Star Cruises Limited

(Continued into Bermuda with limited liability)

(Stock Code: 678)

ANNOUNCEMENT
RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2004

The Directors of Star Cruises Limited ("Company") announce the unaudited consolidated results of the Company and its subsidiary companies ("Group") for the three months ended 31 March 2004, together with the comparative figures for the previous period as follows:

	Note	Three months ended 31 March 2004 US$'000 unaudited	Three months ended 31 March 2003 US$'000 unaudited
Turnover	1	390,747	411,962
Operating expenses (excluding depreciation and amortisation)		(254,362)	(279,402)
Selling, general and administrative expenses (excluding depreciation)		(69,639)	(63,106)
Depreciation and amortisation		(48,279)	(48,121)
		(372,280)	(390,629)
Operating profit	1	18,467	21,333
Interest income		644	941
Financial costs		(22,087)	(24,372)
Other non-operating expenses, net		(6,393)	(2,686)
		(27,836)	(26,117)
Loss before taxation		(9,369)	(4,784)
Taxation	2	189	(256)
Net loss for the period		(9,180)	(5,040)
Basic loss per share (US cents)	3	(0.17)	(0.10)
Fully diluted earnings per share (US cents)	3	N/A	N/A
Operating data			
Passenger Cruise Days		2,065,310	2,129,284
Capacity Days		2,122,018	2,286,507
Occupancy as a percentage of total capacity days		97%	93%

NOTES TO THE ACCOUNTS

1. Turnover and Operating Profit

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

Turnover consists of revenues earned from cruise and cruise related activities and charter hire. Cruise and cruise related revenue comprises sales of passenger tickets, including, in some cases, air transportation to and from the cruise ship, and revenues from onboard services and other related services, including gaming, food and beverage. Charter hire revenue includes the lease of a catamaran to a third party customer.

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

	TURNOVER		OPERATING PROFIT / (LOSS)	
	Three months ended 31 March		Three months ended 31 March	
	2004 US$'000	2003 US$'000	2004 US$'000	2003 US$'000
	unaudited	unaudited	unaudited	unaudited
Cruise and cruise related activities	390,747	411,962	19,194	22,093
Charter hire	-	-	(727)	(760)
	390,747	411,962	18,467	21,333

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

	TURNOVER		OPERATING PROFIT	
	Three months ended 31 March		Three months ended 31 March	
	2004 US$'000	2003 US$'000	2004 US$'000	2003 US$'000
	unaudited	unaudited	unaudited	unaudited
Asia Pacific	111,714	113,050	18,083	13,142
North America *(note)*	255,214	267,892	2,528	9,314
Others	23,819	31,020	281	1,156
	390,747	411,962	20,892	23,612
Amortisation of goodwill			(2,425)	(2,279)
			18,467	21,333

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

2. Taxation

	Three months ended 31 March	
	2004	2003
	US$'000	US$'000
	unaudited	unaudited
Overseas taxation:		
- Current taxation	560	256
- Deferred tax asset	(749)	-
	(189)	256

3. Loss per share

Loss per share has been calculated as follows:

	Three months ended 31 March	
	2004	2003
	US$'000	US$'000
	unaudited	unaudited
<u>BASIC</u>		
Net loss	(9,180)	(5,040)
Weighted average outstanding ordinary shares in thousands	5,293,141	5,095,783
Basic loss per share in US cents	(0.17)	(0.10)
<u>FULLY DILUTED</u>		
Net loss	(9,180)	(5,040)
Weighted average outstanding ordinary shares in thousands	5,293,141	5,095,783
Effect of dilutive ordinary shares in thousands	442,310	1,591
Weighted average outstanding ordinary shares after assuming dilution in thousands	5,735,451	5,097,374
Fully diluted earnings per share in US cents	N/A*	N/A*

* Diluted loss per share for the three months ended 31 March 2004 and 2003 are not shown, as the diluted loss per share is less than the basic loss per share.

