</b>
<b>At 2000 valuation</b>	<b>—</b>	<b>47,784</b>	<b>—</b>	<b>—</b>	<b>5,577</b>	<b>53,361</b>
<b>At 31 December 2001</b>						
<b>At cost</b>	<b>3,326,808</b>	<b>8,711</b>	<b>196,872</b>	<b>66,203</b>	<b>19,657</b>	<b>3,618,251</b>
<b>At 2000 valuation</b>	<b>—</b>	<b>47,784</b>	<b>—</b>	<b>—</b>	<b>5,577</b>	<b>53,361</b>
Fixed assets under charter hire are as follows:						
Cost	37,524	—	362	—	—	37,886
Less: accumulated depreciation	(5,410)	—	(182)	—	—	(5,592)
<b>Net book value at 31 December 2002</b>	<b>32,114</b>	<b>—</b>	<b>180</b>	<b>—</b>	<b>—</b>	<b>32,294</b>
Net book value at 31 December 2001	33,178	—	200	—	—	33,378

## 12. Fixed Assets (continued)

In conjunction with the listing of the Company's entire share capital on the Stock Exchange, 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. As at 31 December 2002 and 2001, the carrying amount of these certain properties would have been US\$62.3 million and US\$62.9 million respectively had they been stated at cost less accumulated depreciation.

At 31 December 2002 and 2001, the net book value of fixed assets pledged as security for the Group's long-term bank loans amounted to US\$3.1 billion and US\$2.7 billion respectively.

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

	<b>GROUP</b>	
	<b>2002</b> US\$'000	2001 US\$'000
Hong Kong:	—	—
Outside Hong Kong:		
Freehold	<b>6,508</b>	6,508
Long leasehold (not less than 50 years)	<b>50,519</b>	45,603
Medium leasehold (less than 50 years but not less than 10 years)	<b>15,866</b>	974
	<b>72,893</b>	53,085

## 13. Investments in Subsidiaries

	<b>COMPANY</b>	
	<b>2002</b> US\$'000	2001 US\$'000
Investment at cost :		
Unlisted shares	<b>205,465</b>	205,465
Amount due from subsidiaries	<b>2,147,340</b>	2,154,858
Amount due to subsidiaries	<b>(6,610)</b>	(1,058)
	<b>2,346,195</b>	2,359,265

Amount due from/(to) subsidiaries are unsecured, interest free and have no fixed repayment terms.

A list of principal subsidiaries is included in note 30 to the accounts.

## 14. Other Assets

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b> US\$'000	2001 US\$'000	<b>2002</b> US\$'000	2001 US\$'000
Loan arrangement fees	<b>13,135</b>	8,558	<b>5,026</b>	—
Software development costs, net	<b>4,159</b>	1,956	—	—
Others	<b>608</b>	—	—	—
	<b>17,902</b>	10,514	<b>5,026</b>	—

## 15. Consumable Inventories

	GROUP	
	2002 US\$'000	2001 US\$'000
Food and beverages	10,890	9,047
Supplies, spares and consumables	29,412	23,824
	<u>40,302</u>	<u>32,871</u>

## 16. Trade Receivables

	GROUP	
	2002 US\$'000	2001 US\$'000
Trade receivables	20,156	28,804
Less: Provisions	(3,732)	(3,406)
	<u>16,424</u>	<u>25,398</u>

Credit terms generally range from payment in advance to 45 days credit terms.

At 31 December 2002 and 2001, the ageing analysis of the trade receivables were as follows:

	GROUP	
	2002 US\$'000	2001 US\$'000
Current to 30 days	8,950	14,164
31 days to 60 days	2,287	4,665
61 days to 120 days	2,935	4,493
121 days to 180 days	1,922	2,562
181 days to 360 days	1,762	635
Over 360 days	2,300	2,285
	<u>20,156</u>	<u>28,804</u>

## 17. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	GROUP		COMPANY	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
Deposits with banks - maturing within 3 months	261,476	55,870	253,931	43,293
Cash and bank balances	155,482	115,705	230	202
	<u>416,958</u>	<u>171,575</u>	<u>254,161</u>	<u>43,495</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.

Tan Sri 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 (“KHD”) is a company in which a brother of Tan Sri Lim Kok Thay has a substantial interest.

Genting Berhad (“GB”), a company in which Tan Sri Lim Kok Thay has a deemed interest and which is listed on the Kuala Lumpur Stock Exchange, controls Resorts World Bhd (“RWB”), a company also listed on the Kuala Lumpur Stock Exchange which in turn controls Resorts World Limited which is a substantial shareholder of the Company. GB indirectly controls Genting International PLC (“GIPLC”), a company listed on the Luxembourg Stock Exchange.

