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 and certain 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.

From 1 January 2006, the Group has adopted the following amendments and interpretation to existing HKFRS, which are relevant to its operations.

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The adoption of these amendments and interpretation did not result in significant changes to the Group's accounting policies.

The Group has not early adopted the following standard, amendment and interpretations that have been published but are not yet effective. The adoption of such standard, amendment and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

During the year ended 31 December 2006, the Group changed its accounting policy for technical spare parts whereby the technical spare parts are now classified as property, plant and equipment and depreciated over the remaining useful lives of the related vessels. The technical spare parts were previously included within consumable inventories and other assets.

The effects of the change in accounting policy have been accounted for retrospectively as follows:

	As previously reported	Effect of change in accounting policy	As restated
	US$'000	US$'000	US$'000
Group			
At 31 December 2005			
Property, plant and equipment	4,341,443	21,475	4,362,918
Other assets	101,543	(16,773)	84,770
Consumable inventories	38,332	(4,702)	33,630

This change in accounting policy does not have a material impact on the results of the Group in respect of the current and prior years.

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 date on which effective control is transferred to the Group or up to the date that effective 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 from the disposal and the Group's share of its net assets, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with Hong Kong Accounting Standard ("HKAS") 21 "The Effects of Changes in Foreign Exchange Rates".

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 the Group has significant influence. 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 the associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill (net of accumulated impairment loss) identified 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 associates are eliminated to the extent of the Group's interests in the associates; 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 associates at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment or where there are indications of possible impairment and is 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 are 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 associates 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 the 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.

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

Interest income and expense are recognised on a time proportion basis using the effective interest method.

(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 tax 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.

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

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

1. Principal Accounting Policies *(continued)*

(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. For the purpose of the consolidated cash flow statement, bank overdrafts, which are repayable on demand and form an integral part of an enterprise's cash managements are also included as a component of cash and cash equivalents. Bank overdrafts are shown within the current portion of long-term borrowings on the balance sheet.

(k) Restricted cash

Restricted cash consists of cash collateral in respect of certain agreements, including requirements imposed by the Group's credit card processors. Restricted cash fluctuates based on the level of advance ticket sales processed. In May 2006, cash collateral requirements imposed by the credit card processors were lifted. These requirements can be reinstated at the credit card processors' discretion.

(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 agreements. 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 (non-current).

(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 (non-current). 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 the consolidated income statement.

(n) Consumable inventories

Consumable inventories consist mainly of provisions and supplies 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.

1. Principal Accounting Policies *(continued)*

(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 "Financial Instruments: Recognition and Measurement". 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.

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) 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.

(r) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The finance charges are charged to the consolidated income statement over the lease periods.

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

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. 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)*

(r) Assets under leases *(continued)*

(iii) Sale and leaseback transactions - where the Group is the lessee

A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor. The lease payments and the sale price are usually interdependent as they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved and the economic and commercial substance of the whole arrangement.

(a) Finance leases

Sale and leaseback arrangements that result in the Group retaining the majority of the risks and rewards of ownership of assets are accounted for as finance leases. Any excess of sales proceeds over the carrying amount shall be deferred and amortised over the lease term. Each lease payment is allocated between the repayment of finance lease liabilities and finance charges so as to achieve a constant periodic rate of interest on the finance lease liability outstanding.

(b) Operating leases

Sale and leaseback arrangements that result in substantially all of the risks and rewards of ownership of assets being transferred to the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated income statement over the lease periods.

(s) 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, building and terminal building	20 - 99 years
Equipment and motor vehicles	3 - 20 years

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 included in property, plant and equipment and amortised when the software is available for use using the straight-line method over their estimated useful lives, not exceeding ten years.

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

Freehold land is not depreciated as it has infinite life. 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 the 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 the consolidated income statement are not capitalised upon the commencement of the project.

Capitalised project costs 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 (see note y).

1. Principal Accounting Policies *(continued)*

(t) Earnings per share

Basic earnings per share is computed by dividing net profit by the weighted average number of ordinary shares in issue 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.

(u) 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.

Where the terms and conditions of the options are modified before the vesting date, the incremental fair value of the options granted, measured immediately before and after the modification, is recognised in the consolidated income statement over the remaining vesting period. If the modification occurred after the vesting date, the incremental fair value of the options granted, measured immediately before and after the modification, is recognised immediately in the consolidated income statement.

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.

(v) Retirement benefit costs

Contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave employment before 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.

(w) 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.

(x) Borrowings and borrowing costs

Borrowings are recognised initially at fair value and are subsequently stated at amortised cost.

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.

(y) 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.

1. Principal Accounting Policies *(continued)*

(y) Impairment of assets *(continued)*

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 the consolidated income statement in the year in which the reversals are recognised.

(z) 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 foreign currency 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 currency exchange rate risk

The Group's exposure to foreign currency exchange rate risk relates primarily to the ship building contracts and the Euro-denominated debt. The ship contracts are denominated in Euro and the associated debt agreements are denominated in either U.S. dollar or Euro with certain conversion options. If denominated in Euro, the principal and interest payments for the debt will be payable in Euro, and will be subject to the exchange rate of the Euro at the time these payments are due. From time to time, the Group enters into foreign currency forward contracts and/or option 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 denominated forecasted transactions. The Group's principal net foreign currency exposure relates to the Singapore dollar, the Hong Kong dollar, and the Euro. To manage this exposure, the Group takes advantage of any natural offsets of the Group's foreign currency revenues and expenses and from time to time enters into foreign currency forward contracts and/or option contracts for a portion of the remaining exposure relating 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.

2. Financial Risk Management *(continued)*

(a) Financial risk factors *(continued)*

(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 consumption of fuel on its ships. The Group mitigates the financial impact of fluctuation in fuel prices by applying fuel surcharge in Asia and entering into fuel swap agreements.

(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 transactions (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 gains or losses 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.

2. Financial Risk Management *(continued)*

(b) Accounting for derivative financial instruments and hedging activities *(continued)*

(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. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill and trade names

The Group determines whether goodwill and trade names are impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill and/or trade names are allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose suitable discount and royalty rates in order to calculate the present value of those cash flows. The carrying amount of goodwill and trade names as at 31 December 2006 was US$599.0 million (2005: US$606.0 million). More details are given in note 14.

(b) Impairment of assets

The Group reviews its assets, other than goodwill and trade names, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Where an impairment indicator exists, the recoverable amount of the asset is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared with actual market data and actual transactions entered into by the Group. The carrying value of the property, plant and equipment as at 31 December 2006 was US$4.9 billion (2005: US$4.4 billion). More details are given in note 15.

(c) Estimated useful lives of property, plant and equipment

In accordance with HKAS 16 "Property, Plant and Equipment", the Group estimates the useful lives of property, plant and equipment to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the assets are acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual review of the assumptions made on useful lives to ensure that they continue to be valid.

(d) Share-based employee compensation

The fair value of share option granted is calculated using the extended binomial options pricing model based on certain highly subjective assumptions. Such subjective assumptions include the volatility of the share price, expected dividend per share, risk-free interest rate and expected option life and accordingly, any changes to the variables adopted may materially affect the estimation of the fair value of an option.

(e) Contingencies

Periodically, the Group assesses potential liabilities related to any lawsuits or claims brought against the Group or any asserted claims, including tax, legal and/or environmental matters. Although it is typically very difficult to determine the timing and ultimate outcome of such actions, the Group uses the best judgement to determine if it is probable that it will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. In assessing probable losses, the Group takes into consideration estimates of the amount of insurance recoveries, if any. In accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Group accrues a liability when it believes a loss is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertainties related to the eventual outcome of litigation and potential insurance recoveries, although the Group believes that the estimates and judgements are reasonable, it is possible that certain matters may be resolved for amounts materially difference from any estimated provisions or previous disclosures.

