1. Basis of Preparation and Principal Accounting Policies

(A) Basis of Preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The preparation of accounts in conformity with generally accepted accounting principles 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 accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") 35 "Government Grants and Disclosure of Government Assistance" and SSAP 12 "Income Taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

Where necessary, comparative figures have been reclassified to conform to the current year's presentation.

Future funding

Loan covenant breaches

In April 2003, Ship Holding LLC, a Group subsidiary, entered into agreements with a syndicate of banks to obtain €298 million term loan (the "Term Loan"), equivalent to US$363.5 million as at 31 December 2003, to part finance the completion of the Pride of America vessel (the "Vessel"). As at 31 December 2003, approximately US$150 million was drawn down to pay installments to the shipyard under the construction contract. In January 2004, while in the final stages of construction, the Vessel suffered damage during a severe storm resulting in a significant delay in the expected delivery date of the Vessel to the Group and subsequently the shipyard was placed under receivership. Due to certain clauses in the Term Loan agreements, the lenders under these agreements may be entitled to accelerate the loan in which case the facility would be immediately repayable at call. Consequently the Term Loan amount drawn down as at 31 December 2003 has been classified as current in the Group's balance sheet. Management is now in the process of seeking a waiver from the syndicate of banks and expects to obtain such a waiver.

Due to the ability of the lenders of the Term Loan to accelerate repayment of the Term Loan, one of the Group's other loans (the "US$450 million term loan") could be deemed to be in default due to cross default clauses contained in this loan facility agreement whilst other loans of the Group would be deemed to be in default in the event that the lenders accelerate repayment of the Term Loan. Although the relevant lenders at the date of this report have not designated the US$450 million term loan as being in default, nevertheless, in accordance with Hong Kong GAAP, long-term portion outstanding of US$337.5 million in respect of the US$450 million term loan that currently could be deemed to be in default has been classified as current in the Group's and Company's balance sheets. Management is confident that the potential deemed defaults will be remedied by obtaining the necessary waivers from lenders or by taking other measures necessary to satisfactorily address this matter.

Loan refinancing

NCLL has a reducing revolving credit facility with a syndicate of banks that originally provided for borrowings of up to US$623 million (the "Facility"). The total outstanding amount under this facility as at 31 December 2003 was US$403.2 million, which includes a scheduled and balloon payment of US$363.8 million due on 15 December 2004.

It is the intention of the Group to refinance the Facility in the normal course of business. As such, the Facility would be refinanced prior to the due date of the balloon payment. In February 2004, the Group accepted an offer from a syndicate of banks to act as underwriters for a US$400 million Reducing Revolving Credit Facility (the "Proposed Facility") to refinance the Facility. The offer is subject to acceptable documentation and satisfaction of certain other conditions. The offer can be withdrawn for various reasons including if facility agreements are not entered into by 31 March 2004 or if in the opinion of the syndicate there is a material adverse change that has or could affect the Group's financial condition, business or ability to meet its obligations under the Proposed Facility. Management is working with the syndicate to finalise and draw down the Proposed Facility and is confident that the refinancing will be in place prior to the due date of the balloon payment.

The Proposed Facility will be repayable in 14 equal installments payable at six-monthly intervals commencing six months from the first draw down under the facility with a balloon payment at the end of the tenure. The Proposed Facility will bear interest at LIBOR plus a margin.

Please refer to note 21 for details of the long-term bank loans of the Group.

1. Basis of Preparation and Principal Accounting Policies *(continued)*

(A) Basis of Preparation *(continued)*

Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to the end of the year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(B) Principal Accounting Policies

(a) Intangible assets

Intangible assets consist of goodwill, trade names and trademarks. Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable assets and liabilities of subsidiaries and associated companies acquired, is recognised as an asset and amortised by equal annual instalments over its estimated useful economic life of 40 years. Negative goodwill which represents the excess, as at the date of acquisition, of the Group's interests in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition is included in the balance sheet under "intangible assets" and is recognised in the profit and loss account over 26 years, the remaining weighted average useful life of the non-monetary assets acquired.

Trade names and trademarks of Norwegian Cruise Line and Orient Lines recorded on acquisition of NCL Holding ASA ("NCL") are being amortised on a straight-line basis over their estimated useful economic lives of 40 years.

The Group is currently amortising goodwill and trade names and trademarks over useful lives of 40 years which is in excess of the rebuttable presumption in SSAP 29 "Intangible Assets" and SSAP 30 "Business Combinations" that the useful lives of such assets should not exceed 20 years.

(i) The Group amortises goodwill on a straight-line basis over 40 years. The Group believes that 40 years is a reasonable estimate of the useful lives of this goodwill as NCL business has been in operation since the 1960s and operates in a market that is expected to grow and in which there are barriers to entry given the major capital investment required.

(ii) Trade names and trademarks of Norwegian Cruise Line and Orient Lines recorded on the acquisition of NCL is being amortised on a straight-line basis over 40 years. The Group considers that 40 years is a reasonable estimate of the useful live of these assets as the trade names and trademarks have already been in existence for many years (since 1960s). In addition, the Group incurs and intends to continuously incur significant advertising expenditure which supports the selection of a long useful life for these assets.

As the Group amortises goodwill and intangible assets over a period exceeding twenty years, the recoverable amounts of goodwill and intangible assets are assessed annually (See note 1(B)(w)).

The Group completed the annual impairment test in December 2003 and determined that the trade names and trademarks of Orient Lines were impaired. As a result, the Group recorded an impairment loss of US$19 million related to the Orient Lines trade names and trademarks during the year ended 31 December 2003.

1. Basis of Preparation and Principal Accounting Policies *(continued)*

(B) Principal Accounting Policies *(continued)*

(b) Translation of foreign currencies

Transactions in currencies other than US dollars ("foreign currencies") are translated into US dollars at exchange rates in effect at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated at exchange rates at the balance sheet date.

All such exchange differences are reflected in the consolidated profit and loss account.

For those subsidiaries which do not have the US dollar as their reporting currency, translation of their foreign currency accounts is dealt with as follows:

(i) assets and liabilities are translated at exchange rates at the balance sheet date; and

(ii) income and expense items are translated at average exchange rates prevailing during the year.

The resulting translation gains and losses arising from remeasurement are included as a separate component of reserve, "Foreign currency translation adjustment".

(c) Revenue and expense recognition

Revenues are recognised when the relevant services have been rendered. Cruise revenue, and all associated direct costs of a voyage, are generally recognised on a pro rata basis over the period. Where services are provided on credit, ongoing credit evaluations are performed and potential credit losses are expensed at the time accounts receivable are estimated to be uncollectible.

Income from charter-hire is recognised evenly over the period of the charter-hire.

Deposits received from customers for future voyages are recorded as advance ticket sales until such passenger revenue is earned.

Interest income and expense is recognised on a time proportion basis, taking into account the principal amount outstanding and the interest rates applicable.

(d) Drydocking expenses

Drydocking costs represent major inspection and overhaul costs and are depreciated to reflect the consumption of benefits, which are to be replaced or restored by the subsequent drydocking generally every two to three years. The Group has included these drydocking costs as a separate component of the ship costs in accordance with revised SSAP 17 "Property, Plant and Equipment".

(e) Advertising costs

The Group's advertising costs are generally expensed as incurred. Costs incurred that result in tangible assets, including brochures are treated as prepaid supplies and expensed as consumed.

(f) Start up expenses

Start up expenses, which primarily comprise expenses of deploying a ship from the dockyard to its port of operations and repositioning a ship to develop a new market, including crew payroll and ship expenses, are expensed as incurred and included in operating expenses. Marketing expenses incurred during this period are included in selling, general and administrative expenses.

1. Basis of Preparation and Principal Accounting Policies *(continued)*

(B) Principal Accounting Policies *(continued)*

(g) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against the temporary differences can be utilised.

In prior years deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 did not have any material effect on the results and financial position of the Group.

(h) Cash and cash equivalents

Cash and cash equivalents include investments with original maturities of three months or less that are readily convertible to known amounts of cash with no significant risk of changes in value and are stated at cost which approximates market value.

(i) Restricted cash

Restricted cash consists of cash collateral in respect of certain loan agreements, letters of credit and other obligations including requirements imposed by the Group's bank card processor.

(j) Loan arrangement fees

Costs incurred in connection with the arranging of loan financing have been deferred and amortised on a straight-line basis over the life of the loan agreement. The unamortised amount, which is to be amortised within one year is included in prepaid expenses and others. The remaining amount is included in other assets.

(k) Convertible bonds

Convertible bonds are regarded as liabilities unless conversion actually occurs. The finance cost recognised in the profit and loss account in respect of convertible bonds is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible bonds for each accounting period.

The costs incurred in connection with the issue of convertible bonds are deferred and amortised on a straight line basis over the lives of the convertible bonds from the date of issue of the bonds to their final redemption date. If any of the bonds are redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to profit and loss account.

(l) Consumable inventories

Consumable inventories mainly consist of provisions, supplies and engine and ship spare parts and are carried at the lower of cost, determined on a weighted average basis, and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(m) Software development costs

Deferred software development costs consist principally of salaries and fringe benefits of certain programmers and system analysts and outside consultant fees incurred in connection with the enhancement of significant internal data processing systems. These costs are recognised as an asset and amortised when the software is available for use using the straight-line method over their estimated useful lives, not exceeding ten years.

1. Basis of Preparation and Principal Accounting Policies *(continued)*

(B) Principal Accounting Policies *(continued)*

(n) Provisions, contingent liabilities and contingent assets

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, the asset is recognised.

(o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payments applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(p) Fixed assets

Fixed assets are stated at cost less accumulated depreciation except for land, leasehold land, jetties, terminal buildings and improvements which are stated at valuation less accumulated depreciation. Significant cruise ship refurbishing costs are capitalised as additions to the cruise ship while costs of repairs and maintenance are expensed as incurred.

