1. Principal Accounting Policies

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). The preparation of consolidated financial statements in conformity with HKFRS 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 consolidated financial statements are prepared under the historical cost convention, as modified by the revaluations of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) which are carried at fair value.

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

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.

As at 1 January 2005, the Group adopted the new/revised standards and interpretations of HKFRSs as listed below, which are relevant to its operations. The comparative figures in respect of year 2004 have been amended as required and where necessary, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The Group revalued certain of the properties in conjunction with the listing of the entire share capital on The Stock Exchange of Hong Kong Limited in 2000. On 1 January 2005, the Group applied the exemptions under HKFRS 1 whereby it elected to use the revalued amount of these properties under HK GAAP as deemed cost at the date of transition to HKFRSs.

The adoption of the above new HKFRSs did not have any significant impact on its results of operations and financial position, except for the adoption of HKFRS 2, HKFRS 3, HKAS 38, HKAS 17, HKAS 32 and HKAS 39 which are discussed below.

1. Principal Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

HKFRS 2

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share options granted after 7 November 2002 and to be vested after 1 January 2005. The Group has also applied HKFRS 2 retrospectively for share options granted after 7 November 2002 and vested before 1 January 2005. Prior to 1 January 2005, the Group accounted for compensation expense in respect of these 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. Effective from 1 January 2005, the Group accounts for the compensation cost of these share options based on the fair value of the employee services received in exchange for the grant of these options.

This change in accounting policy has been accounted for retrospectively as follows:

	As previously reported	Effect of adoption of HKFRS	As restated
	US$'000	US$'000	US$'000
Group			
At 31 December 2004			
Reserves:			
Additional paid-in capital	92,689	1,329	94,018
Accumulated losses	(31,079)	(139)	(31,218)
Unamortised share option expense	(1,110)	(1,190)	(2,300)
Selling, general and administrative expenses	254,956	139	255,095

The impact on basic and diluted earnings per share as a result of adopting HKFRS 2 is not material.

	As previously reported	Effect of adoption of HKFRS	As restated
Company			
At 31 December 2004			
Reserves:			
Additional paid-in capital	90,745	467	91,212
Retained earnings	274,159	(26)	274,133
Unamortised share option expense	(332)	(441)	(773)

HKAS 17

The adoption of HKAS 17 requires the Group to classify the land held under a long-term lease as an operating lease if the risks and rewards incidental to ownership will not be transferred to the lessee. The comparative in respect of the property, plant and equipment has been restated whereby the land held under operating lease is now presented as lease prepayments. The up-front prepayments made for the leasehold land and land use rights are expensed in the consolidated income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statement. The effect of the reclassification of the comparative is as follows:

	As previously reported	Effect of adoption of HKFRS	As restated
	US$'000	US$'000	US$'000
Group			
At 31 December 2004			
Property, plant and equipment	3,823,302	(1,818)	3,821,484
Lease prepayments	—	1,818	1,818
Depreciation and amortisation	181,909	(43)	181,866
Selling, general and administrative expenses	254,956	43	254,999

1. Principal Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

HKAS 32

The adoption of HKAS 32 requires the Group to analyse the compound financial instruments into debt and equity components based on the circumstances at the inception of the instrument. The comparative in respect of the convertible bonds has been restated whereby the equity conversion option is now presented as a component of reserves. The related interest expense on the convertible bonds has been restated by applying the effective interest method to the liability component. The effects of the adoption of HKAS 32 have been accounted for retrospectively as follows:

	As previously reported	Effect of adoption of HKFRS	As restated
	US$'000	US$'000	US$'000
Group			
At 31 December 2004			
Convertible bonds	180,000	(3,188)	176,812
Provision, accruals and other liabilities	217,631	(8,350)	209,281
Reserves:			
Convertible bonds - equity component	—	14,400	14,400
Accumulated losses	(31,079)	(2,862)	(33,941)
Financial costs	107,566	2,439	110,005
Basic loss per share (US cents)	(0.17)	(0.05)	(0.22)
Company			
At 31 December 2004			
Convertible bonds	180,000	(3,188)	176,812
Provision, accruals and other liabilities	20,812	(8,350)	12,462
Reserves:			
Convertible bonds - equity component	—	14,400	14,400
Retained earnings	274,159	(2,862)	271,297

The impact on opening retained earnings at 1 January 2004 of the Group and the Company from the adoption of HKAS 32 was US$0.4 million each.

HKFRS 3 and HKAS 38

The adoption of HKFRS 3 and HKAS 38 resulted in a change in the accounting policy for goodwill and trade names. Prior to 1 January 2005, goodwill and trade names were amortised over useful lives of 40 years and negative goodwill was amortised over 26 years, the remaining weighted average useful life of the non-monetary assets acquired. In addition, the goodwill and trade names were assessed for impairment annually or where there were indications of possible impairment.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill and trade names from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and trade names;
- The carrying amount of previously recognised negative goodwill has been derecognised as at 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings;
- The Group will continue to review goodwill and trade names for impairment annually or where there are indications of possible impairment.

1. Principal Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

HKFRS 3 and HKAS 38 *(continued)*

This change in accounting policy has been accounted for prospectively from 1 January 2005 as follows:

	As previously reported	Effect of adoption of HKFRS	As restated
	US$'000	US$'000	US$'000
Group			
At 1 January 2005			
Intangible assets, net of accumulated amortisation and impairment	605,286	39,769	645,055
Retained earnings/(Accumulated losses)	(31,079)	39,769	8,690

HKAS 39

Upon adoption of HKAS 39 on 1 January 2005, the fair value of certain interest rate swaps of US$10.7 million (Company: US$12.0 million) which no longer qualified as hedging instruments as a result of early repayment of certain bank borrowings and which had been included within cash flow hedge reserve, has been adjusted to the opening balance of retained earnings. Similarly, the fair value of the 5.5% capped USD LIBOR-in-arrears interest rate swaps amounting to US$0.6 million which were not effective hedges and had been included within cash flow hedge reserve, has been adjusted to the opening balance of retained earnings.

The effects of the change on the Group's and Company's financial statements have been accounted for prospectively from 1 January 2005 as follows:

	As previously reported	Effect of adoption of HKFRS	As restated
	US$'000	US$'000	US$'000
Group			
At 1 January 2005			
Reserves:			
Cash flow hedge reserve	(20,564)	11,343	(9,221)
Accumulated losses	(31,079)	(11,343)	(42,422)
Company			
At 1 January 2005			
Reserves:			
Cash flow hedge reserve	(21,777)	12,556	(9,221)
Retained earnings	274,159	(12,556)	261,603

There was no impact on basic and diluted earnings per share of the Group from the adoption of HKAS 17, HKFRS 3, HKAS 38 and HKAS 39.

There was no impact on opening retained earnings at 1 January 2004 of the Group and the Company from the adoption of HKFRS 2, HKAS 17, HKFRS 3, HKAS 38 and HKAS 39.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS – Int 4	Determining whether an Arrangement contains A Lease

1. Principal Accounting Policies *(continued)*

(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 financial statements include the financial statements of the Company and all 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 income statement from the effective date on which control is transferred to the Group or up to the effective date that control ceases, as appropriate.

All significant intercompany transactions, balances and unrealised gains on transactions within the Group are eliminated on consolidation. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 which was not previously charged in the consolidated income statement.

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

(ii) Associate

An associate 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. Investment in an associate is accounted for by the equity method of accounting and is initially recognised at cost.

The consolidated income statement includes the Group's share of the results of associate for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associate and goodwill (net of accumulated impairment loss) on acquisition.

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

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.

(c) Intangible assets

Intangible assets consist of goodwill and trade names.

Goodwill represents the excess of purchase consideration over the fair values of the Group's share of net identifiable assets of the acquired subsidiaries and associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associate is included in investment in associate. Goodwill is tested annually for impairment or where there are indications of possible impairment and carried at net carrying amount less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Trade names of Norwegian Cruise Line and Orient Lines recorded on acquisition of NCL Holding ASA are estimated to have an indefinite useful life and, therefore, are not subject to amortisation. Trade names are tested annually for impairment or where there are indications of possible impairment and carried at net carrying amount less accumulated impairment losses.

1. Principal Accounting Policies *(continued)*

(d) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

Transactions in currencies other than US dollars ("foreign currencies") are translated into US dollars at exchange rates in effect at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the consolidated income statement. 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.

For those subsidiaries and associate which do not have the US dollar as their presentation 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. 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.

(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 HKAS 16 "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 consolidated financial statements. However, if the deferred income taxes arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

1. Principal Accounting Policies *(continued)*

(i) Deferred taxation *(continued)*

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 associate, except where it is probable that the temporary difference will not reverse in the foreseeable future.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(k) Restricted cash

Restricted cash consists of cash collateral in respect of certain agreements, including requirements imposed by the Group's credit 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

The fair value of the liability component and the equity conversion component are determined at issuance of the convertible bonds.

The fair value of the liability component, included in long-term borrowings is calculated using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The residual amount, representing the value of the equity conversion component, is included as a component of reserves in shareholders' equity.

The finance cost recognised in the consolidated income statement in respect of convertible bonds is calculated so as to produce a constant periodic rate of charge on the remaining balance of the liability component 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 income statement.

