

FSL TRUST MANAGEMENT PTE. LTD.
(As Trustee-Manager of First Ship Lease Trust)
(Company Registration No. 200702265R)
(Incorporated in Singapore)

**DISCLOSURE REGARDING SIGNING OF SHIPBUILDING CONTRACTS FOR THE
CONSTRUCTION OF TWO LR2 PRODUCT TANKERS**

1. INTRODUCTION

FSL Trust Management Pte. Ltd., in its capacity as trustee-manager of First Ship Lease Trust (“FSLT”, and as trustee-manager of FSLT, the “**Trustee-Manager**”) refers to:

- (a) its announcement dated 26 November 2018 (the “**Preferential Offering Announcement**”) in relation to the proposed *pro rata*, non-renounceable and non-underwritten preferential offering (the “**Preferential Offering**”) to raise funds for, amongst others, fleet renewal to be carried out through the acquisition of new and/or more recent build vessels; and
- (b) its announcement dated 6 December 2018 (the “**LOI Announcement**”) in relation to the letter of intent between FSLT and COSCO Shipping Heavy Industry (Yangzhou) Co., Ltd. (the “**Shipyard**”) in relation to the Newbuilding Acquisition (as defined below).

FSLT wishes to announce that FSL-28, Inc. and FSL-29, Inc. (the “**Purchasers**”), each a wholly-owned subsidiary of FSLT, have today entered into separate shipbuilding contracts dated 12 December 2018 (the “**Agreements**”) with the Shipyard pursuant to which the Shipyard will construct, sell and deliver two (2) 114,000 dwt scrubber fitted Tier III LR2 product tankers (the “**NewVessels**”) for an aggregate consideration of US\$97,600,000 (the “**Newbuilding Acquisition**”) on the terms and conditions of the Agreements.

2. THE NEWBUILDING ACQUISITION

2.1. Information on the New Vessels

The New Vessels comprise two (2) 114,000 dwt scrubber fitted Tier III LR2 product tankers and are expected to be delivered to the Purchasers in November 2020 and January 2021 respectively.

2.2. Information on the Shipyard

The Shipyard is a state-controlled shipyard, is part of COSCO SHIPPING Corporation Group and is based in the People’s Republic of China.

2.3. Consideration

The aggregate consideration for the New Vessels is US\$97,600,000 and is to be paid in five (5) staggered instalments based on the progress of the construction schedule of the New Vessels starting from early 2019 and ending upon the respective expected deliveries of the New Vessels in November 2020 and January 2021.

The aggregate consideration was arrived at on a willing-buyer willing-seller basis after arm's length negotiations between the parties.

The Newbuilding Acquisition will be funded as follows:

- (a) up to US\$31,000,000 by way of the net proceeds of the Preferential Offering as described in the Preferential Offering Announcement;
- (b) up to US\$21,300,000 by way of the sale proceeds from the Contemplated Sales (as defined below); and
- (c) the remaining balance by way of a combination of surplus cash flows from operations and bank financing to be obtained by the Purchasers. It is expected that the bank financing, of between 50% to 70% of the aggregate consideration for the Newbuilding Acquisition, will only need to be made available on or around late 2020 and early 2021 when the New Vessels are expected to be delivered respectively.

Please refer to paragraph 2.5 below for further details on the Contemplated Sales.

2.4. Conditions Precedent

The Newbuilding Acquisition is subject to customary conditions precedent on the Shipyard and the Purchasers.

2.5. The Contemplated Sales

FSLT intends to sell ageing vessels from its existing fleet (the "**Contemplated Sales**") and up to US\$21,300,000 from the proceeds raised from the Contemplated Sales is intended to be applied towards the Newbuilding Acquisition as described in paragraph 2.3 above. The Contemplated Sales are not expected to require unitholders' approval as disposals are part of fleet management and in FSLT's ordinary course of business.

