FSL TRUST

2019

FIRST SHIP LEASE TRUST | ANNUAL REPORT

CONTENTS

CORPORATE PROFILE

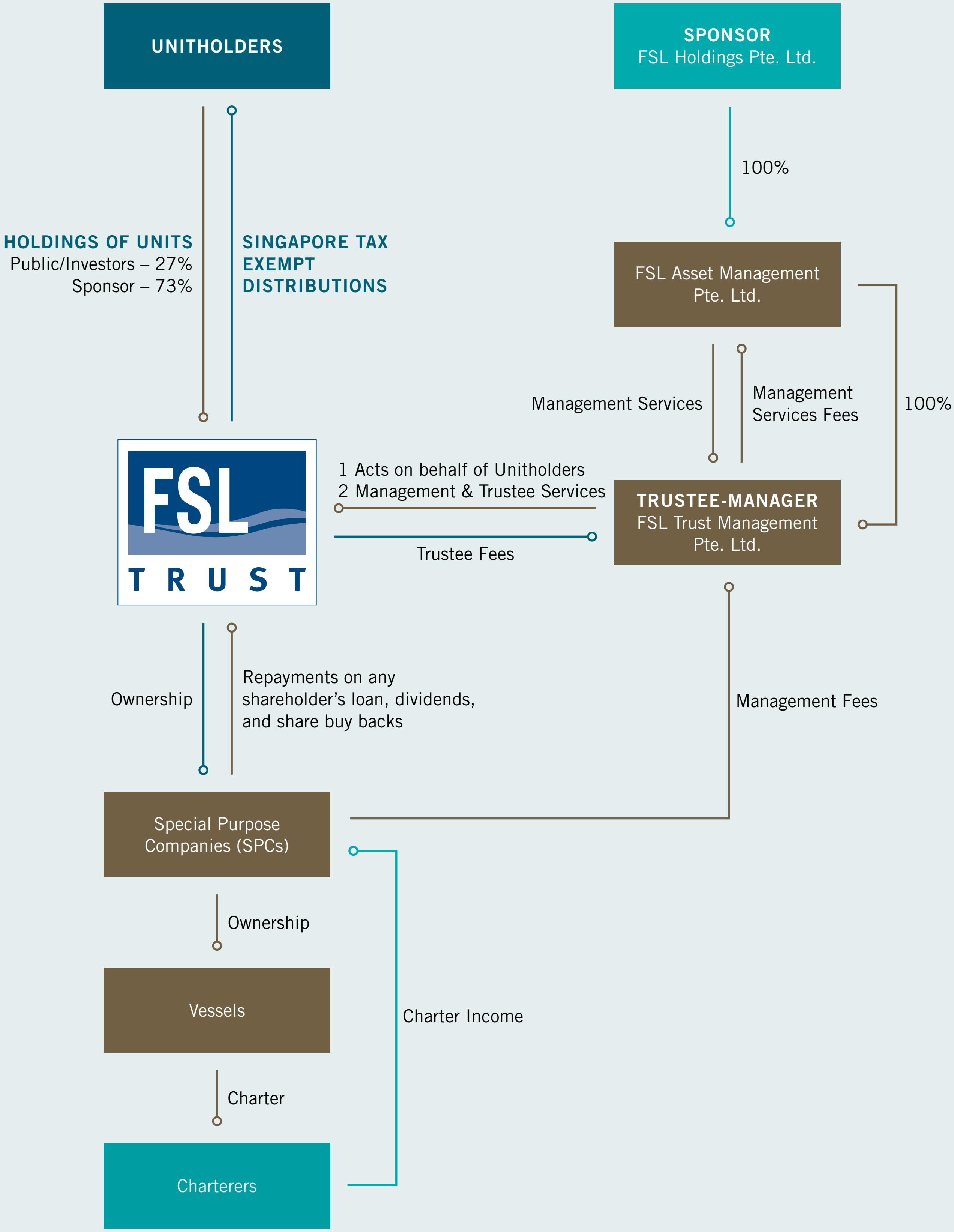
First Ship Lease Trust ("FSL Trust" or the "Trust") is a Singapore-based business trust which owns a fleet of vessels across major shipping sub-sectors. FSL Trust presently has a diversified portfolio of 18 well-maintained oceangoing vessels comprising containerships and a variety of tankers. Of these, 10 vessels are leased to international shipping companies on long-term bareboat charters. 6 vessels are employed on short-term time charters or in pools and 2 are under construction. As at 31 December 2019, 2 vessels were held for sale and were disposed in January 2020. On 24 February 2020, 1 vessel was held for sale, and disposal is scheduled to take place before the end of March 2020.

Around 53% of the Trust's revenue is derived from the hire's 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 shorter-term charters or in pools provide the Trust with flexibility and opportunity to capture any market upsides.

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 the 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
Stathis Topouzoglou
Non-Independent,
Non-Executive Chairman

Michael Chalkias
Non-Independent,
Non-Executive Director

Michael Gray
Lead Independent Director,
Non-Executive Director &
Chairman of the Audit and Risk
Committee

Michael Oliver
Independent,
Non-Executive Director &
Chairman of the Remuneration
Committee and the Nominating
Committee

Narayanan Sreenivasan
Independent,
Non-Executive Director

Costas Courcoubetis
(appointed on 6 November 2019)
Independent,
Non-Executive Director

SENIOR MANAGEMENT TEAM
Roger Woods
Chief Executive Officer

Alan Mitchell
(retiring on 19 May 2020)
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
- Amsterdam Trade Bank N.V
- Chailease International Financial Services Co Ltd
- Deutsche Bank AG, Singapore Branch
- Hellenic Bank Public Company Ltd
- Standard Chartered Bank (Singapore) Limited

CHAIRMAN'S LETTER TO UNITHOLDERS

The Trust concluded 2019 with an excellent 4Q result and a strong performance for the full year leading to further debt reduction and a much-improved balance sheet. With healthy cash flow generation we were pleased to deliver on our promise by recommencing distributions with 1.50 US cents per unit declared for 2019.

DEAR UNITHOLDERS

It is my pleasure to update you on the developments and progress made during the financial year 2019, in continuation to the significant milestones achieved in 2018, marking the complete turnaround of the Trust, thanks to the close collaboration between the Board, the management team and our business partners.

To recap the year, on 8 February 2019, in anticipation of the previously announced Preferential Offering, the Sponsor reached a bridge loan agreement with the Trust to partially finance the new shipbuilding contracts for Hull no. 944 and Hull no. 945 and drew US$10.0 million to facilitate payment of the first instalment to the shipyard.

In turn, the Trust successfully completed the Preferential Offering in June 2019 and raised net proceeds of approximately US$31.0 million. The Sponsor's bridge loan was repaid and the remaining funds were kept to be utilized towards the next instalments to the shipyard.

The Preferential Offering strengthened the Trust's financial position and capital base, enabling it to further reduce gearing. These were important steps to position the Trust to move forward and enhance its operational performance, while offering our existing Unitholders an opportunity to participate in the continued recovery and future of the Trust.

The construction of the two new Tier III LR2 product tankers progressed smoothly during FY2019. Keel laying for Hull no. 944 was scheduled for March 2020, while Hull no. 945 was scheduled for April 2020. In response to the coronavirus "Covid-19" outbreak, the shipyard initially declared a force majeure, which turned out to be short-lived. As the situation returns to normality we expect no material impact on the final delivery dates.

During the year, the Trust also sold the *FSL Hamburg*, a 47,496 DWT, 2005, South Korean-built product tanker, one of the older product tankers in the fleet. Taking timely advantage of the significant improvement of the tanker market in Q4 and the consequently increased tanker values, the Trust agreed to sell the *FSL Piraeus* and *FSL Perth*, two 109,672 DWT, 2006, PRC-built product tankers, both of which were successfully delivered to their buyers in January 2020 and were followed by the agreement to sell the FSL Shanghai, a 115,000 DWT, 2007, South Korean-built product tanker, also at a very attractive price for her age. She is expected to be delivered by end of March 2020.

We'll endeavour to continue capitalizing on the strong asset values, whenever prevailing and in parallel will actively explore future market opportunities and strategic alternatives for the benefit of our unitholders.

MARKET OVERVIEW

The first part of 2019 was affected by the US-China trade war and concerns over global economic growth. These factors were counterbalanced deeper into the year as tonnage started being taken off market for scrubber retrofitting in anticipation of the IMO2020 implementation, reaching Q4, when the US sanctions imposed on COSCO's Dalian entity put further pressure in tonnage availability and drove the tanker market to record levels.

As the year turned, earnings continued to be healthy, albeit volatile, balancing between the eventual lift of said sanctions which coincided with oil refineries going into seasonal maintenance and the effects from recent sharp decline in oil prices as the Saudi-Russia alliance came under pressure.

In the meantime, the coronavirus "COVID-19" pandemic has come at a high cost of human life and also weighed on the global economy. We can only hope for same to be contained and resolved the soonest.

In view of the multitude of challenges, the Trust's risk management approach remains effective, with a diversified fleet strategically placed in different deployments. This enables the Trust to be on the lookout for suitable strategic opportunities and capture market upside while partly maintaining stable income.

TOWARDS A GREENER FUTURE

Environmental considerations become increasingly under the spotlight and will play a decisive role in shaping the next decade. In the last two years, shipowners have been facing EU MRV (European Union's Monitoring, Reporting & Verification) regulations, which focused on reporting CO2 emissions when calling EU ports, whereas IMO2020 just came into effect and mandates to use fuels with a sulphur content of at most 0.5%, compared to a previous 3.5% limit.

The countdown towards zero vessel emissions has started. New technologies are bound to radically transform all segments of our shipping industry and will be vital in meeting IMO's decarbonisation targets.

Regulations have also raised public awareness. In the next decade, investors' community will also be focusing on ESG (Environmental, Social and Governance) factors, while "green finance" becomes a rapidly growing trend in the financing circles, turning everyone's focus towards eco-friendly, sustainable and technologically advanced assets.

It is more than clear, that a new approach to shipping is needed for public companies to be successful in the years to come.

ACKNOWLEDGEMENT

First, I would like to start with Alan Mitchell, our Chief Financial Officer, who has recently elected to retire. The Board is grateful to Alan for his unfailing dedication and significant contribution during his tenure as Chief Financial Officer and wishes him all the best for the future.

In turn, we are pleased to welcome our new Chief Financial Officer, Markus Wenker. Markus has a proven track record and deep understanding of our industry. We are positive that his solid banking and shipping finance experience will be a major asset to our business. The Board warmly welcomes Markus and wishes him every success.

We fully support and have great confidence in our team, led by our CEO, Roger Woods. We are starting to see the fruits of our collective efforts with the turnaround of the business thanks to their dedication and hard work.

The Board is also grateful for our Unitholders' continuous support in shaping the Trust's next chapter and to prepare for our industry's transformation.

Stathis Topouzoglou
Chairman

First Ship Lease Trust

CEO'S STATEMENT

Despite continuing challenging conditions, with our Sponsor's support and Q4 market improvements, the year's performance was overall encouraging. Cash flows were strong, with operational cash flow supplemented by selective vessel sale proceeds, and the preferential offering. We face 2020 with cautious optimism, whilst closely monitoring recent market developments.

DEAR UNITHOLDERS

While the global shipping environment remained volatile during financial year 2019, the Trust continued to make positive progress towards reshaping its future, closely followed market developments and responded with agility.

The year started with the sale of the Trust's older MR product tanker, *FSL Hamburg*, and continued with the US$31m preferential offering. Later in the year, with part of the fleet deployed in tanker pools we managed to benefit from the Q4 freight rally. The Trust also capitalized on the improved asset values by agreeing to sell its older LR2/Aframax tankers, *FSL Perth* and *FSL Piraeus*, in November 2019 and the Aframax tanker, *FSL Shanghai*, subsequent to year end.

Meanwhile, the construction of the two newbuildings has proceeded mainly on schedule. Although possible delays were recently advised by the yard due to restrictions placed on the labour force as a precautionary measure against the coronavirus outbreak, we believe that there will be no significant impact on the final delivery dates.

We enter 2020 with a strong balance sheet, healthy gearing, diversified fleet deployments and the full support and engagement of our Sponsor and Board. The management team will strive to optimise fleet utilization, capture market opportunities and continue to explore alternatives towards the Trust's next chapter.

MARKET OVERVIEW

Shipping markets remained uncertain in 2019. According to International Monetary Fund (IMF), global growth in 2019 was the slowest since the financial crisis of 2008-09, with the world's GDP rising by approximately 2.2%. Economic slowdown, trade tensions, disputes across countries, sanctions and geopolitical risks had a mixed impact and increased volatility, especially in the tanker market.

Meanwhile, the industry's high tanker fleet growth in the first months of 2019, driven by increased deliveries and slower than expected demolitions, placed downward pressure on the overall performance during the first half of the year.

Freight rates rebounded in the second half of the year as many tankers were retrofitting scrubbers ahead of IMO 2020 and US sanctions imposed on COSCO's Dalian tanker entity weighed on tonnage availability. Given market conditions, the Trust strategically maintained part of the fleet in spot-trading pools and benefitted from such market upturn.

The Trust's newbuildings will be fitted with scrubbers, whilst all other fleet vessels opted to use compliant bunker fuels to meet the IMO regulations.

We will continue to focus on operating performance and proactively managing our vessel portfolio to maximize the Trust's returns. The fleet's fixed-rate charters provide the Trust with stable, revenue and cash flow, while flexibility to capture market upsides is retained with part of the vessels employed in spot trading pools. The Trust will also continue to explore further strategic options to maximize the returns from our current vessel assets and deployments.

FINANCIAL HIGHLIGHTS

During the financial year, driven by the improved spot market rates, the Trust's revenues increased by 9.0% to US$73.1m from US$67.0m in 2018, despite a smaller fleet.

Results from operating activities saw a significant improvement as lower impairment charges were required at US$5.0m, compared to US$20.6m in 2018. A net profit of US$10.1m was recorded in 2019, a turnaround from the net loss of US$19.0m in 2018.

The Trust's gearing ratio reduced further to 25.7% from 40.0% at the end of 2018. This was achieved from a combination of proceeds from vessel sales, the net proceeds from the Preferential Offering, the exercise of the bondholder's option to convert their bonds into units, and operating cash flows. As at 31 December 2019, bank debt stood at US$70.9 million and cash at US$42.4 million.

VESSEL EMPLOYMENT

During the financial year 2019, the Trust recorded 99.3% vessel utilization, which maximised income generation. Currently, ten vessels are leased to international shipping companies on bareboat charters, including the Speciality which was extended by James Fisher for one additional year up to 4Q2020.

The remaining eight vessels are employed on short to medium term time charters or in spot trading pools. We continue to work closely with our technical and commercial managers to strengthen the performance, utilisation and maintenance of our fleet.

Steel cutting for two Newbuilding LR2 product tankers commenced, with keel laying scheduled for March and April 2020. The vessels are due for delivery in Q4 2020 and Q1 2021 and will utilise the latest technology while being more environmentally friendly and efficient, making them more competitive and attractive for premium chartering rates and long-term leases.

Delays to the timetables for these vessels have recently been advised, due to the coronavirus outbreak. We are closely monitoring the situation and liaise with the shipyard in this respect on regular basis.

2020: THE YEAR AHEAD

The global economy outlook in 2020 continues to be fragile and uncertain. The escalating risks in financial markets have also further affected the already weak growth outlook, while the full economic impact of Covid-19 coronavirus is as yet unknown.

However, the Trust remains cautiously optimistic. Meanwhile, a record low order book in the industry, combined with ongoing scrapping, should keep vessel supply growth below earlier forecasted demand growth.

ACKNOWLEDGEMENTS

I would like to thank the FSL team and our Board of Directors for their strong and unstinting support in 2019, which helped us to continue to improve our balance sheet and to lay solid foundations for future growth.

Last but not least, we are grateful to our dedicated crews and managers who consistently provide high-quality operations on our vessels.

