

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Financial Statements and Annual Report of the Star Cruises PLC Group of companies ("Star Cruises" or "the Group") for the year ended 31 December 1998.

REVIEW OF RESULTS

Although 1998 was a difficult year for most companies in Asia due to the economic crisis, the Group was able to achieve record operating income from continuing operations of US\$50.0 million in 1998 as compared to US\$32.9 million in 1997, an increase of 52%. 1999 first quarter operating income of US\$19.1 million was also a record, an increase of 163% compared to the operating income from continuing operations of US\$7.3 million in the first quarter of 1998. The excellent performance was due to the following reasons:

(1) The *SuperStar Leo*

The launch of the *SuperStar Leo*, the first megaship in Asia-Pacific created enormous consumer interest and the number of cruise passengers on her exceeded expectations. More importantly, *SuperStar Leo* was able to stimulate cruise passengers from different source markets such as Australia, Europe, India, Japan, Hong Kong, Taiwan and other Asean countries. Many of them were experienced cruise passengers who were delighted with the level of service and facilities on the ship.

(2) Brand Leadership

Star Cruises has a dominant share of the Asia-Pacific cruise market and is a household name in the region. As reported in the March 1999 edition of "Asian Brand News", Star Cruises was rated as one of the top 50 brands in Asia by the international consultancy, "Interbrand". Star Cruises was mentioned as one of 3 brands with the most potential to move upwards in terms of brand recognition in Asia. This brand leadership permits Star Cruises to achieve better yields.

(3) Economies of Scale

With the increase to 1.3 million passenger cruise days in 1998 and more than 2 million passenger cruise days expected in 1999, Star Cruises is now enjoying significant economies of scale and marketing, selling and administrative costs can be amortized over more passenger cruise days. The megaships also have lower operating costs per passenger cruise day.

(4) Creative Itineraries

Before the arrival of *SuperStar Leo*, *Star Aquarius* sailed during the summer months to various islands in Malaysia and Thailand in the South China Sea. The change in ports of call stimulated repeat cruisers and drew first-time cruisers. These new itineraries are now adopted by *SuperStar Leo* with sailings to the South China Sea in Summer and the Straits of Malacca in Winter.

(5) Benchmark Against Major Cruise Companies

Management is focussed on achieving the same rates of return on capital employed, comparable profitability on a per passenger cruise day basis and similar operating margins to the three major cruise lines. This focus and benchmarking have ensured marketing and operating policies are designed to achieve the financial goals.

During the year, the Group completed the issuance of 125 million new ordinary shares of US\$0.10 each ("New Shares") to Resorts World Limited ("RWL"), a wholly-owned subsidiary of Resorts World Bhd, at a price of US\$2.10 per share. The allotment and issuance of the New Shares to RWL was completed on 30 June 1998.

The proceeds of US\$262.5 million from the issue of shares to RWL were used to repay the Group's entire short-term borrowings and the balance has been earmarked for progress payments for the two "Libra-Class" ships scheduled for delivery in the years 2001 and 2002.

In line with major international cruise companies, we will present our financial statements in accordance with the US Generally Accepted Accounting Principles in 1999.

1998 versus 1997 Results

The operating income from continuing operations before exceptional items for 1998 is US\$50.0 million, an increase of 52% compared with US\$32.9 million for 1997. Passenger cruise days of 1,280,967 in 1998 increased by 17% from 1,095,979 in 1997.

US\$ Million	1998	Unaudited Proforma 1997
Revenue from continuing operations	282.6	310.8
Cost and Expenses		
operating cost	161.9	197.3
Marketing, selling and administrative	36.0	51.7
Depreciation and amortisation	34.7	28.9
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	232.6	277.9
Operating income from continuing operations before exceptional items	50.0	32.9
Passenger Cruise Days	1,280,967	1,095,979
Occupancy as percentage of total capacity	88%	88%

Revenue from continuing operations of US\$282.6 million for 1998 is a decrease of 9% compared with US\$310.8 million for 1997 mainly due to the devaluation of regional currencies in Asia.

Total expenses for 1998 in respect of continuing operations also decreased by US\$45.3 million or 16% compared with 1997 mainly due to both the devaluation of regional currencies and better cost control. Total expenses decreased despite increased cruise capacity. As a result, Star Cruises was able to increase its operating income and improvements were achieved for all ships in the fleet and in all the key markets of Singapore, Hong Kong, Taiwan, Australia and Europe.

