



Star Cruises Limited
(Continued into Bermuda with limited liability)

ANNOUNCEMENT
RESULTS FOR THE THREE MONTHS AND THE YEAR ENDED 31 DECEMBER 2003

The Directors of Star Cruises Limited ("Company") announce the unaudited consolidated results and the audited consolidated results of the Company and its subsidiary companies ("Group") for the three months and the year ended 31 December 2003, together with the comparative figures for the previous period / year as follows:

	Note	Three months ended		Year ended	
		31 December		31 December	
		2003	2002	2003	2002
		US\$'000	US\$'000	US\$'000	US\$'000
		unaudited	unaudited	audited	audited
Turnover	1	400,032	368,417	1,618,208	1,573,588
Operating expenses (excluding depreciation, amortisation and impairment loss)		(299,198)	(255,587)	(1,098,431)	(991,260)
Selling, general and administrative expenses (excluding depreciation)		(60,430)	(64,673)	(243,379)	(245,320)
Depreciation and amortisation		(50,072)	(46,012)	(197,349)	(176,166)
Impairment loss		(99,545)	-	(99,545)	-
		<u>(509,245)</u>	<u>(366,272)</u>	<u>(1,638,704)</u>	<u>(1,412,746)</u>
Operating profit / (loss)	1	(109,213)	2,145	(20,496)	160,842
Interest income		559	1,061	2,613	3,325
Financial costs		(23,472)	(25,083)	(93,804)	(99,326)
Other non-operating expenses, net		(6,449)	(5,455)	(11,123)	(12,435)
		<u>(29,362)</u>	<u>(29,477)</u>	<u>(102,314)</u>	<u>(108,436)</u>
Profit / (Loss) before taxation		(138,575)	(27,332)	(122,810)	52,406
Taxation	2	(402)	(340)	(1,663)	(1,475)
Net profit / (loss) for the period / year		<u>(138,977)</u>	<u>(27,672)</u>	<u>(124,473)</u>	<u>50,931</u>
Basic earnings / (loss) per share (US cents)	3	(2.76)	(0.60)	(2.51)	1.15
Fully diluted earnings per share (US cents)	3	N/A	N/A	N/A	1.15
<u>Unaudited operating data</u>					
Passenger Cruise Days		2,091,504	2,125,833	8,450,404	8,374,271
Capacity Days		2,152,284	2,218,222	8,796,135	8,542,019
Occupancy as a percentage of total capacity days		97%	96%	96%	98%

NOTES TO THE ACCOUNTS

1. Turnover and Operating Profit / (Loss)

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 of a catamaran to a third party customer.

The amounts of each significant category of revenue recognised by the Group were as follows:

	TURNOVER			
	Three months ended		Year ended	
	31 December		31 December	
	2003	2002	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	audited	audited
Cruise and cruise related activities	400,032	368,417	1,615,724	1,570,507
Charter hire	-	-	2,484	3,081
	400,032	368,417	1,618,208	1,573,588

	OPERATING PROFIT / (LOSS)			
	Three months ended		Year ended	
	31 December		31 December	
	2003	2002	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	audited	audited
Cruise and cruise related activities				
Operating profit / (loss)	(8,931)	2,991	79,222	160,510
Impairment loss	(81,852)	-	(81,852)	-
	(90,783)	2,991	(2,630)	160,510
Charter hire				
Operating profit / (loss)	(737)	(846)	(173)	332
Impairment loss	(17,693)	-	(17,693)	-
	(18,430)	(846)	(17,866)	332
	(109,213)	2,145	(20,496)	160,842

1. Turnover and Operating Profit / (Loss) (Continued)

The Group's turnover and operating profit / (loss) in its principal markets of North America and Asia Pacific are analysed as follows:

	TURNOVER			
	Three months ended		Year ended	
	31 December		31 December	
	2003	2002	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	audited	audited
Asia Pacific	102,782	114,488	408,851	466,696
North America (note)	278,751	229,923	1,105,547	1,015,474
Others	18,499	24,006	103,810	91,418
	400,032	368,417	1,618,208	1,573,588