Cruise ships, catamaran and passenger ferry are depreciated to their estimated residual value on a straight-line basis over periods ranging from 13 to 30 years. Other assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold land	30 - 99 years
Jetties and terminal buildings	28 - 99 years
Equipment and motor vehicles	3 - 20 years

No depreciation is provided on fixed assets which are under construction. The Group capitalises interest on cruise ships, catamaran and other capital projects during the period required to get such assets ready for their intended use. Interest capitalisation ceases when the asset is substantially complete.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account. Any revaluation reserve balance attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

1. Basis of Preparation and Principal Accounting Policies *(continued)*

(B) Principal Accounting Policies *(continued)*

(q) Financial instruments

The Group enters into derivative instruments, primarily forward contracts and interest rate swaps to limit its exposures to fluctuations in foreign currency exchange rates, and to modify its exposure to interest rate movements and to manage its interest costs.

The Group uses forward contracts to manage foreign currency exchange rate risk related to certain projected cash flows and foreign currency firm commitments. These instruments are carried at fair value on the balance sheet. Changes in the fair value of forward contracts are recognised in the profit and loss account. Changes on the market value of forward contracts that hedge foreign currency commitments to complete the construction of a cruise ship are deferred and included in the cost of the ship when the commitment is paid.

Interest rate swaps allow the Group to convert long-term borrowings from floating rates and swap them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amount. The differential in interest rates to be paid or received under interest rate swaps is recognised during the financial year in the consolidated profit and loss account as part of interest expense. These instruments are carried at fair value on the balance sheet. Changes in the fair value of the interest rate swaps are deferred, included as a separate component of reserves, and recognised in the profit and loss account as the underlying hedged items are recognised.

(r) Share option expense

The Group accounts for compensation expense in respect of the award of 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. The excess has been treated as additional paid in capital and is recognised as an expense over the option periods. The unamortised amount is included as a separate component of reserves.

(s) Earnings per share

Basic earnings per share is computed by dividing net profit by the weighted average number of ordinary shares outstanding during each year. Fully diluted earnings per share is computed by dividing net profit by the weighted average number of ordinary shares, potential ordinary shares and other potentially dilutive securities outstanding during each period.

(t) Retirement benefit costs

Contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave employment before being fully vested. The amount of forfeiture depends on how much the employee is vested at the time of departure. The assets of these schemes are held separately from those of the Group.

Expenses in respect of a retirement scheme providing benefits based on final pay are charged to the profit and loss account in the period to which they relate. The pension obligations, which are wholly unfunded, are determined based on the estimates of the effects of future events on the actuarially determined net present value of accrued pension obligations and are determined by a qualified actuary on a regular basis. Actuarial gains and losses are recognised as an expense over the average remaining service lives of employees.

1. Basis of Preparation and Principal Accounting Policies *(continued)*

(B) Principal Accounting Policies *(continued)*

(u) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employee. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(w) Recoverability of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets, goodwill and other intangible assets, trade names and trademarks are impaired. If any indication of impairment of an asset exists, and annually for goodwill and other intangible assets (as such assets are being amortised over 40 years (see note 1(B)(a)), the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for the same asset, in which case it is treated as a revaluation decrease. Assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The Group measures the amount of the impairment by comparing the carrying amount of an asset to its recoverable amount which is the higher of an asset's net selling price or its value in use. The Group estimates recoverable amount based on the best information available making whatever estimates, judgements and projections considered necessary. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties less costs of disposal. The estimation of value in use is measured using various financial modeling techniques such as discounting future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life at discount rates which commensurate with the risk involved.

(x) Segment reporting

The Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, intangible assets other than goodwill, inventories, receivables and cash and cash equivalents. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and intangible assets other than goodwill including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, turnover is based on the country in which the customer is located.

2. Turnover, Operating Profit/(Loss) and Segment Information

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 operation of a catamaran to a third party customer.

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

2003	**Cruise and cruise related activities**	**Charter hire**	**Total**
	US$'000	**US$'000**	**US$'000**
Turnover	1,615,724	2,484	1,618,208
Operating profit/(loss) before impairment loss	79,222	(173)	79,049
Impairment loss	(81,852)	(17,693)	(99,545)
Operating loss after impairment loss	(2,630)	(17,866)	(20,496)
Interest income			2,613
Financial costs			(93,804)
Other non-operating expenses, net			(11,123)
Loss before taxation			(122,810)
Taxation			(1,663)
Net loss for the year			(124,473)
Segment assets	4,288,630	15,066	4,303,696
Goodwill	377,095		377,095
Other unallocated assets			115,200
Total assets			4,795,991
Segment liabilities	531,456	605	532,061
Tax liabilities			1,621
Convertible bonds			180,000
Long-term bank loans			2,273,793
Total liabilities			2,987,475
Capital expenditure	325,469	92	325,561
Depreciation and amortisation	195,164	2,185	197,349

2. Turnover, Operating Profit/(Loss) and Segment Information *(continued)*

2002	**Cruise and cruise related activities**	**Charter hire**	**Total**
	US$'000	**US$'000**	**US$'000**
Turnover	1,570,507	3,081	1,573,588
Operating profit	160,510	332	160,842
Interest income			3,325
Financial costs			(99,326)
Other non-operating expenses, net			(12,435)
Profit before taxation			52,406
Taxation			(1,475)
Net profit for the year			50,931
Segment assets	4,133,351	32,627	4,165,978
Goodwill	338,788		338,788
Other unallocated assets			253,931
Total assets			4,758,697
Segment liabilities	503,453	228	503,681
Tax liabilities			1,461
Long-term bank loans			2,434,025
Total liabilities			2,939,167
Capital expenditure	420,648	11	420,659
Depreciation and amortisation	173,866	2,300	176,166

2. Turnover, Operating Profit/(Loss) and Segment Information *(continued)*

The Group's turnover, operating profit/(loss) and assets in its principal markets of Asia Pacific and North America are analysed as follows:

2003	**Turnover**	**Operating profit/(loss)**	**Total assets**	**Capital expenditure**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Asia Pacific	409,963	(44,882)*	1,081,389	36,120
North America (note)	1,099,686	26,109*	3,222,307	289,441
Others	108,559	6,685	—	—
	1,618,208	(12,088)	4,303,696	325,561
Goodwill		(8,408)	377,095	
Other unallocated assets		—	115,200	
		(20,496)	4,795,991	

* Included in the operating profit/(loss) of Asia Pacific and North America segments were impairment losses of US$77.3 million and US$22.2 million respectively.

2002	**Turnover**	**Operating profit**	**Total assets**	**Capital expenditure**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Asia Pacific	466,696	93,868	1,201,591	29,850
North America (note)	1,015,474	69,738	2,964,387	390,809
Others	91,418	6,351	—	—
	1,573,588	169,957	4,165,978	420,659
Goodwill		(9,115)	338,788	
Other unallocated assets		—	253,931	
		160,842	4,758,697	

Note: Substantially, all this turnover and operating profit/(loss) arises in the United States of America.

3. Impairment Loss

	GROUP	
	2003	2002
	US$'000	US$'000
Impairment loss:		
Ships and onboard equipment	**76,758**	—
Spare parts and other assets	**3,787**	—
Trade names and trademarks	**19,000**	—
	99,545	—

On 23 December 2003, the Group entered into an agreement to dispose of m.v. SuperStar Capricorn for a cash consideration of US$20 million. m.v. SuperStar Capricorn was delivered to her new owner in February 2004. On 9 February 2004, the Group entered into an agreement to dispose of m.v. SuperStar Aries for a cash consideration of $44 million. m.v. SuperStar Aries will be delivered to her new owner in early April 2004. At 31 December 2003, an impairment loss of US$59.7 million was recognised in respect of the ships and onboard equipment and other assets related to m.v. SuperStar Capricorn and m.v. SuperStar Aries. The impairment loss represented the amount by which the carrying amount of these assets exceeded their fair values of US$64 million.

The Group completed a review of its trade names, trademarks and various ships for impairment purposes in December 2003 and determined that Orient Lines trade names and trademarks and certain of its cruise ships were impaired. For the year ended 31 December 2003, the Group wrote down the carrying value of certain ships and their related assets in the amount of US$20.8 million and the carrying value of Orient Lines' trade names and trademarks in the amount of US$19 million. The recoverable amount of these assets was determined by reference to the estimated value in use.

4. Operating Profit/(Loss)

Operating profit/(loss) is stated after charging the following:

	GROUP	
	2003	2002
	US$'000	US$'000
Charging:		
Net foreign currency translation losses	**—**	466
Amortisation of goodwill	**8,408**	9,115
Depreciation of fixed assets	**180,970**	158,698
Amortisation of software development costs	**681**	1,063
Amortisation of trade names and trademarks	**7,290**	7,290
Total depreciation and amortisation	**197,349**	176,166
- relating to operating function	**186,689**	163,756
- relating to selling, general and administrative function	**10,660**	12,410
Staff costs (see note 9)	**321,017**	261,658
Operating leases - land and buildings	**7,637**	6,895
- charter hire	**—**	664
Auditors' remuneration	**856**	912
Advertising expenses	**84,158**	84,497
Impairment loss (see note 3)	**99,545**	—
Proceeds from the loss-of-hire insurance coverage, net of expenses	**(5,254)**	—
Provision for legal and settlement expenses	**15,000**	—
Write back of expenses on early termination of ship charters	**—**	(2,566)
Other expenses, net	**—**	6,147
Total (see note below)	**9,746**	3,581

4. Operating Profit/(Loss) *(continued)*

Note :

The Group recorded other expenses of approximately US$9.7 million for the year ended 31 December 2003, being legal settlement and related expenses in the amount of US$15 million, offset by the proceeds of US$5.3 million from the loss-of-hire coverage net of related expenses arising from s/s Norway boiler accident.

For the year ended 31 December 2002, the Group recorded other expenses of approximately US$3.6 million, consisting principally of an additional liability of US$6.1 million primarily in relation to the arbitration settlement award for damages relating to the return of M/S Leeward to her owner, including additional legal and lease expenses and the write back of approximately US$2.5 million in over-provision relating to early termination of the M/S Norwegian Star 1 lease.