(n) Consumable inventories

Consumable inventories consist mainly 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 estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(o) Trade receivables

Trade receivables are carried at invoiced amount less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is recognised in the consolidated income statement.

(p) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories under the scope of HKAS 39. The available-for-sale investments are included in non-current assets unless management intends to dispose of the investments within 12 months from the balance sheet date. The purchases and sales of available-for-sale investments are recognised on trade date, the date on which the Group commits to purchase or sell the investments. These investments are initially recognised at fair value plus transaction costs. After initial recognition, available-for-sale investments are measured at fair value with gains or losses recognised as a separate component of equity until the investments are derecognised or until the investments are determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in the consolidated income statement.

1. Principal Accounting Policies *(continued)*

(p) Available-for-sale investments *(continued)*

The Group assesses at each balance sheet date whether there is any objective evidence that the available-for-sale investments are impaired as a result of one or more events that occurred after the initial recognition of the assets. If the available-for-sale investments are impaired, an amount comprising the difference between its acquisition cost and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Impairment loss recognised in the consolidated income statement on available-for-sale investments shall not be reversed through the consolidated income statement.

(q) 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.

(r) 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 consolidated financial statements. 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 consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, the asset is recognised.

(s) 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 and 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 finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in the current and long-term liabilities. The finance charges are charged to the consolidated income statement over the lease periods, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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. The land held under a long-term lease is classified as an operating lease if the risks and rewards incidental to ownership will not be transferred to the lessee. Rental payments applicable to such operating leases are charged to the consolidated income statement on a straight-line basis over the lease term.

1. Principal Accounting Policies *(continued)*

(t) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Significant cruise ship refurbishing costs are capitalised as additions to the cruise ship, only when it is probable that future economic benefits associated with these items will flow to the Group and the costs of these items can be measured reliably. Costs of repairs and maintenance are expensed as incurred.

Cruise ships and passenger ferry are depreciated to their estimated residual values on a straight-line basis over periods ranging from 15 to 30 years. Other assets are depreciated on a straight-line basis over their estimated useful lives as follows:

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

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

No depreciation is provided on property, plant and equipment, which are under construction. The Group capitalises interest based on the weighted average cost of borrowings on cruise ships 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 completed.

Costs incurred on project which are at an exploratory stage are expensed to consolidated income statement when incurred until such time that it can be demonstrated that the project has commenced and is commercially viable, whereupon such costs are capitalised. All project costs previously expensed to consolidated income statement are not capitalised upon the commencement of the project.

Project costs capitalised are reviewed at the end of each reporting period in order to determine if these costs should continue to be capitalised. When a project has been aborted or circumstances indicate that a project has become commercially not viable, all costs previously capitalised relating to such projects are expensed to the consolidated income statement.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note z).

(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.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For the share options, certain shares under option have an effect on the adjusted weighted average number of shares in issue as the average option price is lower than the average market price.

(v) Share option expense

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1. Principal Accounting Policies *(continued)*

(w) 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 the schemes' contributions are being fully vested.

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

(x) Employee leave entitlements

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

(y) Borrowings and borrowing costs

Borrowings are recognised initially at fair value and are subsequently stated at amortised 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 income statement in the year in which they are incurred.

(z) Impairment of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that investments in subsidiaries, property, plant and equipment, goodwill and trade names are impaired. If any indication of impairment of an asset exists, and annually for goodwill and trade names, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, 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.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment losses made against goodwill is not reversed. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to consolidated income statement in the year in which the reversals are recognised.

(aa) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, 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 property, plant and equipment 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. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group enters into derivative instruments, primarily forward contracts, fuel swap agreements and interest rate swaps to limit its exposures to fluctuations in foreign currency exchange rates and fuel prices, and to modify its exposure to interest rate movements and to manage its interest costs.

(i) Foreign exchange risk

The Group's primary exposure to foreign currency exchange 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 of these payments are due. From time to time, the Group enters into foreign currency forward contracts and/or options contracts for these payments.

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 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.

(ii) Credit risk

Credit risk arises when sales of services are made on deferred credit terms. The Group seeks to control credit risk by setting credit limits and ensuring that services are made to customers with an appropriate credit history. The Group considers the risk of material loss in the event of non-performance by a debtor to be unlikely.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. The Group manages its cash flow interest-rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly semi-annually), the difference between the fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

(v) Fuel price risk

The Group's exposure to market risk on changes in fuel prices relates to the forecasted consumption of fuel on its ships. The Group mitigates the financial impact of fluctuation in fuel prices using fuel surcharge in Asia and fuel swap agreements.

2. Financial Risk Management *(continued)*

(b) Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); and (ii) hedges of highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Changes in the fair value of derivatives that are designated as fair value hedge 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. To the extent that the derivative is not effective as a hedge, gains and losses are recognised in the consolidated income statement as a gain or loss on foreign exchange.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Amounts accumulated in equity are recognised in the consolidated income statement as the underlying hedged items are recognised.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

(iii) Derivatives that do not qualify for hedge accounting and those not designated as hedges

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and those not designated as hedges are recognised immediately in the consolidated income statement.

3. Turnover, Operating Profit and Segment Information

The turnover consists of revenues earned from cruise and cruise related activities and charter hire.

The Group is principally engaged in the operation of passenger cruise ships. Cruise and cruise related revenues comprise sales of passenger tickets, including, in some cases, air transportation to and from the cruise ship, and revenues from onboard services and other related services, including gaming, food and beverage. Charter hire revenue includes the lease of a catamaran to a third party customer. In August 2005, the Group entered into a charter and sale agreement to dispose of its catamaran and as a result, the Group ceased to receive revenue from the charter hire of the catamaran.

3. Turnover, Operating Profit and Segment Information *(continued)*

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

2005	Cruise and cruise related activities	Charter hire	Total
	US$'000	US$'000	US$'000
Turnover			
Passenger ticket revenues	1,275,492	—	1,275,492
Onboard and other revenues	679,307	—	679,307
Total revenues	1,954,799	—	1,954,799
Operating profit/(loss) before the reversal of previously recognised impairment loss/ (impairment loss)	147,518	(1,581)	145,937
Reversal of previously recognised impairment loss/(Impairment loss)	1,300	(2,700)	(1,400)
Operating profit/(loss) after the reversal of previously recognised impairment loss/ (impairment loss)	148,818	(4,281)	144,537
Interest income			8,484
Financial costs			(155,930)
Share of loss of an associate			(5,219)
Other non-operating income, net			28,675
Profit before taxation			20,547
Taxation			(2,641)
Profit for the year			17,906
Segment assets	4,972,329	—	4,972,329
Goodwill	368,104	—	368,104
Other unallocated assets			70,446
Total assets			5,410,879
Segment liabilities	581,206	—	581,206
Long-term borrowings (including current portion)	2,927,571	—	2,927,571
	3,508,777	—	3,508,777
Tax liabilities			2,221
Total liabilities			3,510,998
Capital expenditure	708,674	—	708,674
Depreciation and amortisation	175,043	979	176,022

3. Turnover, Operating Profit and Segment Information *(continued)*

(Restated) 2004	**Cruise and cruise related activities**	**Charter hire**	**Total**
	US$'000	**US$'000**	**US$'000**
Turnover			
Passenger ticket revenues	1,092,075	—	1,092,075
Onboard and other revenues	604,359	2,573	606,932
Total revenues	1,696,434	2,573	1,699,007
Operating profit/(loss) before impairment loss	135,428	(601)	134,827
Impairment loss	(14,500)	—	(14,500)
Operating profit/(loss) after impairment loss	120,928	(601)	120,327
Interest income			2,985
Financial costs			(110,005)
Other non-operating expenses, net			(23,920)
Loss before taxation			(10,613)
Taxation			(971)
Loss for the year			(11,584)
Segment assets	4,486,990	13,417	4,500,407
Goodwill	367,396	—	367,396
Other unallocated assets			117,310
Total assets			4,985,113
Segment liabilities	562,192	770	562,962
Long-term borrowings (including current portion)	2,594,875	—	2,594,875
	3,157,067	770	3,157,837
Tax liabilities			1,766
Total liabilities			3,159,603
Capital expenditure	455,476	972	456,448
Depreciation and amortisation	179,311	2,555	181,866

3. Turnover, Operating Profit and Segment Information *(continued)*

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

2005	Turnover	Operating profit	Total assets	Capital expenditure
	US$'000	**US$'000**	**US$'000**	**US$'000**
Asia Pacific[2]	365,332	78,185	785,397	33,760
North America[1]	1,453,633	60,176	4,186,932	674,914
Others	135,834	6,176	—	—
	1,954,799	**144,537**	4,972,329	**708,674**
Goodwill			368,104	
Other unallocated assets			70,446	
			5,410,879	

(Restated) 2004	Turnover	Operating profit	Total assets	Capital expenditure
	US$'000	**US$'000**	**US$'000**	**US$'000**
Asia Pacific	384,249	94,497	681,725	8,665
North America[1, 3]	1,195,813	30,331	3,818,682	447,783
Others	118,945	5,198	—	—
	1,699,007	130,026	4,500,407	456,448
Goodwill		(9,699)	367,396	
Other unallocated assets		—	117,310	
		120,327	4,985,113	

Notes:

1. Substantially, all the turnover and operating profit arises in the United States of America.
2. Included in the operating profit of Asia Pacific for the year ended 31 December 2005 was a net impairment loss of US$1.4 million.
3. Included in the operating profit of North America for the year ended 31 December 2004 was an impairment loss of US$14.5 million.

