

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited accounts of the Group have been prepared in compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting", and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2000.

Intangible assets

The Group is currently amortising goodwill and other intangible assets 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. SSAP 29 and SSAP 30 are effective for accounting periods commencing 1 January 2001.

- (a) The Group amortises goodwill arising from the purchase of NCL Holding ASA ("NCL") totalling US\$372.6 million 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 the 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.
- (b) Intangible assets representing trade names and trademarks of Norwegian Cruise Line and Orient Lines of US\$291.6 million were recorded on the acquisition of NCL and are being amortised on a straight-line basis over 40 years. The Group considers that 40 years is a reasonable estimate of the useful lives 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.

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. In prior years, these drydocking costs, which were to be amortised within one year, were classified as current assets and the remainder of such costs was included in other assets. Effective this year, 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", where necessary, comparative figures have been reclassified to conform to the current period's presentation.

2. TURNOVER AND OPERATING PROFIT

The Group is principally engaged in the operation of passenger cruise ships.

Turnover consists of revenues earned from cruise and cruise related activities and charter hire. Cruise and cruise related revenue comprises 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 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			
	Three months ended 30 September		Nine months ended 30 September	
	2001 <i>US\$'000</i> <i>unaudited</i>	2000 <i>US\$'000</i> <i>unaudited</i>	2001 <i>US\$'000</i> <i>unaudited</i>	2000 <i>US\$'000</i> <i>unaudited</i>
Cruise and cruise related activities	375,648	424,760	1,031,395	970,385
Charter hire	4,186	4,133	11,052	11,053
	<u>379,834</u>	<u>428,893</u>	<u>1,042,447</u>	<u>981,438</u>

Notes to the Accounts (Continued)

2. TURNOVER AND OPERATING PROFIT (Continued)

	OPERATING PROFIT			
	Three months ended		Nine months ended	
	30 September		30 September	
	2001	2000	2001	2000
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	unaudited	unaudited
Cruise and cruise related activities	58,559	86,417	110,202	167,730
Charter hire	2,261	2,748	6,201	6,332
	<u>60,820</u>	<u>89,165</u>	<u>116,403</u>	<u>174,062</u>

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

	TURNOVER			
	Three months ended		Nine months ended	
	30 September		30 September	
	2001	2000	2001	2000
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	unaudited	unaudited
Asia Pacific	119,790	157,332	372,678	409,446
North America (note)	223,369	242,706	582,880	512,587
Others	36,675	28,855	86,889	59,405
	<u>379,834</u>	<u>428,893</u>	<u>1,042,447</u>	<u>981,438</u>

	OPERATING PROFIT			
	Three months ended		Nine months ended	
	30 September		30 September	
	2001	2000	2001	2000
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	unaudited	unaudited
Asia Pacific	25,728	40,291	79,391	86,977
North America (note)	30,506	43,856	32,191	78,449
Others	4,586	5,018	4,821	8,636
	<u>60,820</u>	<u>89,165</u>	<u>116,403</u>	<u>174,062</u>

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

3. DEPRECIATION AND AMORTISATION

Depreciation and amortisation of the Group consists of the following:

	Three months ended		Nine months ended	
	30 September		30 September	
	2001	2000	2001	2000
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	unaudited	unaudited
Depreciation of fixed assets	33,732	34,477	97,700	89,108
Amortisation of software development costs	788	975	2,916	1,414
Amortisation of goodwill	2,360	2,401	7,081	5,507
Amortisation of trade names and trademarks	1,531	1,823	4,590	4,253
Total depreciation and amortisation	<u>38,411</u>	<u>39,676</u>	<u>112,287</u>	<u>100,282</u>
– relating to operating function	36,096	37,601	105,621	94,762
– relating to selling, general and administrative function	2,315	2,075	6,666	5,520

Notes to the Accounts (Continued)

4. TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2001 US\$'000 <i>unaudited</i>	2000 US\$'000 <i>unaudited</i>	2001 US\$'000 <i>unaudited</i>	2000 US\$'000 <i>unaudited</i>
Overseas taxation				
- Current taxation	341	312	807	891
- Deferred taxation	—	15,338	—	19,189
	<u>341</u>	<u>15,650</u>	<u>807</u>	<u>20,080</u>

