FSL TRUST

ANNUAL REPORT 2016

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CORPORATE PROFILE

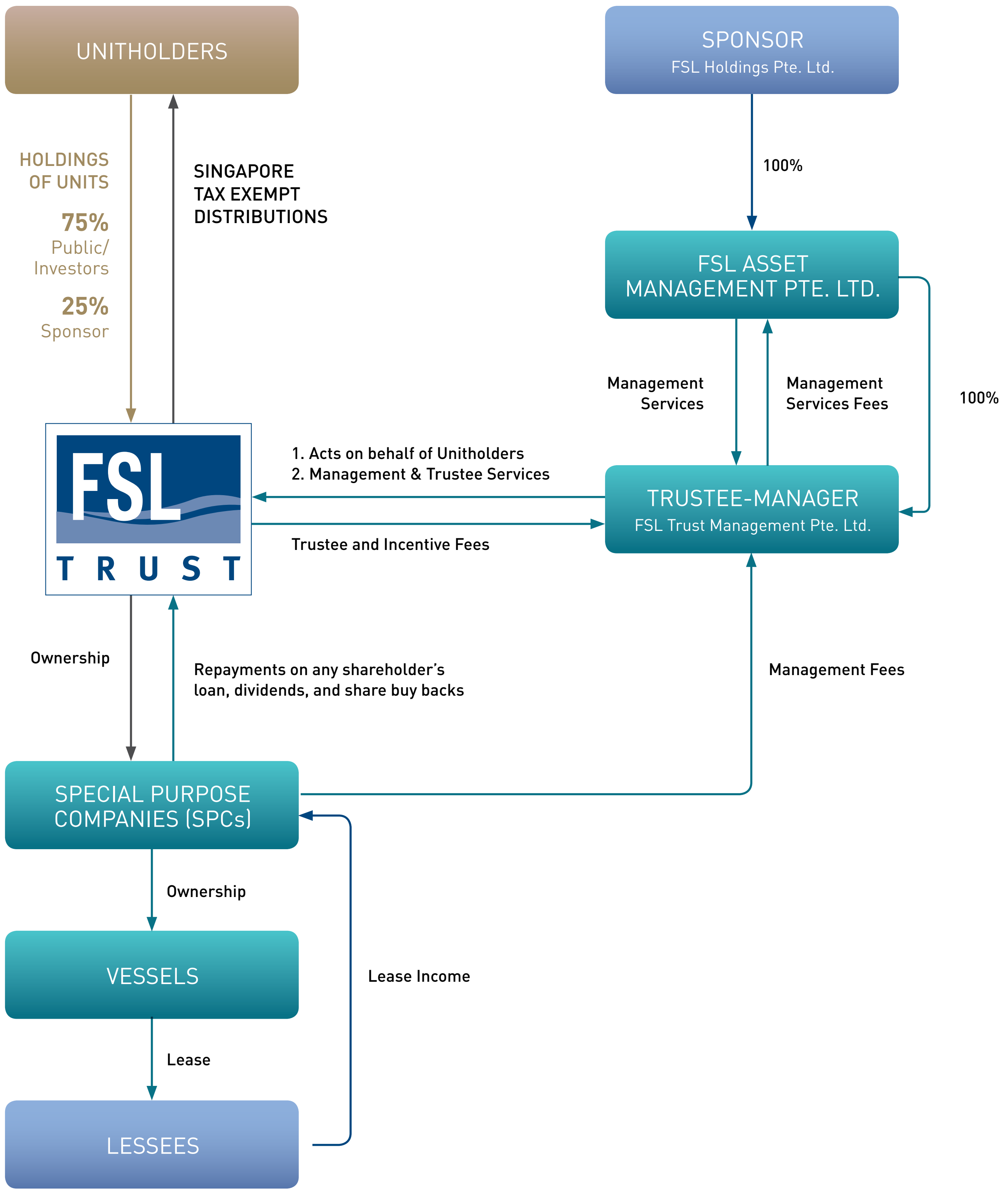
First Ship Lease Trust ("FSL Trust" or "the Trust") is a Singapore-based business trust which owns a fleet of vessels across major shipping sub-sectors. FSL Trust presently has a diversified portfolio of 22 modern and high quality oceangoing vessels comprising containerships and a variety of tankers. Of these, 12 vessels are leased to international shipping companies on long-term bareboat charters. The remaining 10 vessels are employed on short-term time charters or in pools.

The bulk of the Trust's revenue is derived from the rentals received from fixed-rate bareboat charters. The fixed-rate charters provide the Trust with stable and predictable long-term revenue and cash flow, while the vessels employed on market-rate charters allow the Trust to position the business to benefit from positive market developments.

FSL Trust is managed by FSL Trust Management Pte. Ltd. ("FSLTM" or the "Trustee-Manager"). The Trustee-Manager is responsible for safeguarding the interests of unitholders and for FSL Trust's investment and financing strategies, asset acquisition and disposal policies, and the overall management of the Trust's portfolio. The Trustee-Manager aims to optimise the returns on the Trust's vessel portfolio by ensuring that the vessels are well run, managing the various risks and opportunities of the Trust and improving cash flow generation for unitholders of the Trust.

FSL Trust (D8DU) is listed on the Mainboard of the Singapore Exchange Securities Trading Limited (SGX-ST).

CORPORATE STRUCTURE



CORPORATE INFORMATION

TRUSTEE-MANAGER

FSL Trust Management Pte. Ltd.

CORPORATE DIRECTORY

UEN/Company Registration No. 200702265R
Corporate website: www.FSLTrust.com

REGISTERED OFFICE

9 Temasek Boulevard
#19-03 Suntec Tower Two
Singapore 038989
Phone: +65 6836 3000
Fax: +65 6836 6001

COMPANY SECRETARY
Elizabeth Krishnan

UNIT REGISTRAR OF FIRST SHIP LEASE TRUST

BOARDROOM CORPORATE & ADVISORY SERVICES PTE. LTD.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Phone: +65 6536 5355
Fax: +65 6536 1360

BOARD OF DIRECTORS

TIM REID
Non-Independent & Non-Executive Chairman

MICHAEL GRAY
Lead Independent Director & Chairman of the Audit and Risk Committee

MICHAEL OLIVER
Independent Director & Chairman of the Remuneration Committee and the Nominating Committee

NARAYANAN SREENIVASAN
(appointed on 20 September 2016)
Independent Director

SENIOR MANAGEMENT

ROGER WOODS
Acting Chief Executive Officer

ALAN MITCHELL
(appointed on 26 September 2016)
Chief Financial Officer

AUDIT AND RISK COMMITTEE

MICHAEL GRAY (Chairman)
MICHAEL OLIVER
NARAYANAN SREENIVASAN

REMUNERATION COMMITTEE

MICHAEL OLIVER (Chairman)
MICHAEL GRAY
NARAYANAN SREENIVASAN

NOMINATING COMMITTEE

MICHAEL OLIVER (Chairman)
MICHAEL GRAY
NARAYANAN SREENIVASAN

EXTERNAL AUDITORS OF FIRST SHIP LEASE TRUST

MOORE STEPHENS LLP
10 Anson Road
#29-15 International Plaza
Singapore 079903
Telephone: +65 6221 3771
Fax: +65 6221 3815

PARTNER-IN-CHARGE
Neo Keng Jin

DATE OF APPOINTMENT
29 April 2015

INTERNAL AUDITORS OF FIRST SHIP LEASE TRUST

BDO LLP
600 North Bridge Road
#23-01 Parkview Square
Singapore 188778
Telephone: +65 6828 9118

PARTNER-IN-CHARGE
Willy Leow

DATE OF APPOINTMENT
13 July 2015

PRINCIPAL BANKERS

- ABN AMRO Bank N.V., Singapore Branch
- Deutsche Bank AG, Singapore Branch
- ITF International Transport Finance Suisse AG
- Goldman Sachs Holdings (Singapore) Pte. Ltd.
- Oversea-Chinese Banking Corporation Limited
- Sumitomo Mitsui Banking Corporation, Singapore Branch
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- The Korean Development Bank
- UniCredit Bank AG, Singapore Branch

CHAIRMAN'S
LETTER TO UNITHOLDERS

> "The current members of the Board are fully committed to retaining and building value to unitholders."

DEAR UNITHOLDERS,

In my letter to Unitholders in last year's Annual Report, I commented that in my view the factor that potentially had the greatest impact on the Trust, is the volatility of vessel values. This continues to be my view.

In 2016 the Trust generated US$57.6m from operations. The annual profit was, however, negatively affected by the recognition of a non-cash impairment charge of US$44.1m on five container ships, two crude oil tankers and one product tanker, which contributed to a net loss of US$31.0m for the year.

Notwithstanding the significant impairment charge, the Trust's gearing ratio improved during the year from 49.4% to 47.3%. The Trust repaid US$50.7m of debt over the 2016 year and a further voluntary pre-payment of US$20m was made in March 2017, together with the regular quarterly instalment of approximately US$10.7m.

The Trust's Syndicated Loan Facility is due for repayment in December 2017. Early last year the Board requested that Alan Hatton, the then CEO, take steps to ensure early refinancing of the syndicated loan. In June I became concerned that the refinancing exercise was not progressing as I had expected. This view was shared by some, but not all Board members. My concerns continued to grow and in August I formed the view that there was an urgent need for a CFO to be appointed for the Trust, in part, as I wanted to ascertain what was really happening with the refinancing. Mike Gray, as Chairman of the Audit and Risk Committee was very supportive of the appointment of a CFO, as he was concerned that certain controls and procedures needed to be improved.

The appointment of Alan Mitchell as CFO was confirmed by a majority decision of the Board.

With the benefit of a competent CFO joining the Trust, the Board received clear responses to its concerns, which were not limited to the progress of the refinancing alone. Many concerns focused on the conduct of Alan Hatton. Hatton was issued with two warning letters and two show cause letters, which culminated in him resigning prior to being terminated.

The announcement released to SGX on 6 February 2017 advising of Hatton's departure records the Board's view of Hatton's conduct.

The Board ascertained from its investigations into Hatton's conduct that numerous non-disclosure agreements had been signed with third parties without the Board's knowledge or approval. The Board concluded that Hatton's interests were primarily directed towards his own enrichment rather than achieving a refinancing for the benefit of the Trust's unitholders.

Despite the Board's decision to commence the refinancing exercise in the first quarter 2016, well ahead of the scheduled repayment date in December 2017, a refinancing has not yet been secured. In the intervening period, vessel values have declined. Notwithstanding that the Trust continues to enjoy full deployment of its vessels and a resulting strong level of net cash generation from operations, refinancing will require meeting the security value expectations of lenders.

At the time I was appointed a director, the Trust was in breach of the syndicated loan covenants and the debt due to the lenders was US$425m. The amount due to the lenders as at 31 March 2017 is US$192m. In 2015 the Trust purchased *FSL Osaka* at a price of US$20.8m from cash resources in the Trust and this vessel has recently been pledged to our current lenders.

Despite these efforts, the reduction in vessel values will again result in financiers focusing on the Trust's vessel security value relative to indebtedness.

The highest priority for the Board is to secure a refinancing of the outstanding debt, and to this end we are considering a variety of strategies. As a Board, we are committed to improving the structure of the Trust's balance sheet in a manner that enables unitholders to benefit. This will require the balance sheet to be

strengthened and we are considering various options in this regard. As part of these considerations we are requesting Unitholders to approve a general mandate to issue pro-rata renounceable rights of up to 100% of the Trust's capital.

The current members of the Board are fully committed to retaining and building value to unitholders, while fully mindful of obligations to lenders.

N Sreenivasan joined the Board on 20 September 2016. His input since joining the Board, together with the continuing contributions of Michael Gray and Michael Oliver, have been invaluable in steering the Trust through challenges that have arisen due to internal and external factors.

We are grateful for the efforts of Roger Woods, Alan Mitchell and the FSL team for their steadfast commitment to ensuring the Trust's business is managed in a very efficient and effective manner.

Tim Reid
Chairman

CEO'S STATEMENT

"The Trust continued to generate cash over the course of the year in spite of the difficult operating environment across global shipping markets."

DEAR UNITHOLDERS,

I am glad to report that the Trust continued to generate cash over the course of the year in spite of the difficult operating environment across global shipping markets.

I am also pleased to say that the end of 2016 marked the Trust's effective exit from the Singapore Exchange's Minimum Trading Price Watchlist. The exit has taken the pressure off the Trust to address short-term fluctuations in unit price, and will allow us to maintain our focus on delivering sustainable, long-term value to unitholders.

MARKET OVERVIEW

2016 continued to be a challenging and turbulent year for the shipping industry. Shipping companies across the globe have been affected by the changing regulatory landscape, and there continues to be some pessimism in investor sentiment and outlook. With the International Maritime Organization's (IMO) Ballast Water Management Convention coming into force in 2017, the market is likely to witness some increase of scrapping activity in the year ahead as companies evaluate the feasibility of vessel-enhancement initiatives to meet IMO's standards for ballast water management on ships.

The slowdown in the container market has persisted into 2016. However, the Trust's strong partnership with Yang Ming continued to provide insulation from challenging operating conditions and the Trust's two feeder containerships, *FSL Busan* and *FSL Santos*, remained cash generative during 2016. By virtue of its size, feeder containerships benefitted from the trend towards very large and ultra large containership tonnage in the market, as they play a crucial role in the distribution link by transporting cargo to ports that are unable to accommodate larger container vessels.

Tanker markets have experienced weakening spot rates and floating bareboat charter rates have resulted in poorer performance of the Trust's LR2 tankers and chemical tankers. Nevertheless, time charter agreements for the Trust's two aframax tankers and two MR tankers entered in 2015 continued to perform strongly and it limited the Trust's exposure to softening rates in other tanker markets.

FINANCIAL HIGHLIGHTS

The Trust reported full year 2016 revenues of US$98.1m, 7.9% lower than the previous year, on the back of a smaller fleet following the disposal of two *Evergreen* containerships in February 2016. Downward pressure on rates in some tanker markets and the feeder container sector also contributed to the decrease in revenues.

In view of deteriorating vessel values amid volatile market conditions, the Trust recognised a non-cash impairment charge of US$44.1m on eight vessels in 2016, which contributed to a full year net loss of US$31.0m. Despite the non-cash impairment, the Trust registered four quarters of positive cash generation in 2016, with net cash generated from operations of US$57.6m.

Furthermore, the Trust continued to strengthen its balance sheet and improve the gearing of the business by repaying over US$50m of debt in 2016. As a result, gearing ratio was down to 47.3% at the end of 2016, from 49.4% at the end of 2015.

VESSEL EMPLOYMENT

Twelve of the Trust's vessels remained on long-term bareboat charters during 2016. In February 2016, the Trust successfully renewed a five year fixed-rate bareboat charter agreement for *Shannon Fisher* and *Solway Fisher,* and the bareboat charter income contributes to a solid recurring revenue base for the Trust.

To mitigate the impact of the divestment of the *Ever Radiant* and *Ever Respect* panamax container vessels on revenue, the Trust employed *FSL Osaka* in the Hafnia MR pool to capture short-term market upsides. This enabled the Trust to partially offset the decline in bareboat charter revenue.

Over the course of 2016, we continued to work closely with our technical managers and commercial managers to strengthen the performance, utilisation and maintenance of the fleet.

2017: THE YEAR AHEAD

Looking ahead, we expect shipping markets across all sectors to remain under pressure. Vessel oversupply remains a key challenge with the influx of newbuilding deliveries hitting the water in 2017. This is compounded by volatile demand conditions following the Organisation of Petroleum Exporting Countries' (OPEC) production cap.

To provide a solid foundation for long-term growth, securing the refinancing for our Syndicated Loan Facility, which matures at the end of 2017, remains the top priority for the Trust.

In line with our proactive fleet management strategy, we are focused on exploring various employment arrangements to secure good contract cover for nine vessels that are expected to be redelivered this year. To develop strategies to grow and renew our fleet, we will also continue to identify value-accretive deals in compelling market segments.

ACKNOWLEDGEMENTS

I would like to thank the entire team at FSL Trust Management for their commitment and hard work during this trying period. 2016 was a turbulent year for the Trust, and I am grateful for the Board's support and dedication to improving the performance of the business.

I would like to extend my appreciation to our technical managers and the crews on board the Trust's vessels who have helped drive operational efficiencies across the fleet. Our appreciation also goes out to our commercial managers and our customers for their dedication and support over the past year.

Finally, I would like to thank you, our valued unitholders, for your patience and confidence in the Trust. Although industry conditions are expected to remain difficult in 2017, the Trust remains well positioned for the challenges ahead. I look forward to your continued support, as we work hard to deliver long-term value for our unitholders.

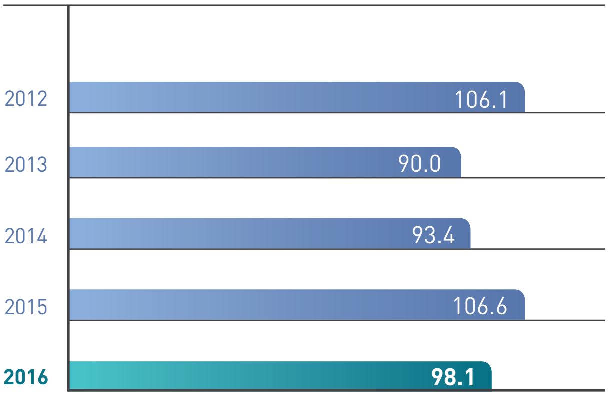
Roger Woods
Acting Chief Executive Officer

PERFORMANCE HIGHLIGHTS

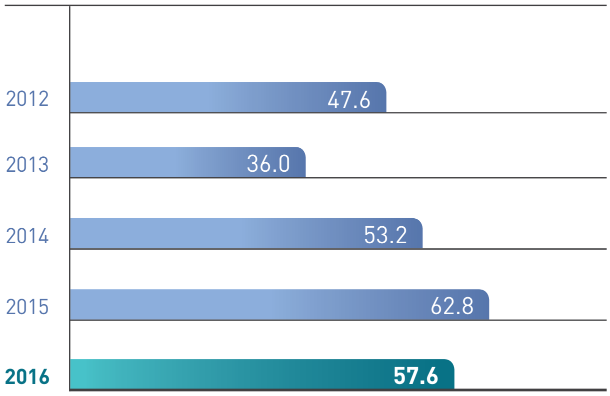
	FY2016 US$'000	FY2015 US$'000	FY2014 US$'000	FY2013 US$'000	FY2012 US$'000	FY2011 US$'000	FY2010 US$'000
Income Statement							
Revenue	98,144	106,583	93,414	89,993	106,107	110,714	100,494
Results from Operating Activities	(17,660)	23,348	16,797	(40,628)	19,280	3,404	19,964
Profit / (Loss) for the Year	(30,995)	14,147	4,051	(65,213)	(8,387)	(17,066)	(5,699)
Net Cash Generated from Operations[1]	**57,584**	**62,823**	**53,225**	**36,035**	**47,608**	**63,846**	**60,479**
Financial Position							
Total Assets	474,425	560,206	594,916	662,627	774,935	822,415	836,029
Total Liabilities	226,971	282,024	328,183	396,991	457,703	497,436	493,581
Shareholder's Equity	247,454	278,182	266,733	265,636	317,232	324,979	342,448
Financial Ratios							
(Loss) / Earnings per unit[2] (US cents/unit)	(4.86)	2.19	0.62	(9.96)	(1.28)	(2.72)	(0.95)
Net Asset Value (US$/unit)	0.39	0.44	0.41	0.41	0.48	0.50	0.57
Gearing Ratio[3] (%)	47.3	49.4	54.4	58.7	57.6	59.3	57.2

(1) Net cash generated from operations = (Loss) / Profit for the year + Non-cash adjustments (Refer to Note 19)
(2) Based on weighted average number of issued units
(3) Gearing ratio = secured bank loans/(total unitholders' funds + secured bank loans)

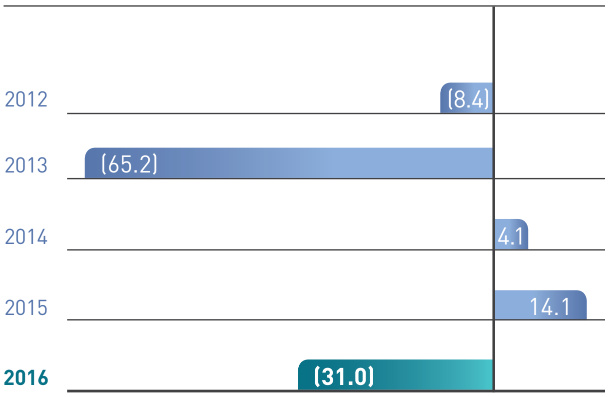
REVENUE
(US$MILLION)



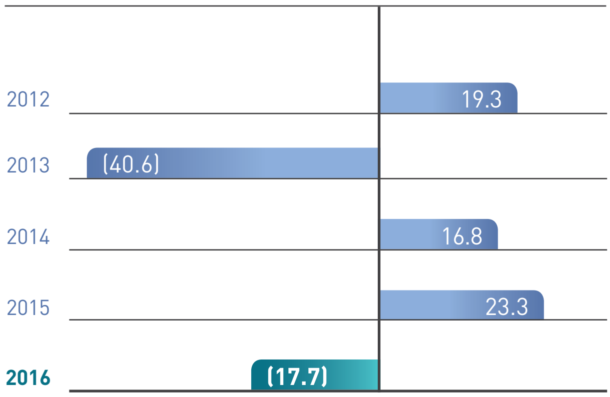
NET CASH GENERATED FROM OPERATIONS
(US$MILLION)



PROFIT / (LOSS) FOR THE YEAR
(US$MILLION)



RESULTS FROM OPERATING ACTIVITIES
(US$MILLION)



BOARD OF DIRECTORS

TIM REID (56)
NON-INDEPENDENT, NON-EXECUTIVE CHAIRMAN

Date of Appointment as a Director
17 June 2013

Length of Service as a Director (as at 31 December 2016)
3 years 6 months

Shares in the Company or Related Corporations
Nil

Committee Memberships
Nil

Academic & Professional Qualifications
- Bachelor of Commerce & Administration, Victoria University of Wellington
- Certificate of Private Practice, Chartered Accountants Australia and New Zealand
- Registered as Public Accountant, Approved Company Auditor and Approved Liquidator with Accounting & Corporate Regulatory Authority, Singapore
- Member of the Chartered Accountants Australia and New Zealand
- Member of the Institute of Singapore Chartered Accountants
- Fellow of the Insolvency Practitioners Association of Singapore Limited

Present Directorships (as at 31 December 2016)
- Ferrier Hodgson Pte. Ltd.
- FSL Holdings Pte. Ltd.
- FSL Asset Management Pte. Ltd.

Major Appointments (other than Directorships)
Nil

Background and Working Experience
- The Hongkong and Shanghai Banking Corporation, New Zealand (1985 to 1988)
- Coopers & Lybrand, NZ (1988 to 1991)
- Coopers & Lybrand, London (1991 to 1993)
- Coopers & Lybrand/PricewaterhouseCoopers, NZ (1993 to 1999). Partner from 1998, Coopers & Lybrand, NZ
- PricewaterhouseCoopers, Singapore (1999 to 2003)
- Ferrier Hodgson, Singapore (2003 to Present)

Past Directorships over the Last 3 years – 2014 to 2016 (excluding Subsidiaries and Associates of the Company)
- Allco Internatinal Holdings (Asia) Pte. Ltd.
- Allco Funds Management (Singapore) Limited
- Allco FMS Investments Pte. Ltd.
- Allco Singapore T3 Pte. Ltd.
- Allco Management Pte. Ltd.
- Allco Investments Pte. Ltd.
- Inenco Asia Pte. Ltd.