As of the date of this announcement, no definitive documentation has been entered into in relation to the Contemplated Sales. The Trustee-Manager will make further announcements, in compliance with the requirements of the Listing Manual of the SGX-ST, upon the completion of every Contemplated Sale. **Unitholders should note that there is no certainty or assurance that any definitive agreements in relation to the Contemplated Sales will be entered into and/or that the Contemplated Sales will be completed.**

3. RATIONALE FOR THE NEWBUILDING ACQUISITION AND THE CONTEMPLATED SALES

The Newbuilding Acquisition and the Contemplated Sales are being undertaken as part of the renewal of FSLT's ageing fleet. The Newbuilding Acquisition and the Contemplated Sales, if completed, are expected to reduce the age profile of FSLT's fleet significantly and enhance its commercial attractiveness and marketability.

The Newbuilding Acquisition is expected to have a positive financial impact on FSLT. The New Vessels will be constructed according to newer designs and utilize new technologies. As the New Vessels will be more efficient to operate and able to carry a variety of cargos, it is

expected that they will be more fuel-efficient and easier to charter to counterparties, at a substantial premium compared to the vessels in FSLT's current fleet. The New Vessels will also be more attractive for long-term leases to major petroleum companies, therefore allowing FSLT to potentially secure better returns. This is expected to be accretive to FSLT's cash flow and earnings.

4. FINANCIAL EFFECTS

4.1. Assumptions

The pro forma financial effects of the Newbuilding Acquisition, based on the audited consolidated financial statements of FSLT and its subsidiaries ("**Group**") for the financial year ended 31 December 2017, are set out below.

The pro forma financial effects are based on the following assumptions:

- (a) US\$31,000,000 of the aggregate consideration is funded by way of the Preferential Offering;
- (b) up to US\$21,300,000 of the aggregate consideration is funded by way of the Contemplated Sales;
- (c) the remaining balance of the aggregate consideration is funded by way of a combination of surplus cash flows from operations and bank financing to be obtained by the Purchasers; and
- (d) the number of issued units in FSLT is 637,456,577,

and are only presented for illustration purposes. They are not intended to reflect the actual future financial situation of the Group after the completion of the Newbuilding Acquisition.

4.2. Net Tangible Assets

Assuming that the Newbuilding Acquisition has been completed on 31 December 2017, the effect on the net tangible assets ("**NTA**") per unit of the Group will be as follows:

	Before the Newbuilding Acquisition	After the Newbuilding Acquisition (before the issue of new units under the Preferential Offering)	After the Newbuilding Acquisition (after the issue of new units under the Preferential Offering¹)
NTA (US\$'000)	173,688	204,688	204,688
Number of Units	637,456,577	637,456,577	1,593,641,442
NTA per Unit (US cents)	0.273	0.321	0.128

¹ Assuming that all entitled unitholders in FSLT subscribe and pay for their pro rata entitlements of new units under the Preferential Offering, FSLT will issue 956,184,865 new units.

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5. RELATIVE FIGURES FOR THE NEWBUILDING ACQUISITION

The relative figures for the Newbuilding Acquisition computed on the bases set out in Rule 1006 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) (the “**Listing Manual**”) are as follows:

Rule 1006	Bases	Size of Relative Figures (%)
(a)	Net asset value of the assets to be disposed of, compared with the Group’s net asset value	Not applicable
(b)	Net profits attributable to the assets acquired, compared with the Group’s net profits	Not applicable ⁽¹⁾
(c)	The aggregate value of the consideration given, compared with FSLT’s market capitalization based on the total number of issued units excluding treasury units	420.63 ⁽²⁾
(d)	The number of equity securities issued by FSLT as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable

Notes:

- (1) There are no net profits or earnings attributable to the New Vessels as they are newbuilding vessels which will be newly constructed.
- (2) Based on the aggregate consideration for the Newbuilding Acquisition of US\$97,600,000 and the market capitalisation of FSLT of S\$31.873 million (US\$23.203 million²) which is determined by multiplying the total number of issued units in FSLT by S\$0.050, being the weighted average price of the units of FSLT transacted on 7 December 2018, being the latest active market day preceding the date of the Agreements.