Significant related party transactions entered into or subsisting between the Group and these companies during the year ended 31 December 2002 are set out below:

- (a) KHD, together with its related companies, was involved in constructing a terminal building and renovating a ship berth for the Group in Laem Chabang, Bangkok, Thailand. In addition, KHD is also involved in carrying out improvements to the Group’s berthing facilities and other infrastructure facilities. Amounts charged to the Group in respect of these services were approximately US\$0.2 million and US\$0.6 million in the years ended 31 December 2002 and 2001 respectively.
- (b) GB and its related companies provide certain services to the Group, including treasury services, secretarial services, certain information technology support services and other support services. The Group also purchases air tickets from a subsidiary of RWB. Amounts charged to the Group in respect of these services were approximately US\$1.2 million and US\$1.6 million in the years ended 31 December 2002 and 2001 respectively.
- (c) The Group provides certain administrative support and business liaison services to GIPLC internationally and the amount charged to GIPLC was approximately US\$0.3 million each in the years ended 31 December 2002 and 2001 respectively.

Amount outstanding at the end of each fiscal year in respect of the above transactions were included in the balance sheets within amounts due to related companies.

- (d) On 24 November 2000, Arrasas Limited entered into separate Stock Purchase Agreements with Resorts World Limited, Genting Overseas Holdings Limited (a wholly-owned subsidiary of GB) and Palomino Limited (an indirect subsidiary of GB) to acquire an aggregate of 29,110,200 ordinary shares representing approximately 10.9% of the issued share capital of NCL for a total cash consideration of approximately NOK436.7 million (US\$45.7 million) 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 transaction, Arrasas Limited will be required to pay to these related companies the difference between such higher price per share and NOK15 per share (US\$1.572).

### **Transactions with Directors**

- (e) Certain Directors of the Company and the Group were granted call options entitling them to subscribe for ordinary shares in the share capital of the Company under both the Pre-listing and Post-listing Share Option Schemes. Call options granted are exercisable at the price of US\$0.2686 and US\$0.4298 per share under the Pre-listing Share Option Scheme and HK\$3.0465 (US\$0.39) per share under the Post-listing Share Option Scheme. Details of the outstanding call options as at 31 December 2002 are set out in the section headed “Share Options” in the Report of the Directors.

## 19. Trade Creditors

	GROUP	
	2002	2001
	US\$'000	US\$'000
Trade creditors	<b>108,774</b>	109,293

The ageing of trade creditors as at 31 December 2002 and 2001 is as follows:

	GROUP	
	2002	2001
	US\$'000	US\$'000
Current to 60 days	<b>98,351</b>	96,872
61 days to 120 days	<b>9,551</b>	10,378
121 days to 180 days	<b>638</b>	1,668
Over 180 days	<b>234</b>	375
	<b>108,774</b>	109,293

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

## 20. Provisions, Accruals and Other Liabilities

Provisions, accruals and other liabilities consists of the following:

	GROUP		COMPANY	
	2002	2001	2002	2001
	US\$'000	US\$'000	US\$'000	US\$'000
Payroll, taxes and related benefits	<b>24,402</b>	10,689	—	—
Interest	<b>22,477</b>	17,476	<b>8,852</b>	3,907
Forward currency contracts and interest rate swaps	<b>45,171</b>	10,611	<b>45,171</b>	8,059
Provisions (see note below)	<b>685</b>	19,389	—	—
Others	<b>98,227</b>	90,713	<b>1,956</b>	543
	<b>190,962</b>	148,878	<b>55,979</b>	12,509

The movements of the provisions are as follows:

	GROUP		
	Severance and environmental provisions US\$'000	Other provisions US\$'000	Total US\$'000
As at 1 January 2002	4,241	15,148	19,389
Less: unused amounts reversed	—	(2,966)	(2,966)
Less: amounts paid	(3,556)	(12,182)	(15,738)
<b>As at 31 December 2002</b>	<b>685</b>	<b>—</b>	<b>685</b>

## 20. Provisions, Accruals and Other Liabilities *(continued)*

### Severance and environmental provisions

The Group recorded approximately US\$11.5 million as part of the liabilities assumed to effect the acquisition of NCL in 2000, of which US\$4.4 million was paid in 2000. An additional provision of US\$2.7 million was made in 2001. Such liabilities consist 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.

### Other provisions

As at 31 December 2001, the Group established provisions of approximately US\$15.1 million. Such liabilities consisted principally of expenses in connection with a ship charter which was in the process of negotiation for an early termination, and legal and other costs associated with certain claims against the Group.

## 21. Long-term Bank Loans

Long-term bank loans consist of the following:

		GROUP		COMPANY	
		2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
US\$521.6 million syndicated term loan	(i)	399,680	434,454	—	—
US\$626.9 million syndicated term loan	(ii)	606,025	313,461	—	—
US\$600 million term loan	(iii)	—	450,000	—	450,000
US\$450 million term loan	(iii)	450,000	—	450,000	—
US\$210 million M/S Norwegian Sky Loan	(iv)	182,000	182,000	—	—
US\$623 million fleet loan	(v)	526,320	565,200	—	—
US\$225 million M/S Norwegian Sun Post-delivery Loan	(vi)	225,000	225,000	—	—
US\$45 million term loan	(vi)	45,000	45,000	—	—
Total liabilities		2,434,025	2,215,115	450,000	450,000
Less: Current portion		(340,187)	(94,551)	(37,500)	—
Long-term portion		2,093,838	2,120,564	412,500	450,000

The following is a schedule of principal repayments of the long-term debts in respect of the loans outstanding as at 31 December 2002 and 2001.