4. Operating Profit

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

	GROUP	
	2005	(Restated) 2004
	US$'000	US$'000
Depreciation of property, plant and equipment	**174,215**	163,357
Amortisation of software development costs	**1,807**	2,045
Amortisation of goodwill	**—**	9,699
Amortisation of trade names	**—**	6,765
Total depreciation and amortisation analysed into:	**176,022**	181,866
- relating to operating function	**166,300**	172,299
- relating to selling, general and administrative function	**9,722**	9,567
Staff costs (see note 11)	**433,477**	356,231
Fuel costs	**146,118**	98,521
Operating leases - land and buildings	**8,771**	8,349
Auditors' remuneration - audit fees	**912**	995
Advertising expenses	**85,722**	83,834
Impairment loss (see note 5)	**1,400**	14,500

5. Impairment Loss

	GROUP	
	2005	2004
	US$'000	US$'000
Impairment loss: Ship, catamaran and onboard equipment	**2,700**	14,500
Reversal of previously recognised impairment loss	**(1,300)**	—
	1,400	14,500

In January 2006, the Group entered into an agreement to dispose of s/s Norway and she was delivered to her new owner in January 2006 following the completion of the sale transaction. As a result of this disposal, as at 31 December 2005, the Group recorded a reversal of previously recognised impairment loss in the amount of US$1.3 million being the amount by which the sale proceeds exceeded the carrying amount of s/s Norway.

On 1 August 2005, the Group entered into a charter and sale agreement of its catamaran with a third party customer. The terms of the arrangement are such that the Group had effectively disposed of the catamaran in August 2005 on deferred payment terms. Accordingly, the Group recorded an impairment loss of US$2.7 million in relation to this vessel, being the excess of its carrying value over the net present value of the proceeds to be received under the above charter and sale agreement.

During the year ended 31 December 2004, the Group carried out an impairment assessment on certain ships for which there were indications of possible impairment. As a result of the review, the Group reduced the carrying value of s/s Norway by recording an impairment charge of US$14.5 million. The impairment loss represented the amount by which the carrying amount of assets exceeded their recoverable amounts.

6. Financial Costs

	GROUP	
	2005	(Restated) 2004
	US$'000	US$'000
Amortisation of:		
- bank loans arrangement fees	**15,318**	8,227
- issue costs of convertible bonds and US$250 million Senior Notes	**1,704**	1,058
Interests on:		
- bank loans and others	**115,743**	82,306
- convertible bonds and US$250 million Senior Notes	**41,581**	24,556
Loans arrangement fees written off	**—**	4,086
Total borrowing costs incurred	**174,346**	120,233
Less: interest capitalised in property, plant and equipment	**(18,416)**	(10,228)
Total financial costs	**155,930**	110,005

The capitalisation rate applied to funds borrowed and used for the construction of the cruise ships during the year ended 31 December 2005 was between 2.6% and 4.0% per annum (2004: 1.9% to 3.8% per annum).

7. Share of Loss of an Associate

The Group has accounted for its 26% interest in Valuair Limited ("Valuair") using the equity method and has recorded its portion of Valuair's net operating results as share of loss of an associate. In July 2005, Valuair announced a merger with Jetstar Asia Airways Pte. Ltd. ("Jetstar"), an affiliated company of Qantas Airways. The merger has resulted in the Group ceasing to have significant influence in Valuair as its investment in Valuair has been exchanged for a 2.4% investment in Orangestar Investment Holdings Pte. Ltd., the holding company of Jetstar and Valuair (see note 17).

During the year ended 31 December 2005, the Group recorded its share of loss in Valuair of US$5.2 million, being the Group's portion of Valuair's results from the date of acquisition in mid-December 2004 to the date the Group ceased to have significant influence in July 2005.

8. Other Non-Operating Income/(Expenses), Net

	GROUP	
	2005	2004
	US$'000	US$'000
Loss on disposal of property, plant and equipment	**(559)**	(147)
Gain/(Loss) on derivative instruments: forward contracts	**3,868**	(11,334)
Gain on derivative instruments: fuel swaps	**573**	—
Loss on foreign exchange	**(1,435)**	(1,778)
Gain/(Loss) on translation of debts	**29,418**	(9,545)
Other non-operating expenses, net	**(3,190)**	(1,116)
	28,675	(23,920)

9. Taxation

	GROUP	
	2005	2004
	US$'000	US$'000
Overseas taxation		
- Current taxation	**2,782**	1,561
- Deferred taxation	**(109)**	(166)
	2,673	1,395
Under/(Over) provision in respect of prior years		
- Current taxation	**(189)**	(555)
- Deferred taxation	**157**	131
	2,641	971
Deferred taxation charged/(credited) in respect of temporary differences	**48**	(35)

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, is subject to U.S. federal income taxation with respect to certain income derived from its foreign-flagged operations and the income derived from its U.S. subsidiaries (which commenced operations in 2004 under the NCL America brand).

NCLC's foreign-flagged operations derive income from the international operation of ships ("Shipping Income"). Under Section 883 of the Code, certain foreign corporations, though engaged in the conduct of a trade or business within the United States, are exempt from U.S. federal income taxes on (or in respect of) gross income derived from the international operation of ships. NCLC believes that substantially all of its income from the international operation of ships is properly categorised as exempt Shipping Income. Effective for taxable years beginning on or after 24 September 2004, the 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. NCLC recorded an income tax provision of US$1.2 million due to the enactment of the Final Regulations.

Income derived from operations of NCLC's U.S. flagged operations (under the NCL America brand) generally is subject to U.S. federal income taxation at graduated rates of up to 35%, after an allowance for deductions. U.S. source dividends paid by NCL America generally would be subject to a 30% withholding tax.

10. Earnings/(Loss) Per Share

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

	GROUP	
	2005 **US$'000**	(Restated) 2004 US$'000
BASIC		
Profit/(Loss) for the year	**17,906**	(11,584)
Weighted average outstanding ordinary shares in thousands	**5,296,717**	5,293,187
Basic earnings/(loss) per share in US cents	**0.34**	(0.22)
DILUTED		
Profit/(Loss) for the year	**17,906**	(11,584)
Weighted average outstanding ordinary shares in thousands	**5,296,717**	5,293,187
Effect of dilutive ordinary shares in thousands	**3,227**	524
Weighted average outstanding ordinary shares after assuming dilution in thousands	**5,299,944**	5,293,711
Diluted earnings per share in US cents	**0.34**	N/A*

The convertible bonds have not been included in the calculation of diluted earnings per share as they are anti-dilutive.

* Diluted loss per share for the year ended 31 December 2004 is not shown, as the diluted loss per share is less than the basic loss per share.

11. Staff Costs

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

	GROUP	
	2005 **US$'000**	(Restated) 2004 US$'000
Wages and salaries	**410,572**	338,159
Unutilised annual leave	**66**	628
Termination benefits	**1,287**	860
Social security costs	**15,039**	8,462
Non-cash share option expenses	**626**	460
Pension costs - defined contribution plans (see note 34(a))	**5,887**	7,662
	433,477	356,231

12. Emoluments of Directors and Senior Management

The aggregate amounts of emoluments of the Directors of the Company for the year ended 31 December 2005 is set out as follows:

Name of directors	Fees	Salary	Discretionary bonuses	Other benefits[(a)]	Contribution to provident fund	Subtotal	Accrued unfunded pension liability	Non-cash share option expenses	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2005									
Tan Sri Lim Kok Thay	12	1,122	234	7	3	1,378	—	226	1,604
Mr. Alan Howard Smith, J.P.	55	—	—	—	—	55	—	—	55
Mr. Chong Chee Tut	12	465	97	146	16	736	—	26	762
Mr. William Ng Ko Seng	12	273	57	37	2	381	—	23	404
Mr. David Colin Sinclair Veitch	12	1,371	284	187	—	1,854	988	187	3,029
Mr. Tan Boon Seng	44	—	—	—	—	44	—	—	44
Mr. Lim Lay Leng	50	—	—	—	—	50	—	—	50
	197	**3,231**	**672**	**377**	**21**	**4,498**	**988**	**462**	**5,948**

Name of directors	Fees	Salary	Discretionary bonuses	Other benefits[(a)]	Contribution to provident fund	Subtotal	Accrued unfunded pension liability	(Restated) Non-cash share option expenses	(Restated) Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2004									
Tan Sri Lim Kok Thay	12	1,058	221	8	3	1,302	—	285	1,587
Mr. Alan Howard Smith, J.P.	48	—	—	—	—	48	—	—	48
Mr. Chong Chee Tut	12	424	89	150	15	690	—	36	726
Mr. William Ng Ko Seng	12	257	53	134	2	458	—	27	485
Mr. David Colin Sinclair Veitch	12	1,317	90	173	—	1,592	2,192	157	3,941
Mr. Tan Boon Seng	48	—	—	—	—	48	—	—	48
Mr. Lim Lay Leng	48	—	—	—	—	48	—	—	48
	192	3,056	453	465	20	4,186	2,192	505	6,883

Note:

(a) Other benefits include housing allowances, other allowances and benefits in kind.