5. Financial Costs

	GROUP	
	2003	2002
	US$'000	US$'000
Amortisation of issue costs of convertible bonds	**149**	—
Interest on:		
- bank loans	**93,880**	99,326
- convertible bonds	**2,008**	—
Total borrowing costs incurred	**96,037**	99,326
Less: interest capitalised in fixed assets	**(2,233)**	—
Total financial costs	**93,804**	99,326

The capitalisation rate applied to funds borrowed and used for the completion of Pride of America in 2003 was between 1.9% and 3.0% per annum.

6. Other Non-Operating Expenses, Net

	GROUP	
	2003	2002
	US$'000	US$'000
(Gain)/Loss on disposal of fixed assets	**(3)**	41
Loss on foreign exchange	**742**	4,452
Loss on extinguishment of debts	**—**	5,927
Litigation and related costs	**3,484**	1,843
Other non-operating expenses, net	**6,900**	172
	11,123	12,435

7. Taxation

	GROUP	
	2003	2002
	US$'000	US$'000
Overseas taxation		
- Current taxation	**1,645**	1,475
- Deferred taxation	**18**	—
	1,663	1,475
Deferred taxation has been charged in respect of temporary differences	**18**	—

The Company, which 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 respective jurisdictions where it operates. The appropriate local tax rate has been applied, in such circumstances, to determine the applicable tax charge.

The Company's subsidiaries, NCLL, which is incorporated in Bermuda, and Norwegian Star Limited and Norwegian Dawn Limited, which are both incorporated in the Isle of Man, all of which operate in the United States, are not subject to United States federal income taxes due to the provisions of Section 883 of the Internal Revenue Code of 1986 (the "Code") which provide these subsidiaries with an exemption from income taxation by the United States with respect to its United States source income derived from the international operation of the ships ("Shipping Income"). Section 883 provides that a foreign corporation will qualify for the exemption if (i) the foreign country in which the foreign corporation is organised grants an equivalent exemption for Shipping Income of sufficiently broad scope to a United States corporation ("Equivalent Exemption") and (ii) more than 50% in value of its shares is directly or indirectly owned by individuals who are resident of one or more foreign countries which grant an Equivalent Exemption ("Look-Through Test"). The Group believes that it satisfies the requirements of the Look-Through Test since more than 50% in value of its shares is directly or indirectly owned by individuals in residence in foreign countries granting an Equivalent Exemption. Management believes that these subsidiaries' Shipping Income, which is substantially all of their income, is exempt from the United States federal income taxes. If these subsidiaries were found not to be exempt from United States federal income taxes, as described above, then their Shipping Income, as well as any other income, could be taxed at higher than normal United States corporate federal income tax rates.

8. Earnings/(Loss) Per Share

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

	GROUP	
	2003	2002
	US$'000	US$'000
BASIC		
Net profit/(loss)	**(124,473)**	50,931
Weighted average outstanding ordinary shares in thousands	**4,967,186**	4,433,371
Basic earnings/(loss) per share in US cents	**(2.51)**	1.15
FULLY DILUTED		
Net profit/(loss)	**(124,473)**	50,931
Weighted average outstanding ordinary shares in thousands	**4,967,186**	4,433,371
Effect of dilutive ordinary shares in thousands	**88,539**	11,626
Weighted average outstanding ordinary shares after assuming dilution in thousands	**5,055,725**	4,444,997
Fully diluted earnings per share in US cents	**N/A***	1.15

* Diluted loss per share for the year ended 31 December 2003 is not shown, as the diluted loss per share is less than the basic loss per share.

9. Staff Costs

Staff costs include employee salaries and other employee related benefits but excluding directors' remuneration.

	2003	2002
	US$'000	US$'000
Wages and salaries	**306,769**	249,577
Unutilised annual leave	**207**	892
Termination benefits	**1,852**	303
Social security costs	**5,724**	5,522
Non-cash share option expenses	**575**	948
Pension costs - defined contribution plans (Note 30(a))	**5,890**	4,416
	321,017	261,658

10. Emoluments of Directors and Senior Management

The aggregate amounts of emoluments of the Directors of the Company during the years are as follows:

	GROUP	
	2003	2002
	US$'000	US$'000
Fees, of which US$144,000 (2002:US$180,000) were to independent non-executive directors	**192**	228
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	**4,041**	3,363
Contribution to provident fund	**20**	23
Accrued unfunded pension liability (see note below)	**2,179**	1,255
Non-cash share option expenses	**654**	1,074
	7,086	5,943

The emoluments of the Directors of the Company fall within the following bands:

	Number of Directors	
	2003	2002
HK$nil - HK$500,000	**3**	3
HK$2,500,001 - HK$3,000,000	**—**	1
HK$3,000,001 - HK$3,500,000	**1**	—
HK$3,500,001 - HK$4,000,000	**—**	1
HK$4,500,001 - HK$5,000,000	**1**	—
HK$13,000,001 - HK$13,500,000	**1**	—
HK$14,500,001 - HK$15,000,000	**—**	1
HK$23,500,001 - HK$24,000,000	**—**	1
HK$32,500,001 - HK$33,000,000	**1**	—

Note: The Group had recorded an expense in the year ended 31 December 2002 of approximately US$3.9 million in respect of an unfunded pension liability in respect of prior years.

10. Emoluments of Directors and Senior Management *(continued)*

Details of the emoluments of the five highest paid individuals in the Group are as follows:

	GROUP	
	2003	2002
	US$'000	US$'000
Fees	**36**	36
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	**4,851**	3,920
Contributions to provident fund	**18**	27
Accrued unfunded pension liability (see note above)	**2,289**	1,255
Non-cash share option expenses	**615**	1,093
	7,809	6,331
Number of Directors included in the five highest paid individual	**3**	3

The emoluments of the 5 individuals fall within the following bands:

	Number of individuals	
	2003	2002
HK$3,000,001 - HK$3,500,000	**—**	1
HK$3,500,001 - HK$4,000,000	**—**	2
HK$4,000,001 - HK$4,500,000	**1**	—
HK$4,500,001 - HK$5,000,000	**1**	—
HK$5,500,001 - HK$6,000,000	**1**	—
HK$13,000,001 - HK$13,500,000	**1**	—
HK$14,500,001 - HK$15,000,000	**—**	1
HK$23,500,001 - HK$24,000,000	**—**	1
HK$32,500,001 - HK$33,000,000	**1**	—

11. Intangible Assets

Intangible assets consist of the following items arising from the acquisition of NCL Holding ASA ("NCL"):

	GROUP	
	2003	2002
	US$'000	US$'000
Trade names and trademarks	**244,655**	270,945
Goodwill on consolidation	**418,743**	382,314
Negative goodwill	**(41,648)**	(43,526)
Net goodwill	**377,095**	338,788
	621,750	609,733

11. Intangible Assets *(continued)*

Trade names and trademarks

	GROUP	
	2003 **US$'000**	2002 US$'000
Cost		
At 1 January and year end	**291,600**	291,600
Accumulated amortisation and impairment		
At 1 January	**(20,655)**	(13,365)
Amortisation	**(7,290)**	(7,290)
Impairment loss	**(19,000)**	—
At year end	**(46,945)**	(20,655)
Net book value at year end	**244,655**	270,945

Goodwill arising on acquisition of 84.5% of NCL

	GROUP	
	2003 **US$'000**	2002 US$'000
Cost		
At 1 January	**409,909**	409,909
Additions (see below)	**46,715**	—
At year end	**456,624**	409,909
Accumulated amortisation		
At 1 January	**(27,595)**	(17,309)
Amortisation	**(10,286)**	(10,286)
At year end	**(37,881)**	(27,595)
Net book value at year end	**418,743**	382,314

Negative goodwill arising on acquisition of remaining 15.5% of NCL

	GROUP	
	2003 **US$'000**	2002 US$'000
Cost		
At 1 January and year end	**(45,868)**	(45,868)
Accumulated amortisation		
At 1 January	**2,342**	1,171
Amortisation	**1,878**	1,171
At year end	**4,220**	2,342
Net book value at year end	**(41,648)**	(43,526)

11. Intangible Assets *(continued)*

In December 1999, the Group through a subsidiary, Arrasas Limited ("Arrasas"), acquired an interest of approximately 38.6% of the then outstanding shares of NCL as at 31 December 1999, a company incorporated under the laws of the Kingdom of Norway.

In February 2000, subsequent to mandatory offers made by Arrasas, the Group had acquired an aggregate interest of about 84.5% of the outstanding shares in NCL. Following the purchase by Arrasas of an additional 10.9% of the shares of NCL from related companies (at Norwegian Kroner ("NOK") 15 per share) on 29 November 2000, Arrasas owned 95.4% of the shares in NCL.

In accordance with Norwegian law, Arrasas on 30 November 2000 compulsorily acquired the remaining shares in NCL held by the minority shareholders, at an offer price of NOK 13 per share. As a result of this acquisition, Arrasas became the sole owner of all outstanding shares of NCL. Persons formerly holding in aggregate 1,831,848 shares rejected the offer price ("minority shareholders"). As such, pursuant to applicable Norwegian law, Arrasas submitted a valuation petition on 26 October 2001 to the Oslo City Court to request the valuation court to determine the fair value of the offer price held by the minority shareholders.

The valuation proceedings were heard between 1 September 2003 and 12 September 2003, and on 5 December 2003, the Oslo City Court fixed the redemption price for the minority shareholders at NOK 25 per share. Pursuant to this decision, Arrasas is required to pay the minority shareholders who rejected the offer NOK 25 per share. Pursuant to the terms of the respective stock purchase agreements to purchase the 10.9% shareholding in NCL from the related companies at NOK 15 per share, Arrasas is required to pay the related companies an additional NOK 10 per share (representing the amount in excess of NOK 15 per share).