	GROUP		COMPANY	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
Within one year	340,187	94,551	37,500	—
In the second year	583,768	319,291	75,000	37,500
In the third to fifth years	541,704	882,213	225,000	225,000
After the fifth year	968,366	919,060	112,500	187,500
	2,434,025	2,215,115	450,000	450,000

## 21. Long-term Bank Loans *(continued)*

### (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. This syndicated term loan was fully drawdown in September 1999.

### (ii) **US\$626.9 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 other subsidiaries, Norwegian Star Limited and Norwegian Dawn Limited, as joint and several borrowers to part finance the construction of m.v. Norwegian Star and m.v. Norwegian Dawn, respectively. In October 2001, this syndicated term loan agreement was amended to provide for borrowings of up to US\$626.9 million. This syndicated term loan was fully drawdown in December 2002.

These two syndicated term loans bear interest at rates which vary according to the London Interbank Offer Rate ("LIBOR") and are repayable in 24 equal half yearly installments commencing 6 months from the relevant ship delivery dates, with maturity date payments to be paid on the relevant maturity dates. These facilities are secured by ship mortgages over the assets with a carrying value of US\$1.5 billion as at 31 December 2002 and guarantees from the Company, Superstar Leo Limited, and a subsidiary, Star Cruise Services Limited. In addition, the earnings and insurances are assigned to lenders as security. The shares of the borrowers are also pledged as collateral. The loan contains restrictive covenants which require compliance with certain financial ratios.

### (iii) **US\$450 million term loan**

On 20 February 2002, the Group signed an agreement with a syndicate of banks to provide up to US\$450 million in loans ("US\$450 million term loan") to refinance the outstanding balance of the US\$600 million term loan. The US\$450 million term loan bears interest at rates, which vary according to LIBOR, is repayable in 12 equal installments payable at six-monthly intervals commencing 18 months from the facility agreement date.

The US\$450 million term loan is secured by first and second priority mortgages over certain ships of the Group, guarantees from certain subsidiaries, assignment of earnings and assignment of insurances granted by the subsidiaries owning the ships relating to the first and second priority mortgages. The shares of these subsidiaries owning the ships relating to the first priority mortgage are also pledged as collateral. In addition, the shares over NCLL are granted as security. The loan contains restrictive covenants which require compliance with certain financial ratios.

As a result of the extinguishment of the US\$600 million term loan, the Group recorded a non-operating expense of approximately US\$5.9 million. Such amount represents the unamortised balance of the related loan arrangement fees.

### (iv) **US\$210 million M/S Norwegian Sky Loan**

NCLL entered into a non-cancelable loan agreement with a syndicate of banks ("Loan Agreement") to finance repayment of an existing loan and payments in connection with the construction of M/S Norwegian Sky. In July 1999, NCLL borrowed US\$210 million under this Loan Agreement. This term loan which bears interest at a rate which varies according to LIBOR is repayable in 20 equal half-yearly instalments with a balloon payment due in July 2009.

### (v) **US\$623 million fleet loan**

In December 1999, NCLL obtained a US\$510 million reducing revolving credit facility with a syndicate of banks (the "Facility") to refinance certain debt facilities of NCLL. 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 based on the ratio of NCLL's funded debt to consolidated Earnings Before Interest, Taxation, Depreciation and Amortisation, as defined, for the latest 12-month period.

## 21. Long-term Bank Loans *(continued)*

### **(vi) US\$225 million M/S Norwegian Sun Post-delivery Loan and US\$45 million term loan**

In May 2000, NCLL obtained a permanent financing commitment (“M/S Norwegian Sun Post-Delivery Loan Agreement”) from a syndicate of banks to provide up to US\$225 million in loans to finance the construction costs of the M/S Norwegian Sun. In August 2001, the Group borrowed US\$225 million under the M/S Norwegian Sun Post-Delivery Loan Agreement and an additional US\$45 million term loan.

The M/S Norwegian Sun Post-Delivery Loan bears interest at a rate which varies according to LIBOR and matures in August 2009. The US\$45 million term loan, which matures in December 2003 also bears interest at a rate which varies according to LIBOR.

### **NCLL's bank loans (iv) to (vi) above**

In December 2001, NCLL requested and its lenders agreed to defer until 2002 and 2003 certain scheduled principal payments in the amount of US\$132.8 million that were originally scheduled to be made by NCLL in 2001 and 2002. NCLL commenced repaying such deferred principal payments in December 2002. In connection with such deferral, NCLL incurred fees of US\$0.7 million. Such amount was deferred and amortised over the life of the underlying debt to which the fees related since such modification was not deemed to be an extinguishment of debt.