For 1998, Star Cruises incurred a loss of US\$25.9 million from discontinued operations in relation to a cruise venture in the United States and an exceptional charge of US\$21.2 million.

US\$ Million	1998	Unaudited Proforma 1997
operating income from continuing operations before exceptional items	50.0	32.9
(Loss) from discontinued operations	(25.9)	-
Net interest expense, net of capitalised interest	(0.8)	(0.4)
Exceptional items	(21.2)	104.5
Taxation	(0.5)	(1.4)
Minority interest	0.8	(0.1)
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Net income	2.4	135.5

The exceptional item of US\$21.2 million relates to the following:

- (a) write-off of start-up costs for *SuperStar Leo* of US\$6.1 million;
- (b) reimbursement of US\$7.9 million for the reduction in value of non-cruise property at the Port Klang Cruise Centre which was sold on the basis of "commercial" land use but was subsequently approved as "industrial" land use; and

(c) net foreign exchange losses of US\$7.2 million mainly relating to a Yen Loan taken up in anticipation of Yen proceeds from the positioning of a ship in Japan in 1998. This Yen position has been closed and the Group has no foreign exchange contracts as of this date.

As a result of these charges, the 1998 Net Income of the Group is US\$2.4 million. The Net Income is not comparable with 1997 as there was an Exceptional Gain of US\$104.5 million in 1997 mainly due to gains arising from the restructuring scheme in 1997.

The taxation charge for the year 1998 is US\$0.5 million (1997: US\$1.4 million).

The net tangible assets per ordinary share of the Group as at 31 December 1998 was US\$1.38 (1997: US\$1.21)

Second Half 1998 versus First Half 1998 Unaudited Results

The operating income for the second half of 1998 is US\$33.7 million which is 107% higher than the US\$16.3 million for the first half of 1998. The passenger cruise days of 721,286 in the second half of 1998 is 29% higher than the 559,681 for the first half of 1998 mainly due to the start of *SuperStar Leo* service in September 1998.

US\$ Million	Unaudited 2nd Half 1998	Unaudited 1st Half 1998	Full Year 1998
Revenue from continuing operations	159.4	123.2	282.6
Cost and Expenses			
Operating	86.6	75.3	161.9
Marketing, selling and administrative	20.0	16.0	36.0
Depreciation and amortisation	19.1	15.6	34.7
	<u>125.7</u>	<u>106.9</u>	<u>232.6</u>
Operating income from continuing operations before exceptional items	33.7	16.3	50.0
Passenger Cruise Days	721,286	559,681	1,280,967
Occupancy as percentage of total capacity	91%	84%	88%

Revenue of US\$159.4 million in the second half increased 29% above the first half of US\$123.2 million mainly due to seasonality and the new capacity provided by *SuperStar Leo*. Operating income margins showed significant improvement in the second half with better occupancies and higher passenger cruise days.

First Quarter 1999 versus First Quarter 1998 Unaudited Results

Star Cruises had a record first quarter earnings, posting a 163% increase in operating income to US\$19.1 million in 1999 as compared to US\$7.3 million in the first quarter of 1998. 1999 first quarter net income was US\$16.4 million, an improvement of 125% as compared to the 1998 first quarter net income from continuing operations of US\$7.3 million before exceptional item.

US\$ Million	Unaudited First Quarter Ended 31 March, 1999 1998	
Revenue from continuing operations	88.2	64.9
Costs and Expenses		
Operating	46.7	38.2
Marketing, selling and administrative	11.6	10.7
Depreciation and amortisation	10.8	8.7
	<u>69.1</u>	<u>57.6</u>
Operating income from continuing operations	19.1	7.3

US\$ Million	Unaudited First Quarter Ended 31 March,	
	1999	1998
Other income/(expense)		
Interest income	1.5	0.1
Interest expense, net of capitalised interest	(4.2)	(0.2)
Income tax expense	(0.1)	(0.1)
Minority interest	-	0.2
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	(2.8)	(0.0)
Income from continuing operations	16.3	7.3
Loss from discontinued operations	-	(12.4)
Exceptional item	-	(7.9)
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Net income/(loss)	16.3	(13.0)
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Passenger Cruise Days	371,173	234,604
Occupancy as a percentage of total capacity	85%	77%

Revenues were US\$88.2 million for the first quarter 1999 compared with US\$64.9 million for the corresponding period last year, an increase of 36%. Passenger cruise days increased from 234,604 to 371,173, an improvement of 58% due to increases in most markets and the addition of *SuperStar Leo*. Occupancy improved from 77% in the first quarter of last year to 85% for the same period this year.