4. Turnover, Operating Profit and Segment Information

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. Cruise and cruise related revenues consist of passenger ticket revenues of approximately US$1,549.4 million and US$1,285.5 million for the years ended 31 December 2006 and 2005, respectively. The remaining portion relates to revenues from onboard and other related services. Charter hire revenue includes the lease of a catamaran to a third party customer and the Group ceased to receive revenue from the charter hire of the catamaran following its disposal in August 2005. Accordingly, the Group operates in one business segment from August 2005 onwards.

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

2006	**Turnover**	**Operating profit/(loss)**	**Total assets**	**Capital expenditure**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Asia Pacific	399,528	72,646	853,789	9,376
North America[1, 2]	1,719,492	(574)	4,693,029	831,765
Europe and others	224,035	(7,220)	—	—
	2,343,055	**64,852**	5,546,818	**841,141**
Goodwill			368,104	
Other unallocated assets			224,753	
			6,139,675	

2005	**Turnover**	**Operating profit**	**Total assets**	**Capital expenditure**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Asia Pacific[3]	365,542	78,185	785,397	33,760
North America[1]	1,464,919	60,176	4,186,932	677,052[4]
Europe and others	136,892	6,176	—	—
	1,967,353	144,537	4,972,329	710,812
Goodwill			368,104	
Other unallocated assets			70,446	
			5,410,879	

Notes:

1. Substantially, all the turnover and operating profit/(loss) arise in the United States of America.
2. Included in the operating loss of North America for the year ended 31 December 2006 was an impairment loss of US$30.6 million.
3. 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.
4. Included in the capital expenditure of North America for the year ended 31 December 2005 was an addition in technical spare parts of US$2.1 million as a result of the change in accounting policy for technical spare parts (see note 1(a)).

5. Operating Profit

Operating profit is stated after charging the following:

	GROUP	
	2006	2005
	US$'000	US$'000
Total depreciation and amortisation analysed into:	**215,926**	176,022
- relating to operating function	**203,104**	166,300
- relating to selling, general and administrative function	**12,822**	9,722
Staff costs (see note 12)	**522,718**	433,477
Fuel costs	**201,525**	146,118
Operating leases - land and buildings	**11,127**	8,771
Auditors' remuneration - audit fees	**968**	912
Advertising expenses	**85,468**	85,722
Impairment loss (see note 6)	**30,600**	1,400

6. Impairment Loss

	GROUP	
	2006	2005
	US$'000	US$'000
Impairment loss: Ship, catamaran and onboard equipment	**23,600**	2,700
Reversal of previously recognised impairment loss	**—**	(1,300)
Trade name	**7,000**	—
	30,600	1,400

The Group completed a review of its trade names and various ships for impairment purposes in December 2006 and determined that the Orient Lines trade name and a ship were impaired. Accordingly, for the year ended 31 December 2006, the Group wrote down the carrying value of the ship and their related assets in the amount of US$23.6 million and the carrying value of Orient Lines trade name in the amount of US$7.0 million, being the excess of the carrying value over their recoverable amounts. The recoverable amount of the ship was determined by reference to the estimated net selling price whereas the recoverable amount of trade name was determined by reference to the estimated value in use.

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.

7. Financial Costs

	GROUP	
	2006 **US$'000**	2005 US$'000
Amortisation of:		
- bank loans arrangement fees	**16,262**	15,318
- issue costs of convertible bonds and US$250 million Senior Notes	**1,786**	1,704
Interests on:		
- bank loans and others	**142,757**	115,743
- convertible bonds and US$250 million Senior Notes	**40,384**	41,581
Loans arrangement fees written off	**7,297**	—
Total borrowing costs incurred	**208,486**	174,346
Less: interest capitalised in property, plant and equipment	**(7,542)**	(18,416)
Total financial costs	**200,944**	155,930

The capitalisation rate applied to funds borrowed and used for the construction of the cruise ships during the year ended 31 December 2006 was 3.0% per annum (2005: 2.6% to 4.0% per annum).

8. Share of Losses of Associates

In the fourth quarter of 2005, the Group through a wholly-owned subsidiary, Star Cruises Asia Holding Ltd., subscribed for 5 shares for S$5 in Resorts World at Sentosa Pte. Ltd. ("RWS") (formerly known as Infinity @ TheBay Pte. Ltd.).

In 2006, the Group further subscribed for 9,062,495 shares for S$9,062,495 in RWS. Upon due subscription, the Group held 9,062,500 shares representing 25% interest in RWS. The Group accounted for its interest in RWS using the equity method and has recorded its portion of RWS's net operating results as share of profit/(loss) of an associate. During the year ended 31 December 2006, the Group's share of profits from RWS amounted to approximately US$3,000.

In addition, the Group has also accounted using the equity method for its 30% share of loss in Cruise City Holdings Limited ("Cruise City"), a company which has a wholly-owned subsidiary set up for the purpose of preparing for an expression of interest submitted to Hong Kong Government for development of a cruise terminal. During the year ended 31 December 2006, the Group has accounted for its share of loss in Cruise City of US$85,000.

During the year ended 31 December 2005, the Group recorded its share of loss in Valuair Limited ("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 a significant influence in July 2005. 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 a 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 19).

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

	GROUP	
	2006 **US$'000**	2005 US$'000
Gain/(Loss) on disposal of property, plant and equipment (see note (i) below)	**16,707**	(559)
Gain/(Loss) on derivative instruments and foreign exchange	**(5,644)**	3,006
Gain/(Loss) on translation of debts	**(35,122)**	29,418
Gain on disposal of a subsidiary	**1,337**	—
Impairment of non-cruise related investment (see note 19)	**(10,285)**	—
Shipyard compensation income (see note (ii) below)	**7,283**	—
Other non-operating expenses, net	**(832)**	(3,190)
	(26,556)	28,675

Notes:

(i) In September 2006, the Group disposed of m.v. Norwegian Crown for approximately US$110 million and realised a gain on disposal of the vessel of approximately US$16.7 million.

(ii) In September 2006, NCL Corporation Ltd. ("NCLC") entered into a €29 million or US$36.8 million, based on the Euro/U.S. dollar exchange rate at 30 September 2006, settlement agreement in connection with NCLC's pre and post-ship delivery claims against the builder of m.v. Pride of America. Settlement amounts of approximately US$7.3 million was related to the claims for post-delivery costs incurred by NCLC.

10. Taxation

	GROUP	
	2006 **US$'000**	2005 US$'000
Overseas taxation		
- Current taxation	**1,816**	2,782
- Deferred taxation	**(423)**	(109)
	1,393	2,673
Under/(Over) provision in respect of prior years		
- Current taxation	**(1,200)**	(189)
- Deferred taxation	**(57)**	157
	136	2,641
Deferred taxation charged/(credited) in respect of temporary differences	**(480)**	48

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.

NCLC, which is 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).

10. Taxation *(continued)*

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 benefit of US$1.2 million and an income tax provision of US$1.2 million for the years ended 31 December 2006 and 2005, respectively, due to the enactment of the Final Regulations.

Income derived from NCLC's U.S. subsidiaries 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 would generally be subject to a 30% withholding tax.

11. Earnings/(Loss) Per Share

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

	GROUP	
	2006 US$'000	2005 US$'000
BASIC		
Profit/(Loss) for the year	**(156,196)**	17,906
Weighted average outstanding ordinary shares after adjusting for the effects of rights issue, in thousands	**5,662,860**	5,642,809
Basic earnings/(loss) per share in US cents	**(2.76)**	0.32
DILUTED		
Profit/(Loss) for the year	**(156,196)**	17,906
Weighted average outstanding ordinary shares after adjusting for the effects of rights issue, in thousands	**5,662,860**	5,642,809
Effect of dilutive ordinary shares, in thousands	**507**	3,438
Weighted average outstanding ordinary shares after assuming dilution and after adjusting for the effects of rights issue, in thousands	**5,663,367**	5,646,247
Diluted earnings per share in US cents	**N/A***	0.32

* Diluted loss per share for the year ended 31 December 2006 is not shown as the diluted loss per share is less than basic loss per share.