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

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

	GROUP	
	2005	(Restated) 2004
	US$'000	US$'000
Fees	**36**	36
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	**5,107**	4,602
Contributions to provident fund	**19**	18
Accrued unfunded pension liability	**1,138**	2,291
Ex-gratia paid to a past individual	**525**	—
Non-cash share option expenses	**439**	478
	7,264	7,425
Number of Directors included in the five highest paid individuals	**3**	3

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

	Number of individuals	
	2005	2004
HK$4,000,001 - HK$4,500,000	**—**	1
HK$4,500,001 - HK$5,000,000	**—**	1
HK$5,500,001 - HK$6,000,000	**1**	1
HK$6,000,001 - HK$6,500,000	**1**	—
HK$8,000,001 - HK$8,500,000	**1**	—
HK$12,000,001 - HK$12,500,000	**1**	1
HK$23,500,001 - HK$24,000,000	**1**	—
HK$30,500,001 - HK$31,000,000	**—**	1

13. Intangible Assets

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

	Goodwill arising on acquisition of 84.5% of NCLH	Negative goodwill arising on acquisition of 15.5% of NCLH	Subtotal	Trade names	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
GROUP					
2005					
Opening net book value at 31 December 2004, as previously reported	407,165	(39,769)	367,396	237,890	605,286
Adoption of HKFRS 3	—	39,769	39,769	—	39,769
At 1 January 2005, as restated	407,165	—	407,165	237,890	645,055
Adjustments (see below)	(39,061)	—	(39,061)	—	(39,061)
At 31 December 2005	**368,104**	**—**	**368,104**	**237,890**	**605,994**
2004					
Cost					
At 1 January 2004 and 31 December 2004	456,624	(45,868)	410,756	291,600	702,356
Accumulated amortisation and impairment					
At 1 January 2004	(37,881)	4,220	(33,661)	(46,945)	(80,606)
Amortisation	(11,578)	1,879	(9,699)	(6,765)	(16,464)
At 31 December 2004	(49,459)	6,099	(43,360)	(53,710)	(97,070)
Net book value at 31 December 2004	407,165	(39,769)	367,396	237,890	605,286

In December 1999, the Group through a subsidiary, Arrasas Limited ("Arrasas"), acquired an interest of approximately 38.6% of the then outstanding shares of NCLH 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 NCLH. Following the purchase by Arrasas of an additional 10.9% of the shares of NCLH from related companies (at Norwegian Kroner ("NOK") 15 per share) on 29 November 2000, Arrasas owned 95.4% of the shares in NCLH.

In accordance with Norwegian law, Arrasas on 30 November 2000 compulsorily acquired the remaining shares in NCLH held by the minority shareholders, at an offer price of NOK13 per share after owning 95.4% of the shares in NCLH. As a result of this acquisition, Arrasas became the sole owner of all outstanding shares of NCLH. Persons formerly holding in aggregate 1,831,848 shares rejected the offer price ("minority shareholders"). Arrasas then submitted a valuation petition to the Oslo City Court to request the valuation court to determine the fair value of the shares held by the minority shareholders.

13. Intangible Assets *(continued)*

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 NOK25 per share. Pursuant to this decision, Arrasas is required to pay the minority shareholders NOK25 per share. As at 31 December 2003, the Group provided an aggregate amount of approximately US$46.7 million, representing the aggregate amount of the additional NOK10 per share to related companies and the amount in excess of the offer price of NOK13 per share to the minority shareholders in the compulsory acquisition in November 2000. On 8 January 2004, Arrasas filed an appeal against the decision granted on 5 December 2003.

On 28 June 2005, the Appeal Court ruled that the redemption price for the share is fixed at NOK16.50 per share, plus 5.5% annual and compound interest from 30 November 2000 until payment is made. Based on this decision, Arrasas would now be required to pay the minority shareholders the price as fixed by the Appeal Court plus interest from 30 November 2000. In addition, pursuant to the terms of the respective stock purchase agreements with the related companies, Arrasas will also have to pay the related companies an additional NOK1.50 per share (representing the amount in excess of NOK15 per share to the related companies). As a result of this ruling by the Appeal Court, the Group made an adjustment to the purchase consideration resulting in a reduction to goodwill previously recognised in the amount of US$39.1 million.

For the years ended 31 December 2005 and 2004, the Group recorded legal and other costs of approximately US$1.1 million and US$0.2 million, respectively, related to this matter.

In addition, the Group is also involved in another on-going legal actions which is currently pending final disposal (see note 32(ii)(8)).

Impairment tests

Goodwill

The Group has concluded that NCL Corporation Ltd. ("NCLC") business has a single reportable and operating segment, with each ship considered to be a component. Each component constitutes a business for which discrete financial information is available and management regularly reviews the operating results and, therefore, each component is considered a reporting unit. NCLC's reporting units have similar economic characteristics, therefore, NCLC aggregates all of the reporting units in assessing goodwill.

The recoverable amount is determined based on value-in-use calculations. The impairment review of goodwill is based on the expected future cash flows of the ships approved by management covering a four-year period with a residual period using the estimated growth rate of 2.5% and discount rate of 11.0%. The growth rate used is based on past performance and managements' expectation of the future. The impairment review also considers the transaction approach whereby NCLC estimated fair value based on a recent sale transaction of a similar company and where necessary, the fair value estimated by the guideline company method which utilises market value of companies with similar operations.

Trade names

The recoverable amount of trade names is determined based on value-in-use calculations. The impairment review of the trade names is based on the expected future cash flows of the ships which are under the Norwegian Cruise Line and Orient Lines trade names, using the estimated current market royalty rates and anticipated revenues associated with the respective brands. The estimated current market royalty rates for Norwegian Cruise Line and Orient Lines trade names were based on market royalty rate ranging of 2% to 8% for the hospitality industry.

Based on the impairment assessment above, the Group has concluded that there is no impairment with regards to the Group's goodwill and trade names.

14. Property, Plant and Equipment

Property, plant and equipment consist of the following:

GROUP

2005	Cruise ships, catamaran, passenger ferry and ship improvements	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						
At 1 January 2005	3,536,239	85,302	191,446	621,456	21,302	4,455,745
Exchange differences	23	(411)	(65)	—	—	(453)
Reclassification of property, plant and equipment	777,275	168	6,172	(777,275)	(6,340)	—
Additions	83,256	1,868	23,459	587,078	13,013	708,674
Written off	—	(1,388)	(4,046)	—	—	(5,434)
Disposals	(37,524)	(33)	(1,326)	—	—	(38,883)[1]
Adjustments	—	—	—	—	(2,433)[2]	(2,433)
At 31 December 2005	**4,359,269**	**85,506**	**215,640**	**431,259**	**25,542**	**5,117,216**
Accumulated depreciation and impairment						
At 1 January 2005	(519,869)	(19,362)	(95,030)	—	—	(634,261)
Exchange differences	(4)	(10)	66	—	—	52
Reclassification of property, plant and equipment	—	82	(82)	—	—	—
Charge for the year	(152,788)	(3,091)	(18,336)	—	—	(174,215)
Impairment loss	(1,400)	—	—	—	—	(1,400)
Written off	—	1,388	4,035	—	—	5,423
Disposals	27,972	30	626	—	—	28,628[1]
At 31 December 2005	**(646,089)**	**(20,963)**	**(108,721)**	**—**	**—**	**(775,773)**
Net book value						
At 31 December 2005	**3,713,180**	**64,543**	**106,919**	**431,259**	**25,542**	**4,341,443**

Notes:

1. Included in the disposal amount is the cost and accumulated depreciation of a catamaran which was disposed of in August 2005 pursuant to a charter and sale agreement. The terms of the agreement are such that the Group had effectively disposed of the catamaran in August 2005 on deferred payment terms.

2. During the year ended 31 December 2005, other construction in progress costs of US$2.4 million was expensed to the consolidated income statement as the circumstances indicated that certain projects have become commercially not viable.

14. Property, Plant and Equipment *(continued)*

GROUP

(Restated) 2004	Cruise ships, catamaran, passenger ferry and ship improvements	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						
At 31 December 2003	3,676,541	86,004	214,226	253,424	23,372	4,253,567
Adoption of HKAS 17	—	(1,971)	—	—	—	(1,971)
At 1 January 2004, as restated	3,676,541	84,033	214,226	253,424	23,372	4,251,596
Exchange differences	—	320	206	—	—	526
Acquisition of a subsidiary	—	—	2,288	—	—	2,288
Reclassification of property, plant and equipment	—	558	2,373	—	(2,931)	—
Additions	80,049	407	4,811	368,032	861	454,160
Written off	(230)	(16)	(2,631)	—	—	(2,877)
Disposals	(220,121)	—	(29,827)	—	—	(249,948)
At 31 December 2004	3,536,239	85,302	191,446	621,456	21,302	4,455,745
Accumulated depreciation and impairment						
At 31 December 2003	(510,230)	(16,018)	(100,446)	—	—	(626,694)
Adoption of HKAS 17	—	125	—	—	—	125
At 1 January 2004, as restated	(510,230)	(15,893)	(100,446)	—	—	(626,569)
Exchange differences	—	(119)	(205)	—	—	(324)
Charge for the year	(141,844)	(3,350)	(18,163)	—	—	(163,357)
Impairment loss	(14,500)	—	—	—	—	(14,500)
Written off	230	—	2,629	—	—	2,859
Disposals	146,475	—	21,155	—	—	167,630
At 31 December 2004	(519,869)	(19,362)	(95,030)	—	—	(634,261)
Net book value						
At 31 December 2004	3,016,370	65,940	96,416	621,456	21,302	3,821,484

14. Property, Plant and Equipment *(continued)*

Included within property, plant and equipment are assets in the charter hire segment as follows:

2004	**Catamaran**	**Equipment and motor vehicles**	**Total**
	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

Included within equipment and motor vehicles are net book value of motor vehicles held under finance leases of US$10.1 million and US$0.9 million as at 31 December 2005 and 2004, respectively.