NCLL's ships and its other property are pledged as collateral for NCLL's long-term bank loans as at 31 December 2002. Various debt agreements of NCLL 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.

## 22. 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 31 December 2001 and 2002	10,000	1	9,999,990,000	999,999
			GROUP/COMPANY	
			Issued and fully paid Ordinary shares of US\$0.10 each	
			No of Shares	US\$'000
At 1 January 2001			4,141,082,037	414,108
Issuance of shares pursuant to the Pre-listing Scheme			5,649,500	565
At 31 December 2001			4,146,731,537	414,673
At 1 January 2002			4,146,731,537	414,673
Issuance of shares pursuant to the Pre-listing Scheme			2,895,000	290
Issuance of ordinary shares to an existing shareholder, net of issuance costs of approximately US\$3.0 million			189,091,000	18,909
Issuance of 7 ordinary shares for every 50 existing shares pursuant to a rights issue, net of issuance costs of approximately US\$1.5 million			607,420,455	60,742
<b>At 31 December 2002</b>			<b>4,946,137,992</b>	<b>494,614</b>

- (i) In June 2002, the Company issued 189,091,000 new ordinary shares of US\$0.10 each at the subscription price of HK\$3.30 (US\$0.42) per share, with an aggregate price, net of issuance costs, of approximately US\$77.3 million to an existing shareholder in a top-up share placement. The closing price per share on 28 May 2002, the trading date immediate before the Placing, Underwriting and Subscription Agreement was entered into, was HK\$3.60 (US\$0.46) on the Stock Exchange.
- (ii) In December 2002, the Company issued 607,420,455 ordinary shares of US\$0.10 each in the proportion of 7 new ordinary shares for every 50 existing shares held pursuant to a rights issue at the subscription price of HK\$1.95 (US\$0.25), with an aggregate price, net of issuance costs, of approximately US\$150.3 million. The closing price per share on 11 October 2002, the trading date immediate before the Underwriting Agreement was entered into, was HK\$2.70 (US\$0.35) on the Stock Exchange.

The net proceeds of US\$227.6 million from the issuances of ordinary shares in (i) and (ii) above will be used for the acquisition or construction of vessel(s) and as general working capital.

During the year ended 31 December 2002, the Group applied approximately US\$45.6 million of the net proceeds from the above issuances of ordinary shares as follows:

	US\$'000
Funding of newbuilding programme	30,626
Used as general working capital	15,019
	<u>45,645</u>

As at 31 December 2002, the balance of unapplied proceeds of approximately US\$182 million was on deposit with banks.

## 23. Other Long-term Liabilities

	GROUP		COMPANY	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
Deferred gains on derivative instruments	2,249	2,539	682	770
Deferred lease liability	1,468	1,755	—	—
Pension plan	1,407	1,873	—	—
Others	3,752	3,823	—	—
	<u>8,876</u>	<u>9,990</u>	<u>682</u>	<u>770</u>

## 24. Deferred Taxation

	GROUP	
	2002 US\$'000	2001 US\$'000
Excess of capital allowances over depreciation	178	178
	<u>178</u>	<u>178</u>

## 25. 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 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 2002, the fair value of the long-term bank loans, including the current portion, was approximately US\$2,447.9 million, which was approximately US\$13.9 million more than the carrying values. The difference between the fair value and carrying value of the long-term bank loan is due to NCLL's 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 NCLL for the same or similar terms and remaining maturities.

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

(i) The Group entered into various Singapore dollars forward contracts and the notional amount of these contracts was approximately US\$206.7 million. The notional amount will be reduced six-monthly in varying amounts over periods ranging from 5 to 11 years from the dates of the contracts. As at 31 December 2002 and 2001, the estimated fair market value of these forward contracts was approximately US\$10.0 million and US\$15.6 million, respectively, which was favourable to the Group. The changes in the fair value of these forward contracts were recognised as other income in the profit and loss account.

(ii) In November 2002, the Group entered into a series of monthly forward contracts to buy US dollars against Hong Kong dollars. The notional amount of these forward contracts was approximately US\$60.7 million and will be reduced monthly in fixed amounts maturing within 3 years from December 2002. As at 31 December 2002, the estimated market value of these contracts was approximately US\$0.6 million which was unfavourable to the Group. The changes in the fair value of these forward contracts were recognised as other expense in the profit and loss account.