5. EARNINGS PER SHARE

Earnings per share has been calculated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2001 US\$'000 <i>unaudited</i>	2000 US\$'000 <i>unaudited</i>	2001 US\$'000 <i>unaudited</i>	2000 US\$'000 <i>unaudited</i>
<u>BASIC</u>				
Net profit	<u>37,298</u>	<u>17,640</u>	<u>37,926</u>	<u>16,096</u>
Average outstanding ordinary shares in thousands	<u>4,144,802</u>	<u>3,124,287</u>	<u>4,144,060</u>	<u>3,123,975</u>
Basic earnings per share in US cents	<u>0.90</u>	<u>0.56</u>	<u>0.92</u>	<u>0.52</u>
<u>FULLY DILUTED</u>				
Net profit	<u>37,298</u>	<u>17,640</u>	<u>37,926</u>	<u>16,096</u>
Average outstanding ordinary shares in thousands	<u>4,144,802</u>	<u>3,124,287</u>	<u>4,144,060</u>	<u>3,123,975</u>
Effect of dilutive ordinary shares in thousands	<u>15,118</u>	<u>48,026</u>	<u>21,990</u>	<u>53,577</u>
Average outstanding ordinary shares after assuming dilution in thousands	<u>4,159,920</u>	<u>3,172,313</u>	<u>4,166,050</u>	<u>3,177,552</u>
Fully diluted earnings per share in US cents	<u>0.90</u>	<u>0.56</u>	<u>0.91</u>	<u>0.51</u>

6. TRADE RECEIVABLES

	30 September 2001	As at 31 December 2000
	US\$'000 <i>unaudited</i>	US\$'000 <i>audited</i>
Trade receivables	18,857	22,300
Less: Provisions	<u>(2,909)</u>	<u>(2,380)</u>
	<u>15,948</u>	<u>19,920</u>

Notes to the Accounts (Continued)

6. TRADE RECEIVABLES (Continued)

At 30 September 2001 and 31 December 2000, the ageing analysis of the trade receivables were as follows:

	30 September 2001 <i>US\$'000</i> <i>unaudited</i>	As at 31 December 2000 <i>US\$'000</i> <i>audited</i>
Current to 30 days	5,997	13,625
31 days to 60 days	2,188	2,223
61 days to 120 days	3,257	1,642
121 days to 180 days	1,241	929
181 days to 360 days	3,486	2,093
Over 360 days	2,688	1,788
	<u>18,857</u>	<u>22,300</u>

Credit terms generally range from payment in advance to 30 days credit terms.

7. TRADE CREDITORS

The ageing of trade creditors as at 30 September 2001 and 31 December 2000 were as follows:

	30 September 2001 <i>US\$'000</i> <i>unaudited</i>	As at 31 December 2000 <i>US\$'000</i> <i>audited</i>
Current to 60 days	67,211	68,994
61 days to 120 days	3,826	3,138
121 days to 180 days	1,383	3,381
Over 180 days	532	579
	<u>72,952</u>	<u>76,092</u>

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

8. LONG-TERM BANK LOANS

Long-term bank loans consist of the following:

		30 September 2001 <i>US\$'000</i> <i>unaudited</i>	As at 31 December 2000 <i>US\$'000</i> <i>audited</i>
US\$521.6 million syndicated term loan		434,453	469,227
US\$600 million term loan	(i)	450,000	600,000
US\$210 million M/S Norwegian Sky Loan		182,000	196,000
US\$623 million Fleet Loan		565,200	597,600
1999 KfW M/S Norwegian Sun Pre-delivery	(ii)	—	96,790
US\$225 million M/S Norwegian Sun Post-delivery Loan	(ii)	225,000	—
US\$45 million term loan		45,000	—
		<u>1,901,653</u>	<u>1,959,617</u>
Total liabilities		1,901,653	1,959,617
Less: Current portion		(599,573)	(263,573)
		<u>1,302,080</u>	<u>1,696,044</u>
Long-term portion		<u>1,302,080</u>	<u>1,696,044</u>

Notes to the Accounts *(Continued)*

8. LONG-TERM BANK LOANS *(Continued)*

- (i) Pursuant to the terms of an amendment agreement signed in April 2001, the Group repaid US\$150 million of the US\$600 million 5-year term loan. This repayment was made from the proceeds of the disposal of m.v. Star Aquarius of US\$75 million in the first quarter this year with the balance from the proceeds of the convertible notes issued to Resorts World Limited ("RWL") and the share placement, both of which occurred in 2000.