	OPERATING PROFIT / (LOSS)			
	Three months ended		Year ended	
	31 December		31 December	
	2003	2002	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	audited	audited
Asia Pacific				
Operating profit	14,391	16,648	32,508	93,868
Impairment loss	(77,390)	-	(77,390)	-
	(62,999)	16,648	(44,882)	93,868
North America (note)				
Operating profit / (loss)	(21,030)	(11,549)	48,264	69,738
Impairment loss	(22,155)	-	(22,155)	-
	(43,185)	(11,549)	26,109	69,738
Others	(927)	(676)	6,685	6,351
	(107,111)	4,423	(12,088)	169,957
Amortisation of goodwill	(2,102)	(2,278)	(8,408)	(9,115)
	(109,213)	2,145	(20,496)	160,842

Note: Substantially, all this turnover and operating profit / (loss) arises in the United States of America.

2. Taxation

	Three months ended		Year ended	
	31 December		31 December	
	2003	2002	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000
	unaudited	unaudited	audited	audited
Overseas taxation				
- Current taxation	402	340	1,645	1,475
- Deferred taxation	-	-	18	-
	402	340	1,663	1,475

3. Earnings / (Loss) per share

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

	Three months ended 31 December		Year ended 31 December	
	2003 US\$'000 unaudited	2002 US\$'000 unaudited	2003 US\$'000 audited	2002 US\$'000 audited
<u>BASIC</u>				
Net profit / (loss)	(138,977)	(27,672)	(124,473)	50,931
Weighted average outstanding ordinary shares in thousands	5,031,071	4,620,320	4,967,186	4,433,371
Basic earnings / (loss) per share in US cents	(2.76)	(0.60)	(2.51)	1.15
<u>FULLY DILUTED</u>				
Net profit / (loss)	(138,977)	(27,672)	(124,473)	50,931
Weighted average outstanding ordinary shares in thousands	5,031,071	4,620,320	4,967,186	4,433,371
Effect of dilutive ordinary shares in thousands	358,474	4,664	88,539	11,626
Weighted average outstanding ordinary shares after assuming dilution in thousands	5,389,545	4,624,984	5,055,725	4,444,997
Fully diluted earnings per share in US cents	N/A*	N/A*	N/A*	1.15

* Diluted loss per share for the three months ended 31 December 2003 and 2002 and the year ended 31 December 2003 are not shown, as the diluted loss per share is less than the basic loss per share.

FINAL DIVIDEND

The Directors do not recommend the declaration of any final dividend in respect of the year ended 31 December 2003 (2002: Nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Group is the third largest cruise line in the world by lower berths with 18 ships and over 23,000 lower berths under three mainstream brand names, Star Cruises, Norwegian Cruise Line and Orient Lines. Star Cruises and Cruise Ferries operates eight ships offering various cruise itineraries and calls destinations primarily in the Asia Pacific region. Norwegian Cruise Line and Orient Lines operate ten cruise ships offering a wide variety of itineraries in North America (including Alaska and Hawaii), Central and South America, Antarctica, Bermuda, the Caribbean, Europe and the Mediterranean. The Group recently launched another brand, NCL America, under which the Group will expand its operations to Hawaii.

REVENUES FROM CRUISE AND CRUISE-RELATED ACTIVITIES

Revenues from cruise and cruise-related activities can be further categorised as "cruise revenues" and "on-board revenues". Cruise revenues are derived from the sale of passenger tickets. Passenger ticket sales comprise a one-off up-front payment collected from passengers for accommodation, meals in certain restaurants on the ship, certain on-board entertainment and, where relevant, air and land transportation to and from the ship. Passenger ticket sales also includes amounts collected as passenger handling charges, which are charged to the passengers separately from the price of passenger tickets, but which are recorded as passenger ticket sales. These passenger handling charges include port fees, berthing charges, embarkation and disembarkation fees, baggage handling charges and other related charges. Revenues from passenger ticket sales are collected from passengers prior to their departure on the cruise, usually at the time of booking the cruise.

On-board revenues consist of revenues from gaming, beverage sales, shore excursions, a la carte dining outlets and revenues from on-board retail sales. On-board revenues vary according to the size of the ships in operation, the length of cruises operated, and the markets in which the ships operate.

CHARTER-HIRE REVENUES

The Group derived revenues from the bareboat charter-hire of a catamaran to a third party customer. The revenues the Group derived from charter-hire generally vary according to the number of ships it has on charter-hire during a given period.

