Financial Review

For the second quarter ended 30 June 2001, the Group recorded a net profit of US$0.8 million on revenue of US$327.2 million, as compared to a net loss of US$0.9 million on revenue of US$361.8 million for the same quarter in 2000. Net profit for the six months ended 30 June 2001 was US$0.6 million on revenue of US$662.6 million, compared to a net loss of US$1.5 million on revenue of US$552.5 million for the same period in 2000.

Results for six months ended 30 June 2001 as compared with proforma results for six months ended 30 June 2000

The results for the six months ended 30 June 2001 are not directly comparable to the six months ended 30 June 2000 as the Group consolidated the results of NCL Holding ASA ("NCL") which was acquired over the period December 1999 to February 2000, with effect from 1 March 2000. On a proforma basis, including NCL's results for January and February 2000, the Group recorded a net profit of US$0.6 million compared to a proforma net profit of US$0.9 million in the same period in 2000.

Proforma results for the six months ended 30 June 2000 is as follows:

	Six months ended 30 June	
	2001	2000
	US$'000	*US$'000*
	unaudited	*unaudited*
Reported operating profit	55,583	84,897
Proforma adjustments		
To consolidate 100% of NCL's results from 1 January 2000 as if the acquisition of 100% of NCL had occurred on 1 January 2000	—	15,243
Proforma operating profit	55,583	100,140
Reported net profit/(loss)	628	(1,544)
Proforma adjustments		
To consolidate 100% of NCL's results from 1 January 2000 as if the acquisition of 100% of NCL had occurred on 1 January 2000	—	2,451
Proforma net profit	628	907
Operating data	Actual	Proforma
Passenger Cruise Days	3,459,543	3,541,756
Capacity Days	3,621,108	3,703,587
Occupancy as a percentage of total capacity	96%	96%

Note: The above unaudited proforma results for the six months ended 30 June 2000 have been prepared for illustrative purposes only and exclude any proforma adjustments for increased interest expense on borrowings to fund the acquisition.

In the second quarter this year, on a quarter on quarter comparison, the Group experienced a decrease in revenue of 9.6% from US$361.8 million to US$327.2 million. This is a direct result of a 5.3% decrease in capacity days and an overall 4.5 % decrease in yield. Total costs and expenses, excluding non-operating expenses decreased 3.7% from US$309.1 million to US$297.8 million. Operating profit decreased 44.1% from US$52.7 million to US$29.5 million. Non-operating expenses decreased 47.8% from US$49.4 million to US$25.8 million as a result of lower interest expenses, higher interest income and gains on foreign exchange contracts for the period.

Quarter on quarter, revenue for the Group's Asia Pacific operations decreased 5.9% on the back of a 5.8% decrease in capacity days while yield was maintained at the same level. The decline in capacity days compared to the same period last year was due to the sale of m.v. Star Aquarius, m.v. MegaStar Capricorn and m.v. MegaStar Sagittarius. The reduction in capacity days was partially offset by the introduction of m.v. Norwegian Star 1 for the Group's Taiwan operations in November 2000. Ship operating cost per capacity day for the Group's Asia Pacific operations reduced 0.6% in second quarter this year, resulting in a net first half increase of 5.5%. Selling, general and administrative cost per capacity day reduced 3.0% in second quarter this year, bringing the first half movement to an overall increase of 5.5% over 2000.

Financial Review *(Continued)*

Capacity days in second quarter for NCL decreased by 4.9% over the same period in 2000. The decrease in capacity days was mainly due to a more extensive dry dock schedule than in 2000, cancellation of a 7 day Caribbean cruise on s/s Norway and the transfer of m.v. Norwegian Star 1 into the Star Cruises Asia Pacific operations. Net revenue yields for Norwegian Cruise Line Limited (excluding Norwegian Capricorn Line's operations in Australia), the combination of Norwegian Cruise Line and Orient Lines brands, declined 11.1% in second quarter, resulting in an overall 8.1% decline in the first half of 2001. Ship operating costs per capacity day rose by 6.3% in the second quarter and an overall increase of 11.1% in the first half of this year compared to last year. Selling, general and administrative costs per capacity day increased by 6.5% in second quarter, which results in an overall first half increase of 7.5% over 2000.

Foreign exchange and interest rate swaps

The Group entered into several additional amortising interest rate swaps to effectively convert the interest rate on US$148.5 million of the US$521.6 million term loan obtained to finance the construction of m.v. SuperStar Leo and m.v. SuperStar Virgo from a floating rate obligation to a fixed rate obligation in the three months ended 30 June 2001. As at 30 June 2001, the Group has effectively converted the interest rate of aggregate US$268.5 million of this term loan to a fixed rate obligation, and the estimated fair market value of these interest rate swaps was approximately US$0.6 million, which was favourable to the Group. The changes in the fair value of these interest rate swaps are included as a separate component of reserve.

Liquidity and capital resources

In the six months ended 30 June 2001, operating activities generated cash inflow of US$194.3 million.

The Group made principal repayments of US$206.8 million in relation to its long-term bank loans in the six months ended 30 June 2001, of which US$150 million was made from the proceeds of the disposal of m.v. Star Aquarius in 2001 of US$75 million with the balance from the proceeds of the convertible notes issued to RWL and the share placement. In addition, the Group drew down the remaining balance of US$53.2 million under the 1999 KfW loan to part finance the construction of the M/S Norwegian Sun.

In the six months ended 30 June 2001, the Group incurred approximately US$152.5 million of capital expenditure on fixed assets. Capital expenditure for the six months ended 30 June 2001 were primarily associated with the payments for ships under construction as well as for the refurbishment of the Group's existing fleet. Approximately US$90.5 million was received mainly from the disposal of m.v. Star Aquarius and m.v. MegaStar Sagittarius during the period.

Prospects

Within the Asia Pacific market, the Group continues to expand its distribution network to market fly cruise packages to the major cruise hubs in Asia Pacific. The Group's plan moving forward is to continue to extend its marketing network through appointment of more agents to increase cruising awareness in this region which is still relatively low compared with other leisure options or cruising in the West. The Group also continues its program to expand its network into China, which it believes, will be a very significant emerging market. The Group has increased staffing in its China offices to cater for the increasing number of fly cruise passengers from China.

On the American and European front, with the introduction of Freestyle Cruising on Norwegian Dream during second quarter this year, the Group now has this innovative product on all of its ships except s/s Norway. To ensure the success of the Freestyle Cruising, the Group increased hotel staffing and significantly improve the food quality. Now that the product is well established and well received, the Group is concentrating on achieving efficiencies to maintain a reasonable cost structure. Similarly, most of the marine operational initiatives have now been undertaken and the ships are undoubtedly operating to a higher standard than was the case prior to Star Cruises' involvement. The Group is now focusing on achieving efficiencies in this area just as in the hotel area. It is expected that the ship operations costs per capacity day in third and fourth quarter this year to be in line with third and fourth quarter of last year and possibly slightly lower.

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 2000 and in the quarterly report for the three months ended 31 March 2001.