



Star Cruises Limited
(Continued into Bermuda with limited liability)

(Stock Code: 678)

ANNOUNCEMENT
RESULTS FOR THE THREE MONTHS AND THE YEAR ENDED 31 DECEMBER 2005

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 2005, together with the comparative figures for the previous year / period as follows:

	Note	Year ended 31 December		Three months ended 31 December	
		2005 US\$'000 audited	(Restated) 2004 US\$'000 audited	2005 US\$'000 unaudited	(Restated) 2004 US\$'000 unaudited
Turnover	2	1,954,799	1,699,007	511,681	416,190
Operating expenses (excluding depreciation, amortisation and impairment loss)		(1,354,591)	(1,127,176)	(380,324)	(288,694)
Selling, general and administrative expenses (excluding depreciation)		(278,249)	(255,138)	(70,164)	(64,230)
Depreciation and amortisation		(176,022)	(181,866)	(49,919)	(43,804)
Reversal of previously recognised impairment loss / (Impairment loss)		(1,400)	(14,500)	1,300	(14,500)
		<u>(1,810,262)</u>	<u>(1,578,680)</u>	<u>(499,107)</u>	<u>(411,228)</u>
Operating profit	2	144,537	120,327	12,574	4,962
Interest income		8,484	2,985	1,785	975
Financial costs		(155,930)	(110,005)	(47,986)	(32,285)
Share of loss of an associate		(5,219)	-	-	-
Other non-operating income / (expenses), net		28,675	(23,920)	8,052	(13,176)
		<u>(123,990)</u>	<u>(130,940)</u>	<u>(38,149)</u>	<u>(44,486)</u>
Profit / (Loss) before taxation		20,547	(10,613)	(25,575)	(39,524)
Taxation	3	(2,641)	(971)	(132)	(301)
Profit / (Loss) for the year / period		<u>17,906</u>	<u>(11,584)</u>	<u>(25,707)</u>	<u>(39,825)</u>
Basic earnings / (loss) per share (US cents)	4	0.34	(0.22)	(0.49)	(0.75)
Diluted earnings per share (US cents)	4	0.34	N/A	N/A	N/A
<u>Unaudited operating data</u>					
Passenger Cruise Days		9,157,516	8,474,368	2,459,938	2,156,501
Capacity Days		8,823,133	8,163,437	2,436,000	2,069,664
Occupancy as a percentage of total capacity days		104%	104%	101%	104%

CONSOLIDATED BALANCE SHEET

	As at	
	31 December 2005 US\$'000	(Restated) 31 December 2004 US\$'000
	audited	audited
ASSETS		
NON-CURRENT ASSETS		
Intangible assets	605,994	605,286
Deferred tax assets	359	387
Property, plant and equipment	4,341,443	3,821,484
Lease prepayments	1,739	1,818
Investment in an associate	-	15,148
Available-for-sale investment	10,285	-
Restricted cash	150	150
Other assets	101,543	85,095
	5,061,513	4,529,368
CURRENT ASSETS		
Consumable inventories	38,332	42,059
Trade receivables	22,810	12,089
Prepaid expenses and others	47,959	29,684
Derivative financial instruments	4,533	2,241
Amounts due from related companies	-	125
Restricted cash	48,034	28,520
Cash and cash equivalents	187,698	341,027
	349,366	455,745
TOTAL ASSETS	5,410,879	4,985,113

CONSOLIDATED BALANCE SHEET (CONTINUED)