The Group re-classified this term loan as a current liability as the Group was in breach of one of the financial covenants relating to this term loan as at 30 September 2001. In November 2001, the Group accepted a Syndicated Term Loan Facility offer from The Hong Kong and Shanghai Banking Corporation Limited ("HSBC") to provide up to US\$450 million in loans to refinance this term loan. The commitment of HSBC in respect of the facility offer is subject to HSBC being of the opinion that there has been no material adverse change in the status or financial condition of the Group or in international financial markets that may affect the successful syndication of the loan. The facility bears interest at rates, which vary according to the London Interbank Offer Rate, and is repayable in 12 equal installments payable at six-monthly intervals commencing 18 months from the facility agreement date. If a notice of acceleration for repayment of all or part of the 5-year term loan is received, such acceleration would trigger cross-default provisions under other indebtedness of the Group.

- (ii) In October 1999, in connection with the construction of the M/S Norwegian Sun, NCL entered into a loan agreement with a syndicate of banks (the "1999 KfW Loan") to borrow up to US\$150 million. The 1999 KfW Loan is repayable upon delivery of the vessel by the shipyard but no later than 31 December 2001. In May 2000, the Group 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 repay the 1999 KfW Loan (upon delivery of the vessel) and to finance portion of the final payment to the shipyard. In the six months ended 30 June 2001, the Group had fully drawn down amounts under the 1999 KfW Loan to pay the shipyard. 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 proceeds from these borrowings were used to repay the 1999 KfW Loan and the final shipyard contract payment (including costs related to extras).

9. SIGNIFICANT 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.

Dato' 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 ("Kien Huat") is a company in which a brother of Dato' Lim Kok Thay has a substantial interest.

Genting Berhad ("GB"), a company in which Dato' Lim Kok Thay has a deemed interest and which is listed on the Kuala Lumpur Stock Exchange, controls Resorts World Berhad ("RWB"), a company also listed on the Kuala Lumpur Stock Exchange which in turn controls RWL which is a substantial shareholder of the Company.

A description of certain material transactions between the Group and these companies is set out below:

- (a) Kien Huat, together with its related companies, is involved in constructing a terminal building and renovating a ship berth for the Group in Laem Chabang, Bangkok, Thailand. In addition, Kien Huat 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 US\$0.1 million and US\$0.3 million in the three months ended 30 September 2001 and 2000 and US\$0.3 million and US\$0.8 million in the nine months ended 30 September 2001 and 2000.
- (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 purchased air tickets from a subsidiary of RWB. Amounts charged to the Group in respect of these services were US\$0.4 million and US\$0.6 million in the three months ended 30 September 2001 and 2000 and US\$1.3 million and US\$1.9 million in the nine months ended 30 September 2001 and 2000.

The Group provides certain services to assist a subsidiary of GB in promoting the Genting Highlands Resort and other resort related properties as well as in conducting business liaison activities internationally. The amount charged to the subsidiary of GB was US\$0.1 million and US\$0.2 million in the three months and nine months ended 30 September 2001.

Amounts outstanding at the end of each fiscal period in respect of the above transactions are included in the balance sheets within amounts due from / (to) related companies.

Notes to the Accounts (Continued)

10. SHAREHOLDERS' FUNDS

Nine months ended 30 September 2001

	Share Capital US\$'000	Share Premium US\$'000	Additional paid-in capital US\$'000	Foreign currency translation adjustments US\$'000	Unamortised share option expense US\$'000	Cash flow hedge reserve US\$'000	Retained earnings US\$'000	Total US\$'000
<u>unaudited</u>								
At 1 January 2001	414,108	1,053,853	93,952	(25,577)	(8,911)	—	67,512	1,594,937
Exchange translation differences	—	—	—	(263)	—	—	—	(263)
Net profit for the period	—	—	—	—	—	—	37,926	37,926
Loss on financial instruments	—	—	—	—	—	(14,821)	—	(14,821)
Issue of ordinary shares pursuant to Star Cruises Employees Share Option Scheme	565	992	—	—	—	—	—	1,557
Charged to profit and loss account	—	—	—	—	2,090	395	—	2,485
At 30 September 2001	<u>414,673</u>	<u>1,054,845</u>	<u>93,952</u>	<u>(25,840)</u>	<u>(6,821)</u>	<u>(14,426)</u>	<u>105,438</u>	<u>1,621,821</u>