OPERATING EXPENSES

Operating expenses are made up of air and land transportation expenses, overnight shoreside hotel expenses, passenger transfer costs, travel agent commission and all shipboard operating expenses including crew wages and benefits, port charges, fuel, food, ship maintenance and entertainment expenses, cabin consumables and ship insurance. Most of the operating expenses are generally fixed per cruise, while passenger food expenses and port expenses typically vary according to the number of passengers on board a particular cruise ship.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses consist of the expenses of the Group's marketing activities. These marketing activities include advertising and promotional activities, operation of the Group reservation call centres and support functions, and other passenger related services, such as the Group's loyalty programmes.

General and administrative expenses consist of shoreside personnel wages and benefits, and expenses relating to the Group's world-wide offices, information technology support, crew training and support (including the operation of the Star Cruises Ship Simulator Centre), purchasing operations and other ship-related support activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

DEPRECIATION AND AMORTISATION

Depreciation and amortisation expenses consisted primarily of depreciation of ships and shoreside assets as well as amortisation of goodwill and trade names and trademarks.

FOREIGN EXCHANGE AND INTEREST RATE SWAPS

The functional currency of the Group is the U.S. dollar as a substantial portion of the Group's transactions are realised or settled in U.S. dollars. Transactions in currencies other than U.S. dollars ("foreign currencies") are translated into U.S. dollars at exchange rates in effect at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated at exchange rates at the balance sheet date. All such exchange differences are reflected in the consolidated profit and loss account.

The Group does not undertake extensive hedging of its foreign currency cashflows as the Directors believe that the main foreign currencies in which the Group derives its revenues, the Singapore dollar and the Hong Kong dollar, are generally stable. The Group does from time to time enter into hedging arrangements in connection with anticipated foreign currency fluctuations against the U.S. dollar. As at 31 December 2003, the Group was a party to certain forward contracts with a total notional amount of US\$206.7 million in respect of the Singapore dollars and US\$60.7 million in respect of the Hong Kong dollars. These forward contracts have remaining life ranging from 2 to 8 years. In addition, the Group also has forward contract maturing every two months up to April 2004 with a total notional amount of US\$160.7 million to hedge against the Euro denominated currency shipbuilding commitments on the completion of the Pride of America vessel.

The Group's indebtedness and its related interest expenses are denominated in U.S. dollars and are based upon floating rates of interest. In order to limit its exposure in interest rate fluctuation, variable to fixed interest rate swaps have been utilised from time to time, to fix a portion of interest costs over a period of time. The Group continuously evaluates its debt portfolio, including interest rate swaps to achieve a desired proportion of variable and fixed debt based on its view of interest rate movement. As at 31 December 2003, the Group had interest rate swaps on debts with a notional amount of US\$430.4 million with remaining lives ranging from 4 to 8 years. In addition, the Group also entered into a series of 5.5% capped USD LIBOR-in-arrears interest rate swaps with a notional amount of approximately US\$140.8 million to limit its exposure to fluctuations in interest rate movements if rate moves beyond the cap level of 5.5%. The notional amount for each interest period will be reduced six-monthly in varying amounts over 5 years from August 2003.

TAXATION

Bermuda, the jurisdiction of continuation for Star Cruises Limited ("the Company") and the jurisdiction of incorporation for certain of its operating subsidiaries, and the Isle of Man, the jurisdiction of incorporation for most of the Company's operating subsidiaries, impose no tax on income derived outside of those respective jurisdictions. The Company's operating subsidiaries do, however, file relevant returns in the tax regimes of the relevant jurisdictions in which they operate, and pay taxes as required by those regimes. Income tax expense includes current taxes and the change in deferred taxes.

SEASONALITY

The cruise industry in Asia Pacific is less seasonal than the North American cruise market. This lower degree of seasonality is primarily attributable to the lower degree of seasonal climate variation in certain parts of Asia Pacific, particularly South East Asia. However, the Group has generally experienced a decrease in demand in December and January in the Hong Kong market attributable to unfavourable weather patterns during that time of year. This seasonal decrease in demand is generally offset by increased demand in other markets, such as Singapore, Thailand, and Malaysia, related to public holidays in December and January.

The cruise industry in North America is, however, moderately seasonal with greater demand generally occurring during the months of June to August.

