

Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 December 2001.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The Company's subsidiaries are principally engaged in the business of cruise and cruise related operations. Details of the Company's principal subsidiary companies are set out in note 30 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

Results

The results of the Company and its subsidiaries for the year ended 31 December 2001 are set out in the consolidated profit and loss account on page 38.

Dividends

The Directors do not recommend the declaration of any dividend in respect of the year ended 31 December 2001.

Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 22 to the accounts. The distributable reserves of the Company amounted to US\$413.3 million as at 31 December 2001.

Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 83.

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 2001, save for the issue of 5,649,500 new ordinary shares of US\$0.10 each at an aggregate price of US\$1,556,957 pursuant to the exercise of options granted under The Star Cruises Employees Share Option Scheme.

Donations

Charitable and other donations made by the Group during the year amounted to US\$0.1 million.

Fixed Assets

A brief description of the properties owned by the Group is set out on page 84.

Details of the movements in fixed assets during the year are set out in note 11 to the accounts.

Share Capital

Details of the movements in share capital of the Company are set out in note 21 to the accounts.

Indebtedness

Details of long-term financing facilities of the Company and its subsidiary companies at 31 December 2001 are set out in note 20 to the accounts.

Directors

The Directors during the year and up to the date of this report are:

Dato' Lim Kok Thay
Mr. Alan Howard Smith, J.P.
Mr. Chong Chee Tut
Mr. William Ng Ko Seng
Mr. David Colin Sinclair Veitch
Mr. Tan Boon Seng
Mr. Lim Lay Leng

In accordance with Bye-law 99 of the Company's Bye-laws, Mr. Alan Howard Smith, J.P. and Mr. David Colin Sinclair Veitch will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Biographical details of the Directors and senior management are set out on pages 26 to 29.

Directors' Service Contracts

Mr. David Colin Sinclair Veitch has a service contract with the Company for an initial term of three years commencing from 24 January 2000, to be automatically renewed for further terms of three years each until terminated by either party.

Save for Mr. Veitch, no Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Interests of Directors and Controlling Shareholders in Contracts of Significance

Save as disclosed in the section headed "Connected transactions" below and in the section headed "Related party transactions and balances" in note 17 to the accounts, no contracts of significance to which the Company or any of its subsidiaries was a party and in which any of the Company's Director or controlling shareholder or its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

- (a) Significant related party transactions entered into by the Group during the year ended 31 December 2001 are disclosed in note 17 (a) to (c) and (f) to the accounts.
- (b) Items (a), (b) and (f) of these related party transactions, which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and are required to be disclosed in accordance with Chapter 14 of the Listing Rules, are as follows:
 - (i) Kien Huat Development Sdn Bhd ("Kien Huat"), a company in which a brother of Dato' Lim Kok Thay has a substantial interest, together with its related companies, have since 1997 been engaged by certain companies in the Group to construct terminal buildings and a number of jetties which serve as the administrative and technical support offices and berthing facilities for the Group's vessels. Amounts charged to the Group for these services were approximately US\$0.6 million from 30 November 2000 to 31 December 2001 and shall not exceed US\$20 million in the period since the listing of the Company on 30 November 2000 to 31 December 2002.
 - (ii) Genting Berhad, a company in which Dato' Lim Kok Thay has a deemed interest and is also the managing director and shareholder, and its related companies provide certain services to the Group, including treasury services, secretarial services, certain information technology support services and various other support services. The Group also purchases air tickets from Resorts World Tours Sdn Bhd, a wholly-owned subsidiary of Resorts World Bhd, a subsidiary of Genting Berhad, from time to time. Amounts charged to the Group in respect of all these services totalled US\$1.6 million for the year ended 31 December 2001 and shall not exceed 1% of the Group's turnover for each of the three years ending 31 December 2002.
 - (iii) Certain Directors of the Company and the Group were granted call options entitling them to subscribe for ordinary shares in the share capital of the Company under The Star Cruises Employees Share Option Scheme. Call options granted are exercisable at the price of US\$0.2712 and US\$0.4550 per share.