## 25. Financial Instruments *(continued)*

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

- (iii) The Group entered into an additional amortising interest rate swap with a notional amount of US\$111.9 million to convert certain long-term borrowings from a floating rate obligation to a fixed rate obligation in the year ended 31 December 2002. Accordingly, the Group has effectively converted the interest rate of approximately US\$430.4 million of term loans to a fixed rate obligation. The notional amount will be reduced six-monthly in varying amounts over periods ranging from 6 to 10 years from the dates of the interest rate swap agreements. As at 31 December 2002 and 2001, the estimated fair market value of the interest rate swaps was approximately US\$44.6 million and US\$8.1 million, respectively, which was unfavourable to the Group. The changes in the fair value of the interest rate swaps were included as a separate component of reserves and recognised in the profit and loss account as the underlying hedged items were recognised.

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 2002 other than deposits of cash with reputable financial institutions.

## 26. Commitments

### (i) Capital expenditure

The Group had the following commitments as at 31 December 2002 and 2001:

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Contracted but not provided for		
- Cruise ship under construction (refer to Note 31)	—	330,697
- Cruise terminal under construction	—	3,060
- Others	—	1,094
	<u>—</u>	<u>334,851</u>

### (ii) Operating leases

- (a) Rent expense under non-cancellable operating lease commitments was US\$6.4 million and US\$6.2 million for the years ended 31 December 2002 and 2001.

At 31 December 2002 and 2001, future minimum lease payments payable under non-cancellable operating leases were as follows:

	<b>GROUP</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Within one year	<b>5,099</b>	4,326
In the second to fifth year inclusive	<b>12,566</b>	12,633
After the fifth year	<b>16,636</b>	18,721
	<u><b>34,301</b></u>	<u>35,680</u>

The rent expense under non-cancellable operating lease commitments mainly relates to rental of offices occupied by the Group and leasehold land in Thailand.

## 26. Commitments *(continued)*

### (ii) Operating leases *(continued)*

- (b) (i) On 15 October 1999, the Group entered into a contract to charter a cruise ship from Crown Jewel Inc for a period of 3 years. In January 2002, the Group finalised an agreement to terminate the lease prior to the date the charter period expires and returned the ship to her owner. The Group recorded a liability of approximately US\$8.4 million at 31 December 2001 in connection with the termination of the charter. Such liability is included in provisions, accruals and other liabilities.
- (ii) NCLL leased a ship, formerly owned by it and known as the M/S Norwegian Star 1, 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 provided for the charter of the cruise ship for an initial period of six years beginning in November 1996.

At 31 December 2001, the Group was negotiating with Actinor Cruises AS to terminate the lease prior to November 2002, the date the initial charter period expired. Since the Group did not intend to utilise the M/S Norwegian Star 1 in 2002 and planned to return the M/S Norwegian Star 1 no later than November 2002, the Group recorded a liability of US\$8.1 million as at 31 December 2001 in connection with the cancellation of the lease. Such liability as at 31 December 2001 was included in provisions, accruals and other liabilities and was shown net of the prepaid deposit of US\$2.8 million that NCLL had previously made pursuant to the terms of the Actinor Lease.

During the year ended 31 December 2002, the Group negotiated an amendment to the Actinor Lease, which allowed the Group to terminate the lease prior to November 2002. As a result, the Group received US\$1.3 million for the year ended 31 December 2002 in consideration for the amendment.

The Group recorded charter expense of approximately US\$0.7 million and US\$21.0 million for the years ended 31 December 2002 and 2001 as an operating expense under the terms of the leases.

### (iii) Charter hire revenue

Charter hire revenue receivable under non-cancellable operating lease commitments in respect of cruise ship, catamaran and onboard equipment was US\$3.1 million and US\$12.5 million in the years ended 31 December 2002 and 2001.

In November 2001, the Group entered into an agreement to terminate the charter of m.v. SuperStar Capricorn prior to the date the charter period expires. The Group received an amount of US\$5 million in connection with the cancellation of this charter.

At 31 December 2002 and 2001, minimum annual rentals receivable for leases with initial or remaining terms in excess of one year were US\$2.5 million and US\$3.1 million for the year ending 31 December 2003 and 2002, respectively.

The details of assets being leased out are set out in note 12 to the accounts.

## 27. Contingent Liabilities

### (i) Contingencies

As required by the United States Federal Maritime Commission ("FMC"), NCLL maintains a US\$15 million performance guarantee with respect to liabilities for non-performance of transportation and other obligations to passengers. In 1998, NCLL 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 expires in April 2003. If the proposed rules were to be implemented, NCLL's performance guarantee would increase to an amount approximately in the range of US\$90 million and US\$110 million. The Group cannot predict if or when such rules will be adopted or the final form of such rules.