In accordance with SSAP 28, as at 31 December 2003, the Group provided an aggregate amount of approximately US$46.7 million, representing the aggregate amount of the additional NOK 10 per share to related companies and the amount in excess of the offer price of NOK 13 per share to the minority shareholders in the compulsory acquisition in November 2000. These adjustments to the purchase consideration result in a revision to goodwill previously recognised in the amount of US$46.7 million.

The 5 December 2003 decision was appealed by Arrasas on 8 January 2004. The appeal court's hearing includes full new valuation proceedings to determine the redemption price again in respect of the 1,831,848 shares. It is likely that the outcome of the appeal will be known sometime in the first half of 2005.

In addition, the Group is also involved in other legal actions in connection with the acquisition of NCL. As these legal actions are still at the pre-trial stage, the Group cannot predict the ultimate outcome of these legal actions. However, the Group is vigorously defending these legal actions.

12. Fixed Assets

Fixed assets consist of the following:

GROUP

Year ended 31 December 2003	**Cruise ships**	**Land, leasehold land, jetties, terminal buildings and improvements**	**Equipment and motor vehicles**	**Cruise ships under construction**	**Equipment and other construction in progress**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Cost and valuation						
At 1 January 2003	3,751,320	83,715	213,683	—	36,787	4,085,505
Exchange differences	—	1,157	359	—	—	1,516
Reclassification of fixed assets	100	378	4,138	29,931	(34,547)	—
Additions	46,528	805	33,603	223,493	21,132	325,561
Assets written off	—	—	(3,514)	—	—	(3,514)
Disposals	—	(51)	(1,027)	—	—	(1,078)
At 31 December 2003	**3,797,948**	**86,004**	**247,242**	**253,424**	**23,372**	**4,407,990**
Accumulated depreciation and impairment						
At 1 January 2003	(447,390)	(10,822)	(68,845)	—	—	(527,057)
Exchange differences	—	(115)	(302)	—	—	(417)
Charge for the year	(158,698)	(5,095)	(17,177)	—	—	(180,970)
Impairment loss	(71,244)	—	(5,514)	—	—	(76,758)
Assets written off	—	—	3,254	—	—	3,254
Disposals	—	14	817	—	—	831
At 31 December 2003	**(677,332)**	**(16,018)**	**(87,767)**	**—**	**—**	**(781,117)**
Net book value						
At 31 December 2003	**3,120,616**	**69,986**	**159,475**	**253,424**	**23,372**	**3,626,873**
At 31 December 2002	3,303,930	72,893	144,838	—	36,787	3,558,448
Cost/valuation						
At 31 December 2003						
At cost	**3,797,948**	**32,643**	**247,242**	**253,424**	**23,372**	**4,354,629**
At 2000 valuation	**—**	**53,361**	**—**	**—**	**—**	**53,361**
At 31 December 2002						
At cost	3,751,320	35,931	213,683	—	31,210	4,032,144
At 2000 valuation	—	47,784	—	—	5,577	53,361

12. Fixed Assets *(continued)*

Year ended 31 December 2003	**Cruise ships**	**Land, leasehold land, jetties, terminal buildings and improvements**	**Equipment and motor vehicles**	**Cruise ships under construction**	**Equipment and other construction in progress**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Fixed assets under charter hire are as follows :						
Cost	37,524	—	454	—	—	37,978
Less : accumulated depreciation and impairment	(24,167)	—	(221)	—	—	(24,388)
Net book value at 31 December 2003	**13,357**	**—**	**233**	**—**	**—**	**13,590**
Net book value at 31 December 2002	32,114	—	180	—	—	32,294

In conjunction with the listing of the Company's entire share capital on the Stock Exchange, certain of the Group's properties were revalued at 30 September 2000 by the Directors on the basis of an open market valuation by Jones Lang LaSalle Limited, an independent property valuer. As at 31 December 2003 and 2002, the carrying amount of these certain properties would have been US$61.6 million and US$62.3 million respectively had they been stated at cost less accumulated depreciation.

At 31 December 2003 and 2002, the net book value of fixed assets pledged as security for the Group's long-term bank loans amounted to US$3.4 billion and US$3.1 billion respectively.

Net book value of land, leasehold land, jetties, terminal buildings and improvements comprises:

	GROUP	
	2003	2002
	US$'000	US$'000
Hong Kong:	**—**	—
Outside Hong Kong:		
Freehold	**6,508**	6,508
Long leasehold (not less than 50 years)	**47,150**	50,519
Medium leasehold (less than 50 years but not less than 10 years)	**16,328**	15,866
	69,986	72,893

13. Investments in Subsidiaries

	COMPANY	
	2003	2002
	US$'000	US$'000
Investments at cost :		
Unlisted shares	**1,283,673**	205,465
Amounts due from subsidiaries	**1,412,771**	2,147,340
Amounts due to subsidiaries	**(1,927)**	(6,610)
	2,694,517	2,346,195

Amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed repayment terms.

A list of principal subsidiaries is included in note 31 to the accounts.

14. Other Assets

	GROUP		COMPANY	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Loan and convertible bonds issuance costs	**25,704**	13,135	**7,196**	5,026
Software development costs, net	**13,164**	4,159	**—**	—
Others	**821**	608	**—**	—
	39,689	17,902	**7,196**	5,026

15. Consumable Inventories

	GROUP	
	2003	2002
	US$'000	US$'000
Food and beverages	**9,962**	10,890
Supplies, spares and consumables	**28,113**	29,412
	38,075	40,302

16. Trade Receivables

	GROUP	
	2003	2002
	US$'000	US$'000
Trade receivables	**22,501**	20,156
Less: Provisions	**(5,078)**	(3,732)
	17,423	16,424

Credit terms generally range from payment in advance to 45 days credit terms.

At 31 December 2003 and 2002, the ageing analysis of the trade receivables were as follows:

	GROUP	
	2003	2002
	US$'000	US$'000
Current to 30 days	**11,231**	8,950
31 days to 60 days	**4,420**	2,287
61 days to 120 days	**2,413**	2,935
121 days to 180 days	**1,434**	1,922
181 days to 360 days	**1,820**	1,762
Over 360 days	**1,183**	2,300
	22,501	20,156

17. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	GROUP		COMPANY	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Deposits with banks - maturing within 3 months	**124,455**	261,476	**115,200**	253,931
Cash and bank balances	**252,578**	155,482	**201**	230
	377,033	416,958	**115,401**	254,161

18. Related Party Transactions and Balances

Golden Hope Limited, a company incorporated in the Isle of Man acting as trustee of the Golden Hope Unit Trust, a private unit trust whose beneficiaries include various discretionary trusts established for the benefit of certain members of Tan Sri Lim Goh Tong's family, is a substantial shareholder of the Company.

Tan Sri Lim Kok Thay, the Chairman, President and Chief Executive Officer of the Group, is a son of Tan Sri Lim Goh Tong.

Kien Huat Development Sdn Bhd ("KHD") is a company in which a brother of Tan Sri Lim Kok Thay has a substantial interest.

Genting Berhad ("GB"), a company in which Tan Sri Lim Kok Thay has a deemed interest and which is listed on the Malaysia Securities Exchange Berhad ("MSEB"), controls Resorts World Bhd ("RWB"), a company also listed on MSEB which in turn indirectly controls Resorts World Limited ("RWL") which is a substantial shareholder of the Company. GB indirectly controls Genting International PLC ("GIPLC"), a company listed on the Luxembourg Stock Exchange.

Significant related party transactions entered into or subsisting between the Group and these companies during the year ended 31 December 2003 are set out below:

(a) KHD, together with its related companies, was involved in carrying out improvements to the Group's berthing facilities and other infrastructure facilities. Amounts charged to the Group in respect of these services were approximately US$41,000 and US$217,000 in the years ended 31 December 2003 and 2002 respectively.

(b) GB and its related companies provide certain services to the Group, including treasury services, secretarial services, certain information technology support services and other support services. The Group also purchases air tickets from a subsidiary of RWB. Amounts charged to the Group in respect of these services were approximately US$0.9 million and US$1.2 million in the years ended 31 December 2003 and 2002 respectively.

(c) The Group provides certain administrative support services to GIPLC internationally and the amounts charged to GIPLC were approximately US$0.1 million and US$0.3 million in the years ended 31 December 2003 and 2002 respectively.

Amounts outstanding at the end of each fiscal year in respect of the above transactions were included in the balance sheets within amounts due to related companies.

(d) On 24 November 2000, Arrasas Limited entered into separate Stock Purchase Agreements with RWL, Genting Overseas Holdings Limited (a wholly own subsidiary of GB) and Palomino Limited (an indirect subsidiary of GB) to acquire an aggregate of 29,110,200 ordinary shares representing approximately 10.9% of the issued share capital of NCL for a total cash consideration of approximately NOK436.7 million (US$45.7 million) or NOK15 (US$1.572) per share. The transaction was completed on 29 November 2000. The agreements require that in the event Arrasas Limited pays more than NOK15 (US$1.572) per share in any subsequent transaction, Arrasas Limited will be required to pay to these related companies the difference between such higher price per share and NOK15 per share (US$1.572) (see note 11).

Transactions with Directors

(e) 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 both the Pre-listing Employee Share Option Scheme and Post-listing Employee Share Option Scheme. Call options granted are exercisable at the price of US$0.2686 and US$0.4206 per share (as adjusted) under the Pre-listing Employee Share Option Scheme and HK$2.9944 (US$0.38) per share (as adjusted) under the Post-listing Employee Share Option Scheme. Details of the movement of the call options during the year ended 31 December 2003 and the outstanding call options as at 31 December 2003 are set out in the section headed "Share Options" in the Report of the Directors.

19. Trade Creditors

	GROUP	
	2003	2002
	US$'000	US$'000
Trade creditors	**98,950**	108,774

The ageing of trade creditors as at 31 December 2003 and 2002 is as follows:

	GROUP	
	2003	2002
	US$'000	US$'000
Current to 60 days	**91,085**	98,351
61 days to 120 days	**7,289**	9,551
121 days to 180 days	**155**	638
Over 180 days	**421**	234
	98,950	108,774

Credit terms granted to the Group generally vary from no credit to 45 days credit.