	As at	
	31 December 2005 US\$'000	(Restated) 31 December 2004 US\$'000
	audited	audited
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	530,018	529,320
Reserves:		
Share premium	1,269,089	1,267,913
Additional paid-in capital	93,893	94,018
Convertible bonds - equity component	14,400	14,400
Foreign currency translation adjustments	(24,052)	(23,197)
Unamortised share option expense	(1,087)	(2,300)
Cash flow hedge reserve	5,368	(20,564)
Retained earnings / (Accumulated losses)	12,252	(34,080)
	1,899,881	1,825,510
LIABILITIES		
NON-CURRENT LIABILITIES		
Long-term borrowings	2,671,129	2,415,716
Derivative financial instruments	7,240	22,361
Other long-term liabilities	2,631	5,734
Deferred tax liabilities	574	539
	2,681,574	2,444,350
CURRENT LIABILITIES		
Trade creditors	90,815	83,481
Current income tax liabilities	1,647	1,227
Provisions, accruals and other liabilities	189,998	209,281
Current portion of long-term borrowings	256,442	179,159
Derivative financial instruments	354	1,392
Amounts due to related companies	118	-
Advance ticket sales	290,050	240,713
	829,424	715,253
TOTAL LIABILITIES	3,510,998	3,159,603
TOTAL EQUITY AND LIABILITIES	5,410,879	4,985,113

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

The consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The preparation of financial statements in conformity with HKFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The consolidated results are prepared under the historical cost convention, as modified by the revaluations of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) which are carried at fair value.

Where necessary, certain comparative figures have been reclassified to conform to the current period’s / year’s presentation.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

As at 1 January 2005, the Group adopted the new / revised standards and interpretations of HKFRSs as listed below, which are relevant to its operations. The comparative figures in respect of the three months and the year ended 31 December 2004 have been amended as required and where necessary, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

1. Principal Accounting Policies (continued)

The Group revalued certain of the properties in conjunction with the listing of the entire share capital on The Stock Exchange of Hong Kong Limited in 2000. On 1 January 2005, the Group applied the exemptions under HKFRS 1 whereby it elected to use the revalued amount of these properties under HK GAAP as deemed cost at the date of transition to HKFRSs.

The adoption of these new HKFRSs did not have any significant impact on its results of operations and financial position, except for the adoption of HKFRS 2, HKFRS 3, HKAS 38, HKAS 17, HKAS 32 and HKAS 39 which are discussed below.

HKFRS 2

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share options granted after 7 November 2002 and to be vested after 1 January 2005. The Group has also applied HKFRS 2 retrospectively for share options granted after 7 November 2002 and vested before 1 January 2005. Prior to 1 January 2005, the Group accounted for compensation expense in respect of these share options to employees based on the excess, if any, of the quoted market price of the share at the date of the grant over the exercise price of the option. Effective from 1 January 2005, the Group accounts for the compensation cost of these share options based on the fair value of the employee services received in exchange for the grant of these options.

This change in accounting policy has been accounted for retrospectively as follows:

	As previously reported	Effect of adoption of HKFRS	As restated
	US\$'000	US\$'000	US\$'000
Group			
At 31 December 2004			
Reserves:			
Additional paid-in capital	92,689	1,329	94,018
Accumulated losses	(31,079)	(139)	(31,218)
Unamortised share option expense	(1,110)	(1,190)	(2,300)
Selling, general and administrative expenses	254,956	139	255,095

The impact on basic and diluted earnings per share as a result of adopting HKFRS 2 is not material.

HKAS 17

The adoption of HKAS 17 requires the Group to classify the land held under a long-term lease as an operating lease if the risks and rewards incidental to ownership will not be transferred to the lessee. The comparative in respect of the property, plant and equipment has been restated whereby the land held under operating lease is now presented as lease prepayments. The up-front prepayments made for the leasehold land and land use rights are expensed in the consolidated income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statements. The effect of the reclassification of the comparative is as follows:

	As previously reported	Effect of adoption of HKFRS	As restated
	US\$'000	US\$'000	US\$'000
Group			
At 31 December 2004			
Property, plant and equipment	3,823,302	(1,818)	3,821,484
Lease prepayments	-	1,818	1,818
Depreciation and amortisation	181,909	(43)	181,866
Selling, general and administrative expenses	254,956	43	254,999

1. Principal Accounting Policies (continued)

HKAS 32

The adoption of HKAS 32 requires the Group to analyse the compound financial instruments into debt and equity components based on the circumstances at the inception of the instrument. The comparative in respect of the convertible bonds has been restated whereby the equity conversion option is now presented as a component of reserves. The related interest expense on the convertible bonds has been restated by applying the effective interest method to the liability component. The effects of the adoption of HKAS 32 have been accounted for retrospectively as follows:

	As previously reported US\$'000	Effect of adoption of HKFRS US\$'000	As restated US\$'000
Group			
At 31 December 2004			
Convertible bonds	180,000	(3,188)	176,812
Provision, accruals and other liabilities	217,631	(8,350)	209,281
Reserves:			
Convertible bonds - equity component	-	14,400	14,400
Accumulated losses	(31,079)	(2,862)	(33,941)
Financial costs	107,566	2,439	110,005
Basic loss per share (US cents)	(0.17)	(0.05)	(0.22)

The impact on opening retained earnings at 1 January 2004 from the adoption of HKAS 32 was US\$0.4 million.

HKFRS 3 and HKAS 38

The adoption of HKFRS 3 and HKAS 38 resulted in a change in the accounting policy for goodwill and trade names. Prior to 1 January 2005, goodwill and trade names were amortised over useful lives of 40 years and negative goodwill was amortised over 26 years, the remaining weighted average useful life of the non-monetary assets acquired. In addition, the goodwill and trade names were assessed for impairment annually or where there were indications of possible impairment.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill and trade names from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and trade names;
- The carrying amount of previously recognised negative goodwill has been derecognised as at 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings;
- The Group will continue to review goodwill and trade names for impairment annually or where there are indications of possible impairment.

This change in accounting policy has been accounted for prospectively from 1 January 2005 as follows:

	As previously reported US\$'000	Effect of adoption of HKFRS US\$'000	As restated US\$'000
Group			
At 1 January 2005			
Intangible assets, net of accumulated amortisation and impairment	605,286	39,769	645,055
Retained earnings / (Accumulated losses)	(31,079)	39,769	8,690

1. Principal Accounting Policies (continued)

HKAS 39

Upon adoption of HKAS 39 on 1 January 2005, the fair value of certain interest rate swaps of US\$10.7 million which no longer qualified as hedging instruments as a result of early repayment of certain bank borrowings and which had been included within cash flow hedge reserve, has been adjusted to the opening balance of retained earnings. Similarly, the fair value of the 5.5% capped USD LIBOR-in-arrears interest rate swaps amounting to US\$0.6 million which were not effective hedges and had been included within cash flow hedge reserve, has been adjusted to the opening balance of retained earnings.

The effects of the change on the Group's consolidated financial statements have been accounted for prospectively from 1 January 2005 as follows:

	As previously reported <u>US\$'000</u>	Effect of adoption of HKFRS <u>US\$'000</u>	As restated <u>US\$'000</u>
Group			
At 1 January 2005			
Reserves:			
Cash flow hedge reserve	(20,564)	11,343	(9,221)
Accumulated losses	(31,079)	(11,343)	(42,422)
	<u> </u>	<u> </u>	<u> </u>

There was no impact on basic and diluted earnings per share from the adoption of HKAS 17, HKFRS 3, HKAS 38 and HKAS 39.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKFRS 2, HKAS 17, HKFRS 3, HKAS 38 and HKAS 39.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS – Int 4	Determining whether an Arrangement contains A Lease

2. Turnover and Operating Profit / (Loss)

The turnover consists of revenues earned from cruise and cruise related activities and charter hire.

The Group is principally engaged in the operation of passenger cruise ships. Cruise and cruise related revenues comprise 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. In August 2005, the Group entered into a charter and sale agreement of its catamaran and as a result, the Group ceased to receive revenue from the charter hire of the catamaran.

