23. SHARE CAPITAL *(continued)*

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

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

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

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

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

24. RESERVES

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

24. RESERVES *(continued)*

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

25. OTHER LONG-TERM LIABILITIES

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

26. DEFERRED TAXATION

	GROUP	
	2000	1999
	US$'000	US$'000
Excess of capital allowances over depreciation	**168**	30

27. FINANCIAL INSTRUMENTS

The fair values of financial instruments including derivatives are based on a variety of factors and assumptions. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realised as at the balance sheet date or that will be realised in the future and do not include expenses that could be incurred in an actual sale or settlement. The following are the fair values and methods used to estimate the fair values of the Group's financial instruments:

(a) Certain short-term financial instruments

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

(b) Long-term bank loans

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

27. FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate swaps and foreign exchange forward contracts

(i) The Group entered into an amortising interest rate swap to effectively convert the interest rate on US$30 million of the term loan from a floating rate obligation to a fixed rate obligation in the year ended 31 December 1998. The fair market value of the amortising interest rate swap was US$2 million as at 31 December 1999, which was favourable to the Group. Under this interest rate swap, the Group will exchange at six monthly intervals, the difference between the fixed rate and the floating rate interest amount calculated by reference to the agreed amortising notional principal amount. The notional principal amount will decrease equally over the specified interval to an amount of US$7 million on 25 March 2010. This swap terminates on 25 September 2010. In the year ended 31 December 2000, the Group terminated the amortising interest rate swap and recorded a gain of US$2.1 million. This gain has been deferred under other long-term liabilities and credited to consolidated profit and loss account over the remaining lives of the swaps.

(ii) In 1999, the Group entered into interest rate collar swap agreements with a total notional amount of US$70 million to limit its exposure to fluctuations in interest rate movements. The estimated fair market value of these interest rate collar swap agreements was approximately US$0.6 million as at 31 December 1999, which was favourable to the Group. Under the interest rate collar swap agreements, the Group pays the other party the difference between the floating interest rate and an agreed floor interest rate of 6.4% should actual interest rates fall below this floor interest rate and is entitled to receive the difference between the floating interest rate and an agreed cap interest rate of between 7.27% and 7.4% should actual interest rates exceed these cap interest rates at six monthly intervals. These differences are calculated by reference to an agreed amortising principal amount as the notional principal amount will decrease equally over the specified interval to an approximate amount of US$19 million in September 2010. The Group is required to place cash of approximately US$2.2 million with the other party as collateral for these swaps. In the year ended 31 December 2000, the Group terminated the interest rate collar swaps and recorded a gain of US$0.9 million. This gain has been deferred under other long-term liabilities and credited to consolidated profit and loss account over the remaining lives of the swaps.

(iii) On 17 February 2000, the Group entered into a series of forward exchange contracts to hedge NOK commitments for the purchase of the remaining interest in NCL. These contracts were closed following the compulsory acquisition initiated by the Group. Gain or loss resulting from these forward exchange contracts are deferred and included in the cost for purchasing the remaining interest in NCL.

(iv) The Group entered into forward contracts totalling US$167.0 million to hedge currency exchange risk relating to its anticipated Singapore dollars' stream of revenue. The estimated fair market value of the forward contracts as at 31 December 2000 was US$3.7 million which was favourable to the Group. The changes in the fair value of these forward contracts are included in other income.

27. FINANCIAL INSTRUMENTS *(continued)*

(v) The Group has forward contracts that hedge DEM commitments for construction of a cruise ship. As at 31 December 2000, the notional amount of the contracts was US$165.6 million and their estimated fair value was approximately US$148.6 million.

(vi) The Group has forward contracts relating to French franc mortgage obligations on the *M/S Norwegian Dream*. These forward contracts were closed in conjunction with the refinancing of such debts in year ended 31 December 2000.

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

28. COMMITMENTS AND CONTINGENCIES

(i) Capital expenditure

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

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

(ii) Operating leases

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

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

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

28. COMMITMENTS AND CONTINGENCIES *(continued)*

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

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

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

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

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

(iii) Charter hire revenue

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

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

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

29. CONTINGENT LIABILITIES

(i) Contingencies

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

(ii) Material Litigation

(1) A proposed class action suit was filed in 1995 in the United States District Court for the Southern District of Florida against NCL alleging NCL violated the Florida Unfair and Deceptive Trade Practices Act (the "Act") by including an element of profit in NCL's port charges. The District Court granted three motions to dismiss filed by NCL with the final dismissal granted with prejudice. After the dismissal of the case by the District Court, three similar complaints were filed against NCL in Dade County Circuit Court in 1996. The complaints have been consolidated and allege violation of the Act, common law fraud and negligence. The Court has heard arguments on class certification of this case and has taken plaintiffs motion for class certification under advisement. Five similar class actions have been filed in other states against NCL and all of these non-Florida actions have been dismissed due to improper venue based upon a forum selection provision in NCL's passenger ticket contract. The Court denied class certification of this surviving Florida case. However, the Third District Court of Appeal subsequently reversed the Court's denial of class certification and remanded the case to the Court with instructions to certify the class. NCL sought a rehearing of the District Court of Appeal's decision which was denied. NCL will appeal the issue to the Florida Supreme Court. NCL also intends to pursue settlement negotiations with respect to this matter. Settlement agreements entered into by other cruise lines that have settled similar claims have involved the cruise lines issuing cruise credit certificates to the class plaintiffs, paying attorneys' fees to the class plaintiffs counsel and covering administrative expenses of the class settlement. At 31 December 2000, NCL established a liability for potential payments of attorneys' fees and administrative expenses of settlement.

(2) A proposed class action suit was filed in 1995 against NCL and other unrelated cruise lines alleging misrepresentations by owners and operators of cruise ship casinos relating to the use of electronic gaming devices. The suit has been transferred to Federal District Court in Las Vegas, Nevada. Also named as defendants in the case are numerous land-based casinos and manufacturers of electronic gaming devices. On 19 December 1997, the Court entered an order, based on the motions filed by the defendants, dismissing the wire fraud claim, granting a motion to strike certain parts of the amended complaints and denying the remaining motions to dismiss. The Court granted the defendants' motion to separate discovery into "merits" and "class" phases and to stay "merits" discovery until the Court rules on class certification. The defendants and plaintiffs have filed their arguments regarding class certification with the Court and a decision is pending. No discovery has commenced on the merits of this case. Accordingly, no provision has been made in the accompanying accounts for any liability which may result from this case. Management plans to vigorously defend this suit.