INTERIM DIVIDEND

The Directors do not recommend the declaration of any interim dividend in respect of the three months ended 31 March 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three months ended 31 March 2004 as compared with three months ended 31 March 2003

Turnover

The Group's revenue for the three months ended 31 March 2004 was US$390.7 million, decreased by 5.1% from US$412.0 million for the three months ended 31 March 2003 due primarily to a decrease in capacity of 7.2%. However, net revenue decreased by only 3.6%. 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 for the three months ended 31 March 2004 increased 3.8% and 4.2% respectively as compared with the same quarter of 2003. Net yield is defined as net revenue per capacity day.

Star Cruises in Asia Pacific operated with 4.1% lower capacity days in the three months ended 31 March 2004 as compared to the three months ended 31 March 2003. The lower capacity day was mainly a result of the drydocking of SuperStar Virgo. Occupancy and net yield were 11.0% and 3.0% higher respectively as compared with the same quarter of 2003.

NCL Group recorded a decrease in capacity days of 8.4% for the three months ended 31 March 2004 as compared to the three months ended 31 March 2003. The reduction in capacity resulted primarily from the s/s Norway being removed from service following the boiler incident in May 2003. Occupancy and net yield were 1.9% and 4.0% higher respectively as compared with the same quarter of 2003.

Cost and expenses

Total costs and expenses before interest and non-operating items for the three months ended 31 March 2004 amounted to US$372.3 million as compared with US$390.6 million for the three months ended 31 March 2003.

Operating expenses decreased by US$25.0 million from US$279.4 million for three months ended 31 March 2003 to US$254.4 million for the three months ended 31 March 2004. Ship operating expenses (excluding costs such as travel agent commissions, air tickets and other direct costs as they are already included in the net revenue calculation) was 9.3% lower as compared with the same period in 2003. On a per capacity day basis, ship operating expenses were 2.3% lower as compared with the first quarter of 2003. This decrease was primarily due to a decrease in the fuel costs which were partially offset by start up costs for the new Hawaii operations of US$2.2 million and the expenses relating to s/s Norway which has been laid up since May 2003 of US$2.4 million. Fuel costs decreased by 13.1% on a per capacity day basis for the three months ended 31 March 2004 as compared with the same period in 2003.

Selling, general and administrative (SG&A) expenses increased 18.9% on a per capacity day basis as compared with the same period last year. The increase was primarily due to increased advertising expenses and start up costs related to the planned introduction of Pride of Aloha under the NCL America brand in Hawaii.

Depreciation and amortisation expenses remained flat for the three months ended 31 March 2004 and 2003, at US$48 million.

Operating profit

Operating profit decreased by US$2.9 million to US$18.5 million for the three months ended 31 March 2004 as compared with US$21.3 million for the three months ended 31 March 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Non-operating income/(expense)

Non-operating expenses increased by 6.6% to US$27.8 million for the three months ended 31 March 2004 as compared with US$26.1 million for the three months ended 31 March 2003. During the three months ended 31 March 2004, the Group had a non-cash loss on foreign exchange amounting to US$4.4 million as compared to a non-cash gain on foreign exchange of US$1.8 million in the first quarter of 2003. The non-cash loss resulted primarily from the strengthening of the Singapore dollar and Euro against the US dollar during the quarter. Interest expense, net of interest income and excluding capitalised interest reduced for the three months ended 31 March 2004 as compared with the same period last year primarily because of lower interest rates despite slightly higher average outstanding debts. Capitalised interest was US$1.3 million for the three months ended 31 March 2004 due primarily to investments in ship construction projects. There was no capitalised interest for the three months ended 31 March 2003.

Loss before taxation

Loss before taxation for the three months ended 31 March 2004 was US$9.4 million as compared to US$4.8 million for the three months ended 31 March 2003.

Taxation

The Group has a net taxation benefit of US$0.2 million for the three months ended 31 March 2004 as compared with income tax expense of US$0.3 million for the same period in 2003. NCL Group recorded a deferred tax asset of US$0.7 million which was partially offset by income tax expense in Star Cruises Asia Pacific of US$0.5 million.

