1. 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 Institute of Certified Public Accountants ("HKICPA"). 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statement for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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

(b) Group accounting

(i) Consolidation

Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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.

(ii) Associated company

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1. Principal Accounting Policies *(continued)*

(c) Intangible assets

Intangible assets consist of goodwill and trade names.

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable assets and liabilities of the acquired subsidiaries and associated company at the date of acquisition, is recognised as an asset and amortised by equal annual instalments over its estimated useful economic lives 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 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 over useful lives of 40 years which is in excess of the rebuttable presumption in Statement of Standard Accounting Practice ("SSAP") 29 "Intangible Assets" and SSAP 30 "Business Combinations" that the useful lives of such assets should not exceed 20 years, due to the following:

(i) 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) The Group considers that 40 years is a reasonable estimate of the useful live of these assets as the trade names 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 trade names over a period exceeding twenty years, the recoverable amounts of goodwill and trade names are assessed annually (see note 1(y)).

(d) 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 and associated company 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 adjustments".

(e) 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. Future travel vouchers issued to guests are recorded as a reduction of revenues when such vouchers are utilised. 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.

1. Principal Accounting Policies *(continued)*

(f) 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".

(g) 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.

(h) 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.

(i) 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 which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(j) 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.

(k) 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.

(l) Loan arrangement fees

Costs incurred in connection with the arranging of loan financing have been deferred and amortised over the lives 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.

(m) 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 over the lives of the convertible bonds from the date of issue of the bonds to their final redemption date. 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. 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 consolidated profit and loss account.

1. Principal Accounting Policies *(continued)*

(n) 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.

(o) 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. The unamortised amount is included in other assets.

(p) Provisions, contingent liabilities and contingent assets

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.

(q) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) 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.

1. Principal Accounting Policies *(continued)*

(r) 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 values 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

The useful lives of fixed assets are reviewed on a regular basis. On 1 January 2004, the Group revised the estimated useful lives of the catamaran from 30 years to 20 years to more realistically reflect its remaining estimated useful lives. The change in the useful lives of the catamaran did not have any material effect on the results and financial position of the Group for the year ended 31 December 2004.

No depreciation is provided on fixed assets which are under construction. The Group capitalises interest based on the weighted average cost of borrowings 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.

(s) 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 consolidated profit and loss account. Changes in 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 consolidated profit and loss account as the underlying hedged items are recognised.

(t) 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.

(u) 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.

1. Principal Accounting Policies *(continued)*

(v) 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.

Expenses in respect of a retirement scheme providing benefits based on final pay are charged to the consolidated 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.

(w) 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.

(x) 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 consolidated profit and loss account in the year in which they are incurred.

(y) 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 trade names are impaired. If any indication of impairment of an asset exists, and annually for goodwill and trade names (as such assets are being amortised over 40 years (see note 1 (c)), 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 consolidated 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 lives at discount rates which commensurate with the risk involved.

(z) 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, trade names, 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 other activities.

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. Other operations of the Group comprise charter hire and provision of transportation and tour services, none of which are of a sufficient size to be reported separately.

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

2004	**Cruise and cruise related activities**	**Others**	**Total**
	US$'000	**US$'000**	**US$'000**
Turnover	1,631,439	4,966	1,636,405
Operating profit/(loss) before impairment loss	135,465	(499)	134,966
Impairment loss	(14,500)	—	(14,500)
	120,965	(499)	120,466
Interest income			2,985
Financial costs			(107,566)
Other non-operating expenses, net			(23,920)
Loss before taxation			(8,035)
Taxation			(971)
Net loss for the year			(9,006)
Segment assets	4,478,088	22,319	4,500,407
Goodwill	367,396		367,396
Other unallocated assets			117,310
Total assets			4,985,113
Segment liabilities	569,208	2,104	571,312
Long-term borrowings (including current portion)	2,415,855	2,208	2,418,063
	2,985,063	4,312	2,989,375
Tax liabilities			1,766
Convertible bonds			180,000
Total liabilities			3,171,141
Capital expenditure	453,128	3,320	456,448
Depreciation and amortisation	179,236	2,673	181,909

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

2003	**Cruise and cruise related activities**	**Others**	**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
Long-term borrowings (including current portion)	2,273,793	—	2,273,793
	2,805,249	605	2,805,854
Tax liabilities			1,621
Convertible bonds			180,000
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)*

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

2004	**Turnover**	**Operating profit**	**Total assets**	**Capital expenditure**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Asia Pacific	383,393	94,523	681,725	8,665
North America (note)	1,138,668	30,444*	3,818,682	447,783
Others	114,344	5,198	—	—
	1,636,405	130,165	4,500,407	456,448
Goodwill		(9,699)	367,396	
Other unallocated assets		—	117,310	
		120,466	4,985,113	

* Included in the 2004's operating profit of North America segment was an impairment loss of US$14.5 million.

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 2003's operating profit/(loss) of Asia Pacific and North America segments were impairment losses of US$77.3 million and US$22.2 million respectively.

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

3. Impairment Loss

	GROUP	
	2004	2003
	US$'000	US$'000
Impairment loss:		
Ships and onboard equipment	**14,500**	76,758
Spare parts and other assets	**—**	3,787
Trade names	**—**	19,000
	14,500	99,545

During the year ended 31 December 2004, the Group reviewed the trade names and certain ships for which there were indications of possible impairment or as required annually (see note 1(y)). As a result of the review, the Group reduced the carrying value of one of the ships by recording an impairment charge of US$14.5 million.

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, which were disposed of in February 2004 and April 2004 respectively. In addition, the Group also reviewed its trade names and various ships for impairment purposes in December 2003 and determined that Orient Lines trade names and certain of its cruise ships were impaired. As a result of this review, 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 in the amount of US$19 million. The recoverable amount of these assets was determined by reference to the estimated value in use.

The above impairment losses represented the amount by which the carrying amount of assets exceeded their fair values.