As the relative figure computed pursuant to Rule 1006(c) of the Listing Manual exceeds 100% (but there is no change of control), the Newbuilding Acquisition constitutes a “very substantial acquisition” within the meaning of Chapter 10 of the Listing Manual.

6. WAIVER APPLICATION AND GRANT OF WAIVER

6.1. Waiver Application

On 16 October 2018, FSLT made an application to the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) for a waiver (“**Waiver**”) from complying with Rules 1015 and 1014(2) of the Listing Manual in respect of the Newbuilding Acquisition (the “**Waiver Application**”), including the requirement for FSLT to obtain unitholders’ approval for the Newbuilding Acquisition, on the following grounds:

² Based on an exchange rate of US\$0.7283 : S\$1

- (a) the opportunity for the Newbuilding Acquisition at the price will be available for only a short time period. If the Newbuilding Acquisition is conditional upon unitholders' approval, the opportunity to acquire the New Vessels at such price level will be lost if unitholders' approval can only be obtained in the next two to three months;
- (b) the timely securing of available yard slots for the construction of the New Vessels is of critical importance, particularly in times when demand for such yard slots is high. New building slots are booked and taken up very quickly and swift action has to be taken to avoid losing the window of opportunity which may result in the delay of vessel deliveries to post-2020 and further extending the no-income periods from FSLT's assets;
- (c) while there has been excess yard capacity in the market up until 2017, due to considerable improvements in the LNG, dry bulk and container markets since the beginning of 2018, most of the slots at first class yards have been booked until 2021, in particular during the last few months. Accordingly, contracts for vessel deliveries in 2020 are very difficult to secure in view of limited available capacity;
- (d) several international banks have expressed interest in supporting FSLT's future strategic plans and FSLT and such banks have engaged in informal discussions in this respect. As described in paragraph 2.3, it is expected that the bank financing will only need to be made available on or around the fourth quarter of 2020 and the first quarter of 2021 when the New Vessels are expected to be delivered;
- (e) newbuilding prices are currently attractive but are on an upward trend and are expected to rise further in the midst of positive market sentiment as market recovery is widely expected in view of IMO 2020 sulphur cap regulations;
- (f) funding for the New Vessels, in anticipation of the completion of the Preferential Offering, can be secured from a bridging loan from the controlling unitholder of FSLT, the proceeds from the Contemplated Sales and the balance amount from bank financing. The Sponsor, FSL Holdings Pte. Ltd. ("**Sponsor**") is confident that it will be able to secure the necessary funding through its wide network of banking relationships as it has done with the recent refinancing of FSLT's loans of approximately US\$110 million. Informal discussions have been entered into between the Sponsor and certain banking institutions which have expressed interest in extending funding for the acquisition of the New Vessels;
- (g) the Newbuilding Acquisition is within the ordinary course of business of FSLT. It is an expansion of FSLT's existing core business, representing 65% of FSLT's NAV (based on the unaudited book values as at the date of the Waiver Application), and is part of FSLT's fleet renewal;
- (h) the market capitalization of FSLT is low due to low unit trading transactions and the market price of the units of FSLT does not reflect the NAV of FSLT (as at the date of the Waiver Application). The market capitalization of FSLT as at the date of the Waiver Application was approximately US\$37 million, while the NAV of FSLT (based on the unaudited book values) as at the date of the Waiver Application was approximately US\$175 million (in each case as at the date of the Waiver Application);
- (i) an extraordinary general meeting ("**EGM**") of FSLT takes time to convene and will not

work for the Newbuilding Acquisition as conditional shipbuilding agreements are not acceptable to the Shipyard;

- (j) the Newbuilding Acquisition being conditional on obtaining unitholders' approval for the Newbuilding Acquisition at an EGM will likely result in the FSLT being unable to undertake the Newbuilding Acquisition at the relevant price; and
- (k) FSLT, through the Sponsor, has customers prepared to charter the New Vessels once they are delivered, at a substantial premium when compared to similar size but older vessels on FSLT's current fleet, and this is expected to be accretive to FSLT's cash flow.