At 31 December 2005 and 2004, the net book value of property, plant and equipment pledged as security for the Group's long-term bank loans amounted to US$4.2 billion and US$3.7 billion respectively.

Net book value of land comprises:

	GROUP	
	2005 US$'000	2004 US$'000
Hong Kong:	**—**	—
Outside Hong Kong:		
Freehold land	**6,508**	6,508

15. Lease Prepayments

The Group's interest in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	GROUP	
	2005 US$'000	(Restated) 2004 US$'000
Hong Kong:	**—**	—
Outside Hong Kong:		
Long leasehold (not less than 50 years)	**1,050**	1,100
Medium leasehold (less than 50 years but not less than 10 years)	**689**	718
	1,739	1,818

16. Investments in Subsidiaries

	COMPANY	
	2005	2004
	US$'000	US$'000
Investments at cost:		
Unlisted shares	**1,633,690**	1,647,700
Amounts due from subsidiaries	**1,111,274**	1,171,450
Amounts due to subsidiaries	**(9,184)**	(30,202)
	2,735,780	2,788,948

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

A list of principal subsidiaries is included in note 35 to the consolidated financial statements.

17. Investment in an Associate and Available-For-Sale Investment

The movements of the investment in an associate are as follows:

	GROUP	
	2005	2004
	US$'000	US$'000
At 1 January	**15,148**	—
Acquisition of an associate during the year	**—**	15,148
Additional investment during the year	**356**	—
Share of loss of an associate	**(5,219)**	—
Derecognition: amount classified as an available-for-sale investment	**(10,285)**	—
At 31 December	**—**	15,148

In December 2004, the Company through an indirect wholly-owned subsidiary, Star Cruises Singapore Investment Holding Pte. Ltd., acquired an associate, 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 ("Valuair")	Singapore	Ordinary shares of S$1.00 each	26%	Provision of airline transportation and air chartering services

S$: Singapore Dollar

In July 2005, Valuair announced a merger with Jetstar Asia Airways Pte. Ltd. ("Jetstar"), an affiliated company of Qantas Airways. The merger has resulted in the Group ceasing to have significant influence in Valuair as its investment in Valuair has been exchanged for a 2.4% investment in Orangestar Investment Holdings Pte. Ltd. ("Orangestar"), the holding company of Jetstar and Valuair.

The carrying value of the investment in Valuair at the end of July 2005 has been regarded as fair value on initial measurement of the investment in Orangestar. The investment in Orangestar has been classified as an available-for-sale investment under HKAS 39.

18. Other Assets

	GROUP		COMPANY	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Loan arrangement fees	**52,699**	53,535	**5,039**	6,758
Convertible bonds and senior notes issuance costs	**9,926**	10,606	**1,341**	2,081
Software development costs, net	**14,291**	15,314	**—**	—
Others	**24,627**	5,640	**221**	—
	101,543	85,095	**6,601**	8,839

19. Consumable Inventories

	GROUP	
	2005	2004
	US$'000	US$'000
Food and beverages	**14,582**	8,648
Supplies, spares and consumables	**23,750**	33,411
	38,332	42,059

20. Trade Receivables

	GROUP	
	2005	2004
	US$'000	US$'000
Trade receivables	**25,104**	15,906
Less: Provisions	**(2,294)**	(3,817)
	22,810	12,089

At 31 December 2005 and 2004, the ageing analysis of the trade receivables were as follows:

	GROUP	
	2005	2004
	US$'000	US$'000
Current to 30 days	**16,208**	4,983
31 days to 60 days	**2,251**	2,557
61 days to 120 days	**2,570**	2,897
121 days to 180 days	**2,098**	2,345
181 days to 360 days	**1,970**	2,473
Over 360 days	**7**	651
	25,104	15,906

Credit terms generally range from payment in advance to 45 days credit terms. The Group recognised a loss of approximately US$0.5 million (2004: US$0.7 million) for the impairment of its trade receivables during the year ended 31 December 2005.

21. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	GROUP		COMPANY	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
Deposits with banks – maturing within 3 months	**83,228**	127,992	**61,176**	117,310
Cash and bank balances	**104,470**	213,035	**52**	136
	187,698	341,027	**61,228**	117,446

The effective interest rate on deposits with banks – maturing within 3 months was 3.8% (2004: 2.1%); these deposits have an average maturity of 9 days.

22. 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 wholly-owned indirectly by a brother of Tan Sri Lim Kok Thay.

Genting Berhad ("GB"), a company in which Tan Sri Lim Kok Thay has a deemed interest and which is listed on 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 Euro MTF Market of the Luxembourg Stock Exchange and the Singapore Exchange Securities Trading Limited.

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 2005, the carrying amount of this investment in WCIL amounted to US$65,000 and is included within other assets. The Group's share of losses from WCIL amounted to US$189,000 and US$246,000 for the years ended 31 December 2005 and 2004 respectively.

VXL Capital Limited ("VXL") is a company in which a brother of Tan Sri Lim Kok Thay has a substantial interest and is listed on The Stock Exchange of Hong Kong Limited.

Significant related party transactions entered into or subsisting between the Group and these companies during the year ended 31 December 2005 are set out below:

(a) KHD, together with its related companies, is 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$23,000 and US$12,000 in the years ended 31 December 2005 and 2004 respectively.

(b) GB and its related companies provide certain services to the Group, including treasury services, secretarial services, certain information technology support services, purchasing and administrative assistance 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$1,443,000 and US$711,000 in the years ended 31 December 2005 and 2004 respectively.

(c) The Group provides certain administrative support services to GIPLC internationally and the amounts charged to GIPLC were approximately US$70,000 and US$66,000 for the years ended 31 December 2005 and 2004 respectively.

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

(d) WCIL together with its related companies operates and administers the WorldCard programme on an international basis. The Group also implemented joint promotion and marketing programmes for the purpose of promoting the respective businesses of the Group and the RWB Group.

During the years ended 31 December 2005 and 2004, the following transactions took place:

	GROUP	
	2005	2004
	US$'000	US$'000
Amounts charged from GB Group to the Group	**346**	387
Amounts charged to the GB Group by the Group	**235**	571

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 NCLH 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). On 28 June 2005, the Appeal Court ruled that the redemption price was NOK16.50 per share. Accordingly, Arrasas Limited paid the related companies an additional of NOK1.50 per share (see Note 13).

(f) On 8 December 2005, the Group entered into a joint venture agreement with VXL and a non-related party for the purpose of preparing for an expression of interest to be submitted to Hong Kong Government for the cruise terminal development and if appropriate, undertaking the project. Each of the Group and VXL has a 30% interest in the joint venture company ("JV company"). As at 31 December 2005, the carrying amount of this investment in JV company is included within the investment in an associate. The acquisition of a 30% interest in the JV company did not have a material impact on the Group's consolidated income statement for the year ended 31 December 2005.

Transactions with Directors

(g) 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 (as adjusted) under the Pre-listing Employee Share Option Scheme and HK$2.9944 (US$0.38) (as adjusted) 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 2005 and the outstanding share options as at 31 December 2005 are set out in the section headed "Share Options" in the Report of the Directors.

Key management compensation

(h) The key management compensation is analysed as follows:

	GROUP	
	2005	2004
	US$'000	US$'000
Salaries and other short-term employee benefits	**6,253**	4,059
Termination benefits	**682**	—
Post-employment benefits	**373**	161
Non-cash share option expenses	**138**	152
	7,446	4,372

23. Share Capital

	GROUP/COMPANY			
	Authorised share capital			
	Preference shares of US$0.10 each		Ordinary shares of US$0.10 each	
	No of shares	US$'000	No of shares	US$'000
At 31 December 2004 and 2005	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 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
At 1 January 2005	5,293,201,867	529,320
Issuance of shares pursuant to the Pre-listing Employee Share Option Scheme	6,975,380	698
At 31 December 2005	**5,300,177,247**	**530,018**

Note :

The remaining unapplied net proceeds of US$105.5 million from the rights issues in 2002 and 2003 have been used to fund the newbuilding programme in the year ended 31 December 2004. As at 31 December 2004, there were no unapplied proceeds from the rights issues.