Connected Transactions *(continued)*

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has granted a waiver to the Company from compliance with connected transactions requirements of the Listing Rules in respect of the continuing connected transactions (the “Continuing Connected Transactions”) above for a period of three years expiring on 31 December 2002 subject to the following conditions:

1. except in respect of the issuance of shares upon the exercise of options granted under The Star Cruises Employees Share Option Scheme under item (b) (iii) above, the Continuing Connected Transactions shall have been entered into, and the terms of the respective agreements governing such transactions shall be:
 - (a) entered into by the Group in the ordinary and usual course of its business;
 - (b) on normal commercial terms or on terms that are fair and reasonable so far as the Company’s shareholders are concerned; and
 - (c) in accordance with the terms of the agreements governing such transactions or on terms that are no more (or less) favourable than terms available to (or from) independent third parties;
2. as required by rule 14.25(1)(A) to (D) of the Listing Rules, brief details of the Continuing Connected Transactions shall be disclosed in the Company’s future annual reports together with a statement of the opinion of the Independent Non-executive Directors of the Company and the auditors of the Company referred to in paragraphs 3 and 4 below, if such transactions are conducted during the relevant period;
3. the Company’s Independent Non-executive Directors shall review annually the Continuing Connected Transactions and confirm in the Company’s annual report that such transactions, if any, are conducted in accordance with the terms of the relevant agreements governing such transactions (or, where there is no such agreement, in the manner as stated in paragraph 1 above) and where applicable, the Continuing Connected Transactions have been entered into within the limits stated in paragraph 4(c) and (d) below;
4. the Company shall engage its auditors, PricewaterhouseCoopers, to provide the Company’s Board of Directors with a letter in respect of each financial year during which the Continuing Connected Transactions are conducted, stating whether, in the opinion of the auditors:
 - (a) the Continuing Connected Transactions have been approved by the Company’s Board of Directors;
 - (b) the Continuing Connected Transactions have been entered into in accordance with the terms of the relevant agreements governing such transactions;
 - (c) the aggregate consideration paid to Kien Huat in respect of all outstanding construction contracts with Kien Huat since the Listing has not exceeded US\$20 million over the three financial years ending 31 December 2002; and
 - (d) the aggregate consideration paid in respect of the services provided by Genting Berhad and its affiliates in that financial year has not exceeded one per cent of the Group’s turnover;
5. Kien Huat, Genting Berhad and Resorts World Bhd shall undertake to the Company to provide the Company’s auditors with full access to their relevant records to the extent necessary for the auditors’ review of the above Continuing Connected Transactions.

The Audit Committee comprising of all the Independent Non-executive Directors of the Company has reviewed and confirmed that the Continuing Connected Transactions have been entered into by the Group in accordance with the waiver conditions granted by the Stock Exchange as stated in paragraph 3 above.

- (c) Item (c) of the related party transactions as disclosed in note 17 to the accounts, which also constitutes a connected transaction under the Listing Rules, falls within the exemption provisions under Listing Rule 14.24.

Directors' Interests in Competing Business

Dato' Lim Kok Thay, the Chairman, President and Chief Executive Officer of the Company, is the Managing Director of Genting Berhad and Resorts World Bhd, which are both substantial shareholders of the Company and companies listed on the Kuala Lumpur Stock Exchange. He is also the Chairman of Genting International PLC, a company listed on the Luxembourg Stock Exchange. Resorts World Bhd's principal activities include the operation of a tourist resort in Malaysia known as Genting Highlands Resort, along with other land-based Malaysian resorts, through its subsidiaries. Other activities of Resorts World Bhd cover leisure and hospitality which comprises amusement, gaming, hotel and entertainment. Genting International PLC's principal activities include the provision of sales and marketing services to resort related businesses. Resorts World Bhd and Genting International PLC are subsidiaries of Genting Berhad. Mr. William Ng Ko Seng is an alternate director on the Board of Directors of Genting International PLC.

The Group engages in cruise and cruise-related businesses. Resorts World Bhd, Genting International PLC and Genting Berhad, as set out above, are not engaged in cruise or cruise-related businesses. However, as the cruise industry forms a segment of the leisure industry, there may be indirect competition between the Group, Resorts World Bhd and Genting International PLC.