Awards
Nil

MICHAEL GRENVILLE GRAY (71)
NON EXECUTIVE AND LEAD INDEPENDENT DIRECTOR

Date of Appointment as a Director
11 May 2015

Length of Service as a Director (as at 31 December 2016)
1 year 7 months

Shares in the Company or Related Corporations
Nil

Committee Memberships
- Audit and Risk Committee (Chairman), Remuneration Committee and Nominating Committee

Academic & Professional Qualifications
- Bachelor of Science in Maritime Studies, Plymouth University UK
- Master of Arts in South East Asian Studies, University of Singapore
- Fellow of Institute of Chartered Accountants in England & Wales
- Fellow of Institute of Singapore Chartered Accountants
- Fellow of Singapore Institute of Directors
- Fellow of Chartered Institute of Transport & Logistics

Present Directorships (as at 31 December 2016)
Listed Company
- Avi-Tech Electronics Limited
- GSH Corporation Ltd.

Others-Non-listed
(excluding Subsidiaries and Associates of the Company)
- Raffles Marina Holdings Ltd.
- TGY Property Investments Pte. Ltd.
- Tras Street Property Investment Ltd.
- UON Singapore Pte. Ltd.
- Vietnam Hospitality Ltd.

Major Appointments (other than Directorships)
- PAVE (President)
- Singapore Grand Prix (Secretary of the Event)

Background and Working Experience
- Merchant Navy Officer (1962 to 1973)
- Coopers & Lybrand UK (1973 to 1978)
- Coopers & Lybrand/ PricewaterhouseCoopers Singapore (1978 to 2004). Partner from 1981 and Managing Partner Indochina (1994 to 2001)

Past Directorships over the Last 3 years – 2014 to 2016 (excluding Subsidiaries and Associates of the Company)
- Ascendas Property Fund Trustee Pte. Ltd.
- VinaCapital Vietnam Opportunity Fund Limited
- Asian Cruising Pte. Ltd.
- The Masonic Hall Board Ltd.

Awards
- Public Service Star (Bar) – B.B.M. (L) (2010)

MICHAEL JOHN OLIVER (68)
NON EXECUTIVE AND INDEPENDENT DIRECTOR

Date of Appointment as a Director
26 June 2013

Length of Service as a Director (as at 31 December 2016)
3 years 6 months

Shares in the Company or Related Corporations
Nil

Committee Memberships
- Remuneration Committee (Chairman), Nominating Committee (Chairman) and Audit and Risk Committee

Academic & Professional Qualifications
Nil

Present Directorships (as at 31 December 2016)
Nil

Major Appointments (other than Directorships)
- Member of the court-appointed Committee of Inspection in the matter of the liquidation of Peregrine Fixed Income Ltd., Hong Kong (1998 to 2017)

Background and Working Experience
- The National Bank Limited, London (1965 to 1967)
- The First National bank of Boston, London, Luxembourg, Frankfurt, Sydney and Boston (1967 to 1985)
- Commerzbank AG, London, Hong Kong and Singapore (1986 to 2005). Regional Board Member (Regional Chief Executive), Asia Oceania (2001 to 2005)

Past Directorships over the Last 3 years – 2014 to 2016 (excluding Subsidiaries and Associates of the Company)
Nil

Awards
Nil

NARAYANAN SREENIVASAN (55)
NON-EXECUTIVE AND INDEPENDENT DIRECTOR

Date of Appointment as a Director
20 September 2016

Length of Service as a Director (as at 31 December 2016)
3 months

Shares in the Company or Related Corporations
Nil

Committee Memberships
- Audit and Risk Committee, Remuneration Committee and Nominating Committee

Academic & Professional Qualifications
- LLB Hons, the National University of Singapore
- Fellow, Chartered Institute of Arbitrators (UK)
- Fellow, Singapore Institute of Arbitrators

Present Directorships (as at 31 December 2016)
Listed Company
- Q & M Dental Group (Singapore) Limited

Others-Non-listed
(excluding Subsidiaries and Associates of the Company)
- Straits Law Practice LLC
- Singapore Business Federation Foundation Limited
- Hydroinformatics Institute Pte. Ltd.
- Kyran International Services Pte. Ltd.
- Palmer Information Services Pte. Ltd.

Major Appointments (other than Directorships)
- Senior Counsel

Background and Working Experience
- Registry of Companies and Ministry of Defence (1985 to 1990)
- Derrick Ravi Partnership (1990 to 2001)
- Straits Law Practice LLC (2001 to present). Managing Director since 2003

Past Directorships over the Last 3 years – 2014 to 2016 (excluding Subsidiaries and Associates of the Company)
- MUFG Fund Services (Singapore) Pte. Ltd.

Awards
- Pingat Bakti Masyarakat (2014)

EXECUTIVE OFFICERS

ROGER WOODS (54)

ACTING CHIEF EXECUTIVE OFFICER

Date of Appointment
2 February 2017

Length of Service (as at 31 December 2016)
3 years 3 months

Roles and Responsibilities
- Joined the Trust as the Chief Operating Officer on 17 September 2013 and promoted to Deputy Chief Executive Officer on 30 November 2016
- Responsible for overseeing the general business operations of the Trust, including short and medium term commercial deployment of vessels and relationships with technical managers

Academic & Professional Qualifications
- Member of the Institute of Chartered Shipbrokers (MICS)
- Diploma in Nautical Science

Background and Working Experience
- Over 38 years of shipping-related experience and has held senior positions across chartering, operations and ship management dealing with crude oil, oil products and dry cargoes
- Established track record of negotiating favourable time charters and sale and purchase deals as well as dealing with legal disputes, insurance matters and operational issues
- Merchant Navy Officer (1979 to 1983)
- Ugland Brothers Limited (1985 to 1992). Assistant Operations Manager (1989 to 1992) and Assistant Purchasing Manager (1985 to 1989)
- Tamoil Shipping Limited (1992 to 2006). Managing Director / General Manager (2002 to 2006), Chartering Manager (1996 to 2002) and Operations Manager (1992 to 1996)
- FR8, Singapore and London (2007 to 2013). General Manager & Projects

ALAN CHRISTOPHER MITCHELL (59)

CHIEF FINANCIAL OFFICER

Date of Appointment
26 September 2016

Length of Service (as at 31 December 2016)
3 months

Roles and Responsibilities
- Responsible for the financing, treasury and accounting functions of the Trustee-Manager's operations

Academic & Professional Qualifications
- Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW)
- Associate of the Chartered Institute of Bankers

Background and Working Experience
- Over 30 years of finance-related experience as an auditor, banker and CFO, including handling regulatory and compliance matters, renegotiating banking facilities, business restructuring, undertaking fraud investigations as well as managing and disposing of non-performing loans
- Deloitte, UK and Dubai (1975 to 1983). Audit Team Leader
- KPMG, Hong Kong (1983 to 1986). Deputy Manager (Insolvency, Receivership and Investigations)
- HSBC, Hong Kong, Indonesia and South Korea (1986 to 2000). Held various roles where he undertook assignments in internal audit (specialising in credit audit), corporate banking, banking operations, special investigations, and bank acquisition due diligence and integration planning across HSBC's global network
- INFA Telecom Group, Hong Kong (2000 to 2002). Finance Director and Executive Committee Member
- Rothschild, Hong Kong and Singapore (2003 to 2014). Chief Financial Officer, Rothschild South East Asia, Singapore (2012 to 2015), and Chief Financial & Operations Officer, Rothschild Asia, Hong Kong & Singapore (2003 to 2012)
- TSA Consultancy Services Pte. Ltd. (June 2015 to November 2015). Consultant

FINANCIAL &
OPERATIONAL REVIEW

Positive cash generation and significant increase in cash and cash equivalents amid challenging industry conditions

For the financial year ended 31 December 2016 ("FY2016"), the Trust recorded lower revenue of US$98.1m, a 7.9% decrease from the previous financial year ("FY2015"). The decline in revenue for FY2016 when compared to FY2015 was mainly due to the reduced size of the fleet following the disposal of two panamax containerships in February 2016, in addition to downward pressures on spot rates in some tanker markets and the feeder container sector.

The Trust posted four quarters of positive cash generation over the course of the year, with net cash generated from operations of US$57.6m in FY2016 (FY2015: $62.8m). Furthermore, cash and cash equivalents increased by 48.8% from US$28.8m in FY2015 to US$42.9m in FY2016. This was achieved notwithstanding a smaller fleet, a non-cash impairment provision, the costs of vessel dry-docking and a difficult operating landscape.

Vessel value volatility weighed on the Trust's net profit in FY2016. Upon reassessment of the recoverable amount in line with the deterioration in current market value, the Trust recognised an impairment charge of US$44.1m in FY2016 on eight vessels. This non-cash impairment contributed to the net loss of US$31.0m for FY2016.

The Trust continued to strengthen its balance sheet and improve the gearing of the business by repaying over US$50m of debt during the past 12 months. As a result, the Group's gearing was reduced from 49.4% at the end of FY2015 to 47.3% at the end of FY2016 notwithstanding an impairment provision of US$44.1m.

"The Trust continued to strengthen its balance sheet and improve gearing by repaying over US$50m of debt over the past 12 months."

PROGRESS IN 2016

Disposal of two panamax containerships

In light of the depressed container market environment, the Trust disposed of its older panamax containerships, *Ever Radiant* and *Ever Respect*, for US$10.8m in February 2016 following redelivery from *Evergreen Marine*. US$8.0m of the cash proceeds from the sale of the vessels was used to prepay secured bank loans, consequently reducing the Trust's outstanding debt and scheduled debt repayments. The sale of the two vessels incurred a loss on disposal of US$4.1m in 1Q2016.

Successful renewal of bareboat contracts

The Trust successfully renewed a five year fixed-rate bareboat charter agreement at prevailing market rates for the vessels *Shannon Fisher* and *Solway Fisher*, which provides consistent revenue for the Trust.

Effectively exited from the Singapore Exchange's Minimum Trading Price Watchlist

Under the Listing Rule 1314(2), The Trust was removed from the Singapore Exchange Securities Trading's Minimum Trading Price (MTP) Watchlist on 5 December 2016 based on the Trust's average daily market capitalisation over the last 6 months.

2017 UPDATES

Scheduled redelivery of nine vessels in 2017

Nine vessels are expected to be redelivered in FY2017. These nine

FINANCIAL &
OPERATIONAL REVIEW

48.8%
Increase in cash and cash equivalents to US$42.9m

vessels are *Speciality, Superiority, Seniority, FSL Hong Kong, FSL Shanghai, FSL Hamburg, FSL Singapore, Cumbrian Fisher* and *Clyde Fisher*. The Trust is currently exploring various employment possibilities in order to secure good contract cover for these vessels to optimise the commercial deployment of the fleet.

STABLE REVENUES DESPITE DIFFICULT OPERATING ENVIRONMENT

In FY2016, the Trust maximised earnings from its tanker fleet by securing time charter coverage in 2015 for two aframax tankers and two MR tankers at improved rates. This timely arrangement helped to limit the Trust's exposure to markets that came under increased pressure during the year.

As illustrated in **Figure 1**, on a bareboat charter equivalent ("BBCE") basis, total BBCE revenue for FY2016 decreased by 9.5% year-on-year to US$72.9m. This was largely attributable to a smaller fleet and a volatile and uncertain shipping market, which weighed on spot and floating bareboat rates in the LR2 and tanker markets and the feeder container sector.

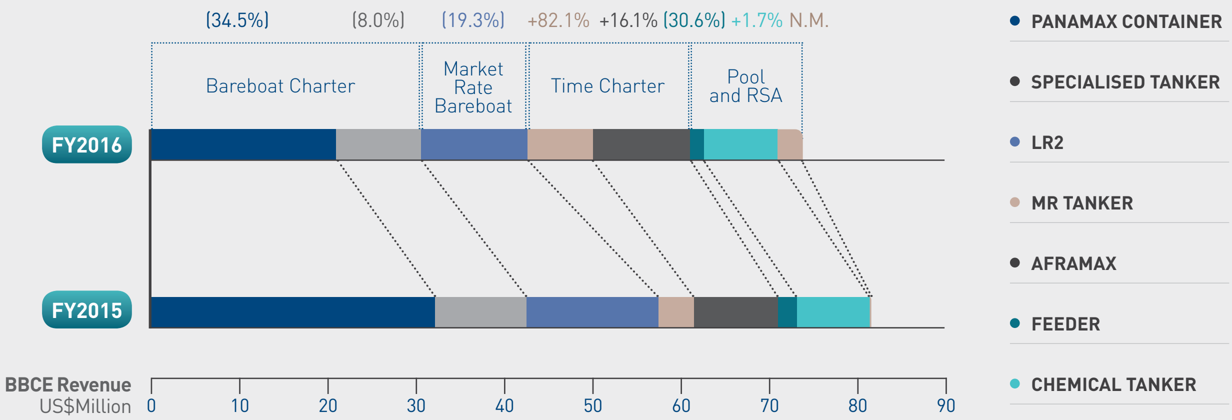
OPERATING EXPENSES AND OTHER INCOME

The Trust's vessel operating expenses grew 7.3% in FY2016 to US$24.1m due to the acquisition of *FSL Osaka* in late 2015.

In line with the Trustee-Manager's continued efforts to control overall expense, more functions were absorbed by the Trustee-Manager thus moderating expense incurred beyond management fees. As a result, other Trust expenses decreased by 10.5% to US$1.7m.

Depreciation expense on vessels decreased by 17.9% to US$42.7m (FY2015: US$52.0m). This was mainly due to lower depreciation expense of US$16.0m arising from the disposal in February 2016 of the two panamax containerships chartered to *Evergreen*. This was partially offset by a US$2.3m increase in the depreciation charge related to adjustments in vessel residual values. Additionally, in light of falling vessel values, an impairment charge of US$44.1m was taken in respect of five containerships, two crude oil tankers and one product tanker in FY2016.

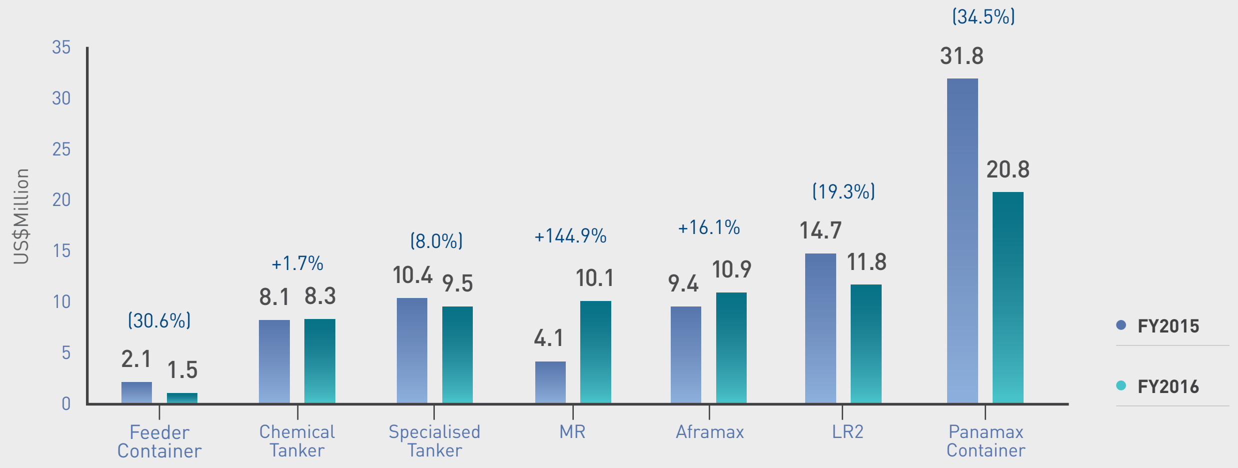
Figure 1:
BBCE REVENUE



N.M. = Not Meaningful

Figure 2:

BREAKDOWN OF FY2016 BBCE REVENUE BY VESSEL TYPE



This became necessary following an assessment that the carrying amounts of these eight vessels had exceeded the recoverable amounts.

In spite of an exchange loss of US$108,000, finance expenses for FY2016 reduced by 15.2% to US$10.8m as a result of lower outstanding indebtedness and the declining impact of existing swaps. The Trust fully serviced all principal and interest payments due during the year, including a prepayment of US$8.0m of the cash proceeds from the sale of the two panamax containships. Consequently, the Trust's outstanding loan balance was lower by US$50.7m at US$223.2m (before the deduction of unamortised debt transaction costs) as of 31 December 2016.

OPERATIONAL PERFORMANCE

During the year, BBCE revenue declined by 9.5% year-on-year to US$72.9m. This was mainly due to the reduction in fleet size, the renewal of bareboat contracts for *Shannon Fisher* and *Solway Fisher* at a lower daily rate, and weaker performance of the two LR2 tankers.

However, the decline in revenue from vessels on bareboat charter was partially offset by the two-fold increase in net time charter revenue as a result of the Trust's timely securing of strong rates on the aframaxes and MR time charter fixtures. Moreover, the addition of *FSL Osaka* to the fleet also mitigated the impact of the disposal of the *Evergreen* container vessels on the Trust's revenue base. (See **Figure 2**)

LR2 Product Tankers

The Trust's two LR2 vessels, *TORM Margrethe* and *TORM Marie*, are currently leased on floating-rate bareboat charters to TORM A/S. Due to softening rates in the LR2 market, the vessels contributed lower revenue of US$11.8m to bareboat charter rental for the year.

Chemical Tankers

The Trust's three chemical tankers, *FSL New York, FSL London and FSL Tokyo*, have been employed in the 'Nordic Tankers 19,000 Stainless Steel Pool' since the third quarter of FY2012. After deducting vessel operating expenses, the three vessels collectively earned BBCE revenue of US$8.3m in FY2016 (FY2015: US$8.1m). This included the dry-docking of the three vessels in the third quarter of FY2016 whereby the related off-hire negatively affected their economic performance.

Aframax Crude Oil Tankers

The Trust's two crude oil tankers, *FSL Hong Kong* and *FSL Shanghai* remain deployed on two-year time charters with a prominent U.S. domestic oil company and a global commodities trader respectively. The Trust benefited from its strategy of securing timely contract cover when crude tanker markets were performing well, and the Trust's two aframax tankers generated higher revenue of US$10.9m in FY2016 (FY2015: US$9.4m).

Feeder Containerships

The Trust's two feeder containerships, *FSL Busan* and *FSL Santos* are employed in a 1200-1400/1700 TEU earnings pool managed by HANSE Bereederung GmbH ('Hanse Pool'). Spot rates in the feeder sector have softened amid continued slowdown and uncertainty in the container market. After deducting vessel operating expenses, these vessels earned BBCE revenue of US$1.5m in FY2016 (FY2015: US$2.1m).

FINANCIAL & OPERATIONAL REVIEW

US$**57.6M**
Net Cash Generated from Operations

MR Product Tankers

Two of the Trust's MR vessels, *FSL Hamburg* and *FSL Singapore*, have been deployed on time charters with a global commodities trader since November 2015. The addition of *FSL Osaka* to the fleet helped to boost the Trust's tanker income stream. *FSL Osaka* is employed in an MR Pool managed by Hafnia Management ('Hafnia Pool'), and it contributed BBCE revenue of US$2.8m for the year. After deducting vessel operating expenses, the three MR tankers collectively generated BBCE revenue of US$10.1m in FY2016 (FY 2015: US$4.1m).

Figure 3:
BREAKDOWN OF FY2016 BBCE REVENUE BY EMPLOYMENT TYPE

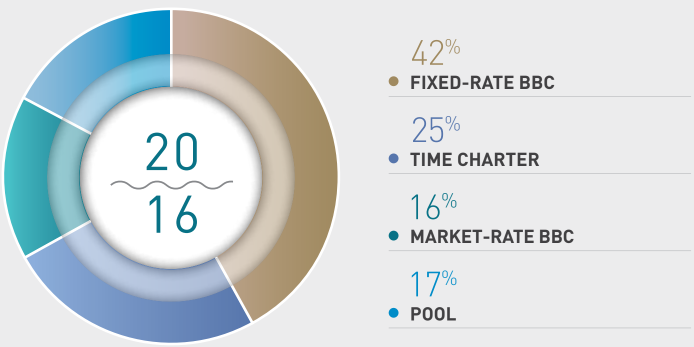
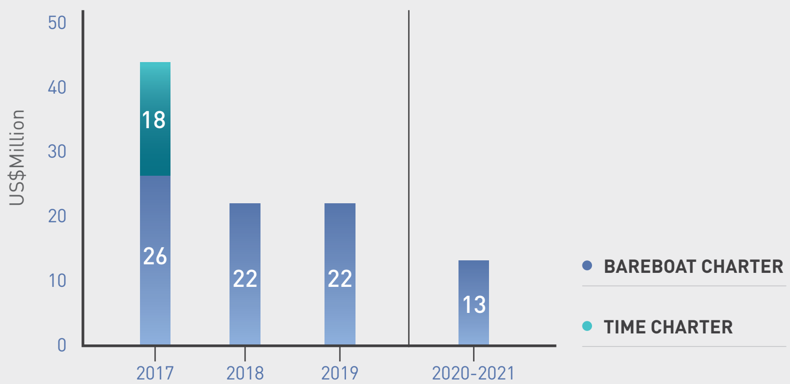


Figure 4:
REMAINING CONTRACTED REVENUE STOOD AT US$101M AS AT 31 DECEMBER 2016



PORTFOLIO ANALYSIS

As at 31 December 2016, 12 out of the 22 vessels in the Trust's fleet were leased on bareboat charters. These charters collectively remained the largest contributor to the Trust's BBCE revenue. The remaining 10 vessels employed on time charter and in pools provided the Trust with the flexibility and opportunity to capture any upside by enabling the management of exposure to movements in the short-term market. A breakdown of the Trust's FY2016 bareboat charter/ BBCE revenue by employment type is provided in **Figure 3**.

As at 31 December 2016, excluding the TORM charters which are on floating rates, the remaining contracted revenue of the leases were approximately US$101.1m (See **Figure 4**).

The lease maturities of the vessels on long-term bareboat charters remain staggered so that only a small portion of the overall lease portfolio would mature in any one year.

LOAN FACILITY AND LOAN COVENANTS

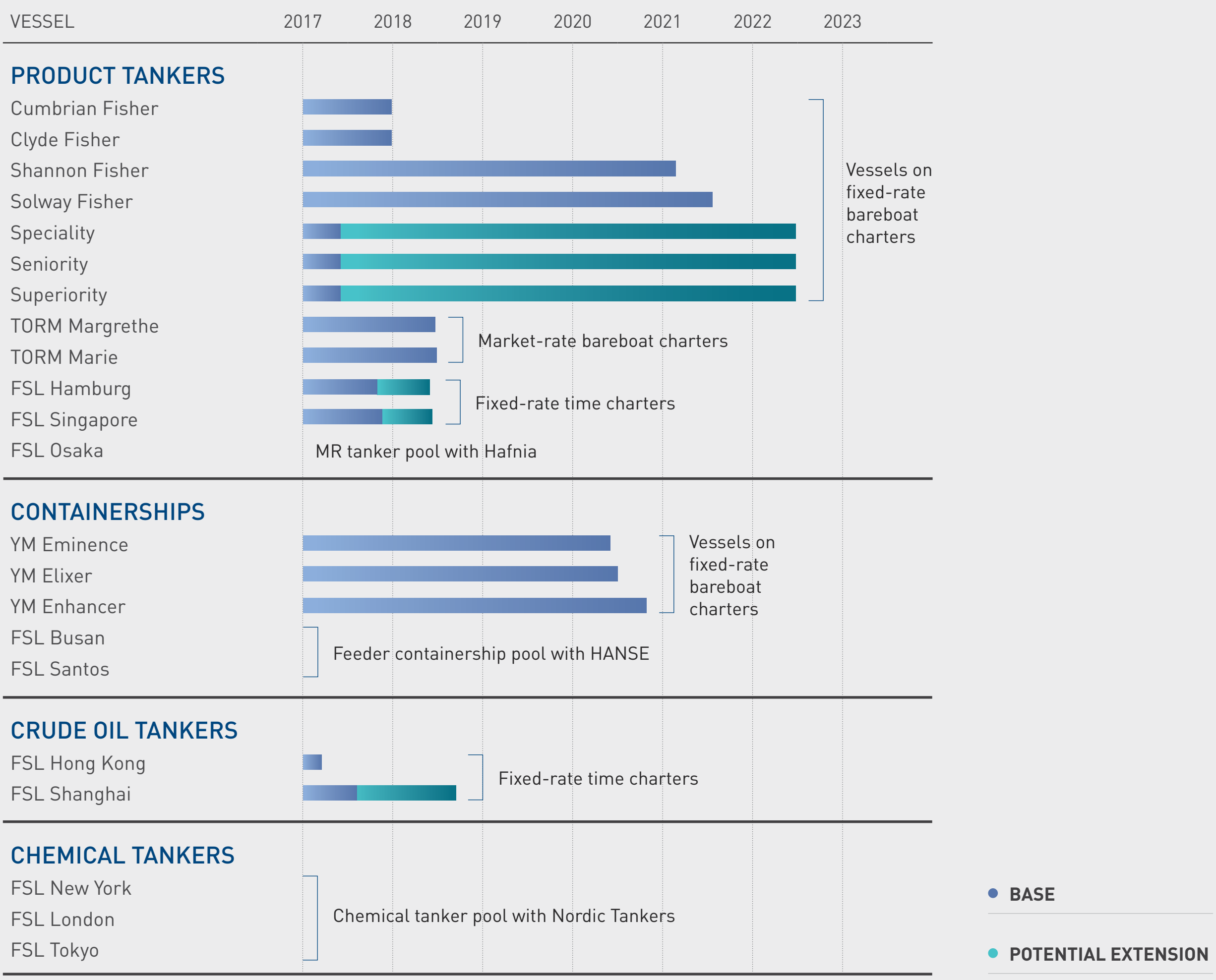
In January 2015, as a result of the successful restructuring efforts of the Board and management team, the Trust announced that it was in compliance with the terms of its original loan agreement, following a covenant relaxation period of two and a half years.