Demand, however, also varies by ship and itinerary.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

HUMAN RESOURCES

As at 31 December 2003, the Group had approximately 15,800 full time employees, of which approximately 13,400 were ship officers, crew and staff on ships. The remaining were employed in shoreside operations world-wide. The Group has provided employee benefits including provident fund scheme and medical insurance schemes for its staff.

The Group has a Post-listing Employees' Share Option Scheme, under which options may be granted to employees of the Group entitling them to subscribe for shares of the issued and paid up share capital of the Company from time to time.

There is no significant change in the remuneration policies; bonus and share options schemes and training schemes for the Group during the year ended 31 December 2003.

Results for three months ended 31 December 2003 as compared with three months ended 31 December 2002

Turnover

The Group's revenue for the three months ended 31 December 2003 was US\$400.0 million, increased by 8.6% from US\$368.4 million for the three months ended 31 December 2002. Net revenue for the three months ended 31 December 2003 was 2.4% lower compared with the same period in 2002 due primarily to a decrease in capacity of 3.0%. Net revenue represents revenue less air ticket costs, travel agent commissions and other direct costs (all of which are included in operating expenses). Net yield and occupancy level were up by 0.6% and 1.3% respectively. Net yield, is defined as net revenue per capacity day.

Star Cruises Asia Pacific operated with 7.7% less capacity days in the three months ended 31 December 2003 as compared to the three months ended 31 December 2002. Occupancy level and net yield in three months ended 31 December 2003 were 1.0% and 5.2% lower respectively as compared with the corresponding period in 2002.

NCL Group recorded a slight decrease in capacity days of 0.8% for the three months ended 31 December 2003 as compared to the three months ended 31 December 2002. Occupancy rates were up, at 104.1% for the three months ended 31 December 2003 versus 102.2% for the same quarter in 2002. Net yield increased by 4.4% over the fourth quarter in 2002.

Costs and expenses

Total costs and expenses before interest and non-operating items for the three months ended 31 December 2003 amounted to US\$509.2 million as compared with US\$366.3 million for the three months ended 31 December 2002. Included in the costs and expenses for the fourth quarter of 2003 was impairment loss of US\$99.5 million and non-recurring expenses of US\$15 million. There was a small net other expense of US\$0.7 million in the fourth quarter of 2002. The Group plans to rejuvenate the fleet by progressively replacing the older tonnage in the Star Cruises fleet with the mid-size NCL modern and relative new ships once the new builds are added to the NCL Group. As part of that strategy, the Group is on the look-out for opportunities to dispose of identified older Star Cruises ships. This substantially accounted for US\$99.5 million of impairment loss being recorded in the fourth quarter of 2003 on these selected older tonnage ships and the tradenames and trade marks. The recent disposals of SuperStar Capricorn and SuperStar Aries were part of this overall fleet rejuvenation plan. In addition, in the fourth quarter of 2003, the Group made provisions in respect of legal settlement expenses and related costs in the amount of US\$15 million.

Operating expenses before non-recurring charges increased from US\$255.6 million for three months ended 31 December 2002 to US\$284.2 million for the three months ended 31 December 2003. Ship operating expenses (excluding costs such as commissions, air tickets and other direct costs as they are already included in the net revenue calculation) was 2.9% lower on a per capacity day basis for the three months ended 31 December 2003 as compared with the same period in 2002. This was largely due to on-going cost reduction initiatives taken which were partially offset by the start up costs relating to the new Hawaii operations and expenses of s/s Norway which was not operating during the quarter because of the boiler accident in May 2003. Fuel costs were down by approximately 3.4% on a per capacity day basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Costs and expenses (continued)

Selling, general and administrative ("SG&A") expenses before non-recurring charges was 2.7% lower on a per capacity day basis for the three months ended 31 December 2003 as compared with the same period in 2002. This was due primarily to cost reduction initiatives taken in Asia Pacific during the Severe Acute Respiratory Syndrome ("SARS") outbreak period.

Depreciation and amortisation expenses increased US\$4.1 million from US\$46.0 million for the three months ended 31 December 2002 to US\$50.1 million for the three months ended 31 December 2003. The increase was primarily due to additional depreciation associated with the introduction of Norwegian Dawn in December 2002 and ship refurbishment and drydocking expenditure during the period.