Roger Woods
Chief Executive Officer

First Ship Lease Trust

PERFORMANCE HIGHLIGHTS

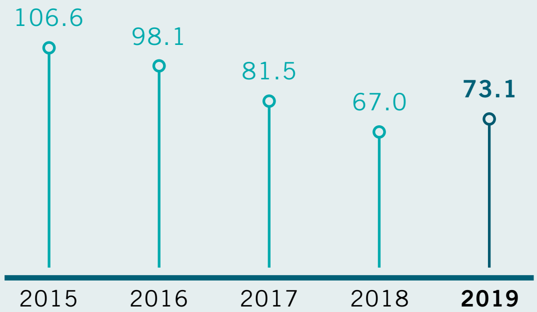
	FY 2019 US$'000	FY 2018 US$'000	FY 2017 US$'000	FY 2016 US$'000	FY 2015 US$'000
INCOME STATEMENT					
Revenue	**73,107**	67,046	81,499	98,144	106,583
Results from Operating Activities	**16,868**	(11,375)	(66,006)	(17,660)	23,348
Profit / (Loss) for the Year	**10,131**	(18,986)	(73,888)	(30,995)	14,147
Net Cash Generated from Operations[1]	**38,614**	**30,247**	**40,758**	**57,584**	**62,823**

FINANCIAL POSITION					
Total Assets	**275,196**	263,168	331,042	474,425	560,206
Total Liabilities	**72,315**	107,906	157,354	226,971	282,024
Shareholders' Equity	**202,881**	**155,262**	**173,688**	**247,454**	**278,182**

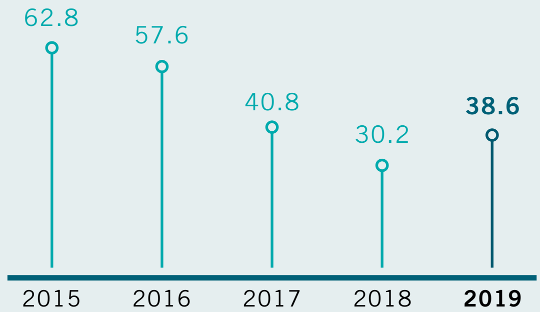
FINANCIAL RATIOS					
Earnings / (Loss) per unit (US cents/unit)[2]	**0.81**	(2.98)	(11.59)	(4.86)	2.19
Net Asset Value (US$/unit)	**0.11**	0.24	0.27	0.39	0.44
Gearing Ratio[3] (%)	**25.7**	40.0	46.6	47.3	49.4

1 Net cash generated from operations = Profit / (Loss) for the year + Non-cash adjustments (Refer to Note 18)
2 Based on weighted average number of issued units
3 Gearing ratio = outstanding debt including convertible bonds / (total Unitholders' funds + outstanding debt including convertible bonds)

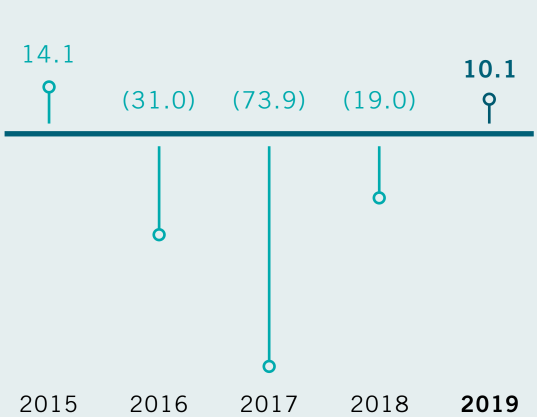
REVENUE
(US$million)



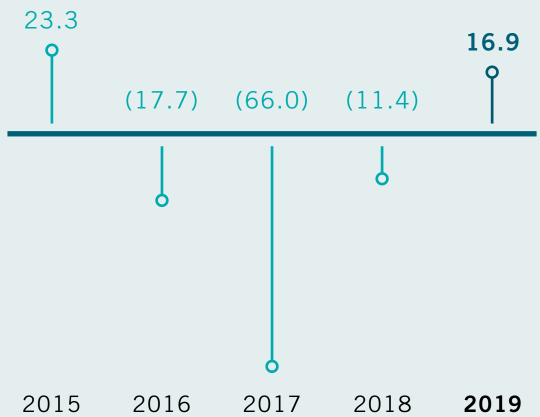
NET CASH GENERATED FROM OPERATIONS
(US$million)



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



RESULTS FROM OPERATING ACTIVITIES
(US$million)



BOARD OF DIRECTORS & EXECUTIVE OFFICERS

Stathis Topouzoglou
Age 63
Non-Independent,
Non-Executive Chairman

Date of appointment as a director
28 February 2018

Length of service as a director (as at 31 December 2019)
1 year 10 months

Shares in the Company or related corporations
Deemed interest in 73.09% of the Units in First Ship Lease Trust and 100% of the Shares in FSL Trust Management Pte. Ltd.

Committee Memberships
NIL

Academic & Professional Qualifications
- Bachelor of Business Administration and Economics from the University of Athens

Present Directorships (as at 31 December 2019)
- Prime Marine Management Inc.
- Dynamic Product Tankers LLC
- Prime Marine Corporation
- Energean Israel Limited
- Energean Oil & Gas PLC

Major Appointments (other than Directorships)
NIL

Background and Working Experience
- Over 37 years of experience in the shipping industry.
- Since 1978, Mr Topouzoglou has worked in the chartering and operations departments of various companies in Greece and the United Kingdom, during which time he obtained broad experience and built strong relationships within the shipping industry.
- CEO Prime Marine Management Inc., Prime Tanker Management Inc. and Prime Gas Management Inc., Greece (1999-Present)

Past Directorships over the last 3 years – 2017 to 2019 (excluding Subsidiaries and Associates of the Company)
- Energean E&P Holdings Limited
- Flagship Marine Ventures LLC
- Energean Oil & Gas Societe Anonyme

Awards
NIL

Michael Chalkias
Age 49
Non-Executive
and Non-Independent Director

Date of appointment as a director
9 March 2018

Length of service as a director (as at 31 December 2019)
1 year 10 months

Shares in the Company or related corporations
Deemed interest in 73.09% of the Units in First Ship Lease Trust and 100% of the Shares in FSL Trust Management Pte. Ltd

Committee Memberships
NIL

Academic & Professional Qualifications
- Master of Science with Distinction in Shipping, Trade & Finance from the Cass Business School, UK (fka City University Business School)
- Bachelor of Science with Honours in Maritime Business and Law from the University of Plymouth, UK

Present Directorships (as at 31 December 2019)
- Prime Marine Management Inc.
- Dynamic Product Tankers LLC
- Prime Marine Corporation
- Global Ship Lease Inc. (NYSE: GSL)

Major Appointments (other than Directorships)
NIL

Background and Working Experience
- 26 years of experience in the shipping industry, during which he has accumulated broad experience in all aspects of the business.
- Mr. Chalkias co-founded Prime Marine Management (1999 – present), a leading international product tanker and gas carrier management company, which has managed more than 75 vessels since its inception.
- Co-CEO Prime Marine Management Inc., Prime Tanker Management Inc. and Prime Gas Management Inc., Greece (1999 - Present)
- Prior to co-founding Prime Marine, he was employed by Tufton Oceanic Limited, a specialized shipping finance and investment firm in London, where he was involved with debt and equity instruments as well as structured financing (1995 – 1999)

Past Directorships over the last 3 years – 2017 to 2019 (excluding Subsidiaries and Associates of the Company)
- Prime Energy S.A.
- Prime Green S.A.
- Flagship Marine Ventures LLC

Awards
NIL

Michael Grenville Gray
Age 74
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 2019)
4 years 7 months

Shares in the Company or related corporations
4,000,000

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

Academic & Professional Qualifications
- Bachelor of Science in Maritime Studies, University of Plymouth, UK
- Master of Arts in South East Asian Studies, National 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 2019)

Listed Company
- Avi-Tech Electronics Limited
- GSH Corporation Ltd

Others - Non-listed (excluding Subsidiaries and Associates of the Company)
- UON Singapore Pte Ltd

Major Appointments (other than Directorships)
- PAVE (President)

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 – 2017 to 2019 (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
- Raffles Marina Holdings Ltd
- Vietnam Hospitality Ltd
- TGY Property Investments Pte Ltd
- Tras Street Property Investment Ltd

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

Michael John Oliver
Age 71
Non-Executive
and Independent Director

Date of appointment as a director
26 June 2013

Length of service as a director (as at 31 December 2019)
6 years 6 months

Shares in the Company or related corporations
NIL

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

Academic & Professional Qualifications
NIL

Present Directorships (as at 31 December 2019)
NIL

Major Appointments (other than Directorships)
NIL

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 – 2017 to 2019 (excluding Subsidiaries and Associates of the Company)
NIL

Awards
NIL

BOARD OF DIRECTORS

Narayanan Sreenivasan
Age 58
Non-Executive and Independent Director

Date of appointment as a director
20 September 2016

Length of service as a director (as at 31 December 2019)
3 years 3 months

Shares in the Company or related corporations
1,250,000

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 2019)

Listed Company
- Q & M Dental Group (Singapore) Limited

Others -non-listed (excluding Subsidiaries and Associates of the Company)
- K & L Gates Straits Law Practice LLC
- Singapore Business Federation Foundation Limited

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 / K&L Gates Straits Law LLC (2001 to present). Managing Director since 2003

Past Directorships over the last 3 years – 2017 to 2019 (excluding Subsidiaries and Associates of the Company)
- MUFG Fund Services (Singapore) Pte. Ltd
- Hydroinformatics Institute Pte. Ltd

Awards
- Pingat Bakti Masyarakat (2014)
- Public Service Medal (2014)

Costas Courcoubetis
Age 65
Non-Executive and Independent Director

Date of appointment as a director
6 November 2019

Length of service as a director (as at 31 December 2019)
2 months

Shares in the Company or related corporations
NIL

Committee Memberships
NIL

Academic & Professional Qualifications
- Doctor of Philosophy in Electrical Engineering and Computer Science, University of California, Berkeley
- Master of Science in Electrical Engineering and Computer Science, University of California, Berkeley
- Diploma in Electrical and Mechanical Engineering, National University of Athens, Greece

Present Directorships (as at 31 December 2019)
NIL

Major Appointments (other than Directorships)
NIL

Background and Working Experience
- Professor and Associate Head in the ESD Pillar of Singapore University of Technology and Design (2013 to Present)
- Professor in the Department of Informatics of Athens University of Economics and Business (1999 to 2015)
- Head of Telecommunications and Networks Department in The Institute of Computer Science (ICS) of the Foundation for Research and Technology (FORTH) and Professor in the University of Crete (1990 to 1999)
- Member of Technical Staff in AT&T Bell Laboratories (1981 to 1990)

Past Directorships over the last 3 years – 2017 to 2019 (excluding Subsidiaries and Associates of the Company)
NIL

Awards
NIL

MANAGEMENT TEAM

Roger Woods
Age 57
Chief Executive Officer

Date of appointment
3 May 2017

Length of service in the Trust (as at 31 December 2019)
6 years 3 months

Shares in the Company or related corporations
750,000

Roles and Responsibilities
- Joined the Trust as the Chief Operating Officer on 17 September 2013
- Promoted to Deputy Chief Executive Officer on 30 November 2016, appointed as Acting Chief Executive Officer on 2 February 2017 and confirmed as Chief Executive Officer on 3 May 2017
- 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 41 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 – 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
Age 62
Chief Financial Officer

Date of appointment
26 September 2016

Length of service in the Trust (as at 31 December 2019)
3 year 3 months

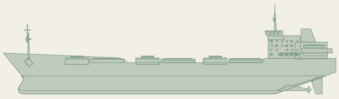
Shares in the Company or related corporations
NIL

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 32 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

VESSEL PORTFOLIO



CHEMICAL TANKERS

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

CONTAINERSHIPS

YM EMINENCE

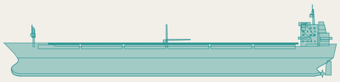
Year Built	2008
Builder	CSBC Corporation, Taiwan
Capacity	4,250 TEU
Flag	Liberia

YM ELIXIR

Year Built	2008
Builder	CSBC Corporation, Taiwan
Capacity	4,250 TEU
Flag	Liberia

YM ENHANCER

Year Built	2008
Builder	CSBC Corporation, Taiwan
Capacity	4,250 TEU
Flag	Liberia



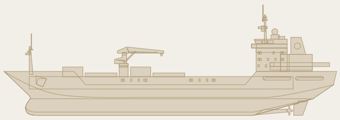
CRUDE OIL TANKERS

FSL HONG KONG

Year Built	2007
Builder	Samsung Heavy Industries, South Korea
Capacity	115,000 DWT
Flag	Singapore

FSL SHANGHAI[3]

Year Built	2007
Builder	Samsung Heavy Industries, South Korea
Capacity	115,000 DWT
Flag	Singapore



PRODUCT 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

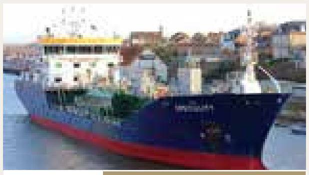
SHANNON FISHER

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[1]

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

FSL PIRAEUS[2]

Year Built	2006
Builder	Dalian Shipbuilding Industry Co. Ltd., PRC
Capacity	109,672 DWT
Flag	Singapore

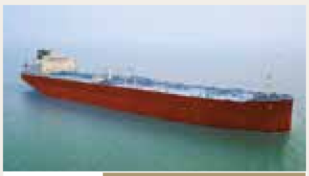
FSL PERTH[2]

Year Built	2006
Builder	Dalian Shipbuilding Industry Co. Ltd., PRC
Capacity	109,672 DWT
Flag	Singapore

HULL NO. 944

Year Built	Estimated 2020
Builder	COSCO Shipping Heavy Industry (Yangzhou) Co., Ltd., PRC
Capacity	114,000 DWT
Flag	Marshall Islands

HULL NO. 945



Year Built	Estimated 2021
Builder	COSCO Shipping Heavy Industry (Yangzhou) Co., Ltd., PRC
Capacity	114,000 DWT
Flag	Marshall Islands

1 Product Tanker, FSL Hamburg was disposed in April 2019.
2 Product Tankers, FSL Piraeus and FSL Perth were classified as held for sale as at 31 December 2019 and were disposed in January 2020.
3 Crude Oil Tanker, FSL Shanghai was classified as held for sale as at 24 February 2020.

FINANCIAL & OPERATIONAL REVIEW

REVENUE
US$73.1 million

NET CASH FLOW FROM OPERATIONS
US$38.6 million[1]

PROFIT FOR 2019
US$10.1 million

HIGHER REVENUE, A RETURN TO PROFIT AND INCREASED CASH GENERATION

For the financial year ended 31 December 2019 ("FY 2019"), the Trust recorded higher revenue of US$73.1m, a 9.0% increase from the previous financial year ("FY 2018").

The increase in revenue was mainly attributable to an improvement in the spot markets in the second half of 2019.

The Trust posted four quarters of positive cash generation over the course of the year, with net cash generated from operations at US$38.6m in FY 2019 (FY 2018: US$30.2m). The Trust recorded a net profit of US$10.1m in FY 2019 from a net loss of US$19.0m in FY 2018, which was mainly due to lower depreciation expenses as well as significant reductions in vessel impairments recognised during the year.

The Trust's impairment loss in FY 2019 was US$5.0m on two vessels, as compared to US$20.6m in the preceding year. Financing costs reduced by 16.4% to US$7.1m from US$8.5 million, a reflection of the efforts made to reduce the Trust's bank debt during FY 2019 and FY 2018.

Although the shipping market environment was challenging, the Trust successfully generated cash from operations and also raised funds from a preferential offering as well as from vessel sale proceeds.

1 Net cash generated from operations = Profit / (Loss) for the year + Non-cash adjustments

PROGRESS IN 2019

Disposal of FSL Hamburg

During the year under review, the Trust completed the sale of 2005 built *FSL Hamburg* in April 2019. Net proceeds from the sale were utilised for partial repayment of the Trust's outstanding bank debt, and the remainder of approximately US$6.5 million will be utilised for the instalment payments due in respect of the Newbuilding Acquisitions.

Newbuilding Update

During the year under review, the Trust made good progress in the building of two new Tier III LR2 product tankers fitted with the latest scrubber technology. Steel cutting of the two vessels commenced in September and November FY 2019 respectively. Deliveries are scheduled for late 2020/ early 2021, and will be funded from a combination of the proceeds of the preferential offering, vessel sale proceeds, and bank financing.

Speciality Option

The *Speciality* was deployed on a fixed-rate bareboat charter with James Fisher due to expire in 4Q 2019, but with an Option for FY 2020. During 3Q 2019 the Option was declared up to 4Q 2020.

2020 UPDATE

Disposal of FSL Piraeus and FSL Perth

In November 2019, the Trust entered into a sales agreement for *FSL Piraeus* and *FSL Perth*. The vessels are 2006 PRC-built 109,672 DWT product tankers and have been recently deployed under Pool Agreements. The disposal of both vessels was completed in January 2020.

As of 31 December 2019, the *FSL Piraeus* and *FSL Perth* are classified as 'held for sale' in accordance with International Financial Reporting Standards, and the Trust has booked an impairment charge of US$5.0m on these vessels.

Net proceeds of the sales will be utilised for partial repayment of the Trust's outstanding bank debt; an estimated US$14.8 million will be utilized towards the Newbuilding Acquisition and the remainder for general corporate purposes.

Upon the completion of the disposal of the two LR2 vessels, the outstanding debt was further reduced with a repayment of US$10.09m in the first quarter of 2020.