FSL Trust has a 6-year amortising term loan maturing at the end of 2017. This term loan facility, secured against FSL Trust's 21 vessels (after the disposal of the two panamax containerships in February 2016 and excluding the unencumbered *FSL Osaka*), was fully drawn down in December 2011 and has an outstanding loan balance of US$223.2m (before the deduction of unamortised debt transaction costs) as of 31 December 2016. The quarterly scheduled loan repayments were reduced to US$10.7m following the prepayment made after the disposal of the two containerships. (See pages 69 to 70, Note 12 for more details on the loan facility interest margin).

The Trust will prepay US$20m of the principal amount under the Syndicated Loan Facility, at the end of the first quarter of FY2017 from available cash, thereby reducing the outstanding loan balance. In addition, the Trust will pledge the vessel, *FSL Osaka* acquired in 2015 to the Lenders.

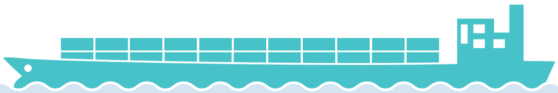
Figure 5:

LEASE MATURITY OF VESSELS (2017 TO 2022) -
DOLLAR WEIGHTED AVERAGE REMAINING LEASE TERM IS TWO YEARS AS AT 31 DECEMBER 2016

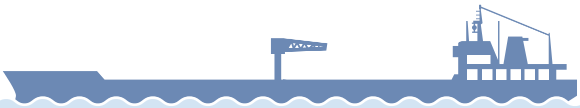


VESSEL
PORTFOLIO

5 CONTAINERSHIPS[1]



2 CRUDE OIL TANKERS



FSL BUSAN

YEAR BUILT	2003
BUILDER	Peene Werft, Germany
CAPACITY	1,221 TEU
FLAG	Marshall Islands

FSL SANTOS

YEAR BUILT	2003
BUILDER	Peene Werft, Germany
CAPACITY	1,221 TEU
FLAG	Marshall Islands

YM EMINENCE

YEAR BUILT	2008
BUILDER	CSBC Corporation, Taiwan
CAPACITY	4,250 TEU
FLAG	Liberia

YM ENHANCER

YEAR BUILT	2008
BUILDER	CSBC Corporation, Taiwan
CAPACITY	4,250 TEU
FLAG	Liberia

YM ELIXIR

YEAR BUILT	2008
BUILDER	CSBC Corporation, Taiwan
CAPACITY	4,250 TEU
FLAG	Liberia

FSL HONG KONG

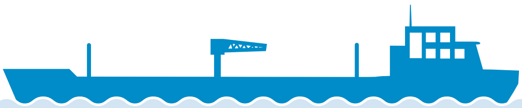
YEAR BUILT	2007
BUILDER	Samsung Heavy Industries, South Korea
CAPACITY	115,000 DWT
FLAG	Singapore

FSL SHANGHAI

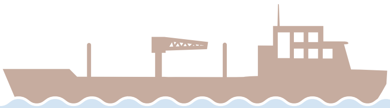
YEAR BUILT	2007
BUILDER	Samsung Heavy Industries, South Korea
CAPACITY	115,000 DWT
FLAG	Singapore

(1) Containerships, Ever Radiant and Ever Respect, were disposed in February 2016

12 PRODUCT TANKERS



3 CHEMICAL TANKERS



CUMBRIAN FISHER

YEAR BUILT	2004
BUILDER	Samho, South Korea
CAPACITY	12,921 DWT
FLAG	Bahamas

CLYDE FISHER

YEAR BUILT	2005
BUILDER	Samho, South Korea
CAPACITY	12,984 DWT
FLAG	Bahamas

SHANNON FISHER

YEAR BUILT	2006
BUILDER	Damen Galati, Romania
CAPACITY	5,421 DWT
FLAG	Bahamas

SOLWAY FISHER

YEAR BUILT	2006
BUILDER	Damen Galati, Romania
CAPACITY	5,421 DWT
FLAG	Bahamas

SPECIALITY

YEAR BUILT	2006
BUILDER	Qingshan Shipyard, Wuhan, PRC
CAPACITY	4,426 DWT
FLAG	Bahamas/U.K.

SENIORITY

YEAR BUILT	2006
BUILDER	Qingshan Shipyard, Wuhan, PRC
CAPACITY	4,426 DWT
FLAG	Bahamas/U.K.

SUPERIORITY

YEAR BUILT	2007
BUILDER	Qingshan Shipyard, Wuhan, PRC
CAPACITY	4,426 DWT
FLAG	Bahamas/U.K.

FSL HAMBURG

YEAR BUILT	2005
BUILDER	Hyundai Mipo Dockyard, South Korea
CAPACITY	47,496 DWT
FLAG	Singapore

FSL SINGAPORE

YEAR BUILT	2006
BUILDER	Hyundai Mipo Dockyard, South Korea
CAPACITY	47,470 DWT
FLAG	Singapore

FSL OSAKA

YEAR BUILT	2007
BUILDER	Shin Kurushima Dockyard, Japan
CAPACITY	45,998 DWT
FLAG	Singapore

TORM MARGRETHE

YEAR BUILT	2006
BUILDER	Dalian Shipbuilding Industry Co. Ltd., PRC
CAPACITY	109,672 DWT
FLAG	Singapore

TORM MARIE

YEAR BUILT	2006
BUILDER	Dalian Shipbuilding Industry Co. Ltd., PRC
CAPACITY	109,672 DWT
FLAG	Singapore

FSL NEW YORK

YEAR BUILT	2006
BUILDER	Usuki Shipyard, Japan
CAPACITY	19,970 DWT
FLAG	Singapore

FSL LONDON

YEAR BUILT	2006
BUILDER	Usuki Shipyard, Japan
CAPACITY	19,966 DWT
FLAG	Singapore

FSL TOKYO

YEAR BUILT	2006
BUILDER	Shin Kurushima, Japan
CAPACITY	20,938 DWT
FLAG	Singapore

OUR LESSEES
AND CHARTERERS

JAMES FISHER EVERARD LIMITED
JAMES FISHER & SONS PLC
(UNITED KINGDOM)

James Fisher & Sons plc (United Kingdom), listed on the London Stock Exchange (LSE: FSJ), is a leading provider of marine and specialist engineering services. From its beginnings in 1847 as a ship owner and operator in England, James Fisher has developed considerable expertise in operating various marine and other safety-critical specialised businesses. The company provides comprehensive products, services and support to the oil and gas, renewables, nuclear power, construction, shipping and defence industries. Based in United Kingdom, James Fisher operates worldwide in six continents under four broad business divisions, namely, Marine Support, Specialist Technical, Offshore Oil and Tankships.

TESORO FAR EAST MARITIME COMPANY
TESORO CORPORATION
(USA)

Tesoro Corporation (USA), listed on the New York Stock Exchange (NYSE: TSO) and a Fortune 100 company, is an independent refiner and marketer of petroleum products. Tesoro also has an ownership interest in Tesoro Logistics LP (NYSE: TLLP), which specialises in the logistics of transportation and storage of crude oil, refined products and natural gas. Tesoro, through its subsidiaries, operates seven refineries in the western United States with a combined capacity of over 895,000 barrels per day. Tesoro's retail-marketing system includes over 2,400 retail stations under the ARCO®, Shell®, Exxon®, Mobil®, USA Gasoline™, Rebel™ and Tesoro® brands.

TORM SINGAPORE PTE. LTD.
TORM PLC
(UNITED KINGDOM)

TORM PLC (United Kingdom), listed on NASDAQ OMX Copenhagen (CPH: TRMD A), was founded in 1889. TORM is a pure play product tanker company and one of the world's leading carriers of refined oil products such as gasoline, jet fuel, naphtha and diesel oil. The company operates a large and modern fleet of product tankers with cargo capacity varying from 35,000 to 110,000 deadweight tons. TORM is headquartered in Copenhagen, Denmark, with offices in London, Houston, Manila, Mumbai and Singapore.

TRAFIGURA MARITIME LOGISTICS PTE. LTD.
TRAFIGURA BEHEER B.V.
(NETHERLANDS)

Trafigura Beheer B.V (Netherlands), founded in 1993, is one of the world's leading independent commodity trading and logistics houses, specialising in the oil, petroleum products, minerals and metals markets. Its primary trading activities are the supply and transportation of oil, petroleum products, metals and minerals. Trafigura's trading business is supported by industrial and financial assets, including global oil products distribution company Puma Energy, joint venture company DT Group, global terminals operator Impala, and Trafigura's Mining Group and Galena Asset Management. The Trafigura Group is owned by its management team and a group of senior employees. Trafigura maintains its business operations from 61 offices spread over 36 countries.

ALL OCEANS TRANSPORTATION INC
YANG MING MARINE TRANSPORT CORPORATION
(TAIWAN)

Yang Ming Marine Transport Corporation (Taiwan), listed on the Taiwan Stock Exchange (TWSE: 2609), is established in 1972. The Taiwanese government has a significant equity stake in the company. Yang Ming Marine's principal activity is in the containership liner business but its business profile also includes dry bulk shipping, terminal management, logistic and shipping agency services. Yang Ming Marine is currently ranked as the second largest container shipping company in Taiwan and among the top ten largest container liner operators[1] in the world in terms of operating capacity. The company provides shipping services to around 50 countries by operating a fleet of approximately 102 vessels[1] with a total operating capacity of approximately 580,000 TEUs (twenty foot equivalent units).

(1) Source: Alphaliner

Note: Information about our lessees and ship charterers has been obtained from our own enquiries of those counterparties, their respective group management, group websites and publicly accessible sources.

CORPORATE GOVERNANCE REPORT

First Ship Lease Trust ("FSL Trust") is a business trust constituted under the Business Trusts Act. FSL Trust Management Pte. Ltd. ("FSLTM") as Trustee-Manager of FSL Trust is responsible for managing the business of FSL Trust. This includes the trust property as defined in the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time, safeguarding the interests of unitholders as a whole and ensuring and upholding high governance standards. FSLTM is fully committed to this responsibility in all its dealings with regard to FSL Trust.

This report sets out the corporate governance practices in place for financial year 2016 with reference to the Code of Corporate Governance 2012 ("the Code") and Business Trusts Regulations 2005. Where there are deviations from the Code, appropriate explanations are provided in this report.

CHANGES IN BOARD AND MANAGEMENT STRUCTURE

From the second half of 2016 onwards, there were several changes on the Board of FSLTM and the management. N. Sreenivasan was appointed as an independent director with effect from 20 September 2016. Esben Poulsson and Simon Davidson resigned as directors on 27 September 2016 and 7 November 2016, respectively. Alan Hatton ceased as the Chief Executive Officer and director of FSLTM with effect from 2 February 2017.

Consequent upon each of the above changes, the composition of the Board and Board Committees were re-constituted.

Roger Woods was appointed as Deputy Chief Executive Officer on 30 November 2016 and was subsequently promoted to the position of Acting Chief Executive Officer on 2 February 2017. Alan Mitchell was appointed as Chief Financial Officer on 26 September 2016.

THE BOARD'S CONDUCT OF ITS AFFAIRS

The principal functions of the Board of Directors include guiding the corporate strategy and directions of management, reviewing the budget and all business plans, approving all acquisitions and borrowings, monitoring the financial and non-financial performance of FSL Trust, putting in place all relevant internal controls and risk management processes, approval of all public announcements, the quarterly and full year announcements and financial statements, identifying key stakeholder groups and overseeing the management of FSL Trust.

The Board has delegated and outsourced the day-to-day operations to FSL Asset Management Pte. Ltd. which is now led by Roger Woods, the Acting Chief Executive Officer, following the cessation of Alan Hatton, as Director and Chief Executive Officer. The Board has also delegated specific functions to three sub-committees, the Audit and Risk, Nominating and Remuneration Committees. Certain key matters are reserved for the Board's approval, such as vessel acquisition and divestment, vessel leases and extensions, capital expenditure, SGX submissions, policies and procedures, and commitments on loan and credit facilities.

The Board meets at least once every quarter and as often as warranted by particular circumstances. Board meetings are also supplemented by resolutions circulated to directors for decisions.

CORPORATE GOVERNANCE REPORT

The attendance of the directors at the Board, Audit and Risk and Remuneration Committees' meetings for 2016 is set out below:

Directors	BOARD Attendance / Number of Meetings held	AUDIT AND RISK COMMITTEE Attendance / Number of Meetings held	REMUNERATION COMMITTEE Attendance / Number of Meetings held
Tim Reid	7/7	NA	NA
Michael Gray [1]	7/7	4/4	1/1
Michael Oliver [2]	7/7	4/4	1/1
N. Sreenivasan [3]	3/3	1/1	1/1
Esben Poulsson [4]	4/5	3/3	NA
Simon Davidson [4]	5/6	4/4	NA
Alan Hatton	7/7	NA	NA

NA: Not Applicable

(1) Michael Gray was appointed as Lead Independent Director on 28 November 2016 and member of the Remuneration and Nominating Committees on 6 September 2016 and 23 February 2017, respectively.
(2) Michael Oliver was appointed as a member of the Remuneration and Nominating Committees on 6 September 2016 and 23 February 2017, respectively.
(3) N. Sreenivasan was appointed as an Independent Director on 20 September 2016 and member of the Audit and Risk, Remuneration and Nominating Committees on 22 September 2016, 22 September 2016 and 23 February 2017, respectively.
(4) Esben Poulsson and Simon Davidson resigned as Directors on 27 September 2016 and 7 November 2016, respectively.

There are no alternate directors on the Board.

The directors are expected to diligently discharge their duties and responsibilities, always acting in the best interests of the Trust and Unitholders. To enable the directors to fully discharge their duties and obligations, directors have been furnished with a legal and compliance regulatory manual prepared by professional advisers. As and when necessary, they have also been provided with updates on relevant practices, new laws, rules and regulations, changes in accounting standards and risk management issues applicable to FSL Trust or FSLTM, including briefings by relevant professionals. The directors are encouraged to participate in relevant training programs to be funded by FSLTM. New directors receive formal letters of appointment setting out their duties and obligations and also comprehensive induction training and orientation by Executive Directors and Management on the business, governance and regulatory affairs of the Trust and its strategic decisions.

BOARD COMPOSITION AND GUIDANCE

The composition of the Board of FSLTM is determined using the following principles:

(i) The majority of Board members should be non-executive and independent directors;
(ii) The Chairman of the Board should be a non-executive director;
(iii) The Board should comprise directors with a wide range of commercial and management experience; and
(iv) At least a majority of the directors should be independent from management and business relationships with FSLTM and from every substantial shareholder of FSLTM.

Currently, the Board comprises four directors, three of whom are independent and non-executive. The Directors are Tim Reid (Non-Executive Chairman), and Independent Directors, Michael Gray, Michael Oliver and N. Sreenivasan.

Following the resignation of Simon Davidson, Michael Gray was appointed the Lead Independent Director on 28 November 2016. The directors come from diverse backgrounds with expertise in the shipping industry, accounting and finance, banking, legal, business and management fields and are able to apply their experience to further the interests of FSL Trust. The Board has the appropriate balance of independent directors. The three independent directors are particularly aware of their responsibility to constantly place the interests of unitholders as a whole foremost in the consideration of all relevant matters. The composition of the Board is reviewed periodically to ensure that the Board comprises an appropriate mix of expertise and experience to best serve the interests of FSL Trust and all of its unitholders. None of the Independent Directors have served on the Board for more than nine years.

A Nominating Committee was formed on 23 February 2017 and a Remuneration Committee on 6 September 2016. The functions of the relevant committees are described in this Report.

CHAIRMAN AND EXECUTIVE DIRECTOR/ACTING CHIEF EXECUTIVE OFFICER

The Chairman of the Board is Tim Reid. During the last financial year, Alan Hatton was the Chief Executive Officer ("CEO") and following his cessation on 2 February 2017, Roger Woods, the Deputy Chief Executive Officer was appointed as Acting Chief Executive Officer ("Acting CEO"). The Chairman and the Acting CEO are not related to one another. The Chairman and the Acting CEO have separate and distinct roles resulting in an effective balance of power and authority. The Chairman is responsible for the effective functioning of the Board in the interests of unitholders as a whole. Board meetings are helmed by the Chairman and there is a culture of openness and debate and all directors are given ample opportunity and time to express their views. The Acting CEO has full executive responsibility over the business direction and operational decisions in the day-to-day operations and management of FSLTM, as Trustee-Manager.

Where necessary, the independent directors will hold discussions separately without the presence of the other directors. The Lead Independent Director will lead these discussions. In the absence of the Chairman or if there is a conflict of interest, the Lead Independent Director, will assume the role of Chairman.

BOARD MEMBERSHIP

The Nominating Committee ("NC") of FSLTM was formed on 23 February 2017, comprising the Independent Directors, namely, Michael Oliver (Chairman), Michael Gray and N. Sreenivasan.

The scope and responsibilities of the NC include:

1) identifying, reviewing and recommending candidates for nomination for appointment as directors and/or executive staff and the members of various committees;
2) reviewing the Board structure, size and composition and making recommendations to the Board with regard to any adjustments that are deemed necessary;
3) reviewing the strength and assessing the effectiveness of the Board as a whole;
4) determining on an annual basis the independent status of the directors;
5) deciding whether or not a director is able to and has been adequately carrying out his duties as a director of FSLTM, particularly when he has multiple board representations;
6) overseeing the management, development and succession planning of FSLTM; and
7) identifying training and professional development programs for directors.

The Board performed the above functions during the last financial year, since the NC was constituted subsequent to the financial year end.

The majority of the Board consists of independent non-executive directors. N. Sreenivasan was appointed as an Independent Director during the last financial year. The Board takes into consideration its size, experience and overall competency and expertise to determine if the Board is effective. The Board is satisfied that the directors have given sufficient time and attention to the affairs of FSL Trust and FSLTM. Where the Directors have multiple directorships and/or other principal commitments, the Board has considered and is satisfied that each of them is able to and has adequately carried out his duties as a director of the Company. Having considered the recommendation of the Code, the Board, at the recommendation of the NC, limits the number of directorships of listed companies to five. From time to time, new directors may be identified by the NC for appointment if necessary to complement the experience and competency of the existing members of the Board.

The Company requires Directors to refrain from participation in board discussions and the decision making process on a particular agenda item when they have a conflict of interest.

CORPORATE GOVERNANCE REPORT

As a Lead Independent Director, Michael Gray (appointed on 28 November 2016) leads and co-ordinates the activities of the independent directors. He is the principal liaison on board issues between the Independent Directors and the Chairman. The Independent Directors hold informal meetings as and when required without the presence of Management and the non-independent directors. He is also available to attend to shareholders' queries. During the year a number of meetings were held by the independent directors without management and non-independent directors.

Directors' Independence

The Board has conducted an annual review of the directors' independence in accordance with the requirements of the Business Trusts Regulations 2005. A director is considered to be independent if he is:

(a) Independent from management and business relationships with FSLTM ("Trustee-Manager");
(b) Independent from management and business relationships with FSLTM and from every substantial shareholder of FSLTM; and
(c) Independent from every substantial shareholder of FSLTM.

Michael Gray, Michael Oliver and N. Sreenivasan are considered independent.

FSL Asset Management Pte. Ltd., the sole shareholder of FSLTM, is the service provider of management services to FSLTM.

BOARD PERFORMANCE

As part of the assessment of performance of the Board and the board committees, the Board conducts an annual evaluation based on objective performance criteria, agreed by the Board. The Directors had the opportunity to gauge their effectiveness individually, collectively and identify areas of improvement.

ACCESS TO INFORMATION

Directors are provided with relevant information in a timely manner before or at each meeting to enable them to be properly informed of matters to be discussed or approved and to enable them to make informed decisions to discharge their duties and responsibilities as directors. Directors are entitled to request for additional information as needed. In addition, quarterly and full-year financial statements are submitted to the Board for approval prior to release to the Singapore Exchange Securities Trading Ltd. ("SGX"). Directors have separate and independent access to management and the company secretary at all times. The external and internal auditors are also available on-hand to provide additional insight when financial statements are considered. Directors may seek further independent professional advice, if required, to allow directors to fulfill their duties properly, and such expenses will be paid by FSLTM.

The Company Secretary attends all formal Board and Audit and Risk Committee meetings. The Company Secretary is responsible for ensuring that procedures are followed and that the Company has complied with the requirements of the BTA and all other relevant rules and regulations applicable to the Trust.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

REMUNERATION MATTERS

A Remuneration Committee ("RC") of FSLTM was formed on 6 September 2016. The RC currently comprises three directors, namely Michael Oliver (Chairman), Michael Gray and N. Sreenivasan (appointed on 22 September 2016).

The RC's responsibilities include:

1) Reviewing and recommending remuneration policies;
2) Oversee major changes in employee benefits and remuneration structure;
3) Set performance measures and determine targets for any performance related pay schemes; and
4) Reviewing and recommending to the Board the remuneration packages and terms of employment of the Acting CEO and senior executives.

The structure for the payment of directors' fees for independent directors is based on a framework of basic fees for serving on Board committees and is approved by FSL Asset Management Pte. Ltd., the sole shareholder of FSLTM. All directors' fees payable to the independent directors in respect of services rendered to FSLTM will be reimbursed by FSL Trust. The fees are payable out of the trust property, as provided for in the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time. The non-independent, executive director was not paid any Director's fees out of the trust property and the fee payable to the non-independent, non-executive director is paid by FSL Asset Management Pte. Ltd. who charges the same to FSLTM. As the remuneration of the non-independent directors and management is paid for separately by FSL Asset Management Pte. Ltd. and are not paid for by FSL Trust, details of remuneration packages have not been disclosed.

The directors' fees paid/payable in respect of FY2016 to the independent directors are set out below:

Directors	Remuneration
Michael Gray	S$73,500
Simon Davidson	S$62,679
Michael Oliver	S$73,500
Esben Poulsson	S$55,125
N. Sreenivasan	S$20,621

The fee structure for fees to independent directors is a flat annual fee of $73,500 per annum. Additional fees are not paid for work carried out on the various committees.

During FY2015, Alan Hatton, the former CEO was awarded 2,333,334 units in FSL Trust as part of his 2014 remuneration package. Details of the award are provided in the Report of the Trustee-Manager. The said units vested in him in January 2017.