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

	TURNOVER			
	Year ended 31 December		Three months ended 31 December	
	2005	2004	2005	2004
	US\$'000	US\$'000	US\$'000	US\$'000
	audited	audited	unaudited	unaudited
Cruise and cruise related activities ¹	1,954,799	1,696,434	511,681	416,190
Charter hire	-	2,573	-	-
	<u>1,954,799</u>	<u>1,699,007</u>	<u>511,681</u>	<u>416,190</u>
	OPERATING PROFIT / (LOSS)			
	Year ended 31 December		Three months ended 31 December	
	2005	(Restated) 2004	2005	(Restated) 2004
	US\$'000	US\$'000	US\$'000	US\$'000
	audited	audited	unaudited	unaudited
<u>Cruise and cruise related activities</u>				
Operating profit	147,518	135,428	11,274	20,396
Reversal of previously recognised impairment loss / (Impairment loss)	1,300	(14,500)	1,300	(14,500)
	148,818	120,928	12,574	5,896
<u>Charter hire</u>				
Operating loss	(1,581)	(601)	-	(934)
Impairment loss	(2,700)	-	-	-
	(4,281)	(601)	-	(934)
	<u>144,537</u>	<u>120,327</u>	<u>12,574</u>	<u>4,962</u>

2. 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			
	Year ended 31 December		Three months ended 31 December	
	2005 US\$'000	2004 US\$'000	2005 US\$'000	2004 US\$'000
	audited	audited	unaudited	unaudited
Asia Pacific	365,332	384,249	107,546	84,854
North America ²	1,453,633	1,195,813	375,275	303,340
Others	135,834	118,945	28,860	27,996
	<u>1,954,799</u>	<u>1,699,007</u>	<u>511,681</u>	<u>416,190</u>
	OPERATING PROFIT / (LOSS)			
	Year ended 31 December		Three months ended 31 December	
	2005 US\$'000	(Restated) 2004 US\$'000	2005 US\$'000	(Restated) 2004 US\$'000
	audited	audited	unaudited	unaudited
	Asia Pacific	79,585	94,497	23,512
Operating profit	79,585	94,497	23,512	23,343
Reversal of previously recognised impairment loss / (Impairment loss)	(1,400)	-	1,300	-
	78,185	94,497	24,812	23,343
North America ²	60,176	44,831	(10,959)	(1,367)
Operating profit / (loss)	60,176	44,831	(10,959)	(1,367)
Impairment loss	-	(14,500)	-	(14,500)
	60,176	30,331	(10,959)	(15,867)
Others	6,176	5,198	(1,279)	(89)
	144,537	130,026	12,574	7,387
Amortisation of goodwill	-	(9,699)	-	(2,425)
	<u>144,537</u>	<u>120,327</u>	<u>12,574</u>	<u>4,962</u>

Notes:

1. Cruise and cruise related revenues consist of passenger ticket revenue of approximately US\$1,275.5 million and US\$1,092.1 million for the years ended 31 December 2005 and 2004 respectively and approximately US\$333.2 million and US\$265.8 million for the three months ended 31 December 2005 and 2004 respectively. The remaining portion relates to revenues from onboard and other services.
2. Substantially, all the turnover and operating profit / (loss) arises in the United States of America.

3. Taxation

	Year ended 31 December		Three months ended 31 December	
	2005 US\$'000	2004 US\$'000	2005 US\$'000	2004 US\$'000
	audited	audited	unaudited	unaudited
Overseas taxation				
- Current taxation	2,782	1,561	195	336
- Deferred taxation	(109)	(166)	(109)	-
	<u>2,673</u>	<u>1,395</u>	<u>86</u>	<u>336</u>
Under / (Over) provision in respect of prior years				
- Current taxation	(189)	(555)	46	(14)
- Deferred taxation	157	131	-	(21)
	<u>2,641</u>	<u>971</u>	<u>132</u>	<u>301</u>

The Company, which is domiciled in Bermuda, and the majority of its subsidiaries, are not subject to income tax as their income is mainly derived in international waters or outside taxing jurisdictions. However, the Group has incurred a tax charge, as illustrated in the table above, based on the income which is subject to local tax in certain of the jurisdictions where it operates. The appropriate local tax rate has been applied, in such circumstances, to determine the applicable tax charge.

