Star Cruises Limited

(Continued into Bermuda with limited liability)

ANNOUNCEMENT
RESULTS FOR THE THREE MONTHS AND THE YEAR ENDED 31 DECEMBER 2002

The Board of Directors (the "Directors") of Star Cruises Limited (the "Company") announces the unaudited consolidated results and the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and the year ended 31 December 2002, together with the comparative figures for the previous period / year as follows:

	Note	Three months ended 31 December		Year ended 31 December	
		2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Turnover	1	368,417	339,119	1,573,588	1,381,566
Operating expenses (excluding depreciation and amortisation)		(255,587)	(240,648)	(991,260)	(877,096)
Selling, general and administrative expenses (excluding depreciation)		(64,673)	(79,773)	(245,320)	(257,082)
Depreciation and amortisation		(46,012)	(42,130)	(176,166)	(154,417)
Impairment of fixed assets		-	(8,430)	-	(8,430)
		(366,272)	(370,981)	(1,412,746)	(1,297,025)
Operating profit / (loss)	1	2,145	(31,862)	160,842	84,541
Interest income		1,061	508	3,325	6,821
Financial costs		(25,083)	(26,287)	(99,326)	(118,492)
Other non-operating income / (expenses), net		(5,455)	4,624	(12,435)	12,846
		(29,477)	(21,155)	(108,436)	(98,825)
Profit / (loss) before taxation		(27,332)	(53,017)	52,406	(14,284)
Taxation	2	(340)	(952)	(1,475)	(1,759)
Net profit / (loss) for the period / year		(27,672)	(53,969)	50,931	(16,043)
Basic earnings / (loss) per share (US cents)	3	(0.60)	(1.26)	1.15	(0.37)
Fully diluted earnings per share (US cents)	3	N/A	N/A	1.15	N/A
Unaudited operating data					
Passenger Cruise Days		2,125,833	1,778,127	8,374,271	7,133,949
Capacity Days		2,218,222	2,034,822	8,542,019	7,523,849
Occupancy as a percentage of capacity days		96%	87%	98%	95%

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 revenue from onboard services and other related services, including gaming, food and beverage. Charter hire revenue includes the lease operation 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 31 December		Year ended 31 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Cruise and cruise related activities	368,417	337,656	1,570,507	1,369,051
Charter hire	-	1,463	3,081	12,515
	368,417	339,119	1,573,588	1,381,566

	OPERATING PROFIT / (LOSS)			
	Three months ended 31 December		Year ended 31 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Cruise and cruise related activities	2,991	(36,796)	160,510	73,406
Charter hire	(846)	4,934	332	11,135
	2,145	(31,862)	160,842	84,541

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

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

	TURNOVER			
	Three months ended 31 December		Year ended 31 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Asia Pacific	114,488	138,991	466,696	511,669
North America (note)	229,923	182,705	1,015,474	765,585
Others	24,006	17,423	91,418	104,312
	368,417	339,119	1,573,588	1,381,566

	OPERATING PROFIT / (LOSS)			
	Three months ended 31 December		Year ended 31 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Asia Pacific	16,648	14,686	93,868	94,171
North America (note)	(11,549)	(39,932)	69,738	(2,425)
Others	(676)	(4,549)	6,351	1,065
	4,423	(29,795)	169,957	92,811
Amortisation of goodwill	(2,278)	(2,067)	(9,115)	(8,270)
	2,145	(31,862)	160,842	84,541

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

2. Taxation

	Three months ended 31 December		Year ended 31 December	
	2002 US$'000 unaudited	2001 US$'000 unaudited	2002 US$'000 audited	2001 US$'000 audited
Overseas taxation				
- Current taxation	340	949	1,475	1,756
- Deferred taxation	-	3	-	3
	340	952	1,475	1,759

3. Earnings per share

Earnings per share has been calculated as follows:

	Note	Three months ended 31 December		Year ended 31 December	
		2002	2001	2002	2001
		US$'000	US$'000	US$'000	US$'000
		unaudited	unaudited	audited	audited
<u>BASIC</u>					
Net profit / (loss)		(27,672)	(53,969)	50,931	(16,043)
Average outstanding ordinary shares in thousands after adjusting for the effect of rights issue		4,620,320	4,289,723	4,433,371	4,287,655
Basic earnings / (loss) per share in US cents	(i)	(0.60)	(1.26)	1.15	(0.37)
<u>FULLY DILUTED</u>					
Net profit / (loss)		(27,672)	(53,696)	50,931	(16,043)
Average outstanding ordinary shares in thousands after adjusting for the effect of rights issue		4,620,320	4,289,723	4,433,371	4,287,655
Effect of dilutive ordinary share in thousands after adjusting for the effect of rights issue		4,664	7,324	11,626	17,163
Average number of ordinary shares outstanding in thousands after adjusting for the effect of rights issue and assuming dilution		4,624,984	4,297,047	4,444,997	4,304,818
Fully diluted earnings per share in US cents	(i) & (ii)	N/A	N/A	1.15	N/A

Notes:

(i) In December 2002, the Company issued 607,420,455 rights shares of US$0.10 each in the proportion of 7 rights shares for every 50 shares held. Accordingly, the Group retroactively restated its earnings per share for the three months and the year ended 31 December 2001 to reflect the effect of rights issue.

(ii) Diluted loss per share for the three months ended 31 December 2002 and 2001 and the year ended 31 December 2001 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 2002 (2001: Nil).

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

GENERAL

The Group is the fourth largest cruise line in the world by lower berths with 20 ships and over 26,000 lower berths under three mainstream brand names, Star Cruises, Norwegian Cruise Line and Orient Lines. Star Cruises operates nine ships offering various cruise itineraries and calls destinations primarily in the Asia Pacific region. Norwegian Cruise Line and Orient Lines operate eleven cruise ships including Norwegian Dawn in the Caribbean, Bermuda, Alaska, Europe, Hawaii, New England, Central and South America. In December 2002, Norwegian Cruise Line took delivery of the Norwegian Dawn, which is presently offering Eastern and Western Caribbean cruises.

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, ship charter costs and all shipboard operating expenses including crew wages and benefits, port charges, fuel, food, ship maintenance and entertainment expenses, cabin consumables, ship insurance and charter-hire expenses. 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.

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.

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.

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

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. At present, the Group is a party to certain forward contracts with a total notional amount of US$206.7 million in respect of the Singapore dollar and US$60.7 million in respect of the Hong Kong dollars. These forward contracts have remaining life ranging from 3 to 9 years.

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 2002, the Group had interest rate swaps on debts with a notional amount of US$430.4 million with the remaining life ranging from 5 to 9 years.

TAXATION

Bermuda, the jurisdiction for Star Cruises Limited ("the Company"), and certain of its subsidiaries together with the Isle of Man, the jurisdiction of incorporation for most of the Company's other 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 Asian 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. Deferred tax assets and liabilities are calculated in accordance with the liability method.

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 December through March and June through August.

Demand, however, also varies by ship and itinerary.

HUMAN RESOURCES

As at 31 December 2002, the Group had approximately 16,778 full time employees, of which approximately 14,250 were ship officers, crew and staff on ships. The remaining was 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. On 19 August 2002, the Company offered options entitling the Directors of the Company and employees of the Group to subscribe for an aggregate of 100,269,000 ordinary shares at the subscription price of HK$3.20 (US$0.41) per ordinary share under the Post-listing Employees' Share Option Scheme.

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 2002, except that the Post-listing Employees' Share Option Scheme was amended on 22 May 2002 to comply with the new requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

Three months ended 31 December 2002 as compared with three months ended 31 December 2001

Turnover

The Group's revenue for the three months ended 31 December 2002 was US$368.4 million, up 8.6% from US$339.1 million for the three months ended 31 December 2001. During this quarter, capacity increase with higher occupancy drove the revenue growth. Net yield, defined as net revenue per capacity day after deducting such costs as commissions, air tickets and other direct costs was 1.7% lower.

Star Cruises Asia Pacific operated with 7.3% less capacity days in the three months ended 31 December 2002 compared to the three months ended 31 December 2001. The decline in capacity days was primarily due to the return of chartered ships, SuperStar Taurus and Norwegian Star 1 in the first half of 2002. This was partially offset by the rejoining of SuperStar Capricorn into the fleet in January 2002. SuperStar Capricorn was previously chartered to a third party. In November 2001, the Group received an amount of approximately US$5 million upon termination of the charter-hire of SuperStar Capricorn. A 7.4% lower net yield was recorded in fourth quarter this year as compared with fourth quarter in 2001.