Dividends

Your Directors have recommended a final dividend of US\$0.01 per ordinary share of US\$0.10 each for the year ended 31 December 1998. Upon approval by shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on 28 May 1999 to shareholders registered in the Register of Members at the close of business on 28 April 1999.

FLEET DEPLOYMENT

The arrival of *SuperStar Leo* in September 1998 marked a significant milestone for Star Cruises. She is the first newbuilding for Star Cruises and is the largest world-class passenger ship ever built for the Asia-Pacific cruise market. She was meticulously designed and built with state-of-the-art technology and is equipped with the latest navigation and safety features. In the first six months of operations, she created enormous consumer demand and set a new standard for cruising in Asia-Pacific.

With the delivery of *SuperStar Virgo* on August 7 this year, one month earlier than planned, Star Cruises will position her in Singapore and *SuperStar Leo* will be repositioned in Hong Kong, cruising in Summer to Sanya, Danang and Xiamen and in Winter to Halong Bay, Zhanjiang and Haikou.

The Group will be taking delivery of the *SuperStar Europe* (ex-Europa and rated as the best cruise ship in the world in the Berlitz 1997 Complete Guide to Cruising & Cruise Ships) in June 1999 and after a re-fit, the vessel will be positioned in Bangkok in September 1999 with 5- and 2-night cruises to Saigon, Con Son Island, Phu Quoc Island and Ko Samui Island.

Star Pisces will be relocated to Japan in April 2000 after drydocking and conversion for the Japanese market. *Star Aquarius* will continue to operate from Taiwan to the Okinawa Island, Ishigaki Island and the Kerama (Zamami) Islands. *SuperStar Gemini* will continue her 7-night cruise itinerary in the Straits of Malacca and the Andaman Sea which is well received by European and Australian cruise passengers. The *MegaStar* vessels, *Aries* and *Taurus* will continue to operate out of Singapore and Malaysia.

In order to provide the highest standards of cruise experience in Asia-Pacific, Star Cruises will keep a modern and efficient fleet (an average age of about 6 years by the year 2002). In line with the Group's strategy to maintain a modern fleet, *SuperStar Sagittarius*, was sold to Hyundai Merchant & Marine Co. Ltd. ("Hyundai"). Simultaneously, *SuperStar Capricorn* was chartered to Hyundai in the fourth quarter of 1998 for a period of four years and she is expected to be sold in 2001.

The Group has renewed its charter of the *SuperStar Express*, a high speed vehicle-cum-passenger carrying catamaran to P&O European (Portsmouth) Ferries Ltd for three years with an option to extend the charter for a further 2 years commencing on 15 March 1999 for the spring/summer season of each year.

Star Cruises also has two newbuilding contracts for two 91,000 gross-ton "Libra-Class" ships scheduled for delivery in the years 2001 and 2002. Star Cruises is currently planning the third series of newbuilding - the "Sagittarius-Class" for delivery in 2003 onwards.

By 2002, Star Cruises will have a modern fleet of eleven vessels with a total lower berth capacity of 12,000 with an annual growth of 25% per year for the corresponding period.

SALES AND MARKETING

Sales and Marketing is focussed on exceeding 100% occupancy in 1999 to match other major cruise lines' occupancy standards. To help achieve this, Star Cruises fly/cruise packages will be introduced by end 1999 for all the ships in the fleet and a seamless airport to cruise ship experience with optional pre and post cruise hotel stays will be offered to all cruise passengers.

Sales and Marketing Department and ground handling staff will be strengthened with additional manpower for the fly/cruise packages. The marketing headquarters in Singapore will be relocated to No. 1 Shenton Way, Singapore with a 50% increase in floor space. The new marketing headquarters has the additional advantage of street frontage for advertising on the main street in the financial district of Singapore.

Although the *SuperStar Leo* is positioned in Singapore, about 50% of the passengers on *SuperStar Leo* were non-Singaporeans which helped to balance occupancies. *SuperStar Virgo*, being a new ship will create greater demand when she replaces *SuperStar Leo* in September this year. With the repositioning of *SuperStar Leo* in Hong Kong, we expect significant increase in passengers in Hong Kong.