4. Operating Profit/(Loss)

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

	GROUP	
	2004	2003
	US$'000	US$'000
Charging:		
Amortisation of goodwill	**9,699**	8,408
Depreciation of fixed assets	**163,400**	180,970
Amortisation of software development costs	**2,045**	681
Amortisation of trade names	**6,765**	7,290
Total depreciation and amortisation analysed into:	**181,909**	197,349
- relating to operating function	**172,299**	186,689
- relating to selling, general and administrative function	**9,610**	10,660
Staff costs (see note 9)	**356,104**	321,017
Operating leases - land and buildings	**8,306**	7,637
Auditors' remuneration	**995**	856
Advertising expenses	**83,834**	84,158
Impairment loss (see note 3)	**14,500**	99,545
Proceeds from the loss-of-hire insurance coverage, net of expenses	**—**	(5,254)
Provision for legal and settlement expenses	**790**	15,000
Custom fines on itinerary modifications resulting from the Azipod problem on a ship	**4,333**	—
Total (see note below)	**5,123**	9,746

Note:

The Group recorded other expenses of approximately US$5.1 million for the year ended 31 December 2004, being legal settlement and related expenses in the amount of US$0.8 million and custom fines on m.v. Norwegian Star resulting from necessary alternations to the ship's Hawaii/Fanning Island itinerary in response to a problem with the ship's Azipod propulsion system of US$4.3 million.

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.

The above expenses are included within operating expenses in the consolidated profit and loss accounts.

5. Financial Costs

	GROUP	
	2004	2003
	US$'000	US$'000
Amortisation of:		
- bank loans arrangement fees	**8,227**	4,100
- issue costs of convertible bonds and US$250 million Senior Notes	**1,058**	149
Interests on:		
- bank loans	**82,306**	88,421
- convertible bonds and US$250 million Senior Notes	**22,117**	2,008
Loans arrangement fees written off	**4,086**	1,359
Total borrowing costs incurred	**117,794**	96,037
Less: interest capitalised in fixed assets	**(10,228)**	(2,233)
Total financial costs	**107,566**	93,804

The capitalisation rate applied to funds borrowed and used for the construction of the cruise ships in 2004 was between 1.9% and 3.8% per annum (2003: 1.9% to 3.0% per annum).

6. Other Non-Operating Expenses, Net

	GROUP	
	2004	2003
	US$'000	US$'000
(Gain)/Loss on disposal of fixed assets	**147**	(3)
(Gain)/Loss on financial instruments	**11,334**	(577)
Litigation and related costs	**—**	3,484
Loss on foreign exchange	**1,778**	1,319
Loss on translation of debts	**9,545**	—
Other non-operating expenses, net	**1,116**	6,900
	23,920	11,123

7. Taxation

	GROUP	
	2004	2003
	US$'000	US$'000
Overseas taxation		
- Current taxation	**1,561**	1,645
- Deferred taxation	**(166)**	18
	1,395	1,663
(Over)/Under provision in respect of prior years		
- Current taxation	**(555)**	—
- Deferred taxation	**131**	—
	971	1,663
Deferred taxation charged/(credited) in respect of temporary differences	**(35)**	18

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

NCL Corporation Ltd. ("NCLC"), incorporated in Bermuda and operating in the United States, is 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 provides NCLC 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").

Management believes that NCLC's Shipping Income, which is substantially all of the NCLC's income, is exempt from the United States federal income taxes because (i) NCLC's country of origination, Bermuda, grants an Equivalent Exemption and (ii) NCLC meets the Look-Through Test because more than 50% in value of NCLC's stock is directly or indirectly owned by individuals residing in Equivalent Exemption jurisdictions. If NCLC was found not to be exempt from United States federal income taxes, as described above, then NCLC's Shipping Income, to the extent derived from U.S. sources, could be taxed on a net basis at graduated U.S. federal corporate income tax rates (currently, a maximum of 35%). NCLC would also be subject to a 30% federal branch profits tax under Section 884 of the Code, generally on the portion of such income that was derived from U.S. sources each year to the extent such income was not properly viewed as reinvested and maintained in the U.S. business. Interest paid or accrued by NCLC could also be subject to branch interest taxes under Section 884 of the Code and could be treated as U.S. source interest.

On 26 August 2003, the U.S. Internal Revenue Service issued final regulations interpreting Section 883 of the Code. These final regulations list several items of income which are not considered to be incidental to the international operation of ships and, to the extent derived from U.S. sources, are subject to U.S. federal income taxes. Income items considered non-incidental to the international operation of ships include income from the sale of single-day shore excursions, air and other transportation, and pre- and post-cruise land packages. The final regulations will apply to NCLC's 2005 taxable year.

Arrasas Limited and certain other subsidiaries of NCLC which are incorporated in the Isle of Man, are not subject to income tax in the Isle of Man in respect of activities undertaken outside the Isle of Man. These companies are not subject to United States federal income taxes due to the provisions of Section 883 of the Code which provide an exception from income taxation by their United States source income derived from Shipping Income.

Income derived from the operation of NCLC's U.S.-flagged operations is subject to tax on a net basis at the graduated U.S. federal corporate income tax rates generally applicable to corporations organized in the United States. U.S. source dividends paid by this subsidiary generally would be subject to a 30% withholding tax.

8. Earnings/(Loss) Per Share

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

	GROUP	
	2004	2003
	US$'000	US$'000
BASIC		
Net loss	**(9,006)**	(124,473)
Weighted average outstanding ordinary shares in thousands	**5,293,187**	4,967,186
Basic loss per share in US cents	**(0.17)**	(2.51)
FULLY DILUTED		
Net loss	**(9,006)**	(124,473)
Weighted average outstanding ordinary shares in thousands	**5,293,187**	4,967,186
Effect of dilutive ordinary shares in thousands	**524**	88,539
Weighted average outstanding ordinary shares after assuming dilution in thousands	**5,293,711**	5,055,725
Fully diluted earnings per share in US cents	**N/A***	N/A*

* Diluted loss per share for the years ended 31 December 2004 and 2003 are 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.