NCL Group (which consists of Norwegian Cruise Line and Orient Lines brands) recorded an increase in capacity days of 18.5% for the three months ended 31 December 2002 as compared to the three months ended 31 December 2001. The increase in capacity days was primarily due to the introduction into service of the purpose built "Freestyle Cruising" ships m.v. Norwegian Star in November 2001 and m.v. Norwegian Dawn in December 2002. Net yield was increased by 5.7%.

Cost and expenses

Total costs and expenses before interest and non-operating items for the three months ended 31 December 2002 amounted to US$366.3 million as compared with US$371.0 million for the three months ended 31 December 2001. The comparison between the fourth quarter of 2002 and 2001 was affected by the inclusion of non-recurring charges in the respective quarter. The Group incurred US$0.6 million of non-recurring expenses in the fourth quarter of 2002 in relation to the termination of lease. The cost and expenses of fourth quarter of 2001 included non-recurring charges of US$30.8 million and a fixed asset impairment loss of US$8.4 million related to a write dawn in the carrying value of a ship. Non-recurring expenses of US$30.8 million in the fourth quarter of 2001 were mainly expenses in rationalising the North Asia operations, with the cessation of cruise operations in Taiwan and Japan.

Excluding these non-recurring expenses, total costs and expenses before interest and non-operating items increased by US$33.9 million from US$331.7 million for the three months ended 31 December 2001 to US$365.6 million for the three months ended 31 December 2002.

Operating expenses before non-recurring expenses increased from US$226.0 million for the three months ended 31 December 2001 to US$255.6 million for the three months ended 31 December 2002. Ship operating expenses (excluding costs such as commissions, air tickets and other direct costs as they are already factored into the net yield) before fuel costs, however, was 4.5% lower on a per capacity day basis for the three months ended 31 December 2002 as compared with the same period in 2001. The ship operating expenses before fuel costs on a per capacity day basis dropped mainly attributable to the saving from cost control initiatives implemented in 2001, and the rationalisation of its cruise operations in November 2001 following the 11 September events.

Selling, general and administrative expenses before non-recurring expenses also reduced on a per capacity day basis for the three months ended 31 December 2002 as compared with the same period in 2001 as the Group continued to enjoy the benefits from the economies of scale from the increased capacity. Furthermore, the Group merged the shoreside operations of Orient Lines and NCL during the last quarter of 2001 which together with cost control measures drove the selling, general and administrative costs before non-recurring expenses down 7.7% on a per capacity day basis in this quarter from the same quarter in 2001.

Depreciation and amortisation expenses increased US$3.9 million from US$42.1 million for the three months ended 31 December 2001 to US$46.0 million for the three months ended 31 December 2002. The increase was primarily due to additional depreciation associated with the addition of ships and ship refurbishment expenditure during the period.

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

Operating profit

With a 9.0% higher capacity and a higher occupancy at 96%, as well as a lower cost structure which was partially offset by a lower net yield during the quarter, operating profit increased 106.6% from an operating loss of US$31.9 million for the three months ended 31 December 2001 to an operating profit of US$2.1 million for the three months ended 31 December 2002. Excluding the non-recurring expenses and fixed assets impairment loss as well as the proceeds from early termination of a ship charter ("the non-recurring expenses / (income)"), operating profit for the three months ended 31 December 2002 would be US$2.8 million as compared with operating profit of US$2.4 million for the same period of 2001.

Non-operating income/(expense)

Non-operating expenses was higher by 39.3% at US$29.5 million for the three months ended 31 December 2002 compared with US$21.2 million for the three months ended 31 December 2001. During the three months ended 31 December 2002, the Group has a non-cash loss on foreign exchange amounting to US$4.5 million as compared to a non-cash gain on foreign exchange of US$5.6 million in the fourth quarter of 2001. The non-cash foreign exchange loss was 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 2002 reduced compared with the same period in 2001 as the Group benefited from the lower interest rates.

Loss before taxation

Loss before taxation for the three months ended 31 December 2002 was US$27.3 million, as compared to a loss of US$53.0 million for the three months ended 31 December 2001. Excluding the non-recurring expenses / (income), as well as the non-cash gain/(loss) on foreign exchange, the loss before taxation for the three months ended 31 December 2002 would be US$22.2 million as compared with US$24.4 million for the same period of 2001.