4. Earnings / (Loss) per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

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

	Year ended 31 December		Three months ended 31 December	
	2005 US\$'000 audited	(Restated) 2004 US\$'000 audited	2005 US\$'000 unaudited	(Restated) 2004 US\$'000 unaudited
<u>BASIC</u>				
Profit / (Loss) for the year / period	17,906	(11,584)	(25,707)	(39,825)
Weighted average outstanding ordinary shares in thousands	5,296,717	5,293,187	5,299,866	5,293,202
Basic earnings / (loss) per share in US cents	0.34	(0.22)	(0.49)	(0.75)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For the share options, certain shares under option had an effect on the adjusted weighted average number of shares in issue as the average option price was lower than the average market price. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December		Three months ended 31 December	
	2005 US\$'000 audited	(Restated) 2004 US\$'000 audited	2005 US\$'000 unaudited	(Restated) 2004 US\$'000 unaudited
<u>DILUTED</u>				
Profit / (Loss) for the year / period	17,906	(11,584)	(25,707)	(39,825)
Weighted average outstanding ordinary shares in thousands	5,296,717	5,293,187	5,299,866	5,293,202
Effect of dilutive ordinary shares in thousands	3,227	524	2,232	845
Weighted average outstanding ordinary shares after assuming dilution in thousands	5,299,944	5,293,711	5,302,098	5,294,047
Diluted earnings per share in US cents	0.34	N/A*	N/A *	N/A*

Convertible bonds have not been included in the calculation of diluted earnings per share as they are anti-dilutive.

* Diluted loss per share for the year ended 31 December 2004 and the three months ended 31 December 2005 and 2004 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 2005 (2004: Nil).

BUSINESS REVIEW

Key points for the year in comparison with year 2004: -

- Capacity increased by 8.1% from 8.2 million to 8.8 million capacity days
- Net revenue increased by 13.7%
- Net revenue yield increased by 5.2%
- EBITDA before impairment loss increased by 18.0% from US\$292.8 million to US\$345.4 million
- Operating profit before impairment loss increased by 8.2% from US\$134.8 million to US\$145.9 million
- Net profit before impairment loss increased to US\$19.3 million from US\$2.9 million
- Ship operating expenses per capacity day were up by 11.5% of which fuel costs accounted for 5.0 percentage points of this increase
- Selling, general and administrative expenses (“SG&A”) per capacity day increased by 0.9%

Key points for the quarter in comparison with 4Q 2004: -

- Capacity increased by 17.7% from 2.1 million to 2.4 million capacity days
- Net revenue increased by 19.0%
- Net revenue yield increased by 1.1%
- EBITDA before impairment loss increased by 38.2% from US\$50.1 million to US\$69.2 million
- Operating profit before impairment loss decreased by 42.1% from US\$19.5 million to US\$11.3 million
- Net loss before impairment loss increased by 6.6% from US\$25.3 million to US\$27.0 million
- Ship operating expenses per capacity day were up by 10.4%, of which fuel costs accounted for 6.7 percentage points of this increase
- SG&A per capacity day decreased by 7.2%

Star Cruises Group

2005 Full Year Results

Net profit for the year 2005 was US\$17.9 million compared to a net loss of US\$11.6 million for the year 2004.

Net revenue for the year 2005 increased 13.7% compared with the year 2004 driven by both an 8.1% capacity increase and a 5.2% increase in net revenue yield. Capacity increase in the year 2005 was mainly a result of the additions of *m.v. Pride of America* and *m.v. Norwegian Jewel*. Higher cruise ticket prices and an increase in onboard spending were the factors underlying the increase in net revenue yield. Occupancy level for both years 2005 and 2004 was relatively unchanged, at 103.8%.

BUSINESS REVIEW (CONTINUED)

In the year 2005, ship operating expenses per capacity day increased 11.5% compared with 2004. The increase in these costs was due to higher payroll and related expenses, increased fuel costs and start-up costs associated with the introduction of *m.v. Norwegian Jewel*, *m.v. Pride of America* and *m.v. SuperStar Libra*. The higher payroll and related expenses were mainly relating to the U.S. crew used for Hawaii itineraries which began operations in June 2004 and expanded to two ships with the introduction of *m.v. Pride of America* at the end of second quarter of 2005. Average fuel prices in the year 2005 increased approximately 41% compared with 2004. Fuel costs accounted for 17% of ship operating expenses in the year 2005 compared with 14% in 2004.