DISPOSAL OF FSL SHANGHAI

On 24 February 2020, the Trust executed a Memorandum of Agreement to sell the crude oil tanker, *FSL Shanghai*. Completion of the disposal is scheduled to take place before the end of March 2020. The net proceeds from the disposal will be utilised for partial repayment of the Trust's outstanding bank debt and the remaining funds will be kept for general corporate purposes

STABLE REMAINING CONTRACTED REVENUE

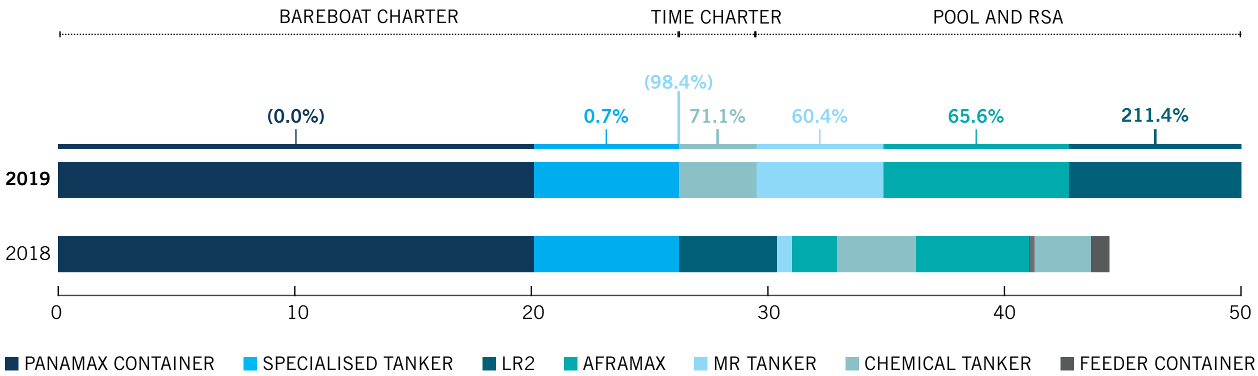
As illustrated in **Figure 1**, on a bareboat charter equivalent ("BBCE") basis, total BBCE revenue for FY 2019 increased by 14% year-on-year to US$49.8m.

Throughout FY 2019, the Trust managed to maximise its earnings by ensuring the employability of the fleet. Improvements in the Aframax tanker sector towards the end of the year and together with the 4Q boost to LR2 and MR2 Pool earnings helped lift 4Q 2019 results.

OPERATING EXPENSES AND OTHER INCOME

The Trust's vessel operating expenses increased by 11.0% in FY 2019 to US$21.6m from US$19.5m in 2018, mainly due to the two LR2 vessels moving from BBC terms into Pool agreements. Other Trust expenses decreased slightly by 5.1% to US$2.3m from US$2.4m in 2018.

Figure 1:
BBCE REVENUE



N.M. = NOT MEANINGFUL
% = Increase/(Decrease) for FY 2019 versus FY 2018 of BBCE revenues in each vessel category

FINANCIAL & OPERATIONAL REVIEW

Depreciation expense on vessels for the year decreased by 21.8% to US$24.8m. This is attributable to the lower depreciation expenses of US1.1m arising from the disposal of one product tanker in April 2019, as well as lower depreciation of US$5.5m due to lower depreciation arising from impairment on vessels taken last year.

An impairment charge of US$5.0m was recognized on two product tankers (*FSL Piraeus* and *FSL Perth*) held for sale in 4Q 2019.

The Trust reduced its finance expenses in FY 2019 by 16.4% to US$7.1m, mainly due to the Trust's lower outstanding indebtedness and bond interest, offset with higher amortisation of debt upfront fees. The Trust reduced its overall bank indebtedness during the year from operational cash flows, utilisation of cash from the Convertible Bond Issue and vessel disposals, by US$28.0m from US$98.9m to US$70.9m as at 31 December 2019.

OPERATIONAL PERFORMANCE

During the year, BBCE revenue increased by 14% year-on-year to US$49.8m. This was largely due to 4Q improvements in the rates earned by the Aframax and LR2 vessels, and to a lesser extent the improved performance of the MR2 vessels.

TIME CHARTER

Chemical Tankers

The Trust's two chemical tankers, *FSL New York* and *FSL London*, have been employed on time charters from 12 June 2018 and 19 June 2018 respectively after exiting the spot market. These vessels generated a BBCE revenue of US$ 3.3m in FY 2019 (FY 2018: US$1.9m).

POOL/REVENUE SHARING AGREEMENT ("RSA")

MR Product Tankers

FSL Osaka entered an MR pool managed by Hafnia Management ('Hafnia Pool') since November 2015. The vessel generated a net pool revenue of US$5.2m in FY 2019 (FY 2018: US$4.3m). After deducting vessel operating expenses, the vessel earned BBCE revenue of US$2.6m in FY 2019 (FY 2018: US$1.7m).

FSL Hamburg and *FSL Singapore* entered a MR pool managed by Hafnia Management ('Hafnia Pool') on 7 October 2017 and 23 April 2018 respectively. The vessels generated a net pool revenue of US$5.8m in FY 2019 (FY 2018: US$6.2m). After deducting vessel operating expenses, the vessel earned BBCE revenue of US$2.6m in FY 2019 (FY 2018: US$1.6m). *FSL Hamburg* was ultimately sold on 04 April 2019.

LR2 Product Tankers

The Trust's two LR2 vessels, *FSL Piraeus* and *FSL Perth*, entered the Sigma Pool managed by Heidmar Inc on 21 August 2018 and 25 August 2018 respectively. The vessels together generated net pool revenue of US$13.8m in FY 2019 (FY 2018: US$4.1m). After deducting vessel operating expenses, the vessels earned BBCE revenue of US$7.5m in FY 2019 (FY 2018: US$2.4m).

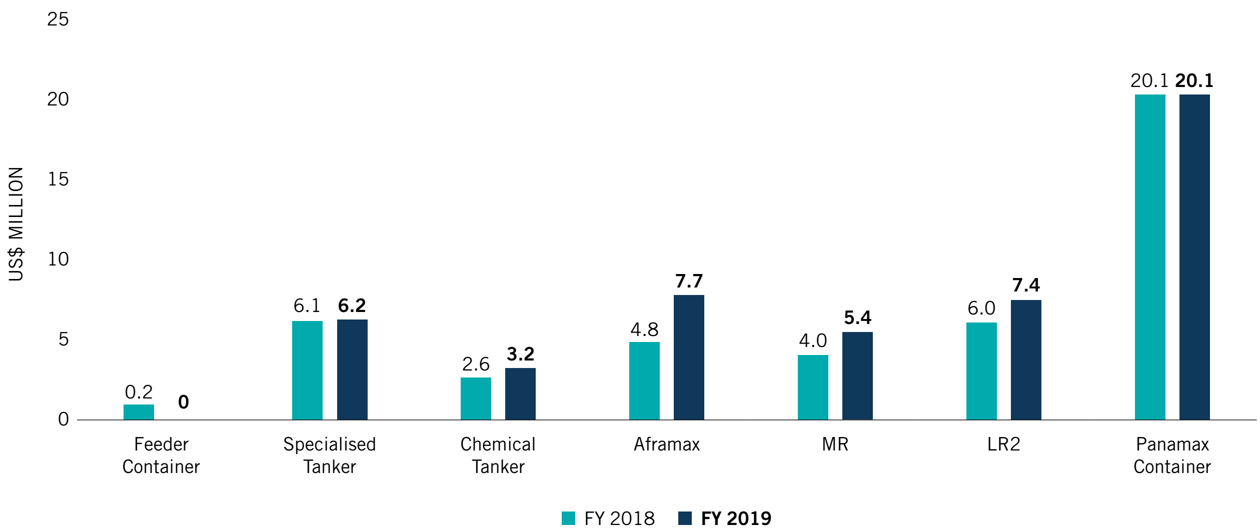
Aframax Crude Oil Tankers

FSL Hong Kong and *FSL Shanghai*, were employed on a RSA (Revenue Sharing Agreement) managed by Teekay from 14 April 2017 and 12 September 2017 respectively. These vessels together generated net pool revenue of US$13.3m in FY 2019 (FY 2018: US$9.9m). After deducting vessel operating expenses, the vessels earned BBCE revenue of US$7.9m in FY 2019 (FY 2018: US$4.8m).

PORTFOLIO ANALYSIS

As at 31 December 2019, FSL Trust had a high quality, well maintained and diversified portfolio of 20 vessels consisting of three containerships, thirteen product tankers (including two under construction), two chemical tankers and two crude oil tankers. Ten vessels in the Trust's fleet were employed on long-term bareboat charters as at 31 December 2019 and have a US Dollar-weighted average remaining lease period

Figure 2:
BREAKDOWN OF FY 2019 BBCE REVENUE BY VESSEL TYPE



of approximately one year (excluding extension periods and early buy-out options). These charters collectively remained the largest contributor to the Trust's BBCE revenue, contributing 52.6% of the total BBCE revenues.

Two vessels were on fixed time charters. The remaining six vessels were employed in pools. The combined portfolio of the 18 vessels (excluding the ones under construction) has a dollar-weighted average age of approximately 13 years. A breakdown of the Trust's FY 2019 bareboat charter/BBCE revenue by employment type is provided in **Figure 3**.

Furthermore, the Trust has two LR2 product tankers under construction at COSCO Shipping Heavy Industry (Yangzhou) Co., Ltd. These vessels are expected to be delivered in late 2020 and early 2021 respectively.

As at 31 December 2019, based on revenue from 10 bareboat charters and from 2 time charter contracts, the remaining contracted Bareboat Charter revenue of the leases was approximately US$26.0m (See **Figure 4**).

LOAN FACILITY AND LOAN COVENANTS

The Trust made several loan repayments and prepayments during the year which were drawn from ongoing operations, and the proceeds from the sale of *FSL Hamburg* in 1QFY19.

On 7 June 2019, the Trust raised net proceeds of US$31.0m from a Preferential Offering. This enabled the Trustee-Manager to fully repay the outstanding amount and accrued interest of the Bridging Loan granted by the Sponsor which was used towards the first yard installments for the newbuildings in anticipation of the completion of the preferential offering. During FY 2019, the Trust reduced its outstanding debt by US$28.0m. The aggregate outstanding balance of the loan facilities was reduced to US$70.9m by 31 December 2019.

Figure 3:
BREAKDOWN OF FY 2019 BBCE REVENUE BY EMPLOYMENT TYPE

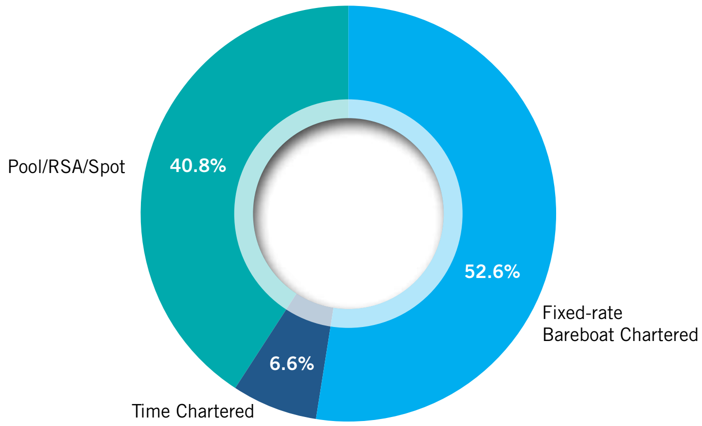
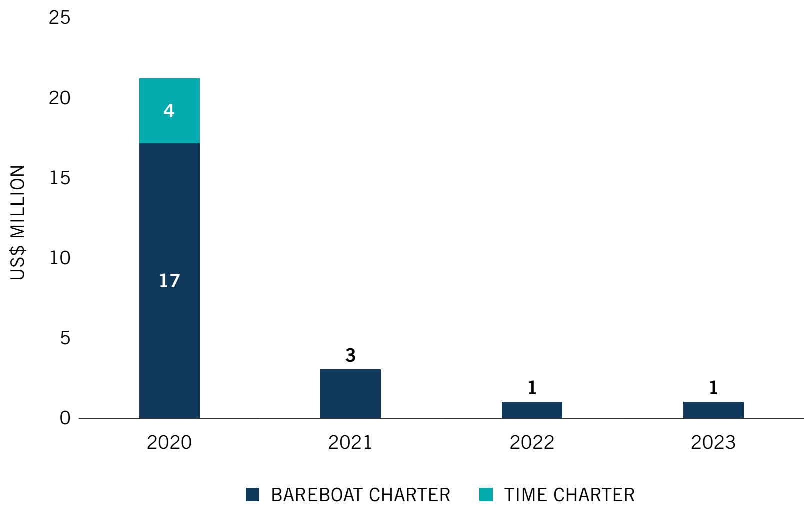


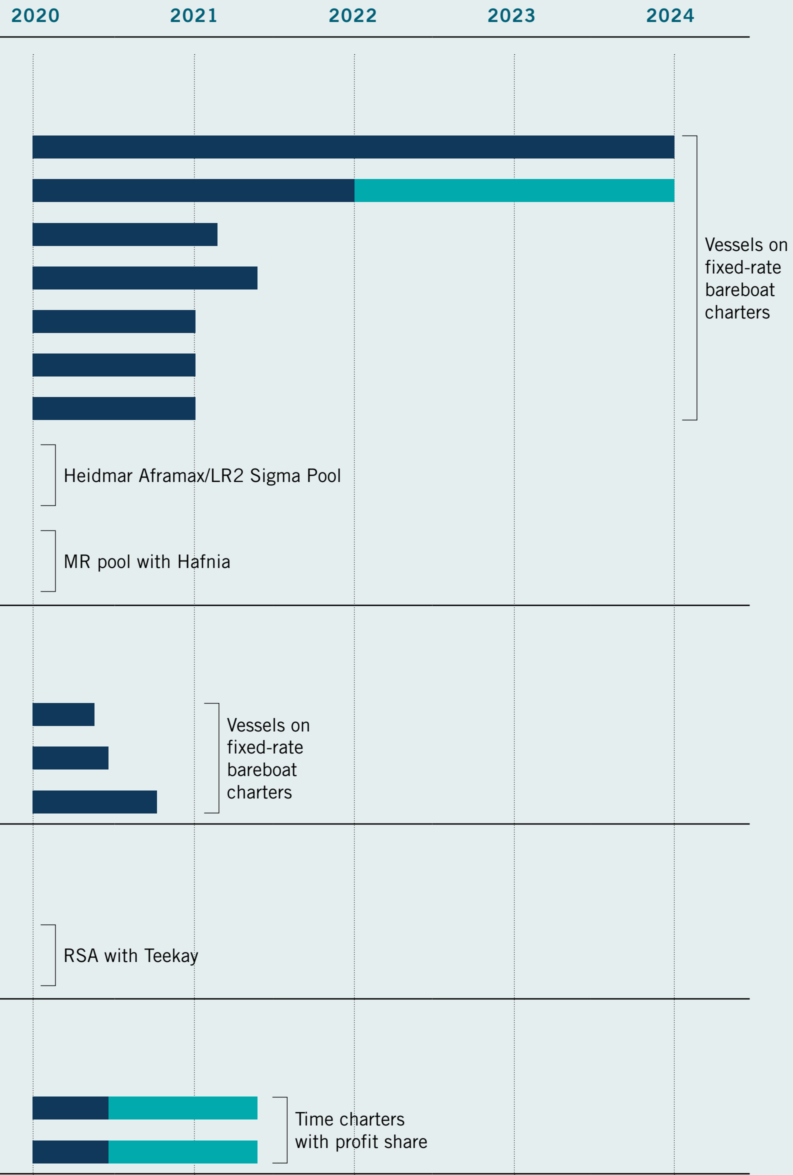
Figure 4:
REMAINING CONTRACTED REVENUE STOOD AT US$26M AS AT 31 DECEMBER 2019



The lease maturities of the vessels on long-term bareboat charters remain staggered through to 2024.

Figure 5:
Lease maturity of vessels (2020 to 2024) - dollar weighted average remaining lease term is one year as at 31 December 2019

VESSEL	YEAR BUILD	SIZE (DWT)
PRODUCT TANKERS		
Cumbrian Fisher	2004	12,921
Clyde Fisher	2005	12,984
Shannon Fisher	2006	5,421
Solway Fisher	2006	5,421
Speciality	2006	4,426
Seniority	2006	4,426
Superiority	2007	4,426
FSL Piraeus	2006	109,672
FSL Perth	2006	109,672
FSL Singapore	2006	47,470
FSL Osaka	2007	45,998
CONTAINERSHIPS		(size in Teu)
YM Eminence	2008	4,250
YM Elixir	2008	4,250
YM Enhancer	2008	4,250
CRUDE OIL TANKERS		
FSL Hong Kong	2007	115,000
FSL Shanghai	2007	115,000
CHEMICAL TANKERS		
FSL New York	2006	19,970
FSL London	2006	19,996



Base Potential extension

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 across 24 countries under four broad business divisions, namely, Marine Support, Specialist Technical, Offshore Oil and Tankships.

ALL OCEANS TRANSPORTATION INC
Yang Ming Marine Transport Corporation (Taiwan, Republic of China)

Yang Ming Marine Transport Corporation (Taiwan, Republic of China), listed on the Taiwan Stock Exchange (TWSE: 2609), was established in 1972 and continues to be significantly government owned. 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 the second largest container shipping company in Taiwan and among the top ten largest container liner operators in the world in terms of operating capacity. The company provides shipping services to more than 60 countries by operating a fleet of approximately 100 vessels with a total operating capacity of around 650,000 TEUs (twenty-foot equivalent units).

GOLDEN STENA BAYCREST TANKERS PTE. LTD.
Golden-Agri Stena Pte. Ltd. (Republic of Singapore)

Golden-Agri Stena (Republic of Singapore) was established in 2012 as a joint venture between Stena Bulk, Sweden, one of the world's leading tanker shipping companies, and Golden Agri-Resources, Indonesia, one of the world's largest palm oil producers. Today, Golden-Agri Stena has grown to become one of the largest intermediate-sized chemical tanker operators in Asia, with offices in Singapore and Dubai. As part of its efforts to expand their chemical tanker business, Golden-Agri Stena went on to start a joint venture company, Golden Stena Baycrest Tankers (GSB Tankers), in 2018 with Bay Crest Management, Singapore. GSB Tankers has been set up to undertake the operation and commercial management of chemical tankers. GSB Tankers commenced operations in 2019 out of the existing premises of Golden-Agri Stena. Apart from its headquarters in Singapore, GSB Tankers also has offices in Dubai and Japan.

