Management's Discussion and Analysis

Three months ended 30 June 2002 as compared with three months ended 30 June 2001

Turnover

The Group's revenue for the three months ended 30 June 2002 was US$389.8 million, up 19.1% from US$327.2 million for the three months ended 30 June 2001. During this quarter, capacity increase with improved net revenue yield drove the revenue growth. Net revenue yield is defined as net revenue per capacity day after deducting such costs as commissions and air tickets. Net revenue yield in the second quarter improved significantly from an 8.3% decline experienced in the first quarter to an increase of 1.6% in the second quarter despite the disruption to the bookings cycle from the events of 11 September.

Star Cruises Asia Pacific operated with 6.8% less capacity days in the three months ended 30 June 2002 compared to the three months ended 30 June 2001. The decline in capacity days was primarily due to cessation of cruise operations in Japan resulted in the early return of SuperStar Taurus early this year. In addition, Norwegian Star 1 was also returned to her owner in May 2002. This was partially offset by the introduction of Wasa Queen in September 2001 and the rejoining of SuperStar Capricorn into the fleet in January this year. SuperStar Capricorn was previously chartered to a third party. A 3.9% higher net revenue yield was achieved in the second quarter, reflecting more favourable business conditions regionally.

NCL Group (which consists of Norwegian Cruise Line and Orient Lines brands) recorded an increase in capacity days of 30.6% for the three months ended 30 June 2002 as compared to the three months ended 30 June 2001. The increase in capacity days was primarily due to the introduction into service of the purpose built "Freestyle Cruising" ships M/S Norwegian Sun and m.v. Norwegian Star in second half of last year. Net revenue yield was higher by 3.3%.

Cost and expenses

Total costs and expenses before interest and non-operating items for the three months ended 30 June 2002 amounted to US$339.0 million as compared with US$297.8 million for the three months ended 30 June 2001.

The ship operating expenses excluding costs such as commissions and air tickets as they are already factored into the net revenue yield, was 3.8% lower on a per capacity day basis for the three months ended 30 June 2002 as compared with the same period in 2001. The ship operating expenses on a per capacity day basis dropped despite an increase in fuel costs, mainly attributable to the savings from cost control initiatives implemented in 2001, and the rationalisation of its cruise operations in November 2001 following the 11 September events.

Included in the selling, general and administrative expenses for the three months ended 30 June 2002 was a net other expense of US$2.9 million. This amount was primarily consisted of an additional liability of US$5.4 million mainly in relation to the arbitration settlement award for damages relating to the re-delivery of M/S Leeward (see note 11 to the accounts) and the write back of US$2.5 million in over-provision relating to the early re-delivery of M/S Norwegian Star 1.

Excluding the net other expenses of US$2.9 million mentioned above, the selling, general and administrative expenses also reduced on a per capacity day basis for the three months ended 30 June 2002 as compared with the same period in 2001. The Group continued to enjoy the benefits from the economies of scale as a result of increased capacity with the introduction of Norwegian Sun and Norwegian Star in the second half of 2001. Furthermore, the Group merged the shoreside operations of Orient Lines and NCL during the last quarter of 2001 which together with cost control measures drove the selling, general and administrative costs down by 12.3% on a per capacity day basis in this quarter from the same quarter a year ago.

Depreciation and amortisation expenses increased US$5.7 million from US$37.8 million for the three months ended 30 June 2001 to US$43.5 million for the three months ended 30 June 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 72.2% from US$29.5 million for the three months ended 30 June 2001 to US$50.7 million for the three months ended 30 June 2002. The results for the quarter were achieved on the back of a 15.9% higher capacity and a 1.6% increase in net revenue yield whilst occupancy remained at 98%. In addition, operating, selling, general and administrative expenses (excluding net other expenses) per capacity day was 6.3% lower through greater scale economies from the increased capacity and as cost savings accrue from stringent cost control measures taken in 2001.

Non-operating income/(expense)

Non-operating expenses were marginally higher by 8.6% at US$28.0 million for the three months ended 30 June 2002 compared with US$25.8 million for the three months ended 30 June 2001. During the three months ended 30 June 2002, the Group incurred a non-cash loss on foreign exchange amounting to US$2.8 million as compared to a non-cash gain on foreign exchange of US$1.9 million in the second quarter of 2001. The non-cash loss resulted primarily from the strengthening of the Singapore dollar against the US dollar during the quarter. Net interest expenses for the three months ended 30 June 2002 reduced compared with the same period last year as the Group benefited from the lower interest rates.