	GROUP	
	2004	2003
	US$'000	US$'000
Wages and salaries	**338,159**	306,769
Unutilised annual leave	**628**	207
Termination benefits	**860**	1,852
Social security costs	**8,462**	5,724
Non-cash share option expenses	**333**	575
Pension costs - defined contribution plans (Note 31(a))	**7,662**	5,890
	356,104	321,017

10. Emoluments of Directors and Senior Management

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

	GROUP	
	2004	2003
	US$'000	US$'000
Fees, of which US$144,000 (2003:US$144,000) were to independent non-executive directors	**192**	192
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	**3,974**	4,041
Contribution to provident fund	**20**	20
Accrued unfunded pension liability	**2,192**	2,179
Non-cash share option expenses	**493**	654
	6,871	7,086

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

	Number of Directors	
	2004	2003
HK$nil - HK$500,000	**3**	3
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$5,500,001 - HK$6,000,000	**1**	—
HK$12,000,001 - HK$12,500,000	**1**	—
HK$13,000,001 - HK$13,500,000	**—**	1
HK$30,500,001 - HK$31,000,000	**1**	—
HK$32,500,001 - HK$33,000,000	**—**	1

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

	GROUP	
	2004	2003
	US$'000	US$'000
Fees	**36**	36
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	**4,602**	4,851
Contributions to provident fund	**18**	18
Accrued unfunded pension liability	**2,291**	2,289
Non-cash share option expenses	**468**	615
	7,415	7,809
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	
	2004	2003
HK$4,000,001 - HK$4,500,000	**1**	1
HK$4,500,001 - HK$5,000,000	**1**	1
HK$5,500,001 - HK$6,000,000	**1**	1
HK$12,000,001 - HK$12,500,000	**1**	—
HK$13,000,001 - HK$13,500,000	**—**	1
HK$30,500,001 - HK$31,000,000	**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	
	2004	2003
	US$'000	US$'000
Trade names	**237,890**	244,655
Goodwill on consolidation	**407,165**	418,743
Negative goodwill	**(39,769)**	(41,648)
Net goodwill	**367,396**	377,095
	605,286	621,750

Trade names

	GROUP	
	2004	2003
	US$'000	US$'000
Cost		
At 1 January and year end	**291,600**	291,600
Accumulated amortisation and impairment		
At 1 January	**(46,945)**	(20,655)
Amortisation	**(6,765)**	(7,290)
Impairment loss	**—**	(19,000)
At year end	**(53,710)**	(46,945)
Net book value at year end	**237,890**	244,655

Goodwill arising on acquisition of 84.5% of NCL

	GROUP	
	2004	2003
	US$'000	US$'000
Cost		
At 1 January	**456,624**	409,909
Additions (see below)	**—**	46,715
At year end	**456,624**	456,624
Accumulated amortisation		
At 1 January	**(37,881)**	(27,595)
Amortisation	**(11,578)**	(10,286)
At year end	**(49,459)**	(37,881)
Net book value at year end	**407,165**	418,743

11. Intangible Assets *(continued)*

Negative goodwill arising on acquisition of remaining 15.5% of NCL

	GROUP	
	2004	2003
	US$'000	US$'000
Cost		
At 1 January and year end	**(45,868)**	(45,868)
Accumulated amortisation		
At 1 January	**4,220**	2,342
Amortisation	**1,879**	1,878
At year end	**6,099**	4,220
Net book value at year end	**(39,769)**	(41,648)

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 shares held by the minority shareholders.

The valuation proceedings were heard in 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 NOK 25 per share. Pursuant to the terms of the respective stock purchase agreements with the related companies, 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 (see Note 21).

On 8 January 2004, Arrasas filed an appeal against the decision granted on 5 December 2003. The appeal has been fixed for hearing sometime in April 2005. The Appeal Court has to conduct, inter alia, full new valuation proceedings to reassess the redemption price for the 1,831,848 shares. It is likely that the outcome of the said appeal will be known sometime towards the end of the first half of 2005.

In addition, the Group is also involved in other legal actions in connection with the acquisition of NCL. However, decisions of the said actions have been granted in favour of the Group which are currently pending appeal by the plaintiffs in the respective actions.

12. Fixed Assets

Fixed assets consist of the following:

GROUP

Year ended 31 December 2004	**Cruise ships, catamaran and passenger ferry**	**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 2004	3,797,948	86,004	247,242	253,424	23,372	4,407,990
Exchange differences	—	337	206	—	—	543
Acquisition of a subsidiary	—	—	2,288	—	—	2,288
Reclassification of fixed assets	—	558	2,373	—	(2,931)	—
Additions	80,049	407	4,811	368,032	861	454,160
Assets written off	(230)	(16)	(2,631)	—	—	(2,877)
Disposals	(139,956)	—	(18,582)	—	—	(158,538)
At 31 December 2004	**3,737,811**	**87,290**	**235,707**	**621,456**	**21,302**	**4,703,566**
Accumulated depreciation and impairment						
At 1 January 2004	(677,332)	(16,018)	(87,767)	—	—	(781,117)
Exchange differences	—	(121)	(205)	—	—	(326)
Charge for the year	(141,844)	(3,393)	(18,163)	—	—	(163,400)
Impairment loss	(14,500)	—	—	—	—	(14,500)
Assets written off	230	—	2,629	—	—	2,859
Disposals	66,310	—	9,910	—	—	76,220
At 31 December 2004	**(767,136)**	**(19,532)**	**(93,596)**	**—**	**—**	**(880,264)**
Net book value						
At 31 December 2004	**2,970,675**	**67,758**	**142,111**	**621,456**	**21,302**	**3,823,302**
At 31 December 2003	3,120,616	69,986	159,475	253,424	23,372	3,626,873
Cost/valuation						
At 31 December 2004						
At cost	3,737,811	33,929	235,707	621,456	21,302	4,650,205
At 2000 valuation	—	53,361	—	—	—	53,361
	3,737,811	**87,290**	**235,707**	**621,456**	**21,302**	**4,703,566**
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
	3,797,948	86,004	247,242	253,424	23,372	4,407,990

12. Fixed Assets *(continued)*

Included within fixed assets are assets in the charter hire segment as follows:

	Catamaran	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	37,524	—	454	—	—	37,978
Less: accumulated depreciation and impairment	(24,819)	—	(266)	—	—	(25,085)
Net book value at 31 December 2004	**12,705**	**—**	**188**	**—**	**—**	**12,893**
Net book value at 31 December 2003	13,357	—	233	—	—	13,590

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 2004 and 2003, the carrying amount of these properties would have been US$60.6 million and US$61.6 million respectively had they been stated at cost less accumulated depreciation.