Operating profit / (loss)

The Group recorded an operating profit of US\$5.4 million before impairment charges and non-recurring expenses for the three months ended 31 December 2003 as compared to US\$2.8 million before non-recurring expenses for the three months ended 31 December 2002. After taking into account the impairment charges and non-recurring expenses mentioned above, the Group recorded an operating loss of US\$109.2 million for the three months ended 31 December 2003 as compared to an operating profit of US\$2.1 million for the three months ended 31 December 2002.

Non-operating expense

Non-operating expenses decreased marginally by 0.4% to US\$29.4 million for the three months ended 31 December 2003 compared with US\$29.5 million for the three months ended 31 December 2002. During the three months ended 31 December 2003, the Group had a non-cash loss on forward contracts amounting to US\$1.3 million as compared to a non-cash loss on forward contracts of US\$4.5 million in the fourth quarter of 2002. The non-cash loss on forward contracts resulted primarily from the strengthening of the Singapore dollar against the US dollar during the quarter. Net interest expenses for the three months ended 31 December 2003 reduced compared with the same period in 2002 as the Group benefited from lower interest rates despite higher average outstanding debts. In addition to the above, the Group has US\$3.5 million legal expenses and related costs in relation to a valuation proceedings.

Loss before taxation

Loss before taxation for the three months ended 31 December 2003 was US\$138.6 million as compared to US\$27.3 million for the three months ended 31 December 2002. Excluding the impairment loss and non-recurring expenses, the loss before taxation for the three months ended 31 December 2003 would be US\$20.6 million as compared with loss before taxation of US\$26.7 million for the three months ended 31 December 2002.

Taxation

The Group incurred taxation expenses of US\$0.4 million for the three months ended 31 December 2003 as compared with US\$0.3 million for the three months ended 31 December 2002.

Net loss attributable to shareholders

As a result, the Group recorded a net loss attributable to shareholders of US\$139.0 million for the three months ended 31 December 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Liquidity and capital resources

Sources and uses of funds

The majority of the cash and cash equivalents are held in U.S. dollars. For the three months ended 31 December 2003, cash and cash equivalents increased to US\$377.0 million from US\$165.5 million as at 30 September 2003. The Group's business provided US\$70.9 million of net cash from operating activities for the three months ended 31 December 2003 as compared to US\$53.9 million for the three months ended 31 December 2002. The increase in net cash generated from operating activities was primarily a result of the net changes in operating assets and liabilities during the quarter as compared to the same quarter in 2002.

During the three months ended 31 December 2003, the Group's capital expenditure was approximately US\$144.5 million. Approximately US\$126.5 million of the capital expenditure was related to capacity expansion and the remaining was mainly for the vessel refurbishments, drydocking and onboard assets.

The Group made scheduled principal repayments of US\$115.6 million in relation to its long-term bank loans and drewdown €9.6 million (equivalent to approximately US\$71.3 million) under the €298 million secured term loan agreements for completion of the ship, Pride of America.

During the three months ended 31 December 2003, the Group issued approximately 346.3 million rights shares of US\$0.10 each in the proportion of 7 rights shares for every 100 shares held at HK\$2.25 (US\$0.29) per rights share as well as a US\$180 million convertible bonds issue. The net proceeds of approximately US\$275.3 million will be used for the acquisition or construction of vessels, as general working capital and/or to reduce certain of the Group's outstanding bank loans.

Restricted cash decreased approximately US\$63.9 million during the three months ended 31 December 2003 and was at approximately US\$30.7 million as at 31 December 2003. The restricted cash is being released to Norwegian Cruise Line Limited ("NCLL") following the issuance of the letters of credit facilities on 26 September 2003 as security to the bankcard processor.

Results for the year ended 31 December 2003 as compared with the year ended 31 December 2002

Turnover

The Group's revenue for the year ended 31 December 2003 was US\$1,618.2 million, increased by 2.8% from US\$1,573.6 million for the year ended 31 December 2002. Net revenue decreased marginally by 0.9%. Despite a 3.0% capacity increase, net revenue was lower primarily due to lower ticket prices and shipboard revenue as well as overall occupancy level. Occupancy was 2.0% lower and net yield declined by 3.8% as compared with 2002. The lower net yield and occupancy level were mainly the result of the effect of the SARS pandemic in the Asia Pacific segment during 2003.