Profit before taxation

Profit before taxation for the three months ended 30 June 2002 was US$22.7 million, as compared to US$3.7 million for the three months ended 30 June 2001.

Taxation

The Group incurred taxation expenses of US$0.5 million for the three months ended 30 June 2002 as compared with US$2.9 million for the same period in 2001.

Net profit attributable to shareholders

As a result of improved net revenue yield and lower operating cost per capacity day, the Group recorded a net profit attributable to shareholders of US$22.3 million for the three months ended 30 June 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 30 June 2002, cash and cash equivalents increased to US$334.2 million from US$170.4 million as at 31 March 2002. The Group's business provided US$113.6 million of net cash from operations for the three months ended 30 June 2002 as compared to US$76.0 million for the three months ended 30 June 2001.

During the three months ended 30 June 2002, the Group's capital expenditure was approximately US$15.7 million. A substantial portion of capital expenditure was for vessel refurbishments and onboard assets.

In June 2002, the Group issued approximately 189 million new ordinary shares at the price of HK$3.30 (US$0.42) per share to an existing shareholder in a top-up share placement. As at 30 June 2002, the net proceeds of US$77.3 million remained on deposit with banks and will be used as general working capital and for the acquisition or construction of the vessel(s).

The Group made scheduled principal repayments of US$10.4 million in relation to its long-term bank loans during the three months ended 30 June 2002.

Six months ended 30 June 2002 as compared with six months ended 30 June 2001

Turnover

The Group's revenue for the six months ended 30 June 2002 was US$757.8 million, up 14.4% from US$662.6 million for the six months ended 30 June 2001. During the first six months, capacity increased 15.7% with the addition of two new ships in Norwegian Cruise Line. Net revenue yield deterioration for the six months ended 30 June 2002 following the 11 September incident was lower than previously expected at 3.4% compared with same period last year.

Star Cruises Asia Pacific operated with 13.3% less capacity days in the six months ended 30 June 2002 compared to the six months ended 30 June 2001. The decline in capacity days was primarily due to cessation of cruise operations in Japan and the cessation of the Taiwan operations in the first quarter of this year. In addition, the reduction in capacity days was also due partly to the disposal of Star Aquarius, MegaStar Sagittarius and MegaStar Capricorn in the first quarter last year. This was partially offset by the introduction of Wasa Queen in September 2001 and the rejoining of SuperStar Capricorn into the fleet in January this year. Net revenue yield was essentially unchanged as compared with the same period a year ago.

NCL Group recorded an increase in capacity days of 35.5% for the six months ended 30 June 2002 as compared to the six months ended 30 June 2001. The increase in capacity days was primarily due to the introduction into service of M/S Norwegian Sun and m.v. Norwegian Star in second half of last year. Net revenue yield was down by 1.4%.

Cost and expenses

Total costs and expenses before interest and non-operating items for the six months ended 30 June 2002 amounted to US$675.7 million as compared with US$607.0 million for the six months ended 30 June 2001.

The ship operating expenses excluding costs such as commissions and air tickets was 6.3% lower on a per capacity day basis for the six months ended 30 June 2002 as compared with the same period in 2001. The ship operating expenses on a per capacity day basis dropped mainly attributable to the savings accrue from cost control initiatives implemented in 2001, and the rationalisation of its cruise operations in November 2001 following the 11 September events.

Included in the selling, general and administrative expenses for the six months ended 30 June 2002 was a net other expense of US$2.9 million. This amount was primarily consisted of an additional liability of US$5.4 million mainly in relation to the arbitration settlement award for damages relating to the re-delivery of M/S Leeward (see note 11 to the accounts) and the write back of US$2.5 million in over-provision relating to the early re-delivery of M/S Norwegian Star 1.

Management's Discussion and Analysis *(Continued)*

Cost and expenses *(Continued)*

Excluding the net other expenses of US$2.9 million mentioned above, the selling, general and administrative expenses also reduced on a per capacity day basis for the six months ended 30 June 2002 as compared with the same period of 2001. The Group continued to enjoy the benefits from the economies of scale from the increase in capacity with the introduction of Norwegian Sun and Norwegian Star in the second half of 2001. Furthermore, the Group merged the shoreside operations of Orient Lines and NCL during the last quarter of 2001 which together with cost control measures drove the selling, general and administrative costs down by 15.7% on a per capacity day basis in this first six months of 2002 against the same period a year ago.