At 31 December 2004 and 2003, the net book value of fixed assets pledged as security for the Group's long-term bank loans amounted to US$3.7 billion and US$3.4 billion respectively.

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

	GROUP	
	2004	2003
	US$'000	US$'000
Hong Kong:	**—**	—
Outside Hong Kong:		
Freehold	**6,508**	6,508
Long leasehold (not less than 50 years)	**45,087**	47,150
Medium leasehold (less than 50 years but not less than 10 years)	**16,163**	16,328
	67,758	69,986

13. Investments in Subsidiaries

	COMPANY	
	2004	2003
	US$'000	US$'000
Investments at cost:		
Unlisted shares	**1,647,700**	1,283,673
Amounts due from subsidiaries	**1,171,450**	1,412,771
Amounts due to subsidiaries	**(30,202)**	(1,927)
	2,788,948	2,694,517

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

A list of principal subsidiaries is included in note 32 to the accounts.

14. Investment in an Associated Company

	GROUP	
	2004	2003
	US$'000	US$'000
Investment at cost:		
Unlisted shares	**15,148**	—

In December 2004, the Group through a wholly-owned subsidiary, Star Cruises Singapore Investment Holding Pte. Ltd., acquired an associated company, the details of which are as follows:

Name	**Country of incorporation and operation**	**Particulars of issued shares held**	**Interest held indirectly in percentage**	**Principal activities**
Valuair Limited	Singapore	Ordinary shares of S$1.00 each	26%	Provision of airline transportation and air chartering services

S$: Singapore Dollar

Valuair Limited ("Valuair") has financial year end of 31 March which is not coterminous with the Group. As the acquisition of Valuair was completed close to the balance sheet date, the Group has not included the results of Valuair in the consolidated profit and loss account for the year ended 31 December 2004 on the basis that the effect of accounting for its share of such results would not be material. The Group is in the process of commissioning a valuation of the assets and liabilities of Valuair to assess the fair values of these assets and liabilities, including intangibles, if any, at the date of acquisition.

15. Other Assets

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Loan arrangement fees	**53,535**	22,877	**6,758**	4,369
Convertible bonds and senior notes issuance costs	**10,606**	2,827	**2,081**	2,827
Software development costs, net	**15,314**	13,164	**—**	—
Others	**5,640**	798	**—**	—
	85,095	39,666	**8,839**	7,196

16. Consumable Inventories

	GROUP	
	2004	2003
	US$'000	US$'000
Food and beverages	**8,648**	9,962
Supplies, spares and consumables	**33,411**	28,113
	42,059	38,075

17. Trade Receivables

	GROUP	
	2004	2003
	US$'000	US$'000
Trade receivables	**15,906**	22,501
Less: Provisions	**(3,817)**	(5,078)
	12,089	17,423

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

At 31 December 2004 and 2003, the ageing analysis of the trade receivables were as follows:

	GROUP	
	2004	2003
	US$'000	US$'000
Current to 30 days	**4,983**	11,231
31 days to 60 days	**2,557**	4,420
61 days to 120 days	**2,897**	2,413
121 days to 180 days	**2,345**	1,434
181 days to 360 days	**2,473**	1,820
Over 360 days	**651**	1,183
	15,906	22,501

18. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Deposits with banks - maturing within 3 months	**127,992**	124,455	**117,310**	115,200
Cash and bank balances	**213,035**	252,578	**136**	201
	341,027	377,033	**117,446**	115,401

19. 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 which is held directly and indirectly by GZ Trust Corporation as trustee of a discretionary trust 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 Bursa Malaysia Securities Berhad ("Bursa Malaysia"), controls Resorts World Bhd ("RWB"), a company also listed on Bursa Malaysia 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.

19. Related Party Transactions and Balances *(continued)*

WorldCard International Limited ("WCIL") is a company in which a subsidiary of each of the Group and GIPLC has a 50% interest. As at 31 December 2004, the carrying amount of this investment in WCIL amounted to US$254,000 is included within other assets. The Group's share of losses from WCIL amounted to US$246,000 for the financial year ended 31 December 2004.

Significant related party transactions entered into or subsisting between the Group and these companies during the year ended 31 December 2004 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$12,000 and US$41,000 in the years ended 31 December 2004 and 2003 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$711,000 and US$919,000 in the years ended 31 December 2004 and 2003 respectively.

(c) The Group provides certain administrative support services to GIPLC internationally and the amounts charged to GIPLC were approximately US$66,000 and US$95,000 for the years ended 31 December 2004 and 2003 respectively.

(d) On 19 January 2004, the Group subscribed for 500,000 shares of US$1 each at par in WCIL and participated as a merchant in the customer loyalty programme known as "WorldCard". WCIL together with its related companies operates and administers the WorldCard programme on an international basis (save as Malaysia). In October 2004, the Group entered into a supplementary agreement whereby the Group was allowed to participate in the WorldCard programme in Malaysia.

    In addition, certain agreements were entered into among certain subsidiaries of the Group and RWB and a subsidiary of the GB Group in relation to the implementation of joint promotion and marketing programmes for the purpose of promoting the respective businesses of the Group and the RWB Group.

    Amounts charged to/(from) the GB Group were approximately US$571,000 and US$387,000 respectively in the year ended 31 December 2004.

Amounts outstanding at the end of each fiscal year in respect of the above transactions were included in the balance sheets within amounts due from/(to) related companies. The related party transactions described above were carried out on terms, conditions and prices obtainable in transactions with unrelated parties.