SG&A expenses per capacity day for the year 2005 increased 0.9% compared with the year 2004 mainly due to the offsetting effect of the marketing expenses relating to the introduction of *m.v. Norwegian Jewel* and *m.v. Pride of America* and higher payroll costs for the Honolulu office with the benefits of the economies of scale achieved with the capacity increase.

EBITDA before impairment loss per capacity day in the year 2005 was 9.2% higher compared with 2004. A net impairment loss of US\$1.4 million was recorded in the year 2005 arising from a US\$2.7 million impairment loss on the disposal of a catamaran which was partially offset by a US\$1.3 million impairment loss reversal on *s/s Norway*. The impairment loss on *s/s Norway* was US\$14.5 million recorded in the year 2004.

Depreciation and amortisation expenses per capacity day in the year 2005 decreased by 10.5% compared with 2004 due to the impact of cessation of amortisation of goodwill and trade names since the beginning of 2005 following the adoption of new accounting standards effective 1 January 2005, partially offset by the depreciation expenses of *m.v. Pride of America* and *m.v. Norwegian Jewel*.

Interest expense, net of interest income and capitalised interest, increased 37.8% in the year 2005 compared with 2004 driven primarily by higher interest rates and an increase in average outstanding borrowings, including the US\$250 million Senior Notes issued in July 2004.

Non-operating income for the year 2005 was US\$23.5 million compared with US\$23.9 million of non-operating expense in 2004. As a result of converting Euro 120.7 million debts into US dollar debts, the Group realised a foreign exchange gain of US\$14.9 million in the year 2005. The remaining Euro denominated debts which have been marked to market at year end resulted in a further US\$14.5 million gain in the year 2005. These gains were partially offset by the US\$5.2 million losses in Valuair Limited recorded by the Group. In the year 2004, the Group recorded a non-cash Euro denominated debt translation loss of US\$9.5 million and forward contracts losses of US\$11.3 million.

Quarter Results

For 4Q 2005, the Group recorded a net loss of US\$25.7 million compared with a net loss of US\$39.8 million in 4Q 2004.

The Group's net revenue for 4Q 2005 was 19.0% higher compared with 4Q 2004, primarily due to a 17.7% capacity increase and, to a lesser extent, a 1.1% higher net revenue yield. Capacity increase in 4Q 2005 was mainly because of the additions of *m.v. Pride of America* and *m.v. Norwegian Jewel*, which entered service in June 2005 and August 2005, respectively. Occupancy was at 101.0% in 4Q 2005 versus 104.2% in 4Q 2004.

In 4Q 2005, ship operating expenses per capacity day were 10.4% higher compared with 4Q 2004 driven by the increased fuel costs and higher crew expenses related to the U.S. flag ships, as the Group operated 2 U.S. flagged ships in 4Q 2005 compared with 1 ship in 4Q 2004. Average fuel prices increased approximately 51% compared with 4Q 2004, with fuel costs reaching 19% of the ship operating expenses in 4Q 2005 compared with 15% of ship operating expenses in 4Q 2004.

Benefiting from the economies of scale achieved with the capacity increase, SG&A expenses per capacity day in 4Q 2005 decreased 7.2% compared with 4Q 2004.

EBITDA before impairment loss per capacity day for 4Q 2005 were 17.5% higher compared with 4Q 2004. In 4Q 2005, the Group recognised a US\$1.3 million reversal of impairment loss on *s/s Norway* following the completion of her disposal early this year. The impairment loss on *s/s Norway* was recorded in 4Q 2004.

Depreciation and amortisation expenses per capacity day decreased 3.2% compared with 4Q 2004 mainly due to the impact of the cessation of amortisation of goodwill and trade names since the beginning of 2005, partly offset by the depreciation expenses of *m.v. Pride of America* and *m.v. Norwegian Jewel*.

BUSINESS REVIEW (CONTINUED)

Interest expense, net of interest income and capitalised interest increased 47.6% in 4Q 2005 compared with 4Q 2004 driven by both higher average outstanding debts and interest rates.