Star Cruises Asia Pacific operated with 2.8% lower capacity days in the year ended 31 December 2003 compared to the year ended 31 December 2002. Occupancy and net yield were 9.0% and 12.2% lower respectively as compared with 2002.

NCL Group recorded an increase in capacity days of 5.5% for year 2003 as compared to year 2002. Occupancy rates were slightly higher, at 104.2% for the year ended 31 December 2003 versus 103.9% for 2002. Net yield was up 0.7% over 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Cost and expenses

Total costs and expenses before interest and non-operating items for the year ended 31 December 2003 amounted to US\$1,638.7 million as compared with US\$1,412.7 million for the year ended 31 December 2002. The comparison with 2002 is affected by the inclusion of impairment loss and non-recurring charges in year 2003 and non-recurring charges in 2002. In the year 2003, the Group had US\$99.5 million of assets impairment losses and US\$15 million of non-recurring expenses, which was partially offset by US\$5.3 million net proceeds from the loss-of-hire coverage arising from the s/s Norway boiler accident. In 2002, the Group recorded US\$3.6 million of non-recurring expenses, which was primarily consisted of the results of the binding arbitration settlement relating to the redelivery of the M/S Leeward, including additional legal and lease expenses and were net of amounts received related to the early redelivery of the M/S Norwegian Star 1.

Operating expenses before non-recurring expenses increased by US\$97.4 million from US\$991.3 million for year 2002 to US\$1,088.7 million in year 2003. Ship operating expenses was 3.7% higher on a per capacity day basis for the year ended 31 December 2003 as compared with year 2002. This was due to the impact of higher fuel prices, the US\$3.5 million of costs incurred in response to the SARS outbreak, start up costs for the new Hawaii operations and the expenses relating to s/s Norway which has been laid up since May 2003. These were partially offset by savings from costs reduction initiative. Fuel costs were up by 14.4% on a per capacity day basis in 2003 as compared with 2002.

SG&A expenses before non-recurring expenses was 2.2% lower on a per capacity days basis for the year ended 31 December 2003 as compared with year 2002.

Depreciation and amortisation expenses increased US\$21.1 million from US\$176.2 million for the year ended 31 December 2002 to US\$197.3 million for the year ended 31 December 2003. The increase was primarily due to additional depreciation associated with the Norwegian Dawn and ship refurbishment expenditure during the year.

Operating profit / (loss)

The Group recorded an operating loss of US\$20.5 million for the year ended 31 December 2003 as compared with operating profit of US\$160.8 million in 2002. Excluding assets impairment loss and non-recurring expenses, the Group would have achieved an operating profit of US\$88.8 million for 2003 as compared with an operating profit of US\$164.4 million for 2002.

Non-operating expense

Non-operating expenses was reduced by 5.6% to US\$102.3 million for the year ended 31 December 2003 as compared with US\$108.4 million in year 2002. In 2003, the Group has a non-cash gain on foreign exchange amounted to US\$0.6 million as compared to a non-cash loss on foreign exchange of US\$3.0 million recorded in year 2002. The Group also recorded losses on extinguishment of debts of approximately US\$5.9 million in the year ended 31 December 2002. Despite higher average outstanding debts, net interest expenses for the year ended 31 December 2003 reduced compared with 2002 as the Group benefited from the lower interest rate and there was US\$2.2 million of capitalised interest in 2003.

Profit / (Loss) before taxation

The Group recorded loss before taxation of US\$122.8 million in the year ended 31 December 2003 as compared to a profit before taxation of US\$52.4 million for the year ended 31 December 2002.

Taxation

The Group incurred taxation expenses of US\$1.7 million in 2003 as compared with US\$1.5 million in 2002.

Net loss attributable to shareholders

As a result, the Group recorded a net loss attributable to shareholders of US\$124.5 million for the year ended 31 December 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Liquidity and capital resources

Sources and uses of funds

For the year ended 31 December 2003, cash and cash equivalents decreased to US\$377.0 million from US\$417.0 million as at 31 December 2002. The Group's business provided US\$178.7 million of net cash from operations for the year ended 31 December 2003 as compared to US\$275.9 million for the year ended 31 December 2002. The decrease in net cash generated from operating activities was primarily due to losses during the year ended 31 December 2003 and an increase in advance ticket sales in 2002 as compared with 2003.