Dato' Lim Kok Thay and Mr. William Ng Ko Seng are therefore considered as having interests in business (the "Deemed Competing Business") apart from the Group's business, which may compete indirectly with the Group's business under paragraph 8.10 of the Listing Rules. The Company's management team is separate and independent from Resorts World Bhd, Genting International PLC and Genting Berhad. Coupled with the appointment of three Independent Non-executive Directors to the Board of Directors of the Company, the Group is capable of carrying on its business independent of and at arm's length from the Deemed Competing Business.

Directors' Interests in Equity Securities

As at 31 December 2001, the interests of the Directors in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance, Hong Kong ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares of US\$0.10 each in the Company

	Number of ordinary shares				Total
	Personal interests	Family Interests	Corporate interests	Other Interests	
Dato' Lim Kok Thay	5,615,000	23,247,990 ¹	23,247,990 ¹	3,647,723,812 ²	3,676,586,802
Mr. Chong Chee Tut	252,000	—	—	—	252,000
Mr. William Ng Ko Seng	87,500	—	—	—	87,500
Mr. David Colin Sinclair Veitch	275,000	—	—	—	275,000

Notes:

1. Deemed interest under family interest and corporate interest refers to the same block of 23,247,990 ordinary shares held by Goldsfine Investments Limited ("Goldsfine"). Each of Dato' Lim Kok Thay and his wife, Datin Wong Hon Yee holds 50% of the issued share capital of Goldsfine. This same block of 23,247,990 ordinary shares held by Goldsfine has not been duplicated in arriving at the total interest of Dato' Lim.
2. Deemed interests through Resorts World Limited, Golden Hope Limited and Joondalup Limited.

Certain Directors held qualifying shares in certain subsidiaries of the Company on trust for the Company and other subsidiaries.

Share Options are granted to the Directors under The Star Cruises Employees Share Option Scheme, details of which are set out in the section headed "Share Options" below and note 28 to the accounts.

Directors' Interests in Equity Securities *(continued)*

Save as disclosed above and in the sections headed "Substantial Shareholders" and "Share Options" below and in note 28 to the accounts:

- (a) at no time during the year, the Directors and the Chief Executive of the Company (including their spouse and children under 18 years of age) had any interest in, or exercised, any rights to subscribe for shares of the Company and its associated corporations within the meaning of the SDI Ordinance; and
- (b) at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2001, the register of substantial shareholders maintained by the Company under section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the Chief Executive of the Company.

Name of shareholder (Notes)	Number of ordinary shares	Percentage of shareholding
Parkview Management Sdn Bhd (1 and 8)	1,486,886,993	35.9
Kien Huat Realty Sdn Bhd (2 and 8)	1,486,886,993	35.9
Genting Berhad (3 and 8)	1,486,886,993	35.9
Resorts World Bhd (4 and 8)	1,486,886,993	35.9
Sierra Springs Sdn Bhd (5 and 8)	1,486,886,993	35.9
Resorts World Limited (5 and 8)	1,486,886,993	35.9
GZ Trust Corporation (6 and 9)	2,160,836,819	52.1
Golden Hope Limited (7 and 9)	2,160,836,819	52.1
Datin Wong Hon Yee (10)	3,676,586,802	88.7

Notes:

1. Parkview Management Sdn Bhd is a trustee of a discretionary trust ("Discretionary Trust"), the beneficiaries of which include certain members of Tan Sri Lim Goh Tong's family ("Lim Family").
2. Kien Huat Realty Sdn Bhd ("KHR") is a private company of which the Discretionary Trust, through Info-Text Sdn Bhd and Dataline Sdn Bhd controls more than one third of the voting power.
3. Genting Berhad is a company listed on the Kuala Lumpur Stock Exchange ("KLSE") in Malaysia of which KHR controls more than one third of the voting power.
4. Resorts World Bhd is a company listed on KLSE and is a subsidiary of Genting Berhad.
5. Sierra Springs Sdn Bhd and Resorts World Limited are companies which are wholly-owned subsidiaries of Resorts World Bhd.
6. GZ Trust Corporation is the trustee of various discretionary trusts established for the benefit of certain members of the Lim Family. These discretionary trusts are unit-holders of Golden Hope Unit Trust ("GHUT"), a private unit trust.
7. Golden Hope Limited is the trustee of GHUT.
8. The interests of persons named in Notes 1 to 5 in 1,486,886,993 ordinary shares relates to the same block of shares.
9. The interests of the persons named in Notes 6 and 7 in 2,160,836,819 ordinary shares relates to the same block of shares.
10. Datin Wong Hon Yee as the wife of Dato' Lim Kok Thay, has a family interest in the same block of 3,676,586,802 ordinary shares in which Dato' Lim has a deemed interest. Datin Wong also has a corporate interest in 23,247,990 ordinary shares held by Goldsfine by holding 50% of the issued share capital of Goldsfine.