(e) On 24 November 2000, Arrasas Limited entered into separate Stock Purchase Agreements with RWL, Genting Overseas Holdings Limited (a wholly owned 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

(f) Certain Directors of the Company and the Group were granted share 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. Share options granted are exercisable at the price of US$0.2686 and US$0.4206 per share under the Pre-listing Employee Share Option Scheme and HK$2.9944 (US$0.38) and HK$1.7240 (US$0.22) per share under the Post-listing Employee Share Option Scheme. Details of the movement of the share options during the year ended 31 December 2004 and the outstanding share options as at 31 December 2004 are set out in the section headed "Share Options" in the Report of the Directors.

20. Trade Creditors

The ageing of trade creditors as at 31 December 2004 and 2003 is as follows:

	GROUP	
	2004	2003
	US$'000	US$'000
Current to 60 days	**76,311**	91,085
61 days to 120 days	**5,887**	7,289
121 days to 180 days	**813**	155
Over 180 days	**470**	421
	83,481	98,950

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

21. Provisions, Accruals and Other Liabilities

Provisions, accruals and other liabilities consists of the following:

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Payroll, taxes and related benefits	**25,902**	20,676	**—**	—
Interest	**46,840**	20,694	**18,824**	11,616
Forward currency contracts and interest rate swaps	**23,753**	35,396	**23,753**	35,396
Provisions (see below)	**58,275**	61,715	**—**	—
Others	**87,841**	91,343	**1,988**	3,817
	242,611	229,824	**44,565**	50,829

The movements of the provisions are as follows:

	GROUP		
	Provision for additional purchase consideration for NCL acquisition US$'000	**Provision for legal and settlement costs US$'000**	**Total US$'000**
As at 1 January 2004	46,715	15,000	61,715
Add: additional provision	—	790	790
Less: amounts paid	—	(4,230)	(4,230)
As at 31 December 2004	**46,715**	**11,560**	**58,275**

22. Long-Term Borrowings

Long-term borrowings consist of the following:

		GROUP		COMPANY	
		2004	2003	**2004**	2003
		US$'000	US$'000	**US$'000**	US$'000
SECURED:					
US$521.6 million syndicated term loan	(i)	**171,734**	364,906	**—**	—
US$450 million term loan	(ii)	**182,300**	412,500	**182,300**	412,500
US$623 million fleet loan	(iii)	**—**	403,200	**—**	—
US$400 million Reducing Revolving Credit Facility	(iii)	**373,500**	—	**373,500**	—
US$626.9 million syndicated term loan	(v)	**271,666**	564,230	**—**	
US$210 million Pride of Aloha loan	(vi)	**—**	154,000	**—**	—
US$225 million term loan	(vii)	**207,000**	225,000	**—**	—
€298 million secured term loan	(viii)	**259,066**	149,957	**—**	—
US$334.1 million Norwegian Jewel loan	(ix)	**113,377**	—	**—**	—
€308.1 million Pride of Hawaii loan	(x)	**47,212**	—	**—**	—
US$800 million loan facility	(xi)	**540,000**	—	**—**	—
UNSECURED:					
US$250 million Senior Notes	(xii)	**250,000**	—	**—**	—
Others		**2,208**	—	**—**	—
Total liabilities		**2,418,063**	2,273,793	**555,800**	412,500
Less: Current portion		**(179,159)**	(1,074,226)	**(75,788)**	(412,500)
Long-term portion		**2,238,904**	1,199,567	**480,012**	—

All the outstanding balance of the long-term borrowings are denominated in U.S. dollars except for an amount of €43 million (2003: nil) of the €298 million secured term loan and the outstanding balance of €34.9 million (2003: nil) of the €308.1 million Pride of Hawaii loan which are denominated in Euro.

The following is a schedule of principal repayments of the long-term borrowings in respect of the outstanding borrowings as at 31 December 2004 and 2003.

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**179,159**	1,074,226	**75,788**	412,500
In the second year	**223,070**	108,567	**98,575**	—
In the third to fifth years	**651,336**	325,701	**272,937**	—
After the fifth year	**1,364,498**	765,299	**108,500**	—
	2,418,063	2,273,793	**555,800**	412,500

22. Long-Term Borrowings *(continued)*

(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 (renamed m.v. Norwegian Spirit) and m.v. SuperStar Virgo. This syndicated term loan was fully drawndown in September 1999.

In July 2004, the Group repaid the loan related to m.v. Norwegian Spirit (see Note 22(xi)). On 30 December 2004, a supplemental agreement was entered into with a syndicate of banks whereby Superstar Leo Limited was released and discharged from its obligations as a joint and several borrower.

The loan related to m.v. SuperStar Virgo bears interest at rates which vary according to the London Interbank Offer Rate ("LIBOR") and is repayable in 24 equal half yearly installments commencing 6 months from the ship delivery date, with a maturity date payment to be paid on the maturity date. This facility is secured by ship mortgage over m.v. SuperStar Virgo and guarantees from the Company, and a subsidiary, Star Cruise Services Limited. In addition, the earnings and insurances are assigned to lenders as security. The shares of the borrower are also pledged as collateral. The loan contains restrictive covenants which require compliance with certain financial ratios.

(ii) US$450 million term loan

On 20 February 2002, the Company 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. The loan contains restrictive covenants which require compliance with certain financial ratios.

(iii) US$400 million Reducing Revolving Credit Facility and US$623 million fleet loan

On 20 April 2004, the Company as borrower signed an agreement for a Reducing Revolving Credit Facility with a syndicate of banks to provide up to US$400 million ("US$400 million facility") to refinance the outstanding balance of the US$623 million fleet loan ("fleet loan"). On 23 April 2004, the Group drewdown US$400 million under the US$400 million facility and together with US$3.2 million of internally generated funds, repaid the outstanding amount of the fleet loan. The US$400 million facility bears interest at a rate which varies according to LIBOR, and is repayable in 14 equal half yearly installments with a balloon payment due in April 2011.

The US$400 million facility is secured primarily by a first priority mortgage over and other security relating to certain of the Group's ships and a guarantee given by various wholly-owned subsidiaries of the Company. The guarantee contains undertakings requiring compliance with certain financial ratios.

(iv) 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 in respect of these L/C Facilities as at 31 December 2004.

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

22. Long-Term Borrowings *(continued)*

(v) 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 subsidiaries, Norwegian Star Limited and Norwegian Dawn Limited, 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.