During the year ended 31 December 2003, the Group's capital expenditure was approximately US\$327.7 million. Approximately US\$246.5 million of the capital expenditure was related to capacity expansion and the remaining was mainly for the vessel refurbishments, drydocking and onboard assets.

In July 2003, the Group refinanced the US\$225 million M/S Norwegian Sun Post-delivery Loan through a drawdown of US\$225 million term loan and repaid the US\$45 million term loan. The Group made scheduled principal repayments of US\$265.2 million in relation to its other long-term bank loans during the year ended 31 December 2003. The Group drewdown €28.1 million (equivalent to approximately US\$150.0 million) under the €98 million secured term loan agreements for completion of the ship, Pride of America.

During the year ended 31 December 2003, the Group issued approximately 346.3 million rights shares of US\$0.10 each in the proportion of 7 rights shares for every 100 shares held at HK\$2.25 (US\$0.29) per rights share as well as a US\$180 million convertible bonds issue. The net proceeds of approximately US\$275.3 million will be used for the acquisition or construction of vessels, as general working capital and/or to reduce certain of the Group's outstanding bank loans.

Approximately US\$74.5 million of restricted cash was released to NCLL by the previous bankcard processor and was at approximately US\$30.7 million as at 31 December 2003.

Gearing ratio

The gearing ratio as at 31 December 2003 was 0.51 times, essentially unchanged, as compared with 31 December 2002. The calculation of gearing ratio is based on total outstanding borrowings (including convertible bonds) of the Group of approximately US\$2.45 billion (2002: US\$2.43 billion) divided by the total assets at the end of the year of approximately US\$4.80 billion (2002: US\$4.76 billion).

Litigation

Save as disclosed below, there were no material updates to the information disclosed in the Group's annual report for the year ended 31 December 2002 and the interim reports for the three months ended 31 March 2003, the three months and six months ended 30 June 2003 and the three months and nine months ended 30 September 2003.

The valuation proceedings at the Oslo City Court, ongoing since October 2001, culminated in the valuation court's decision on 5 December 2003 which fixed the redemption price at NOK25 ("Norwegian Kroner") per share. Pursuant to this decision, Arrasas Limited ("Arrasas"), a subsidiary of the Company, is required to pay the minority shareholders (who were formerly holding 1,831,848 shares and rejected the compulsory acquisition offer price of NOK13 per share) NOK25 per share, and required to pay the related companies of Arrasas (which collectively held 29,110,200 shares), NOK10 per share (representing the amount in excess of NOK15 per share as previously agreed under respective stock purchase agreements).

On 8 January 2004 Arrasas appealed the decision.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Significant subsequent events

- (i) On 14 January 2004, the newbuild, Pride of America was grounded and took on water up to deck three during a heavy storm while under completion at the Lloyd Werft shipyard in Germany. The ship has now been refloated and is being inspected in dry dock to determine the extent of damage and to estimate what is likely to be a substantial delay in delivery while a program of repair and replacement is being developed.
- (ii) On 9 February 2004, the Group contracted for the sale of m.v. SuperStar Aries for delivery in early April 2004.

Liquidity and Future Funding

As at 31 December 2003, the Group has approximately US\$2.3 billion of bank borrowings and US\$180 million of convertible bonds. The outstanding bank borrowings are secured by legal charges over vessels including fixed and floating charges over assets of the Group of US\$3.4 billion and guarantees given by the Group.

(a) Loan covenant breaches

In April 2003, Ship Holding LLC, a Group subsidiary, entered into an agreement with a syndicate of banks to obtain term loan ("the Term Loan"), equivalent to US\$363.5 million as at 31 December 2003, to part finance the completion of the Pride of America vessel ("the Vessel"). As at 31 December 2003 approximately US\$150 million was drawn down to pay instalments to the shipyard under the construction contract. In January 2004, while in the final stages of construction the Vessel suffered damage during a severe storm resulting in a significant delay in the expected delivery date of the Vessel to the Group and subsequently the shipyard was placed under receivership. Due to certain clauses in the Term Loan agreement the Lender under this agreement may be entitled to accelerate the loan in which case the facility would be immediately repayable at call. Consequently the Term Loan amount drawn down as at 31 December 2003 has been classified as current in the Group's balance sheet. Management is now in the process of seeking a waiver from the syndicate of banks and expects to obtain such a waiver.