Depreciation and amortisation expenses increased US$12.3 million from US$73.9 million for the six months ended 30 June 2001 to US$86.2 million for the six months ended 30 June 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 47.7% from US$55.6 million for the six months ended 30 June 2001 to US$82.1 million for the six months ended 30 June 2002. The results for the six months were achieved on the back of a 15.7% higher capacity despite a reduction of 3.4% in net revenue yield whilst occupancy remained at 96%. In addition, operating, selling, general and administrative expenses (excluding the net other expenses) per capacity day was 9.0% lower through greater economies of scale from the increased capacity and as cost savings accrue from stringent cost control measures taken in 2001.

Non-operating income/(expense)

Non-operating expenses was marginally higher by 7.5% to US$58.6 million for the six months ended 30 June 2002 from US$54.5 million for the six months ended 30 June 2001. During the six months ended 30 June 2002, the Group incurred a non-cash loss on foreign exchange amounted to US$3.4 million as compared to a non-cash gain on foreign exchange of US$7.5 million in the same period last year. The non-cash loss resulted primarily from the strengthening of the Singapore dollar against the US dollar during the six months ended 30 June 2002. The Group also recorded losses on extinguishment of debts of approximately US$5.9 million in the six months ended 30 June 2002. Net interest expenses for the six months ended 30 June 2002 reduced compared with same period last year as the Group benefited from the lower interest rates.

Profit before taxation

Profit before taxation for the six months ended 30 June 2002 was US$23.5 million, as compared to US$1.1 million for the six months ended 30 June 2001.

Taxation

The Group incurred taxation expenses of US$0.5 million for the six months ended 30 June 2002 essentially the same as compared with the same period in 2001.

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$23.0 million for the six months ended 30 June 2002.

Liquidity and capital resources

Sources and uses of funds

For the six months ended 30 June 2002, cash and cash equivalents increased to US$334.2 million from US$171.6 million as at 31 December 2001. The Group's business provided US$155.7 million of net cash from operations for the six months ended 30 June 2002 as compared to US$107.3 million for the six months ended 30 June 2001.

During the six months ended 30 June 2002, the Group's capital expenditure was approximately US$32.1 million. A substantial portion of capital expenditure was for vessel refurbishments and onboard assets.

In June 2002, the Group issued approximately 189 million new ordinary shares at the price of HK$3.30 (US$0.42) per share to an existing shareholder in a top-up share placement. As at 30 June 2002, the net proceeds of US$77.3 million remained on deposit with banks and will be used as general working capital and for the acquisition or construction of the vessel(s).

The Group made scheduled principal repayments of US$27.8 million in relation to its long-term bank loans during the six months ended 30 June 2002. 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.

Management's Discussion and Analysis *(Continued)*

Prospects

During the second quarter this year, NCL announced the 2003 deployment of Norwegian Sun to Seattle to become the third ship in our Alaska fleet. NCL also was able to move Norwegian Wind in Vancouver from her traditional Monday slot into a vacated Sunday slot, which means all three of its Alaska ships will now have weekend departure days. As NCL has focused the three ships solely on the round-trip Inside Passage itinerary, this will also mean that NCL will be the leading line by capacity in this, the more popular of the two Alaska cruise itineraries.

NCL also recently announced, in a further development to its Homeland Cruising program, that it has been successful in securing a second license to sail to Bermuda from the northeast on weekend departures. There are five such licenses, limited by Bermuda's own cruise tourism policy. This second license will allow NCL to offer Bermuda cruises from both New York and Philadelphia from summer 2003 onwards, in addition to the cruises it currently offers from Boston on the first of the two licenses. The contract with Bermuda will give NCL this New York/Philadelphia license for three years and extend the current Boston license, which was due to expire at the end of 2003, for a further three years through 2006. With two of the largest ships in the Bermuda market, NCL will be the brand with the leading capacity in this important summer market in the northeast. With the addition of Norwegian Dawn in New York offering Bahamas cruises, also next summer, NCL will carry more passengers on cruises out of northeastern US departure points (Boston, New York and Philadelphia) in 2003 than any other brand.

In Asia Pacific, Star Cruises will continue to develop the largely untapped Chinese market. The rapidly growing number of outbound passengers from China which registered a 31% increase in first half of 2001 as compared with first half of 2000, and a 128% increase for the first six months of 2002 as compared with the same period in 2001, augurs well for the two ships which are currently deployed to penetrate the homeland cruising China market. Wasa Queen is currently providing a cruise ferry service between Xiamen and Hong Kong and SuperStar Gemini services the North China - South Korea cruise sector.

For the Group as a whole, with the cost control measures on target and barring unforeseen circumstances, the Group expects that its performance to be satisfactory for the remainder of this year.

Other than as disclosed above and elsewhere in this interim report, 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 and the interim report for the three months ended 31 March 2002.