CORPORATE GOVERNANCE REPORT

First Ship Lease Trust ("FSL Trust" or "the Trust") is a business trust constituted under the Business Trusts Act, Chapter 31A. FSL Trust Management Pte. Ltd. ("FSLTM" or "the Trustee-Manager") in its role as trustee-manager of FSL Trust, is responsible for managing the business of FSL Trust.

FSL Asset Management Pte. Ltd. ("FSLAM") was constituted in 2010 as the resource centre for the FSL group of companies. Pursuant to a management services agreement between FSLTM and FSLAM, FSLAM (also the sole shareholder of FSLTM) provides FSLTM with 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 FSLAM. This is determined according to a market-based benchmarked formula. FSL Trust has no employees and no executive directors.

FSLAM is owned by the Sponsor (FSL Holdings Pte. Ltd.). FSLAM is led by Roger Woods, who is also the Chief Executive Officer of the Trust. The sole shareholder of the Sponsor is Prime Shareholdings Inc., which is an affiliate of international ship-owning and management group, Prime Tanker Management Inc.

The Prime group was founded in 1999 and has since grown to become a leading international ship-owning and management group, headquartered in Athens with 150 shore-based employees. Prime, currently manages a significant operating and commercial platform, consisting of 32 double-hull product tankers, 3 Suezmax oil tankers and 7 LPG carriers with an aggregate tonnage of approximately 2.5 million dwt. They are global providers of seaborne transportation for refined petroleum products, light chemicals, naphtha, LPG and ammonia along global shipping routes.

FSL Trust also has no non-executive directors. The directors referred to in this Annual Report are directors of FSLTM, who are responsible for the management of FSL Trust by virtue of the trust deed entered into between FSLTM and FSL Trust.

FSL Trust is listed on the Main Board of the Singapore Exchange Securities Trading Limited (SGX-ST). It is principally regulated by:

(i) the Securities and Futures Act, Chapter 289 (SFA);
(ii) the Business Trusts Act, Chapter 31A (BTA);
(iii) the Listing Manual of SGX-ST (Listing Manual); and
(iv) the Trust Deed.

The setting of and maintaining high standards of corporate governance is a core value of FSLTM, and embraces the tenets of good governance, including accountability, transparency and sustainability as required by the Code of Corporate Governance 2018 ("the Code").

The Trustee-Manager believes that effective corporate governance is critical to its performance and success and has, in the last year enhanced its procedures to ensure that best practices have been implemented to safeguard the interest of the Unitholders, whilst taking account of the interests of other stakeholders.

This report sets out the corporate governance practices in place for financial year 2019 with reference to the Code and Business Trusts Regulations 2005. Where there are significant deviations from the Code, appropriate explanations on a comply-or-explain basis are provided in this report.

THE MANAGER OF FSL TRUST

The Trustee-Manager was appointed in accordance with the terms of the trust deed constituting FSL Trust dated 19 March 2007 as amended and supplemented from time to time, (the Trust Deed).

Pursuant to the Trust Deed, the Manager's main responsibility is, on behalf of FSL Trust, the acquisition, disposition, management, operation, finance leasing, leasing and chartering of vessels and all activities, concerns, functions and matters reasonably for the benefit of Unitholders.

The Trustee-Manager is required, pursuant to the BTA, to:

(a) act in the best interests of all the Unitholders of the Trust as a whole; and
(b) give priority to the interests of all the Unitholders of FSL Trust as a whole over FSLTM's own interests in the event of a conflict between the interests of all the Unitholders of FSL Trust as a whole and FSLTM's own interests.

The Trustee-Manager has the appropriate people, processes and structure so as to direct and manage the business and affairs of the Trust. All the directors of the Trustee-Manager are competent and experienced individuals who have considerable experience in the shipping industry and/or other relevant fields of business.

The Trustee-Manager sets the strategic business direction and investment policies and approach to governance of FSL Trust. The Trustee-Manager aims to optimise the returns from the vessel portfolio by ensuring that the vessels are well run, managing the various risks and opportunities of the Trust, including the sale and purchase of vessels and improving cash flow generation for Unitholders of the Trust.

Other key functions and responsibilities of the Trustee-Manager include:

(i) conducting all transactions on behalf of the Trust at arm's length, using best endeavours;
(ii) developing and implementing the Trust's business plan and budget;
(iii) ensuring compliance with all applicable prevailing laws and regulations, as well as the Trustee-Manager's obligations under the Trust Deed;
(iv) obtaining finance for the Trust's assets and operations as required and ensuring that all terms of any loan covenants are complied with;
(v) maintaining a framework of prudent and effective controls which enables financial, operational and compliance risks to be assessed and managed; and
(vi) managing regular communications with Unitholders and any necessary announcements in accordance with the Listing Manual.

The remuneration of the Trustee-Manager is as follows:

1. Management Fee of 4.0% of the lease income;
2. Trustee Fee at 0.02% per annum of the value of the Trust property;
3. Acquisition Fee at the rate of 1.0% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the acquisition of any investments acquired directly or indirectly in the Trust Property;
4. Divestment Fee at the rate of 0.5% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the disposal proceeds, excluding proceeds from exercise of original purchase or early buy out options, of any investments in the Trust Property sold or divested directly or indirectly by the Trust;
5. Incentive fee calculated on a quarterly basis on the excess of the Net Distributable Amount (*"DAU") over the benchmark DAU; and
6. Out of pocket expenses.

In consideration of the above, the Trustee-Manager shall not impose any charge or fee for its services or for its normal expenses with the exception of charges and fees authorised by the Trust Deed.

The fees payable by the Trust are detailed in note 1 to the financial statements of this annual report. The fees paid to FSLTM in financial year 2019 are set out in note 21 to the financial statements.

The Trust Deed outlines the circumstances where the Trustee-Manager can be appointed, removed or resigns. Removal, includes the proposal and passing of a resolution by, in aggregate not less than three-fourths of the voting rights of all Unitholders of the Trust, cast at a meeting of Unitholders duly convened in accordance with the provisions of the Trust Deed.

CODE OF CORPORATE GOVERNANCE 2018

This report describes the Trust's corporate governance processes and activities with specific reference to each of the principles set out in the Code. The Trust has materially complied with all principles and provisions set out in the Code and as far as practicable also the Practice Guidelines. In areas where the Trust deviates from the Code, the rationale has been provided, where appropriate.

CORPORATE GOVERNANCE REPORT

BOARD MATTERS

THE BOARD'S CONDUCT OF AFFAIRS

Provision

Principle 1 – FSLTM is headed by an effective Board which is collectively responsible and works with Management for the long-term success of FSL Trust.

Board's Role 1.1

The Board's role is to:

- provide entrepreneurial leadership, and set strategic objectives, which should include appropriate focus on value creation, innovation and sustainability;
- ensure that the necessary resources are in place for the company to meet its strategic objectives;
- establish and maintain a sound risk management framework to effectively monitor and manage risks, and to achieve an appropriate balance between risks and company performance;
- constructively challenge Management and review its performance;
- instil an ethical corporate culture and ensure that the company's values, standards, policies and practices are consistent with the culture; and
- ensure transparency and accountability to key stakeholder groups.

Fiduciary Duties of Board Members

The Board members are aware of their fiduciary duties and that they must act objectively in the best interests of the Trust. To this end, the Board has guided the corporate strategy and directions of management, reviewed the budget and all business plans, approved any investments, divestments and borrowings, monitored the financial and non-financial performance of FSL Trust, putting in place all relevant internal controls and risk management processes, approved all public announcements, the quarterly and full year announcements and financial statements, identified key stakeholder groups and overseen the management of FSL Trust. The Board is fully aware that it is accountable to the Unitholders of FSL Trust for the long-term performance and financial stability of FSL Trust.

Board Organisation and Support

The Board is committed to conducting its business activities in a legal and ethical manner. Continued business success for FSL Trust and FSLTM is based on honesty, integrity and ethical conduct.

The Board has issued a written Code of Conduct outlining FSLTM's expectations and guidelines in the conduct of its business. It applies to all employees, officers, and directors. Also, the business partners and service providers are expected to conduct their business activities with FSLTM in accordance with applicable laws, rules and regulations and this Code of Conduct. Violations may result in disciplinary action up to and including termination in the case of a director, officer or employee.

The Code of conduct also defines and sets out the procedures for conflicts of interest covering both the staff and the directors.

Directors facing conflicts of interest recuse themselves from discussions and decisions involving issues of conflict.

Scope of Director Duties - Executive Directors, Non-executive Directors, Independent Directors 1.2

All the directors are non-executive directors. This enables management to benefit from their external, diverse and objective perspective on issues that are brought before the Board. It also enables the Board to interact and work with management through an open exchange of ideas and views to help shape the strategic process. As all board members are non-executive directors, the Board is able to constructively challenge Management and help to develop strategies. With a majority of directors being independent, this strengthens the corporate governance of the Trust.

Induction for New Directors

The Board ensures that all incoming directors will receive comprehensive and tailored induction. This includes briefings by existing directors on issues relevant to the Board and Board Committees. They are also briefed by Senior Management on the Group's business activities, strategic direction and policies, key business risks, the regulatory environment in which the Group operates and governance practices, as well as their statutory and other duties and responsibilities as Directors.

They will also receive a Corporate manual including such areas as; corporate governance, vessel leaseback and purchase, financial risk management, financial reports, cash management, procurement, human resources, code of conduct and staff resources.

All new first-time directors, who have no prior experience as a director in a listed entity on the Singapore Exchange Securities Trading Limited ("SGX-ST"), must undergo training in the roles and responsibilities of a director of a listed issuer, as prescribed by the SGX-ST. If the NC is of the view that training is not required because the director has other relevant experience, the basis for this assessment must be disclosed.

During the year, Mr Costas Courcoubetis, as part of his induction as a new director with no prior experience in a listed entity, attended the "Listed Entity Director Programme" conducted by the Singapore Institute of Directors.

Training

The Board considers it important that directors understand the shipping business as well as their duties as a director. To this end, training is made available by the Trust to help directors to develop and maintain their skills. All Directors receive daily updates on the Shipping industry extracted from worldwide sources from the Business and Shipping press.

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.

All Board members are encouraged to receive regular training programmes, particularly on relevant new laws, regulations and changing commercial risks, from time to time. The Board is mindful of the best practice in the Code, to initiate programmes for Directors to meet their relevant training needs. In this regard, the Company is supportive of Board members in the participation of industry conferences and seminars and, will fund Directors' attendance at any course or training programme in connection with their duties as directors.

In the financial year under review, the Directors attended several training programmes and seminars as follows:

- Mr Michael Gray attended several seminars organised by the SID, "Elevating the AC Role with Analytics and AC Commentary" on 7 March 2019, "Managing Tax Disputes and Controversy" on 6 September 2019, "Annual Corporate Governance Round up" on 19 November 2019. He also attended the "Global Corporate Governance Conference" organised by SIAS on 23 September 2019, "Singapore Board of Directors Survey" organised by SID/SGX on 7 November 2019 and "ACRA-SGX-SID Audit Committee Seminar 2019" jointly organised by the SID, SGX-ST and the Accounting and Corporate Regulatory Authority ("**ACRA**") on 16 January 2019; and
- Mr Costas Courcoubetis attended several seminars organized by the SID in October and November 2019, "Listed Entity Director Essentials", "Board Dynamics", "Board Performance", "Stakeholder Engagement", "Audit Committee Essentials", "Board Risk Committee Essentials", "Nominating Committee Essentials", "Remunerations Committee Essentials", and "Director Financial Reporting Fundamentals".

Reserved Matters 1.3

The Board has adopted internal guidelines setting forth the matters which are specifically reserved to the Board for approval, including the following:

- material acquisitions and disposal of vessels and other capital expenditure;
- vessel leases and extensions;
- corporate or financial restructuring;
- loans and credit facilities;
- issue of units, distributions and other capital transactions and returns to Unitholders;
- approval of annual audited financial statements for the Group and the Directors' Statement thereto;
- SGX Submissions and any public reports or press releases reporting the results of operations;
- matters involving a conflict or potential conflict of interest involving a substantial shareholder/Unitholder or a director; and
- Policies and Procedures.

Clear directions have also been given to management that such matters must be approved by the Board.

Board Committees 1.4

In accordance with the Code, the Board has, without abdicating its responsibility, established Board committees to assist the Board in discharging its responsibilities and to enhance the Group's corporate governance framework. The Board committees comprise the Audit and Risk Committee ("**ARC**"), the Nominating Committee ("**NC**") and the Remuneration Committee ("**RC**"), which have been delegated with specific authority.

Each Board committee has written terms of reference which clearly set out the authority and duties of the committees, and functions within its own defined terms of reference and procedures. All committees are chaired by an Independent Non-Executive Director. All Board members objectively, make decisions in the interests of the Trust. The composition and description of each Board committee is set out in this report.

The Management of FSLAM provides reports to the Board and the Board Committees.

Board Meeting Dates 1.5

The Board meets at least once every quarter to coincide with the announcement of the Group's quarterly, half-year and full-year results and to update the Board on significant business activities and overall business environment and as often as warranted by particular circumstances. Meetings are also held via teleconference for matters requiring urgent attention. Board meetings are also supplemented by resolutions circulated to directors for decisions.

Meetings of Non-Executive Directors

The Non-Executive Directors also communicate amongst themselves, and with the Trust's auditors and legal advisors, without the presence of the Executive Director(s) and management.

Meeting Attendance

The attendance of the directors at the Board and Audit and Risk, Nominating and Remuneration Committees meetings for 2019, is set out below: -

	Board	Audit and Risk Committee	Nominating Committee	Remuneration Committee
Directors	Attendance / No. of meetings held	Attendance / No. of meetings held	Attendance / No. of meetings held	Attendance / No. of meetings held
Stathis Topouzoglou	6/6	N.A.	N.A.	N.A.
Michael Chalkias	6/6	N.A.	N.A.	N.A.
Michael Gray	6/6	4/4	2/2	2/2
Michael Oliver	6/6	4/4	2/2	2/2
N. Sreenivasan	6/6	4/4	2/2	2/2
Costas Courcoubetis(1)	1/1	N.A.	N.A.	N.A.

(1) Costas Courcoubetis joined the Board on 6 November 2019.
N.A. – Not applicable.
The Audit and Risk Committee also functions as the Whistle-Blowing Committee.

Mr Stathis Topouzoglou and Mr Michael Chalkias as non-executive directors attend the meetings of the ARC, the NC and the RC by invitation. Mr Roger Woods and Mr Alan Christopher Mitchell attend the meetings of the Board and ARC by invitation.

Directors Provided Relevant Information 1.6

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 SGX-ST.

Independent Access to Management 1.7

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 fulfil their duties properly, and such expenses will be paid by FSLTM.

Company Secretary

Pursuant to Section 7 BTA, the Company Secretary is a person who:

(a) for at least 3 years in the period of 5 years immediately preceding appointment as secretary, held the office of secretary of a company or trustee-manager of a registered business trust;
(b) is a qualified person under the Legal Profession Act (Cap. 161), a public accountant, a member of the Singapore Association of the Institute of Chartered Secretaries and Administrators or a member of such other professional association as may be prescribed; or
(c) is, by virtue of such academic or professional qualifications as may be prescribed, capable of discharging the functions of secretary of the trustee-manager.

The Company Secretary has the required experience and qualifications to hold the position of company secretary to the Trust.

The Company Secretary attends all formal Board and Board Committee meetings. The Company Secretary is responsible for ensuring that procedures are followed and that FSLTM 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.

BOARD COMPOSITION AND GUIDANCE Provision

Principle 2 - The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

Director Independence 2.1

An "independent director" is one who is independent in conduct, character and judgement, and has no relationship with the Trust, its related corporations, its substantial Unitholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent role and responsibilities in the best interests of the Trust.

A director to be Independent must be:

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

The independence of any director who has served on the Board beyond nine years from the date of his first appointment should be subject to particularly rigorous review. In doing so, the Board should also take into account the refreshing of the Board. The Board should also explain why any such director should be considered independent.

There is no board tenure and no requirement for regular re-appointments of directors as the directors are appointed by the Trustee-Manager and not the Trust, which is the listed entity. The Trust has nevertheless regularly refreshed the Board and has no independent directors that have served beyond nine years.

Proportion of Non-executive Directors 2.2/2.3

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

- the majority of Board members should be Non-Executive, Independent Directors;
- the Chairman of the Board should be a Non-Executive Director;
- the Board should comprise directors with a wide range of commercial and management experience; and
- at least a majority of the directors should be independent from management and business relationships with FSLTM and from every substantial shareholder of FSLTM.

CORPORATE GOVERNANCE REPORT

Non-executive independent directors make up a majority of the board.

Independent directors should make up a majority of the Board where the Chairman is not independent. The Chairman of FSLT is not independent. Currently, the Board comprises six directors, four of whom are independent and non-executive, resulting in independent directors making up a majority of the board.