Nine months ended 30 September 2000

	Share Capital US\$'000	Share Premium US\$'000	Additional paid-in capital US\$'000	Foreign currency translation adjustments US\$'000	Unamortised share option expense US\$'000	Cash flow hedge reserve US\$'000	Retained earnings US\$'000	Total US\$'000
<u>unaudited</u>								
At 1 January 2000	62,467	675,823	89,376	(23,825)	(4,892)	—	111,512	910,461
Exchange translation differences	—	—	—	(867)	—	—	—	(867)
Net profit for the period	—	—	—	—	—	—	16,096	16,096
Bonus issue on the basis of 4 new ordinary shares for every one existing ordinary shares	249,943	(249,943)	—	—	—	—	—	—
Issue of ordinary shares pursuant to Star Cruises Employees Share Option Scheme	32	261	—	—	—	—	—	293
Issuance of share option	—	—	1,535	—	(1,535)	—	—	—
Charged to profit and loss account	—	—	—	—	1,060	—	—	1,060
At 30 September 2000	<u>312,442</u>	<u>426,141</u>	<u>90,911</u>	<u>(24,692)</u>	<u>(5,367)</u>	<u>—</u>	<u>127,608</u>	<u>927,043</u>

Notes to the Accounts *(Continued)*

11. FINANCIAL INSTRUMENTS

(i) Interest rate swaps

The Group entered into several additional amortising interest rate swaps to effectively convert the interest rate on US\$50 million of the US\$521.6 million term loan obtained to finance the construction of m.v. SuperStar Leo and m.v. SuperStar Virgo from a floating rate obligation to a fixed rate obligation in the three months ended 30 September 2001. As at 30 September 2001, the Group has effectively converted the interest rate of aggregate US\$318.5 million of this term loan to a fixed rate obligation, and the estimated fair market value of these interest rate swaps was approximately US\$14.4 million, which was unfavourable to the Group. The changes in the fair value of these interest rate swaps are included as a separate component of reserves.

(ii) Foreign exchange forward contracts

In the three months ended 30 September 2001, the Group entered into several additional forward contracts totalling US\$34.2 million to hedge currency exchange risk relating to its anticipated Singapore dollars' stream of revenue. As at 30 September 2001, the Group has forward contracts with a total notional amount of US\$201.2 million. The notional amount will be reduced six-monthly in varying amounts over periods ranging from 5 to 11 years commencing August 2000. As at 30 September 2001, the estimated fair market value of these forward contracts was approximately US\$10.0 million which was favourable to the Group. The changes in the fair value of these forward contracts are taken as other income in the profit and loss account.

12. CAPITAL COMMITMENTS AND CONTINGENCIES

(i) Capital expenditure

The Group had the following commitments as at 30 September 2001 and 31 December 2000:

	30 September 2001 <i>US\$'000</i> <i>unaudited</i>	As at 31 December 2000 <i>US\$'000</i> <i>audited</i>
Contracted but not provided for		
– Cruise ships under construction	678,949	840,807
– Cruise terminal under construction	5,059	9,547
– Others	15,929	—
	<u>699,937</u>	<u>850,354</u>
Authorised but not contracted for	<u>—</u>	<u>—</u>

(ii) Material Litigation and Contingencies

There were no material changes to the information disclosed in the Group's annual report for the year ended 31 December 2000.

13. SIGNIFICANT SUBSEQUENT EVENTS

- (i) In June 1999, a syndicated term loan for an amount up to US\$604.8 million was obtained by two subsidiaries of the Group to part finance the construction of m.v. Norwegian Star (formerly known as m.v. SuperStar Libra) and m.v. Norwegian Dawn (formerly known as m.v. SuperStar Scorpio) respectively. In October 2001, the syndicated term loan agreement was amended to provide for borrowings of up to US\$626.9 million.

In November 2001, the Group drewdown US\$313.5 million to pay the shipyard upon delivery of m. v. Norwegian Star to the Group.

- (ii) In November 2001, the Group accepted a Syndicated Term Loan Facility offer from The Hong Kong and Shanghai Banking Corporation Limited to provide up to US\$450 million in loans to refinance the 5-year term loan.