In July 2004, the Group repaid the loan related to m.v. Norwegian Star (see Note 22(xi)).

The US$626.9 million syndicated term loan bears interest at rates which vary according to LIBOR and is repayable in 24 equal half yearly installments commencing 6 months from the ship delivery date, with a maturity date payment to be paid on the maturity date.

(vi) US$210 million Pride of Aloha loan

Norwegian Cruise Line Limited ("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 (renamed m.v. Pride of Aloha). 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 and is repayable in 20 equal half-yearly instalments with a balloon payment due in July 2009. In July 2004, this loan was repaid with the proceeds of the US$800 million loan facility (see Note 22(xi)).

(vii) US$225 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.

(viii)€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 syndicate of banks to provide secured term loans of the equivalent amount in United States Dollars of up to €298 million (equivalent to approximately US$375.9 million based on the exchange rate of US$1.3626 to €1 as at 31 December 2004 on the undrawn amount) to part finance the construction of the Pride of America vessel (the "Vessel"). As at 31 December 2004, the Group drewdown €212.3 million (equivalent to approximately US$259.1 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 or European Interbank Offer Rate "EURIBOR", depending on the denomination of the underlying draws, is repayable in 24 equal half yearly installments commencing 6 months from the earlier of the delivery date or 29 October 2004.

The facility is secured by a guarantee given by the Federal Republic of Germany acting through Hermes Kreditversicherungs-AG for up to €245 million and interest thereunder.

(ix) US$334.1 million Norwegian Jewel loan

On 20 April 2004, Hull 667 Limited (renamed as Norwegian Jewel Limited), an indirect wholly-owned subsidiary of the Company, as borrower, secured a term loan of up to US$334.1 million (the "US$334.1 million Norwegian Jewel loan") from a syndicate of banks to part finance the construction of Norwegian Jewel.

During the year ended 31 December 2004, the Group drewdown US$113.4 million of the US$334.1 million Norwegian Jewel loan to pay the shipyard.

The facility bears interest at a rate, which varies according to LIBOR, is repayable in 24 equal half yearly installments commencing 6 months from the earlier of the delivery date of the Norwegian Jewel or 31 January 2006.

22. Long-Term Borrowings *(continued)*

(x) €308.1 million Pride of Hawaii loan

On 20 April 2004, Ship Ventures Inc. (renamed as Pride of Hawaii, Inc.), an indirect wholly-owned subsidiary of the Company, as borrower, secured a term loan of up to €308.1 million (equivalent to approximately US$419.5 million based on the exchange rate of US$1.3626 to €1 as at 31 December 2004 on the undrawn amount) from a syndicate of banks to part finance the construction of Pride of Hawaii.

During the year ended 31 December 2004, the Group drewdown €34.9 million (equivalent to approximately US$47.2 million) of the €308.1 million Pride of Hawaii loan to pay the shipyard.

The facility bears interest at a rate, which varies according to EURIBOR or LIBOR depending on whether amounts under the facility are drawndown in Euro or US dollars. This facility is repayable in 24 equal half yearly installments commencing 6 months from the earlier of the delivery date of the Pride of Hawaii or 10 October 2006.

(xi) US$800 million loan facility

On 7 July 2004, NCLC as borrower signed an agreement for a Secured Credit Facility with a syndicate of banks to provide up to US$800 million, comprising a term loan facility of US$300 million and a revolving credit facility of US$500 million (the "US$800 million loan facility"). The US$800 million loan facility bears interest at rates which varies according to LIBOR plus a margin between 1.5% - 1.7% and matures on the sixth anniversary of the signing of the loan documentation. The term loan requires semi-annual principal reductions totaling US$17.5 million, with the remaining unpaid principal balance due at maturity. The revolving credit facility allows NCLC to borrow on a revolving basis at any time prior to maturity, with all outstanding amounts then due. In regards to the revolving credit facility, NCLC is required to pay quarterly a commitment fee equal to approximately 0.4% of the unutilised commitment.

The US$500 million Revolving Credit Facility entered into on 23 April 2004 intended for the re-financing of Norwegian Star, part acquisition of Norwegian Spirit and for general corporate purposes has not been drawn down and has been cancelled in conjunction with the creation of the US$800 million loan facility.

In July 2004, the Group drewdown US$480 million under the US$800 million loan facility and together with the net proceeds from the Senior Notes issue (see note 22 (xii)), repaid the outstanding amount of the Pride of Aloha loan and loans related to Norwegian Spirit and Norwegian Star as well as partially repaid the US$450 million term loan. In addition, the Group drewdown US$100 million and repaid US$40 million of the US$800 million loan facility during the year ended 31 December 2004.

NCLC's bank borrowings (v) to (xi) above

NCLC's long-term loan agreements contain various restrictive covenants that limits NCLC incurrence of debt, the creation of encumbrances and assets sales, the payment of dividends and capital expenditures, and requires NCLC to maintain a minimum cash balance of US$50 million. In addition, these agreements specify that the earnings and insurance policies related to certain of NCLC's ships, the shares of the individual shares of NCLC's subsidiaries and NCLC's ships and its other property are pledged to the lenders as collateral.

(xii) US$250 million Senior Notes

In July 2004, NCLC completed the issue of US$250 million Senior Notes due 2014 (the "Senior Notes"). The Senior Notes bears interest at 10 5/8% payable semi-annually. The Senior Notes are unsecured senior obligations of NCLC and will rank equally with all of NCLC's existing and future senior unsecured debt. NCLC may redeem all or a portion of the Senior Notes at any time after 15 July 2009. In addition, NCLC may redeem a portion of the Senior Notes using the cash proceeds of certain equity offerings completed before 15 July 2007. NCLC is also required to repurchase the Senior Notes if NCLC sells substantially all of its assets or experiences a change in control, as defined.

23. 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 by the bondholders at anytime on or after 19 November 2003 and up to 19 September 2008, 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 Conditions 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.

As at 31 December 2004, 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 is being 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 year ended 31 December 2004, the Group used approximately US$109.0 million of the net proceeds to fund the newbuilding programme and for general working capital purposes. As at 31 December 2004, the balance of unapplied proceeds of approximately US$67.3 million was on deposit with banks.