12. Staff Costs

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

	GROUP	
	2006	2005
	US$'000	US$'000
Wages and salaries	**493,313**	410,572
Unutilised annual leave	**154**	66
Termination benefits	**2,031**	1,287
Social security costs	**19,820**	15,039
Non-cash share option expenses	**441**	626
Pension costs - benefit plans (see note 36)	**6,959**	5,887
	522,718	433,477

13. Emoluments of Directors and Senior Management

The aggregate amounts of emoluments of the Directors of the Company for the years ended 31 December 2006 and 2005 are 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
2006									
Tan Sri Lim Kok Thay	12	1,189	248	7	3	1,459	—	208	1,667
Mr. Alan Howard Smith	58	—	—	—	—	58	—	—	58
Mr. Chong Chee Tut	12	488	102	151	20	773	—	25	798
Mr. William Ng Ko Seng	12	290	60	75	2	439	—	23	462
Mr. David Colin Sinclair Veitch	12	1,437	148	186	—	1,783	(770)	192	1,205
Mr. Tan Boon Seng	48	—	—	—	—	48	—	—	48
Mr. Lim Lay Leng	52	—	—	—	—	52	—	—	52
	206	**3,404**	**558**	**419**	**25**	**4,612**	**(770)**	**448**	**4,290**

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	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

Note:

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

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

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

	GROUP	
	2006	2005
	US$'000	US$'000
Fees	**36**	36
Basic salaries, discretionary bonuses, housing allowances, other allowances and benefits in kind	**5,443**	5,107
Contributions to provident fund	**23**	19
Accrued unfunded pension liability	**(621)**	1,138
Ex-gratia paid to an individual	**—**	525
Non-cash share option expenses	**437**	439
	5,318	7,264
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	
	2006	2005
HK$5,000,001 - HK$5,500,000	1	—
HK$5,500,001 - HK$6,000,000	—	1
HK$6,000,001 - HK$6,500,000	1	1
HK$7,500,001 - HK$8,000,000	1	—
HK$8,000,001 - HK$8,500,000	—	1
HK$9,000,001 - HK$9,500,000	1	—
HK$12,000,001 - HK$12,500,000	—	1
HK$12,500,001 - HK$13,000,000	1	—
HK$23,500,001 - HK$24,000,000	—	1

14. 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	**Trade names**	**Total**
	US$'000	**US$'000**	**US$'000**
GROUP			
2006			
At 1 January 2006	368,104	237,890	605,994
Impairment loss	—	(7,000)	(7,000)
At 31 December 2006	**368,104**	**230,890**	**598,994**
2005			
At 1 January 2005	407,165	237,890	645,055
Adjustments (see below)	(39,061)	—	(39,061)
At 31 December 2005	368,104	237,890	605,994

14. Intangible Assets *(continued)*

In December 1999, the Group, through a subsidiary, Arrasas Limited ("Arrasas"), acquired an interest of approximately 38.6% of the then outstanding shares of 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.

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 was 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 had also paid 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 2006 and 2005, the Group recorded legal and other costs of approximately US$0.4 million and US$1.1 million, respectively, relating to this matter.

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 as a reporting unit. NCLC's reporting units have similar economic characteristics including similar margins, 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 management's 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 royalty rates and anticipated revenues associated with the respective brands. The estimated current royalty rates for Norwegian Cruise Line and Orient Lines trade names were based on royalty rates ranging between 1% to 3%. The estimated growth rate of 2.5% and discount rate of 11.0% are applied on the value-in-use calculations.

Based on the impairment assessment above, the Group has concluded that there is no impairment with regards to the Group's goodwill and the Norwegian Cruise Line's trade name. The Group recorded an impairment loss of US$7 million in respect of the Orient Lines trade name during the year ended 31 December 2006, which was concluded based on the excess of its carrying amount over the value in use.

15. Property, Plant and Equipment

Property, plant and equipment consists of the following:

GROUP

2006	Cruise ships, passenger ferry and ship improvements	Land, jetties, building, terminal building 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 2006	4,380,744	85,506	215,640	431,259	25,542	5,138,691
Exchange differences	293	5,688	1,478	—	—	7,459
Reclassification of property, plant and equipment	982,021	934	26,161	(987,950)	(21,166)	—
Additions	44,715	1,242	15,628	754,985	24,571	841,141
Written off	—	(5,904)	(627)	—	—	(6,531)
Disposals	(152,289)	(8)	(1,518)	—	—	(153,815)
Disposal of a subsidiary	—	(17,629)	(107)	—	—	(17,736)
Adjustments[1]	—	—	23,535	—	—	23,535
At 31 December 2006	**5,255,484**	**69,829**	**280,190**	**198,294**	**28,947**	**5,832,744**
Accumulated depreciation and impairment						
At 1 January 2006	(646,089)	(20,963)	(108,721)	—	—	(775,773)
Exchange differences	(68)	(1,115)	(1,301)	—	—	(2,484)
Charge for the year	(188,767)	(3,596)	(23,563)	—	—	(215,926)
Impairment loss	(23,600)	—	—	—	—	(23,600)
Written off	—	5,360	588	—	—	5,948
Disposals	47,002	4	1,116	—	—	48,122
Disposal of a subsidiary	—	3,175	85	—	—	3,260
Adjustments[1]	—	—	(9,244)	—	—	(9,244)
At 31 December 2006	**(811,522)**	**(17,135)**	**(141,040)**	**—**	**—**	**(969,697)**
Net book value						
At 31 December 2006	**4,443,962**	**52,694**	**139,150**	**198,294**	**28,947**	**4,863,047**

Note:

1. Software development costs of US$14.3 million as at 31 December 2005 relates to a subsidiary of the Company. As at 31 March 2006, the balance of software development costs relating to this subsidiary has been reclassified as property, plant and equipment to be consistent with the Group's presentation.

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

GROUP

(Restated) 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 31 December 2004, as previously reported	3,536,239	85,302	191,446	621,456	21,302	4,455,745
Effect of change in accounting policy	19,337	—	—	—	—	19,337
At 1 January 2005, as restated	3,555,576	85,302	191,446	621,456	21,302	4,475,082
Exchange differences	23	(411)	(65)	—	—	(453)
Reclassification of property, plant and equipment	777,275	168	6,172	(777,275)	(6,340)	—
Additions	85,394	1,868	23,459	587,078	13,013	710,812
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	4,380,744	85,506	215,640	431,259	25,542	5,138,691
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	3,734,655	64,543	106,919	431,259	25,542	4,362,918

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 had become commercially not viable.

At 31 December 2006 and 2005, the net book value of property, plant and equipment pledged as security for the Group's long-term bank loans amounted to US$4.6 billion and US$4.2 billion, respectively.

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

Net book value of land comprises:

	GROUP	
	2006	2005
	US$'000	US$'000
Hong Kong:	**—**	—
Outside Hong Kong:		
Freehold land	**6,508**	6,508

16. Lease Prepayments

The Group's interest in leasehold land represents prepaid operating lease payments which are analysed as follows:

	GROUP	
	2006	2005
	US$'000	US$'000
Hong Kong:	**—**	—
Outside Hong Kong:		
Long leasehold (not less than 50 years)	**1,077**	1,050
Medium leasehold (less than 50 years but not less than 10 years)	**1,182**	689
	2,259	1,739

17. Investments in Subsidiaries

	COMPANY	
	2006	2005
	US$'000	US$'000
Investments at cost :		
Unlisted shares	**1,841,909**	1,633,690
Amounts due from subsidiaries	**1,051,384**	1,111,274
Amounts due to subsidiaries	**(5,060)**	(9,184)
	2,888,233	2,735,780

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

A list of principal subsidiaries is included in note 37 to the consolidated financial statements.

