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	1999	**2000**	1999
	US$'000	US$'000	**US$'000**	US$'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
	1,326,743	391,685	**159,799**	106,857

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

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

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

3. IMPAIRMENT OF FIXED ASSETS

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

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.