20. Provisions, Accruals and Other Liabilities

Provisions, accruals and other liabilities consists of the following:

	GROUP		COMPANY	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Payroll, taxes and related benefits	**20,676**	24,402	**—**	—
Interest	**20,694**	22,477	**11,616**	8,852
Forward currency contracts and interest rate swaps	**35,396**	45,171	**35,396**	45,171
Provisions (see below)	**61,715**	685	**—**	—
Others	**91,343**	98,227	**3,817**	1,956
	229,824	190,962	**50,829**	55,979

The movements of the provisions are as follows:

	GROUP			
	Provision for additional purchase consideration for NCL acquisition US$'000	**Severance and environmental provisions US$'000**	**Provision for legal and settlement costs US$'000**	**Total US$'000**
As at 1 January 2003	—	685	—	685
Add : additional provision	46,715	—	15,000	61,715
Less : amounts paid	—	(685)	—	(685)
As at 31 December 2003	**46,715**	**—**	**15,000**	**61,715**

21. Long-Term Bank Loans

Long-term bank loans consist of the following :

		GROUP		COMPANY	
		2003	2002	**2003**	2002
		US$'000	US$'000	**US$'000**	US$'000
US$521.6 million syndicated term loan	(i)	**364,906**	399,680	**—**	—
US$626.9 million syndicated term loan	(ii)	**564,230**	606,025	**—**	—
US$450 million term loan	(iii)	**412,500**	450,000	**412,500**	450,000
US$210 million M/S Norwegian Sky Loan	(iv)	**154,000**	182,000	**—**	—
US$623 million fleet loan	(v)	**403,200**	526,320	**—**	—
US$225 million M/S Norwegian Sun Post-delivery Loan	(vi)	**—**	225,000	**—**	—
US$225 million term loan	(vi)	**225,000**	—	**—**	—
US$45 million term loan	(vi)	**—**	45,000	**—**	—
€298 million secured term loan	(vii)	**149,957**	—	**—**	—
Total liabilities		**2,273,793**	2,434,025	**412,500**	450,000
Less: Current portion		**(1,074,226)**	(340,187)	**(412,500)**	(37,500)
Long-term portion		**1,199,567**	2,093,838	**—**	412,500

The following is a schedule of principal repayments of the long-term debts in respect of the loans outstanding as at 31 December 2003 and 2002. As more fully explained in note 1(A) under sub-heading "Future funding", bank loans (iii) and (vii) have been classified as current in the balance sheets.

	GROUP		COMPANY	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**1,074,226**	340,187	**412,500**	37,500
In the second year	**108,567**	583,768	**—**	75,000
In the third to fifth years	**325,701**	541,704	**—**	225,000
After the fifth year	**765,299**	968,366	**—**	112,500
	2,273,793	2,434,025	**412,500**	450,000

(i) US$521.6 million syndicated term loan

On 22 January 1998, a syndicated term loan for an amount up to US$521.6 million was obtained by two subsidiaries, Superstar Leo Limited and Superstar Virgo Limited, as joint and several borrowers to part finance the construction of m.v. SuperStar Leo and m.v. SuperStar Virgo. This syndicated term loan was fully drawndown in September 1999.

(ii) US$626.9 million syndicated term loan

On 26 June 1999, a syndicated term loan for an amount up to US$604.8 million was obtained by two other subsidiaries, Norwegian Star Limited and Norwegian Dawn Limited, as joint and several borrowers to part finance the construction of m.v. Norwegian Star and m.v. Norwegian Dawn, respectively. In October 2001, this syndicated term loan agreement was amended to provide for borrowings of up to US$626.9 million. This syndicated term loan was fully drawndown in December 2002.

21. Long-Term Bank Loans *(continued)*

These two syndicated term loans bear interest at rates which vary according to the London Interbank Offer Rate ("LIBOR") and are repayable in 24 equal half yearly installments commencing 6 months from the relevant ship delivery dates, with maturity date payments to be paid on the relevant maturity dates. These facilities are secured by ship mortgages over the assets with a carrying value of US$1.4 billion as at 31 December 2003 and guarantees from the Company, Superstar Leo Limited, and a subsidiary, Star Cruise Services Limited. In addition, the earnings and insurances are assigned to lenders as security. The shares of the borrowers are also pledged as collateral. The loan contains restrictive covenants which require compliance with certain financial ratios.

(iii) US$450 million term loan

On 20 February 2002, the Group signed an agreement with a syndicate of banks to provide up to US$450 million in loans ("US$450 million term loan") to refinance the outstanding balance of an existing term loan. The US$450 million term loan bears interest at rates, which vary according to LIBOR, is repayable in 12 equal installments payable at six-monthly intervals commencing 18 months from the facility agreement date.

The US$450 million term loan is secured by first and second priority mortgages over certain ships of the Group, guarantees from certain subsidiaries, assignment of earnings and assignment of insurances granted by the subsidiaries owning the ships relating to the first and second priority mortgages. The shares of these subsidiaries owning the ships relating to the first priority mortgage are also pledged as collateral. In addition, the shares over NCLL are granted as security. The loan contains restrictive covenants which require compliance with certain financial ratios.

(iv) US$210 million M/S Norwegian Sky Loan

NCLL entered into a non-cancelable loan agreement with a syndicate of banks ("Loan Agreement") to finance repayment of an existing loan and payments in connection with the construction of M/S Norwegian Sky. In July 1999, NCLL borrowed US$210 million under this Loan Agreement. This term loan which bears interest at a rate which varies according to LIBOR is repayable in 20 equal half-yearly instalments with a balloon payment due in July 2009.

(v) US$623 million fleet loan

In December 1999, NCLL obtained a US$510 million reducing revolving credit facility with a syndicate of banks (the "Facility") to refinance certain debt facilities of NCLL. In November 2000, the Group amended the Facility to provide for borrowings of up to US$623 million. The additional proceeds were used to repay other debt outstanding at such time. The Facility matures in December 2004 with interest at LIBOR plus a margin based on the ratio of NCLL's funded debt to consolidated Earnings Before Interest, Taxation, Depreciation and Amortisation, as defined, for the latest 12-month period.

In February 2004, the Group accepted an offer from a syndicate of banks to act as underwriters for a US$400 million Reducing Revolving Credit Facility to refinance the Facility. The details of the offer have been disclosed in note 1(A) under the sub-heading "Loan refinancing".

(vi) US$225 million M/S Norwegian Sun Post-delivery Loan, US$45 million term loan and US$225 million term loan

In May 2000, NCLL obtained a permanent financing commitment ("M/S Norwegian Sun Post-Delivery Loan Agreement") from a syndicate of banks to provide up to US$225 million in loans to finance the construction costs of the M/S Norwegian Sun. In August 2001, the Group borrowed US$225 million under the M/S Norwegian Sun Post-Delivery Loan Agreement and an additional US$45 million term loan.

On 9 July 2003, Norwegian Sun Limited ("NSL"), an indirect wholly-owned subsidiary of the Company, as borrower signed an agreement with a syndicate of banks to provide up to US$225 million ("US$225 million term loan") to refinance the outstanding balance of US$225 million M/S Norwegian Sun Post-delivery Loan. On 16 July 2003, the Group drewdown US$225 million and fully repaid the outstanding balance of US$225 million M/S Norwegian Sun Post-delivery Loan and the balance of US$9.4 million was paid to the Group. The US$225 million term loan bears interest at rate which varies according to LIBOR, and is repayable in 16 equal half yearly installments with a balloon payment due in July 2011.

This US$225 million term loan is secured by primarily a first priority mortgage over M/S Norwegian Sun, a debenture granted by NSL, a charge over shares of NSL and a guarantee from the Company. The guarantee contains certain undertakings requiring compliance with certain financial ratios.

On 16 July 2003, the Group also fully repaid the outstanding balance of US$45 million term loan.

21. Long-Term Bank Loans *(continued)*

(vii) €298 million secured term loan

On 4 April 2003, Ship Holding LLC, an indirect wholly-owned subsidiary of the Company, as borrower entered into agreements with a bank syndicate to provide secured term loans of the equivalent amount in United States Dollars of up to €298 million (equivalent to approximately US$363.5 million based on the exchange rate of US$1.2569 to €1 as at 31 December 2003 on the undrawn amount) to part finance the completion of the Pride of America vessel (the "Vessel") acquired in 2002. As at 31 December 2003, the Group drewdown €128.1 million (equivalent to approximately US$150.0 million) to pay installments to the shipyard under the construction contract.

The €298 million secured term loan bears interest at a rate, which varies according to LIBOR, is repayable in 24 equal half yearly installments in US dollars commencing 6 months from the earlier of the redelivery date or 29 October 2004.

This facility is secured by primarily a guarantee given by the Company, mortgages over the Vessel, assignments of interests over building contract, the earnings and insurances of the Vessel and certain other assignments of interests in relation to the management of the Vessel. Part of this facility is also secured by a guarantee given by the Federal Republic of Germany acting through Hermes Kreditversicherungs-AG for up to €245 million and interest thereunder. The guarantee by the Company contains certain financial undertakings requiring compliance with certain financial ratios. (see note 1(A))

(viii) On 25 September 2003, the Company entered into two letters of credit facilities in an aggregate amount not exceeding US$100 million (the "L/C Facilities") to secure the risk in processing NCL Group credit card sales transactions. The letters of credit pursuant to the L/C Facilities were issued on 26 September 2003. There was no outstanding amount as at 31 December 2003.

The L/C Facilities contain provisions that affect the liquidity and capital resources of the Company including compliance with financial covenants.

(ix) On 15 September 2003, Arrasas Limited and Ship Ventures Inc., both wholly-owned subsidiaries of the Company, entered into shipbuilding contracts respectively with Jos. L. Meyer GmbH in Germany for the construction of two cruise vessels. The estimated total cost for these two vessels (the "Vessels") is approximately US$790.3 million.

