

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

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

5. FINANCIAL COSTS

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

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

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

7. TAXATION

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

7. TAXATION *(continued)*

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

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

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

8. (LOSS)/EARNINGS PER SHARE

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

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

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

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

9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

10. INTANGIBLE ASSETS

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

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

Trade names and trademarks

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

10. INTANGIBLE ASSETS (continued)

Goodwill arising on acquisition of 84.5% of NCL

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

Note:

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