18. Investments in Associates

The movements of the investments in associates are as follows:

	GROUP	
	2006	2005
	US$'000	US$'000
At 1 January	**—**	15,148
Additional investments during the year	**5,857**	356
Share of profit/(loss) of associates	**3**	(5,219)
Derecognition: amount classified as an available-for-sale investment (see note 19)	**—**	(10,285)
At 31 December	**5,860**	—

In the fourth quarter of 2005, the Company through a direct wholly-owned subsidiary, Star Cruises Asia Holding Ltd., acquired 25% interest in RWS, a company set up to own, develop and operate the Integrated Resort at Sentosa. The details are as follows:

Name	Country of incorporation and operation	Particulars of issued shares held	Interest held indirectly (in percentage)	Principal activities
RWS	Singapore	Ordinary shares of S$1.00 each	25%	Provision of tourism and hospitality services

S$: Singapore Dollar

In December 2005, the Company through an indirect wholly-owned subsidiary, Cruise City (BVI) Limited, acquired 30% interest in Cruise City, a company which has a wholly-owned subsidiary set up for the purpose of preparing for an expression of interest submitted to Hong Kong Government for development of a cruise terminal. The details are as follows:

Name	Country of incorporation and operation	Particulars of issued shares held	Interest held indirectly (in percentage)	Principal activities
Cruise City	British Virgin Islands	Ordinary shares of US$1.00 each	30%	Investment holding

During the year ended 31 December 2006, the Group's share of the results of its associates, all of which are unlisted, and its share of the assets and liabilities are as follows:

2006

Name	Assets	Liabilities	Profit/(Loss)	% interest held
	US$'000	US$'000	US$'000	
RWS	6,463	603	3	25
Cruise City	32	117	(85)*	30
	6,495	720	(82)	

* During the year ended 31 December 2006, the Group has accrued for its share of loss in Cruise City of US$85,000, which is in excess of its investment in Cruise City. This is in view of the Group's constructive obligations towards Cruise City.

19. Available-For-Sale Investment

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	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 a 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.

During the year ended 31 December 2006, the Group made full provision for impairment loss of its investment in Orangestar, amounting to US$10.3 million. This is in view of the prolonged unavailability of updated cash flow projections and business plans for management to accurately assess the recoverable amount of the investment.

20. Other Assets

	GROUP		COMPANY	
	2006 US$'000	(Restated) 2005 US$'000	**2006 US$'000**	2005 US$'000
Loan arrangement fees	**48,239**	52,699	**3,964**	5,039
Convertible bonds and senior notes issuance costs	**7,555**	9,926	**597**	1,341
Software development costs, net (see note below)	**—**	14,291	**—**	—
Others	**12,490**	7,854	**—**	221
	68,284	84,770	**4,561**	6,601

Note:

Software development costs of US$14.3 million as at 31 December 2005 relates to a subsidiary of the Company. As at 31 March 2006, the balance of software development costs relating to this subsidiary has been reclassified as property, plant and equipment to be consistent with the Group's presentation.

21. Consumable Inventories

	GROUP	
	2006 US$'000	(Restated) 2005 US$'000
Food and beverages	**15,227**	14,582
Supplies and consumables	**23,224**	19,048
	38,451	33,630

22. Trade Receivables

	GROUP	
	2006 US$'000	2005 US$'000
Trade receivables	**24,571**	25,104
Less: Provisions	**(3,163)**	(2,294)
	21,408	22,810

At 31 December 2006 and 2005, the ageing analysis of the trade receivables is as follows:

	GROUP	
	2006 US$'000	2005 US$'000
Current to 30 days	**16,124**	16,208
31 days to 60 days	**1,961**	2,251
61 days to 120 days	**2,459**	2,570
121 days to 180 days	**1,759**	2,098
181 days to 360 days	**2,125**	1,970
Over 360 days	**143**	7
	24,571	25,104

Credit terms generally range from payment in advance to 45 days credit terms. The Group recognised a loss of approximately US$0.9 million (2005: US$0.5 million) for the impairment of its trade receivables during the year ended 31 December 2006.

23. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Deposits with banks - maturing within 3 months	**242,631**	83,228	**216,443**	61,176
Cash and bank balances	**226,196**	104,470	**119,136**	52
	468,827	187,698	**335,579**	61,228

For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdraft as follows:

	GROUP	
	2006	2005
	US$'000	US$'000
Cash and cash equivalents	**468,827**	187,698
Bank overdraft (see note 26)	**(1,666)**	—
	467,161	187,698

The effective interest rate on deposits with banks - maturing within 3 months was 3.2% (2005: 3.8%); these deposits have an average maturity of 5 days.

24. 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 Main Board of the Singapore Exchange Securities Trading Limited and the Euro MTF Market of the Luxembourg Stock Exchange.

WorldCard International Limited ("WCIL") is a company in which a subsidiary of each of the Group and GIPLC has a 50% interest. The Group's share of losses from WCIL amounted to US$133,000 and US$189,000 for the years ended 31 December 2006 and 2005, respectively. As at 31 December 2006, the Group's share of losses in WCIL has exceeded its interest in WCIL by US$68,000 and this has been recorded in accruals and other liabilities as the Group has constructive obligations towards WCIL.

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 (the "Stock Exchange"). Each of the Group and VXL has a 30% interest in a joint venture company.

RWS, a company in which a subsidiary of each of the Company and GIPLC has 25% and 75% interest, respectively, is to own, develop and operate the Sentosa Integrated Resort to be known as "Resorts World at Sentosa".

Significant related party transactions entered into or subsisting between the Group and these companies during the year ended 31 December 2006 are set out below:

(a) KHD, together with its related companies, are 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$8,000 and US$23,000 for the years ended 31 December 2006 and 2005, respectively. In addition, approximately US$483,000 was paid by KHD on behalf of the Group to the third party contractors during the year ended 31 December 2006.

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

(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, leasing of office space 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$2,008,000 and US$1,443,000 in the years ended 31 December 2006 and 2005, respectively.

(c) The Group provides certain administrative support services to GIPLC internationally and the amounts charged to GIPLC were approximately US$- and US$70,000 for the years ended 31 December 2006 and 2005, respectively.

(d) WCIL, together with its related companies, operate and administer 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 2006 and 2005, the following transactions took place:

	GROUP	
	2006	2005
	US$'000	US$'000
Amounts charged from the GB Group to the Group	**511**	346
Amounts charged to the GB Group by the Group	**164**	235

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 14).

(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 submitted to Hong Kong Government for the development of a cruise terminal. The Group's share of losses from the joint venture company amounted to US$85,000 for the year ended 31 December 2006.

(g) On 15 December 2006, the Group entered into a shareholders' agreement with GIPLC in relation to the management and operation of RWS. Under the shareholders' agreement, the Group's total funding commitment towards the development cost of the project amounts to S$455,000,000. The shareholders' agreement had been approved by independent shareholders of the Company on 29 January 2007 in accordance with the Listing Rules. As at 31 December 2006, the carrying amount of the investment in RWS amounted to US$5.9 million and is included within the investments in associates. The Group's share of profits from RWS amounted to US$3,000 for the year ended 31 December 2006.

Transactions with Directors

(h) 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$0.2524 (as adjusted) and US$0.3953 (as adjusted) per share under the Pre-listing Employee Share Option Scheme and HK$2.8142 (US$0.36) (as adjusted) and HK$1.6202 (US$0.21) (as adjusted) per share under the Post-listing Employee Share Option Scheme. Details of the movements of the share options during the year ended 31 December 2006 and the outstanding share options as at 31 December 2006 are set out in the section headed "Share Options" in the Report of the Directors.