During the financial year 2016, no officer was an immediate family member of any director of FSLTM.

The fees payable to FSLTM are set out in the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time. The fees payable are the management fees, trustee fees, incentive fees, acquisition fees and disposal fees, which particulars are detailed in note 1 to the financial statements of this annual report. The fees paid to FSLTM in financial year 2016 are set out in note 22 to the financial statements.

FSL Asset Management Pte. Ltd. was constituted in 2010 as the resource centre for the FSL group of companies. Pursuant to a management services agreement between FSLTM and FSL Asset Management Pte. Ltd., FSL Asset Management Pte. Ltd. (also the sole shareholder of FSLTM) provides FSLTM all agreed management services, including the services of the Chief Executive Officer and other management personnel and staff. FSLTM is charged and bears the cost of management services rendered to it by FSL Asset Management Pte. Ltd.. This is determined according to a market-based benchmarked formula.

ACCOUNTABILITY

The Board, through its quarterly and full-year results, announcements and press releases, aims to provide a balanced and understandable assessment of FSL Trust's performance and prospects.

AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee ("ARC") are the independent directors, Michael Gray, Michael Oliver and N. Sreenivasan (appointed on 22 September 2016). The ARC is chaired by Michael Gray.

The responsibilities of the ARC include the following:

(i) To review the financial statements;
(ii) To monitor and evaluate the quality and reliability of information prepared for inclusion in financial statements;
(iii) To appoint the internal auditors;

CORPORATE
GOVERNANCE REPORT

(iv) To monitor and evaluate the effectiveness of FSLTM's internal controls and risk management process;
(v) To nominate the external auditors and review their independence annually;
(vi) To review the external audit plan and the adequacy of external audit in respect of cost, scope and performance;
(vii) To review external audit reports to ensure that where deficiencies in risk management and internal controls have been identified, appropriate and prompt remedial action is taken by management;
(viii) To monitor the procedures in place to achieve compliance with applicable legislation, the Listing Manual and the Business Trusts Act;
(ix) To monitor the procedures established to regulate interested person transactions, including ensuring compliance with the provisions of the Listing Manual and Business Trusts Act in relation to them and to review such interested person transactions;
(x) To review the assistance given by officers of FSLTM to the external auditors;
(xi) To investigate any reports of improprieties or irregularities and assess areas where internal controls need to be improved or corrective measures need to be taken;
(xii) To meet the internal and external auditors without the presence of management, annually; and
(xiii) To review the adequacy of financial risk management processes.

The ARC's activities for 2016, in accordance with its responsibilities and duties, included the following:

(a) Review of the quarterly and full-year financial statements and announcements required by the SGX for recommendation to the Board for approval;
(b) Discussion with the external auditors on the audit plan and the report on the audit of the financial statements; review of the external auditors' objectivity and independence; review of the audit fees payable, and making recommendations to the Board on the appointment/re-appointment of the external auditors;
(c) The ARC met the external and internal auditors without the presence of management;
(d) Discussion with the internal/external auditors and management to review the effectiveness of internal controls and risk management practices pertaining to, financial, operational, compliance and information technology controls to safeguard the interests of the unitholders as a whole and the trust property; and
(e) Review of all interested person transactions to ensure compliance with the Listing Manual and the Business Trusts Act.

The ARC is authorised to investigate any matters it deems appropriate within its written terms of reference. The ARC also has full discretion to invite any director or personnel to attend its meetings, and to meet the external auditors and internal auditors without the presence of management. The ARC has been given all reasonable resources to perform its duties. With the assistance of the Auditors, the ARC assesses changes in accounting standards and issues that have an impact on the financial statements.

The total fees paid to the external auditors for financial year 2016 including fees for audit and non-audit services are set out in note 17 to the financial statements of this annual report.

The ARC has undertaken a review of the fees and expenses paid to the external auditors, including fees paid for non-audit services during the period, and is satisfied that the external auditors' independence has not been compromised.

FSL Trust has complied with Rules 712 and 715 of the Listing Manual of SGX. Moore Stephens LLP were the auditors for FSL Trust and for all of the Singapore-incorporated subsidiaries in FY 2016.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is mindful that it needs to ensure that management maintains a sound system of risk management and internal controls to safeguard the interests of unitholders as a whole and the trust property. The Board and the ARC have evaluated the internal financial controls and financial and accounting policies and procedures.

In compliance with the Guidelines on Outsourcing, FSLTM maintains a register of the outsourced arrangements with third parties. FSLTM undertakes due diligence of the service provider and from time to time conducts self-assessment of materiality of the outsourced arrangement.

The internal audit function of FSL Trust is outsourced to BDO LLP. The internal auditors report directly to the ARC on audit matters, and to the Board on administrative matters. The ARC is of the view that the internal auditor has adequate resources to perform its functions and has to the best of its ability, maintained its independence from the activities that it audits.

However, no system can provide absolute assurance against material errors, human errors, fraud or other irregularities and the internal financial controls of FSLTM are designed to provide reasonable but not absolute assurance that trust property is safeguarded, accounting records are properly maintained and financial information and records are reliable. These controls are designed with the risks of the relevant exposure in mind, the likelihood of it occurring and costs involved to protect against it.

The Board is of the opinion, with the concurrence of the ARC, that FSLTM has adequate and effective risk management and internal controls including financial, operational, compliance and information technology controls.

The risk management approach can be found on page 29 of this annual report.

For the financial year ended 31 December 2016, the Acting CEO and CFO have provided assurance to the Board that the financial records of FSL Trust have been properly maintained and the financial statements give a true and fair view of the operations and finances and that an effective risk management and internal control system has been put in place.

WHISTLE-BLOWING POLICY

FSLTM has adopted a code of conduct which incorporates the reporting of violation or potential violation of laws, rules and regulations to the ARC Chairman. The code of conduct not only applies to directors but also to external parties and service providers, which would include the employees of FSL Asset Management Pte. Ltd..

COMMUNICATION WITH UNITHOLDERS

FSLTM believes in prompt disclosure of pertinent and relevant information to unitholders. Quarterly and full-year financial statements, distribution notices (where applicable), information on lease and charter transactions and acquisitions of vessels and other material developments are announced through the SGX, press releases and through its website at www.FSLTrust.com. Media and analysts' briefings are held as and when necessary.

The investor relations function is handled by management. Management meets with analysts, institutional investors and fund managers regularly to promote FSL Trust, communicate its business performance and developments and gather views and feedback. Please refer to the investor relations information on page 31 of this annual report.

Unitholders are entitled to attend and vote at the unitholder meetings and will be given the opportunity to raise questions and seek clarifications regarding any resolutions or other business of FSL Trust. The Board, external auditors and management will be present at such unitholder meetings to address questions that unitholders may have.

As recommended by the Code, all resolutions at general meetings will be voted by poll. Detailed results showing the number of votes cast for and against each resolution and the respective percentages will be announced after the meeting.

DEALING IN SECURITIES

FSLTM has adopted an internal code based on the Listing Manual on dealings in securities and FSL Trust, FSLTM, directors of FSLTM and directors and employees of its holding company have been guided that they should refrain from dealing in units of FSL Trust during the period commencing two weeks before the announcement of FSL Trust's quarterly results and one month before the announcement of the annual results and ending on the date of the announcement of the relevant results.

All directors of FSLTM and directors and employees of its holding company are also informed that they (A) must not deal in (i) the units on short-term considerations; (ii) the units while in possession of unpublished material price sensitive information; and (iii) the securities of other listed companies while in possession of unpublished material price sensitive information relating to those securities; and (B) must be mindful of the laws relating to insider trading.

CORPORATE GOVERNANCE REPORT

STATEMENT OF POLICIES AND PRACTICES

FSLTM has established the following policies and practices in relation to its management and governance:

(a) The trust property of FSL Trust is properly accounted for and trust property is kept distinct from the property of FSLTM held in its own capacity and the property of FSL Asset Management Pte. Ltd. ("FSLAM"). Different bank accounts are opened for FSLTM in its capacity as Trustee-Manager of FSL Trust, FSLTM in its own capacity and FSLAM, and regular internal reviews are carried out to ascertain that all trust property has been fully accounted for.

(b) The Board is required to approve all business ventures and acquisitions for FSLTM and FSL Trust. FSLTM remains focused on vessel acquisitions with bareboat charters and time charters, which are the approved businesses of FSL Trust as set out in the Deed of Trust dated 19 March 2007 as amended and supplemented by the Second Supplemental Deed dated 6 April 2011. FSLTM has not engaged in other businesses on behalf of FSL Trust. Management provides regular briefings to the Board about the potential projects that it is looking into on behalf of FSL Trust and the Board ensures that all such projects are within the approved business scope of FSL Trust.

(c) FSLTM does not currently have other businesses other than that of managing FSL Trust but all potential conflicts, if arising, will be identified by the Board and management and reviewed. In addition, the majority of the Board are independent directors of FSLTM who do not have management or business relationships with the substantial shareholder of FSLTM (namely, FSL Asset Management Pte. Ltd. and FSL Holdings Pte. Ltd.) or the substantial shareholders of FSL Holdings Pte. Ltd. and are therefore able to examine any potential conflict between the interests of FSLTM in its own capacity and the interests of all unitholders of FSL Trust as a whole, independently and objectively. In respect of matters in which a director has an interest, direct or indirect, such interested director will abstain from participating in the review and approval process with regard to the matter.

(d) FSL Holdings Pte. Ltd. has also given two undertakings in favour of FSL Trust not to compete in the businesses of FSL Trust, namely,

(1) the financing lease of shipping assets through long-term bareboat charters for a lease term of seven years or longer,

(2) for a period of five years from 6 April 2011 (and following the expiry of such period, for such additional period as may be agreed between FSL Holdings Pte. Ltd. and FSLTM), (aa) the financing lease of vessels on a bareboat basis which have a lease term of less than seven years and (bb) any vessels on a time charter basis (regardless of the duration of the charters of such vessels),

save where it has first offered to FSLTM (on behalf of FSL Trust) the opportunity to acquire the charter/lease, together with the relevant vessel and FSLTM has declined to acquire such vessel and charter/lease. FSL Holdings Pte. Ltd. will not enter into any charter/lease that has first been offered by it to FSLTM (on behalf of FSL Trust).

As at the date of this annual report, all vessel acquisitions and charter leasing to lessees, subsequent to the initial public offering, have been with independent third parties unrelated to FSL Trust, FSLTM, FSLAM or FSL Holdings Pte. Ltd..

(e) Interested person transactions in relation to FSL Trust have been identified by management and have been fully disclosed on page 89 of this annual report. The Audit and Risk Committee conducts an annual review of all such transactions to determine if such transactions have been undertaken on normal commercial terms and will not be prejudicial to the interests of FSL Trust and the unitholders as a whole. In addition, all such interested person transactions conducted and any contract entered into by FSLTM on behalf of FSL Trust with a related party of FSLTM or FSL Trust, shall comply with and be in accordance with all applicable requirements of the Listing Manual and the Business Trusts Act as well as such other guidelines as may from time to time be prescribed to apply to business trusts.

(f) The expenses payable to FSLTM in its capacity as Trustee-Manager of FSL Trust out of trust property are appropriate and in accordance with the Deed of Trust dated 19 March 2007 as amended and supplemented, and regular internal reviews are carried out to ensure that such expenses payable are in order.

(g) FSLTM has engaged the services of and obtained advice from professional advisers and consultants from time to time, particularly with regard to transactions on vessel acquisitions and facility borrowings, and has complied with the requirements of the Business Trusts Act and the Listing Manual.

RISK
MANAGEMENT

FSLTM manages risk under an overall strategy determined by the Board of Directors and supported by the Audit and Risk Committee (ARC).

At the Management level the Board has established a Management Risk Committee chaired by the Chief Financial Officer, who has taken on the role of Chief Risk Officer. This committee overseas and ensures that risks are being managed by appropriate units holistically across the Trust.

It assesses the risk arising from a new lease or charter transaction; asset disposal and residual values; monitors the potential for lessee or charterer default; actively sources for additional financing options before the expiry of current facilities; hedges currency and interest rate risk through swaps; and, also mitigates operational risk by actively engaging with its third party commercial and technical managers.

ENTERPRISE RISK MANAGEMENT

FSLTM is committed to ensuring that the Trust has an effective and practical Enterprise Risk Management framework in place to safeguard unitholder's interest, the sustainability of the Trust and to make informed decisions on value creation. As such, the Board commissioned BDO to facilitate the implementation of the Enterprise Risk Management programme for the Trust. The purpose of this exercise was to recommend a monitoring process over key risks to the Trust and to recommend a reporting process by which ARC is kept updated on how ongoing and new risks are being addressed by the Trust. The Board and key management personnel review the significant risks on a regular basis and update the Enterprise Risk Management Plan to reflect any changes that may be relevant.

RISK ASSESSMENT

Credit Risk

Prior to entering a lease transaction, the Trust's risk assessment process focuses on the credit risk associated with a potential lessee; and, any asset and concentration risk attached to the transaction to ensure investment returns are commensurate with the lease's overall risk profile. The process involves performing due diligence to ascertain the credit strength of the potential lessee. This includes obtaining third party credit reports.

To evaluate the suitability of counterparties and transaction parameters, risk assessment does not only focus on the financial records and credit ratings of potential counterparties. It is also supported by insight gained from the experience of senior management and the Board, and their extensive networks in the global marine transportation industry.

Asset Risk

The asset risk assessment process also evaluates the residual value, estimating asset residual values based on a statistical analysis of reputable third-party historical transaction data and asset price, quality and fungibility.

Market Risk

With the future redelivery of more vessels upon expiry of their long-term leases, the Trust's risk management is also actively considering the availability of new or alternative time charter counterparties, the options and prospects for vessel redeployment; and, when deemed appropriate, weighing the costs and benefits of asset disposals.

RISK MONITORING

FSLTM monitors risks through regular reviews of the lessees' financial performance, lease payment conduct, credit rating and compliance with the respective vessel insurance covenants. FSLTM also maintains a regular dialogue with each lessee to monitor developments in their business. With the rebalancing of the Trust's vessel portfolio to include more time charters and pool/revenue sharing agreements, FSLTM now takes a more active approach towards the management of the Trust's vessels through the rigorous assessment and appointment of third party commercial and technical managers.

RISK MITIGATION

Concentration Risk

The Trust currently has 11 vessels, nine of which were previously employed under long term leases and two continued under renegotiated lease. Hence, the Trust is now exposed to more types of risks than a pure long-term lessor would be exposed to. These include counterparty or deal-specific exposures. Operating its own fleet of vessels also exposes the Trust to industry and market-related risks, as well as operational and compliance risks. FSLTM mitigates these risks by

RISK MANAGEMENT

actively managing its relationships with third party commercial and technical managers and thorough consultation with intermediaries, insurance service providers, legal advisers and regulatory authorities. This ensures that the Trust is able to operate safely and maintain a fleet of commercially viable vessels.

Interest Rate and Foreign Currency Risk Hedging

To manage interest rate and foreign exchange risks that may arise in the course of FSL Trust's business as well as in the financing of its transactions, FSLTM may from time to time enter into derivative transactions. This includes interest rate swaps (to convert floating interest rates to fixed rates), foreign currency forward contracts and cross currency swaps. FSLTM believes that the use of these risk hedging instruments may help to reduce the volatility of and increase the stability of the cash flows from the lease portfolio. FSL Trust does not hedge the credit risk related to its lessees.

RISK REPORTING

Periodic Risk Reports

Periodic risks report will be prepared by the Chief Risk Officer to highlight any emerging risks or high risk issues to the ARC on a timely basis. In addition, any new risk of significant values will be assessed using prescribed risk templates and reported to the ARC.

Annual Risk Report

Annually, a risk refresher will be performed within the Group to understand if there are any changes to the existing top risks identified and if there are any risks that require more detailed assessment. A report with the updated top risks to the company will be complied by the Chief Risk Officer and submitted to the ARC. The Risk Register maintained will also be updated to reflect any changes highlighted.

INVESTOR RELATIONS

FSLTM, as Trustee-Manager of FSL Trust, takes an open and proactive approach to its communications with the investment community, maintaining regular dialogue with its stakeholders. Its investor relations activities serve as a guide to promote and demonstrate a high standard of integrity and transparency through timely, accurate, quality and fair disclosure. This is aimed at communicating fairly and accurately, the Trust's strategies, developments, financial results and prospects to investors, the financial community and other stakeholders.

OPEN COMMUNICATION

The Trustee-Manager, through its Investor & Public Relations Department headed by the Chief Financial Officer, provides an avenue for two-way communication between the Trust and its unitholders, investors and the media.

FSLTM ensures transparency and good corporate governance by promptly disseminating corporate information (such as all major corporate developments, financial performance and other relevant information) to the unitholders and investors via announcements or press releases on SGXNet, as well as through dialogues with analysts and the media.

Press releases are also disseminated to local and industry related media so as to ensure important information related to the Trust reaches a wider audience.

PROACTIVE ENGAGEMENT THROUGH APPROPRIATE CHANNELS

FSLTM actively updates the investment community and relevant stakeholders with key developments about the Trust and provides industry information, as and when necessary, to foster a better understanding of the Trust's business and the wider global marine transportation industry.

In 2016, FSLTM was represented in a number of conferences regionally and internationally. These include the annual Marine Money forums in London, New York and Singapore, the TradeWinds Shipowners Forum in Athens, the Business Times Leaders' Forum, the Singapore Shipping Forum, as well as the Maritime CEO Forum in Singapore.

FSLTM maintains regular and proactive communication with its unitholders and stakeholders through one-on-one meetings, conference calls and emails. The Trustee-Manager organises quarterly meetings and results briefing sessions via conference calls, giving investors and analysts an opportunity to have an in-depth discussion with senior management on the Trust's performance. Recordings of such calls are subsequently made available to the public through FSL Trust's website.

STRENGTHENING RELATIONSHIP BETWEEN FSL TRUST AND UNITHOLDERS

While the Annual General Meeting (AGM) is the principal forum for dialogue with unitholders, the Trustee-Manager may also call for Extraordinary General Meetings (EGM) as and when such meetings are required. Notices of general meetings and annual reports are sent to unitholders at least 14 calendar days ahead of the meeting date to enable unitholders to have sufficient time to peruse the annual report and papers supporting the resolutions proposed.

At general meetings, unitholders are given the opportunity to ask questions regarding resolutions being proposed, before putting the resolutions to the vote, as well as matters relating to the Trust's operations in general. The Board encourages participation at general meetings and encourages poll voting for all resolutions.

USING INFORMATION TECHNOLOGY FOR EFFECTIVE DISSEMINATION OF INFORMATION

To sustain a high level of transparency and accessibility, FSLTM maintains a corporate website at www.FSLTrust.com. The website contains an extensive archive of FSL Trust's announcements, financial statements, annual reports, press releases, presentation slides, audio presentations as well as the Trust's operational information including information on its vessel portfolio. Investors and stakeholders are encouraged to sign up for the Trust's email alert service to receive updates as and when announcements are made by FSLTM.

Investors and stakeholders can also direct their queries to a dedicated email contact: investors@firstshiplease.com.

SUSTAINABILITY REPORT

FSLTM is responsible for creating a sustainable future for FSL Trust, its unitholders and stakeholders. The Trustee-Manager is continuously improving how it operates and how it embeds sustainability into the business. This report illustrates the Trustee-Manager's commitment to sound governance and balanced, transparent disclosure. FSLTM is also committed to adopting best labour practices in order to minimise its environmental impact, and continually strives to create a culture of sustainability within the Trust.

As a part of the annual reporting process, FSLTM measures and evaluates its performance, and communicates its progress and challenges. This annual exercise of collecting, analysing and reviewing the report content and data engages and educates its employees, unitholders and stakeholders on sustainability issues while driving performance improvements.

CORPORATE GOVERNANCE

FSLTM is guided by the Code of Corporate Governance 2012 on all its dealings with regard to FSL Trust. It is committed to managing the Trust's business and engaging with stakeholders in an open and transparent manner based on high standards of integrity, professionalism and ethical principles.

FSLTM adopts a code of conduct that sets out the standards of ethical practices expected of its directors and employees in the conduct of the Trust's business. The code of conduct not only applies to directors and employees but also to external parties and service providers, which includes the employees of FSL Asset Management Pte. Ltd.. The code of conduct covers all aspects of the Trust's activities, including compliance with laws and regulations, conflict of interest, privacy of information, business and workplace conduct, fair dealing, gifts and entertainment, and workplace health and safety.

Employees are encouraged to report violations or potential violations of laws, rules and regulations of the code of conduct to the Chairman of the Audit and Risk Committee directly. Violations of the code of conduct will be duly investigated and may result in disciplinary action.

Our latest corporate governance report is set out on page 21.

SOCIAL – LABOUR PRACTICES

FSLTM recognises that its employees are critical to the success of the Trust and is committed to building a strong, diverse workforce. FSLTM continues to adopt fair employment and human resource practices to create a healthy environment for its workforce to thrive.

FSLTM recognises the value of its workforce: all of its employees contribute to FSLTM's success and it is committed to providing equal opportunity in all aspects of employment. The Trustee-Manager adopts a consistent and fair treatment of employees to support improved communications and foster a positive workplace environment. Abusive, offensive conduct or harassment is unacceptable, whether verbal, physical or visual. The Trustee-Manager offers its employees the opportunity to report, confidentially and without fear of retaliation, such conduct or harassment to the Chairman of the Audit and Risk Committee when it occurs.

ENVIRONMENTAL RESPONSIBILITY

FSL Trust is the owner and lessor of 22 vessels. Pursuant to the Trust's "hell and high water" bareboat leases, the operation of 12 of its vessels as at 6 March 2017 rests entirely with their international lessees. These lessees carry out their operations in accordance with the standard operating procedures contained in the lease agreement and they are required to comply with all applicable environmental laws and regulations. The remaining 10 vessels are managed by FSL Trust's agents in compliance with all applicable environmental laws and regulations. FSL Trust's agents include Columbia Shipmanagement (Singapore) Pte. Ltd., Thome Ship Management Pte. Ltd. and Wallem Shipmanagement Limited, who are committed to promoting effective and efficient environmental management in their organisations. In its continued effort towards sustainable and environmentally business operations, the Trustee-Manager only engages agents who are committed to managing health, safety and environmental matters as an essential part of excellence in the management and operation of vessels.

FSLTM is mindful that the Trust's activities impact the environment and, as such, it strives to responsibly manage those activities. As part of its efforts to minimise its environmental footprint, FSLTM opted to print this annual report on fully-recycled paper certified by the Forest Stewardship Council (FSC). The FSC's mission is to promote environmentally sound, socially beneficial and economically prosperous management of the world's forests. FSC certification is only granted after a document has flowed through the FSC Chain of Custody from the FSC-certified forest, to a paper manufacturer, merchant, and finally to a printer that has FSC Chain-of-Custody certification. The Chain-of-Custody process reassures the consumer that the FSC-certified products they purchase are coming from responsibly managed sources. For a consumer to purchase an FSC-certified product, every company that previously had ownership of the forest product material components of the end product would have had to be FSC certified.

STAKEHOLDER ENGAGEMENT

Please refer to the investor relations section on page 31 for more information on stakeholder engagement.

WHISTLE-BLOWING POLICY

WHISTLE-BLOWING COMMITTEE

Headed by the Audit and Risk Committee Chairman, the Whistle-Blowing Committee is responsible for ensuring that the has an independent channel and appropriate procedures for the receipt, retention and handling of complaints about possible improprieties of the Trust's affairs. The Whistle-Blowing Committee will consist of Independent directors, who are also members of the Audit and Risk Committee.

THE POLICY

All employees of the Trust and any other persons (such as vendors, customers, business partners and other external parties) are encouraged to raise genuine concerns regarding possible improprieties in the conduct of business activities, financial reporting and other malpractices at the earliest opportunity, and in an appropriate way.