The positioning of *SuperStar Europe* in Bangkok has been well received by European and Australian travel agents and will bring awareness of cruising to Thailand.

By the end of 1999, Star Cruises will have ships positioned in the ports of embarkation of Singapore, Hong Kong, Taipei, Bangkok, Phuket and Port Klang with mainly 2, 3, 4, 5 and 7-night round trip cruises. By early 2000, Osaka/Kobe and Beppu in Japan will also be ports of embarkation.

It is also expected that *SuperStar Leo* in Hong Kong will have 50% of its cruise passengers from non-Hong Kong markets. *SuperStar Gemini* and *SuperStar Europe* will be mainly for cruise passengers from Europe and Australia while *Star Aquarius* and *Star Pisces* will be used to popularise cruising in the local markets where the ships are positioned. As a result, Star Cruises markets are geographically well-diversified.

Star Cruises, "*The Leading Cruise Line in Asia-Pacific*" has become a household name in most countries in Asia-Pacific. Star Cruises represents modern and exciting ships; no tipping policy; high crew to passenger ratio resulting in excellent service standards; "open sitting" dining and the most number of "alternative dining" restaurants on any ships in the world; the highest safety standards and exciting ports of call in Asia-Pacific.

Star Cruises has won the 1998 TTG Travel Award as "Best Cruise Operator", World Travel Market 1998 "Global Travel Award" and the 1998 Meetings & Conventions Gold Service Award for the "Best Cruise Company". In 1999, Star Cruises was awarded "Best Cruise Operator 1999" by the AFTA Western Australia Chapter Annual Award, the 1999 TTG Travel Award as "Best Cruise Operator" for the third consecutive year and the "New Player of the Year" award for *SuperStar Leo* by TravelAsia in conjunction with the 1999 Breakthrough Awards.

Star Cruises has offices in Australia (Sydney, Melbourne, Brisbane and Perth), Asia (China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, Taiwan and Thailand), Europe (Austria, Germany and United Kingdom) and the United States of America.

HOTEL OPERATIONS

On the *SuperStar Leo*, we have introduced a "Balcony Class" for passengers in balcony and suite staterooms as they comprise more than 30% of the ships passengers and about 50% of the revenue potential. "Balcony Class" passengers receive priority for check-in, embarkation, shore excursions, seating for dining and entertainment, disembarkation and baggage handling. The single card for access to the stateroom, which is also a charge card, is coded red in color to give "Balcony Class" passengers recognition and ensure all crew can distinguish these guests.

Cruise passengers on the *SuperStar Leo* gave overwhelming endorsement of the "open sitting" practised for all the restaurants of the ship. Reservations are required only for Captain's Night and for the 8.30 p.m. seating at "Windows", one of the main dining room. Only the most expansive ships in the world practice "open sitting" and we are able to achieve this due to longer operating hours and the availability of the most number of alternative restaurants on any cruise ships in the world.

SuperStar Leo has achieved the highest efficiency standards on any megaship with embarkation port turnaround time in Singapore as short as 5 hours. With the excellent cooperation of the Singapore Cruise Centre and government authorities, embarkation, disembarkation, baggage handling and all aspects of shore operations were debottlenecked in the first 4 months of operation. Disembarkation and baggage retrieval within one hour has been achieved for up to 2,500 passengers.

With 1,300 crew on the *SuperStar Leo*, 400 more than megaships elsewhere, the high service standards in all aspects of the ship operations exceeded most cruise passengers' expectations.

Training centres are being set up in Philippines, Indonesia and China where we source most of the crew. With experienced staff from *SuperStar Leo*, we expect less start-up problems on the *SuperStar Virgo* and smooth start-up in future due to the greater pool of manpower available.

Food, entertainment and cruise experience on all ships are being systematised so that cruise passengers on all ships will have similar experience as the Company embark on selling all ships in the fleet to all markets by the end of this year.

MARINE OPERATIONS

As we continue to maintain a high level of safety standards in our operations, we have in February 1998 begun the installation of the Voyage Data Recorder ("VDR") system on our fleet of vessels. The VDR, a system designed by a Swedish company, Consilium Marine had been approved by the International Maritime Organisation ("IMO") Safety of Navigation and would fulfill all IMO's requirements. The VDR is essentially a powerful computerised tool which records and reviews all activities on the bridge.