Net loss attributable to shareholders

As a result, the Group recorded a net loss attributable to shareholders of US$9.2 million for the three months ended 31 March 2004.

Liquidity and capital resources

Sources and uses of funds

The majority of the Group's cash and cash equivalents are held in U.S. dollars. For the three months ended 31 March 2004, cash and cash equivalents decreased to US$291.1 million from US$377.0 million as at 31 December 2003. The Group's business provided US$39.7 million of net cash from operations for the three months ended 31 March 2004 as compared to US$18.5 million for the three months ended 31 March 2003. The increase in net cash generated from operations was primarily due to lower interest payment and an increase in advance ticket sales during the quarter.

During the three months ended 31 March 2004, the Group's capital expenditure was approximately US$94.6 million. Approximately US$80.5 million of the capital expenditure was related to capacity expansion and the remaining was vessel refurbishments and onboard assets. In February 2004, the Group received net proceeds of approximately US$19.4 million, from the disposal of m.v. SuperStar Capricorn.

The Group made scheduled principal repayments of US$70.9 million in relation to its long-term bank loans during the three months ended 31 March 2004. In the three months ended 31 March 2004, approximately US$20.7 million of restricted cash was released to Norwegian Cruise Line Limited by the previous bankcard processor. Restricted cash was approximately US$10.0 million as at 31 March 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity and future funding

On 14 January 2004, the newbuild Pride of America took on excessive amounts of water and partially sank during a severe storm while under construction at the Lloyd Werft Bremerhaven shipyard in Germany causing a delay in the completion of the ship. The Pride of America is insured against construction risks with underwriters and on terms approved by NCL, the shipyard and the lenders.

Subsequent to the incident, the Lloyd Werft Bremerhaven shipyard filed for bankruptcy protection in Germany and a receiver was appointed to operate the yard. The appointment of the receiver results in an event of default for the ship financing. In addition, the ship financing requires delivery of the ship no later than 29 October 2004. Based on current estimates, it is anticipated that the ship will be completed and set sail in mid-2005. In April 2004, the Group obtained a waiver from the lenders financing the construction of the ship of the potential event of default. Accordingly, as at 31 March 2004, the Group has reclassified the €298 million term loan and the US$450 million term loan as long-term bank loans. These loans were previously classified as current in the Group's balance sheet as at 31 December 2003.

Corporate reorganisation

Starting in late 2003, the Group undertook a reorganisation of the Norwegian Cruise Line and Orient Lines business within the Group. The reorganisation, which closed on 23 April 2004, was intended to increase the financial self-sufficiency of NCL's business, allowing NCL to raise general and ship-specific financing without guarantees or other financial assistance from the Company and to facilitate the renewal of NCL's fleet as newly-built ships are placed into service. In addition, NCL Group transferred six of its ships to the Company's subsidiaries at their net book values along with US$403.2 million of secured indebtedness associated with these ships. After the transfer, NCL entered into arrangements with the Company's subsidiaries to charter these six ships for periods ranging from one to six years to continue operating them under Norwegian Cruise Line and Orient Lines brands.

Contingent liability

There were no material updates to the information disclosed in the Group's annual report for the year ended 31 December 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Significant subsequent events

(a) In April 2004, the Group entered into four new loan agreements and restructured its existing loans pertaining to the ship operations in Asia and the United States.

(i) On 20 April 2004, the Company entered into a facility agreement with a syndicate of banks for a US$400 million Reducing Revolving Credit Facility ("US$400 million facility") to refinance the outstanding balance of the US$623 million Fleet Loan ("Fleet Loan") which will be due in December 2004. On 23 April 2004, the Group drewdown US$400 million under the US$400 million facility and together with US$3.2 million of internally generated funds, repaid the outstanding amount of the Fleet Loan.

(ii) On 20 April 2004, Hull 667 Limited, an indirect wholly-owned subsidiary of the Company, as borrower, entered into a term loan of up to US$334.1 million to part finance the construction of hull no. S.667 with a syndicate of banks.