FSLT also applied for the Waiver on the following grounds:

- (i) there are no other alternative opportunities that are open to FSLT as the prices for all other segments are high and building slots are not available. In comparison to the acquisition of secondhand vessels, newbuilding vessels appear to be more attractive and hence present the best option for FSLT;
- (ii) FSLT will continue to have sufficient working capital following the Newbuilding Acquisition as only 10% of the aggregate consideration is required to be paid after the signing of the Agreements with the balance payment to be paid in instalments over 2019, 2020, and 2021; and
- (iii) gearing will not increase significantly through the staggered nature of the Newbuilding Acquisition and Contemplated Sales and given the strategic nature of the fleet renewal plan, the risk profile of FSLT will not change and its earnings potential will improve.

6.2. Outcome of the Waiver Application

On 18 October 2018, the SGX-ST informed FSLT that based on the submissions and representations by FSLT in the Waiver Application, it has no objection to the Waiver Application for a waiver of unitholders' approval for the Newbuilding Acquisition.

The Waiver is subject to:

- (a) an announcement via SGXNET including:
 - (i) disclosure in compliance with Rule 1010 of the Listing Manual;
 - (ii) FSLT's representations and submissions of the matters set out in paragraph 6.1 above;
 - (iii) an explanation, specific reasons and bases, as to why the Newbuilding Acquisition has to be completed on an urgent basis despite the current state of capacity of shipyards globally;
 - (iv) confirmation by the board of directors of the Trustee-Manager ("**Board**" or "**Directors**") that FSLT is able to secure funding for the building of the New Vessels;
 - (v) confirmation that the gearing will not change significantly and the risk profile

will not change, including quantification of FSLT's change in gearing as a result of the Newbuilding Acquisition;

- (vi) submission of a written confirmation via SGXNET that the Board is of the unanimous view that the Newbuilding Acquisition is in the best interests of FSLT; and
 - (vii) the Waiver granted, the reason for seeking the Waiver, and the conditions as required under Rule 107 of the Listing Manual, including the representations in paragraph 6.1 above as submitted to the SGX-ST; and
- (b) submission of a written confirmation from FSLT that it is not aware of any information that will have a material bearing on investors' decision which has yet to be announced by FSLT.

7. DIRECTORS' CONFIRMATIONS

Having considered the terms and conditions of the Newbuilding Acquisition and the matters set out in paragraphs 6.1 above, the Directors confirm that:

- (a) FSLT is able to secure funding for the building of the New Vessels;
- (b) the gearing will not increase significantly; and
- (c) the risk profile of FSLT will not change.

Having considered the terms and conditions of the Newbuilding Acquisition, the rationale for the Newbuilding Acquisition and the matters set out in paragraph 6.1 above, the Directors are of the view that the Newbuilding Acquisition is in the best interests of FSLT.

8. INTERESTS OF DIRECTORS AND CONTROLLING UNITHOLDERS

To the best of the knowledge of the Trustee-Manager, none of the Directors or controlling unitholders of FSLT have any direct or indirect interest in the Newbuilding Acquisition, save for their unitholdings in FSLT and the acquisition fee the Trustee-Manager is entitled to under the deed of trust dated 19 March 2007 constituting FSLT (the "**Trust Deed**").

9. SERVICE CONTRACTS

No person is proposed to be appointed as a Director in connection with the Newbuilding Acquisition. Accordingly, no service contract for such appointment is proposed to be entered into between FSLT and any such person.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Trust Deed and the Agreements will be made available for inspection during normal business hours at FSLT's registered office at 9 Temasek Boulevard #19-03 Suntec Tower Two Singapore 038989 for a period of three (3) months from the date of this announcement.

By Order of the Board
FSL Trust Management Pte. Ltd.
(Company registration no. 200702265R)
as Trustee-Manager of First Ship Lease Trust

Mr. Efstathios Topouzoglou
Non-Independent Non-Executive Chairman
12 December 2018