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

Key management compensation

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

	GROUP	
	2006 US$'000	2005 US$'000
Salaries and other short-term employee benefits	**11,009**	10,610
Termination benefits	**—**	682
Post-employment benefits	**(318)**	1,401
Non-cash share option expenses	**559**	600
	11,250	13,293

25. 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 2005 and 2006	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 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
At 1 January 2006	5,300,177,247	530,018
Issuance of shares pursuant to the Pre-listing Employee Share Option Scheme	124,421	12
Issuance of 7 ordinary shares for every 25 existing ordinary shares pursuant to a rights issue, net of issuance costs of approximately US$2.0 million (see note below)	1,484,084,467	148,409
At 31 December 2006	**6,784,386,135**	**678,439**

Note:

In December 2006, the Company issued 1,484,084,467 ordinary shares of US$0.10 each in the proportion of 7 new ordinary shares for every 25 existing ordinary shares held pursuant to a rights issue at the subscription price of HK$1.08 (US$0.1388), with an aggregate proceed, net of issuance costs, of approximately US$204.1 million. The closing price per ordinary share on 7 November 2006, the trading date immediate before the Underwriting Agreement was entered into, was HK$1.50 (US$0.19) on the Stock Exchange.

The net proceeds from the rights issues are being used for part funding for the acquisition or construction of vessels in line with the Group's strategy to upgrade its fleet with the remaining balance as general working capital.

During the year ended 31 December 2006, approximately US$93.1 million of the net proceeds have been used for funding the construction of vessels. As at 31 December 2006, the balance of unapplied proceeds of approximately US$111.0 million was placed as deposit with banks.

26. Long-Term Borrowings

Long-term borrowings consist of the following:

		GROUP		COMPANY	
		2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
SECURED:					
US$750 million secured term loan and revolving credit facility	(i)	**645,000**	—	**645,000**	—
US$521.6 million syndicated term loan	(i)	**—**	154,560	**—**	—
US$450 million term loan	(i)	**—**	159,513	**—**	159,513
US$400 million Reducing Revolving Credit Facility	(i)	**—**	320,500	**—**	320,500
€298 million secured Pride of America loans	(ii)	**307,365**	336,638	**—**	—
US$334.1 million secured Norwegian Jewel loan	(iii)	**297,239**	324,261	**—**	—
€308.1 million secured Pride of Hawaii loan	(iv)	**378,209**	200,120	**—**	—
US$800 million secured loan facility	(v)	**510,000**	545,000	**—**	—
€624 million secured Norwegian Pearl/Gem facility	(vi)	**410,753**	—	**—**	—
US$610 million revolving credit facility	(viii)	**390,000**	—	**—**	—
US$626.9 million secured Norwegian Dawn/Star loan	(viii)	**—**	250,769	**—**	—
US$225 million secured Norwegian Sun loan	(viii)	**—**	189,000	**—**	—
UNSECURED:					
US$250 million unsecured Senior Notes	(ix)	**250,000**	250,000	**—**	—
Convertible bonds (see note 27)		**196,542**	186,321	**196,542**	186,321
Bank overdraft (see note 23)		**1,666**	—	**—**	—
Others		**16,429**	10,889	**—**	—
Total liabilities		**3,403,203**	2,927,571	**841,542**	666,334
Less: Current portion		**(218,804)**	(256,442)	**(62,500)**	(98,575)
Long-term portion		**3,184,399**	2,671,129	**779,042**	567,759

All the outstanding balances of the long-term borrowings are denominated in U.S. dollars except for the outstanding balance of €286.5 million, US$378.2 million equivalent (2005: €169 million, US$200.1 million equivalent) of the €308.1 million secured Pride of Hawaii loan and the outstanding balance of €311.2 million, US$410.8 million equivalent (2005: € Nil) of the €624 million secured Norwegian Pearl/Gem facility which are denominated in Euro.

As at 31 December 2006 and 2005, the net carrying amounts of the Group's long-term borrowings would have been US$3.34 billion and US$2.86 billion, respectively, had they been stated net of transaction costs incurred (see note 20).

As at 31 December 2006 and 2005, the net carrying amounts of the Company's long-term borrowings would have been US$0.84 billion and US$0.66 billion, respectively, had they been stated net of transaction costs incurred (see note 20).

26. Long-Term Borrowings *(continued)*

As at 31 December 2006, after taking the effect of interest-rate swaps and the fixing of interest rates on certain of the long-term borrowings, approximately 41% of the Group's long-term borrowings was fixed (2005: 38%) and approximately 59% was variable (2005: 62%). The outstanding notional amount of interest-rate swap was approximately US$329.5 million as at 31 December 2006 (2005: US$390.5 million).

The following is a schedule of principal repayments of the long-term borrowings in respect of the outstanding borrowings as at 31 December 2006 and 2005.

	GROUP		COMPANY	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Within one year	**218,804**	256,442	**62,500**	98,575
In the second year	**413,351**	264,262	**259,042**	98,575
In the third to fifth years	**1,256,431**	1,280,686	**332,500**	413,684
After the fifth year	**1,514,617**	1,126,181	**187,500**	55,500
	3,403,203	2,927,571	**841,542**	666,334

(i) US$750 million secured term loan and revolving credit facility

On 18 December 2006, the Company signed an agreement with a syndicate of banks to provide up to US$750 million (comprising a term loan facility of US$500 million ("US$500 million term loan") and a revolving credit facility of US$250 million ("US$250 million revolving credit facility")) to refinance all the outstanding balance of the US$521.6 million syndicated term loan, US$450 million term loan and the US$400 million Reducing Revolving Credit Facility as well as to finance an equity injection into NCLC and for general corporate and working capital purposes of the Group.

The US$500 million term loan is repayable in 16 equal half yearly installments commencing 1 March 2007, and the US$250 million revolving credit facility is repayable in full on maturity in December 2011. The US$500 million term loan and US$250 million revolving credit facility bear interest at rates which vary according to the London Interbank Offer Rate ("LIBOR"). At 31 December 2006, the interest rates on the US$500 million term loan and US$250 million revolving credit facility were 6.55% and 6.75% per annum, respectively. The Company is also required to pay a commitment fee equal to 40% of the applicable margin on the unutilised commitment of the US$250 million revolving credit facility.

The US$500 million term loan and US$250 million revolving credit facility are secured by first priority mortgages over certain ships of the Group, as well as certain guarantees, assignment of earnings, assignment of insurances and pledging of earnings accounts by selected subsidiaries of the Company. The loan contains restrictive covenants, including compliance with certain financial ratios.

(ii) €298 million secured Pride of America loans

On 4 April 2003, Pride of America Ship Holding, Inc., 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. In March 2006, the €40 million Pride of America Commercial Loan was converted from a floating LIBOR-based rate plus a margin of 135 basis points to a fixed rate of 6.595%.

26. Long-Term Borrowings *(continued)*

(iii) 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 secured 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. In April 2006, the US$334.1 million secured Norwegian Jewel loan was converted from a floating LIBOR-based rate plus a margin of 75 basis points to a fixed rate of 6.1075%.

(iv) €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 from a syndicate of banks to part finance the construction of Pride of Hawaii. This syndicated term loan was fully drawndown in April 2006.

The facility bears interest at a rate, which varies according to European Interbank Offer Rate ("EURIBOR"), and is repayable in 24 equal half yearly installments commencing 6 months from the ship delivery date. At 31 December 2006, the EURIBOR plus a margin on the €308.1 million secured Pride of Hawaii loan was 4.4% per annum.

(v) 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 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 (6.9% to 7.1% at 31 December 2006) 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 a commitment fee equal to approximately 40% of the applicable margin on the unutilised commitment.

(vi) €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$823.6 million based on the exchange rate of US$1.3199 to €1 as at 31 December 2006) to finance 80% of the contract price of Norwegian Pearl and Norwegian Gem shipbuilding contracts 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 according to LIBOR or EURIBOR depending on the denomination of the underlying balance. 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.

