Management's Discussion and Analysis

Financial Review

Turnover

The Group's revenue for the three months ended 31 March 2002 was US$368.0 million, up 9.7% from US$335.4 million for the three months ended 31 March 2001. The increase in revenue was on the back of a 15.5% capacity increase, despite a net yield decline of 8.3%, defined as net revenue per capacity day. Lower prices for the bookings taken in the first few months subsequent to the terrorist attacks of 11 September 2001 as well as the lower occupancies for the longer itinerary ships have resulted in a decline in yield during the three months ended 31 March 2002.

For the three months ended 31 March 2002, Star Cruises operated with 19.3% less capacity days, compared to the three months ended 31 March 2001. Yield was 2.7% lower as a result of the slowing Asia economies versus the same period in 2001. The 19.3% decline in capacity days was primarily due to cessation of cruise operations in Taiwan and Japan as part of the overall reconsolidation strategy following 11 September events. This was partially offset by the introduction into service of Wasa Queen in September 2001.

NCL Group (which consists of Norwegian Cruise Line and Orient Lines brands) recorded an increase in capacity days of 40.6% for the three months ended 31 March 2002 compared to the three months ended 31 March 2001. Yield was lower by 6.0%. The increase in capacity days was primarily due to the introduction into service of M/S Norwegian Sun in August 2001 and m.v. Norwegian Star in December 2001.

Cost and expenses

Total costs and expenses before interest and non-operating items for the three months ended 31 March 2002 amounted to US$336.7 million as compared with US$309.3 million for the three months ended 31 March 2001.

The ship operating expenses excluding costs such as commissions and air tickets as they are already factored into the net revenue yield, were 8.6% lower for the three months ended 31 March 2002 on a per capacity day basis as compared with the same period in 2001. This reduction in the ship operating expenses was achieved through cost control initiatives implemented in 2001, and the rationalisation of its cruise operations in North Asia in November 2001 following the 11 September events. The ship operating costs during the first half of 2001 were higher than in the previous year as the Group incurred higher costs in the introduction of the Freestyle Cruising concept to ensure its early success and in upgrading the safety level for the fleet of NCL Group. As the ship operation becomes comfortable with this new approach, the hotel manning costs have been scaled back.

As the cost control measures put in place over the year take effect, the selling, general and administrative expenses decreased 19.1% per capacity day for the three months ended 31 March 2002 as compared with the same period of 2001. The Group also benefited from the economies of scales as a result of increased capacity with the introduction of Norwegian Sun and Norwegian Star in the second half of 2001. Additionally, the merging of the shoreside operations of Orient Lines and NCL during the last quarter of 2001 has also created further scale economies.

Depreciation and amortisation expenses increased US$6.6 million from US$36.1 million for the three months ended 31 March 2001 to US$42.7 million for the three months ended 31 March 2002. The increase was primarily due to additional depreciation associated with the addition of ships and ship refurbishment expenditure during the period.

Operating profit

Operating profit increased 20.3% from US$26.1 million for the three months ended 31 March 2001 to US$31.4 million for the three months ended 31 March 2002. The result for the quarter was boosted by greater scale economies with the addition of two new ships in Norwegian Cruise Line as well as the effect of stringent cost control measures put in place over the past year.

Non-operating income/(expense)

Non-operating expenses was marginally higher by 6.6% to US$30.6 million for the three months ended 31 March 2002 from US$28.7 million for the three months ended 31 March 2001. During the three months ended 31 March 2002, the Group recorded losses on the extinguishment of debts in the amount of approximately US$5.9 million. The increase in these non-operating expenses were partially offset by the benefits of lower interest rates.

Profit before taxation

Profit before taxation for the three months ended 31 March 2002 was US$0.8 million, as compared to a loss of US$2.6 million for the three months ended 31 March 2001.

Taxation

The Group incurred taxation expenses of US$0.1 million for the three months ended 31 March 2002 as compared with US$2.4 million taxation benefit for the same period in 2001.

Management's Discussion and Analysis *(Continued)*

Financial Review *(Continued)*

Net profit attributable to shareholders

As a result of the changes in revenues and expenses, the Group recorded a net profit attributable to shareholders of US$0.7 million for the three months ended 31 March 2002.

Liquidity and capital resources

Sources and uses of funds

The majority of the cash and cash equivalents are held in U.S. dollars. For the three months ended 31 March 2002, cash and cash equivalents decreased slightly to US$170.4 million from US$171.6 million as at 31 December 2001. The Group's business provided US$67.5 million of cash from operations for the three months ended 31 March 2002 as compared to US$61.3 million for the three months ended 31 March 2001.

During the three months ended 31 March 2002, the Group's capital expenditures were approximately US$16.4 million. A substantial portion of capital expenditures was related to the costs for vessel refurbishments and onboard assets.

During the three months ended 31 March 2002, the Group made scheduled principal repayments of US$17.4 million in relation to its long-term bank loans. In March 2002, the Group refinanced the outstanding balance of the 5-year syndicated term loan through a drawndown of US$450 million under the US$450 million syndicated term loan agreement signed in February 2002.

Prospects

The Group is now looking forward to the delivery of Norwegian Dawn in December of this year. The Group has announced the deployment of this vessel and she is now open for sale through the spring of 2004. Norwegian Dawn will spend the winter and spring based in Florida conducting East and West Caribbean 7-day cruises and between May and October she will be based in New York offering a unique itinerary that takes her high speed and which includes two ports in the Bahamas and two ports in Florida. This New York deployment builds upon a programme that has been developing since summer 2001 on Norwegian Sea and the Group is hopeful that the success it has had on that smaller ship can be scaled up to this larger more attractive ship.

In Asia Pacific, the Group had taken the initial step to penetrate and develop the largely untapped Chinese market following the liberalisation and the improving economic sentiments in North Asia, by deploying the Wasa Queen to provide a cruise ferry service between Xiamen and Hong Kong in March this year. This will be further boosted by the deployment of a second ship, the SuperStar Gemini in May 2002 to service the North China - Korea cruise sector. The Group is cautiously optimistic on the contribution from this new market but it should be noted that it would take time to develop the market. As an indication, it took the Group about two years each to develop its core markets in Singapore and Hong Kong.

Barring unforeseen circumstances, the Group expects that its performance to be satisfactory for the remainder of this year.

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 2001.