Effective 1 January 2005, the Group adopted the new and revised Hong Kong Financial Reporting Standards which are relevant to its operations. The comparative figures in respect of year 2004 have therefore been amended as required and where necessary, in accordance with the relevant requirements of the standards. The adoption of these accounting standards did not have any significant impact on its results of operations and financial position, except for the adoption of certain accounting standards which are discussed in note 1 to the consolidated financial statements.

The following discussion is therefore based on, and should be read in conjunction with, the financial statements and the notes thereto included elsewhere in the annual report.

General Description of the Group's Business

The Group is the third largest cruise line in the world by lower berths, with a combined fleet of 22 ships in service and due to be delivered, with about 35,000 lower berths under three principal brand names, Star Cruises (including Cruise Ferries), Norwegian Cruise Line (including NCL America) and Orient Lines.

Star Cruises (including Cruise Ferries) operate seven ships offering various cruise itineraries and calls destinations primarily in the Asia Pacific region. Star Cruises, for the first time during the months of October through to May, home-ported the SuperStar Libra in India expanding to cover South Asia as well.

Norwegian Cruise Line (including NCL America) and Orient Lines operate twelve cruise ships (including the new ships delivered in 2005) offering a wide variety of itineraries in Antarctica, Bermuda, Alaska, the Caribbean, Europe, the Mediterranean, Hawaii, Central and South America. In June 2005, NCL America took delivery of Pride of America on its inter-island Hawaii itineraries and in August 2005, Norwegian Cruise Line took delivery of Norwegian Jewel which is presently offering Homeland Cruising program to Canada and New England from New York as well as with cruises to Caribbean.

Terminology

Capacity Days represent double occupancy per cabin multiplied by the number of cruise days for the period.

Net Revenue Yield represents total revenues less commissions, transportation and other expenses, and onboard and other expenses per Capacity Day. The Group utilises Net Revenue Yield to manage its business on a day-to-day basis and believes that it is the most relevant measure of the pricing performance and is commonly used in the cruise industry to measure pricing performance.

Ship Operating Expenses represent operating expenses excluding commissions, transportation and other expenses and onboard and other expenses.

Passenger Cruise Days represent the number of passengers carried for the period, multiplied by the number of days in their respective cruises.

Occupancy Percentage, in accordance with cruise industry practice, represents the ratio of Passenger Cruise Days to Capacity Days. A percentage in excess of 100 indicates that three or more passengers occupied some cabins.

Overview

Total revenues

Total revenues of the Group consist of the following:

Revenues from the Group's cruise and cruise-related activities can be further categorised as "cruise revenues" and "onboard and other revenues". Cruise revenues are derived from the sale of passenger tickets. Passenger ticket sales comprise a one-off up-front payment collected from passengers for accommodation, meals in certain restaurants on the ship, certain onboard entertainment and, where relevant, air and land transportation to and from the ship. Revenues from passenger ticket sales are collected from passengers prior to their departure on the cruise, usually at the time of booking the cruise.

Onboard and other revenues consist of revenues from gaming, beverage sales, shore excursions, spa services, internet cafés, art auctions, pre-cruise and post cruise packages, *a la carte* dining outlets and revenues from onboard retail sales. Onboard revenues vary according to the size of the ships in operation, the length of cruises operated, and the markets in which the ships operate. The Group records onboard revenues from onboard activities the Group performs directly or that are performed by independent concessionaires, from which the Group receives a percentage of their revenues.

Charter hire revenues comprise the revenues from the bareboat charter hire of a catamaran to a third party customer. Charter hire revenue generally varies according to the number of ships on charter hire during a given period. The Group did not have any charter hire revenues in the year ended 31 December 2005.

The cruise industry in Asia Pacific is less seasonal than the North American cruise market. This lower degree of seasonality is primarily attributable to the lower degree of seasonal climate variation in certain parts of Asia Pacific, particularly Southeast Asia. However, the Group has generally experienced a decrease in demand in December and January in the Hong Kong market attributable to unfavourable weather patterns during that time of year. This seasonal decrease in demand is generally offset by increased demand in other markets, such as Singapore, Thailand and Malaysia, as a result of public holidays in December and January.