This policy is designed to:
- Support the Trust's values; and
- Ensure that employees and any other persons can raise concerns without fear of reprisal; and
- Provide a transparent and confidential process for dealing with concerns.

This policy not only covers possible improprieties in matters of financial reporting, but also:
- Fraud; and
- Corruption, bribery or blackmail; and
- Criminal offences; and
- Failure to comply with a legal or regulatory obligation; and
- Miscarriage of justice; and
- Deliberate failure to follow/operate systems and procedures, which may put the assets or Trust's reputation at risk; and
- Endangering the health and safety of an individual; and
- Concealment of any of the above.

PRINCIPLES

All concerns raised will be treated fairly and properly; and

We will not tolerate the harassment or victimisation of anyone raising a genuine concern; and

Any individual making a disclosure will retain their anonymity unless they agree otherwise; and

We will ensure that any individual raising a concern is aware of who is handling the matter; and

We will ensure that no one will be at risk of suffering reprisal as a result of raising a concern even if they are mistaken. We do not however extend this assurance to someone who maliciously raises a matter they know to be untrue.

PROCEDURES FOR REPORTING OF CONCERNS

If any employee believes reasonably and in good faith that malpractice exists in the workplace, then he or she should report this immediately to the CEO. However, if for any reason, they are reluctant to do so, then they should report their concerns to:

I. An independent third party by calling the whistle-blowing hotline on 6828 9185. This is provided through the independent party who provides the employee care counselling and legal advice service. The concerns will be reported to the Trust without revealing the identity of the whistle-blower.

II. The chairman of the Audit and Risk Committee, currently Michael Gray, particularly if employees and any other persons still have concerns. If they feel that the matter is so serious that it cannot be discussed with any of the above, they can also report suspected wrongdoings via;
   a. Regular mail or other means of delivery, addressed to the corporate address of the Trust, by which complaints may be submitted in a sealed envelope marked "Attention of the: Chairman, Whistle Blowing Committee, FSL Asset Management Pte. Ltd. – Private and Confidential to be opened by addressee only". The envelope will be forwarded, unopened, to the Audit and Risk Committee Chairman in his capacity as Chairman of the Whistle Blowing Committee; and
   b. Email sent directly to the Chairman of the Whistle-Blowing Committee at mikeggray@hotmail.com; and
   c. Telephone call to the mobile number of the Chairman of the Whistle-Blowing Committee at 9855 0055.

HANDLING OF CONCERNS

Employees and any other persons, who have raised concerns internally, will be informed of who is handling the matter, how they can make contact with them and if there is any further assistance required. We will give as much feedback as we can without any infringement on a duty of confidence owed by us to someone else.

I. Employees' and any other persons' identities will not be disclosed without prior consent (except where disclosure obligations are required under law and regulations). Where concerns cannot be resolved without revealing the identity of the employee and any other persons raising the concern, (e.g., if their evidence is required in court), we will enter in to a dialogue with all who are concerned to discuss how we can proceed.

II. In all cases, upon receipt of the concern, the Whistle-Blowing Committee shall:
   a. Acknowledge the receipt to the person reporting the concern (where the identity has been disclosed); and
   b. Make an initial assessment as to the prima facie merits; and
   c. Investigate the concerns raised expeditiously, without sacrificing thoroughness; and
   d. Inform the person reporting the concern (where the identity has been disclosed) in writing of the outcome of the investigations; and
   e. Ensure that the principles of due process and natural justice.

III. If the Whistle-Blowing Committee deems it appropriate, they may engage, at the Trust's expense, independent advisors such as lawyers and accountants who are unaffiliated with the Trust's lawyers or external auditors to assist in its deliberations.

IV. Following the investigation and evaluation of the concern, the Whistle-Blowing Committee will prepare a written report on its finding, recommended disciplinary, remedial or other actions, if any.

RIGHT OF APPEAL

If someone who has reported a concern remains dissatisfied with the outcome of the investigation, they have a right of appeal on the following grounds:

I. They believe the procedures have not been followed properly or; and

II. They are convinced that the decision is one which no reasonable person could have reached.

The Chairman of the Board (or the Chairman of the Audit and Risk Committee, if the Whistle-Blowing allegation involves the Chairman) will appoint a person to hear the appeal. This will be an external lawyer or qualified accountant not involved with the Trust and who has experience with such matters.

FINANCIAL
STATEMENTS 2016

REPORT OF THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

31 DECEMBER 2016

The directors of FSL Trust Management Pte. Ltd., the Trustee-Manager of First Ship Lease Trust (the "Trust") and its subsidiaries (together referred to as the "Group"), are pleased to submit this annual report to the unitholders of the Trust, together with the audited financial statements for the financial year ended 31 December 2016.

1. DIRECTORS

The directors of the Trustee-Manager in office at the date of this report are as follows:

Tim Reid
Michael Gray
Michael Oliver
Narayanan Sreenivasan (Appointed on 20 September 2016)

2. DIRECTORS' INTERESTS

According to the register kept by the Trustee-Manager for the purposes of Section 76 of the Singapore Business Trusts Act (the "Act"), no director who held office at the end of the financial year had interests in units, debentures, warrants or unit options of the Trust, or of related corporations, either at the beginning, or at the date of appointment, or at the end of the financial year except as follows:

	Direct Interest	
	As At 31 December 2016	**As At 1 January 2016**
Name of director	**(Number of Performance Units)**	
Alan Hatton (resigned on 2 February 2017) #	2,333,334	2,333,334

During the financial year ended 31 December 2015, Alan Hatton was granted an award of 2,333,334 units ("Performance Units in the Trust"). The Performance Units vested on 1 January 2017.

Neither at the end of, nor at any time during the financial year was the Trustee-Manager a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Trustee-Manager to acquire benefits by means of the acquisition of units, debentures or unit options of the Trust.

Except as disclosed in Note 22 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Trust or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Performance Units granted to Alan Hatton vested on 1 January 2017. Except as disclosed above, there were no changes in any of the above mentioned interests in the Trust between the end of the financial year and 21 January 2017.

REPORT OF THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

31 DECEMBER 2016

3. UNIT OPTIONS

During the financial year, there were:

(i) no options granted by the Trustee-Manager to any person to take up unissued units in the Trust; and

(ii) no units issued by virtue of any exercise of option to take up unissued units of the Trust. At the end of the financial year, there were no unissued units of the Trust under option.

4. AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee as at the date of this report comprise three independent and non-executive directors:

Michael Gray (Chairman)
Michael Oliver
Narayanan Sreenivasan (Appointed on 20 September 2016)

The Audit and Risk Committee carried out its functions in accordance with Regulation 13(6) of the Singapore Business Trusts Regulations and the SGX Listing Manual.

In performing its functions, the Audit and Risk Committee reviewed the overall scope of the external audit and the assistance given by the Trustee-Manager's officers to the auditors. It met with the external auditors to discuss the scope and results of their annual audit. In addition, the Audit and Risk Committee reviewed the financial statements of the Group and the Trust before their submission to the Board of Directors of the Trustee-Manager.

5. INDEPENDENT AUDITORS

The independent auditors, Moore Stephens LLP, Public Accountants and Chartered Accountants have expressed their willingness to accept re-appointment.

For and on behalf of the Board of Directors of the Trustee-Manager

....
Tim Reid
Director

....
Michael Gray
Director

21 March 2017

STATEMENT BY THE TRUSTEE-MANAGER

31 DECEMBER 2016

STATEMENT AND CERTIFICATION

In our opinion:

(a) the financial statements as set out on pages 46 to 87 are drawn up so as to give a true and fair view of the financial position of the Group and of the Trust as at 31 December 2016 and of the financial performance, changes in unitholders' funds and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Business Trusts Act and International Financial Reporting Standards; and

(b) at the date of this statement with reference to Note 2.2 to the financial statements, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they fall due.

With respect to the income statement of the Group for the year ended 31 December 2016:

– fees or charges paid or payable out of the trust property to the Trustee-Manager are in accordance with the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time;

– interested person transactions are not detrimental to the interests of all the unitholders as a whole based on the circumstances at the time of the transaction; and

– the Board is not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the Trust or on the interests of all the unitholders as a whole.

The Board of Directors has, on the date of this statement, authorised the above statements and these financial statements for issue.

For and on behalf of the Board of Directors of the Trustee-Manager

Timothy Reid

....

Tim Reid
Director

....

Michael Gray
Director

21 March 2017

STATEMENT BY THE CHIEF EXECUTIVE OFFICER

31 DECEMBER 2016

In accordance with Section 86 of the Singapore Business Trusts Act, I certify that I am not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the Trust or on the interests of all the unitholders of the Trust as a whole.

....
Roger Woods
Acting Chief Executive Officer

21 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF

FIRST SHIP LEASE TRUST

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Ship Lease Trust (the "Trust") (constituted in the Republic of Singapore pursuant to a Deed of Trust dated 19 March 2007) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Trust as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in unitholders' funds and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 46 to 87.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Trust are properly drawn up in accordance with the provisions of the Singapore Business Trusts Act, Chapter 31A (the Act) and International Financial Reporting Standards (IFRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Trust as at 31 December 2016 and of the consolidated financial performance, consolidated changes in unitholders' funds and consolidated statement of cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.2 to the consolidated financial statements which states that the Group incurred a net loss of US$30,995,000 and a total comprehensive loss of US$30,728,000 for the financial year ended 31 December 2016. As at 31 December 2016, the Group's and the Trust's current liabilities exceeded current assets by US$179,375,000 and US$170,963,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Trust to continue as going concerns and therefore that they may be unable to realise their assets and discharge their liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Nevertheless, in the preparation of the financial statements, the management of the Trustee-Manager believes that the use of the going concern assumption is appropriate after taking into consideration the following factors:

(i) The management of the Trustee-Manager has prepared a cash flow projection and is of the view that the Group and the Trust will have sufficient cash resources to satisfy its working capital requirements and to meet its obligations as and when they fall due; and

(ii) The Group and the Trust will continue to receive financial support from its lenders and refinancing of the current bank loan will be successful.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Estimated useful life and residual value of vessels

We refer to Note 2.5 and Note 3.2 to the consolidated financial statements.

The carrying value of the Group's vessels amounted to US$427,508,000 as at 31 December 2016.

The Group estimates the useful life of the vessels based on the period over which the vessel is expected to be available for use. The estimated economic useful life of the vessels and residual value of the vessels are reviewed annually and are revised if expectations differ from previous estimates. The residual values of the vessels are estimated based on the average scrap steel price per light deadweight tonne in recent years or the estimated values of a future disposal at the end of the economic useful life of the vessels based on information obtained from third party sources.

The estimation of the useful life and residual value of vessels requires the use of estimations and assumptions which require judgements. Changes to the estimates and assumptions will result in changes to the carrying values of the vessels recognised at the reporting period end.

Our response:

We reviewed and compared the estimated useful life and residual value of the vessels to actual past performance and industry benchmarks and challenged the key estimates and assumptions used by management.

We recomputed the scrap steel price per light deadweight tonne in recent years based on reputable industry sources and compared this to the residual values used by the Group; and reviewed the reasonableness of the economic useful life of the vessels used by the Group against the current age of similar vessels in the industry.

Our findings:

We found that the estimates and assumptions used to determine the useful life and residual value of vessels to be reasonable based on available evidence.

Key Audit Matters (cont'd)

Impairment assessment of vessels

We refer to Note 2.5, Note 2.9, Note 3.3 and Note 4 to the consolidated financial statements.

The carrying value of the Group's vessels amounted to US$427,508,000 as at 31 December 2016.

Following the less than favourable outlook of the industry, the Group carried out a detailed impairment review of the vessels. The Group determined the recoverable amount for each vessel based on the higher of the fair value of the vessel less the estimated costs of disposal and the carrying value of the vessels based on the "value-in-use" (the "VIU") methodology. As a result of the assessment, the Group recognised an impairment loss of US$44.1 million for eight vessels during the financial year ended 31 December 2016. For the remaining vessels, management concluded that the recoverable value was higher than their carrying values and no further impairment provision was made.

These conclusions are dependent upon management estimates, judgements and assumptions in respect of: estimated resale values provided by third party sources, estimated utilisation, disposal values, residual values, current and historical charter hire rates, operating costs, recent performance, condition of the vessels and pre-tax discount rates.

Our response:

We assessed the methodologies used by management to estimate the value-in-use calculations of the vessels. We checked the accuracy and relevance of the input data used by management to estimate the value-in-use calculations compared to information obtained from reputable industry sources. We performed a sensitivity analysis and headroom analysis on the key assumptions, where necessary.

Our findings:

We found that the significant estimates, judgements and assumptions made by management to determine the recoverable amounts of the vessels to be reasonable based on available evidence.

Other Information

The management of the Trustee-Manager is responsible for the other information. The other information comprises the annual report on pages 1 to 31, 34 to 40 and 88 to 89 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors of the Trustee-Manager for the Financial Statements

The management of the Trustee-Manager is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets that are part of the trust property of the registered business trust are safeguarded against loss from unauthorised use or disposition; and transactions by the Trustee-Manager entered into on behalf of or purported to be entered into on behalf of the registered business trust are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, the management of the Trustee-Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The responsibilities of the directors of the Trustee-Manager include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the Trustee-Manager.

- Conclude on the appropriateness of the use of the going concern basis of accounting by the management of the Trustee-Manager and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors of the Trustee-Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors of the Trustee-Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors of the Trustee-Manager, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Trustee-Manager on behalf of the Trust and by those subsidiaries incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Neo Keng Jin.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore

21 March 2017

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	Group 2016 US$'000	Group 2015 US$'000	Trust 2016 US$'000	Trust 2015 US$'000
Assets					
Vessels	4	427,508	526,516	–	–
Subsidiaries	5	–	–	297,438	368,397
Derivative assets	6	–	55	–	55
Non-current assets		427,508	526,571	297,438	368,452
Derivative assets	6	–	133	–	133
Inventories	7	122	45	–	–
Trade and other receivables	8	3,896	4,623	18,708	26,554
Cash and cash equivalents	9	42,899	28,834	33,535	16,769
Current assets		46,917	33,635	52,243	43,456
Total assets		474,425	560,206	349,681	411,908
Equity attributable to unitholders of the Trust					
Units in issue	10	523,284	523,284	523,284	523,284
Reserves	11	(275,830)	(245,102)	(396,809)	(384,708)
Total equity		247,454	278,182	126,475	138,576
Liabilities					
Bank loans	12	–	229,050	–	229,050
Derivative liabilities	12	–	67	–	67
Deferred income	13	679	2,123	–	–
Non-current liabilities		679	231,240	–	229,117
Trade and other payables	14	2,413	5,740	771	615
Bank loans	12	222,313	43,035	222,313	43,035
Derivative liabilities	12	122	565	122	565
Deferred income	13	1,444	1,444	–	–
Current liabilities		226,292	50,784	223,206	44,215
Total liabilities		226,971	282,024	223,206	273,332
Total equity and liabilities		474,425	560,206	349,681	411,908

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 US$'000	2015 US$'000
Revenue	15	98,144	106,583
Expenses:			
Depreciation expense on vessels		(42,710)	(52,049)
Impairment loss on vessels		(44,137)	(971)
Voyage expenses		(39)	(2,280)
Vessel operating expenses		(24,129)	(22,494)
Management fees		(3,029)	(3,479)
Trustee fees		(108)	(117)
Other trust expenses		(1,652)	(1,845)
Total operating expenses		(115,804)	(83,235)
Results from operating activities		(17,660)	23,348
Other income		1,600	1,907
Loss on disposal of vessels		(4,136)	–
Gain on disposal of available-for-sale financial assets		–	1,710
Finance income	16	50	12
Finance costs	16	(10,849)	(12,792)
Net finance costs		(10,799)	(12,780)
(Loss)/profit before tax	17	(30,995)	14,185
Income tax expense	18	–	(38)
(Loss)/profit for the year		(30,995)	14,147
Income available for distribution	19	–	–
Distribution per unit (US cents)		–	–
(Loss)/Earnings per unit (US cents)			
Basic	20	(4.86)	2.19
Diluted	20	(4.86)	2.19

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	2016 US$'000	2015 US$'000
(Loss)/profit for the year	(30,995)	14,147
Other comprehensive income/(loss)		
Items that are or may be classified subsequently to profit or loss:		
Translation differences relating to financial statements of foreign operations	(206)	(1,138)
Exchange differences on monetary items forming part of net investment in foreign operations	152	–
Effective portion of changes in fair value of cash flow hedges	(288)	(708)
Net change in fair value of cash flow hedges reclassified to income statement	609	1,276
Other comprehensive income/(loss) for the year, net of tax	267	(570)
Total comprehensive (loss)/income for the year	(30,728)	13,577

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Group	Note	Units in issue US$'000	Hedging reserve US$'000	Foreign currency translation reserve US$'000	Accumulated losses US$'000	Total equity US$'000
At 1 January 2016		523,284	(443)	(6,671)	(237,988)	278,182
Total comprehensive loss for the year						
Loss for the year		–	–	–	(30,995)	(30,995)
Other comprehensive income						
Items that are or may be classified subsequently to profit or loss:						
Translation differences relating to financial statements of foreign operations		–	–	(206)	–	(206)
Exchange differences on monetary items forming part of net investment in foreign operations		–	–	152	–	152
Effective portion of changes in fair value of cash flow hedges		–	(288)	–	–	(288)
Net change in fair value of cash flow hedges reclassified to income statement		–	609	–	–	609
Total other comprehensive income		–	321	(54)	–	267
Total comprehensive loss for the year		–	321	(54)	(30,995)	(30,728)
Transactions with unitholders, recognised directly in equity						
Distributions to unitholders	19	–	–	–	–	–
Total transactions with unitholders		–	–	–	–	–
At 31 December 2016		523,284	(122)	(6,725)	(268,983)	247,454

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF
CHANGES IN UNITHOLDERS' FUNDS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

(CONT'D)

Group	Note	Units in issue US$'000	Hedging reserve US$'000	Foreign currency translation reserve US$'000	Accumulated losses US$'000	Total equity US$'000
At 1 January 2015		525,412	(1,011)	(5,533)	(252,135)	266,733
Total comprehensive income for the year						
Profit for the year		–	–	–	14,147	14,147
Other comprehensive loss						
Items that are or may be classified subsequently to profit or loss:						
Translation differences relating to financial statements of foreign operations		–	–	(1,138)	–	(1,138)
Effective portion of changes in fair value of cash flow hedges		–	(708)	–	–	(708)
Net change in fair value of cash flow hedges reclassified to income statement		–	1,276	–	–	1,276
Total other comprehensive loss		–	568	(1,138)	–	(570)
Total comprehensive income for the year		–	568	(1,138)	14,147	13,577
Cancellation of units in issue bought back	10	(2,128)	–	–	–	(2,128)
Transactions with unitholders, recognised directly in equity						
Distributions to unitholders	19	–	–	–	–	–
Total transactions with unitholders		–	–	–	–	–
At 31 December 2015		523,284	(443)	(6,671)	(237,988)	278,182

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 US$'000	2015 US$'000
Cash flows from operating activities			
(Loss)/profit before tax		(30,995)	14,185
Adjustments for:			
Depreciation expense on vessels		42,710	52,049
Impairment loss on vessels		44,137	971
Amortisation of debt transaction costs		965	1,073
Amortisation of initial direct costs		518	505
Amortisation of deferred income		(1,444)	(1,444)
Interest income		(50)	(12)
Interest expense		9,720	11,638
Loss on disposal of vessels		4,136	–
Gain on disposal of available-for-sale financial assets		–	(1,710)
Unrealised foreign exchange loss		79	6
Operating cash flows before movements in working capital		69,776	77,261
Changes in trade and other receivables		742	147
Changes in inventories		(77)	(45)
Changes in trade and other payables		(1,318)	2,063
Changes in lease income received in advance		(2,152)	(523)
Cash generated from operations		66,971	78,903
Income taxes paid		–	(44)
Net cash generated from operating activities		66,971	78,859
Cash flows from investing activities			
Purchase of vessel		–	(22,054)
Costs incurred for dry-docking		(2,220)	(3,110)
Net proceeds on disposal of vessels		9,593	–
Net proceeds on disposal of available-for-sale financial assets		–	2,629
Interest received		35	15
Net cash generated from/(used in) investing activities		7,408	(22,520)
Cash flows from financing activities			
Repayment of secured bank loans		(42,711)	(44,000)
Prepayment of secured bank loans		(8,026)	(2,630)
Interest paid		(9,577)	(11,497)
Security deposit released		–	12,630
Pledged deposit		–	(2,630)
Purchase of the Trust's units in issue		–	(2,128)
Net cash used in financing activities		(60,314)	(50,255)
Net increase in cash and cash equivalents		14,065	6,084
Cash and cash equivalents at 1 January		28,834	22,750
Cash and cash equivalents at 31 December	9	42,899	28,834

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

First Ship Lease Trust (the "Trust") is a Singapore-domiciled business trust constituted pursuant to a Deed of Trust dated 19 March 2007 as amended and supplemented from time to time (the "Trust Deed") with FSL Trust Management Pte. Ltd. (the "Trustee-Manager"). The Trustee-Manager's registered office is 9 Temasek Boulevard, #19-03, Suntec Tower Two, Singapore 038989. The Trust Deed is governed by the laws of the Republic of Singapore. The Trustee-Manager is under a duty to take into custody and hold the assets of the Trust in trust for the unitholders as a whole.

The Trust was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited on 27 March 2007.

The Trust is a shipowner and provider of leasing services on a bareboat charter basis to the international shipping industry. It had a modern, high quality and diverse portfolio of 22 vessels consisting of 12 product tankers, five containerships, three chemical tankers and two crude oil tankers as at 31 December 2016. As at the authorisation date of the financial statements, 16 vessels are employed on leases (12 vessels on bareboat charters and four vessels on time charters) and have a dollar-weighted average remaining lease period of approximately two years (for bareboat charter and excluding extension periods and early buy-out options). The remaining six vessels comprise three chemical tankers employed in a chemical tanker pool, two containerships in a 1200-1400/1700 TEU pool and one product tanker in an MR product tanker pool. The combined portfolio of vessels has a dollar-weighted average age of approximately ten years.

The consolidated financial statements relate to the Trust and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The financial statements were authorised for issue by the Trustee-Manager on 21 March 2017.

The Trust Deed provides for the following fees payable to the Trustee-Manager:

Management fees

The Trustee-Manager is entitled to receive a management fee of 4.0% of the cash lease income in the relevant calendar year.

Any change in the structure of the management fee must be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

The management fee payable to the Trustee-Manager is payable in the form of cash and/or units (as the Trustee-Manager may elect, such election to be irrevocable). Where the management fee is paid in cash, the amount is paid monthly, in arrears. Where the management fee is paid in the form of units, the amount is paid quarterly, in arrears.

1. GENERAL INFORMATION (CONT'D)

Incentive fees

The Trustee-Manager is entitled to receive an incentive fee, payable quarterly and calculated as at 31 March, 30 June, 30 September and 31 December each year for the three-month period ending on each of the said dates. The incentive fee is determined on the basis of comparing the net distribution amount per unit against a benchmark quarterly distribution per unit in accordance with the formula stipulated in the Trust Deed.

The incentive fee payable to the Trustee-Manager is payable in the form of cash or, at the option of the Trustee-Manager, by way of the issue of new units as soon as practicable after the end of the relevant quarter.

Any change in the structure of the incentive fees must be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

Trustee fees

The Trustee-Manager is entitled to receive a trustee fee of 0.02% per annum of the value of the Trust Property (being all the assets of the Trust, as stipulated in the Trust Deed). The trustee fee is payable out of the Trust Property of the Trust in cash on a quarterly basis. Each quarterly payment shall be determined based on the value of the Trust Property as at the last day of the immediately preceding quarter and as reflected in the quarterly financial information of the Group for that quarter. The Trustee-Manager is also entitled to reimbursement of expenses incurred in the performance of its duties under the Trust Deed.