Taxation

The Group incurred taxation expenses of US$0.3 million for the three months ended 31 December 2002 as compared with US$1.0 million for the same period in 2001.

Net loss attributable to shareholders

As a result, the Group recorded a net loss attributable to shareholders of US$27.7 million for the three months ended 31 December 2002 as compared with US$54.0 million for the same period in 2001. Excluding the non-recurring expenses / (income), as well as the non-cash gain/(loss) on foreign exchange, the net loss attributable to shareholders in fourth quarter of 2002 would be US$22.5 million as compared with a net loss of US$25.3 million for the same period in 2001.

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 2002, cash and cash equivalents increased to US$417.0 million from US$355.1 million as at 30 September 2002. The Group's business provided US$53.9 million of net cash from operations for the three months ended 31 December 2002 as compared to US$43.7 million for the three months ended 31 December 2001.

During the three months ended 31 December 2002, the Group's capital expenditure was approximately US$362.4 million. Approximately US$349.0 million of the capital expenditure was related to the delivery of m.v. Norwegian Dawn and the payment for the Project America hulls and certain related materials. The remaining balance was mainly for vessel refurbishing and shore side capital assets.

The Group made scheduled principal repayments of US$49.3 million in relation to its long-term bank loans during the three months ended 31 December 2002.

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

Liquidity and capital resources (continued)

Sources and uses of funds (continued)

Upon delivery of m.v Norwegian Dawn on 3 December 2002, the Group drewdown the remaining US$313.5 million under a syndicated term loan agreement obtained in 1999, which was amended to provide for borrowings up to US$626.9 million in October 2001, to pay the shipyard.

In December 2002, the Group issued approximately 607.4 million rights shares of US$0.10 each in the proportion of 7 rights shares for every 50 shares held at HK$1.95 (US$0.25) per rights shares. The net proceeds of approximately US$150.3 million will be used for the acquisition or construction of vessel (s) and as general working capital.

During the last quarter of 2002, the restricted cash increased by approximately US$48.9 million mainly as a result of a requirement imposed by Norwegian Cruise Line Limited's ("NCLL") bank card processor.

Results for the year ended 31 December 2002 as compared with the year ended 31 December 2001

Turnover

The Group's revenue for the year ended 31 December 2002 was US$1,573.6 million, up 13.9% from US$1,381.6 million for the year ended 31 December 2001. During the year ended 31 December 2002, capacity increased 13.5% due primarily to the full year operations of M/S Norwegian Sun, m.v. Norwegian Star, Wasa Queen and SuperStar Capricorn. The introduction into service of m.v. Norwegian Dawn in December 2002 also contributed to the increased capacity. Net yield was 1.7% down as compared with the year 2001.

Star Cruises Asia Pacific operated with 11.0% less capacity days in the year ended 31 December 2002 compared to the year ended 31 December 2001. The decline in capacity days was primarily due to the return of chartered ships, SuperStar Taurus and Norwegian Star 1 in the first half of 2002 and the disposal of Star Aquarius, MegaStar Sagittarius and MegaStar Capricorn in the first quarter of 2001. This was partially offset by the introduction of Wasa Queen in September 2001 and the rejoining of SuperStar Capricorn into the fleet in January 2002. In November 2001, the Group received an amount of approximately US$5 million upon termination of the charter-hire of SuperStar Capricorn. Net yield in year 2002 decreased 0.7% as compared with year 2001.

NCL Group recorded an increase in capacity days of 29.0% for year 2002 as compared to year 2001. The increase in capacity days was primarily due to the full year operations of M/S Norwegian Sun and m.v. Norwegian Star. Net yield in 2002 was essentially the same as compared with year 2001.

Cost and expenses

Total costs and expenses before interest and non-operating items for the year ended 31 December 2002 amounted to US$1,412.7 million as compared with US$1,297.0 million for the year ended 31 December 2001. The comparison with 2001 is affected by the inclusion of non-recurring charges in both years 2002 and 2001. The Group incurred US$3.6 million of non-recurring charges in year 2002. The costs and expenses of 2001 included non-recurring charges of US$30.8 million and a fixed asset impairment loss of US$8.4 million related to a write down in the carrying value of a ship.

Non-recurring charges in year 2002 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. These expenses are net of amounts received related to the early redelivery of the M/S Norwegian Star 1.