Total revenues *(continued)*
The cruise industry in North America is, however, moderately seasonal with greater demand generally occurring during the months of June to August.

Demand, however, also varies by ship and itinerary.

Operating expenses
Operating expenses are made up of commissions, transportation and other expenses, onboard and other expenses, payroll and related expenses, food costs, fuel and other operating expenses.

Commissions, transportation and other expenses consist of those amounts directly associated with passenger ticket revenues. These amounts include travel agent commissions, air and other transportation expenses, credit card fees and certain port expenses.

Onboard and other expenses consist of direct costs that are incurred primarily in connection with onboard and other revenues. These costs are incurred in connection with gaming, shore excursions, bar sales, land packages, cancellation fees, sales of vacation package insurance and credit card fees.

Payroll and related expenses represent the cost of wages and benefits for crew and other administrative shipboard employees.

Food expenses consist of food costs for passengers and crew, which typically vary according to the number of passengers on board a particular ship.

Other operating expenses consist of costs such as repair and maintenance, ship insurance and other costs.

Selling, general and administrative expenses
Selling expenses consist of the expenses of the Group's marketing activities. These marketing activities include advertising and promotional activities, and other passenger related services, such as the Group's loyalty programmes.

General and administrative expenses consist of shoreside personnel wages and benefits, and expenses relating to the Group's world-wide offices, information technology support, crew training and support (including the operation of the Star Cruises Ship Simulator Centre), operation of the Group reservation call centres and support functions, accounting, purchasing operations, ship administration and other ship-related support activities.

Depreciation and amortisation expenses
Depreciation and amortisation expenses consist primarily of depreciation of ships and shoreside assets as well as amortisation of goodwill and trade names. Following the adoption of new accounting standards (see note 1 to the consolidated financial statements) on 1 January 2005, the Group ceased amortisation of goodwill and trade names. Costs associated with drydocking a ship are deferred and included in the cost of the ships and amortised over the period to that ship's next scheduled drydocking which is generally once every two to three years.

Year ended 31 December 2005 ("Year 2005") compared with year ended 31 December 2004 ("Year 2004")

Turnover
The Group's total revenue for the Year 2005 was US$1,954.8 million, up 15.1% from US$1,699.0 million for the Year 2004. Total capacity days for the Year 2005 was 8,823,133 compared to 8,163,437 for the Year 2004. Net revenue increased by 13.7%. The higher net revenue was due primarily to a 8.1% increase in capacity and a 5.2% increase in net revenue yield. The higher net revenue yield was attributable to an increase in cruise ticket prices and higher onboard spending. Occupancy level for both the Years 2005 and 2004 was relatively unchanged, at 103.8%.

Star Cruises in Asia Pacific operated with 7.9% lower capacity days in the Year 2005 compared to the Year 2004 because of the disposals of two less cost efficient ships m.v. SuperStar Capricorn and m.v. SuperStar Aries and the transfer of m.v. SuperStar Leo (renamed m.v. Norwegian Spirit) to the NCLC Group in the first half of 2004, partially offset by the addition of m.v. SuperStar Libra, a ship that was returned to Star Cruises upon expiration of the charter agreement with NCLC Group in August 2005. Net revenue yield was 3.6% higher compared with the Year 2004. The higher net revenue yield for the Year 2005 was a result of higher onboard spending partially offset by the lower than average net revenue yield of m.v. SuperStar Libra during her start-up phase in India. Occupancy level for the Year 2005 was at 93.5% versus 96.5% for the Year 2004.

NCLC Group recorded an increase in capacity days of 12.6% for the Year 2005 compared to the Year 2004. The increase in capacity was primarily due to the additions of m.v. Norwegian Spirit, m.v. Pride of America and m.v. Norwegian Jewel which entered service in May 2004, June 2005 and August 2005, respectively, partially offset by the departure of m.v. SuperStar Libra to Star Cruises. Net revenue yield was up by 6.6% compared with the Year 2004. This increase was primarily attributable to increases in cruise ticket prices, higher onboard revenues and NCLC Group's acquisition of Polynesian Adventure Tours in November 2004. Occupancy level for the Year 2005 was at 106.1% versus 105.9% for the Year 2004.