Any change in the structure of the trustee fee must be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

Other fees

The Trustee-Manager is also entitled to the following:

- An acquisition fee amounting to 1.0% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the acquisition price of vessels acquired directly or indirectly by the Trust, pro-rated if applicable, to the proportion of the Trust's interest. The acquisition fee is payable in the form of cash and/or units (as the Trustee-Manager may elect, such election to be irrevocable and made before the payment of the acquisition fee). No acquisition fee is payable on the acquisition of the initial portfolio of vessels.

- A disposal fee amounting to 0.5% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the sale price of vessels disposed, pro-rated if applicable, to the proportion of the Trust's interest. The disposal fee is payable in cash. As a gesture of goodwill to the Trust, the Trustee-Manager has waived the divestment fee for the disposal of the two vessels during the financial year ended 31 December 2016.

Any increase in the acquisition fee or disposal fee above the permitted limit or any change in the structure of such fees shall be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the Trustee-Manager to exercise its judgement and also requires to make certain critical accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Adoption of New and Revised IFRS

For the financial year ended 31 December 2016, the Group has adopted the following new and revised IFRS which are relevant to the Group and mandatory for application:

Amendments to IAS 1 *Disclosure Initiative*

These amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. As this is a disclosure standard, it did not have any impact on the financial performance or financial position of the Group.

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in the entities' separate financial statements. This is in addition to the accounting policy choice to account for such investments at cost less impairment, or fair value (in accordance with IAS 39 or IFRS 9), which currently exists and will continue to be available. The adoption of this standard did not have any impact on the financial performance or the financial position of the Group.

New and Revised IFRS Issued But Not Yet Effective

As at the date of authorisation of these financial statements, the Group has not adopted the following standards that have been issued but are not yet effective:

Amendments to IAS 7 *Statement of Cash Flows*

The amendments require new disclosure about changes in liabilities arising from financing activities in respect of:

(a) changes from financing cash flows;
(b) changes arising from obtaining or losing control of subsidiaries or other businesses;
(c) the effect of changes in foreign exchange rates;
(d) changes in fair values; and
(e) other changes.

The above disclosure also applies to changes in financial assets if cash flows from those financial assets are included in cash flows from financing activities. The amendments are effective for annual periods beginning on or after 1 January 2017. As this is a disclosure standard, it will not have any impact on the financial performance or financial position of the Group upon implementation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of Preparation (cont'd)

New and Revised IFRS Issued But Not Yet Effective (cont'd)

Amendments to IAS 12 — *Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify the application of IAS 12 to unrealised losses on debt investments, and the assessment of future taxable profits against which deferred tax assets can be recognised. The standard is effective for annual periods beginning on or after 1 January 2017. The adoption of this standard will not have any impact on the financial performance or the financial position of the Group.

IFRS 9 — *Financial Instruments*

IFRS 9 was introduced to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 changes the classification and measurement requirements for financial assets and liabilities, and also introduces a three-stage impairment model that will impair financial assets based on expected losses regardless of whether objective indicators of impairment have occurred. IFRS 9 also provides a simplified hedge accounting model that will align more closely with companies' risk management strategies. The standard is effective for annual periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact on the financial statements.

IFRS 15 — *Revenue from Contracts with Customers*

IFRS 15 changes the revenue recognition model under IFRS. The core principle of IFRS 15 is to recognise the revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for annual periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact on the financial statements.

IFRS 16 — *Leases*

IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, except where the underlying asset is of low value. The right-of-use asset is depreciated and interest expense is recognised on the lease liability. The accounting requirements for lessors have not been changed substantially, and continue to be based on classification as operating and finance leases. Disclosure requirements have been enhanced for both lessors and lessees. The standard is effective for annual periods beginning on or after 1 January 2019. At the date of this report, management is of the view that the adoption of this standard will have no impact on the financial performance or the financial position of the Group upon implementation.

2.2 Going Concern Assumption

The Group incurred a net loss of US$30,995,000 and a total comprehensive loss of US$30,728,000 for the financial year ended 31 December 2016. As at 31 December 2016, the Group's and the Trust's current liabilities exceeded current assets by US$179,375,000 (2015: US$17,149,000) and US$170,963,000 (2015: US$759,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Trust to continue as going concerns and therefore that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

Nevertheless, in the preparation of the financial statements, the management of the Trustee-Manager believes that the use of the going concern assumption is appropriate after taking into consideration the following factors:

(i) The management of the Trustee-Manager has prepared a cash flow projection and is of the view that the Group and the Trust will have sufficient cash resources to satisfy its working capital requirements and to meet its obligations as and when they fall due; and

(ii) The Group and the Trust will continue to receive financial support from its lenders and refinancing of the current bank loan will be successful.

NOTES TO THE
FINANCIAL STATEMENTS

31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Accounting for subsidiaries by the Trust

Investments in subsidiaries are stated in the Trust's statement of financial position at cost less accumulated impairment losses.

2.4 Foreign Currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

The financial statements are presented in United States ("US") dollars which is the Trust's functional currency. All financial information presented in US dollars has been rounded to the nearest thousand, unless otherwise stated.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of monetary items that in substance form part of the Group's net investment in a foreign operation (see below).

Foreign operations

The assets and liabilities of foreign operations are translated to US dollars at exchange rates at the end of the reporting date. The income and expenses of foreign operations are translated to US dollars at exchange rates prevailing at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented within equity in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign exchange translation reserve is transferred to the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Foreign Currencies (cont'd)

Net investment in a foreign operation

Exchange differences arising from monetary items that in substance form part of the Trust's net investment in a foreign operation are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve in the consolidated financial statements. When the foreign operation is disposed of, the cumulative amount in the foreign currency translation reserve is transferred to the income statement as an adjustment to the profit or loss arising on disposal.

2.5 Vessels

Vessels are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the vessel as well as initial direct costs incurred in negotiating and arranging the operating lease of the vessel.

The cost of replacing part of an item of a vessel is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

Except as disclosed below, vessels are depreciated on a straight-line basis at rates which are calculated to write-down their cost to their estimated residual values at the end of the economic useful life of 25 years. The residual value of such vessel is estimated based on the average scrap steel price per light deadweight tonne in recent years.

Vessels leased on a long-term bareboat charter basis under operating lease agreements are depreciated on a straight-line basis down to the estimated residual value at the end of the base lease term of twelve years. The estimated residual values for vessels on a long-term bareboat charter are based on values obtained from third party sources.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

On disposal of a vessel, the difference between the disposal proceeds and its carrying amount is recognised in the income statement.

Dry-docking costs are capitalised and included in vessels costs and depreciated on a straight-line basis over the period to the next scheduled dry-docking, which is generally five years.

2.6 Inventories

Inventories comprise of bunkers. Inventories are stated at the lower of cost and net realisable value. Cost is derived on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. When inventories are consumed, the carrying amount of these inventories is recognised as an expense in the year in which the consumption occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Financial Instruments

Non-derivative financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Non-derivative financial assets

The Group classifies non-derivative financial assets into loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment losses.

Loans and receivables comprise trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and bank deposits.

Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise bank loans, and trade and other payables.

Derivative financial instruments and hedging activities

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Financial Instruments (cont'd)

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income and transferred to hedging reserve in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects profit or loss.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Impairment of financial assets: loans and receivables

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant loans and receivables are tested for impairment on an individual basis. The remaining loans and receivables are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss in respect of financial assets measured at amortised cost is reversed if the subsequent increase in fair value can be related objectively to an event occurring after the impairment loss was recognised. The reversal is recognised in the income statement.

Units in issue

Units issued are classified as equity.

Unit issue costs represent expenses incurred in connection with the issue of units. All such expenses are deducted directly from unitholders' funds, net of any tax effects.

When the Trust purchases the units issued, the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within statement of changes in unitholders' funds, until they are cancelled, sold or reissued.

When units are subsequently cancelled, the costs of units are deducted against the units in issue if the units are purchased out of capital of the Trust.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 Leases (when entities within the Group are lessors of an operating lease)

The Group owns vessels and leases them to lessees under fixed and floating rate bareboat/time charter arrangements. These charters are classified as operating leases. In determining lease classification at inception, the Group evaluated the terms and conditions of the charter arrangement. As the present values of minimum lease payments do not amount to substantially the fair values of the vessels, and the purchase options, where applicable, are not expected to be sufficiently lower than the fair values at the date the options become exercisable, the Group has assessed that substantially all the risks and rewards of the vessels remain with the Group.

Lease income is recognised in the income statement on a straight-line basis over the lease term. Initial direct costs incurred by the Group in negotiating and arranging an operating lease added to the carrying amount of the leased asset are recognised as an expense in the income statement over the lease term on the same basis as the lease income.

2.9 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss in respect of non-financial assets recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.10 Revenue Recognition

Revenue from bareboat charters and time charters, which are of an operating lease in nature, is recognised on a straight-line basis over the period of the charter contracts (Note 2.8).

Deferred income, arising from the shares in TORM A/S ("TORM") received by the Group as part of an agreement to permanently amend the terms on its two TORM charter contracts, is recognised in the income statement as 'bareboat charter lease income' over the remaining lease term on the TORM charter contracts.

For vessels deployed in the spot market, freight income is recognised based on the percentage of completion method calculated on a discharge-to-discharge basis over the voyage period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Revenue Recognition (cont'd)

For vessels deployed on a pool arrangement, the pool measures revenue based on the contractual rates and the duration of each voyage for each vessel, and revenue is recognised upon delivery of service in accordance with the terms and conditions of the charter parties on a time charter equivalent basis. Total pool revenue is derived by aggregating the revenues earned by each vessel participating in the pool. Each vessel owner's share of the total pool revenue is primarily dependent on the (i) number of days the vessel has been available for the pool in relation to the total available pool earning days during the period, and (ii) pool points assigned to each vessel in the pool. Pool points are generally determined based on the size and performance of the vessel. The pool revenue is net of pool commission, bunkers costs and related voyage expenses.

2.11 Finance Income and Finance Expense

Finance income comprises interest income on funds invested, net foreign currency gains and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance expense comprises interest expense on borrowings, net foreign currency losses, and losses on hedging instruments that are recognised in the income statement.

All borrowing costs are recognised in the income statement using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale.

2.12 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management of the Trustee-Manager who are responsible for allocating resources and assessing performance of the operating segments.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are reviewed on an ongoing basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates and Assumptions

The following are the key sources of estimation and assumptions at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.1 Estimated Useful Lives of Vessels

The Group estimates the useful lives of the vessels based on the period over which the vessel is expected to be available for use. The estimated economic useful lives of the vessels (25 years) are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical obsolescence and legal or other limits on the use of the relevant asset. In addition, the estimation of the useful lives of the vessels is on the collective assessment of industry practice, internal technical evaluation and experience with similar vessels.

During the financial year ended 31 December 2016, the Group has reviewed and is satisfied that the useful lives of these vessels remained appropriate. The depreciation charged on the vessels for the financial year ended 31 December 2016 amounted to US$42,710,000 (2015: US$52,049,000). As at 31 December 2016, the carrying amount of the vessels (excluding initial direct costs) amounted to US$425,833,000 (2015: US$523,791,000). If the expected useful lives of the vessels are to increase/decrease by 10% from management estimates, the Group's depreciation will decrease and increase by approximately US$3,773,000 (2015: US$5,057,000) and US$4,666,000 (2015: US$5,101,000) respectively.

3.2 Estimated Residual Values of Vessels

The Group reviews the residual values of the vessels at each reporting date to ensure that the carrying amounts are consistent with the estimated value of a future disposal.

Except as disclosed below, the residual values of the vessels are estimated based on the average scrap steel price per light deadweight tonne in recent years.

In determining the residual values of vessels leased on a long-term bareboat charter basis under operating lease agreements, the Group has considered various factors such as the type, size, age of these vessels and the existing lease arrangements. The residual values of vessels on a long-term bareboat charter are estimated based on information obtained from third party sources.

As at 31 December 2016, the carrying amount of the vessels amounted to US$427,508,000 (2015: US$526,516,000). During the financial year ended 31 December 2016, the Group reviewed the residual values and determined that the residual values should be brought in line with the expected scrap steel price and the estimated value of a future disposal based on the current market conditions. The revision in residual values resulted in an overall increase of depreciation expense in the current year by about US$2,291,000 (2015: US$5,879,000).

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONT'D)

Critical Accounting Estimates and Assumptions (cont'd)

3.3 Impairment Assessment of Vessels

Impairment loss is recognised when events and circumstances indicate that the vessel may be impaired and the carrying amount of the vessel exceeds the recoverable amount. The recoverable amount for each vessel is determined based on the higher of the fair value of the vessel less the estimated costs of disposal and the carrying value of the vessels based on "value-in-use" methodology.

In determining the fair value less costs of disposal, the Group has obtained valuation reports from third parties sources in December 2016. The valuation of the vessels was prepared assuming a sale between a willing seller and a willing buyer on a charter-free basis.

For the value-in-use calculations, the Group determined the cash flows based on past performance and their expectation of market development. The Group prepared the value-in-use calculation based on projected cash flows over the remaining useful life of each vessel and its projected residual value.

The projected cash inflows are based on existing charter contracts rates and/or inflation-adjusted daily rates from observable historical trends of five to 20 years. Management has adjusted the projected cash flows with management's assessment of the achievable cash flows based on recent performance of the vessels and the age of the vessels. If the Group were to project cash flows based on the current average rates, the carrying values of the vessels will decrease by approximately 8% (2015: 5%).

The projected cash outflows take into consideration each vessel's inflation-adjusted actual and budgeted operating expenses. The pre-tax discount rates range from 6.39% to 7.76% (2015: 6.39% to 7.76%) and take into account the time value of money and the risks specific to the vessels' estimated cash flows. If the pre-tax discount rates increase by 1%, the carrying values of the vessels will decrease by approximately 3% (2015: 1%).

During the financial year ended 31 December 2016, the Group recognised an impairment loss on vessels amounting to US$44,137,000 (2015: US$971,000). As at 31 December 2016, the carrying amount of the vessels was US$427,508,000 (2015: US$526,516,000).

Critical Judgements

In the process of applying the Group's accounting policies, the application of judgements that are expected to have a significant effect on the amounts recognised in the financial statements are as follows:

3.4 Classification of Leases

The Group owns vessels and leases them to lessees under fixed and floating rate bareboat/time charter arrangements. These charters are classified as operating leases. In determining lease classification at inception, the Group evaluated the terms and conditions of the charter arrangement. As the present values of minimum lease payments do not amount to substantially the fair values of the vessels, and the purchase options, where applicable, are not expected to be sufficiently lower than the fair values at the date the options become exercisable, the Group has assessed that substantially all the risks and rewards of the vessels remain with the Group.

During the financial year ended 31 December 2016, the Group earned bareboat charter lease income and time charter income of US$42,183,000 and US$29,981,000 (2015: US$56,784,000 and US$17,908,000) respectively.

4. VESSELS

Group	Vessels US$'000	Initial direct costs US$'000	Total US$'000
2016			
Cost			
At 1 January 2016	1,019,199	7,561	1,026,760
Addition	2,220	–	2,220
Disposal	(117,169)	–	(117,169)
Write off fully amortised dry-docking	(3,384)	–	(3,384)
Translation differences on consolidation	(356)	–	(356)
At 31 December 2016	900,510	7,561	908,071
Accumulated depreciation/amortisation and impairment losses			
At 1 January 2016	495,408	4,836	500,244
Depreciation/amortisation charge for the year	42,710	518	43,228
Disposal	(103,440)	–	(103,440)
Impairment loss	43,605	532	44,137
Write off fully amortised dry-docking	(3,384)	–	(3,384)
Translation differences on consolidation	(222)	–	(222)
At 31 December 2016	474,677	5,886	480,563
Carrying amount			
At 31 December 2016	425,833	1,675	427,508
2015			
Cost			
At 1 January 2015	996,875	7,307	1,004,182
Addition	24,910	254	25,164
Translation differences on consolidation	(2,586)	–	(2,586)
At 31 December 2015	1,019,199	7,561	1,026,760
Accumulated depreciation/amortisation and impairment losses			
At 1 January 2015	443,832	4,331	448,163
Depreciation/amortisation charge for the year	52,049	505	52,554
Impairment loss	971	–	971
Translation differences on consolidation	(1,444)	–	(1,444)
At 31 December 2015	495,408	4,836	500,244
Carrying amount			
At 31 December 2015	523,791	2,725	526,516

Excluding FSL Osaka, Group vessels with a net carrying value of US$406,693,000 (2015: US$504,591,000), are mortgaged to financial institutions (see Note 12).

Dry-docking costs included in vessel costs are capitalised and depreciated on a straight-line basis over the period to the next scheduled dry-docking, which is generally five years. As at 31 December 2016, the net carrying value of dry docking amounted to US$4,513,000 (2015: US$3,420,000).

During the financial year ended 31 December 2016, the Group disposed two container vessels, Ever Radiant and Ever Respect for a cash consideration of approximately US$10,800,000, resulting in a loss on disposal of US$4,136,000.

During the financial year ended 31 December 2016, the Group recorded impairment losses amounting to US$44,137,000 for eight vessels (2015: US$971,000 for two vessels) based on the value-in-use calculation as at the reporting date. The value-in-use calculation uses cash flow projections based on the projected cash flows over the remaining useful life of each vessel and its projected residual value, which was based on the average scrap steel price per light deadweight tonne in recent years or the values obtained from third party sources.

5. SUBSIDIARIES

	Trust 2016 US$'000	Trust 2015 US$'000
Equity investments, at cost	122,031	122,031
Amounts due from subsidiaries (non-trade)	207,459	255,366
Impairment loss recognised	(32,052)	(9,000)
	297,438	368,397

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of Incorporation	Effective equity held by the Group 2016 %	Effective equity held by the Group 2015 %
FSL-1, Inc.	Marshall Islands	100	100
FSL-2, Inc.	Marshall Islands	100	100
FSL-3, Inc.	Marshall Islands	100	100
FSL-4, Inc.	Marshall Islands	100	100
FSL-5, Inc.	Marshall Islands	100	100
FSL-6, Inc.	Marshall Islands	100	100
FSL-7, Inc.	Marshall Islands	100	100
FSL-8, Inc.	Marshall Islands	100	100
FSL-9 Pte. Ltd.	Singapore	100	100
FSL-10 Pte. Ltd.	Singapore	100	100
FSL-11 Pte. Ltd.	Singapore	100	100
FSL-12 Pte. Ltd.	Singapore	100	100
FSL-13 Pte. Ltd.	Singapore	100	100
FSL-14, Inc.	Marshall Islands	100	100
FSL-15, Inc.	Marshall Islands	100	100
FSL-16, Inc.	Marshall Islands	100	100
FSL-18 Pte. Ltd.	Singapore	100	100
FSL-19 Pte. Ltd.	Singapore	100	100
FSL-20, Inc.	Marshall Islands	100	100
FSL-21, Inc.	Marshall Islands	100	100
FSL-22, Inc.	Marshall Islands	100	100
FSL-23 Pte. Ltd.	Singapore	100	100
FSL-24 Pte. Ltd.	Singapore	100	100
FSL-25 Pte. Ltd.	Singapore	100	100
FSL-26 Pte. Ltd.	Singapore	100	100
FSL-27 Pte. Ltd.	Singapore	100	100
FSL Netherlands B.V.	Netherlands	100	100

Moore Stephens LLP, Singapore is the auditor for all of the Singapore-incorporated subsidiaries. No statutory audit is required for subsidiaries incorporated in Marshall Islands and in Netherlands under the laws of incorporation.

The amounts due from subsidiaries are unsecured and interest-free. As the amounts are, in substance, part of the Trust's net investments in the subsidiaries, they are included as interests in subsidiaries and stated at cost less impairment losses.

All of the Singapore-flagged vessel-owning subsidiaries are subject to externally imposed capital requirements, as required under Regulation 5 of the Merchant Shipping (Registry of Ships) Regulations, which have been complied with.

Management performed an impairment test for the investment in certain subsidiaries as these subsidiaries have been dormant since the disposal of their vessels. An impairment loss of US$23,052,000 (2015: US$4,698,000) was recognised for the financial year ended 31 December 2016 to write down the investment in subsidiaries to their recoverable amount. The recoverable amount of the investment in these subsidiaries have been determined based on value in use which approximates their net assets as at 31 December 2016.

6. DERIVATIVE ASSETS

Group and Trust	2016 US$'000	2015 US$'000
Non-current	–	55
Current	–	133
	–	188

The derivative assets related to the cumulative fair value change of hedging instruments designated as cash flow hedges.

The following are the estimated contractual undiscounted cash inflows of derivatives:

		Cash flows		
Group and Trust	Carrying amount US$'000	Contractual cash flows US$'000	Within 1 year US$'000	Within 1 to 5 years US$'000
2015				
Derivative financial assets				
Cross currency swap contract used for hedging – inflows	133	133	133	–
Interest rate swaps used for hedging – inflows	55	56	–	56

The cross currency swap contract matured during the financial year ended 31 December 2016.

7. INVENTORIES

	Group 2016 US$'000	Group 2015 US$'000
Bunkers – at cost	122	45

8. TRADE AND OTHER RECEIVABLES

	Group		Trust	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Trade receivables	1,399	1,663	–	–
Other receivables	674	740	21	12
Amounts due from related parties	–	223	–	–
Amounts due from subsidiaries	–	–	18,661	26,453
Deposits placed with Commercial/Pool Managers	1,550	1,750	–	–
Loans and receivables	3,623	4,376	18,682	26,465
Prepayments	273	247	26	89
	3,896	4,623	18,708	26,554

The amounts due from related parties were trade in nature, unsecured, interest-free and repayable within credit terms. The amounts due from subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand.

9. CASH AND CASH EQUIVALENTS

	Group		Trust	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Fixed deposits with financial institutions	23,006	2,878	20,000	94
Cash at bank	19,893	25,956	13,535	16,675
Cash and cash equivalents in the Consolidated Statement of Cash Flows	42,899	28,834	33,535	16,769

The weighted average effective interest rate relating to fixed deposits at the reporting date for the Group and Trust is 0.76% and 0.72% (2015: 0.27% and 0.21%) per annum respectively. Interest rates reprice at intervals within three months.

10. UNITS IN ISSUE

	2016		2015	
Group and Trust	Number of units '000	Amount paid US$'000	Number of units '000	Amount paid US$'000
Fully paid units:				
At 1 January	637,457	523,284	654,665	525,412
Units repurchased and cancelled during the year	–	–	(17,208)	(2,128)
At 31 December	637,457	523,284	637,457	523,284

All issued units are fully paid. There is no par value for these units. The holders of units are entitled to receive distributions as declared from time to time and are entitled to one vote per unit at meetings of the Company. All units rank equally with regard to the Trust's residual assets.

During the financial year ended 31 December 2015, the Trust repurchased 17,208,500 units and these units were subsequently cancelled in the same year.

11. RESERVES

	Group		Trust	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Hedging reserve	(122)	(443)	(122)	(443)
Foreign currency translation reserve	(6,725)	(6,671)	–	–
Accumulated losses	(268,983)	(237,988)	(396,687)	(384,265)
	(275,830)	(245,102)	(396,809)	(384,708)

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments until they are derecognised or impaired.

The foreign currency translation reserve comprises:

(a) foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Trust; and

(b) foreign exchange differences on monetary items which form part of the Group's net investment in foreign operations.

12. BANK LOANS AND DERIVATIVE LIABILITIES

Group and Trust	2016 US$'000	2015 US$'000
Secured bank loans		
Non-current	–	229,050
Current	222,313	43,035
	222,313	272,085
Derivative liabilities		
Non-current	–	67
Current	122	565
	122	632

The Trustee-Manager, on behalf of the Trust, secured a 6-year amortising term loan facility in 2011. Under the term loan facility, the Trust made quarterly loan repayments in 2016 of US$10,678,000 (2015: US$11,000,000) and will be due to make a lump sum repayment on the maturity date.