On 14 October 2003, the Group accepted a Syndicated Term Loan Facility offer from a syndicate of banks to provide up to 80% of the contract price of the Vessels in loans. The facility bears interest at rates, which vary according to the LIBOR and European Interbank Offer Rate, and is repayable in 24 equal half yearly installments payable at six-monthly intervals commencing 6 months from the relevant vessel delivery dates. This facility is secured prior to delivery by first mortgages over the Vessels under construction, assignments of interests over building contracts, assignments of ship insurances and supervision agreements and post delivery by first mortgages over the Vessels, assignments of ship insurances, Mortgagee Interest Insurances, assignment of earnings, revenue accounts and management agreements with respect to the Vessels.

NCLL's bank loans (iv) and (v) above

NCLL's ships and its other property are pledged as collateral for NCLL's long-term bank loans as at 31 December 2003. Various debt agreements of NCLL contain restrictive covenants, which have been modified from time to time, and among other things, limit the payment of dividends and capital expenditures, and require compliance with certain financial ratios.

22. Convertible Bonds

In October 2003, the Company issued US$180 million 2% Convertible Bonds (the "Bonds") due in 2008. The Bonds are listed on the Luxembourg Stock Exchange. The issue price of the Bonds was 100% of their principal amount and the Bonds carried interest at the rate of 2% per annum payable semi-annually in arrears. Subject to certain conditions, the Bonds carried a right of conversion into fully-paid ordinary shares of the Company at an initial conversion price of HK$3.180 (rounded to three decimal places) (US$0.41 based on a fixed rate of exchange applicable on conversion of the Bonds of HK$7.743 = US$1.00) per share, subject to reset and adjustments.

On or at any time after 20 October 2005, the Company may, subject to satisfaction of certain conditions, redeem all or a portion of the Bonds at their Early Redemption Amount (as defined in the Terms and Conditions of the Bonds) which represents a gross yield of 5.55% on a semi-annual basis for the Bondholder plus any accrued interest provided that the closing price of the Company's ordinary shares for a defined duration of time is at least 125% of the conversion price in effect on the relevant trading day. In addition, if at any time the aggregate principal amount of the Bonds outstanding is less than 10% of US$180 million, the Company shall have the option to redeem such outstanding Bonds in whole but not in part at the Early Redemption Amount plus any accrued interest.

Upon exercise of the right of conversion of the Bonds, the Company may choose to deliver ordinary shares, cash or a combination of cash and ordinary shares with a total value equal to the value of the ordinary shares otherwise deliverable.

The Bonds may be redeemed, at the option of the Bondholders, in the event of a Change in Control or Delisting (as such terms are defined in the Terms and Conditions of the Bonds), at the Early Redemption Amount together with any accrued but unpaid interest.

Unless previously converted, redeemed or purchased and cancelled as set out in the Terms and Conditons of the Bonds, the Bonds will be redeemed on 20 October 2008 at 120.136% of the outstanding principal amount thereof, plus any accrued but unpaid interest.

Detailed terms and conditions of the Bonds are constituted by the trust deed dated 20 October 2003 entered into between the Company and the trustee.

During the year ended 31 December 2003, none of the Bonds were redeemed or purchased by the Company or converted into ordinary shares of the Company.

The net proceeds of approximately US$176.3 million from the issuance of the Bonds will be used for the acquisition or construction of vessels in line with the Group's strategy to upgrade its fleet, as general working capital and/or for the reduction of outstanding liabilities under certain bank loans of the Group. As at 31 December 2003, the net proceeds of approximately US$176.3 million was on deposit with banks.

23. Share Capital

	GROUP/COMPANY			
	Authorised share capital			
	Preference shares of US$0.10 each		Ordinary shares of US$0.10 each	
	No of shares	US$'000	No of shares	US$'000
At 31 December 2002 and 2003	10,000	1	9,999,990,000	999,999

	GROUP/COMPANY	
	Issued and fully paid Ordinary shares of US$0.10 each	
	No of Shares	US$'000
At 1 January 2002	4,146,731,537	414,673
Issuance of shares pursuant to the Pre-listing Employee Share Option Scheme	2,895,000	290
Issuance of ordinary shares to an existing shareholder, net of issuance costs of approximately US$3.0 million	189,091,000	18,909
Issuance of 7 ordinary shares for every 50 existing shares pursuant to a rights issue, net of issuance costs of approximately US$1.5 million	607,420,455	60,742
At 31 December 2002	4,946,137,992	494,614
At 1 January 2003	4,946,137,992	494,614
Issuance of shares pursuant to the Pre-listing Employee Share Option Scheme	717,510	72
Issuance of 7 ordinary shares for every 100 existing shares pursuant to a rights issue, net of issuance costs of approximately US$1.3 million	346,279,885	34,628
At 31 December 2003	**5,293,135,387**	**529,314**

(i) In June 2002, the Company issued 189,091,000 new ordinary shares of US$0.10 each at the subscription price of HK$3.30 (US$0.42) per share, with an aggregate price, net of issuance costs, of approximately US$77.3 million to an existing shareholder in a top-up share placement. The closing price per share on 28 May 2002, the trading date immediate before the Placing, Underwriting and Subscription Agreement was entered into, was HK$3.60 (US$0.46) on the Stock Exchange.

(ii) In December 2002, the Company issued 607,420,455 ordinary shares of US$0.10 each in the proportion of 7 new ordinary shares for every 50 existing shares held pursuant to a rights issue at the subscription price of HK$1.95 (US$0.25), with an aggregate price, net of issuance costs, of approximately US$150.3 million. The closing price per share on 11 October 2002, the trading date immediate before the Underwriting Agreement was entered into, was HK$2.70 (US$0.35) on the Stock Exchange.

(iii) In December 2003, the Company issued 346,279,885 ordinary shares of US$0.10 each in the proportion of 7 new ordinary shares for every 100 existing shares held pursuant to a rights issue at the subscription price of HK$2.25 (US$0.29), with an aggregate price, net of issuance costs, of approximately US$99.0 million. The closing price per share on 15 October 2003, the trading date immediate before the Underwriting Agreement was entered into, was HK$2.50 (US$0.32) on the Stock Exchange.

23. Share Capital *(continued)*

The net proceeds of US$227.6 million from the issuances of ordinary shares in 2002 are being used for the acquisition or construction of vessel(s) and as general working capital. The net proceeds of approximately US$99.0 million from the issuance of ordinary shares in 2003 will be used for the acquisition or construction of vessels in line with the Group's strategy to upgrade its fleet, as general working capital and/or for the reduction of outstanding liabilities under certain bank loans of the Group.

During the years ended 31 December 2003 and 31 December 2002, the net proceeds from the issuances of ordinary shares in 2002 have been applied as follows:

	2003	2002
	US$'000	US$'000
Funding of newbuilding programme	**106,974**	30,626
Used as general working capital	**68,560**	15,019
	175,534	45,645

As at 31 December 2003, the balance of unapplied proceeds of approximately US$6.5 million from the issuances of ordinary shares in 2002 together with the net proceeds from the rights issue in 2003 of approximately US$99.0 million were on deposit with banks.

24. Other Long-Term Liabilities

	GROUP		**COMPANY**	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Deferred gains on derivative instruments	**1,959**	2,249	**594**	682
Deferred lease liability	**1,181**	1,468	**—**	—
Pension plan	**1,254**	1,407	**—**	—
Others	**3,598**	3,752	**—**	—
	7,992	8,876	**594**	682

25. Deferred Taxation

	GROUP	
	Excess of capital allowances over depreciation	
	2003	2002
	US$'000	US$'000
The movement on the deferred tax liability account is as follows:		
At 1 January	**178**	178
Exchange difference	**6**	—
Deferred taxation charged to profit and loss account	**18**	—
At 31 December	**202**	178
Deferred tax liabilities to be settled after more than 12 months	**202**	178

26. Financial Instruments

The fair values of financial instruments including derivatives are based on a variety of factors and assumptions. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realised as at the balance sheet date or that will be realised in the future and do not include expenses that could be incurred in an actual sale or settlement. The following are the fair values and methods used to estimate the fair values of the Group's financial instruments.

(a) Certain short-term financial instruments

The carrying amounts of cash, cash equivalents, trade receivables, trade creditors and accrued liabilities approximate their fair values due to the short-term maturities of these instruments.

(b) Long-term bank loans

As at 31 December 2003, the fair value of the long-term bank loans, including the current portion, was approximately US$2,286.5 million, which was approximately US$12.7 million more than the carrying values. The difference between the fair value and carrying value of the long-term bank loan is due to variable rate debt obligations carrying interest rates that are above or below market rates at the measurement dates. The fair value of long-term bank loans is estimated based on rates currently available for the same or similar terms and remaining maturities.

(c) Interest rate swaps and foreign exchange forward contracts

(i) The Group entered into various Singapore dollars forward contracts and the notional amount of these contracts was approximately US$206.7 million. The notional amount will be reduced six-monthly in varying amounts over periods ranging from 5 to 11 years from the dates of the contracts. As at 31 December 2003 and 2002, the estimated fair market value of these forward contracts were approximately US$8.3 million and US$10.0 million, respectively, which were favourable to the Group. The changes in the fair value of these forward contracts were recognised as other income in the profit and loss account.

(ii) The Group entered into a series of monthly forward contracts to buy US dollars against Hong Kong dollars. The notional amount of these forward contracts was approximately US$60.7 million and will be reduced monthly in fixed amounts maturing within 3 years from December 2002. As at 31 December 2003 and 2002, the estimated market value of these contracts were approximately US$0.8 million and US$0.6 million, respectively, which were unfavourable to the Group. The changes in the fair value of these forward contracts were recognised as other expense in the profit and loss account.

(iii) As at 31 December 2003, the Group has forward contracts maturing every two months up to April 2004 with a total notional amount of US$160.7 million to hedge against the Euro denominated currency shipbuilding commitments on the completion of the Pride of America vessel.