In November 2006, the Group drewdown €311.2 million (equivalent to approximately US$410.8 million based on the exchange rate of US$1.3199 to €1 as at 31 December 2006) of the loan to pay the shipyard upon the delivery of Norwegian Pearl. As at 31 December 2006, the EURIBOR plus a margin on the €624 million secured Norwegian Pearl/Gem facility was 5.0% per annum.

(vii) €1.3 billion secured Hull No. C33 and Hull No. D33 Facility Agreements

On 22 September 2006, F3 One, Ltd. and F3 Two, Ltd. (both being indirect wholly-owned subsidiaries of the Company), as respective borrowers, entered into the Hull No. C33 Facility Agreement and the Hull No. D33 Facility Agreement (the "Export Credit Financings") with a syndicate of banks. The Export Credit Financings in an aggregate amount of up to €1.3 billion (equivalent to approximately US$1.75 billion based on the exchange rate of US$1.3199 to €1 as at 31 December 2006) will be used to fund the delivery installment of approximately 80% of the total contract price and certain other fees and charges payable on the two ships under construction for the NCLC Group fleet. No amount was drawndown as at 31 December 2006.

These financings are term loans, each collateralised by the respective ship and are repayable in 24 semi annual installments commencing 6 months from the relevant ship's delivery date, through 2021 and 2022, respectively. The financing for the first ship is denominated in U.S. dollars bearing a fixed interest rate of 6.05% and the financing for the second ship is denominated in Euro bearing a fixed interest rate of 4.89%. Under the terms of each loan agreement, NCLC has the ability to cancel the financing up to 60 days prior to the delivery date for the ship.

26. Long-Term Borrowings *(continued)*

(viii) US$610 million revolving credit facility

On 22 December 2006, NCLC, as borrower, entered into US$610 million senior secured revolving credit facility with a syndicate of banks to refinance its two existing loans collateralised by Norwegian Dawn and Norwegian Sun and to provide additional borrowing capacity for general corporate purposes. The facility is available in two tranches of US$510 million and US$100 million, each having a condition precedent of US$200 million in equity being raised by NCLC. The facility has no amortisation for the first 36 months, bears interest at LIBOR plus a margin of 150 basis points (subject to certain adjustments) and matures in 2013.

In December 2006, the Group drewdown US$390 million on this facility. As at 31 December 2006, the LIBOR plus margin on the US$610 million revolving credit facility was 6.9% per annum.

NCLC's bank borrowings (ii) to (viii) 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, limit its net debt-to-capital ratio and restrict its ability to pay dividends.

(ix) US$250 million unsecured Senior Notes

In July 2004, NCLC completed the issue of US$250 million Senior Notes due in 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.

27. 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$3.18 (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 20 October 2006, pursuant to the "Conversion Price Reset" of the terms and conditions of the Bonds, the conversion price of the Bonds has been adjusted from HK$3.18 to HK$2.71 per share. Pursuant to the "Rights Issues of Shares or Option over Shares" as stated in the terms and conditions of the Bonds, the rights issue undertaken by the Company has resulted in an adjustment to the conversion price at which ordinary shares of the Company will be issued upon conversion of the Bonds which was initially set at HK$2.71 per share immediately before the rights issue became unconditional on 28 December 2006. The adjusted conversion price applicable with effect from 28 December 2006 has been adjusted from HK$2.71 to HK$2.53 per share.

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 any time 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.

27. Convertible Bonds *(continued)*

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

	GROUP/COMPANY	
	2006	2005
	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	**20,721**	11,212
Interest expense for the year	**13,821**	13,109
Interest paid during the year	**(3,600)**	(3,600)
Liability component	**196,542**	186,321

The fair value of the liability component of the Bonds at 31 December 2006 amounted to US$198.3 million. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 6.8%. 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 2006, 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 2006, there were no unapplied proceeds from the issuance of Bonds.

28. Other Long-Term Liabilities

	GROUP	
	2006	2005
	US$'000	US$'000
Deferred lease liability	**115**	606
Pension plan	**747**	924
Others	**882**	1,101
	1,744	2,631

29. Deferred Tax

	GROUP	
	Excess of capital allowances over depreciation	
	2006	2005
	US$'000	US$'000
Deferred tax liabilities		
The movement on the deferred tax liabilities account is as follows:		
At 1 January	**574**	539
Exchange difference	**32**	(2)
Deferred taxation charged/(credited) to consolidated income statement	**(311)**	37
At 31 December	**295**	574
The amount shown in the balance sheet includes the following:		
Deferred tax liabilities to be settled after more than 12 months	**295**	574

	GROUP	
	Tax losses	
	2006	2005
	US$'000	US$'000
Deferred tax assets		
The movement on the deferred tax assets account is as follows:		
At 1 January	**359**	387
Exchange difference	**45**	(17)
Deferred taxation credited/(charged) to consolidated income statement	**169**	(11)
At 31 December	**573**	359
The amount shown in the balance sheet includes the following:		
Deferred tax assets to be recovered after more than 12 months	**573**	359

As at 31 December 2006, 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$394 million (2005: US$210 million). In addition, as at 31 December 2006, the unused tax losses which have no expiry date and for which no deferred tax asset was recognised in the consolidated balance sheet was approximately US$173 million (2005: US$161 million).

30. Trade Creditors

The ageing of trade creditors as at 31 December 2006 and 2005 is as follows:

	GROUP	
	2006	2005
	US$'000	US$'000
Current to 60 days	**137,275**	82,033
61 days to 120 days	**1,037**	8,369
121 days to 180 days	**144**	92
Over 180 days	**818**	321
	139,274	90,815

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

31. Provisions, Accruals and Other Liabilities

Provisions, accruals and other liabilities consist of the following:

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Payroll, taxes and related benefits	**40,655**	33,146	**—**	—
Interest accrued	**36,522**	43,492	**1,422**	10,249
Provisions (see below)	**8,944**	12,303	**—**	2,300
Excess of rights issue application	**98,843**	—	**98,843**	—
Others	**139,171**	101,057	**7,452**	566
	324,135	189,998	**107,717**	13,115

The movements of the provisions are as follows:

	GROUP	**COMPANY**
	Provision for legal and settlement costs US$'000	**Provision for legal and settlement costs US$'000**
As at 1 January 2006	12,303	2,300
Add : additional provision	8,191	—
Less : amounts paid	(11,550)	(2,300)
As at 31 December 2006	**8,944**	**—**

32. 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 2006, the fair value of the long-term borrowings, including the current portion, was approximately US$3,424.2 million, which was approximately US$21.0 million more than the carrying values. The difference between the fair value and carrying value of the long-term borrowings is due to the debt obligation 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 (as at 31 December 2006, the outstanding notional amount was approximately US$263.3 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 2006, the estimated fair market value of the interest rate swaps was approximately US$2.0 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.

(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 (as at 31 December 2006, the outstanding notional amount was approximately US$66.2 million) to limit its exposure to fluctuations in interest rate movements if the interest rate moves beyond the cap level of 5.5%. The notional amount for each interest period will be reduced six-monthly in varying amounts over 5 years from August 2003.

As at 31 December 2006, the estimated fair market value of these interest rate swaps was approximately US$0.3 million, 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.

(iii) The Group has various Singapore dollars forward contracts and the notional amount of these contracts was approximately US$206.7 million (as at 31 December 2006, the outstanding notional amount was approximately US$49.1 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 2006, the estimated fair market value of these forward contracts was approximately US$1.4 million, which was unfavourable to the Group. The changes in the fair value of these forward contracts were recognised as other expense in the consolidated 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 fuel swap agreements to mitigate the impact of fluctuations in fuel prices. The Group had fuel swap agreements with an aggregate notional amount of US$12.5 million to pay fixed price for fuel. The changes in the fair value of these fuel swap agreements are recognised as other income in the consolidated income statement. These fuel swap agreements matured by 30 June 2006.