24. Long-Term Borrowings

Long-term borrowings consist of the following:

		GROUP		COMPANY	
		2005 US$'000	(Restated) 2004 US$'000	**2005 US$'000**	(Restated) 2004 US$'000
SECURED:					
US$521.6 million syndicated term loan	(i)	**154,560**	171,734	**—**	—
US$450 million term loan	(ii)	**159,513**	182,300	**159,513**	182,300
US$400 million Reducing Revolving Credit Facility	(iii)	**320,500**	373,500	**320,500**	373,500
US$626.9 million secured Norwegian Dawn/Star loan	(iv)	**250,769**	271,666	**—**	—
US$225 million secured Norwegian Sun loan	(v)	**189,000**	207,000	**—**	—
€298 million secured Pride of America loans	(vi)	**336,638**	259,066	**—**	—
US$334.1 million secured Norwegian Jewel loan	(vii)	**324,261**	113,377	**—**	—
€308.1 million secured Pride of Hawaii loan	(viii)	**200,120**	47,212	**—**	—
US$800 million secured loan facility	(ix)	**545,000**	540,000	**—**	—
UNSECURED:					
US$250 million unsecured Senior Notes	(xi)	**250,000**	250,000	**—**	—
Convertible bonds (see Note 25)		**186,321**	176,812	**186,321**	176,812
Others		**10,889**	2,208	**—**	—
Total liabilities		**2,927,571**	2,594,875	**666,334**	732,612
Less: Current portion		**(256,442)**	(179,159)	**(98,575)**	(75,788)
Long-term portion		**2,671,129**	2,415,716	**567,759**	656,824

All the outstanding balance of the long-term borrowings are denominated in U.S. dollars except for an amount of € Nil (2004: €43 million) of the €298 million secured Pride of America loans and the outstanding balance of €169 million (2004: €34.9 million) of the €308.1 million secured Pride of Hawaii loan which are denominated in Euro.

As at 31 December 2005 and 2004, the net carrying amount of the Group's long-term borrowings would have been US$2.86 billion and US$2.53 billion, respectively, had they been stated net of transaction costs incurred (see note 18).

As at 31 December 2005 and 2004, the net carrying amount of the Company's long-term borrowings would have been US$0.66 billion and US$0.72 billion, respectively, had they been stated net of transaction costs incurred (see note 18).

As at 31 December 2005, after taking the effect of interest-rate swaps, approximately 38% of the Group's long-term borrowings was fixed (2004: 34%) and approximately 62% was variable (2004: 66%). The outstanding notional amount of interest-rate swap was approximately US$390.5 million as at 31 December 2005 (2004: US$451.4 million).

24. Long-Term Borrowings *(continued)*

The following is a schedule of principal repayments of the long-term borrowings in respect of the outstanding borrowings as at 31 December 2005 and 2004.

	GROUP		COMPANY	
		(Restated)		(Restated)
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**256,442**	179,159	**98,575**	75,788
In the second year	**264,262**	223,070	**98,575**	98,575
In the third to fifth years	**1,280,686**	828,148	**413,684**	449,749
After the fifth year	**1,126,181**	1,364,498	**55,500**	108,500
	2,927,571	2,594,875	**666,334**	732,612

(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. 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.

The outstanding loan balance related to m.v. SuperStar Virgo bears interest at the rate of 5.4% per annum at 31 December 2005.

(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. At 31 December 2005, the interest rate on the US$450 million term loan was 5.7% per annum.

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

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. At 31 December 2005, the interest rate on the US$400 million facility was 5.7% per annum.

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.

24. Long-Term Borrowings *(continued)*

(iv) US$626.9 million secured Norwegian Dawn/Star 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.

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.

At 31 December 2005, the interest rate ranged from 6.0% to 6.2% per annum based on the timing of the underlying draws of m.v. Norwegian Dawn loan.

(v) US$225 million secured Norwegian Sun loan

On 9 July 2003, Norwegian Sun Limited, 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 the 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 the 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 (the interest rate ranged from 5.6% to 5.7% per annum at 31 December 2005 based on the timing of the underlying draws), and is repayable in 16 equal half yearly installments with a balloon payment due in July 2011.

(vi) €298 million secured Pride of America loans

On 4 April 2003, Pride of America Ship Holding, Inc. (formerly known as 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 up to €298 million to part finance the construction of the Pride of America vessel. These syndicated term loans were fully drawndown in June 2005.

The €298 million secured term loans are repayable in 24 equal half yearly installments commencing 6 months from the ship delivery date.

In December 2005, the €258 million Pride of America Hermes Loan was converted into US dollars, and the applicable interest rate was converted from a floating LIBOR-based rate to a fixed rate of 5.715%. The Pride of America Hermes Loan 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. At 31 December 2005, the interest rate on the remaining €40 million Commercial Loan (which has been fixed into US dollars) bears interest at the rate of 6.0% per annum and is a floating LIBOR-based rate.

(vii) US$334.1 million secured Norwegian Jewel loan

On 20 April 2004, 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. This syndicated term loan was fully drawndown in August 2005.

The facility bears interest at a rate which varies according to LIBOR, and is repayable in 24 equal half yearly installments commencing 6 months from the ship delivery date. At 31 December 2005, the interest rate ranged from 4.7% to 5.0% per annum based on the timing of the underlying draws.

24. Long-Term Borrowings *(continued)*

(viii) €308.1 million secured Pride of Hawaii loan

On 20 April 2004, 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$364.9 million based on the exchange rate of US$1.1842 to €1 as at 31 December 2005 on the undrawn amount) from a syndicate of banks to part finance the construction of Pride of Hawaii.

As at 31 December 2005, the Group drewdown €169 million (equivalent to approximately US$200.1 million) of the loan to pay the shipyard.

The facility bears interest at a rate which varies according to European Interbank Offer Rate ("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. At 31 December 2005, the interest rate on the €308.1 million Pride of Hawaii loan was 3.0% per annum.

(ix) US$800 million secured 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 facility is secured by the vessels m.v. Norwegian Spirit, m.v. Norwegian Star and m.v. Pride of Aloha and bears interest at rates which varies according to LIBOR plus a margin that is dependent on the amount outstanding on the revolving credit facility (5.7% to 6.1% at 31 December 2005) 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 40% of the applicable margin on the unutilised commitment.

(x) €624 million secured Norwegian Pearl/Gem facility

On 7 October 2005, NCLC as borrower entered into a Revolving Loan Facility Agreement with a syndicate of banks to provide up to €624 million (equivalent to approximately US$738.9 million based on the exchange rate of US$1.1842 to €1 as at 31 December 2005) to finance 80% of the contract price of two vessels under construction for the NCLC Group fleet. After delivery of the vessels any amounts subsequently repaid can be redrawn and used for NCLC Group's general corporate and working capital purposes. The facility bears interest at a rate, which varies based upon the ratio of NCLC's funded debt to Earnings Before Interest, Taxation, Depreciation and Amortisation. This facility is repayable in 24 semi annual installments commencing 6 months from the relevant vessel's delivery date using a 12 year amortisation period with a balloon payment at final maturity. No amount was drawndown as at 31 December 2005.

NCLC's bank borrowings (iv) to (x) above

Each of the loan facilities are secured by, amongst other securities, a mortgage over each associated vessel. These loan agreements also contain covenants that require NCLC, among other things, to maintain a minimum level of free liquidity and to limit NCLC net debt-to-capital ratio.

(xi) US$250 million unsecured 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.

25. 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.

The analysis of the Bonds recorded in the balance sheet is as follows:

	GROUP/COMPANY	
		(Restated)
	2005	2004
	US$'000	US$'000
Face value of convertible bonds issued on 20 October 2003	**180,000**	180,000
Equity component	**(14,400)**	(14,400)
Liability component on initial recognition	**165,600**	165,600
Interest accrued as at 1 January	**11,212**	2,365
Interest expense for the year	**13,109**	12,447
Interest paid during the year	**(3,600)**	(3,600)
Liability component	**186,321**	176,812

The fair value of the liability component of the Bonds at 31 December 2005 amounted to US$188.1 million. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.0%. Interest expense on the Bonds is calculated using the effective interest method by applying the effective interest rate of 7.4% to the liability component.

As at 31 December 2005, 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 has been used for the construction of vessels in line with the Group's strategy to upgrade its fleet, as general working capital and for the reduction of outstanding liabilities under certain bank loans of the Group. During the year ended 31 December 2005, the remaining unapplied net proceeds of approximately US$67.3 million as at 31 December 2004 have been used to fund the newbuilding programme and for general working capital purposes. As at 31 December 2005, there were no unapplied proceeds from the issuance of Bonds.

26. Other Long-Term Liabilities

	GROUP	
	2005 US$'000	2004 US$'000
Deferred lease liability	**606**	894
Pension plan	**924**	1,092
Others	**1,101**	3,748
	2,631	5,734

27. Deferred Tax

	GROUP	
	Excess of capital allowances over depreciation	
	2005 US$'000	2004 US$'000
Deferred tax liabilities		
The movement on the deferred tax liabilities account is as follows:		
At 1 January	**539**	202
Exchange difference	**(2)**	8
Deferred taxation charged to consolidated income statement	**37**	329
At 31 December	**574**	539
The amount shown in the balance sheet includes the following:		
Deferred tax liabilities to be settled after more than 12 months	**574**	539

	GROUP	
	Tax losses	
	2005 US$'000	2004 US$'000
Deferred tax assets		
The movement on the deferred tax assets account is as follows:		
At 1 January	**387**	23
Exchange difference	**(17)**	—
Deferred taxation credited/(charged) to consolidated income statement	**(11)**	364
At 31 December	**359**	387
The amount shown in the balance sheet includes the following:		
Deferred tax assets to be recovered after more than 12 months	**359**	387

As at 31 December 2005, 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$210 million (2004: US$60 million).