Excluding these non-recurring expenses, total costs and expenses before interest and non-operating items increased US$151.4 million from US$1,257.8 million for the year ended 31 December 2001 to US$1,409.2 million for the year 2002.

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

Cost and expenses (Continued)

Operating expenses before non-recurring expenses increased US$128.9 million from US$862.4 million for year 2001 to US$991.3 million in year 2002. Ship operating expenses before fuel costs was, however, 5.4% lower on a per capacity day basis for the year ended 31 December 2002 as compared with year 2001. The ship operating expenses on a per capacity day basis dropped mainly attributable to the savings accrue from cost control initiatives implemented in 2001, and the rationalisation of its cruise operations in November 2001 following the 11 September events.

Selling, general and administrative expenses before non-recurring expenses also reduced on a per capacity day basis for the year ended 31 December 2002 as compared with year 2001 as the Group continued to enjoy the benefits from the economies of scale from the increased capacity. The merging of shoreside operations of Orient Lines and NCL coupled with cost control measures drove the selling, general and administrative costs before non-recurring expenses down by 11.6% on a per capacity day basis in the year 2002 against the year 2001.

Depreciation and amortisation expenses increased US$21.8 million from US$154.4 million for the year ended 31 December 2001 to US$176.2 million for the year ended 31 December 2002. The increase was primarily due to additional depreciation associated with the Norwegian Sun and Norwegian Star and ship refurbishment expenditure during the year.

Operating profit

The Group recorded an operating profit of US$160.8 million for the year ended 31 December 2002 as compared with US$84.5 million in 2001. Excluding the non-recurring expenses / (income), operating profit for 2002 would be US$164.4 million as compared with US$118.8 million.

Non-operating income/(expense)

Non-operating expenses was higher by 9.7% to US$108.4 million for the year ended 31 December 2002 as compared with US$98.8 million in year 2001. In year 2002, the Group has a non-cash loss on foreign exchange amounted to US$3.0 million as compared to a non-cash gain on foreign exchange of US$14.6 million recorded in year 2001. The non-cash foreign exchange loss in year 2002 were primarily due to the strengthening of the Singapore dollar against the US dollar during the year. The Group also recorded losses on extinguishment of debts of approximately US$5.9 million in the year ended 31 December 2002. Net interest expenses for the year ended 31 December 2002 reduced compared with 2001 as the Group benefited from the lower interest rate.

Profit before taxation

The Group recorded profit before taxation of US$52.4 million in the year ended 31 December 2002 as compared to a loss before taxation of US$14.3 million for the year ended 31 December 2001. Excluding non-recurring expenses / (income), the non-cash gain/(loss) on foreign exchange and the losses on extinguishment of debts, the profit before taxation for 2002 would be US$64.9 million as compared with a profit before taxation of US$5.3 million.

Taxation

The Group incurred taxation expenses of US$1.5 million in 2002 as compared US$1.8 million in 2001.

Net profit attributable to shareholders

With a 13.5% higher capacity and a higher occupancy at 98%, as well as a lower cost structure during the year, net profit attributable to shareholders increased significantly from a loss of US$16.0 million for the year 2001 to US$50.9 million for year 2002. Excluding the non-recurring expenses / (income), the non-cash gain/(loss) on foreign exchange and the losses on extinguishment of debts, the net profit attributable to shareholders for year 2002 would be US$63.4 million as compared with a net profit US$3.6 million in year 2001.

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

Liquidity and capital resources

Sources and uses of funds

The Group's business provided US$275.9 million of net cash from operations for the year ended 31 December 2002 as compared to US$180.2 million for the year ended 31 December 2001.

During the year ended 31 December 2002, the Group's capital expenditure was approximately US$420.6 million. Approximately US$355.2 million was related to the delivery of m.v. Norwegian Dawn and payments for the incomplete Project America hulls and certain related materials. The remaining balance was mainly for vessel refurbishing and shore side assets.

In March 2002, the Group refinanced the outstanding balance of the 5-year syndicated term loan through a drawndown of US$450 million syndicated term loan. The Group also made scheduled principal repayments of US$94.6 million in relation to its long-term bank loans during the year ended 31 December 2002.

Upon the delivery of m.v Norwegian Dawn on 3 December 2002, the Group drewdown the remaining US$313.5 million under a syndicated term loan agreement obtained in 1999, which was amended to provide for borrowings up to US$626.9 million in October 2001, to pay the shipyard.