(iii) On 20 April 2004, Ship Ventures Inc., an indirect wholly-owned subsidiaries of the Company, as borrower, entered into a term loan of up to €308.1 million (equivalent to approximately US$377.9 million based on the exchange rate of US$1.2265 to €1 as at 31 March 2004) to part finance the construction of hull no. S.668 with a syndicate of banks.

(iv) On 23 April 2004, NCL Corporation Ltd. ("NCLC"), a direct wholly-owned subsidiary of the Company, as borrower signed an agreement with a syndicate of banks to provide up to US$500 million Revolving Credit Facility. The initial drawdown of this facility is conditioned on factors as defined in the agreement.

(b) On 23 April 2004, NCLC proposed a senior notes offering of principal amounts within the range of US$350 million to US$450 million to take advantage of the favourable interest rate environment to raise funds for repayment of bank loans and for general corporate purposes of NCLC and its subsidiaries. However, on or around 11 May 2004, in view of the then market conditions which have made notes offering less attractive, NCLC has decided to withdraw the Proposed Notes Offering and consider other available financing and re-financing alternatives.

Prospects

For the Asian operations, ship operating expenses per capacity day, excluding the effect of a decrease fuel costs, will continue to improve with the sale of m.v. SuperStar Capricorn and m.v. SuperStar Aries. However, SG&A expenses per capacity day for the Asian operations will rise due to the negative scale from the sale of the abovementioned ships and the charter of m.v. SuperStar Leo to NCL. The SG&A expenses per capacity day for the Asian operations is expected to improve as the six ships currently chartered to NCL are redelivered to be operated in Asia.

The expected commencement of the Macau casinos during the year will also add to the challenge of the Asian operations.

In January 2004, during a severe storm at Lloyd Werft where the Pride of America is being built, excessive amounts of water entered the hull of Pride of America and the vessel partially sank, causing a delay in the completion of this vessel. NCL Group has been negotiating with the shipyard as to the timing and cost of completing the construction of the vessel. NCL Group has also been negotiating with the lead insurance underwriters and expects to reach a satisfactory settlement with the insurers. The management anticipates that the expected insurance proceeds and the financing currently in place will be sufficient to fund the completion of the vessel, and based on current estimates, the management believes that Pride of America will set sail in 2005.

In the interim, NCL Group will offer Hawaii cruises on the Norwegian Sky, a Bahamas-flagged ship that will be re-flagged as a U.S. flag cruise ship in June 2004 and sail under the name Pride of Aloha. In order to continue offering the cruises that previously were provided by the Norwegian Sky, Star Cruises Asian operations has chartered to NCL m.v. SuperStar Leo, which was subsequently re-named Norwegian Spirit. The charter of the Norwegian Spirit has facilitated NCL's fleet renewal strategy by providing NCL with a modern cruise ship that will add 2,000 berths and is designed to provide "Freestyle Cruising".

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Prospects (continued)

Other than as disclosed above, the Directors are not aware of any other material changes to the information in relation to the Group's performance and the material factors underlying its result and financial position published in the annual report for the year ended 31 December 2003.

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 three months ended 31 March 2004, save for the issue of 66,480 new ordinary shares of US$0.10 each at an aggregate price of US$17,857 pursuant to the exercise of options granted under the Pre-listing Employee Share Option Scheme.

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 Audit Committee has reviewed these results.

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not at any time during the three months ended 31 March 2004, in compliance with the Code of Best Practice, 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 46(1) to 46(6) inclusive in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in force prior to 31 March 2004 which remains applicable to interim results in respect of accounting periods ending before 1 July 2004 under the transitional arrangements will be available for publication in the website of the Stock Exchange as soon as practicable.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of the Company comprises four Executive Directors, namely Tan Sri Lim Kok Thay, Mr. Chong Chee Tut, Mr. William Ng Ko Seng and Mr. David Colin Sinclair Veitch and three Independent Non-executive Directors, namely Mr. Alan Howard Smith J.P., Mr. Tan Boon Seng and Mr. Lim Lay Leng.

On behalf of the Board

TAN SRI LIM KOK THAY
Chairman, President and Chief Executive Officer
Hong Kong, 18 May 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.