28. Trade Creditors

The ageing of trade creditors as at 31 December 2005 and 2004 is as follows:

	GROUP	
	2005	2004
	US$'000	US$'000
Current to 60 days	**82,033**	76,311
61 days to 120 days	**8,369**	5,887
121 days to 180 days	**92**	813
Over 180 days	**321**	470
	90,815	83,481

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

29. Provisions, Accruals and Other Liabilities

Provisions, accruals and other liabilities consist of the following:

	GROUP		COMPANY	
		(Restated)		(Restated)
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Payroll, taxes and related benefits	**33,146**	25,902	**—**	—
Interest	**43,492**	38,490	**10,249**	10,474
Provisions (see below)	**12,303**	58,275	**2,300**	—
Others	**101,057**	86,614	**566**	1,988
	189,998	209,281	**13,115**	12,462

The movements of the provisions are as follows:

	GROUP		
	Provision for additional purchase consideration for NCLH acquisition US$'000	**Provision for legal and settlement costs US$'000**	**Total US$'000**
As at 1 January 2005	46,715	11,560	58,275
Adjustments (see Note 13)	(39,061)	—	(39,061)
Add : additional provision	—	7,362	7,362
Less : amounts paid	(7,654)	(6,619)	(14,273)
As at 31 December 2005	**—**	**12,303**	**12,303**

The provision of US$2.3 million as at 31 December 2005 of the Company was for the legal and settlement costs.

30. 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 2005, the fair value of the long-term borrowings, including the current portion, was approximately US$2,960.4 million, which was approximately US$32.8 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 notional 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 2005, the estimated fair market value of the interest rate swaps was approximately US$7.3 million, which was unfavourable to the Group. This amount has been recorded within the non-current portion of the derivative financial instruments in the accompanying balance sheet.

These interest rate swaps have been designated as cash flow hedges. 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 income statement as the underlying hedged items are recognised.

In July 2004, following the early repayment of certain long-term borrowings, the Group discontinued the related specific existing hedge accounting on the basis that the designated hedged risk ceased to exist and re-designated prospectively a new hedging relationship for all the interest rate swaps that were previously designated as a hedge for the interest payment on these long-term borrowings. Upon adoption of HKAS 39 on 1 January 2005, the fair value of these interest rate swaps of approximately US$10.7 million which was unfavourable to the Group at the date of discontinuing the hedge accounting has been adjusted to the opening balance of retained earnings (see Note 1).

(ii) 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.

Upon adoption of HKAS 39 on 1 January 2005, the changes in the fair value of these interest rate swaps, which qualify as hedges, are included as a separate component of reserves, and recognised in the consolidated income statement as the underlying hedged items are recognised. To the extent an instrument is not effective as a hedge, gains and losses are recognised in the consolidated income statement as a gain or loss on interest rate swaps. Therefore, on 1 January 2005, the ineffective portion of these interest rate swaps of approximately US$0.6 million, which was unfavourable to the Group has been adjusted to the opening balance of retained earnings (see Note 1).

As at 31 December 2005, the estimated fair market value of these interest rate swaps was approximately US$24,000, which was favourable to the Group. This amount has been recorded within the non-current portion of the derivative financial instruments in the accompanying balance sheet. The changes in the fair value of these interest rate swaps were included in interest expense in the consolidated income statement.

30. Financial Instruments *(continued)*

(c) Interest rate swaps and foreign exchange forward contracts *(continued)*

(iii) 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 2005, the estimated fair market value of these forward contracts was approximately US$3.6 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 income statement. This amount has been recorded within the current portion of the derivative financial instruments in the accompanying balance sheet.

(iv) 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. The changes in the fair value of these forward contracts were recognised as other expense in the consolidated income statement. These forward contracts matured in December 2005.

(v) The Group entered into fuel swap agreements to mitigate the impact of fluctuations in fuel prices. As at 31 December 2005, the Group had fuel swap agreements with an aggregate notional amount of US$12.5 million, maturing through 2006, to pay fixed price for fuel. As at 31 December 2005, the estimated fair market value of the fuel swap was approximately US$0.6 million, which was favourable to the Group. This amount has been recorded within the current portion of the derivative instruments in the accompanying balance sheet.

The changes in the fair value of these fuel swap agreements are recognised in the consolidated income statement.

The fair values of the above 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 2005 other than deposits of cash with reputable financial institutions.

31. Commitments

(i) Capital expenditure

The Group has the following commitments as at 31 December 2005 and 2004:

	GROUP	
	2005 **US$'000**	2004 US$'000
Contracted but not provided for		
- Cruise ships and other related costs	**1,335,000**	673,286

31. Commitments *(continued)*

(ii) Operating leases

Rent expense under non-cancellable operating lease commitments were US$8.1 million and US$7.6 million for the years ended 31 December 2005 and 2004 respectively.

At 31 December 2005 and 2004, future minimum lease payments payable under non-cancellable operating leases are follows:

	GROUP	
	2005	2004
	US$'000	US$'000
Within one year	**7,485**	6,301
In the second to fifth year inclusive	**16,459**	16,244
After the fifth year	**13,614**	14,951
	37,558	37,496

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

As at 31 December 2005 and 2004, the Group has future commitments to pay for usage of certain port facilities, as follows:

	GROUP	
	2005	2004
	US$'000	US$'000
Within one year	**15,947**	13,617
In the second and fifth year inclusive	**37,158**	44,908
After the fifth year	**60,807**	68,977
	113,912	127,502

(iv) Charter hire revenue

There was no charter hire revenue receivable under non-cancellable operating lease commitments in respect of catamaran and onboard equipment in the year ended 31 December 2005. In August 2005, the Group disposed of the catamaran on deferred payment terms.

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

32. Contingent Liabilities

(i) Contingencies

On 23 September 2005, NCL Corporation Ltd. ("NCLC") entered into a Letters of Credit Facility agreement (the "New L/C Facility") in an aggregate maximum amount of US$100 million to part secure the risks of processing NCLC Group credit card sales transactions. The two letter of credit facilities previously entered into by the Company on 25 September 2003 in an aggregate maximum amount of US$100 million were cancelled on the same day. There was no outstanding amount as at 31 December 2005.

(ii) Material litigation

(1) A proposed class action suit was filed on 1 August 2000 in the U.S. District Court for the Southern District of Texas against Norwegian Cruise Line Limited ("NCLL"), alleging that it violated the Americans with Disabilities Act of 1990 ("ADA") in its treatment of physically impaired passengers on board the Norwegian Sea (renamed the SuperStar Libra). The same plaintiffs also filed on the same date a proposed class action suit in a Texas state court alleging that NCLL and a third party violated Texas' Deceptive Trade Practices and Consumer Protection Act by misrepresenting certain characteristics and services available to the physically impaired onboard the Norwegian Sea. In connection with the state court lawsuit, in December 2001, the trial court denied the plaintiffs' motion for class certification, and the state appellate court upheld that denial. The state court judge granted NCLL's motion to dismiss the case and the plaintiff filed an appeal. In connection with the federal court lawsuit, on 9 September 2002, the District Court granted in part and denied in part NCLL's motion to dismiss the case. The District Court ruled that it was unnecessary for NCLL to make any physical changes to its vessels. The District Court permitted an immediate appeal of its ruling to the Fifth Circuit Court of Appeals, which subsequently dismissed the suit on other grounds. The U.S. Supreme Court accepted jurisdiction at the request of all parties and the matter was heard on 28 February 2005. On 6 June 2005, the Court ruled that the ADA is applicable to foreign flagged cruise vessels that operate in U.S. waters to the same extent that it applies to U.S. flagged ships. The Court further ruled that retrofitting existing ships with permanent modifications is not required, pursuant to a provision of the ADA that requires only "readily achievable" modifications. The Court stressed that a ship must comply with international safety regulations and that the ADA should not be construed to conflict with those international standards. The Court remanded the case to the Fifth Circuit to determine which claims in the lawsuit remain under the Court's ruling.

(2) A proposed class action suit was filed on 20 December 2000 in a Florida State Court alleging that NCLL discriminated against disabled persons in violation of the ADA and the Florida Trade Act on several of NCLL's vessels. Discovery has commenced. NCLL believes that it has meritorious defenses to these claims and, accordingly, is defending vigorously this action.

(3) A proposed class action suit was filed on 17 May 2001 in the U.S. District Court for the Southern District of New York alleging that during the period from 1 January 1998 to the present, NCLL failed to pay plaintiff crew members overtime wages in accordance with their contracts of employment. The proposed class consists of all unlicensed seafarers who worked on its vessels during that period of time and seeks recovery of overtime wages plus statutory penalty wages equal to two times the unpaid wages for each day the wages remain unpaid. The court entered an order certifying the case as a class action. In March 2005, the parties reached a settlement which was preliminarily approved by the Court on 21 April 2005. NCLL believes that the ultimate outcome of this matter, based on the settlement, will not have a material impact on its financial position, results of operations or cash flows.