The term loan facility is secured on the following[1]:

(i) a first priority mortgage over the Group's vessels (excluding FSL Osaka) in the portfolio;

(ii) a first priority assignment of the Group's rights, title, interest in the insurances to and for each vessel, including insurance for hull and machinery, protection and indemnity and war risks;

(iii) a first priority assignment of the Group's rights, title and interest in and to the charter agreements and the charter income of each vessel; and

(iv) pledge of the shares of all the vessel-owning subsidiaries (excluding FSL-27 Pte. Ltd.); and

(v) a pledge over the Group's shares in TORM or upon disposal, the cash proceeds from the sale of these shares. During the financial year ended 31 December 2015, the shares were disposed and the cash proceeds of US$2.629 million was applied to the prepayment of the secured bank loans.

[1] FSL Osaka and FSL-27 Pte. Ltd. (the vessel owing subsidiary) do not form part of the security package.

During the financial year ended 31 December 2016, a total of US$8,026,000 of the proceeds from the sale of the two container vessels was applied to Prepayment of secured bank loans.

12. BANK LOANS AND DERIVATIVE LIABILITIES (CONT'D)

Terms and debt repayment schedule

The interest margin on the term loan facility is as follows:

31 December 2016		31 December 2015	
VTL ratio	**Margin over US$ 3-month LIBOR**	**VTL ratio**	**Margin over US$ 3-month LIBOR**
>100% to 140%	3.0%	>100% to 140%	3.0%
>140% to 180%	2.8%	>140% to 180%	2.8%
>180%	2.6%	>180%	2.6%

As at 31 December 2016 and 2015, the Group and the Trust are in compliance with the terms of the loan agreement.

During the financial year ended 31 December 2016, the applicable margin over US$3-month LIBOR is 2.8% (2015: 2.8% - 3.0%). The VTL ratio will be assessed semi-annually.

The terms and conditions of the term loan facility are as follows:

Group and Trust	Nominal interest rate	Year of maturity	Face value US$'000	Carrying amount US$'000
2016				
US$ floating rate loans	US$ 3-month LIBOR + applicable margin	2017	223,164*	222,313
2015				
US$ floating rate loans	US$ 3-month LIBOR + applicable margin	2017	273,901*	272,085

* Before the deduction of unamortised debt transaction costs of US$851,000 (2015: US$1,816,000).

12. BANK LOANS AND DERIVATIVE LIABILITIES (CONT'D)

The following are the expected contractual undiscounted cash outflows, including interest payments and excluding the impact of netting agreements:

		Cash flows			
Group and Trust	**Carrying amount US$'000**	**Contractual cash flows US$'000**	**Within 1 year US$'000**	**Within 1 to 5 years US$'000**	**After 5 years US$'000**
2016					
Non-derivative financial liabilities					
US$ floating rate loans^	222,313	(231,864)	(231,864)	–	–
2015					
Non-derivative financial liabilities					
US$ floating rate loans^	272,085	(292,538)	(53,582)	(238,956)	–

^ Inclusive of accrued interest as at the reporting date.

The derivative financial liabilities relate to the cumulative fair value change of hedged instruments designated as cash flow hedges. The following are the expected contractual undiscounted cash outflows of derivatives:

		Cash flows		
Group and Trust	**Carrying amount US$'000**	**Contractual cash flows US$'000**	**Within 1 year US$'000**	**Within 1 to 5 years US$'000**
2016				
Derivative financial liabilities				
Interest rate swaps used for hedging – outflows	122	127	127	–
2015				
Derivative financial liabilities				
Interest rate swaps used for hedging – outflows	632	645	577	68

13. DEFERRED INCOME

	Group	
	2016	2015
	US$'000	US$'000
Deferred Income		
Non-current	679	2,123
Current	1,444	1,444
	2,123	3,567

Deferred income is recognised on the Statement of Financial Position upon the receipt of shares in TORM by the Group and is amortised to the Income Statement over the remaining lease term on the TORM charter contracts.

14. TRADE AND OTHER PAYABLES

	Group		Trust	
	2016	2015	2016	2015
	US$'000	US$'000	US$'000	US$'000
Trade payables	302	638	–	–
Accrued financing expenses	615	472	615	472
Accrued operating expenses	292	393	117	119
Lease income received in advance	88	2,240	–	–
Other payables	981	484	35	22
Amounts due to related parties	4	1,359	4	2
Amounts due to the Trustee–Manager	131	154	–	–
	2,413	5,740	771	615

The amounts due to related parties are trade in nature, unsecured, interest-free and repayable within credit terms. The amounts due to the Trustee-Manager are non-trade in nature, unsecured, interest-free and repayable on demand.

The carrying amounts of the Group's and the Trust's financial liabilities have a maturity of less than one year and approximate the contractual undiscounted cash flows amounts.

15. REVENUE

	Group	
	2016	**2015**
	US$'000	**US$'000**
Bareboat charter lease income	42,183	56,784
Time charter income	29,981	17,908
Pool income	25,980	26,401
Freight income	–	5,490
	98,144	106,583

Bareboat charter lease income relates to lease income derived from operating leases. Included in bareboat charter lease income, US$1,444,000 (2015: US$1,444,000) relates to recognition of the deferred income in the income statement for the year (see Note 13).

Time charter income relates to income derived from four vessels, three of which were time chartered to a leading global commodities trader.

Pool income relates to income substantially derived from three chemical tankers, FSL New York, FSL London and FSL Tokyo, two containerships, FSL Busan and FSL Santos, and one product tanker, FSL Osaka, deployed on pool arrangements. FSL Hong Kong was employed on a Revenue Sharing Agreement ("RSA") until May 2015.

Freight income relates to income derived by FSL Hong Kong and FSL Singapore trading in the spot market prior to the commencement of new time charter arrangements during the financial year ended 31 December 2015.

16 FINANCE INCOME AND EXPENSES

	Group	
	2016	**2015**
	US$'000	**US$'000**
Finance income		
Interest income from cash and cash equivalents	50	12
Finance costs:		
– bank loans	9,720	11,638
– amortisation of debt transaction costs	965	1,073
– commitment and bank agency fees	54	54
Net foreign exchange loss	110	27
	10,849	12,792
Net finance costs recognised in income statement	(10,799)	(12,780)

17. (LOSS)/PROFIT BEFORE TAX

The following items have been included in arriving at (loss)/profit before tax:

	Group	
	2016 US$'000	2015 US$'000
Other income*	(1,600)	(1,907)
Gain on disposal of available-for-sale financial assets#	–	(1,710)
Loss on disposal of vessels	4,136	–
Audit fees paid/payable to auditors of the Trust	84	88
Non-audit fees paid/payable to:		
– auditors of the Trust	9	5
– other auditors	–	–
Professional fees	50	58
Amortisation of initial direct costs	518	505

* Other income relates to income received from claims and legal settlements.

\# Available-for-sale financial assets related to the shares in TORM of 2.5% received by the Group as part of an agreement to permanently amend the terms on its two charter contracts. During the financial year ended 31 December 2015, the shares were disposed for a net cash consideration of US$2.629 million and the Group recorded a gain of US$1.710 million in the income statement.

18. INCOME TAX EXPENSE

	Group	
	2016	2015
	US$'000	US$'000
Current Tax Expense		
Under provision in prior years	–	21
Current year	–	17
	–	38
Reconciliation of effective tax rate		
(Loss)/profit before income tax	(30,995)	14,185
Tax calculated using Singapore tax rate of 17%	(5,269)	2,411
Effect of tax rate in foreign jurisdiction	(1)	6
Expenses not deductible for tax purposes[1]	9,476	2,844
Income not subject to tax	(1)	(313)
Exempt shipping activities	(4,205)	(4,931)
Under provision in prior years	–	21
	–	38

The lease income derived by the Group's entities from the respective bareboat charter and time charter agreements qualifies for tax exemption under the Maritime Sector Incentive ("MSI") scheme (previously known as the Maritime Finance Incentive scheme), with effect from 19 March 2007. This tax exemption on the qualifying income will be granted for the remaining useful life of any vessel that is acquired by the Trust during the initial period of 10 years from the effective date subject to further extension. The distributions made out of the tax exempt income less allowable expenses will also be exempt from Singapore income tax in the hands of the unitholders. The freight income and pool income derived by the Group is also exempted from tax under Section 13A of the Singapore Income Tax Act ("SITA"), Chapter 134.

The Group is subject to tax on its non-tax exempt income such as interest income at the prevailing corporate tax rate, after adjusting for allowable expenses.

As at 31 December 2016, the Group has estimated unutilised tax exempt losses and unabsorbed capital allowance of approximately US$420,000 (2015: US$420,000) and US$17,847,000 (2015: US$25,408,000) that are available for set-off against future taxable profits, subject to the agreement of the tax authorities and compliance with the relevant provisions of the Income Tax Act. The deferred tax benefit arising from these unutilised tax exempt losses and unabsorbed capital allowances has not been recognised in the financial statements in accordance with the Group's accounting policies (Note 2.12).

[1] Include impairment loss on vessels.

19. INCOME AVAILABLE FOR DISTRIBUTION

	Group 2016 US$'000	Group 2015 US$'000
Income available for distribution to unitholders at the beginning of the year	–	–
(Loss)/profit for the year	(30,995)	14,147
Net adjustments (Note A)	30,995	(14,147)
Net distributable amount	–	–
Income available for distribution to unitholders at the end of the year	–	–

Note A

	2016 US$'000	2015 US$'000
Net adjustments comprise:		
Non-cash adjustments:		
– Depreciation expense on vessels[1]	41,583	50,767
– Amortisation of initial direct costs[2]	88	86
– Amortisation of deferred income	(1,444)	(1,444)
– Unrealised foreign exchange loss	79	6
– Loss on disposal of vessels	4,136	–
– Gain on disposal of available-for-sale financial assets	–	(1,710)
– Impairment loss on vessels	44,137	971
Total non-cash adjustments	88,579	48,676
Repayment of secured bank loans	(42,711)	(44,000)
Amount retained in current period	(14,873)	(18,823)
Net adjustments	30,995	(14,147)

[1] Excluding dry-docking of US$1,127,000.

[2] Excluding deferred arrangement fees of US$430,000.

During the financial year ended 2016, the total repayment of secured bank loans amounted to US$42,711,000 (excluding prepayments).

20. (LOSS)/EARNINGS PER UNIT

	Group 2016 US$'000	Group 2015 US$'000
Basic and diluted (loss)/earnings per unit is based on:		
(Loss)/profit for the year	(30,995)	14,147
	Number of units '000	**'000**
Weighted average number of units at the end of the year	637,457	646,004
Basic (loss)/earnings per unit (US cents)	(4.86)	2.19
Diluted (loss)/earnings per unit (US cents)	(4.86)	2.19

During the financial year ended 31 December 2015, the Trust repurchased 17,208,500 number of units and these units were subsequently cancelled in the same year.

There are no potential dilutive units during the financial year ended 31 December 2016 and 2015. Accordingly, the diluted (loss)/earnings per unit is computed to be the same as the basic (loss)/earnings per unit for both financial years ended 31 December 2016 and 2015.

21. COMMITMENTS

The non-cancellable operating lease rentals receivable are as follows:

	Group 2016 US$'000	Group 2015 US$'000
Within 1 year	44,490	59,096
Within 1 to 5 years	56,610	95,903
	101,100	154,999

Operating lease-Bareboat charter

The rental rates of lease arrangements are fixed over the lease term. The remaining lease period under these non-cancellable leases range from five months to five years (2015: one month to five years) at the end of the financial year. In three lease agreements (2015: five lease agreements) held by the Group, the lessees have the option to extend the lease period beyond the base lease period up to ten years (2015: ten years). The lessees have the option to purchase the related vessels in eight lease agreements (2015: eight lease agreements).

Operating lease-Time charter

As at 31 December 2016 and 2015, there are four time charter lease arrangements with rental rates fixed over a period of two years, of which three time charters have the option for a further extension of six to twelve months.

The rentals received from the two lease agreements with rentals based on market rates for the year ended 31 December 2016 amounted to US$11,800,000 (2015: US$14,700,000).

22. RELATED PARTY TRANSACTIONS

A related party is a person or entity that is related to the entity that is preparing its financial statements ("reporting entity").

Parties are considered to be related if (a) a person or a close member of that person's family is related to a reporting entity, if that person (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. (b) An entity is related to a reporting entity if (i) the entity and the reporting entity are members of the same group; (ii) one entity is an associate or joint venture of the other entity; (iii) both entities are joint ventures of the same third party; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity; (vi) the entity is controlled or jointly controlled by a person identified in (a); (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity; and (viii) the entity or any member of a group of which is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The Trustee-Manager is a subsidiary of a substantial unitholder of the Trust. Other than disclosed elsewhere in the financial statements, significant transactions with related parties are as follows:

	Group	
	2016	**2015**
	US$'000	**US$'000**
Transactions with the Trustee–Manager:		
Management fees	3,029	3,479
Trustee fees	108	117
Acquisition fee	–	218
Transactions with other related parties:		
Directors' fees paid to non–executive directors	208	195
Commission paid to Columbia Shipmanagement Ltd.*	5	39
Commission paid to Hanse Bereederung GmbH*	7	72
Shipmanagement fees paid to Columbia Shipmanagement (Singapore) Pte. Ltd.*	84	991
Commission paid to United Product Tankers*	–	63

* Related parties of a unitholder who holds 25% of the Trust's issued units as at 31 December 2015. During the financial year ended 31 December 2016, the unitholder disposed the units in the Trust and ceased to be a substantial unitholder of the related parties.

No separate consideration is paid to the Trustee-Manager (other than the fees disclosed above) for services rendered by the executive directors.

23. SEGMENT INFORMATION

The Trustee-Manager has determined the Group as one reportable segment as the Group is only involved in the leasing and chartering of vessels which is carried out in international waters.

Geographical information

Revenues from external customers are attributed to the regions based on the customers' country of origin.

	Revenue		Non-current assets*	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Americas	9,060	25,249	–	55
Asia	33,516	19,026	–	–
Europe	35,513	37,507	–	–
Others	20,055	24,801	–	–
	98,144	106,583	–	55

* Excludes carrying amount of vessels.

With respect to the presentation of vessels by geographical information, the Group deals with several lessees and the vessels are deployed to various parts of the world at the discretion and direction of these lessees. Accordingly, the Trustee-Manager does not consider it meaningful to allocate vessels to specific geographical locations.

All other non-current assets are attributed to the countries based on the Group's country of domicile.

As at 31 December 2016, the Group has three customers (2015: three customers) each accounted for more than 10% (2015: 10%) of the Group's total revenue.

24. FINANCIAL RISK MANAGEMENT

Overview

Risk management is integral to the whole business of the Group. The Group is exposed to credit, liquidity and market risks. The Group uses derivative financial instruments to hedge its interest rate and foreign currency risk exposures. The Group does not hold or issue derivative financial instruments for trading purposes.

Management uses natural hedges or closely monitors the Group's business risk exposures in connection with its financial assets and financial liabilities and adopts the appropriate measures including the use of other financial instruments when considered necessary to reduce any potential financial risk exposures or losses.

Credit Risk

As part of the Trustee-Manager's due diligence activities and prior to the completion of a lease transaction, each new lessee is analysed individually for creditworthiness. The Trustee-Manager then incorporates the results from its due diligence activities into a risk-adjusted pricing model. This model incorporates a credit loss component which takes into account the likelihood of default, the level of recoverability following a default and the credit exposure at the time of default.

Upon the completion of a lease transaction, the Trustee-Manager conducts on-going credit reviews annually or semi-annually to monitor each lessee's financial performance and compliance with financial covenants (if any). In addition, the payment conduct of a lessee is monitored on a monthly basis.

The Group's credit risk is concentrated in lessees in the shipping industry; and the Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations as of 31 December 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statements of Financial Position.

The Group does not expect to incur material credit losses on its financial assets. Cash and cash equivalents are placed with financial institutions which are regulated.

The ageing of trade receivables at the reporting date was:

	Group	
	2016	2015
	US$'000	US$'000
Not past due	1,320	1,886
Past due 60 – 90 days	79	–

No impairment allowance is necessary for trade receivables, including the past due receivables as there are no indications from customers and related parties on their inability to pay their outstanding balances.

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations. As at the reporting date, there were no outstanding commitments for any acquisition of vessels.

As at 31 December 2016, the Group's current liabilities exceeded its current assets by US$179,375,000 (2015: US$17,149,000).

Nevertheless, in the preparation of the financial statements, the management of the Trustee-Manager believes that the use of the going concern assumption is appropriate after taking into consideration the following factors:

(i) The management of the Trustee-Manager has prepared a cash flow projection and is of the view that the Group and the Trust will have sufficient cash resources to satisfy its working capital requirements and to meet its obligations as and when it fall due; and

(ii) The Group and the Trust will continue to receive financial support from its lenders and refinancing of the current bank loan will be successful.

The contractual undiscounted cash outflows for the non-current liabilities are disclosed in Note 12 to the financial statements. The contractual undiscounted cash outflows for the current liabilities approximate their carrying amounts stated in the Statements of Financial Position due to their short term maturity.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Interest Rate Risk

The Trustee-Manager, on behalf of the Trust, reviews any unhedged exposures periodically and will consider hedging them after taking into consideration the prevailing interest rate environment.

As at 31 December 2016, the Group has interest rate swaps with a total notional contract amount of US$87,246,000 (2015: US$119,484,000), whereby it pays fixed interest rates ranging from 1.06% per annum to 1.65% per annum and receives a variable rate equal to US$ 3-month LIBOR. The Trust classifies these interest rate swaps as hedging instruments under the cash flow hedge model.

The fair value of these interest rate swaps as at 31 December 2016 are disclosed in Note 6 and 12 to the financial statements.

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Sensitivity analysis

With respect to the interest rate swaps (designated as hedging instruments under cash flow hedge model), variable rate bank loans and certain floating rate lease agreements, an increase of 50 bp in interest rate at the reporting date would increase/(decrease) other comprehensive income/loss and results by the amounts shown below. This analysis assumes that all other variables remain constant.

Group and Trust	Other comprehensive income 2016 US$'000	Other comprehensive loss 2015 US$'000	Loss for the year 2016 US$'000	Profit for the year 2015 US$'000
Variable rate bank loans	–	–	1,277	(1,538)
Interest rate swaps	210	(746)	(543)	711
	210	(746)	734	(827)

A decrease of 50 bp in interest rate at the reporting date would have an equal but opposite effects of the amounts as shown above, on the basis that all other variables remain constant.

Foreign Currency Risk

The Group is exposed to foreign currency risk on certain lease income denominated in a currency other than the functional currency of the Trust. The currency giving rise to this risk is the Euro.

The Group used cross currency swap contracts to hedge 50% of its forecasted lease income denominated in the Euro. However, these contracts matured during the financial year ended 31 December 2016.

In respect of other monetary assets and liabilities held in currencies other than the US dollar, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, where necessary, to address short term imbalances.

The Group's and the Trust's exposures to foreign currencies are as follows:

	2016		2015	
	Euro US$'000	Singapore dollar US$'000	Euro US$'000	Singapore dollar US$'000
Group				
Cross currency swap contracts* (notional amounts)	–	–	780	–
Other receivables	9	7	7	13
Cash and cash equivalents	56	189	157	312
Trade and other payables	(5)	(177)	(5)	(205)
Trust				
Cross currency swap contracts* (notional amounts)	–	–	780	–
Other receivables	–	6	–	11
Cash and cash equivalents	4	106	111	252
Trade and other payables	–	(114)	–	(132)

* Designated as hedging instruments under cash flow hedge model.

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Foreign Currency Risk (cont'd)

Sensitivity analysis

A 10% strengthening of US dollar against the following currencies at the reporting date would increase/(decrease) other comprehensive income and income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Trust	
	Other comprehensive income US$'000	Income statement US$'000	Other comprehensive income US$'000	Income statement US$'000
2016				
Euro	–	7	–	–
Singapore dollar	–	2	–	–
2015				
Euro	(64)	(18)	(64)	(12)
Singapore dollar	–	(13)	–	(15)

A 10% weakening of US dollar against the following currencies at the reporting date would increase/(decrease) other comprehensive income and income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Trust	
	Other comprehensive income US$'000	Income statement US$'000	Other comprehensive income US$'000	Income statement US$'000
2016				
Euro	–	(7)	–	–
Singapore dollar	–	(2)	–	–
2015				
Euro	64	18	64	12
Singapore dollar	–	13	–	15

Equity Price Risk

The Group was exposed to equity price risk on its available-for-sale equity securities in prior year. The TORM shares have been disposed during the financial year ended 31 December 2015. No sensitivity analysis has been disclosed.

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Estimation of Fair Values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Group and the Trust.

Derivatives

The fair value of derivative instruments is based on broker's quotes, calculated by reference to current forward exchange rates and interest rates for contracts with similar maturity profiles, and discounting the estimated future cash flows based on the terms and maturity of each contract.

Non-derivative financial liabilities

The Group believes that the carrying amount of the variable rate bank loans, which are repriced on a quarterly basis, closely reflects the corresponding fair values.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents and trade and other payables) approximate their fair values because of the short period to maturity.

Interest rates used in determining fair values

The interest rates used to discount estimated cash flows, where applicable, are based on US$ yield curve and Euro yield curve at the reporting date for interest rate swaps and cross currency swap contracts respectively, and were as follows:

	2016 %	2015 %
Derivatives	0.88 to 1.01	0.54 to 1.01

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Estimation of Fair Values (cont'd)

Carrying amount of financial assets and liabilities

The following table summarises the carrying amount of non-derivative financial assets and liabilities recorded at the end of the reporting period by IAS 39 categories:

	Group		Trust	
	Loan and receivables US$'000	**Financial liabilities at amortised cost US$'000**	**Loan and receivables US$'000**	**Financial liabilities at amortised cost US$'000**
2016				
Trade and other receivables	3,623	–	18,682	–
Cash and cash equivalents	42,899	–	33,535	–
Trade and other payables	–	2,413	–	771
Secured bank loans	–	222,313	–	222,313
	46,522	224,726	52,217	223,084
2015				
Trade and other receivables	4,376	–	26,465	–
Cash and cash equivalents	28,834	–	16,769	–
Trade and other payables	–	5,740	–	615
Secured bank loans	–	272,085	–	272,085
	33,210	277,825	43,234	272,700

Derivative financial assets and liabilities disclosed on the statement of financial position are categorised as cash flow hedging instruments.

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Estimation of Fair Values (cont'd)

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group and Trust	**Level 1 US$'000**	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
2016				
Liabilities				
Derivative liabilities	–	122	–	122
2015				
Assets				
Derivative assets	–	188	–	188
Liabilities				
Derivative liabilities	–	632	–	632

The above excludes financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term nature and where the effect of discount is immaterial.

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Capital Management

The Trustee-Manager defines "capital" to include funds raised through the issuance of units, revenue reserves and proceeds raised from debt facilities. The Trustee-Manager's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Group and the Trust. The Trustee-Manager monitors capital based on a gearing ratio.

	Group		Trust	
	2016 US$'000	**2015 US$'000**	**2016 US$'000**	**2015 US$'000**
Bank loans	222,313	272,085	222,313	272,085
Equity	247,454	278,182	126,475	138,576
Total debt and equity	469,767	550,267	348,788	410,661
Bank loans against total debt and equity	0.47	0.49	0.64	0.66

The Trustee-Manager also monitors the distribution per unit (if any), which is the annualised distribution to unitholders divided by total number of units (Note 19).

The cash flows from the operating activities of the Group and the Trust are sufficient to fund the anticipated debt service, payments to the Trustee-Manager and working capital requirements. To the extent that financing for additional vessels is required, additional equity or debt securities may be issued or additional secured borrowings may be incurred.

There were no changes in the Group's and the Trust's approach to capital management during the year. Other than disclosed elsewhere in the financial statements, the Group and the Trust are not subject to externally or regulatory imposed capital requirements.

25. SUBSEQUENT EVENTS

On 14 March 2017, the Trustee-Manager announced that the Trust will prepay US$20 million of the principal amount under the Syndicated Loan Facility, at the end of the quarter from available cash, thereby reducing the outstanding loan balance disclosed in Note 12. In addition, the Trust will pledge the vessel, FSL Osaka acquired in 2015 to the Lenders.