Due to the possibility of a default under the Term Loan, one of the Group's other loan facilities could be deemed to be in default due to cross default clauses contained in this loan facility agreement and others would be deemed to be in default in the event that the lenders accelerate repayment of the Term Loan. Although, the relevant lenders at the date of this announcement have not designated these other loan facilities as being in default, nevertheless, in accordance with Hong Kong GAAP, the loan that currently could be deemed to be in default has been classified as current in the Group's balance sheet. Management is confident the potential deemed defaults will be remedied by obtaining the necessary waivers from lenders or by taking other measures necessary to satisfactorily address this matter.

(b) Loan refinancing

NCLL has a reducing revolving credit facility with a syndicate of banks that originally provided for borrowings of up to US\$623 million (the "US\$623 million Facility"). The total outstanding amount under this facility as at 31 December 2003 was US\$403.2 million, which includes a scheduled balloon payment of US\$363.8 million due on 15 December 2004.

It is the intention of the Group to refinance this Facility in the normal course of business. As such, the Facility would be refinanced prior to the due date of the balloon payment. In February 2004, the Group accepted an offer from a syndicate of banks to act as underwriters for a US\$400 million Reducing Revolving Credit Facility (the "Proposed Facility") to refinance the US\$623 million Facility. The offer is subject to acceptable documentation and satisfaction of certain other conditions. The offer can be withdrawn for various reasons including if facility agreements are not entered into by 31 March 2004 or if in the opinion of the syndicate there is a material adverse change that has or could affect the Group's financial condition, business or ability to meet its obligations under the Proposed Facility. Management is working with the syndicate to finalise and draw down the Proposed Facility.

The Proposed Facility will be repayable in 14 equal instalments payable at six-monthly intervals commencing six months from the first draw down under the facility with a balloon payment at the end of the tenure. The Proposed Facility will bear interest at LIBOR plus a margin.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the year ended 31 December 2003, save for the issuance of 717,510 new ordinary shares of US\$0.10 each at an aggregate price of approximately US\$0.2 million pursuant to the exercise of options granted under the Pre-listing Employee Share Option Scheme, and 346,279,885 new ordinary shares of US\$0.10 each at an aggregate price, net of issuance costs, of approximately US\$99.0 million pursuant to the rights issue completed in December 2003.

CORPORATE GOVERNANCE

In compliance with the Code of Best Practice stipulated in Appendix 14 of the Listing Rules (the "Code of Best Practice"), the Company has established an Audit Committee with written terms of reference with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external and internal audit and of internal controls and risk evaluation. The Audit Committee comprises the three Independent Non-executive Directors of the Company, namely, Mr. Alan Howard Smith, J.P., Mr. Tan Boon Seng and Mr. Lim Lay Leng. The consolidated accounts have been reviewed by the Audit Committee.

In the opinion of the Directors, the Company has complied with the Code of Best Practice throughout the year, except that the Independent Non-executive Directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company

PUBLICATION OF FINANCIAL INFORMATION

All the information required by paragraphs 45(1) to 45(3) inclusive in Appendix 16 of the Listing Rules will be available for publication in the website of The Stock Exchange of Hong Kong Limited as soon as practicable.

On behalf of the Board

TAN SRI LIM KOK THAY
Chairman, President and Chief Executive Officer
Hong Kong, 20 February 2004

Note:

The Group prepares financial statements in accordance with Hong Kong GAAP given its listing on The Stock Exchange of Hong Kong Limited. Management continues to prepare financial statements in accordance with US GAAP given that this was the basis historically and most global cruise companies prepare their financial statements in accordance with US GAAP. For information on the Group's US GAAP announcement, kindly visit the Group's website at www.starcruises.com

Forward-looking statements

This announcement contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of the Company about the industry and markets in which the Group operates. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the control of the Group, are difficult to predict and could cause actual result to differ materially from those expressed or forecast in the forward-looking statements. Factors that could cause actual result to differ materially from those reflected in the forward-looking statements include general economic and business conditions, changes in cruise industry competition, weather and other factors. Reliance should not be placed on these forward-looking statements, which reflect the view of the Company's directors and management as of the date of this announcement only. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the release of this announcement.