

29. CONTINGENT LIABILITIES *(continued)*

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

30. SHARE OPTION PLANS

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

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

30. SHARE OPTION PLANS *(continued)*

Key terms and conditions for the period to 22 October 2000

Options were generally granted at an exercise price per share equal to the average of the middle market quotation of the share as quoted and shown in the daily official list issued by the Luxembourg Stock Exchange or any approved stock exchange as the Directors may deem relevant for the five market days preceding the date of the offer in writing to the employee. Options generally became exercisable as to 50% of the amount granted 4 years after the grant date and the remaining can be exercised annually in tranches subject to a minimum amount per tranche per year at various dates in the future until the retirement age of the employees, which is 55 years old. However, if the retirement period was less than 10 years from the date of an offer, the option period for the remaining tranches will expire on the tenth year from the grant date or at any age to be determined by the Board.

Key terms and conditions for the period from 23 October 2000

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

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

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

30. SHARE OPTION PLANS (continued)

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

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

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

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

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

30. SHARE OPTION PLANS *(continued)*

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

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

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

31. RETIREMENT BENEFIT COST

Defined Contribution Plans

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

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

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

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

31. RETIREMENT BENEFIT COST *(continued)*

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

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

Defined Benefit Plan

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

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

32. PRINCIPAL SUBSIDIARIES

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

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

RM: Malaysian Ringgit

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

33. SIGNIFICANT SUBSEQUENT EVENTS

- (i) On 19 January 2001, the Group contracted for the sale of m. v. Star Aquarius for a net cash consideration of US\$75 million for delivery at the end of February 2001. The Group recorded an impairment loss of US\$37.7 million in the year ended 31 December 2000 in respect of m.v. Star Aquarius (see note 3).

- (ii) In April 2001, the Group signed an amendment agreement in respect of its US\$600 million 5-year term loan. This amendment agreement, inter alia, amends certain terms contained in the original loan agreement. Furthermore, the Group will repay US\$150 million of this loan in 2001 under the terms of this amendment agreement and this amount has been classified as a current liability as at 31 December 2000.