LEASE PORTFOLIO

AS AT 14 MARCH 2017

Vessel	Year Built	Capacity	Employment	Lessee	Lease Commencement
Chemical Tanker					
FSL New York	2006	19,970 DWT	Vessel is employed in 'Nordic Tankers 19,000 Stainless Pool'		
FSL London	2006	19,966 DWT	Vessel is employed in 'Nordic Tankers 19,000 Stainless Pool'		
FSL Tokyo	2006	20,938 DWT	Vessel is employed in 'Nordic Tankers 19,000 Stainless Pool'		
Crude Oil Tanker					
FSL Hong Kong	2007	115,000 DWT	Time Charter	Tesoro	14 Jun 2015
FSL Shanghai	2007	115,000 DWT	Time Charter	Trafigura	17 Aug 2015
Product Tanker					
Cumbrian Fisher	2004	12,921 DWT	Bareboat Charter	James Fisher	24 Dec 2014
Clyde Fisher	2005	12,984 DWT	Bareboat Charter	James Fisher	05 Feb 2015
Shannon Fisher	2006	5,421 DWT	Bareboat Charter	James Fisher	01 Feb 2016
Solway Fisher	2006	5,421 DWT	Bareboat Charter	James Fisher	01 Jul 2016
Speciality	2006	4,426 DWT	Bareboat Charter	James Fisher	01 Jun 2007
Seniority	2006	4,426 DWT	Bareboat Charter	James Fisher	01 Jun 2007
Superiority	2007	4,426 DWT	Bareboat Charter	James Fisher	01 Jun 2007
FSL Hamburg	2005	47,496 DWT	Time Charter	Trafigura	06 Nov 2015
FSL Singapore	2006	47,470 DWT	Time Charter	Trafigura	25 Nov 2015
FSL Osaka	2007	45,998 DWT	Vessel is employed in 'Hafnia MR Pool'		
TORM Margrethe	2006	109,672 DWT	Bareboat Charter	TORM	16 Jun 2011
TORM Marie	2006	109,672 DWT	Bareboat Charter	TORM	24 Jun 2011
Containership					
FSL Busan	2003	1,221 TEU	Vessel is employed in 'Hanse Containership Pool'		
FSL Santos	2003	1,221 TEU	Vessel is employed in 'Hanse Containership Pool'		
YM Eminence	2008	4,250 TEU	Bareboat Charter	Yang Ming Marine	20 May 2008
YM Elixir	2008	4,250 TEU	Bareboat Charter	Yang Ming Marine	16 Jun 2008
YM Enhancer	2008	4,250 TEU	Bareboat Charter	Yang Ming Marine	09 Oct 2008

ADDITIONAL INFORMATION

INTERESTED PERSON TRANSACTIONS

Apart from the following on-going interested person transactions:

(a) the fees and charges payable by FSL Trust to FSLTM under the deed of trust dated 19 March 2007 as amended and supplemented from time to time;

which are deemed to be specifically approved by the unitholders upon subscription for the units at the initial public offering and which are not subject to Rules 905 and 906 of the Listing Manual to the extent that there is no subsequent change to the rates and/or bases of the fees, rentals and charges charged thereunder which will adversely affect FSL Trust.

Transactions entered into with interested person, Columbia Shipmanagement Ltd. / Columbia Shipmanagement (Singapore) Pte. Ltd. (associates of Schoeller Holdings Ltd.) for the financial period 1 January 2016 to 31 December 2016 amount to US$89,000 in aggregate value. During the financial year ended 31 December 2016, Schoeller Holdings Ltd. ceased to be an interested person.

There were no further interested person transactions (excluding transactions less than S$100,000 (US$69,118) equivalent) entered into up to and including 31 December 2016.

FSL Trust does not have any unitholders' mandate for interested person transactions.

STATISTICS OF UNITHOLDINGS

AS AT 13 MARCH 2017

No. of units issued	:	637,456,577
Class of units	:	Ordinary units with 1 vote per unit

DISTRIBUTION OF UNITHOLDINGS

Size of Unitholdings	Number of Unitholders	%	Number of Units	%
1 – 99	3	0.06	52	0.00
100 – 1,000	381	7.25	354,167	0.06
1,001 – 10,000	2,312	44.02	11,739,790	1.84
10,001 – 1,000,000	2,503	47.66	197,341,139	30.96
1,000,001 and above	53	1.01	428,021,429	67.14
	5,252	100.00	637,456,577	100.00

TWENTY LARGEST UNITHOLDERS

No.	Name of Unitholders	Number of Units	%
1.	FSL HOLDINGS PTE. LTD.	154,430,600	24.23
2.	RAFFLES NOMINEES (PTE) LIMITED	46,443,100	7.29
3.	DBS NOMINEES (PRIVATE) LIMITED	25,455,890	3.99
4.	PHILLIP SECURITIES PTE. LTD.	24,729,100	3.88
5.	CITIBANK NOMINEES SINGAPORE PTE. LTD.	18,777,700	2.95
6.	MAYBANK KIM ENG SECURITIES PTE. LTD.	18,762,279	2.94
7.	HSBC (SINGAPORE) NOMINEES PTE. LTD.	12,377,200	1.94
8.	HL BANK NOMINEES (SINGAPORE) PTE. LTD.	12,338,000	1.94
9.	CIMB SECURITIES (SINGAPORE) PTE. LTD.	9,104,000	1.43
10.	LAI CHONG MENG	8,000,000	1.25
11.	YIM WING CHEONG	7,740,200	1.21
12.	DB NOMINEES (SINGAPORE) PTE. LTD.	7,323,000	1.15
13.	UOB KAY HIAN PRIVATE LIMITED	4,928,900	0.77
14.	FSL TRUST MANAGEMENT PTE. LTD.	3,788,766	0.59
15.	ANG HAO YAO (HONG HAOYAO)	3,700,000	0.58
16.	DBSN SERVICES PTE. LTD.	3,332,700	0.52
17.	ONG EUGENE	3,250,000	0.51
18.	LEE GUAN HUAT	3,144,900	0.49
19.	TAN SIEW KENG CHRISTINA	3,030,000	0.48
20.	NG HWEE KOON	2,918,300	0.46
	TOTAL	373,574,635	58.60

STATISTICS
OF UNITHOLDINGS

AS AT 13 MARCH 2017

SUBSTANTIAL UNITHOLDERS

(As shown in the Register of Substantial Unitholders)

Name of Substantial Unitholder	Direct Interests	%	Deemed Interests	%
FSL Holdings Pte. Ltd.[1]	154,430,600	24.23	3,788,766	0.59
Godan GMBH[2]	–	–	158,219,366	24.82
HSH Nordbank AG[3]	–	–	158,219,366	24.82

Notes:

1. FSL Holdings Pte. Ltd. ("FSLH") is the 100% shareholder of FSL Asset Management Pte. Ltd., which in turn wholly-owns FSL Trust Management Pte. Ltd.. FSLH is therefore deemed to be interested in 3,788,766 units held by FSL Trust Management Pte. Ltd..

2. Godan GMBH is the sole shareholder of FSLH. Therefore Godan GMBH is deemed to be interested in all the units held by FSLH and FSLH's indirect subsidiary FSL Trust Management Pte. Ltd. in First Ship Lease Trust.

3. HSH Nordbank AG is the holding company of Godan GMBH, which in turn is the sole shareholder of FSLH. HSH Nordbank AG is therefore deemed to be interested in all the units held by FSLH and FSLH's indirect subsidiary FSL Trust Management Pte. Ltd. in First Ship Lease Trust.

FREE FLOAT

Based on information available as at 13 March 2017, approximately 75.18% of the units of First Ship Lease Trust is in the hands of the public and accordingly Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with.

NOTICE OF ANNUAL GENERAL MEETING
OF THE UNITHOLDERS

NOTICE IS HEREBY GIVEN THAT the Tenth Annual General Meeting of First Ship Lease Trust will be held at Meeting Room 328, Level 3, Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Friday, 28 April 2017 at 2:30 p.m. for the purpose of transacting the following businesses:

ORDINARY BUSINESSES

1. To receive and adopt the Report of the Trustee-Manager, Statement by the Trustee-Manager and Audited Financial Statements of First Ship Lease Trust for the financial year ended 31 December 2016, together with the Auditor's Report thereon.

   (Ordinary Resolution 1)

2. To re-appoint Moore Stephens LLP as the Auditors of First Ship Lease Trust to hold office until the conclusion of the next annual general meeting of First Ship Lease Trust, and to authorise the Directors of the Trustee-Manager to fix their remuneration.

   (Ordinary Resolution 2)

3. To transact any other ordinary business which may properly be transacted at an annual general meeting of the Unitholders.

SPECIAL BUSINESSES

4. To consider and, if thought fit, to pass the following resolution with or without modifications as an Ordinary Resolution:

   THAT:

   pursuant to Section 36 of the Business Trusts Act, Chapter 31A of Singapore (the "**Business Trusts Act**") Clause 6.1 of the deed of trust dated 19 March 2007 constituting First Ship Lease Trust (as amended) (the "**Trust Deed**") and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Trustee-Manager, on behalf of First Ship Lease Trust, be authorised to:

   (a) (i) issue units in First Ship Lease Trust ("**Units**") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that would or might require Units to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Units,

   at any time to such persons and on such terms and conditions whether for cash or otherwise as the Trustee-Manager may in its absolute discretion deem fit; and

   (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Units in pursuance of any Instrument made or granted by the Trustee-Manager while this Resolution was in force, provided that:

(1) the aggregate number of Units to be issued pursuant to this Resolution (including Units to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution):

(A) by way of renounceable rights issues on a pro rata basis to Unitholders of First Ship Lease Trust (**"Renounceable Rights Issues"**) shall not exceed 100 per cent. (100%) of the total number of issued Units excluding treasury Units (as calculated in accordance with paragraph (3) below); and

(B) otherwise than by way of Renounceable Rights Issues (**"Other Unit Issues"**) shall not exceed 50 per cent. (50%) of the total number of issued Units excluding treasury Units (as calculated in accordance with paragraph (3) below), of which the aggregate number of Units to be issued other than on a pro rata basis to Unitholders of First Ship Lease Trust shall not exceed 20 per cent. (20%) of the total number of issued Units excluding treasury Units (as calculated in accordance with paragraph (3) below);

(2) the Renounceable Rights Issues and Other Unit Issues shall not, in aggregate, exceed 100 per cent. (100%) of the total number of issued Units excluding treasury Units (as calculated in accordance with paragraph (3) below);

(3) (subject to such calculation as may be prescribed by SGX-ST) for the purpose of determining the aggregate number of Units that may be issued under paragraphs (1)(A) and (1)(B) above, the percentage of issued Units shall be based on the total number of issued Units (excluding treasury Units) in First Ship Lease Trust at the time of the passing of this Resolution, after adjusting for:

(a) new Units arising from the conversion or exercise of any Instruments that are convertible into Units; and

(b) any subsequent bonus issue, consolidation or subdivision of Units;

(4) in exercising the authority conferred by this Resolution, the Trustee-Manager shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST), the Trust Deed and the Business Trusts Act; and

(5) unless revoked or varied by ordinary resolution of Unitholders of First Ship Lease Trust in a general meeting, such authority shall continue in force (i) until the conclusion of the next annual general meeting of the Unitholders of First Ship Lease Trust or the date by which the next annual general meeting of the Unitholders of First Ship Lease Trust is required by law to be held, whichever is earlier, or (ii) in the case of Units to be issued in pursuance of the Instruments made or granted pursuant to this Resolution, until the issuance of such Units in accordance with the terms of the Instruments.

(Ordinary Resolution 3)

5. To consider and, if thought fit, to pass the following resolution with or without modifications as an Ordinary Resolution:

THAT:

authority be and is hereby given to the Trustee-Manager to allot and issue from time to time such number of Units as may be required to be allotted and issued pursuant to the First Ship Lease Trust Distribution Reinvestment Scheme.

(Ordinary Resolution 4)

NOTICE OF ANNUAL GENERAL MEETING
OF THE UNITHOLDERS

6. To consider and, if thought fit, to pass the following resolution with or without modifications as an Ordinary Resolution:

THAT:

(a) the exercise by the Trustee-Manager of all the powers of First Ship Lease Trust to purchase or otherwise acquire Units of First Ship Lease Trust not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Trustee-Manager from time to time up to the Maximum Price (as hereafter defined), whether by way of:

(i) market purchases (each a "**Market Purchase**") on the SGX-ST; and/or

(ii) off-market purchases (each an "**Off-Market Purchase**") effected otherwise than on the SGX-ST in accordance with any equal access scheme (as defined in the Trust Deed) as may be determined or formulated by the Trustee-Manager as it considers fit, which scheme shall satisfy all the conditions prescribed in accordance with the Trust Deed,

and otherwise in accordance with all other laws, regulations and rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "**Unit Buy-back Mandate**");

(b) unless varied or revoked by Unitholders of First Ship Lease Trust in a general meeting, the authority conferred on the Trustee-Manager pursuant to the Unit Buy-back Mandate may be exercised by the Trustee-Manager at any time during the Relevant Period (as hereafter defined); and

(c) the Trustee-Manager be and is hereby authorised to complete and do all such acts and things (including executing such documents or other action as may be required) as it may consider necessary, expedient or in the interests of First Ship Lease Trust to give effect to the transactions contemplated and/or authorised by this Resolution.

In this Resolution:

"**Maximum Limit**" means the number of Units representing not more than 10 per cent. of the total number of issued Units of First Ship Lease Trust as at the date of the passing of this Resolution; and

"**Relevant Period**" means the period commencing from the date on which the annual general meeting is held and this Resolution is passed, and expiring on:

(a) the date on which the next annual general meeting of Unitholders is held;

(b) the date by which the next annual general meeting of Unitholders is required by law or the Trust Deed to be held; or

(c) the date on which the purchases of Units by the Trustee-Manager pursuant to the Unit Buy-back Mandate are carried out to the full extent mandated, whichever is earliest; and

"**Maximum Price**" in relation to a Unit to be purchased, means an amount (excluding related expenses of the purchase) not exceeding:

(i) in the case of a Market Purchase: 105 per cent. of the Average Closing Market Price

(ii) in the case of an Off-Market Purchase: 120 per cent. of the Highest Last Dealt Price

where:

"**Average Closing Market Price**" means the average of the closing market prices of a Unit over the last five (5) market days, on which transactions in Units were recorded, preceding the day of the Market Purchase, and deemed to be adjusted for any corporate action that occurs after such five-day market period in accordance with Rule 884 of the Listing Manual of the SGX-ST;

"**Highest Last Dealt Price**" means the highest price transacted for a Unit as recorded on the market day on which there were trades in the Units immediately preceding the day of the making of the offer pursuant to the Off-Market Purchase; and

"**day of the making of the offer**" means the day on which the Trustee-Manager announces its intention to make an offer for the purchase of Units from Unitholders, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Unit and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

(Ordinary Resolution 5)

By Order of the Board
FSL Trust Management Pte. Ltd.
As Trustee-Manager of First Ship Lease Trust

Elizabeth Krishnan
Company Secretary

Singapore
10 April 2017

NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

Notes:

1. A Unitholder entitled to attend and vote at the Annual General Meeting of the Unitholders of First Ship Lease Trust is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a Unitholder of First Ship Lease Trust. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding (expressed as a percentage of the whole) to be represented by each proxy.

2. The instrument appointing a proxy or proxies (the "**Proxy Form**") must be deposited at the registered office of FSL Trust Management Pte. Ltd. at 9 Temasek Boulevard #19-03 Suntec Tower Two Singapore 038989 not less than 48 hours before the time appointed for the Annual General Meeting.

<u>Explanatory Notes on Resolution 3</u>

If passed, the Ordinary Resolution set out in Resolution 3 empowers the Trustee-Manager from the date of the Tenth Annual General Meeting until the date of the subsequent Annual General Meeting, the date by which the subsequent Annual General Meeting is required by law to be held or such authority is varied or revoked by First Ship Lease Trust in a general meeting of Unitholders, whichever is the earlier, to issue Units, make or grant Instruments convertible into Units and to issue Units pursuant to such Instruments, up to a number not exceeding (i) 100% for Renounceable Rights Issues and (ii) 50% for Other Unit Issues, of which up to 20% may be issued other than on a pro rata basis to Unitholders, provided that, the total number of Units which may be issued pursuant to (i) and (ii) shall not exceed 100% of the issued Units (excluding treasury Units).

The aggregate number of Units which may be issued shall be based on the total number of issued Units (excluding treasury Units) at the time Resolution 3 is passed after adjusting for new Units arising from the conversion or exercise of any Instruments that are convertible into Units, as well as any subsequent bonus issue, consolidation or subdivision of Units.

The authority for 100% Renounceable Rights Issues (**"Enhanced Rights Issue Limit"**) is proposed pursuant to SGX-ST's news release dated 13 March 2017 titled "SGX raises pro-rata renounceable rights issue cap to 100% of share capital" and the Practice Note 8.3 of the Listing Manual of the SGX-ST which introduced measures to help issuers raise funds expediently for expansion activities or working capital. This unit issue mandate (including the Enhanced Rights Issue Mandate) shall be subject to the conditions as set out in Practice Note 8.3 of the Listing Manual of the SGX-ST and any other guidelines, notices or practice notes which the SGX-ST may issue from time to time. Unless renewed, the mandate sought at this meeting shall expire at the subsequent Annual General Meeting of the Unitholders of First Ship Lease Trust, or the date by which the next Annual General Meeting of the Unitholders of First Ship Lease Trust is required by law to be held, whichever is earlier.

The Board of Directors of the Trustee-Manager is of the view that the Enhanced Rights Issue Limit is in the interests of the First Ship Lease Trust and its unitholders as it will allow First Ship Lease Trust to raise funds expediently for expansion activities or working capital.

<u>Explanatory Notes on Resolution 4</u>

Resolution 4 is a renewal of the resolution that was approved by Unitholders at the Ninth Annual General Meeting held on 29 April 2016.

If passed, the Ordinary Resolution set out in Resolution 4 authorises the Trustee-Manager to issue Units pursuant to the First Ship Lease Trust Distribution Reinvestment Scheme, which was adopted by resolution of the Unitholders at the Extraordinary General Meeting held on 9 October 2008, to Unitholders who, in respect of a qualifying distribution, have elected to receive Units in lieu of the cash amount of that qualifying distribution.

<u>Explanatory Notes on Resolution 5</u>

Resolution 5 is a renewal of the Unit Buy-back Mandate that was approved by Unitholders at the Extraordinary General Meeting held on 14 April 2010. Please refer to the Appendix to this Notice of Annual General Meeting for more details.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting ("**AGM**") and/or any adjournment thereof, a Unitholder of First Ship Lease Trust (i) consents to the collection, use and disclosure of the Unitholder's personal data by the Trustee-Manager (or its agents or service providers) for the purpose of the processing, administration and analysis by the Trustee-Manager (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Trustee-Manager (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the Unitholder discloses the personal data of the Unitholder's proxy(ies) and/or representative(s) to the Trustee-Manager (or its agents or service providers), the Unitholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Trustee-Manager (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Unitholder will indemnify the Trustee-Manager in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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FIRST SHIP LEASE TRUST
(A business trust constituted on 19 March 2007)

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

PROXY FORM
TENTH ANNUAL GENERAL MEETING OF UNITHOLDERS OF FIRST SHIP LEASE TRUST

I/We ____ (Name)

holder of NRIC/Passport Number or Company registration or UEN Number ____________________ of

____ (Address)

being a Unitholder/Unitholders of First Ship Lease Trust hereby appoint:

Name	**Proportion of Unitholdings**	
NRIC/Passport Number	**No. of Units**	**%**
Address		

and/or (delete as appropriate)

Name	**Proportion of Unitholdings**	
NRIC/Passport Number	**No. of Units**	**%**
Address		

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf, at the Tenth Annual General Meeting ("**AGM**") of Unitholders of First Ship Lease Trust to be held on Friday, 28 April 2017 and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her discretion, as he/she will on any other matter arising at the AGM.

(*If you wish to exercise all your votes "For" or "Against", please tick (√) within the box provided. Alternatively, please indicate the number of votes as appropriate.)

No.	**Resolutions relating to:**	**No. of votes 'For'***	**No. of votes 'Against'***
1.	Adoption of the Report of the Trustee-Manager, Statement by the Trustee-Manager and Audited Financial Statements of First Ship Lease Trust for the financial year ended 31 December 2016 together with the Auditor's Report thereon		
2.	Re-appointment of Moore Stephens LLP as Auditors of First Ship Lease Trust and authority of Directors of Trustee-Manager to fix their remuneration		
3.	Authority to issue new Units		
4.	Authority to issue new Units pursuant to the First Ship Lease Trust Distribution Reinvestment Scheme		
5.	Authority to purchase Units pursuant to the Unit Buy-back Mandate		

Dated this ______________ day of ____________ 2017

Total No. of Units in:	**No. of Units**
CDP Register:	

____
Signature of Individual Unitholder(s) or
Common Seal of Corporate Unitholder

IMPORTANT: PLEASE READ NOTES OVERLEAF

NOTES:

1. A Unitholder entitled to attend and vote at the Annual General Meeting of Unitholders ("**AGM**") of First Ship Lease Trust ("**FSL Trust**") is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a Unitholder of FSL Trust. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding (expressed as a percentage of the whole) to be represented by each proxy.

2. Completion and return of this instrument appointing a proxy shall not preclude a Unitholder from attending and voting at the AGM. Any proxy or proxies shall be deemed to be revoked if a Unitholder attends the AGM in person, and in such event, FSL Trust Management Pte. Ltd. ("**FSLTM**") reserves the right to refuse to admit any person or persons appointed under the instrument of proxy, to the AGM.

3. A Unitholder should insert the total number of Units held. If the Unitholder has Units entered against his/her name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), he should insert that number of Units. If no number is inserted, this form of proxy will be deemed to relate to all the Units held by the Unitholder.

4. The instrument appointing a proxy or proxies ("**Proxy Form**") must be deposited at the registered office of FSLTM at 9 Temasek Boulevard #19-03 Suntec Tower Two Singapore 038989 not less than 48 hours before the time appointed for the AGM.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

6. A corporation incorporated in Singapore which is a Unitholder may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney or duly authorised officer, the letter or power of attorney or board resolution duly authorising the officer or a duly certified copy thereof must (failing previous registration with FSLTM) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

8. FSLTM shall be entitled to reject the instrument appointing a proxy or proxies which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument. In addition, in the case of Units entered in the Depository Register, FSLTM may reject the instrument appointing a proxy or proxies if the Unitholder, being the appointor, is not shown to have Units entered against his name in the Depository Register as at 48 hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited ("**Depository**") to FSLTM.

9. For the purposes of determining the number of Units held in respect of Units registered in the name of the Depository and the number of votes which a particular Unitholder may cast in respect of such Units, FSLTM shall be entitled and bound to accept as accurate the number of Units credited in the securities account(s) of the relevant depositor as shown in the records of the Depository as at a time not earlier than 48 hours prior to the time of the relevant meeting supplied by the Depository to FSLTM, and accept as the maximum number of votes which in aggregate that depositor and his proxy(ies) (if any) are able to cast on a poll a number which is the number of Units credited into the securities account(s) of the relevant depositor, as shown in the aforementioned records of the Depository, whether that number is greater or smaller than that specified by the depositor in the instrument of proxy. FSLTM shall not, under any circumstances, be responsible for, or liable to any person as a result of it, acting upon or relying on the aforementioned records of the Depository.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the Unitholder accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 10 April 2017.

Fold this flap for sealing

Please affix postage stamp

THE COMPANY SECRETARY
FSL TRUST MANAGEMENT PTE. LTD.
(as Trustee-Manager of First Ship Lease Trust)
9 Temasek Boulevard
#19-03 Suntec Tower Two
Singapore 038989

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