(4) A proposed class action suit was filed on 12 June 2001 in Vancouver, British Columbia by a number of nurses alleging breach of a collective bargaining agreement and employment contract for non-payment of overtime wages. NCLL has settled this action and the settlement did not have a material impact on its financial position, results of operations or cash flows.

(5) On 25 July 2002, NCLL was served with a complaint in which a former employee alleged that NCLL failed to pay him severance pay/employment benefits following his discharge. Discovery is proceeding. The case is awaiting a trial date. NCLL believes that it has meritorious defenses to these claims and, accordingly, is defending vigorously this action.

32. Contingent Liabilities *(continued)*

(ii) Material litigation *(continued)*

(6) On 25 May 2003, an explosion in the boiler room onboard the s/s Norway resulted in the death of eight crew members and the injury of approximately 20 other crew members. All personal injury lawsuits stemming from the incident have been resolved. Additionally, the incident is currently under investigation by regulatory authorities and the United States Attorney's Office for the Southern District of Florida. NCLL is cooperating with the investigation. To date, none of the agencies involved has rendered opinions or conclusions concerning the incident.

(7) On 13 June 2005, NCLC was served with a class action complaint alleging a violation of Florida's Deceptive and Unfair Trade Practices Act and Unjust Enrichment in connection with the sale of shore excursions aboard NCLC's vessels. Discovery has commenced. NCLC believes that it has meritorious defenses to these claims and, accordingly, is defending vigorously this action.

(8) On 6 April 2001, a complaint was filed in the United States District Court for the Southern District of New York against Star Cruises Limited, Arrasas Limited (collectively, "Star") and the Bank of New York ("BNY"). The plaintiff claimed that Star violated the U.S. securities laws by making false and misleading disclosures in connection with Star's mandatory offer for the shares of NCL Holding ASA ("NCLH"), and that Star was unjustly enriched in connection with Star's acquisition of American Depositary Receipts ("ADRs") of NCLH previously beneficially owned by the plaintiffs. Except for its claim for unjust enrichment, the plaintiff's claims against Star were dismissed. The plaintiff also claims that BNY breached the deposit agreement governing NCLH's ADR programme when BNY accepted Star's subsequent offer. On 14 May 2001, BNY filed cross-claims against Star as well as third party claims against NCLH, alleging that these entities are liable to BNY for any amount for which BNY may be held liable under the original claims. Following the dismissal, BNY repleaded certain claims. With the exception of BNY's claim for contractual indemnification for its attorneys' fees and costs against NCLH, on 20 January 2005, the Court granted summary judgement in favour of NCLH against BNY. The Court also restored NCLH's claim for contractual indemnification for its attorneys' fees and costs against BNY. On 5 September 2001, a purported class action was filed against Star and BNY by other holders of NCLH's ADRs asserting similar claims as those in the original action. On 9 March 2004, the Court dismissed the purported class action against Star. BNY filed the same cross-claims against Star. On 20 January 2005, the Court granted summary judgement in favour of Star against BNY. On 9 August 2005, the Court granted BNY's motion for summary judgement on the claim for indemnification of its attorneys' fees. On 16 December 2005, Star and plaintiff entered into a settlement agreement and mutual release. On 27 December 2005, the Court ordered judgement on BNY's indemnification claim in the amount of US$2.3 million. NCLH is vigorously appealing this judgement. The Group has accrued for this amount (see note 29).

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.

33. 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.

33. Share Option Schemes *(continued)*

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

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.

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.

33. Share Option Schemes *(continued)*

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

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.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in US$ per share	**Options (thousands)**	Average exercise price in US$ per share	Options (thousands)
At 1 January	**0.3268**	**50,552**	0.3280	66,251
Exercised	**0.2686**	**(6,980)**	0.2686	(66)
Cancelled/forfeited	**0.3402**	**(14,566)**	0.3322	(15,633)
At 31 December	**0.3341**	**29,006**	0.3268	50,552

A summary of the share options outstanding as at 31 December 2005 is as follows:

	Options outstanding		**Options exercisable**
Exercise price	**Number outstanding (in thousands)**	**Weighted average remaining life (years)**	**Number (in thousands)**
US$0.2686	16,513	2.1	7,103
US$0.4206	12,493	1.9	6,085
	29,006	**2.0**	**13,188**

33. Share Option Schemes *(continued)*

(ii) Post-listing Employee Share Option Scheme

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

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

Purpose

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

Participants

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

Total number of shares available for issue

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

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.

33. Share Option Schemes *(continued)*

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

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

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

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

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.

Other than the share options granted on 23 August 2004 which 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.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**2.8003**	**89,529**	2.9944	99,649
Granted	**—**	**—**	1.7240	13,678
Cancelled/forfeited	**2.3522**	**(5,790)**	2.9944	(23,798)
At 31 December	**2.8313**	**83,739**	2.8003	89,529

33. Share Option Schemes *(continued)*

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

A summary of the share options outstanding as at 31 December 2005 is as follows:

	Options outstanding		Options exercisable
Exercise price	**Number outstanding (in thousands)**	**Weighted average remaining life (years)**	**Number (in thousands)**
HK$2.9944	72,988	6.6	32,556
HK$1.7240	10,751	8.6	Nil
	83,739	**6.9**	**32,556**

34. 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 limitations. NCLC makes matching contributions equal to 100% of the first 3% and 50% of the next 7% of the participant's contributions 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 an unfunded 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 2005 and 2004 as the SERP Plan is unfunded. NCLC recorded expenses related to the above described defined contribution plans of approximately US$3.2 million and US$4.5 million for the years ended 31 December 2005 and 2004, 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$0.1 million and US$0.01 million of the forfeited contribution were utilised in the years ended 31 December 2005 and 2004, respectively. As at 31 December 2005 and 2004, approximately US$0.10 million and US$0.08 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

NCLC maintains an unfunded Supplemental Senior Executive Retirement Plan ("SSERP Plan"), a defined benefit plan, for selected senior executives. NCLC has recorded within payroll, taxes and related benefits accrual at 31 December 2005 and 2004 of approximately US$9.7 million and US$8.9 million respectively with respect to the SSERP Plan in the accompanying balance sheet. NCLC 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 to the SSERP Plan by NCLC as at 31 December 2005 and 2004 as the SSERP Plan is currently unfunded. NCLC recorded expenses related to the above described defined benefit plan of approximately US$0.8 million and US$1.9 million within selling, general and administrative expenses for the years ended 31 December 2005 and 2004, respectively.

35. Principal Subsidiaries

The following is a list of principal subsidiary companies as at 31 December 2005:

Name of Company	Principal country of operation	Country of incorporation	Issued and fully paid up share capital (in thousands)	Effective equity interest in percentage	Principal activities
Subsidiaries held directly:					
Star Cruises Asia Holding Ltd.	Bermuda	Bermuda	US$158,032	100.00	Investment holding
NCL Corporation Ltd.	Bermuda	Bermuda	US$12	100.00	Holding company
Subsidiaries held indirectly:					
Star Cruise Management Limited	Note (1)	Isle of Man	US$2,000	100.00	Investment holding, ship management and marketing services
Cruise Properties Limited	Isle of Man	Isle of Man	RM197,600	100.00	Investment holding
Inter-Ocean Limited	Isle of Man	Isle of Man	US$52,000	100.00	Investment holding
Star Cruise Services Limited	Note (2)	Isle of Man	US$52,000	100.00	Investment holding and cruise services
Cruise Ferries Holding Limited	Note (2)	Bermuda	US$12	100.00	Investment holding and cruise ferry services
NCL International, Ltd.	Bermuda	Bermuda	US$12	100.00	Holding company
NCL (Bahamas) Ltd.	Note (2)	Bermuda	US$12	100.00	Operating company
NCL America Holdings, Inc.	USA	Delaware, USA	US$0.01	100.00	Holding company
NCL America Inc.	USA	Delaware, USA	US$0.003	100.00	Operating 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
Pride of America Ship Holding, Inc.	USA	Delaware, USA	US$0.001	100.00	Cruise services
Polynesian Adventure Tours, Inc.	USA	Hawaii, USA	US$30	100.00	Bus services
Norwegian Jewel Limited	Note (2)	Isle of Man	US$0.002	100.00	Cruise services

35. Principal Subsidiaries *(continued)*

Name of Company	Principal country of operation	Country of incorporation	Issued and fully paid up share capital (in thousands)	Effective equity interest in percentage	Principal activities
Pride of Hawaii, Inc.	USA	Delaware, USA	US$0.003	100.00	Cruise services
Norwegian Pearl, Ltd.	Note (2)	Bermuda	US$12	100.00	Cruise services
Norwegian Gem, Ltd.	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.

36. Significant Subsequent Event

In January 2006, the Group disposed of s/s Norway.

37. Approval of Financial Statements

These consolidated financial statements have been approved for issue by the Board of Directors on 20 February 2006.