During the year ended 31 December 2006, the Group entered into further fuel swap agreements with an aggregate notional amount of US$46.6 million (as at 31 December 2006, the outstanding notional amount was approximately US$18.9 million), maturing through the second quarter of 2007, to pay fixed price for fuel. As at 31 December 2006, the estimated fair market value of the fuel swap was approximately US$1.6 million, which was unfavourable to the Group. This amount has been recorded within the current portion of the derivative instruments in the accompanying balance sheet. These fuel swaps have been designated and qualified as cash flow hedges. The changes in the fair value of these fuel swaps are included as a separate component of reserves and are recognised in the consolidated income statement as the underlying hedged items are recognised.

32. Financial Instruments *(continued)*

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

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 2006.

33. Commitments

(i) Capital expenditure

In September 2006, NCLC Group contracted with a shipyard to purchase two ships, for delivery in the fourth quarter of 2009 and in the second quarter of 2010. NCLC Group has an option for a third ship for scheduled delivery in the first quarter of 2011.

The aggregate cost of the ships under construction and on firm order (based on the Euro/U.S. dollar exchange rate at 31 December 2006) as at 31 December 2006 and 2005 are as follows:

	GROUP	
	2006 **US$'000**	2005 US$'000
Contracted but not provided for		
- Cruise ships and other related costs	**2,398,454**	1,335,000

(ii) Operating leases

Rent expense under non-cancellable operating lease commitments were US$10.7 million and US$8.1 million for the years ended 31 December 2006 and 2005, respectively.

At 31 December 2006 and 2005, future minimum lease payments payable under non-cancellable operating leases are as follows:

	GROUP	
	2006 **US$'000**	2005 US$'000
Within one year	**7,042**	7,485
In the second to fifth year inclusive	**21,280**	16,459
After the fifth year	**34,903**	13,614
	63,225	37,558

The rent expense under non-cancellable operating lease commitments mainly relates to rental of offices occupied by the Group and motor vehicles.

(iii) Other commitments

As at 31 December 2006 and 2005, the Group has future commitments to pay for usage of certain port facilities, as follows:

	GROUP	
	2006 **US$'000**	2005 US$'000
Within one year	**10,987**	15,947
In the second and fifth year inclusive	**34,890**	37,158
After the fifth year	**52,862**	60,807
	98,739	113,912

34. Contingent Liabilities

(i) Contingencies

On 23 September 2005, NCLC entered into a Letters of Credit Facility agreement (the "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 L/C Facility expires in April 2008.

(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. 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. The state court judge granted NCLL motion for summary judgement and the plaintiff filed an appeal which is currently pending. On 6 June 2005, the U.S. Supreme Court ruled in the Federal matter 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 U.S. Supreme Court remanded the case to the Fifth Circuit Court of Appeals to determine which claims in the lawsuit remain and the Fifth Circuit remanded the case to the trial court. NCLL has filed a motion for summary judgement in the trial court which is currently pending.

(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 January 1998 through March 2005, NCLL failed to pay unlicensed seafarers overtime wages in accordance with their contracts of employment. The court entered an order certifying the case as a class action. In March 2005, the parties reached a settlement which was subsequently approved by the Court. NCLL believes that the ultimate outcome of this matter will not have a material impact on its financial position, results of operations or cash flows.

(4) 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. The matter was tried before a jury in January 2007 at which time a verdict in favour of plaintiff was returned. Trial counsel is currently evaluating possible appealable issues.

(5) In 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 claims stemming from this incident are covered by insurance. 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.

(6) 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. BNY brought cross claims and third-party claims against Star and NCLH. The Court dismissed all claims by plaintiff against Star and all of BNY's claims against Star and NCLH, except for BNY's claim against NCLH for indemnification of costs and legal fees incurred in the action. 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. A settlement agreement and mutual release was entered into on 29 June 2006.

34. Contingent Liabilities *(continued)*

(ii) Material litigation *(continued)*

(7) On or about 3 February 2006, NCL (Bahamas) Ltd. ("NCLB") was served with a class action complaint filed in the United States District Court for the Southern District of New York alleging copyright infringement stemming from performances of certain portions of copyrighted music aboard vessels in its fleet. NCLB believes that it has meritorious defenses to these claims and, accordingly, is defending vigorously this action.

(8) On 16 June 2006, a complaint was filed against NCLB in the Circuit Court of Miami-Dade County, Florida, alleging breach of contract and fraudulent misrepresentation stemming from two 2004 charter sailings of m.v. Pride of Aloha. NCLB believes that it has meritorious defenses to these claims and, accordingly, is defending vigorously this action.

(9) On 14 July 2006, NCLB was served with a complaint filed in Florida State court on behalf of a former onboard concessionaire alleging breach of contract and unjust enrichment. NCLB believes that it has meritorious defenses to these claims and, accordingly, is defending vigorously this action.

(10) On 24 August 2006, NCLB and NCL America Inc. ("NCLA") were served with a complaint by the U.S. Equal Employment Opportunity Commission to correct alleged unlawful employment practices on the basis of national origin and religion and to provide relief to seven former employees who were allegedly terminated as a result of same. NCLB and NCLA believe that they have meritorious defenses to these claims and, accordingly, are defending vigorously this action.

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.

The Group had evaluated its overall exposure with respect to all its then threatened and pending litigation. To the extent required, the Group has accrued amounts for all estimable probable losses associated with its deemed exposure. As at 31 December 2006, the Group had accrued amounts of approximately US$8.9 million for the above pending legal matters.

35. 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 bonus share and to accelerate the original vesting period to comply with the requirements of the Stock Exchange. With effect from 30 November 2000, the date of listing of the Company's shares on the Stock Exchange (the "Listing"), no further options can be granted under the Pre-listing Employee Share Option Scheme.

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

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

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

35. Share Option Schemes *(continued)*

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

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.

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.

35. Share Option Schemes *(continued)*

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

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

	2006	
	Average exercise price in US$ per share	**Options (thousands)**
At 1 January 2006	**0.3341**	**29,006**
Exercised	**0.2686**	**(119)**
Cancelled/forfeited	**0.3407**	**(8,098)**
At 27 December 2006 before adjusting for the effects of rights issue	**0.3319**	**20,789**
At 28 December 2006 after adjusting for the effects of rights issue, and 31 December 2006	**0.3119**	**22,121**

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

A summary of the share options outstanding as at 31 December 2006 after adjusting for the effects of rights issue is as follows:

	Options outstanding		**Options exercisable**
Exercise price	**Number outstanding (in thousands)**	**Weighted average remaining life (years)**	**Number (in thousands)**
US$0.2524	12,912	1.7	6,288
US$0.3953	9,209	1.5	5,242
	22,121	**1.6**	**11,530**

35. 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 1.8% of the issued share capital as at the date of this Report.

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

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

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

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

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

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

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

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

35. Share Option Schemes *(continued)*

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

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:

	2006	
	Average exercise price in HK$ per share	**Options (thousands)**
At 1 January 2006	**2.8313**	**83,739**
Cancelled/forfeited	**2.9173**	**(2,880)**
At 27 December 2006 before adjusting for the effects of rights issue	**2.8282**	**80,859**
At 28 December 2006 after adjusting for the effects of rights issue	**2.6580**	**86,038**
Cancelled/forfeited	**2.8142**	**(61)**
At 31 December 2006 after adjusting for the effects of rights issue	**2.6579**	**85,977**

	2005	
	Average exercise price in HK$ per share	Options (thousands)
At 1 January 2005	2.8003	89,529
Cancelled/forfeited	2.3522	(5,790)
At 31 December 2005	2.8313	83,739

35. Share Option Schemes *(continued)*

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

A summary of the share options outstanding as at 31 December 2006 after adjusting for the effects of rights issue is as follows:

	Options outstanding		Options exercisable
Exercise price	Number outstanding (in thousands)	Weighted average remaining life (years)	Number (in thousands)
HK$2.8142	74,724	5.7	43,161
HK$1.6202	11,253	7.6	11,253
	85,977	**5.9**	**54,414**

On 28 December 2006, the Company completed the issuance of 1,484,084,467 rights shares. As a result of the rights issue, the exercise price and the number of ordinary shares issuable upon exercise in full of the outstanding share options have been adjusted accordingly. These modifications of the share options have been accounted for under HKFRS 2 "Share-based Payment" and have resulted in an incremental fair value of US$1.0 million as of the modification date i.e. 28 December 2006.