Non-operating income for 4Q 2005 was US\$8.1 million compared with US\$13.2 million of non-operating expense in 4Q 2004. In 4Q 2005, the Group converted Euro 120.7 million debts into US dollar debts, realising a US\$4.5 million of foreign exchange gain. The remaining Euro denominated debts have been marked to market at year end resulted in a further US\$3.1 million gain in 4Q 2005. 4Q 2004 included a non-cash Euro denominated debt translation loss of US\$8.5 million and forward contracts losses of US\$3.8 million.

Star Cruises (excluding NCL)

Net revenue (excluding the ship charter income from NCL) for the year 2005 was 4.6% lower because of a 7.9% lower capacity and occupancies which were partially offset a 3.6% higher net revenue yield. For the year 2005, capacity was lower compared with 2004 because of the disposals of two less cost efficient ships *m.v. SuperStar Capricorn* and *m.v. SuperStar Aries* and the transfer of *m.v. SuperStar Leo* (renamed *m.v. Norwegian Spirit*) to the NCL Group in the first half of 2004, which was partially offset by the addition of *m.v. SuperStar Libra*.

The higher net revenue yield for the year 2005 was a result of higher onboard spending. The occupancy level was at 93.5% in the year 2005 versus 96.5% in the year 2004.

Ship operating expenses per capacity day increased by 11.0% compared with the year 2004 mainly due to the higher payroll and related expenses, increased fuel costs and start-up costs for *m.v. SuperStar Libra*. Average fuel prices increased about 47% to account for approximately 4.5 percentage points of the increase in the year 2005. SG&A expenses per capacity day in the year 2005 increased 4.9% compared with 2004 as a result of the negative scale of economy impact of the capacity reduction during the year.

Net revenue for 4Q 2005 increased by 20.2% compared to 4Q 2004 driven mainly by a 30.3% capacity increase which was partially offset by the lower net revenue yield and occupancy levels. Capacity increase came from the addition of *m.v. SuperStar Libra* which commenced operation in mid September 2005. Net revenue yield in 4Q 2005 was 7.8% lower compared with 4Q 2004 and the occupancy level for 4Q 2005 was at 87.1% versus 103.8% in 4Q 2004. The lower than average net revenue yield and occupancy for *m.v. SuperStar Libra* during her start up phase in India contributed to the decrease in overall net revenue yield and occupancy in 4Q 2005.

Ship operating expenses per capacity day increased 9.9% in 4Q 2005 compared with 4Q 2004 primarily due to higher fuel costs. Average fuel prices increased approximately 60% and this accounted for nearly 8.6 percentage points of the increase in 4Q 2005.

SG&A expenses per capacity day decreased 25.6% in 4Q 2005 compared with 4Q 2004 as a result of economies of scale achieved in connection with the introduction of *m.v. SuperStar Libra* to the Star Cruises' fleet in September 2005.

NCL Group

Capacity for the year 2005 increased 12.6% compared with 2004. The increase in capacity is attributable to the additions of the *m.v. Norwegian Spirit*, the *m.v. Pride of America* and the *m.v. Norwegian Jewel* which entered service in May 2004, June 2005 and August 2005, respectively, partially offset by the return of the *m.v. Norwegian Sea* (renamed to *m.v. SuperStar Libra*) to Star Cruises upon expiration of the charter agreement in August 2005.

Net revenue yield increased 6.6% for the year 2005 compared to 2004. This increase was primarily attributable to increases in cruise ticket prices, higher onboard revenues and NCL Group's acquisition of Polynesian Adventure Tours in November 2004.

Ship operating expenses per capacity day increased 9.9% for the year 2005 compared with 2004. The increase in these costs was due to higher payroll and related expenses and increased fuel costs partially offset by other operating efficiencies. The growth in payroll and related expenses is mostly attributable to increased crew costs associated with U.S. crew used for inter-island cruises in Hawaii. During 2005, average fuel prices increased 40%. The increase in payroll and related expenses and fuel costs accounted for 6.8 and 4.6 percentage points, respectively, of the increase in ship operating expenses.