Directors	Board Membership	Date of First Appointment as a Director	Audit and Risk Committee	Nominating Committee	Remuneration Committee
Stathis Topouzoglou	Chairman and non-independent/ non-executive director	28 February 2018			
Michael Chalkias	Non-independent/ non-executive director	9 March 2018			
Michael Gray	Independent Director	11 May 2015	member	member	member
Michael Oliver	Independent Director	26 June 2013	member	member	member
N. Sreenivasan	Independent Director	20 September 2016	member	member	member
Costas Courcoubetis	Independent Director	6 November 2019			

The Board members are not appointed by Unitholders of the Trust but by the Trustee-Manager, FSLTM and are not subject to retirement by rotation.

Director Competencies 2.4

The directors come from diverse backgrounds with expertise in the shipping industry, accounting and finance, banking, legal, business, academic and management fields and are able to apply their experience to further the interests of FSL Trust. Profiles of the directors can be found on page 10 of this annual report.

The Board has the appropriate balance of independent directors. The four 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 and Board Committees is reviewed periodically to ensure that the Board and the Committees comprise an appropriate mix of expertise and experience to best serve the interests of FSL Trust and all its Unitholders. To reinforce board competencies, and to strengthen corporate governance and sustainability efforts, Costas Courcoubetis, who has extensive research activity, as a member of various international research organizations and academic institutions, joined the Board in November 2019.

The directors are expected to diligently discharge their duties and responsibilities, always acting in the best interests of FSL Trust and Unitholders. Updates on business and operations are provided and discussed at board meetings.

Balance and Diversity of the Board

Core Competencies	number	%age
Accounting or finance related	2	33%
Management experience in the Shipping Industry	2	33%
Legal or corporate governance	1	17%
Strategic planning experience	1	17%
Total	**6**	

Gender Diversity		
Male	6	100%
Female	0	
Total	**6**	

Board Diversity Policy

The Board recognises the benefits of a diverse Board of Directors, as being an important element which will better support the Trustee-Manager's achievement of the Trust's strategic objectives for sustainable growth, by enhancing the decision-making process of the Board, through the perspectives derived from the various skills, business experience, industry discipline, gender, age, ethnicity and culture, geographical background and nationalities, tenure of service and other distinguishing qualities of the Directors.

In recommending or endorsing the appointment of new Directors, the NC takes into consideration the current Board size and composition, including the diversity of skills, experience and knowledge which, the new Director can provide to the Trust. The NC will also meet with the candidates to understand and assess how they can contribute effectively and commit their time to the Trustee-Manager and the Trust.

The Board is of the view that gender is an important aspect of diversity. The Board will strive to include female candidates in searching for board members. There are currently no females serving on the Board. FSLTM has set it as a short-term priority for the appointment of a female person to the Board.

Discussions of Independent Directors 2.5

The Independent Directors have held a number of discussions separately without the presence of the Management and feedback is given to the Board and/or Chairman as appropriate. These discussions are conducted by both physical meetings and by electronic methods.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER Provision

Principle 3 - There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

The Chairman and the Chief Executive Officer 3.1

Stathis Topouzoglou is the Chairman of the Board and Roger Woods is the Chief Executive Officer ("CEO"). The Chairman and CEO are not related to one another. The Chairman and the CEO have separate and distinct roles, resulting in an effective balance of power and authority. At general meetings, the Chairman facilitates constructive dialogue and ensures effective communication between the Board, Management and Unitholders. 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 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.

Division of Responsibilities Between the Chairman and the CEO 3.2

FSL Trust's "Policies and Procedures Manual" sets out in writing, the division of responsibilities between the Chairman and the CEO.

The role of the Chairman of the Board includes:

- leading the Board to ensure its effectiveness on all aspects of its role and setting its agenda;
- ensuring that the directors receive accurate, timely, and clear information;
- ensuring effective communication with Unitholders;
- encouraging constructive relations between the Board and Management;
- facilitating the effective contribution of non-executive directors in particular;
- encouraging constructive relations between executive directors and non-executive directors; and
- promoting high standards of corporate governance.

The role of the Chief Executive Officer includes:

- having full executive responsibility over the business direction; and
- make the operational decisions in the day-to-day operations and management of FSLTM, as Trustee-Manager.

Role of the Lead Independent Director 3.3

The lead independent director is to provide leadership in situations where the Chairman is conflicted, and especially when the Chairman is not independent. The Chairman of FSLTM is considered not independent.

Michael Gray is the Lead Independent Director. As a Lead Independent Director, Michael Gray 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 have held informal meetings as and when required, without the presence of management and the Non-Independent Directors.

In the absence of the Chairman or if there is a conflict of interest, the Lead Independent Director, assumes the role of Chairman.

He is also available and has attended to Unitholders' queries and issues raised to SGX-ST by Unitholders.

BOARD MEMBERSHIP Provision

Principle 4 - The Board has a formal and transparent process for the appointment and reappointment of directors, taking into account the need for progressive renewal of the Board.

The Terms of Reference of the Nominating Committee 4.1

The scope and responsibilities of the Nominating Committee ("NC") include:

- identifying, reviewing and recommending candidates for nomination for appointment as directors of FSLTM and/or key management personnel of FSLAM and the members of various committees;
- reviewing the Board structure, size and composition and making recommendations to the Board with regard to any adjustments that are deemed necessary;
- reviewing the strength and assessing the effectiveness of the Board as a whole;
- determining on an annual basis the independent status of the directors;
- 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;
- overseeing the management, development and succession planning of FSLTM; and
- identifying training and professional development programs for directors.

The NC takes into consideration the Board's size, experience and overall competency and expertise to determine, if the Board is effective.

The Independent Directors 4.2

The Nominating Committee ("NC") of FSLTM comprises three Independent Directors, namely:

- Michael Oliver (Chairman);
- Michael Gray; and
- N. Sreenivasan.

The Lead Independent Director is a member of the NC.

Selection, Appointment and Re-appointment Process 4.3

From time to time, new directors may be identified by the NC for appointment if necessary, to replace existing Board members that are retiring or have retired or add to areas of experience and competency that are lacking on the Board.

The Board uses various channels to source for appropriate candidates:

- recommendations from current directors as to contacts that they may have or suitable persons that they may be aware of;
- other sources in the market such as lawyers, accountants, bankers etc;
- executive recruitment agencies, where necessary; and
- the Sponsor (FSL Holdings Pte Ltd) due to its extensive worldwide contacts in the shipping industry.

In the selection and nomination of new Directors, the NC identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Trust.

The criteria used to identify and evaluate potential new directors include:

- the necessary skill sets for a director and to fill the various roles on the Board. Depending on the role, experience would include accounting, legal, finance, corporate planning etc;
- experience in the Shipping Industry;
- ability to work constructively with the existing board without causing unnecessary conflict;
- willing to speak up at meetings and constructively challenge management;
- preference for a candidate with prior experience in a listed entity and if not, be prepared to attend the relevant training courses; and
- to have enough time to attend all meetings, formal and informal and to prepare for such meetings.

The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the NC to assess them before a decision is made.

The NC will also consult the Sponsor as to its view on the candidate as the directors are not appointed by the Trust but by FSLTM, which is a company 100% ultimately controlled by the Sponsor.

All directors receive a written letter of appointment setting out the terms of appointment that have to be accepted by the director. The appointment letter includes: the term and termination provisions, amount and payment of director's fees, board meetings and board committees, duties, confidentially and agreement to the disclosure of personal particulars.

New Director

Costas Courcoubetis was proposed to be appointed as an Independent Director on the Board of FSLTM during the last financial year. In determining the suitability of the proposed candidate, the NC reviewed his background, qualification and experience and recommended him to be appointed to the Board. The Board appointed Costas Courcoubetis as an Independent Director on 6 November 2019.

As Costas Courcoubetis has no prior experience as a director of a listed company, he attended the following courses conducted by SID, prior to his appointment as an Independent Director - Director Financial Reporting Fundamentals, Board Dynamics, Board Performance, Stakeholder Engagement, Audit Committee Essentials, Board Risk Committee Essentials, Nominating Committee Essentials, Remuneration Committee Essentials and Listing Entity Director Essentials.

He also received comprehensive induction training and orientation by Management on the business, governance and regulatory affairs of the Trust and its strategic decisions. Costas Courcoubetis received a formal letter of appointment, setting out his duties and obligations as a director of FSLTM.

Confirmation of Independence 4.4

The Directors have disclosed in writing any relationships with the Trust, its related corporations, its substantial shareholders or its officers, if any, which may affect their independence.

Having regard to the circumstances set out in Provision 2.1 above and in accordance with Rule 12(8) of the Business Trust Regulations 2005, the Board of Directors of FSLTM as Trustee-Manager of FSL Trust, has determined that the following Directors are independent from Management and business relationships with the Trustee-Manager, and independent from every substantial shareholder of the Trustee-Manager:

- Michael Gray;
- N. Sreenivasan;
- Costas Courcoubetis; and
- Michael Oliver.

Appointment of Alternate Directors

There are no alternate directors on the Board.

The NC interviews all potential directors and ensures that new directors are aware of their duties and obligations. 4.5

The NC also decides if a director is able to and has been adequately carrying out his duties as a director.

The NC determines annually, whether each Director with multiple board representations or other principal commitments outside of the Group, is able to and has been adequately carrying out his duties as a Director of the Trust. The NC takes into account the attendance and contributions of the Directors at Board or Board committee meetings, level of commitment required of the Director's other principal commitments, degree of complexity of the other listed companies where the Director holds directorships, expectations of the Director's obligations in the capacity as director in other organisations, results of the assessment of the effectiveness of the Board as a whole and Board committees, and the respective Directors' actual conduct and participation on the Board and its Board committee, in making the determination.

In respect of the financial year under review, the NC was of the view that each Director has given sufficient time and attention to the affairs of the Trust and has been able to discharge his duties as director, effectively. The NC noted that based on the attendance at Board and Board committee meetings during the financial year under review, all the Directors were able to participate in at least a substantial number of such meetings to carry out their duties. The NC is satisfied that all the Directors have been able to and had adequately carried out their duties notwithstanding, their multiple board representations where applicable and other principal commitments.

Nonetheless, to ensure that the Directors continue to give sufficient time and attention to the affairs of the Company, the Board has, subject to annual review, determined that the maximum number of listed company board representations which any Director may hold is five (5).

FSL Trust discloses in its annual report the listed company directorships and principal commitments of each Director.

BOARD PERFORMANCE

Provision

Principle 5 - The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

Board Evaluation Process

5.1

The NC has implemented a formal Board evaluation process to be carried out annually to assess the effectiveness of the Board as a whole and its Board committees, namely, the ARC, NC and RC. For the financial year under review, an evaluation of the performance of the Board and its Board committees was conducted. The objective of the evaluation process is to assess and identify areas for continuous improvement to the Board's overall effectiveness.

The assessment of the Board as a whole and the committees, is conducted by way of a Board evaluation questionnaire to be completed by the Directors, covering the following areas:

- Board Composition;
- Board Information;
- Board Process, Internal Controls and Risk Management;
- Board Accountability including the various committees; and
- Standards of Conduct.

Directors are not required to complete appraisal forms to assess the contributions made by each of the other Directors towards the effectiveness of the Board. This process is conducted by the Chairman in discussion with the various directors. The assessment parameters for each Director include, attendance records at the meetings of the Board and the Board committees and quality of participation at meetings as well as special contributions.

Each member of the Board shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the NC and Board, in respect of the assessment of his performance.

Board Assessment

5.2

The consolidated results of the Board Assessment questionnaire were reported to the Board and the various issues were discussed. Particularly, where there were low ratings and also where specific recommendations were made by any Board Member. The Board adopted the recommendations and in areas of low ratings, is proposing further improvements to help the Board to discharge its duties more effectively.

The Chairman will act on the results of his evaluation and, in consultation with the NC and if necessary, propose new members to be appointed to the Board or seek the resignation of directors.

No external facilitator has been used for the evaluation.

The NC, having reviewed the performance of the Board in terms of its roles and responsibilities and the conduct of its affairs as a whole, is of the view that the Board and the Board committees have operated efficiently, the Board has met its performance objectives and each Director has contributed to the overall effectiveness of the Board in the financial year under review.

REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Provision

Principle 6 - The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.

Terms of Reference of the Remuneration Committee 6.1

According to its Terms of Reference, the RC's responsibilities include:

- reviewing and recommending a framework of remuneration policies for the Board and key management personnel;
- recommending specific remuneration packages for each director as well as for key management personnel;
- overseeing major changes in employee benefits and remuneration structure;
- setting performance measures and determine targets for any performance related pay schemes; and
- reviewing and recommending to the Board, the remuneration packages and terms of employment of the CEO and senior executives.

Whilst the RC is composed of Directors of FSLTM, it does assist and advise FSLAM in respect of remuneration matters in connection with staff seconded to FSLTM.

During the financial year under review, the RC reviewed and made recommendations in relation to the general remuneration framework for the Board as well as regarding the specific remuneration packages of the Directors and key management personnel and submitted them for endorsement by the entire Board. As the key management personnel are not employed by the Trust but by FSLAM, the Board submitted its recommendations to the Board of FSLAM.

Each member of the RC abstained from voting and discussing on any resolutions in respect of his own remuneration package.

Members of the Remuneration Committee 6.2

The Remuneration Committee ("RC") of FSLTM comprises three directors, namely:

- Michael Oliver (Chairman);
- Michael Gray; and
- N. Sreenivasan.

all of whom are Independent Directors.

The RC has considered all aspects of remuneration. In particular, it reviews obligations and effect on the Trust, in the event that FSLAM should terminate key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance when setting the remuneration packages of the key management personnel. 6.3

Remuneration Consultants 6.4

The Trust has engaged remuneration consultants in the past but no external remuneration consultants were appointed for the financial year under review, as it was not felt necessary as there were no significant changes in key management personnel.

The RC members are not specialists in the field of executive compensation, but do generally have some broad knowledge in this area and have access to external professional advice. The RC is competent in reviewing and recommending to the Board, the appropriate remuneration framework for the Board and key management personnel, in accordance with the terms of reference duly adopted by the Board.

However, in reviewing and recommending to the Board, the appropriate remuneration framework for the Board and key management personnel, the RC had reviewed remuneration surveys published by consulting groups and the government.

As and when deemed appropriate by the RC, expert advice will be obtained from remuneration consultants at the Trust's expense. The RC shall ensure that existing relationships, if any, between the Trust and its appointed remuneration consultants, will not affect the independence and objectivity of the remuneration consultants.

LEVEL AND MIX OF REMUNERATION Provision

Principle 7 - The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

An annual review of the compensation is carried out by the RC to ensure an appropriate remuneration level and mix that recognizes performance, potential and responsibilities of the individuals. The remuneration packages of the key management personnel, comprises a basic salary plus an annual performance incentive. These are market competitive and commensurate with their performance and that of the Trust. 7.1

The annual basic salary is benchmarked against the relevant industry market data, where available. The annual performance incentive variable bonus is tied to the performance of the Trust, functional role and individual employee. Performance conditions, to which entitlement to such annual and short-term incentives are subject to include, benchmarking performance against industry, business operation, expectations and performance that exceeds such expectations, as well as measuring performance based on the Trust's financial performance vis-à-vis industry performance.

The RC also recognises the need for a reasonable alignment between risk and performance-related remuneration to discourage excess risk taking. As such, in determining the performance-related remuneration structure, the RC had taken into account the risk policies and risk tolerance of the Group, and whether such remuneration was symmetric with risk outcomes and sensitive to the time horizon of risks.

Remuneration of Non-Executive Directors 7.2

The structure for the payment of directors' fees for non-executive directors is based on a framework of basic fees for serving on the Board and Board Committees. The fees take account of factors such as effort, time spent and responsibilities.

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.

Non-Independent, Non-Executive Chairman, Mr Stathis Topouzoglou and Non-Independent, Non-Executive Director, Mr Michael Chalkias have waived the fees payable to them for 2019.

Holding units in the Trust is encouraged so as to better align the interests of the non-executive directors with the interests of the Unitholders. Whilst it is not an official policy of the RC, the following non-executive directors hold units in the Trust:

- Michael Gray - 4,000,000 units; and
- N.Sreenivasan - 1,250,000 units

The amounts are not significant enough to compromise their independence.

The RC is of the view that the remuneration is appropriate to attract, retain and motivate directors to provide good stewardship of the Trust and key management personnel to successfully manage the Trust for the long term. 7.3

DISCLOSURE ON REMUNERATION

Provision

Principle 8 - The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

The Trust discloses in its Annual Report, the remuneration of the non-executive directors, as the fees are paid by FSLTM and charged to the Trust. 8.1

There are no executive directors and the CEO and key management personnel are not employed or paid for or charged directly the Trust, but by FSLAM. which charges a management fee to the Trust for services provided.

No officer is an immediate family member of any director of FSLTM. 8.2

Remuneration of Directors 8.3

There are no executive directors.

The directors' fees paid/payable in respect of FY 2019 to the non-executive directors are set out below:

Director	Fee	Bonus/Profit share	Benefits in Kind	Total
	S$	S$	S$	S$
Stathis Topouzoglou	*			
Michael Chalkias	*			
Michael Gray	73,500			73,500
Michael Oliver	73,500			73,500
N.Sreenivasan	73,500			73,500
Costas Courcoubetis	11,230			11,230

* represents Directors who waived any entitlement for fees

Remuneration of Key Management Personnel

The Trust does not employ any staff.