In order to maintain the highest safety standards, the Group has invested in its own US\$5 million state-of-the-art ship simulator, the first cruise line to do so, to train its officers. Known as the Star Cruises Ship Simulator ("SCSS"), it was commissioned in October 1998 and is located at the Star Cruises Terminal, Port Klang. The SCSS is a joint venture between Star Cruises and Danish Maritime Institute, a reputable institution in the field of marine simulators.

With the setting up of the SCSS, our bridge officers are now able to undergo various types of onboard exercises and training under the most difficult sea conditions. The facilities are also used by a number of international container lines for training of their officers.

CRUISE INFRASTRUCTURE

Our two Star Cruises terminals in Pulau Indah (Port Klang) and Pulau Langkawi in Malaysia have been frequented by an increasing number of international cruise ships visiting South East Asia. Star Cruises is developing a Star Cruises jetty in Kijal Awana, Malaysia and evaluating a number of other terminal proposals in the region to ensure appropriate infrastructure is developed for all its megaships.

INFORMATION TECHNOLOGY

"STARRES", Star Cruises reservation system is handling up to 10,000 reservations per day with online terminals with sales agents and branch offices. Bookings using the Internet has been tested in the Hong Kong market and will be system-wide by the end of this year.

A 24-hour call centre has been established in Port Klang to handle calls from Singapore, Malaysia and Hong Kong. This will also be expanded to all markets by the end of this year.

Star Cruises is using SAP Version 3.0 for accounting purposes and the Fidelio Micros systems on its fleet with integration on Ving locks. Star Cruises offers a single card for access to stateroom which is also a charge card for cruise passengers.

We believe *SuperStar Leo* is one of the few ships that has the most sophisticated technology onboard. The key cards are colour coded to distinguish the "Balcony Class" passengers.

Star Cruises has installed the ATM (Asynchronous Transfer Mode) network onboard all its newbuilding starting with the *SuperStar Leo* and *SuperStar Virgo*. This ATM network facilitates communication between ship and shore and allows passengers the luxury of interactive television from the convenience of their staterooms. With the leased transponder on Measat-1 satellite, passengers will be able to have substantially cheaper form of communication with the shore and be able to access the Internet from the ship.

YEAR 2000

In March 1998, the Group embarked on its Year 2000 compliance program. Various teams were set up to address the Year 2000 issues. The compliance program covers all essential computer systems onshore (e.g. the reservation system, accounting and other associated systems) and onboard (e.g. the navigational, safety and other onboard systems).

All essential computer systems have been certified by the respective vendors and internal verification has been carried out by the Group. In addition, the compliance program also addresses the risks associated with the Year 2000 issues.

The compliance program will be completed for all essential computer systems by August 1999 and ongoing work will be carried out to ensure that all computer systems of the Group is Year 2000 ready.

PROSPECTS

Cruising is about 2% of the vacation industry in the US and less in Asia-Pacific. Despite the economic crisis, consumers continue to take vacations and they are choosing cruising as an alternative to land vacation and perceive the all-inclusive cruise package as great value for money. Cruising holds the highest guest satisfaction ratings among vacation products and we expect the prospects for cruising in Asia-Pacific to be bright.

Although cruising is a growth industry, there are significant barriers to entry. The three major cruise companies in the US and Europe have continually increased their market share due to economies of scale, huge capital for megaships, brand recognition, reservation systems, complexities of fleet operations and limited infrastructure. In Asia-Pacific, these entry barriers are more pronounced. With the newbuildings to be delivered to Star Cruises in the next few years, Star Cruises will remain the dominant brand in Asia-Pacific.

Further improvement in net income is expected in 1999 due to more capacity addition and economies of scale with the full year impact of *SuperStar Leo* and the start of service of *SuperStar Virgo* and *SuperStar Europe* in September 1999.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to the management, staff and crew for their invaluable support, dedication and commitment, particularly during this difficult year.

Our thanks and gratitude are also extended to our shareholders, business associates, financiers and various government authorities concerned for their co-operation, invaluable assistance and continued support.

We also wish to thank the travel industry for voting Star Cruises for the numerous awards in many countries, including the "Best Cruise Operator" in Asia-Pacific.

DATO' LIM KOK THAY

Chairman

24 April 1999