In June 2002, the Group issued approximately 189 million new ordinary shares of US$0.10 each at the price of HK$3.30 (US$0.42) per share to an existing shareholder in a top-up share placement. The net proceeds of approximately US$77.3 million will be used as general working capital and for the acquisition or construction of vessel(s).

In December 2002, the Group issued approximately 607.4 million rights shares of US$0.10 each in the proportion of 7 rights shares for every 50 shares held at HK$1.95 (US$0.25) per rights shares. The net proceeds of approximately US$150.3 million will be used for the acquisition or construction of vessel (s) and as general working capital.

During the last quarter of 2002, the restricted cash increased by approximately US$48.9 million mainly as a result of a requirement imposed by NCLL's bankcard processor.

As a result, the cash and cash equivalents increased to US$417.0 million as at 31 December 2002 from US$171.6 million as at 31 December 2001.

Gearing ratio

The gearing ratio as at 31 December 2002 was 0.51 times as compared with 0.53 times as at 31 December 2001. The calculation of gearing ratio is based on total outstanding borrowings of the Group of US$2,434.0 million (2001: US$2,215.1 million) divided by the total assets at the end of the year of US$4,758.7 million (2001: US$4,219.0 million).

As a result of share issues and net cash generated from operations during the year, as well as changes in the outstanding debt balances, the gearing ratio has reduced slightly to 0.51 from 0.53.

Contingent liabilities

There were no material changes to the information disclosed in the annual report for the year ended 31 December 2001 and the interim reports for the three months ended 31 March 2002, the three months and six months ended 30 June 2002 and the three months and nine months ended 30 September 2002.

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

Significant subsequent event

On 5 February 2003, Ship Holding LLC, a wholly-owned subsidiary of the Company entered into a contract with Lloydwerft shipyard in Germany to complete the construction of the first "Project America" vessel acquired in 2002. The estimated total cost for the first vessel is approximately US$350 million. The vessel will have a gross tonnage of approximately 81,000 tons and capacity of approximately 2,100 lower berths.

Future Commitments and Funding Sources

As at 31 December 2002, the Group has approximately US$2.4 billion of bank borrowing outstanding of which approximately US$340.2 million is due in 2003. These outstanding bank borrowings are secured by legal charges over vessels including fixed and floating charges over assets of the Group of US$3.1 billion and guarantees given by the Group.

Norwegian Cruise Line Limited ("NCLL"), a Group subsidiary that owns and operates nine of the Group's ships, has a sizeable funding requirement during 2003 that will require support from the Group. Loan repayments, together with collateral requirements in connection with entering into a new credit card processor relationship, amount to US$351 million, with US$143 million of this figure due in December 2003. It is expected that US$100 million of the total figures will be met by issuance of a letter of credit obtained by Star Cruises. The balance is expected to be met by a combination of cash flow from operations and funding from Star Cruises.

The Group generally needs approval from its bankers before advancing funds to its major US-based subsidiaries. In this instance Star's bankers have consented to the obtaining of a letter of credit, and have issued a preliminary consent to the infusion of additional cash into Arrasas Limited (the immediate holding company of NCLL).

The Group's Directors are confident that the Group has various options to fund NCLL and has sufficient cash reserves to assist, as necessary, in meeting all NCLL obligations.

The Group believes that its liquidity of approximately US$417.0 million as at 31 December 2002 as well as its forecasted cash flow from future operations, will be sufficient to fund its capital projects, debt service requirements, working capital and other firm commitments.

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 2002, save for the issuance of 189,091,000 new ordinary shares of US$0.10 each at an aggregate price, net of issuance costs, of approximately US$77.3 million in June 2002 to an existing shareholder in a top-up placement, 2,895,000 new ordinary shares of US$0.10 each at an aggregate price of approximately US$0.9 million pursuant to the exercise of options granted under The Star Cruises Employees Share Option Scheme (Pre-listing Scheme), and 607,420,455 new ordinary shares of US$0.10 each at an aggregate price, net of issuance costs, of approximately US$150.3 million pursuant to the rights issue completed in December 2002.

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 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.

By order of the Board

TAN SRI LIM KOK THAY
Chairman, President and Chief Executive Officer

Hong Kong, 24 February 2003

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.