(iv) The Group has several interest rate swaps to convert certain long-term borrowings from a floating rate obligation to a fixed rate obligation. The Group has effectively converted the interest rate of approximately US$430.4 million of term loans to a fixed rate obligation. The notional amount will be reduced six-monthly in varying amounts over periods ranging from 6 to 10 years from the dates of the interest rate swap agreements. As at 31 December 2003 and 2002, the estimated fair market value of the interest rate swaps were approximately US$34.3 million and US$44.6 million, respectively, which were unfavourable to the Group. The changes in the fair value of the interest rate swaps were included as a separate component of reserves and recognised in the profit and loss account as the underlying hedged items were recognised.

For the year ended 31 December 2003, the Group entered into a series of 5.5% capped USD LIBOR-in-arrears interest rate swaps with a notional amount of approximately US$140.8 million to limit its exposure to fluctuations in interest rate movements if rate moves beyond the cap level of 5.5%. The notional amount for each interest period will be reduced six-monthly in varying amounts over 5 years from August 2003. As at 31 December 2003, the estimated fair market value of these interest rate swaps was approximately US$0.1 million, which was unfavourable to the Group. The changes in the fair value of these interest rate swaps are also included as a separate component of reserves and are recognised in the profit and loss account as the underlying hedged items are recognised.

The fair values of these instruments have been estimated using public market prices or quotes from reputable financial institutions. The Group had no significant concentrations of credit risk as at 31 December 2003 other than deposits of cash with reputable financial institutions.

27. Commitments

(i) Capital expenditure

The Group had the following commitments as at 31 December 2003 and 2002:

	GROUP	
	2003	2002
	US$'000	US$'000
Contracted but not provided for		
- Cruise ships and other related costs	**995,955**	—

(ii) Operating leases

Rent expense under non-cancellable operating lease commitments was US$7.2 million and US$6.4 million for the years ended 31 December 2003 and 2002.

At 31 December 2003 and 2002, future minimum lease payments payable under non-cancellable operating leases were as follows:

	GROUP	
	2003	2002
	US$'000	US$'000
Within one year	**5,437**	5,099
In the second to fifth year inclusive	**15,767**	12,566
After the fifth year	**15,181**	16,636
	36,385	34,301

The rent expense under non-cancellable operating lease commitments mainly relates to rental of offices occupied by the Group and leasehold land in Thailand.

(iii) Charter hire revenue

Charter hire revenue receivable under non-cancellable operating lease commitments in respect of catamaran and onboard equipment was US$2.5 million and US$3.1 million in the years ended 31 December 2003 and 2002.

At 31 December 2003 and 2002, minimum annual rentals receivable for leases with initial or remaining terms in excess of one year were US$2.5 million each for the year ending 31 December 2004 and 2003, respectively.

The details of assets being leased out are set out in note 12 to the accounts.

28. Contingent Liabilities

(i) Contingencies

As required by the United States Federal Maritime Commission ("FMC"), NCLL maintains a US$15 million performance guarantee with respect to liabilities for non-performance of transportation and other obligations to passengers. The FMC has proposed rules which, if adopted, would eliminate the US$15 million ceiling on the performance guarantee requirements and replace it with a sliding scale. If the proposed rules were to be implemented, NCLL's performance guarantee would increase to approximately US$100 million. The Group cannot predict if or when such rules might be adopted or the final form of any such rules.

(ii) Material Litigation

(1) A proposed class action suit was filed in 1995 against NCLL and other unrelated cruise lines and land based casinos alleging misrepresentations relating to the use of electronic gaming devices. The Court denied class certification and the Plaintiffs have appealed. Oral argument on the Court's order denying class certification was heard by the U.S. Ninth Circuit Court of Appeals on 15 January 2004. To date, an opinion has not been issued.

(2) In April 1996 a proposed class action was brought in Florida against NCLL alleging violation of Florida's Unfair and Deceptive Trade Practices Act and fraudulent practice by including an element of profit in port charges collected from passengers. The trial court denied plaintiffs motion for class certification. Subsequently, the Third District Court of Appeal reversed the Court's denial of class certification and remanded the case to the trial court with instructions to certify the class. A hearing on NCLL's motion for summary judgment to dismiss the case is set for 10 March 2004. The parties are engaged in settlement negotiations. Settlement agreements entered into by other cruise lines that have settled similar claims have involved the cruise lines issuing cruise credit certificates to the class plaintiffs, paying attorneys' fees to the class plaintiffs counsel and covering administrative expenses of the class settlement.

(3) In March 2001, NCLL was served with a class action complaint in the United States District Court, Southern District of New York. The complaint alleged that during the period 1 January 1998 through the present, NCLL failed to pay plaintiffs overtime wages in accordance with their contracts of employment. The proposed class consists of all unlicensed seafarers who worked on NCLL vessels during that period of time and seeks recovery of overtime wages plus statutory penalty wages. The Court entered an order certifying the class. A motion for summary judgment is being prepared that will seek to dismiss the claims or restrict the time periods during which plaintiffs may recover damages. No dates have been set for filing or hearing the motions for summary judgment or for trial.

(4) In May 2003, the *S/S Norway* experienced a severe accident, which resulted in crew casualties and physical property damage to the vessel. Management is of the opinion that the repairs relating to the physical property damage will be covered by the vessel's hull and machinery insurance policy. Numerous personal injury claims have been filed against NCLL seeking compensatory and punitive damages. NCLL has been defending these claims in coordination with its indemnity and insurance arrangements. Many claims have been settled. NCLL has successfully invoked the arbitration provision of the Philippines Overseas Employment Agreement in the District Court, and has initiated arbitration in the Philippines for those cases involving Filipino crewmen, which is the subject of an appeal currently pending in the U.S. Eleventh Circuit Court of Appeals.

(5) The Group is routinely involved in personal injury and personal property damage claims typical of the cruise ship business. After application of deductibles, these claims are covered by insurance and other indemnity arrangements. In the opinion of management, such claims, if decided adversely, individually or in the aggregate, would not have a material adverse effect on the results of operation, cash flows, and financial position of the Group.

29. Share Option Schemes

(i) Pre-listing Employee Share Option Scheme

Prior to the de-merger from GIPLC in December 1997 the employees of the Group were offered share options in GIPLC under the "Genting International Employees' Share Option Scheme for Executives". Subsequently, a share option scheme known as "The Star Cruises Employees' Share Option Scheme for Executives" ("the Pre-listing Employee Share Option Scheme") was implemented for the benefit of the employees of the Group. The employees of the Group were offered options under the Pre-listing Employee Share Option Scheme in exchange for the unexpired share options previously granted by GIPLC.

On 23 August 2000, the share option agreement was modified to reflect a four for one share bonus and to accelerate the original vesting period to comply with the requirements of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). With effect from 30 November 2000, the date of listing of the Company's shares on the Stock Exchange (the "Listing"), no further options can be granted under the Pre-listing Employee Share Option Scheme.

A summary of the Pre-listing Employee Share Option Scheme is given below:

Purpose

To grant options to selected employees of the Group and Star Cruises Investments Limited, acting as a trustee company for the employees under the said scheme.

Participants

Employees of the Group who are executives of any company comprised in the Group.

Total number of shares available for issue

Prior to the Listing, the allocation of the total amount of options under the Pre-listing Employee Share Option Scheme could not exceed 5% of the issued ordinary shares of the Company at any time during the existence of the Pre-listing Employee Share Option Scheme. No further options can be granted under the Pre-listing Employee Share Option Scheme following the Listing.

Maximum entitlement of each employee

Prior to the Listing, the Board of Directors might in its absolute discretion at any time and from time to time as it deemed fit made an offer to any employee whom the Board of Directors might in its absolute discretion select to subscribe for ordinary shares of the Company in accordance with the terms of the Pre-listing Employee Share Option Scheme provided always that any such offer by the Board in the case of any one employee should not exceed three million shares of the Company or zero point two per centum (0.2%) of the issued ordinary shares of the Company per offer, whichever was the higher amount.

Period within which the shares must be taken up under an option

Prior to the Listing, options would expire until the retirement age of the employees, which is 55 years old, and if the retirement period was less than 10 years from the date of an offer, the option period for the remaining tranches would expire on the tenth year from the grant date or at any age to be determined by the Board. Following the Listing, the options will expire in the tenth year from their original grant date.

Minimum period for which an option must be held before it can be exercised

Under the Pre-listing Employee Share Option Scheme, the Board of Directors of the Company may determine at its absolute discretion the minimum period, if any, for which an option must be held before it can be exercised. Prior to the Listing, the options generally became exercisable as to 50% of the amount granted 4 years after the grant date and the remaining can be exercised annually in tranches subject to a minimum amount per tranche per year at various dates in the future until the retirement age of the employees.

Following the Listing, options vest over a period of 10 years from their respective original dates of grant and generally became exercisable as to 20% and 30% of the amount granted 3 years and 4 years after the grant date, with the remaining options exercisable annually in equal tranches over the remaining option period.

29. Share Option Schemes *(continued)*

(i) Pre-listing Employee Share Option Scheme *(continued)*

Amount payable on acceptance of the option and period within which payments must be made
Prior to the Listing, an offer of options under the Pre-listing Employee Share Option Scheme should be open for acceptance within three months from the date of such offer or such period as the Board of Directors may at its sole discretion determine. An option price of US$1 was payable by the employee concerned on acceptance of the option.

Basis of determining the exercise price of the shares
Prior to the Listing, options were generally granted at an exercise price per share equal to the average of the middle market quotation of the share as quoted and shown in the daily official list issued by the Luxembourg Stock Exchange or any approved stock exchange as the Directors deemed relevant for the five market days preceding the date of the offer in writing to the employee.

Remaining life of the Pre-listing Employee Share Option Scheme
No further options may be granted under the Pre-listing Employee Share Option Scheme following the Listing. The options remaining outstanding thereunder (as modified) remain exercisable under the Pre-listing Employee Share Option Scheme on the terms and conditions subject to the respective grants.