Share Options

Details of the Company's share option plans are set out in note 28 to the accounts. Share Options are granted to Directors and employees under The Star Cruises Employees Share Option Scheme. Details of the share options granted under the said scheme and outstanding as at 31 December 2001 are as follows:

	Number of options outstanding at 1/1/2001	Number of shares acquired and exercise of options during the year	Number of options lapsed during the year	Number of options outstanding at 31/12/2001	Date granted	Exercise price per share	Exercisable Period
Dato' Lim Kok Thay (Director)	5,000,000	(2,500,000) ¹	—	2,500,000	25/5/1998	US\$0.2712	21/8/1999-20/8/2005
	3,625,000	—	—	3,625,000	24/3/1999	US\$0.2712	24/3/2002-23/3/2009
	1,375,000	—	—	1,375,000	24/3/1999	US\$0.4550	24/3/2002-23/3/2009
	1,000,000	—	—	1,000,000	23/10/2000	US\$0.2712	23/10/2003-22/8/2010
	3,625,000	—	—	3,625,000	16/11/2000	US\$0.2712	24/3/2002-23/3/2009
	1,375,000	—	—	1,375,000	16/11/2000	US\$0.4550	24/3/2002-23/3/2009
	250,000	—	—	250,000	16/11/2000	US\$0.2712	23/10/2003-22/8/2010
	16,250,000	(2,500,000)	—	13,750,000			
Mr. Chong Chee Tut (Director)	185,000	(37,000) ²	—	148,000	25/5/1998	US\$0.2712	20/12/2000-19/12/2005
	100,000	—	—	100,000	25/5/1998	US\$0.4550	23/6/2000-22/6/2007
	425,000	—	—	425,000	24/3/1999	US\$0.2712	24/3/2002-23/3/2009
	75,000	—	—	75,000	24/3/1999	US\$0.4550	24/3/2002-23/3/2009
	480,000	—	—	480,000	23/10/2000	US\$0.2712	23/10/2003-22/8/2010
	20,000	—	—	20,000	23/10/2000	US\$0.4550	23/10/2003-22/8/2010
	1,285,000	(37,000)	—	1,248,000			
Mr. William Ng Ko Seng (Director)	187,500	—	—	187,500	25/5/1998	US\$0.2712	21/8/2000-20/8/2005
	25,000	—	—	25,000	24/3/1999	US\$0.2712	24/3/2002-23/3/2009
	100,000	—	—	100,000	24/3/1999	US\$0.4550	24/3/2002-23/3/2009
	380,000	—	—	380,000	23/10/2000	US\$0.2712	23/10/2003-22/8/2010
	20,000	—	—	20,000	23/10/2000	US\$0.4550	23/10/2003-22/8/2010
	712,500	—	—	712,500			
Mr. David Colin Sinclair Veitch (Director)	1,000,000	—	—	1,000,000	7/1/2000	US\$0.4550	7/1/2003-6/1/2010

Share Options (continued)