## 27. Contingent Liabilities *(continued)*

### (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 NCLL alleging NCLL violated the Florida Unfair and Deceptive Trade Practices Act (the “Act”) by including an element of profit in NCLL’s port charges. The District Court granted three motions to dismiss filed by NCLL with the final dismissal granted with prejudice. After the dismissal of the case by the District Court, three similar complaints were filed against NCLL in Dade County Circuit Court in 1996. The complaints have been consolidated and allege violation of the Act, common law fraud and negligence. The trial court denied plaintiffs motion for class certification. 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. NCLL intends to file a motion for summary judgement seeking dismissal of the case based on the reversal of appellate court decisions relied upon by the Third District Court of Appeal in reaching its decision. NCLL also intends to renew a prior motion for summary judgement filed prior to the trial court’s denial of class certification and the subsequent appellate process. Discovery on the merits has commenced. 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, NCLL established a liability for potential payments of attorneys’ fees and administrative expenses of settlement in connection with this matter.
- (2) A proposed class action suit was filed in 1995 against NCLL 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. 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 Court denied class certification in this matter, and the plaintiff’s filed an appeal. On 15 August 2002, the Ninth Circuit Court of Appeals granted the Plaintiffs permission to appeal the Order denying class certification. No discovery has commenced on the merits of this case. Management plans to vigorously defend this suit.
- (3) On or about 17 March 2001, NCLL was served with a class action complaint in the United States District Court, Southern District of New York. The complaint alleges that during the period 1 January 1998 through the present, NCLL failed to pay plaintiff crewmembers overtime wages in accordance with their contracts of employment. The proposed class consists of all unlicensed seafarers who worked on NCLL vessels during the class period and seeks recovery of overtime wages plus statutory penalty wages equal to two times the unpaid wages for each day the wages remain unpaid.

The Court recently entered an order certifying the case as a class action. NCLL has sought leave from the Second Circuit Court of Appeals to appeal the judge’s order certifying the class. At this time, NCLL cannot predict the ultimate resolution of this matter. Accordingly, no provision has been made in the accompanying financial statements for any liability, which may result from this matter.

- (4) 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.

## 28. Share Option Schemes

### (i) Pre-listing Scheme

Prior to the de-merger from GIPLC in December 1997 the employees of the Group were offered share options in GIPLC under the “Genting International Employees’ Share Option Scheme for Executives”. Subsequently, a share option scheme known as “The Star Cruises Employees’ Share Option Scheme for Executives” (“the Pre-listing Scheme”) was implemented for the benefit of the employees of the Group. The employees of the Group were offered options under the Pre-listing Scheme in exchange for the unexpired share options previously granted by GIPLC.

On 23 August 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 (the “Stock Exchange”). With effect from 30 November 2000, the date of listing of the Company’s shares on the Stock Exchange (the “Listing”), no further options can be granted under the Pre-listing Scheme.

A summary of the Pre-listing Scheme is given below:

#### *Purpose*

To grant options to selected employees of the Group and Star Cruises Investments Limited, acting as a trustee company for the employees under the said scheme.

#### *Participants*

Employees of the Group who are executives of any company comprised in the Group.

#### *Total number of shares available for issue*

Prior to the Listing, the allocation of the total amount of options under the Pre-listing Scheme could not exceed 5% of the issued ordinary shares of the Company at any time during the existence of the Pre-listing Scheme. No further options can be granted under the Pre-listing Scheme following the Listing.

#### *Maximum entitlement of each employee*

Prior to the Listing, the Board of Directors might in its absolute discretion at any time and from time to time as it deemed fit make an offer to any employee whom the Board of Directors might in its absolute discretion select to subscribe for ordinary shares of the Company in accordance with the terms of the Pre-listing Scheme provided always that any such offer by the Board in the case of any one employee should not exceed three million shares of the Company or zero point two per centum (0.2%) of the issued ordinary shares of the Company per offer, whichever was the higher amount.

#### *Period within which the shares must be taken up under an option*

Prior to the Listing, options would not expire until the retirement age of the employees, which is 55 years old, and if the retirement period was less than 10 years from the date of an offer, the option period for the remaining tranches would expire on the tenth year from the grant date or at any age to be determined by the Board. Following the Listing, the options will expire in the tenth year from their original grant date.

#### *Minimum period for which an option must be held before it can be exercised*

Under the Pre-listing Scheme, the Board of Directors of the Company may determine at its absolute discretion the minimum period, if any, for which an option must be held before it can be exercised. Prior to the Listing, the 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.

## 28. Share Option Schemes (continued)

### (i) Pre-listing Scheme (continued)

#### *Minimum period for which an option must be held before it can be exercised (continued)*

Following the Listing, options vest over a period of 10 years from their original date of grant and generally became exercisable as to 20% and 30% of the amount granted 3 years and 4 years after the grant date and remaining options can be exercised annually in equal tranches over the remaining option period.

#### *Amount payable on acceptance of the option and period within which payments must be made*

Prior to the Listing, an offer of options under the Pre-listing Scheme should be open for acceptance within three months from the date of such offer or such period as the Board of Directors may at its sole discretion determine. An option price of US\$1 was payable by the employee concerned on acceptance of the option.

#### *Basis of determining the exercise price of the shares*

Prior to the Listing, 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 deemed relevant for the five market days preceding the date of the offer in writing to the employee.