BUSINESS REVIEW (CONTINUED)

SG&A expenses per capacity day for the year 2005 decreased approximately 1.0% compared with 2004. The decrease in SG&A expenses per capacity day was a result of the economies of scale gained as a result of the increase in capacity.

NCL Group's operating profit increased US\$23.0 million, or 45.7%, to US\$73.3 million in 2005 from US\$50.3 million in 2004. On a capacity day basis, this represents an increase of 29.4% or more than double when compared to its 12.6% increase in capacity.

The 4Q 2005 capacity increased 14.8% compared with 4Q 2004 due to the additions of the *m.v. Pride of America* and the *m.v. Norwegian Jewel*, which entered service in June and August 2005, respectively. This increase in capacity was partially offset by the return of the *m.v. Norwegian Sea* to Star Cruises in August 2005.

Net revenue yield increased 3.3% in 4Q 2005 compared with 4Q 2004. This increase was primarily attributable to increases in cruise ticket prices.

Ship operating expenses per capacity day increased 8.9% in 4Q 2005 compared with 4Q 2004. The increase in these costs was due to higher payroll and related expenses and increased fuel costs partially offset by other operating efficiencies and lower ship charter expenses. The increase in payroll and related expenses is primarily attributable to increased payroll costs associated with U.S. crew used for inter-island cruises in Hawaii. During the quarter, average fuel prices increased 50%. The increase in payroll and related expenses and fuel costs accounted for 7.4 and 6.2 percentage points, respectively, of the increase in ship operating expenses.

SG&A expenses per capacity day decreased 2.6% in 4Q 2005 compared with 4Q 2004. This decrease was primarily the result of the economies of scale gained as a result of the increase in capacity.

Prospect

The outlook for 2006 remains challenging as rising fuel prices and interest rates could continue to impact 2006 earnings.

In view of the competition in Asia Pacific, Star Cruises recently announced the summer deployment of the *m.v. SuperStar Libra* into eastern Mediterranean to further develop the cruise market outside of Singapore and Hong Kong.

NCL Group is also proudly awaiting the arrival of the *m.v. Pride of Hawaii* for the NCL America brand this year and the *m.v. Norwegian Pearl* and *m.v. Norwegian Gem* next year for the NCL brand.

Terminology

- *Net revenue yield represents net revenue per capacity day after deducting such costs as commissions, air ticket costs and other direct costs.*
- *Ship operating expenses represent operating expenses excluding such costs as commissions, air ticket costs and other direct costs.*
- *EBITDA represents earnings before interest, taxation, depreciation and amortisation.*
- *Capacity Days represent double occupancy per cabin multiplied by the number of cruise days for the period.*
- *Passenger Cruise Days represent the number of passengers carried for the period, multiplied by the number of days in their respective cruises.*
- *Occupancy Percentage, in accordance with cruise industry practice, represents the ratio of Passenger Cruise Days to Capacity Days. A percentage in excess of 100 indicates that three or more passengers occupied some cabins.*

SIGNIFICANT SUBSEQUENT EVENT

In January 2006, the Group disposed of s/s Norway.

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 2005, save for the issuance of 6,975,380 new ordinary shares of US\$0.10 each at an aggregate price of US\$1,873,587 pursuant to the exercise of options granted under The Star Cruises Employees Share Option Scheme.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules during the year ended 31 December 2005, save for the code provisions on internal controls, which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code, and deviations from certain code provisions listed below:

- (1) Code Provision A.2.1: the roles of chairman and chief executive officer should be separate;
- (2) Code Provision A.4.1: non-executive directors should be appointed for a specific term; and
- (3) Code Provision A.4.2: all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director should be subject to retirement by rotation at least once every three years.

Details of considered reasons for the deviations and/or steps taken or proposed to be taken by the Company in order to be able to comply with the relevant code provisions as well as further information of the Company's corporate governance practices will be set out in the Corporate Governance Report of the Company's annual report for the year ended 31 December 2005, which will be available for publication as soon as practicable.

REVIEW BY AUDIT COMMITTEE

These consolidated results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant provisions of the CG Code. 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.

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, 20 February 2006

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.