Costs and expenses
Total costs and expenses before interest and non-operating items for the Year 2005 amounted to US$1,810.3 million compared with US$1,578.7 million for the Year 2004, an increase of US$231.6 million.

Operating expenses increased by US$227.4 million to US$1,354.6 million for the Year 2005 from US$1,127.2 million for the Year 2004. Ship operating expenses was 20.5% higher compared with the Year 2004. The start-up costs for the introduction of m.v. Norwegian Jewel and m.v. Pride of America, higher payroll and related expenses and increased fuel costs were the primary factors for the increase in these ship operating expenses partially offset by other operating efficiencies. The higher payroll and related expenses were mainly relating to the U.S. crew used for Hawaii itineraries which began operations in June 2004 and expanded to two ships with the introduction of m.v. Pride of America at the end of second quarter of 2005. Average fuel prices in the Year 2005 increased approximately 41% compared with the Year 2004. Fuel costs were at 17% of ship operating expenses in the Year 2005 compared with 14% in the Year 2004. On a per capacity day basis, ship operating expenses were 11.5% higher compared with the Year 2004. The aforementioned increases in payroll and related expenses and fuel costs represented nearly 6.6 and 5.0 percentage points, respectively, of this increase.

Selling, general and administrative expenses ("SG&A") increased by US$23.1 million to US$278.2 million for the Year 2005 from US$255.1 million for the Year 2004. The increase in SG&A expenses was primarily the result of increased shoreside expense for the Honolulu office, marketing costs related to NCL America, the introduction of Pride of America and Norwegian Jewel in June 2005 and August 2005 respectively. SG&A expenses per capacity day increased by 0.9% compared with the Year 2004 mainly due to the offsetting effect of the marketing expenses relating to the introduction of m.v. Norwegian Jewel and m.v. Pride of America and higher payroll costs for the Honolulu office with the benefits of the economies of scale achieved from the capacity increase.

Depreciation and amortisation expenses decreased by US$5.9 million to US$176.0 million for the Year 2005 compared with US$181.9 million for the Year 2004 as a result of the impact of the cessation of amortisation of goodwill and trade names since the beginning of 2005 following the adoption of new accounting standards effective 1 January 2005, partially offset by an increase in costs associated with ship drydocks and the additions of m.v. Norwegian Jewel and m.v. Pride of America. Goodwill and trade names amortisation expenses was US$16.5 million for the Year 2004.

A net impairment loss of US$1.4 million was recorded in the Year 2005 arising from a US$2.7 million impairment loss on the disposal of a catamaran which was partially offset by a US$1.3 million impairment loss reversal on s/s Norway following the completion of her disposal in January 2006. An impairment loss on s/s Norway of US$14.5 million was recorded in the Year 2004.

Operating profit
Operating profit increased by US$24.2 million to US$144.5 million for the Year 2005 compared with US$120.3 million for the Year 2004.

Non-operating income/(expense)
Non-operating expenses decreased by US$6.9 million to US$124.0 million for the Year 2005 compared with US$130.9 million for the Year 2004. This was mainly due to the net effect of the following items:

(a) Interest expense, net of interest income and capitalised interest increased by US$40.4 million to US$147.4 million for the Year 2005 compared with US$107.0 million for the Year 2004 primarily as a result of the impact of higher interest rates and an increase in average outstanding borrowings, including the US$250 million Senior Notes issued in July 2004. Capitalised interest increased to US$18.4 million for the Year 2005 from US$10.2 million for the Year 2004 mainly due to higher average borrowings associated with the ships under construction.

(b) For the Year 2005, the Group recorded its share of loss in Valuair Limited of US$5.2 million from the date of acquisition in mid-December 2004 to the date the Group ceased to have significant influence in July 2005.

(c) During the Year 2005, the Group had a non-cash gain on financial instruments amounting to US$4.4 million compared to a non-cash loss on financial instruments of US$11.3 million in the Year 2004.

(d) As a result of converting the outstanding balance of €120.7 million of Euro denominated debts into US dollar denominated debts, the Group realised a foreign exchange gain of US$14.9 million in the Year 2005. The remaining Euro denominated debts which have been marked to market at year end resulted in a further US$14.5 million gain in the Year 2005. In the Year 2004, the Group recorded a non-cash Euro denominated debt translation loss of US$9.5 million.