#### *Remaining life of the Pre-listing Scheme*

No further options may be granted under the Pre-listing Scheme following the Listing. The options remaining outstanding thereunder (as modified) remain exercisable under the Pre-listing Scheme on the terms and conditions subject to the respective grants.

Details of the movement during the year for options outstanding are set out in section headed "Share Options" in the Report of the Directors.

A summary of the share options outstanding as at 31 December 2002 after adjusting for the effects of rights issue is as follows:

	Options outstanding		Options exercisable
	Number outstanding (in thousands)	Weighted average remaining life (years)	Number (in thousands)
US\$0.2686	41,042	4.2	8,454
US\$0.4298	28,655	3.8	6,732
	<u>69,697</u>	<u>3.8</u>	<u>15,186</u>

### (ii) Post-listing Scheme

The Company adopted a share option scheme on 23 August 2000 which was effected on 30 November 2000 upon listing of the Company's shares on the Stock Exchange and amended on 22 May 2002 (the "Post-listing Scheme") to comply with the new requirements set out in Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange effective 1 September 2001. A summary of the Post-listing Scheme is given below:-

#### *Purpose*

The main purpose of the Post-listing Scheme is to motivate the employees of the Group including any executive directors of any company in the Group.

## 28. Share Option Schemes *(continued)*

### (ii) **Post-listing Scheme** *(continued)*

#### *Participants*

The participants are the employees of the Group including any executive director of any company in the Group.

#### *Total number of shares available for issue*

The maximum number of shares available for issue under the Post-listing Scheme and options to be granted under any other schemes of the Company is 132,733,953, representing approximately 3.2% of the issued share capital of the Company as of 22 May 2002 (the date of adoption of the Post-listing Scheme (as amended) and approximately 2.7% of the issued share capital as at the date of this Report.

#### *Maximum entitlement of each employee*

The total number of shares issued and to be issued upon exercise of the options granted to any one employee (including the exercised, cancelled and outstanding options) in any 12-month period up to and including the proposed date of the latest grant shall not exceed 1 per cent. of shares in issue, provided that the Company may grant further options in excess of this 1 per cent. limit subject to the issue of a circular by the Company and the approval of the shareholders in general meeting with such employee and his associates (as defined in the Listing Rules) abstaining from voting.

#### *Granting options to Directors, Chief Executive or Substantial Shareholders*

Any grant of options to a Director, the Chief Executive or a Substantial Shareholder of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who is a grantee of the options).

If the Company proposes to grant options to a Substantial Shareholder (as defined in the Listing Rules) or any Independent Non-executive Director of the Company or their respective associates (as defined in the Listing Rules) which will result in the number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the shares in issue; and
- (b) having an aggregate value in excess of HK\$5 million, based on the closing price of the shares as quoted in the Stock Exchange's daily quotation sheet at the offer date of such option,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting on a poll at which the connected persons (as defined in the Listing Rules) of the Company shall abstain from voting except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular.

#### *Period within which the shares must be taken up under an option*

The period during which the options may be exercised will be determined by the Board of Directors of the Company at its absolute discretion, save that no option can be exercised more than 10 years after it has been granted.

## 28. Share Option Schemes (continued)

### (ii) Post-listing Scheme (continued)

#### *Minimum period for which an option must be held before it can be exercised*

The Board of Directors of the Company may determine at its absolute discretion the minimum period, if any, for which an option must be held before it can be exercised.

#### *Amount payable on acceptance of the option and period within which payments must be made*

An offer of options shall be open for acceptance for a period of ninety days after the date of offer or such period as the Board of Directors may at its sole discretion determine. An option price of US\$1 shall be payable by the employee concerned on acceptance of the option.

#### *Basis of determining the exercise price of the shares*

The exercise price shall be determined by the Board of Directors of the Company, save that such price will not be less than the highest of (a) the closing price of the shares as stated on the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share of the Company.

#### *Remaining life of the Post-listing Scheme*

The Post-listing Scheme will remain in force until 29 November 2010.

On 19 August 2002, the Share Option Committee of the Board of Directors approved an offer of options to the Directors of the Company and employees of the Group entitling them to subscribe for an aggregate of 100,269,000 shares under the Post-listing Scheme. Further details of the offer and movement during the year are stated in the section headed "Share Options" in the Directors' Report. The options vest in seven tranches over a period of ten years from the date of offer and becomes exercisable as to 30% and 20% of the amount granted commencing 20 August 2004 and 20 August 2005 (being 2 years and 3 years respectively after the date of offer) and the remaining options are exercisable annually in equal tranches of 10% commencing on 20 August of each of the following years from 2006 to 2010, subject to further terms and conditions set out in the offer letter and provisions of the Post-listing Scheme.

Details of the movement from the options grant date (19 August 2002) to 31 December 2002 for options outstanding are set out in section headed "Share Options" in the Report of the Directors.