ACCOUNTABILITY AND AUDIT

RISK MANAGEMENT AND INTERNAL CONTROLS

Provision

Principle 9 - The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

The risk management approach of the Trust can be found on page 48 of this annual report, in the "Risk Management" Section. 9.1

The Board is responsible for governance of risk, including determining the nature and extent of significant risks, the Trust is willing to take.

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 has established a Risk Management Committee chaired by the Chief Financial Officer, which reports to the Audit and Risk Committee ("ARC").

Risk issues addressed by the Board:

(a) the risk committee assisted by the Internal Auditors assesses the Trust's risk management and internal control systems;
(b) the Trust has implemented an Enterprise Risk Management process ("ERM"), which is updated regularly. Details of the principal risks and how they are being mitigated are included in the section "Risk Management";
(c) the ERM exercise carried out by management and the ARC, is the main basis for identifying the key and emerging risks. These are taken into account in designing the internal audit programme, where the risks are measured and monitored; and
(d) the industry that the Trust is involved in – the ownership and chartering of vessels, is extremely volatile. Market values of vessels can fluctuate considerably over a short period of time and demand for charters are affected by such market conditions. In general, the Trust will take a longer term approach in considering risk, dependent on market conditions at the time considering charters of up to five years. The risks may be reduced by taking out longer charters and by having a balanced fleet consisting of a variety of vessel types in different shipping sectors, in order to reduce the reliance on any one sector. The Trust does take advantage, from time to time, of the volatility of the market, to sell vessels in times that prices are on the upside.

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.

In compliance with the Monetary Authority of Singapore ("MAS") Guidelines on Outsourcing, FSLTM maintains a register of the outsourced arrangements with third parties. FSLTM undertakes due diligence of the service providers and from time to time conducts self-assessment of materiality of the outsourced arrangement.

The Board and the Audit and Risk Committee ("ARC") have evaluated the internal financial controls and financial and accounting policies and procedures. The Board is of the view that FSLTM has adequate and effective internal controls including financial, operational, compliance and information technology controls and risk management systems.

The ARC concurs with the Board's view, having regard to the feedback it has received from the internal and external auditors and after discussion with the Management, on matters highlighted by the internal auditors.

Assurance to the Board from Management 9.2

For the financial year ended 31 December 2019, the CEO and CFO have provided assurance to the Board that:

(a) the financial records of FSL Trust have been properly maintained and the financial statements give a true and fair view of the Trust's operations and finances; and
(b) that an adequate and effective risk management and internal control system has been put in place.

AUDIT COMMITTEE

Provision

Principle 10 - The Board has an Audit Committee ("AC") which discharges its duties objectively.

Terms of Reference of the Audit and Risk Committee 10.1

The written terms of reference of the Audit and Risk Committee ("ARC") include the following:

- review of the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements and any announcements relating to the financial performance;
- monitoring and evaluating the quality and reliability of information prepared for inclusion in financial statements;
- appointment of the internal auditors and to review their scope of services, results of their report and recommend their remuneration;
- monitoring and evaluating the adequacy and effectiveness of FSLTM's internal controls and risk management systems;
- nomination of the external auditors and review their independence annually;
- reviewing the external audit plan and the adequacy of external audit in respect of cost, scope and performance;
- reviewing 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;
- monitoring the procedures in place to achieve compliance with applicable legislation, the Listing Manual and the Business Trusts Act;
- monitoring 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;
- reviewing the assistance given by officers of FSLTM to the external auditors;
- investigation of any reports of improprieties or irregularities and assess areas where internal controls need to be improved or corrective measures need to be taken;
- meeting the internal and external auditors without the presence of management, annually;
- assessment of the adequacy, effectiveness and independence of the internal audit function; and
- reviewing the adequacy of financial risk management processes.

Authority to Investigate Matters

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.

The ARC may require any such Director, executive officer or other person in attendance to leave the meeting (temporarily or otherwise) to facilitate open discussion, should they have an interest in the matter under discussion.

The ARC also has explicit authority to investigate any matter brought to its attention, within its terms of reference, with the power to obtain professional advice at the Trust's expense.

The ARC has reasonable resources to enable it to discharge its functions properly. The members of the ARC also take measures to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements as and when the ARC, or the Board or the Company, deems necessary and appropriate.

Appointment of External Auditors

The ARC has recommended the re-appointment of Moore Stephens LLP as the auditors for FSL Trust at the forthcoming AGM and for all of the subsidiaries of FSL Trust.

Other Activities of the ARC

The ARC's activities for 2019, in accordance with its responsibilities and duties, included the following:

- significant issues and judgements in relation to the financial statements;
- review of the financial statements before the announcement of the quarterly and full-year results. In the process, the ARC reviewed the key areas of management's estimates and judgement applied for key financial issues including revenue recognition, taxation, goodwill impairment, and the joint ventures' and associates' contingent liabilities, critical accounting policies and any other significant matters that might affect the integrity of the financial statements; and
- consideration of the report from the external auditors, including their findings on the key areas of audit focus. Significant matters that were discussed with management, internal and external auditors have been included as key audit matters (KAMs) in the Independent Auditors' Report for the financial year ended 31 December 2019. Refer to page 59 of this Annual Report.

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.

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 and disposal of vessels and other material developments are announced through the SGX-ST, press releases and through its website at **www.FSLTrust.com**. Media and analysts' briefings are held as and when necessary.

The Trust will continue with quarterly financial reporting, going forward. Should the Board decide, in the interest of all Unitholders, to switch to semi-annual financial reporting, the Trust will provide regular interim financial updates, if deemed necessary.

Key Audit Matters

	Matter raised by the external auditor	Response by ARC
1.	Estimated useful lives and residual values of vessels. The external auditors found the estimates and assumptions used to determine the useful lives and residual values of to be reasonable based on available evidence.	The ARC has reviewed, has discussed with management, and has challenged where appropriate, the estimated useful lives and residual values used by management, and has concluded that the estimates and assumptions used in determining estimated useful lives and residual value of vessels are reasonable.
2.	Impairment assessment of vessels. The external auditors found the significant estimates, judgements and assumptions made by management to determine the recoverable amounts of the vessels to be reasonable based on available evidence.	The ARC has required management on a quarterly basis to present and discuss the methodologies used to estimate the value-in-use calculations of the Trust's vessels and have also provided third party valuations to be used as a reference. The ARC has determined that for each vessel that the recoverable amount is based on the higher of the fair value of the vessel less estimated costs of disposal and the carrying value of the vessels based on the "value in use" methodology. The calculations have been discussed with the external auditors, and the ARC has concluded that the estimates, judgements and assumptions made by management to determine the recoverable amounts of the vessels to be reasonable, and that the impairment charges recognized in the Trust's financial statements are reasonable.

Other matters include:

(a) Assessment of Internal Controls and Risk Management

The ARC's procedures on risk management and internal controls are set out in provision 9.1 above and the assessment of the adequacy and effectiveness of internal controls and risk management systems in provision 9.2 above.

(b) Assessment of the Internal Audit Function

The Trust has outsourced the internal audit function to BDO LLP (the "internal auditors"), who report to the Chairman of the ARC. The ARC agrees the scope of work and fees with the internal auditors, on an annual basis. The internal auditors have access to the ARC and all the Trust's documents, records, properties and personnel. The ARC approves the hiring, removal, evaluation and compensation of the internal auditors.

Following the review of the internal audit plan and the internal auditors' resources to conduct the internal audit plan, the ARC is satisfied that the internal audit function is independent, effective, adequately resourced and are satisfied with the adequacy of the qualifications and experience of the staff.

The internal audit performed by BDO LLP is guided by the International Standards for the Professional Practice of Internal Auditing.

(c) Assessment of External Auditors independence and objectivity

The ARC, has conducted an annual review of the independence and objectivity of the Company's external auditors, Moore Stephens LLP, and the total fees for non-audit services compared with audit services, to satisfy itself that the nature and volume of any non-audit services will not prejudice the independence and objectivity of the auditors and to consider the cooperation extended by management to allow an effective audit.

The ARC has reviewed the non-audit services provided by the external auditors, Moore Stephens LLP for the financial year under review, and is of the opinion that the provision of such services did not affect the independence or objectivity of the external auditors. The external auditors, in the one to one meeting with the ARC confirmed that they had full cooperation from management at all times.

The external auditors have affirmed their independence in this respect.

The total fees paid to the external auditors, Moore Stephens LLP, for the financial year 2019 including fees for audit and non-audit services, are set out in note 16 to the financial statements of this annual report.

(d) Assessment of quality of work of the External Auditors

The ARC has also evaluated the performance of the external auditor by using an internal assessment questionnaire and taking into account, the Audit Quality Indicators Disclosure Framework published by ACRA.

The ARC and Board have proposed to Unitholders that Moore Stephens LLP be reappointed as the external auditors to the Company. The Board and the ARC considered and are satisfied with the adequacy of the resources and experience of the auditing firm and the audit engagement partner assigned to the audit, the firm's other audit engagements, the size and complexity of the Group being audited, and the number and experience of supervisory and professional staff assigned to the particular audit. The firm and the audit partner have shipping industry experience.

Moore Stephens LLP has confirmed that it is registered with the ACRA.

(e) Significant matters raised through the whistle blowing channel

To achieve a high standard of corporate governance for the operations of the Group, the Group has implemented a whistle-blowing policy. Details of the policy and procedures are set out under the section "Whistle-Blowing Policy" on page 51.

The whistle-blowing policy enables staff and any other persons, in confidence, to raise concerns about possible improprieties in matters of financial reporting and questionable accounting practices or other matters such as criminal offences, unlawful acts, fraud, corruption, bribery and blackmail, failure to comply with legal or regulatory obligations, unsafe work practices or substantial wasting of the Trust's resources, and concealment of any of the foregoing.

The ARC exercises the overseeing function over the administration of the whistle-blowing policy. The telephone number of the chairman of the ARC is made available publicly so that persons can contact him directly without passing through the staff in the Trust.

All reports including unsigned reports, reports weak in details and verbal reports will be considered.

In the event that the whistle-blowing report is about a Director, that Director shall not be involved in the review and any decisions with respect to that whistle-blowing report.

The ARC has reviewed and has ensured that arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken. Details of the whistle-blowing policy have also been made available to the Directors, employees and contractors of the Group and their staff.

There were no whistle-blowing reports received by the ARC in the financial year under review.

The ARC has also:

(i) reviewed the quarterly and full-year financial statements and announcements required by the SGX for recommendation to the Board for approval;
(ii) reviewed all interested person transactions to ensure compliance with the Listing Manual and the Business Trusts Act;
(iii) reported and explained to the Board how it has discharged its responsibilities and confirmed that it was able to carry out its duties independently without any impediment; and
(iv) with the assistance of the External Auditors, assessed changes in accounting standards and issues that have an impact on the financial statements.

The ARC comprises at least three directors, all of whom are Independent Directors, namely: 10.2

- Michael Gray,
- N. Sreenivasan, and
- Michael Oliver.

The ARC is chaired by Michael Gray.

The members of the ARC are appropriately qualified to discharge their responsibilities with Michael Gray, having been a former partner of PricewaterhouseCoopers, N. Sreenivasan being a senior practicing lawyer and Michael Oliver being a former banker with several major banks.

Michael Gray and Michael Oliver have recent and relevant accounting or related financial management expertise or experience.

The ARC does not comprise of any former partners or directors of the Trust's existing auditing firm. 10.3

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 is effective and independent from the activities that it audits. Refer to provision 10.1 above 10.4

Meeting with External and Internal Auditors Without Management 10.5

In respect of the financial year under review, the ARC has met with the Trust's external and internal auditors, in each case without the presence of management, in order to have free and unfiltered access to information that it may require, to discuss the results of their examinations and the evaluation of the Group's system of risk management and internal controls, and to discuss any problems and concerns which they may have.

SHAREHOLDER RIGHTS AND ENGAGEMENT

SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS

Provision

Principle 11 - The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

The Trust provides shareholders with the opportunity to participate effectively in and vote at general meetings of shareholders and informs them of the rules governing general meetings of shareholders. 11.1

All resolutions at general meetings will be voted by poll. Detailed results showing the number of votes cast for, against and abstained in respect of each resolution and the respective percentages will be announced after the meeting.

The Board notes that there should be separate resolutions at general meetings on each substantially separate issue and supports the Code's provision regarding "bundling" of resolutions. 11.2

In the event that there are resolutions which are interlinked, the Board will explain the reasons and material implications.

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 rules governing general meetings, 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. 11.3

At the AGM held on 22 April 2019, all the Directors were present at the meeting. For a Unitholder who is unable to attend the general meeting, he may appoint a proxy to attend the general meeting.

Presentations made at the general meetings are uploaded on SGXNet for the benefit of Unitholders. Minutes of general meetings of Unitholders are available upon a Unitholder's request.

The Trust Deed has not been amended to provide for absentia voting methods, which call for elaborate and costly implementation of a foolproof system, the need for which does not arise presently. 11.4

Distribution Policy 11.6

FSL Trust makes distributions to its Unitholders out of its net distributable amount, which consists of net lease income and after-tax interest income less management fees, financing costs, other trust expenses (excluding depreciation, impairment loss and amortisation of debt up-front fees), credit facility repayments, plus previously reserved amounts, less any additional amount to be set aside to meet upcoming payment obligations of the Trust, but before deduction of any Incentive Fees payable to the Trustee-Manager.

In the event that there are net taxable income and/or proceeds arising from any sale of vessels, and only if such income and/or proceeds are surplus to the business requirements and needs of FSL Trust and its taxability or otherwise confirmed by the IRAS, the Trustee-Manager may also, in its discretion, distribute such income and/or proceeds.

The form, frequency and amount of future distributions (if any), will depend on earnings, financial position, results of operations and if relevant, net income and/or proceeds arising from sale of any vessel, as well as expected working capital requirements and capital expenditure, contractual restrictions, provisions of applicable law and other factors which the Trustee-Manager may deem relevant.

Distributions will be declared in US dollars. For holders of Units that are held through CDP, the distributions will be paid in the Singapore dollar equivalent of the US dollar distribution declared, unless the Unitholder elects to receive the distributions in US dollars, by submitting to the CDP a "Distribution Election Notice" by the closing date for election which will be specified in the "Distribution Election Notice.". The "Distribution Election Notice" will be sent to each Unitholder holding Units through the CDP, who is eligible to receive the relevant distributions. For the distributions to be paid in Singapore Dollars, the Trustee-Manager will make the necessary arrangements to convert the distributions in US dollars into Singapore dollars (taking into account the cost of exchange) at the prevailing market exchange rate. Neither the CDP, the Trustee-Manager nor FSL Trust will be liable for any loss howsoever arising, from the conversion of the distributions payable to Unitholders from US dollars into Singapore dollars. Save for approved depository agents (acting as nominees of their individual customers), each Unitholder may elect to receive distributions in either Singapore dollars or US dollars and shall not be able to elect to receive distributions partially in US dollars and partially in Singapore dollars.

The distributions will be calculated as at 31 March, 30 June, 30 September and 31 December and will be paid within 75 days after such calculation date.

Unitholders should note that all the foregoing statements merely represent the Trustee-Manager's current intention and shall not constitute legally binding statements in respect of FSL Trust's future distributions, which remain subject to modification in the Directors' sole and absolute discretion.

No inference should or can be made from any of the foregoing statements as to FSL Trust's actual future profitability or its ability to make distributions in the future. The actual performance of the Trust is subject to significant business, economic, financial, regulatory and competitive risks, uncertainties and contingencies that could cause actual results to differ materially from expectations.

MANAGING STAKEHOLDERS RELATIONSHIP

ENGAGEMENT WITH SHAREHOLDERS Provision

Principle12 - The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

FSLTM believes in prompt disclosure of pertinent and relevant information to Unitholders. 12.1

Quarterly and full-year financial statements, distribution notices (where applicable), information on lease and charter transactions and acquisitions and disposal 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 Trust will continue with quarterly financial reporting, going forward. Should the Board decide, in the interest of all Unitholders, to switch to semi-annual financial reporting, the Trust will provide regular interim financial updates, if deemed necessary.

The Trust provides avenues for communication between the Board and all shareholders, and discloses in its annual report the steps taken to solicit and understand the views of shareholders.

The investor relations function is handled by Management. Management meets with analysts, institutional investors and fund managers to promote FSL Trust, communicate its business performance and developments and gather views and feedback. Please refer to the "Investor Relations" section on page 50 of this annual report. 12.2

The website of the Trust at **www.FSLTrust.com** provides the name of the investor relations contact together with a contact telephone number and an email address. This provides the mechanism through which shareholders may contact the company with questions and through which the company may respond to such questions. 12.3

The investor relations contact is able to provide information as to how Unitholders can contact the lead independent directly, rather than having to go through the Trust.

Additionally, it is possible to sign up for the email alert service so as to keep updated on FSL Trust's Company Announcements and SGXNet filings.

ENGAGEMENT WITH STAKEHOLDERS

Provision

Principle 13 - The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

FSLTM has arrangements in place to identify and engage with its material stakeholder groups and to manage its relationships with such groups. 13.1

FSL Trust has considered all its stakeholders in determining its business strategy, mindful of the overriding importance of the financial viability, operational efficiency and performance of the fleet.