24. 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 2003 and 2004	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 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 (see note below)	346,279,885	34,628
At 31 December 2003	5,293,135,387	529,314
At 1 January 2004	5,293,135,387	529,314
Issuance of shares pursuant to the Pre-listing Employee Share Option Scheme	66,480	6
At 31 December 2004	**5,293,201,867**	**529,320**

Note:

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.

The remaining net proceeds from the rights issue in 2002 and the net proceeds from the rights issues in 2003 have been applied during the years ended 31 December 2004 and 31 December 2003 as follows:

	2004	2003
	US$'000	US$'000
Funding of newbuilding programme	**105,470**	106,974
Used as general working capital	—	68,560
	105,470	175,534

As at 31 December 2004, there were no unapplied proceeds from these rights issues.

25. Other Long-Term Liabilities

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Deferred gains on derivative instruments	**—**	1,959	**—**	594
Deferred lease liability	**894**	1,181	**—**	—
Pension plan	**1,092**	1,254	**—**	—
Others	**3,748**	3,598	**—**	—
	5,734	7,992	**—**	594

26. Deferred Tax

	GROUP	
	Excess of capital allowances over depreciation	
	2004	2003
	US$'000	US$'000
Deferred tax liabilities		
The movement on the deferred tax liabilities account is as follows:		
At 1 January	**202**	178
Exchange difference	**8**	6
Deferred taxation charged to profit and loss account	**329**	18
At 31 December	**539**	202
The amount shown in the balance sheet includes the following:		
Deferred tax liabilities to be settled after more than 12 months	**539**	202

	GROUP	
	Tax losses	
	2004	2003
	US$'000	US$'000
Deferred tax asset		
The movement on the deferred tax asset account is as follows:		
At 1 January	**23**	23
Deferred taxation credited to profit and loss account	**364**	—
At 31 December	**387**	23
The amount shown in the balance sheet includes the following:		
Deferred tax assets to be recovered after more than 12 months	**387**	23

As at 31 December 2004, the amount of unused tax losses for U.S. tax purposes, which will expire at various times commencing in 2024 and for which no deferred tax asset was recognised in the consolidated balance sheet was approximately US$59.7 million.

27. Financial Instruments

The fair values of financial instruments including derivatives are determined 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 estimated fair values of the Group's financial instruments and the methods used to estimate such fair values:

(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 borrowings

As at 31 December 2004, the fair value of the long-term borrowings, including the current portion, was approximately US$2,435.5 million, which was approximately US$17.4 million more than the carrying values. The difference between the fair value and carrying value of the long-term borrowings 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 borrowings 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 has several interest rate swaps with an aggregate amount of US$430.4 million to convert certain long-term borrowings from a floating rate obligation 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 2004, the estimated fair market value of the interest rate swaps was approximately US$21.8 million, which was unfavourable to the Group.

The Group has 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 2004, the estimated fair market value of these interest rate swaps was approximately US$0.6 million, which was unfavourable to the Group.

The changes in the fair value of these interest rate swaps are included as a separate component of reserves and are recognised in the consolidated profit and loss account as the underlying hedged items are recognised.

(ii) 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 2004, the estimated fair market value of these forward contracts was approximately US$1.2 million, which was favourable to the Group. The changes in the fair value of these forward contracts were recognised as other income in the consolidated profit and loss account.

(iii) 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 2004, the estimated fair market value of these contracts was approximately US$0.4 million, which was unfavourable to the Group. The changes in the fair value of these forward contracts were recognised as other expense in the consolidated profit and loss account.

(iv) The Group had forward contracts maturing every two months up to April 2004 with a total notional amount of US$160.7 million which were originally designated as a hedge against the Euro denominated currency shipbuilding commitments on the construction of the Pride of America vessel. As a result of the Pride of America incident, where the vessel took on excessive amounts of water and partially sank during a severe storm while under construction at the Lloyd Werft Bremerhaven shipyard in Germany causing a delay in the completion of the ship, the hedge became ineffective as at 14 January 2004. These forward contracts matured in April 2004 and the Group recognised a loss of US$1.5 million in the year ended 31 December 2004.

The Group then entered into two forward contracts maturing in July 2004 for total notional amounts of US$92.1 million and €78.2 million. These forward contracts matured in July 2004 and the Group recognised a loss of US$2.1 million in the year ended 31 December 2004.

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 2004 other than deposits of cash with reputable financial institutions.

28. Commitments

(i) Capital expenditure

The Group had the following commitments as at 31 December 2004 and 2003:

	GROUP	
	2004	2003
	US$'000	US$'000
Contracted but not provided for		
- Cruise ships and other related costs	**673,286**	995,955

In addition to the above commitments, in December 2004, the Group entered into an additional shipbuilding contract with Meyer Werft Shipyard to construct another new ship, Hull No. S.669. The contract price of the ship is €389 million (approximately US$530.1 million based on the 31 December 2004 exchange rate). The ship is scheduled to be delivered in the first quarter of 2007. The Group intends to finance required payments during construction through its revolving line of credit and has signed a commitment letter, subject to certain requirements, to borrow €311.2 million for the final contract payment required upon delivery. No amounts were paid under this contract as at 31 December 2004.

(ii) Operating leases

Rent expense under non-cancellable operating lease commitments were US$7.6 million and US$7.2 million for the years ended 31 December 2004 and 2003 respectively.

At 31 December 2004 and 2003, future minimum lease payments payable under non-cancellable operating leases were as follows:

	GROUP	
	2004	2003
	US$'000	US$'000
Within one year	**6,301**	5,437
In the second to fifth year inclusive	**16,244**	15,767
After the fifth year	**14,951**	15,181
	37,496	36,385

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

(iii) Other commitments

In June 2004, NCLC entered into a Usage Agreement with the New York City Economic Development Corporation that will allow NCLC to use cruise ship terminals in the New York area through 2017.