Profit/(Loss) before taxation
Profit before taxation for the Year 2005 was US$20.5 million compared to loss before taxation of US$10.6 million for the Year 2004.

Taxation
The Group incurred taxation expenses of US$2.6 million for the Year 2005 compared to US$1.0 million for the Year 2004. Higher taxation expenses for the Year 2005 were mainly due to the provision of U.S. federal income tax for the tour operation in U.S. and corporation tax for Indian operations.

Net profit/(loss) attributable to shareholders
As a result, the Group recorded a net profit attributable to shareholders of US$17.9 million for the Year 2005 compared with a net loss attributable to shareholders of US$11.6 million in the Year 2004.

Liquidity and capital resources

Sources and uses of funds
The majority of the cash and cash equivalents are held in U.S. dollars. For the Year 2005, cash and cash equivalents decreased to US$187.7 million from US$341.0 million as at 31 December 2004. The decrease of US$153.3 million in cash and cash equivalents was mainly due to the net effect of the following items:

(a) The Group's business provided US$220.0 million of net cash from operations for the Year 2005 compared to US$283.0 million for the Year 2004. The decrease in net cash generated from operations was primarily due to the increase in interest payments.

(b) The Group's capital expenditure was approximately US$669.0 million during the Year 2005. Approximately US$599.3 million of the capital expenditure was related to capacity expansion and the remaining was vessel refurbishments and onboard assets.

(c) The Group repaid US$373.4 million of its long-term bank loans during the Year 2005 and drewdown a total of US$715.7 million under the existing bank loans to finance its ships construction and deliveries of m.v. Norwegian Jewel and m.v. Pride of America and for general working capital purposes. In the Year 2005, the Group also paid loan arrangement fees in the amount of US$16.2 million.

(d) Restricted cash increased by US$19.5 million during the Year 2005 to US$48.0 million as at 31 December 2005 mainly due to amounts withheld by the credit card processor as a result of an increase in advance ticket sales during the year.

Gearing ratio
The gearing ratio as at 31 December 2005 was 0.54 times, a slight increase, from 0.52 times as at 31 December 2004. The calculation of gearing ratio is based on total outstanding borrowings (including the equity component of the convertible bonds) of the Group of approximately US$2.94 billion (2004: US$2.61 billion) divided by the total assets at the end of the year of approximately US$5.41 billion (2004: US$4.99 billion).

Contingent liabilities
Details of the contingent liabilities of the Group as at 31 December 2005 are disclosed in note 32 to the consolidated financial statements.

Future commitments and funding sources
As at 31 December 2005, the Group had approximately US$2.5 billion of bank borrowings, US$180 million of convertible bonds (including the equity component of the convertible bonds) and US$250 million unsecured senior notes. Details of the borrowings and a schedule setting out the repayments of such borrowings are disclosed in note 24 to the consolidated financial statements. The outstanding bank borrowings are secured by legal charges over vessels including fixed and floating charges over assets of the Group of US$4.2 billion.

The Group has three ships under construction for additional capacity of approximately 7,200 berths with scheduled deliveries in the second quarter of 2006, the fourth quarter of 2006 and the fourth quarter of 2007. The aggregate cost of the ships is approximately US$1.4 billion, of which the Group has paid US$402.6 million as at 31 December 2005.

As at 31 December 2005, liquidity of the Group was US$407.7 million consisting of US$187.7 million in cash and cash equivalents and US$220.0 million available under the Senior Secured Credit Facility. In addition, the Group has specific funding for the three ships under construction for the equivalent of approximately US$0.9 billion that can be denominated in U.S. dollars or Euros.

Prospects
The outlook for 2006 remains challenging as rising fuel prices and interest rates could continue to impact 2006 earnings.

In view of the competition in Asia Pacific, Star Cruises recently announced the summer deployment of the m.v. SuperStar Libra into eastern Mediterranean to further develop the cruise market outside of Singapore and Hong Kong.

Prospects *(continued)*
NCLC Group is proudly awaiting the arrival of the Pride of Hawaii for the NCL America brand and the m.v. Norwegian Pearl for the NCL brand this year as well as the m.v. Norwegian Gem next year for the NCL brand. Based upon the current demand environment, NCLC Group expects net revenue yield for the full year of 2006 to be up roughly 5% but flat for the first quarter of 2006 due to the timing of its fleet expansion in the premium-priced Hawaii trade.