Details of the movement during the year for options outstanding are set out in section headed "Share Options" in the Report of the Directors.

A summary of the share options outstanding as at 31 December 2003 after adjusting for the effects of rights issue is as follows:

	Options outstanding		Options exercisable
Exercise price	**Number outstanding (in thousands)**	**Weighted average remaining life (years)**	**Number (in thousands)**
US$0.2686	40,357	2.5	19,410
US$0.4206	25,894	2.6	11,463
	66,251	2.5	30,873

(ii) Post-listing Employee Share Option Scheme

The Company adopted a share option scheme on 23 August 2000 which was effected on 30 November 2000 upon listing of the Company's shares on the Stock Exchange and amended on 22 May 2002 (the "Post-listing Employee Share Option Scheme") to comply with the new requirements set out in Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange effective 1 September 2001. A summary of the Post-listing Employee Share Option Scheme is given below:

Purpose
The main purpose of the Post-listing Employee Share Option Scheme is to motivate the employees of the Group including any executive directors of any company in the Group.

Participants
The participants are the employees of the Group including any executive director of any company in the Group.

Total number of shares available for issue
The maximum number of shares available for issue under the Post-listing Employee Share Option Scheme and options to be granted under any other schemes of the Company is 132,733,953, representing approximately 3.2% of the issued share capital of the Company as of 22 May 2002 (the date of adoption of the Post-listing Employee Share Option Scheme (as amended) and approximately 2.5% of the issued share capital as at the date of this Report.

29. Share Option Schemes *(continued)*

(ii) Post-listing Employee Share Option Scheme *(continued)*

Maximum entitlement of each employee
The total number of shares issued and to be issued upon exercise of the options granted to any one employee (including the exercised, cancelled and outstanding options) in any 12-month period up to and including the proposed date of the latest grant shall not exceed 1 per cent. of shares in issue, provided that the Company may grant further options in excess of this 1 per cent. limit subject to the issue of a circular by the Company and the approval of the shareholders in general meeting with such employee and his associates (as defined in the Listing Rules) abstaining from voting.

Granting options to Directors, Chief Executive or Substantial Shareholders
Any grant of options to a Director, the Chief Executive or a Substantial Shareholder of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who is a grantee of the options).

If the Company proposes to grant options to a Substantial Shareholder (as defined in the Listing Rules) or any Independent Non-executive Director of the Company or their respective associates (as defined in the Listing Rules) which will result in the number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the shares in issue; and

(b) having an aggregate value in excess of HK$5 million, based on the closing price of the shares as quoted in the Stock Exchange's daily quotation sheet at the offer date of such option

Such further grant of options will be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting on a poll at which the connected persons (as defined in the Listing Rules) of the Company shall abstain from voting except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular.

Period within which the shares must be taken up under an option
The period during which the options may be exercised will be determined by the Board of Directors of the Company at its absolute discretion, save that no option can be exercised more than 10 years after it has been granted.

Minimum period for which an option must be held before it can be exercised
The Board of Directors of the Company may determine at its absolute discretion the minimum period, if any, for which an option must be held before it can be exercised.

Amount payable on acceptance of the option and period within which payments must be made
An offer of options shall be open for acceptance for a period of ninety days after the date of offer or such period as the Board of Directors may at its sole discretion determine. An option price of US$1 shall be payable by the employee concerned on acceptance of the option.

Basis of determining the exercise price of the shares
The exercise price shall be determined by the Board of Directors of the Company, save that such price will not be less than the highest of (a) the closing price of the shares as stated on the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share of the Company.

29. Share Option Schemes *(continued)*

(ii) Post-listing Employee Share Option Scheme *(continued)*

Remaining life of the Post-listing Employee Share Option Scheme
The Post-listing Employee Share Option Scheme will remain in force until 29 November 2010.

On 8 September 2003, the Share Option Committee of the Board of Directors approved an offer of options to an employee of the Group entitling him to subscribe for an aggregate of 741,000 shares under the Post-listing Employee Share Option Scheme.

Further details of the offer and the movement during the year for options outstanding are stated in the section headed "Share Options" in the Report of the Directors.

The options vest in seven tranches over a period of ten years from their respective dates of offer and become exercisable as to 30% and 20% of the amount granted commencing in 2 years and 3 years respectively after the dates of offer, with the remaining options exercisable annually in equal tranches of 10% commencing each of the following years, subject to further terms and conditions set out in the relevant offer letters and provisions of the Post-listing Employee Share Option Scheme.

A summary of the share options outstanding as at 31 December 2003 after adjusting for the effects of rights issue is as follows:

	Options outstanding		**Options exercisable**
Exercise price	**Number outstanding (in thousands)**	**Weighted average remaining life (years)**	**Number (in thousands)**
HK$2.9944	99,649	8.6	Nil

30. Pensions and Other Post Retirement Obligations

(a) Defined Contribution Plans

NCLL has a defined contribution plan (the "Plan") for its shoreside employees. Effective 1 January 2002, NCLL amended the Plan to cease employer contributions. The Plan is subject to the provisions of the U.S. Employment Retirement Income Security Act of 1974.

In addition, NCLL maintains a 401(k) Plan (the "401(k) Plan"). The 401(k) Plan covers substantially all its shoreside employees. Participants may contribute up to 100% of eligible compensation each pay period, subject to certain limitations. NCLL makes matching contributions equal to 100% of the first 3% and 50% of the next 7% of the participant's contribution and shall not exceed 6.5% of each participant's compensation. NCLL's matching contributions are vested according to a five-year schedule.

NCLL maintains a Supplemental Executive Retirement Plan ("SERP Plan"), a defined contribution plan, for certain of its key employees whose benefits are limited under the Plan and the 401(k) Plan. NCLL records an expense for amounts due to the SERP Plan on behalf of each participant that would have been contributed without regard to any limitations imposed by the U.S. Internal Revenue Code. No amounts are required to be or were contributed under the SERP Plan by NCLL as at 31 December 2003 and 2002 as the SERP Plan is unfunded.

NCLL recorded expenses related to the above described defined contribution plans of approximately US$2.4 million and US$2.1 million for the years ended 31 December 2003 and 2002, respectively.

NCLL's contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Approximately US$0.01 million of the forfeited contribution was utilised in each of the years ended 31 December 2003 and 2002. As at 31 December 2003 and 2002, approximately US$0.01 million and US$0.1 million respectively were available to reduce future contributions.

In addition to the above plans, the Group also contributes to other statutory defined contribution plans, including provident fund scheme of various countries in which it operates.

30. Pensions and Other Post Retirement Obligations *(continued)*

(b) Defined Benefit Plan

The Group maintains a Supplemental Senior Executive Retirement Plan ("SSERP Plan"), a defined benefit plan, for selected senior executives. The Group has recorded within payroll, taxes and related benefits accrual at 31 December 2003 and 2002 of approximately US$7.0 million and US$5.0 million respectively with respect to the SSERP Plan in the accompanying balance sheet. The Group records an expense related to the SSERP Plan for such amounts based on the following actuarial assumptions: 5% discount rate and 5% annual increase in compensation.

No amounts are required to be or were contributed under the SSERP Plan by the Group as at 31 December 2003 and 2002 as the SSERP Plan is unfunded. The Group recorded expenses related to the above described defined benefit plan of approximately US$2.0 million and US$5.0 million within selling, general and administrative expenses for the years ended 31 December 2003 and 2002, respectively.

31. Principal Subsidiaries

The following is a list of principal subsidiary companies as at 31 December 2003:

Name of Company	Principal country of operation	Country of incorporation	Issued and fully paid up share capital (in thousands)	Effective equity interest in percentage	Principal activities
Subsidiaries held directly:					
Star Cruise Management Limited	Note (1)	Isle of Man	US$2,000	100.00	Investment holding, ship management and marketing services
Cruise Properties Limited	Isle of Man	Isle of Man	RM197,600	100.00	Investment holding
Inter-Ocean Limited	Isle of Man	Isle of Man	US$52,000	100.00	Investment holding
Star Cruise Services Limited	Isle of Man	Isle of Man	US$52,000	100.00	Investment holding and cruise services
Cruise Ferries Holding Limited	Bermuda	Bermuda	US$12	100.00	Investment holding and cruise ferry services
Arrasas Limited	Isle of Man	Isle of Man	US$997,218	100.00	Investment holding

31. Principal Subsidiaries *(continued)*

Name of Company	Principal country of operation	Country of incorporation	Issued and fully paid up share capital (in thousands)	Effective equity interest in percentage	Principal activities
Subsidiaries held indirectly:					
Superstar Leo Limited	Note (2)	Isle of Man	US$30,000	100.00	Bareboat chartering
Superstar Virgo Limited	Note (2)	Isle of Man	US$25,000	100.00	Bareboat chartering
Norwegian Star Limited	Note (2)	Isle of Man	US$0.002	100.00	Cruise services
Norwegian Dawn Limited	Note (2)	Isle of Man	US$0.002	100.00	Cruise services
Norwegian Sun Limited	Note (2)	Bermuda	US$12	100.00	Cruise services
Star Cruises Ship Management Sdn. Bhd.	Malaysia	Malaysia	RM150	100.00	Operator of ship simulator for training purposes and marine and technical administrative services
Norwegian Cruise Line Limited	Note (2)	Bermuda	US$317,326	100.00	Cruise services

RM: Malaysian Ringgit

(1) This company provides ship management and marketing services to cruise ships operating substantially in international waters.

(2) These companies provide cruise services substantially in international waters.

32. Significant Subsequent Events

(i) On 14 January 2004, the newbuild, Pride of America was grounded and took on water up to deck three during a heavy storm while under completion at the Lloyd Werft shipyard in Germany. The ship has been refloated and is being inspected in dry dock to determine the extent of damage and to estimate what is likely to be a substantial delay in delivery while a program of repair and replacement is being developed.

(ii) On 9 February 2004, the Group contracted for the sale of m.v. SuperStar Aries for delivery in early April 2004.