As at 31 December 2004, the Group has future commitments to pay for usage of certain port facilities, including the commitment described above as follows:

	GROUP
	2004
	US$'000
Within one year	**13,617**
In the second and fifth year inclusive	**44,908**
After the fifth year	**68,977**
	127,502

28. Commitments *(continued)*

(iv) Charter hire revenue

Charter hire revenue receivable under non-cancellable operating lease commitments in respect of catamaran and onboard equipment was US$2.6 million and US$2.5 million in the years ended 31 December 2004 and 2003 respectively.

At 31 December 2004, there were no minimum annual rentals receivable for leases with initial or remaining terms in excess of one year for the year ending 31 December 2005. As at 31 December 2003, the minimum annual rentals receivable for leases with initial or remaining terms in excess of one year was US$ 2.5 million for the year ended 31 December 2004.

The details of assets in the charter hire segment are set out in note 12 to the accounts.

29. Contingent Liabilities

(i) Contingencies

As required by the United States Federal Maritime Commission ("FMC"), NCLC 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, NCLC'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) 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. On 8 March 2004, the parties reached a tentative settlement which was preliminarily approved by the Court on 12 August 2004. A group of objectors has filed an appeal.

(2) 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 as a class action. The Second Circuit Court has denied NCLL's request for leave to file an appeal of the District Court judge's order certifying the class. Discovery has been completed. The case has been set for trial in May 2005.

(3) 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.

(4) On 2 August 2004, NCLC was served with a complaint in the U.S. District Court for the Southern District of Florida which alleged breach of contract and unjust enrichment stemming from the cancellation of a group sales agreement. Discovery has commenced.

In addition, 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.

30. 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 make 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 at 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 of 10% over the remaining option period.

30. 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 2004 is as follows:

	Options outstanding		**Options exercisable**
Exercise price	**Number outstanding (in thousands)**	**Weighted average remaining life (years)**	**Number (in thousands)**
US$0.2686	31,195	1.9	18,125
US$0.4206	19,357	2.1	9,825
	50,552	2.0	27,950

(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.

30. Share Option Schemes *(continued)*

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

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.

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.

30. Share Option Schemes *(continued)*

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

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.

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 23 August 2004, the Share Option Committee of the Board of Directors approved an offer of options to the Directors and employees of the Group entitling them to subscribe for an aggregate of 13,677,925 shares under the Post-listing Employee Share Option Scheme. The offer is valid for acceptance from 23 August 2004 to 31 March 2005 (as extended). Further details of the offer and movement during the year are stated in the section headed "Share Options" in the Report of Directors.

Other than the share options granted on 23 August 2004 which, upon valid acceptance, become exercisable in part or in full for a period of eight years commencing from two years after the date of offer, 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 from two years and three years respectively after the dates of offer, with the remaining options exercisable annually in equal tranches of 10% commencing in each of the following years. All outstanding share options are subject to further terms and conditions set out in the relevant offer letters and provisions of the Post-listing Employee Share Option Scheme.

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

A summary of the share options outstanding as at 31 December 2004 is as follows:

	Options outstanding		Options exercisable
Exercise price	**Number outstanding (in thousands)**	**Weighted average remaining life (years)**	**Number (in thousands)**
HK$2.9944	75,851	7.6	14,883
HK$1.7240	13,678	9.6	Nil
	89,529	8.0	14,883

31. Pensions and Other Post Retirement Obligations

(a) Defined Contribution Plans

NCLC has a defined contribution plan (the "Plan") for its shoreside employees. Effective 1 January 2002, NCLC 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, NCLC 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 limitation. NCLC 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. NCLC's matching contributions are vested according to a five-year schedule.

NCLC 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. NCLC 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 NCLC as at 31 December 2004 and 2003 as the SERP Plan is unfunded.

NCLC recorded expenses related to the above described defined contribution plans of approximately US$4.5 million and US$2.4 million for the years ended 31 December 2004 and 2003, respectively.

NCLC'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 2004 and 2003, respectively. As at 31 December 2004 and 2003, approximately US$0.08 million and US$0.01 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.

(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 2004 and 2003 of approximately US$8.9 million and US$7.0 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 2004 and 2003 as the SSERP Plan is unfunded. The Group recorded expenses related to the above described defined benefit plan of approximately US$1.9 million and US$2.0 million within selling, general and administrative expenses for the years ended 31 December 2004 and 2003, respectively.

32. Principal Subsidiaries

The following is a list of principal subsidiary companies as at 31 December 2004:

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:					
NCL Corporation Ltd.	Bermuda	Bermuda	US$12	100.00	Holding company
Star Cruises Asia Holding Ltd.	Bermuda Note (3)	Bermuda	US$12	100.00	Investment holding
Star Cruise Management Limited	Note (1) & Note (3)	Isle of Man	US$2,000	100.00	Investment holding, ship management and marketing services
Cruise Properties Limited	Note (3)	Isle of Man	RM197,600	100.00	Investment holding
Inter-Ocean Limited	Note (3)	Isle of Man	US$52,000	100.00	Investment holding
Star Cruise Services Limited	Note (3)	Isle of Man	US$52,000	100.00	Investment holding and cruise services
Cruise Ferries Holding Limited	Note (3)	Bermuda	US$12	100.00	Investment holding and cruise ferry services
Subsidiaries held indirectly:					
NCL International, Ltd.	Bermuda	Bermuda	US$12	100.00	Holding company
NCL America Holdings, Inc.	USA	Delaware, USA	US$0.01	100.00	Holding company
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
Norwegian Spirit, Ltd.	Note (2)	Bermuda	US$12	100.00	Cruise services
Pride of Aloha, Inc.	USA	Delaware, USA	US$0.01	100.00	Cruise services
Norwegian Jewel Limited	Note (2)	Isle of Man	US$0.002	100.00	Cruise services
Ship Ventures Inc. (now known as Pride of Hawaii, Inc.)	USA	Delaware, USA	US$0.003	100.00	Cruise services
Hull 669 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

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.

(3) In January 2005, Star Cruises Limited transferred its shares in Star Cruise Management Limited, Cruise Properties Limited, Inter-Ocean Limited, Star Cruise Services Limited and Cruise Ferries Holding Limited to Star Cruises Asia Holding Ltd.