A summary of the share options outstanding as at 31 December 2002 after adjusting for the effects of rights issue is as follows:

	Options outstanding		Options exercisable
	Number outstanding (in thousands)	Weighted average remaining life (years)	Number (in thousands)
Exercise price			
HK\$3.0465	109,018	9.6	Nil

## 29. Pensions and Other Post Retirement Obligations

### (a) **Defined Contribution Plans**

NCLL has a defined contribution plan (the “Plan”) for its shoreside employees. Prior to 1 January 2002, NCLL contributed 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 U.S. Social Security Act. Effective 1 January 2002, NCLL amended the Plan to cease employer contributions. The Plan is subject to the provisions of the U.S. Employment Retirement Income Security Act of 1974.

In addition, NCLL maintains a 401(k) Plan (the “401(k) Plan”). The 401(k) Plan covers substantially all its shoreside employees. Prior to 1 January 2002, subject to certain limitations, participants could elect to contribute to the Plan a percentage of their compensation for each payroll period. NCLL contributed an amount equal to 25% of the participant’s contributions not to exceed 6% of each participant’s compensation. In addition, NCLL could make supplemental matching contributions based on a specific percentage, as determined by NCLL, of the participant’s contributions, which together and with the required match, were not to exceed 6% of each participant’s compensation. Effective 1 January 2002, subject to certain limitation, participants may contribute up to 100% of eligible compensation each pay period. NCLL makes matching contributions equal to 100% of the first 3% and 50% of the next 7% of the participant’s contributions and shall not exceed 6.5% of each participant’s compensation. NCLL’s matching contributions are vested according to a five-year schedule.

NCLL maintains a Supplemental Executive Retirement Plan (“SERP Plan”), a defined contribution plan, for certain of its key employees whose benefits are limited under the Plan and the 401(k) Plan. NCLL records an expense for amounts due to the SERP Plan on behalf of each participant that would have been contributed without regard to any limitations imposed by the U.S. Internal Revenue Code.

No amounts are required to be or were contributed under the SERP Plan by NCLL as at 31 December 2002 and 2001 as the SERP Plan is unfunded. NCLL recorded expenses related to the above described defined contribution plans of approximately US\$4.6 million and US\$5.1 million for the years ended 31 December 2002 and 2001, respectively.

NCLL’s contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Approximately US\$0.01 million of the forfeited contribution was utilised in each of the years ended 31 December 2002 and 2001. As at 31 December 2002 and 2001, approximately US\$0.1 million and US\$0.02 million respectively were available to reduce future contributions.

### (b) **Defined Benefit Plan**

The Group maintains a Supplemental Senior Executive Retirement Plan (“SSERP Plan”), a defined benefit plan, for selected senior executives. The Group has recorded within payroll, taxes and related benefits accrual at 31 December 2002 and 2001 of approximately US\$5.0 million and US\$- respectively with respect to the SSERP Plan in the accompanying balance sheet. The Group records an expense related to the SSERP Plan for such amounts based on the following actuarial assumptions: 5% discount rate and 5% annual increase in compensation.

No amounts are required to be or were contributed under the SSERP Plan by the Group as at 31 December 2002 and 2001 as the SSERP Plan is unfunded. The Group recorded expenses related to the above described defined benefit plan of approximately US\$5.0 million and US\$- within selling, general and administrative expenses for the years ended 31 December 2002 and 2001, respectively.

### 30. Principal Subsidiaries

The following is a list of principal subsidiary companies as at 31 December 2002:

<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\$2,000,000	100.00	Investment holding, ship management and marketing services
Cruise Properties Limited	Isle of Man	Isle of Man	RM7,600,000	100.00	Investment holding
Inter-Ocean Limited	Isle of Man	Isle of Man	US\$2,000,000	100.00	Investment holding
Star Cruise Services Limited	Isle of Man	Isle of Man	US\$2,000,000	100.00	Investment holding and cruise services
Arrasas Limited	Isle of Man	Isle of Man	US\$197,218,181	100.00	Investment holding
Cruise Ferries Holding Limited	Bermuda	Bermuda	US\$12,000	100.00	Investment holding and cruise ferry services
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
Norwegian Star Limited	Note (2)	Isle of Man	US\$2	100.00	Cruise services
Norwegian Dawn Limited	Note (2)	Isle of Man	US\$2	100.00	Cruise services

### 30. Principal Subsidiaries *(continued)*

<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>
Star Cruises Ship Management Sdn. Bhd.	Malaysia	Malaysia	RM150,000	100.00	Operator of ship Simulator for training purposes and marine and technical administrative 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.

### 31. Significant Subsequent Event

On 5 February 2003, Ship Holding LLC, a wholly-owned subsidiary of the Company entered into a contract with the Lloyd Werft shipyard in Germany to complete the construction of the first "Project America" vessel, the hull of which was acquired in 2002. The estimated total cost for the first vessel is approximately US\$350 million. The vessel will have a gross tonnage of approximately 81,000 tons and capacity of approximately 2,100 lower berths.