As the Trust moves forward in raising fresh capital and other sources of funding, renews the fleet and acquires newer vessels, ESG issues will be fully considered in the decision-making processes and in the implementation of the Board approved strategy for the fleet, as we partner with clients and service partners who share the same vision in respect of Sustainability and ESG matters.

The following are some of the Trust's main stakeholders:

- Clients (Charterers);
- Technical Managers/ Managers/ Pool Managers;
- Shipyards;
- Service Providers and Suppliers;
- Brokers;
- Banks;
- Unitholders (Investors); and
- Staff.

The nature of business of the trust of a shipowner chartering out ships means that close contact needs to be kept between the Trust and the charterer so that both parties can maximise their returns from the relationship. Management keeps in close contact with the charterers, technical managers, managers and pool managers. 13.2

The Trust's corporate website is a key resource of information for the investment community. It contains a wealth of investor-related information on FSL Trust, including investor presentations, webcasts of earnings presentations, recordings of earnings conference calls, annual reports, upcoming events, distribution policy and investor factsheets. Contact details of the investor relations contact are also listed on the website to facilitate dialogue and queries from stakeholders. 13.3

In addition, the sustainability reports are used to engage stakeholders. See below under "Sustainability Reporting".

BUSINESS ETHICS POLICY

As a business concern and as Trustee-Manager for FSL Trust, FSL Trust Management Pte Ltd and its subsidiaries (collectively "FSLTM") are committed to conducting its business activities in a legal and ethical manner. Continued business success for FSL Trust and FSLTM will be based on honesty, integrity and ethical conduct.

DEALING IN SECURITIES

FSLTM has adopted an internal code ("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 ("Blackout period"). Should the Trust switch to semi-annual financial reporting, the Black-Out period in the Internal Code will be revised to one month before the announcement of both the semi-annual financial results and 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 and trade sensitive information relating to those securities; and (B) must be mindful of the laws relating to insider trading.

SUSTAINABILITY REPORTING

The Trust published its first sustainability report for the financial year ended 31 December 2018 and will publish its next Sustainability Report for the financial year ended 31 December 2019 by 31 May 2020, in accordance with Practice Note 7.6 of the Listing Manual of the SGX-ST and the same will be uploaded on the Company's website as well as on SGXNET.

The key material Environmental, Social and Governance factors for FSL Trust have been identified and will be regularly reviewed by the Trust's Management team, the Audit & Risk Committee, and the Board of Directors.

In its first reporting year, the Trust team considered various Global Sustainability Initiatives, the Sustainability challenges in the global maritime sector, the challenges presented by the Trust's ageing fleet, how the Trust should ensure that its sustainable business strategy continues to be compatible with profitability and returns to Unitholders, and ensuring that a culture of sustainability continues to develop within the entire Trust team.

In defining the Company's sustainability reporting content, the Company selected the Global Reporting Initiative ("GRI") standards for future consideration of the Group's activities, impact and substantive expectations and interests of its stakeholders. The Sustainability Report will be on a "comply or explain" basis, in accordance with Practice Note 7.6 of the Listing Manual of the SGX-ST.

Material ESG factors selected, in the context of the value chain of the business, are as follows:

Environment
- Selection of Technical Managers, Charterers, & Pool Managers
- Fleet management & renewal
- Vessel Condition – including repairs & maintenance
- Pollution – fuel efficiency, emissions, ballast water and waste management treatment
- Technology – ongoing monitoring of developments and relevance to the fleet

Social
- Staff – fair pay & benefits
- Health & Safety – high quality operations to avoid accidents at sea
- Employee training & qualifications [applies to Vessel Crew & Staff]

Governance
- Policies & Procedures
- Compliance with Laws, Rules & Regulations
- Conflicts of Interest
- Whistle-Blowing
- Audit & Risk Committee – responsibilities as delegated by the Board of Directors.

In compliance with the International Maritime Organisation's rules aimed at reducing the amount of Sulphur oxides emitted by ships, the newbuildings under construction will be installed with scrubbers. Details of the newbuildings are set out on page 15 of this annual 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. Any potential conflicts, that may arise will be reviewed by the Board and management. 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) (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 not 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 99 of this annual report. The ARC 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, vessel disposals and facility borrowings, and has complied with the requirements of the Business Trusts Act and the Listing Manual.

SUMMARY OF DISCLOSURES – CORPORATE GOVERNANCE

Rule 710 of the SGX Listing Manual requires Singapore listed companies to describe their corporate governance practices with specific reference to the 2018 Code in their annual reports.

Key information on each Director in this Annual Report

- Pages 10 to 12 – Directors' independence status, appointment dates, length of service, academic & professional qualifications, present and past directorships, major appointments and background and working experience.
- Page 26 –Directors' meeting attendance.
- Page 35 – Directors' remuneration.

Express Disclosure Requirements of the Code

Provision	Details	Page Ref
Board Responsibility		
Provision 1.2	The induction, training and development provided to new and existing Directors	24
Provision 1.3	Matters that require Board approval	25
Provision 1.4	Names of the members of the Board Committees, terms of reference of the Board Committees, any delegation of the Board's authority to make decisions, and a summary of each Board Committee's activities	26
Provision 1.5	The number of meetings of the Board and Board Committees held in the year, as well as the attendance of every Board member at these meetings.	26
Board Composition and Guidance		
Provision 2.4	The board diversity and progress made towards implementing the board diversity policy, including objectives.	28
Board Membership		
Provision 4.3	Process for the selection, appointment and re-appointment of Directors to the Board, including the criteria used to identify and evaluate potential new directors and channels used in searching for appropriate candidate	30
Provision 4.4	Where the Board considers a Director to be independent in spite of the existence of a relationship which may affect his or her independence, the nature of the Director's relationship and the reasons for considering him or her as independent should be disclosed	31
Provision 4.5	The listed company directorships and principal commitments of each director, and where a director holds a significant number of such directorships and commitments, the NC's and Board's reasoned assessment of the ability of the directors to diligently discharge his or her duties are disclosed.	31
Board Performance		
Provision 5.2	How the assessments of the Board, its Board committees and each Director have been conducted, including the identity of any facilitator and its connection, if any, with the Company or any of its Directors.	32
Procedures for Developing Remuneration Policies		
Provision 6.4	The Company discloses the engagement of any remuneration consultants and their independence	33
Disclosure on Remuneration		
Principle 8	Clear disclosure of remuneration policies, level and mix of remuneration, and procedure for setting remuneration, and the relationship between remuneration, performance and value creation.	35
Provision 8.1	The Company discloses the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of (a) each individual director and the CEO; and (b) at least the top five key management personnel (who are not Directors or the CEO) in bands no wider than S$250,000 and in aggregate the total remuneration paid to these key management personnel.	35

Provision	Details	Page Ref
Provision 8.2	Names and remuneration of employees who are substantial shareholders of the company, or are immediate family members of a Director, the CEO or a substantial shareholder of the company, and whose remuneration exceeds S$100,000 during the year, in bands no wider than S$100,000. The disclosure states clearly the employee's relationship with the relevant director or the CEO or substantial shareholder	35
Provision 8.3	The Company discloses all forms of remuneration and other payments and benefits, paid by the company and its subsidiaries to directors and key management personnel of the company, and also discloses details of employee share schemes.	35
Risk Management and Internal Controls		
Provision 9.2	Whether the Board has received assurance from (a) the CEO and the CFO that the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and (b) the CEO and the other key management personnel who are responsible, regarding the adequacy and effectiveness of the Company's risk management and internal control systems	36
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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 Risk Management Committee chaired by the Chief Financial Officer, who has taken on the role of Chief Risk Officer. This committee oversees and ensures that risks are being managed by appropriate units holistically across the Trust.

The Risk Management Committee 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 Programme 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 Committee 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 businesses. 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 is currently operating 10 of its fleet of 16 operating vessels on long-term bareboat charters. Hence, the Trust is now exposed to more types of risks than a pure 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 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 reports 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 compiled 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.

TRANSPARENT 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.

FSLTM maintains regular and proactive communications 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 corporate announcements filed to the Singapore Exchange Limited (SGX), 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

WHISTLE-BLOWING POLICY

WHISTLE-BLOWING COMMITTEE

The Whistle-Blowing Committee is responsible for ensuring that the Trust 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 consists 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. 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

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

The Trust will ensure that no one will be at risk of suffering reprisal as a result of raising a concern even if they are mistaken. The Trust does 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 at 6828 9185. This is provided through the independent party who provides employee care counselling and legal advice service. 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.

WHISTLE-BLOWING POLICY

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 of 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 into 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 are applied.

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 findings, 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 2019

REPORT OF THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

31 DECEMBER 2019

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 2019.

1. DIRECTORS

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

Stathis Topouzoglou
Michael Chalkias
Michael Gray
Michael Oliver
Narayanan Sreenivasan
Costas Courcoubetis (Appointed on 6 November 2019)

2. DIRECTORS' INTERESTS

According to the register kept by the Trustee-Manager for the purposes of Section 13 and 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		Deemed Interest	
	At 31 December 2019	At 1 January 2019	At 31 December 2019	At 1 January 2019
Name of director	(Number of Units)		(Number of Units)	
Michael Gray	4,000,000	1,000,000	–	–
Narayanan Sreenivasan	1,250,000	–	–	–
Stathis Topouzoglou	–	–	1,292,288,508	157,877,631
Michael Chalkias	–	–	1,292,288,508	157,877,631

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 21 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.

There were no changes in any of the above mentioned interests in the Trust between the end of the financial year and 21 January 2020.

3. UNIT OPTIONS

During the financial year, other than disclosed in Note 12, 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

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

....
Stathis Topouzoglou
Director

....
Michael Chalkias
Director

20 March 2020

STATEMENT BY THE TRUSTEE-MANAGER

31 DECEMBER 2019

STATEMENT AND CERTIFICATION

In our opinion:

(a) the financial statements 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 2019 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, 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 2019, we further certify that:

– 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

....
Stathis Topouzoglou
Director

....
Michael Chalkias
Director

20 March 2020

STATEMENT BY THE CHIEF EXECUTIVE OFFICER

31 DECEMBER 2019

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
Chief Executive Officer

20 March 2020

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 2019, 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.

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 2019 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.

(cont'd)

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.

Key Audit Matter	How our audit addressed the key audit matter
Estimated useful life and residual value of vessels We refer to Note 2.4, Note 3.1 and Note 3.2 to the financial statements. The carrying value of the Group's vessels amounted to US$180,702,000 as at 31 December 2019. 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 weight tonne in recent years. The estimation of the useful life and residual value of vessels requires the use of estimations and assumptions which require management 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 weight 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 the estimates and assumptions used to determine the useful life and residual value of vessels to be reasonable based on available evidence.
Impairment assessment of vessels We refer to Note 2.4, Note 2.10, Note 3.3 and Note 4 to the financial statements. The carrying value of the Group's vessels amounted to US$180,702,000 as at 31 December 2019. 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 a total impairment of US$4,994,000 for two vessels during the financial year ended 31 December 2019. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying values and no further impairment provision was required. 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 the significant estimates, judgements and assumptions made by management to determine the recoverable amounts of the vessels to be reasonable based on available evidence.

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF FIRST SHIP LEASE TRUST

(cont'd)

Other Information

The management of the Trustee-Manager is responsible for the other information. The other information comprises the annual report 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 scepticism 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.

(cont'd)

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

- 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.

- 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
20 March 2020

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	Group 2019 US$'000	Group 2018 US$'000	Trust 2019 US$'000	Trust 2018 US$'000
Assets					
Vessels	4	180,702	225,538	–	–
Subsidiaries	5	–	–	31,847	45,312
Non-current assets		180,702	225,538	31,847	45,312
Trade and other receivables	6	13,181	12,760	97,262	76,586
Cash and cash equivalents	7	42,436	13,881	29,063	1,331
Non-current assets classified as held-for-sale	4, 8	38,877	10,989	–	–
Current assets		94,494	37,630	126,325	77,917
Total assets		275,196	263,168	158,172	123,229
Equity attributable to Unitholders of the Trust					
Units in issue	9	561,332	523,284	561,332	523,284
Reserves	10	(358,451)	(368,022)	(403,410)	(407,040)
Total equity		202,881	155,262	157,922	116,244
Liabilities					
Bank loans	11	34,517	73,765	–	–
Convertible bonds	12	–	6,287	–	6,287
Non-current liabilities		34,517	80,052	–	6,287
Trade and other payables	13	2,215	4,585	211	698
Bank loans	11	35,544	23,269	–	–
Income tax payable		39	–	39	–
Current liabilities		37,798	27,854	250	698
Total liabilities		72,315	107,906	250	6,985
Total equity and liabilities		275,196	263,168	158,172	123,229

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

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 US$'000	2018 US$'000
Revenue	14	73,107	67,046
Expenses:			
Depreciation expense on vessels		(24,801)	(31,731)
Impairment on vessels	4	(4,994)	(20,648)
Voyage expenses		(395)	(2,281)
Vessel operating expenses		(21,589)	(19,456)
Management fees	21	(2,125)	(1,842)
Trustee fees	21	(55)	(61)
Other trust expenses		(2,280)	(2,402)
Total operating expenses		(56,239)	(78,421)
Results from operating activities		16,868	(11,375)
Gain on disposal of vessels	8	38	886
Finance income	15	367	–
Finance costs	15	(7,103)	(8,498)
Net finance costs		(6,736)	(8,498)
Profit/(Loss) before tax	16	10,170	(18,987)
Income tax (expense)/refund	17	(39)	1
Profit/(Loss) for the year		10,131	(18,986)
Income available for distribution	18	14,735	–
Distribution per unit (US cents)		–	–
Earnings/(Loss) per unit (US cents)			
Basic	19	0.81	(2.98)
Diluted	19	0.80	(2.98)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	2019 US$'000	2018 US$'000
Profit/(Loss) for the year	10,131	(18,986)
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income/(loss) for the year	10,131	(18,986)

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 2019

	Note	Units in issue US$'000	Option reserve on convertible bonds US$'000	Foreign currency translation reserve US$'000	Accumulated losses US$'000	Total equity US$'000
At 1 January 2019		523,284	560	(6,725)	(361,857)	155,262
Total comprehensive income for the year						
Profit for the year		–	–	–	10,131	10,131
Other comprehensive income		–	–	–	–	–
Total comprehensive income for the year		–	–	–	10,131	10,131
Transactions with Unitholders, recognised directly in equity						
Units issued on conversion	12	7,095	(560)	–	–	6,535
Issue of new units	9	31,215	–	–	–	31,215
Units issued costs	9	(262)	–	–	–	(262)
Distributions to Unitholders	18	–	–	–	–	–
Total transactions with Unitholders		38,048	(560)	–	–	37,488
At 31 December 2019		561,332	-	(6,725)	(351,726)	202,881

	Note	Units in issue US$'000	Option reserve on convertible bonds US$'000	Foreign currency translation reserve US$'000	Accumulated losses US$'000	Total equity US$'000
At 1 January 2018		523,284	–	(6,725)	(342,871)	173,688
Total comprehensive loss for the year						
Loss for the year		–	–	–	(18,986)	(18,986)
Other comprehensive income		–	–	–	–	–
Total comprehensive loss for the year		–	–	–	(18,986)	(18,986)
Transactions with Unitholders, recognised directly in equity						
Issue of convertible bonds – equity component	12	–	560	–	–	560
Distributions to Unitholders	18	–	–	–	–	–
Total transactions with Unitholders		–	560	–	–	560
At 31 December 2018		523,284	560	(6,725)	(361,857)	155,262

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 US$'000	2018 US$'000
Cash flows from operating activities			
Profit/(Loss) before tax		10,170	(18,987)
Adjustments for:			
Depreciation expense on vessels	4	24,801	31,731
Impairment on vessels	4	4,994	20,648
Amortisation of debt transaction costs		1,058	533
Amortisation of initial direct costs		217	217
Amortisation of deferred income		–	(678)
Interest income		(367)	–
Interest expense		6,040	7,838
Gain on disposal of vessels		(38)	(886)
Operating cash flows before movements in working capital		46,875	40,416
Changes in trade and other receivables		(388)	(2,256)
Changes in trade and other payables		(366)	262
Changes in lease income received in advance		(1,688)	(955)
Cash generated from operations		44,433	37,467
Income taxes refunded		–	1
Net cash generated from operating activities		44,433	37,468
Cash flows from investing activities			
Net proceeds on disposal of vessels		11,027	19,146
Costs incurred for dry-docking	4	–	(6)
Vessels initial direct costs	4	(11)	(40)
Costs incurred for the vessels under construction	4	(21,830)	–
Costs incurred for vessel equipment	4	(1,988)	–
Interest received		334	–
Net cash (used in)/generated from investing activities		(12,468)	19,100
Cash flows from financing activities			
Net proceeds from issuance of convertible bonds	12	–	6,585
Proceeds from preferential offering	9	20,991	–
Units issued costs	9	(262)	–
Loan from Sponsor		10,000	–
Loan drawdown	11	–	108,000
Payment of debt transaction costs		–	(2,407)
Pledged deposit	7	–	(500)
Repayment of secured bank loans	11	(23,879)	(124,781)
Prepayment of secured bank loans	11	(4,152)	(35,617)
Interest paid		(6,108)	(7,668)
Net cash used in financing activities		(3,410)	(56,388)
Net increase in cash and cash equivalents		28,555	180
Cash and cash equivalents at 1 January		13,381	13,201
Cash and cash equivalents at 31 December	7	41,936	13,381