The Group used the extended binomial options pricing model to estimate the incremental fair value, i.e. the difference between the fair value of the modified share options and that of the original share options. The binomial pricing model, which is one of the commonly used models in estimating fair value of an option, requires input that are highly subjective. Such subjective assumptions include the volatility of the share price, expected dividend per share, risk-free interest rate and expected option life and accordingly, any change in the variables so adopted may materially affect the estimation of the fair value of an option. The extended binomial options pricing model, therefore, does not necessarily provide a reliable measure of the fair value of the share options.

The Group has used the following assumptions in the extended binomial options pricing model:

Risk-free interest rate	3.72%
Expected volatility (based on the 90-day historical volatility prior to the modification date)	49.91%
Expected dividend per share	—

36. Pensions and Other Post Retirement Obligations

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

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 such contributions 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.

NCLC's contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Approximately US$0.13 million and US$0.10 million of the forfeited contributions were utilised in the years ended 31 December 2006 and 2005, respectively. As at 31 December 2006 and 2005, approximately US$0.04 million and US$0.10 million, respectively, were available to reduce future contributions.

In addition, NCLC maintains an unfunded Supplemental Senior Executive Retirement Plan ("SSERP Plan"), a defined benefit plan, for selected senior executives. NCLC has recorded an accrual at 31 December 2006 and 2005 of approximately US$8.6 million and US$9.7 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.

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

NCLC recorded expenses related to the above described defined contribution plans and SSERP Plan of approximately US$1.6 million and US$3.2 million for the years ended 31 December 2006 and 2005, respectively. No amounts are required to be or were contributed under the SERP or SSERP Plan by NCLC as at 31 December 2006 and 2005 as the SERP and SSERP Plans are unfunded.

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.

37. Principal Subsidiaries

The following is a list of principal subsidiary companies as at 31 December 2006:

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

37. Principal Subsidiaries *(continued)*

Name of Company	Principal country of operation	Country of incorporation	Issued and fully paid up share capital (in thousands)	Effective equity interest in percentage	Principal activities
Subsidiaries held indirectly *(continued)*:					
Polynesian Adventure Tours, Inc.	USA	Hawaii, USA	US$30	100.00	Bus services
PAT Tours, Inc.	USA	Delaware, USA	US$0.01	100.00	Baggage services
Norwegian Jewel Limited	Note (2)	Isle of Man	US$0.002	100.00	Cruise services
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
F3 One, Ltd.	Note (2)	Bermuda	US$12	100.00	Cruise services
F3 Two, 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
My Inn (Hangzhou) Hotel Co. Limited	People's Republic of China	People's Republic of China	RMB37,000	100.00	Hotel operation and hotel management
Suzhou My Inn Hotel Co., Ltd.	People's Republic of China	People's Republic of China	US$1,700	100.00	Operation and management of internal facilities of budget hotel and hotel room
Suzhou Trip-X Information Technologies Co., Ltd.	People's Republic of China	People's Republic of China	US$1,500	100.00	Software development of tourist information system
Genting Star (Shanghai) Education Information Consulting Co., Limited	People's Republic of China	People's Republic of China	US$140	100.00	Education information consulting (except study abroad consulting and agent service)

RM: Malaysian Ringgit

RMB: Renminbi

(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.

38. Significant Subsequent Events

(a) On 22 January 2007, the Company announced:

(i) the issuance of 255 million new ordinary shares of US$0.10 each at the subscription price of HK$2.29 (US$0.29) per ordinary share, with an aggregate proceed, net of issuance costs, of approximately US$75 million, to the independent third parties. In addition, these independent third parties have also been granted non-transferable options at a premium of HK$0.28 (US$0.04) per option share to subscribe for 255 million ordinary shares. Each option is exercisable once at an exercise price of HK$3.00 (US$0.39) per ordinary share at any time from the date of completion of the subscription of 255 million new ordinary shares to the second anniversary of date of the share option agreements;

(ii) the acquisition by the JV (as defined below) of a 75% interest in Macau Land Investment Corporation ("MLIC") ("the Acquisition"). An indirect wholly-owned subsidiary of MLIC has been granted by the Government of Macau with a lease over a piece of land in Macau ("the Land") (subject to such grant of lease being published in the Gazette of Macau). The Group has also, on the same date, announced the signing of a shareholders' agreement with GIPLC, a related company, in relation to the management and operation of the newly formed joint venture company ("JV"), New Orisol Investments Limited. The JV is owned as to 75% by the Group and 25% by GIPLC. The purpose of the JV is to carry out the Acquisition and to develop and build on the Land a hotel that will house, inter alia, a casino which will be subject to receiving the relevant authorisation from the Government of Macau (the "Project"). The joint venture arrangement with GIPLC and the performance by the Company of its obligations under the shareholders' agreement constitute a discloseable and connected transaction of the Company under the Listing Rules which is subject to independent shareholders' approval requirements as set out under the Listing Rules; and

(iii) the signing of a services agreement with Sociedade de Jogos de Macau., S.A., ("SJM"), a holder of a gaming concession granted by the Government of Macau whereby the Group will cause its subsidiary ("the Service Provider") to provide certain areas for a casino in the hotel to be built on the Land and provide services to the casino which will be operated by SJM, conditional upon approval by the Government of Macau. SJM will pay the Service Provider a monthly fee for usage of the location for the casino and the provision of the services.

(b) Further to the announcement made on 22 January 2007 set out in item (a) (ii) above, on 6 March 2007, the Company announced the acquisition of GIPLC's 25% interest in the JV at investment cost. Upon completion of the acquisition of 25% interest by the Group, the shareholders' agreement with GIPLC in relation to the management and operation of the JV terminated and the JV has become a wholly-owned subsidiary of the Company. The acquisition of 25% interest in the JV constitutes a connected transaction of the Company under the Listing Rules. As the percentage ratio of this connected transaction is more than 0.1% but less than 2.5%, such connected transaction is only subject to the reporting and announcement requirements under the Listing Rules. The Group will proceed to complete the Acquisition in relation to the Land. The Project will continue to constitute a discloseable transaction of the Company under the Listing Rules. The special general meeting of the Company originally scheduled for the purpose of considering and approving the joint venture arrangement with GIPLC will no longer be necessary.

On the same date, the Company announced, subject to the relevant approvals being obtained, the divestment of its 25% interest in RWS to GIPLC at a price to be mutually agreed. Upon completion of the disposal of 25% interest in RWS, the shareholders' agreement in relation to RWS will terminate and the Company will cease to have any interest in and funding commitment towards RWS. The disposal of 25% interest in RWS will constitute a connected transaction of the Company under the Listing Rules. The Company will make a further announcement when the material terms of the disposal are finalised and agreed by the Company and GIPLC, and the Company will comply with the reporting, announcement and/or independent shareholders' approval requirements under the Listing Rules to the extent applicable.

(c) As at the report date, approximately US$52.9 million of the Bonds have been converted into ordinary shares of the Company.

39. Approval of Financial Statements

These consolidated financial statements have been approved for issue by the Board of Directors on 9 March 2007.