	Number of options outstanding at 1/1/2001	Number of shares acquired and exercise of options during the year	Number of options lapsed during the year	Number of options outstanding at 31/12/2001	Date granted	Exercise price per share	Exercisable Period
All other employees	5,297,500	(292,500) ³	—	5,005,000	25/5/1998	US\$0.2712	21/8/1999-20/8/2005
	85,000	—	—	85,000	25/5/1998	US\$0.2712	20/12/2000-19/12/2005
	250,000	—	—	250,000	25/5/1998	US\$0.2712	11/3/2000-10/3/2007
	375,000	(187,500) ⁴	—	187,500	25/5/1998	US\$0.2712	6/1/2000-5/1/2007
	1,050,000	—	—	1,050,000	25/5/1998	US\$0.4550	23/6/2000-22/6/2007
	7,137,500	(130,000) ⁵	(183,000)	6,824,500	25/5/1998	US\$0.4550	6/1/2000-5/1/2007
	19,838,200	—	(1,337,550)	18,500,650	24/3/1999	US\$0.2712	24/3/2002-23/3/2009
	11,298,050	—	(815,200)	10,482,850	24/3/1999	US\$0.4550	24/3/2002-23/3/2009
	7,500	—	—	7,500	24/3/1999	US\$0.4550	24/3/2003-23/3/2005
	195,500	—	—	195,500	24/3/1999	US\$0.4550	24/3/2003-23/3/2004
	1,343,650	—	(67,500)	1,276,150	30/6/1999	US\$0.2712	30/6/2002-29/6/2009
	2,769,600	—	(157,500)	2,612,100	30/6/1999	US\$0.4550	30/6/2002-29/6/2009
	15,000	—	—	15,000	30/6/1999	US\$0.4550	30/6/2003-29/6/2004
	2,800,900	—	(450,000)	2,350,900	23/10/2000	US\$0.2712	23/10/2003-22/8/2010
	3,930,850	—	(507,000)	3,423,850	23/10/2000	US\$0.4550	23/10/2003-22/8/2010
	56,394,250	(610,000)	(3,517,750)	52,266,500			
Grand Total	75,641,750	(3,147,000)	(3,517,750)	68,977,000			

Notes:

- Exercise date was 20 August 2001. At the date before the options were exercised, the market closing value per share quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was HK\$4.275.
- Exercise date was 16 April 2001. At the date before the options were exercised, the market closing value per share quoted on the Stock Exchange was HK\$4.500.
- At the dates before the options were exercised, the weighted average market closing value per share quoted on the Stock Exchange was HK\$4.843.
- Exercise date was 13 February 2001. At the date before the options were exercised, the market closing value per share quoted on the Stock Exchange was HK\$6.100.
- At the dates before the options were exercised, the weighted average market closing value per share quoted on the Stock Exchange was HK\$5.747.

HK\$: Hong Kong dollars, the lawful currency of Hong Kong

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda.

Retirement Benefit Plans

Information on the Group's retirement benefit plans is set out in note 29 to the accounts.

Management Contracts

Save for the arrangements relating to the provision of services by Genting Berhad and its affiliates to the Group as set out in the section headed “Connected Transactions” above and in note 17 to the accounts, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Major Customers and Suppliers

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and the aggregate amount of turnover attributable to the Group’s five largest customers was less than 30% of the Group’s turnover.

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. This annual report has 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.

Practice Note 19 to the Listing Rules

As at 31 December 2001, the Company was a party to three loan agreements for an aggregate amount of approximately US\$1.8 billion. In February 2002, the Company signed an agreement with a syndicate of banks to provide up to US\$450 million in loans for refinancing one of the said loan agreements, the 5-year term loan (the “refinancing facility”). These four loan agreements carry terms ranging from five to sixteen years and require the Lim Family to retain a direct or indirect ownership interest of 51% or more in the Company during the terms of these loans.

The Group was in breach of two of the financial covenants under the 5-year term loan as at 31 December 2001. Please refer to note 20(iii) to the accounts for details of the breach and the refinancing facility. The refinancing facility will be drawdown within 45 days from the date of the agreement to repay the outstanding balance of the 5-year term loan in full. Accordingly, the said breach has no material adverse impact on the financial position of the Group.

Significant Subsequent Event

In February 2002, the Group signed an agreement with a syndicate of banks to provide up to US\$450 million in loans to refinance the 5-year term loan.

Auditors

The accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Dato’ Lim Kok Thay

Chairman, President and Chief Executive Officer

Hong Kong, 22 February 2002