Human Resources

As at 31 December 2005, the Group had approximately 19,800 employees, of which approximately 17,600 employees (almost 90%) were ship officers and crew. The remaining 10% of employees were employed in the various shore office locations of the Group world-wide. The Group provides competitive salaries, benefits and incentives including provident fund scheme and medical insurance schemes for its staff. In addition, the Company has adopted a Post-listing Employees' Share Option Scheme under which options may be granted from time to time to eligible employees of the Group entitling them to subscribe for shares in the share capital of the Company.

For the year ended 31 December 2005, there is no significant change in the remuneration policies, bonus, share options scheme and training schemes for the Group.

Financial Instruments

General
The functional currency of the Group is the U.S. dollar as a substantial portion of the Group's transactions are realised or settled in U.S. dollars. Transactions in currencies other than U.S. dollars ("foreign currencies") are translated into U.S. 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 income statement.

The Group is exposed to market risk attributable to changes in interest rates, foreign currency exchange rates and fuel prices. The Group minimises these risks through a combination of the normal operating and financing activities and through the use of derivative financial instruments. The financial impacts of these hedging instruments are primarily offset by corresponding changes in the underlying exposures being hedged. The Group achieves this by closely matching the amount, terms and conditions of the derivative instruments with the underlying risk being hedged.

Foreign currency exchange rate risk
The Group's primary exposure to foreign currency exchange rate risk relates to the three ships under construction and the debt agreements used to fund the construction. The ship contracts are denominated in Euros and the associated debt agreements can be denominated in either U.S. dollars or Euros. If denominated in Euros, the principal and interest payments for the debt will be payable in Euros, and will be subject to the exchange rate of the Euros at the time these payments are due. As at 31 December 2005, the Group had approximately €169 million loan which is denominated in Euros.

The Group is also exposed to foreign currency exchange rate fluctuations on the U.S. dollar value of the Group's foreign currency forecasted transactions. The Group's principal net foreign currency exposure relates to the Singapore dollars, the Hong Kong dollars, and the Euros. To manage this exposure, the Group takes advantage of any natural offsets of the Group's foreign exchange revenues and expenses and from time to time enters into foreign exchange forward contracts for a portion of the remaining exposure related to these forecasted transactions. As at 31 December 2005, the Group was a party to certain forward contracts with a total notional amount of US$206.7 million in respect of the Singapore dollars. These forward contracts have remaining lives ranging from 1 to 6 years.

Interest rate risk
The majority of the Group's indebtedness and its related interest expenses are denominated in U.S. dollars and are based upon floating rates of interest. In order to limit its exposure to interest rate fluctuation, variable to fixed interest rate swaps have been utilised from time to time, to fix a portion of interest costs over a period of time. The Group continuously evaluates its debt portfolio, including interest rate swaps to achieve a desired proportion of variable and fixed rate debt based on its view of interest rate movement. As at 31 December 2005, the Group had interest rate swaps on debts with a total notional amount of US$430.4 million with remaining lives ranging from 2 to 6 years. In addition, the Group has a series of 5.5% capped USD LIBOR-in-arrears interest rate swaps with a total notional amount of approximately US$140.8 million to limit its exposure to fluctuations in interest rate movements if the London Interbank Offer Rate ("LIBOR") rate moves beyond the cap level of 5.5% with the remaining lives of 3 years. With these interest rate swaps in place and the conversion of certain portion of the borrowing from LIBOR-based rate to a fixed rate, as at 31 December 2005, 38% of the Group's debts was fixed and the remaining 62% was floating.

Fuel price risk
The Group's exposure to market risk for changes in fuel prices related to the consumption of fuel on the ships. Fuel costs, as a percentage of the total revenues, was approximately 7.5% in 2005 and 5.8% in 2004. The Group mitigates the financial impact of fluctuation in fuel prices using fuel surcharge in Asia and fuel swap agreements. As at 31 December 2005, the Group had fuel swap agreements to pay fixed prices for fuel with an aggregate notional amount of approximately US$12.5 million, maturing in 2006.