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(cont'd)

Reconciliation of liabilities arising from financing activities:

	At 1 January US$'000	Principal and interest payments US$'000	Loan drawdown/ Net proceeds from issuance of convertible bonds/ preferential offering US$'000	Debt transaction costs payments US$'000	Non-cash changes Interest expense/ capitalised US$'000	Units issued on conversion US$'000	Amortisation of debt transaction costs/bond interest US$'000	Capitalisation of loan from sponsor US$'000	At 31 December US$'000
2019									
Secured bank loans (Note 11)									
Secured bank loans	98,908	(28,031)	–	–	–	–	–	–	70,877
Less: Unamortised debt transaction costs	(1,874)	–	–	–	–	–	1,058	–	(816)
	97,034	(28,031)	–	–	–	–	1,058	–	70,061
Convertible bonds (Note 12)									
Convertible bonds	6,287	–	–	–	521	(6,535)	(273)	–	–
Option premium on convertible bonds	560	–	–	–	–	(560)	–	–	–
	6,847	–	–	–	521	(7,095)	(273)	–	–
Accrued financing expenses (Note 13)									
Accrued loan interest	709	(5,686)	–	–	5,499	–	–	–	522
Accrued interest for amount due to agent	2	(22)	–	–	20	–	–	–	–
Accrued bond interest	127	(400)	–	–	–	–	273	–	–
	838	(6,108)	–	–	5,519	–	273	–	522
Loan from Sponsor									
Loan from Sponsor	–	–	10,000	–	224	–	–	(10,224)	–
2018									
Secured bank loans (Note 11)									
Secured bank loans	151,306	(160,398)	108,000	–	–	–	–	–	98,908
Less: Unamortised debt transaction costs	–	–	–	(2,407)	–	–	533	–	(1,874)
	151,306	(160,398)	108,000	(2,407)	–	–	533	–	97,034
Convertible bonds (Note 12)									
Convertible bonds	–	–	6,025	–	574	–	(312)	–	6,287
Option premium on convertible bonds	–	–	560	–	–	–	–	–	560
	–	–	6,585	–	574	–	(312)	–	6,847
Accrued financing expenses (Note 13)									
Accrued loan interest	930	(7,473)	–	–	7,252	–	–	–	709
Accrued interest for amount due to agent	–	(10)	–	–	12	–	–	–	2
Accrued bond interest	–	(185)	–	–	–	–	312	–	127
	930	(7,668)	–	–	7,264	–	312	–	838

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

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 to the international shipping industry. As at 31 December 2019, the Trust had a modern, high quality and diverse portfolio of 20 vessels consisting of 13 product tankers (including 2 under construction), 3 containerships, 2 chemical tankers and 2 crude oil tankers. As at the authorisation date of the financial statements, 12 vessels are employed on leases (10 vessels on bareboat charter and two vessels on time charter) and have a dollar-weighted average remaining lease period of approximately one year (excluding extension periods and early buy-out options). The remaining six operating vessels comprise two crude oil tankers in a RSA (Revenue Sharing Agreement), two product tankers in an MR product tanker pool and two product tankers in Sigma Tanker Pool. The combined portfolio of vessels has a dollar-weighted average age of approximately thirteen 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 20 March 2020.

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.

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.

1. GENERAL INFORMATION (CONT'D)

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.

  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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of Preparation (cont'd)

Adoption of New and Revised IFRS

For the financial year ended 31 December 2019, the Group has adopted the following new and revised IFRS which are relevant to the Group and mandatory for application:

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 adoption of this standard does not have an impact on the financial performance or the financial position of the Group for the current financial year ended 31 December 2019.

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 IFRS 3 — *Business Combination: Definition of a Business*

The amendments confirm that a business must include inputs and a process. The amendments also clarify that the process must be substantive, and the inputs and process must significantly contribute to creating outputs. The revised definition of a business focuses on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs. A new optional test is available to assess whether a business has been acquired, when the value of the assets acquired is concentrated in a single asset or group of similar assets. The standard is effective for annual periods beginning on or after 1 January 2020.

At the date of this audit report, management is of the view that the adoption of this standard will have no significant impact on the financial performance or financial position of the Group upon implementation.

Amendments to IAS 1 and IAS 8 — *Definition of Material*

The amendments refine the definition of "material", provide guidance on its application, and align the definitions used across IFRS. Based on the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The standard is effective for annual periods beginning on or after 1 January 2020.

At the date of this audit report, management is of the view that the adoption of this standard will have no significant impact on the financial performance or financial position of the Group upon implementation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 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 impairments.

2.3 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Vessels

Vessels are stated at cost less accumulated depreciation and accumulated impairments.

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.

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 weight 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.

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.

2.5 Non-current Assets Classified as Held-for-Sale

Non-current assets are classified as held for sale or distribution if their carrying amount will be recovered through a sale transaction or distribution rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria set out above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell (fair value less costs to distribute).

The assets are not depreciated or amortised while they are classified as held-for-sale. Any impairment on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment that has been previously recognised) is recognised in income statement.

2.6 Inventories

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

(a) Financial assets

Recognition and de-recognition

Financial assets are recognised when, and only when the Group becomes party to the contractual provisions of the instruments. All regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Classification and measurement

The Group classifies its financial assets at amortised cost.

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Debt instruments mainly comprise of cash and cash equivalents and trade and other receivables.

The Group measures its debt instruments at amortised cost. These are debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the income statement when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with (i) financial assets measured at amortised cost and (ii) intra-company financial guarantee contracts.

Loss allowances of the Group are measured on either of the following bases:

- 12-month expected credit losses – represents the expected credit losses that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or

- Lifetime expected credit losses – represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument or contract asset.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Financial Instruments (cont'd)

(a) Financial assets (cont'd)

Impairment (cont'd)

Simplified approach – Trade receivables

The Group applies the simplified approach to provide expected credit losses for all trade receivables. The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

General approach – Other financial instruments and financial guarantee contracts

The Group applies the general approach to provide for expected credit losses on all other financial instruments and financial guarantee contracts, which requires the loss allowance to be measured at an amount equal to 12-month expected credit losses at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses. In assessing whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information that is reasonable and supportable, including the Group's historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month expected credit losses.

The Group considers a financial guarantee contract to be in default when the debtor of the loan is unlikely to pay its credit obligations to the creditor and the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group only applies a discount rate if, and to the extent that, the risks are not taken into account by adjusting the expected cash shortfalls.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Financial Instruments (cont'd)

(a) Financial assets (cont'd)

Impairment (cont'd)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired.

Measurement of expected credit losses

Expected credit losses are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Any recoveries made are recognised in profit or loss.

(b) Financial liabilities and units in issue

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, convertible bonds and trade and other payables.

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 Borrowings

(a) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(b) Convertible bonds

The total proceeds from convertible bonds issued are allocated to the liability component and the equity component, which are separately presented on the Statement of Financial Position.

The liability component is recognised initially at its fair value, determined using a market interest rate for equivalent non-convertible bonds. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds.

The difference between the total proceeds and the liability component is allocated to the conversion option (equity component), which is presented in equity net of any deferred tax effect. The carrying amount of the conversion option is not adjusted in subsequent periods. When the conversion option is exercised, its carrying amount is transferred to the share capital. When the conversion option lapses, its carrying amount is transferred to retained profits.

2.9 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.

2.10 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 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. Impairments are recognised in the income statement. Impairment 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 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 is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment 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 had been recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Revenue Recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

Revenue from bareboat charters and time charters, which are an operating lease in nature, is recognised on a straight-line basis over the period of the charter contracts (Note 2.9).

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

For vessels deployed on a pool arrangement, the pool measures revenue on a time charter equivalent basis based on the contractual rates and the duration of each voyage for each vessel, and revenue is recognised by the Group upon delivery of the service in accordance with the terms and conditions of the charter parties. 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.

2.12 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 and net foreign currency losses.

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.

2.13 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)

2.14 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 2019, 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 2019 amounted to US$24,801,000 (2018: US$31,731,000). As at 31 December 2019, the carrying amount of the vessels amounted to US$180,702,000 (2018: US$225,538,000). 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$2,136,000 (2018: US$2,738,000) and US$2,611,000 (2018: US$3,347,000) 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.

The residual values of the vessels are estimated based on the average scrap steel price per light weight 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.

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

Critical Accounting Estimates and Assumptions (cont'd)

3.3 Impairment Assessment of Vessels

Impairment 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 a "value-in-use" methodology.

In determining the fair value less costs of disposal, the Group has obtained valuation reports from third party sources in December 2019. 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 contract rates and/or inflation-adjusted daily rates from observable historical trends of 5 to 10 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 increase by approximately 5% (2018: decrease by approximately 15%).

The projected cash outflows take into consideration each vessel's inflation-adjusted actual and budgeted operating expenses. The pre-tax discount rate is 9.50% (2018: 8.18%) and takes into account the time value of money and the risks specific to the vessels' estimated cash flows. If the pre-tax discount rates increases by 1%, the carrying values of the vessels will decrease by approximately 1% (2018: 3%).

During the financial year ended 31 December 2019, the Group recognised an impairment on vessels amounting to US$4,994,000 (2018: US$20,648,000). As at 31 December 2019, the carrying amount of the vessels was US$180,702,000 (2018: US$225,538,000).

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 2019, the Group earned bareboat charter lease income and time charter income of US$26,205,000 and US$8,369,000 (2018: US$30,310,000 and US$6,205,000) respectively.

4. VESSELS

	Vessels US$'000	Initial direct costs US$'000	Total US$'000
Group			
2019			
Cost			
At 1 January 2019	741,293	6,905	748,198
Addition	23,818	235	24,053
Reclassified to non-current assets classified as held-for-sale	(92,000)	–	(92,000)
At 31 December 2019	673,111	7,140	680,251
Less:			
Accumulated depreciation/amortisation and impairments			
At 1 January 2019	516,312	6,348	522,660
Depreciation/amortisation charge for the year	24,801	217	25,018
Impairment recognised in the income statement	4,994	–	4,994
Reclassified to non-current assets classified as held-for-sale	(53,123)	–	(53,123)
At 31 December 2019	492,984	6,565	499,549
Carrying amount			
At 31 December 2019	180,127	575	180,702
2018			
Cost			
At 1 January 2018	799,324	7,561	806,885
Addition	6	40	46
Reclassified to non-current assets classified as held-for-sale	(58,037)	(696)	(58,733)
At 31 December 2018	741,293	6,905	748,198
Less:			
Accumulated depreciation/amortisation and impairments			
At 1 January 2018	510,981	6,827	517,808
Depreciation/amortisation charge for the year	31,731	217	31,948
Impairment recognised in the income statement	20,648	–	20,648
Reclassified to non-current assets classified as held-for-sale	(47,048)	(696)	(47,744)
At 31 December 2018	516,312	6,348	522,660
Carrying amount			
At 31 December 2018	224,981	557	225,538

The Group's vessels with a net carrying value of US$180,702,000 (2018: US$225,538,000), are mortgaged to financial institutions (Note 11).

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 2019, the net carrying value of dry-docking amounted to US$2,482,000 (2018: US$3,785,000).

4. VESSELS (CONT'D)

As at 31 December 2019, the Group reclassified two product tankers (2018: one product tanker) to non-current assets classified as held-for-sale. The Group recorded an impairment on the vessels amounting to US$4,994,000 (2018: US$6,335,000) in the income statement. These are non-recurring fair value which have been measured using observable inputs, being the prices based on Memorandum of Agreements comparable to sale of similar vessel and these are within Level 2 of fair value hierarchy (Note 23).

During the financial year ended 31 December 2019, no further impairment is recorded for the remaining vessels as the recoverable amount based on fair value less costs of disposal and value in use calculations was higher than their carrying values. During the previous financial year ended 31 December 2018, the Group recorded a further impairment of US$14,313,000 for the remaining vessels based on value in use calculations.

The value in use calculations use discounted 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 weight tonne in recent years or the values obtained from third party sources. The fair value less cost of disposal is based on the sale of similar vessels and is therefore within Level 2 of the fair value hierarchy (Note 23).

Carrying amount of the vessels, where the Group leases out under operating lease

	Group 2019 US$'000
At 1 January	103,011
Addition	1,988
Depreciation/amortisation charge for the year	(17,704)
At 31 December	87,295

5. SUBSIDIARIES

(a) Total interests in subsidiaries

	Trust 2019 US$'000	Trust 2018 US$'000
Equity investments		
At cost (Note (i))	45,090	78,079
Return of equity	(9,947)	(9,947)
Impairment recognised[1]	(3,296)	(22,820)
	31,847	45,312
(i) Movement of Equity investments, At cost		
At 1 January	78,079	122,031
Addition during the year (Note (b))	–	2
De-registered during the year (Note (b))	(8,975)	(24)
Write off against impairment on de-registration of entities	(24,014)	(43,930)
At 31 December	45,090	78,079

(1) Impairment recognized is eliminated at consolidation.

5. SUBSIDIARIES (CONT'D)

(b) The Trust de-registered its subsidiaries in Singapore, FSL-11, FSL-12 and FSL-13 during the year. During the previous financial year ended 31 December 2018, the Trust incorporated three new subsidiaries, namely FSL 9 & 10 Holding Ltd, FSL-28, Inc. and FSL-29, Inc.. The principal activity of FSL 9 & 10 Holding Ltd was that of an investing holding company of FSL-9 Pte. Ltd. and FSL-10 Pte. Ltd. The principal activities of FSL-28, Inc. and FSL-29, Inc. were that of ship ownership. The Trust de-registered its subsidiary in Netherlands, FSL Netherlands B.V. during the previous financial year.

(c) Management performed an impairment test for the investment in its subsidiaries. An impairment of US$4,490,000 (2018: US$6,231,000) was recognised for the financial year ended 31 December 2019 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 2019.

(d) Details of the subsidiaries are as follows:

Name of subsidiaries	Country of Incorporation	Effective equity held by the Group	
		2019 %	2018 %
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-9 Pte. Ltd.	Singapore	100	100
FSL-10 Pte. Ltd.	Singapore	100	100
FSL-11 Pte. Ltd.	Singapore	–	100
FSL-12 Pte. Ltd.	Singapore	–	100
FSL-13 Pte. Ltd.	Singapore	–	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-28, Inc.	Marshall Islands	100	100
FSL-29, Inc.	Marshall Islands	100	100
FSL 9 & 10 Holding Ltd	Cyprus	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 the Marshall Islands and in Cyprus under the laws of their respective countries of incorporation.

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.

6. TRADE AND OTHER RECEIVABLES

	Group		Trust	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Trade receivables	5,819	4,218	–	–
Other receivables	470	785	40	39
Amounts due from subsidiaries	–	–	97,161	76,538
Deposits placed with Commercial/Pool Managers	5,145	5,547	–	–
Deposits with third parties	11	9	–	2
Claims receivables due from a former charterer (Note 24)	1,520	2,020	–	–
Trade and other receivables	12,965	12,579	97,201	76,579
Prepayments	216	181	61	7
	13,181	12,760	97,262	76,586

(a) Trade receivables are amounts due from charterers which are unsecured, interest-free and repayable within 60 days. As at 31 December 2019, the trade receivables are classified as current debts. The Group does not have historical credit loss and loss allowance measured at an amount equal to lifetime expected credit losses are assessed to be minimal.

(b) The amounts due from subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand. During the financial year ended 31 December 2019, the Trust wrote back an impairment of US$737,000 in the income statement due to changes in credit risk. As at 31 December 2019, the Trust has an accumulated allowance for impairment amounting to US$14,542,000 (2018: US$15,279,000).

(c) Other receivables (including deposits placed with commercial/pool managers) are considered to have low credit risk. Loss allowance, measured at an amount equal to 12-month expected credit loss, is assessed to be minimal.

(d) In place was a master offsetting agreement between the Trust and its subsidiaries to settle the net amount due to or from each other if required. For such arrangements, the receivables and payables from each counterparty are presented on a net basis.

Amounts due from subsidiaries	Related amounts set off in the statement of financial position Gross amounts-financial assets US$'000	 Gross amounts-financial liabilities US$'000	Net amounts-financial assets presented in the statement of financial position US$'000
2019	108,233	(11,072)	97,161
2018	100,635	(24,097)	76,538

7. CASH AND CASH EQUIVALENTS

	Group		Trust	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Cash at bank	42,436	13,881	29,063	1,331
Less: Restricted cash at bank	(500)	(500)	–	–
Cash and cash equivalents in the Consolidated Statement of Cash Flows	41,936	13,381	29,063	1,331

The restricted cash at bank is the minimum cash balance maintained with the lender as part of the loan facility entered during the previous financial year ended 31 December 2018 (Note 11).

8. NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

	Group	
	2019	**2018**
	US$'000	**US$'000**
Non-current assets classified as held-for-sale	38,877	10,989

During the financial year ended 31 December 2019, the Group reclassified two product tankers, FSL Piraeus and FSL Perth (2018: the product tanker, FSL Hamburg) as "Non-current assets classified as held-for-sale".

During the financial year ended 31 December 2019, the Group disposed one vessel (product tanker, FSL Hamburg) for a total net cash consideration of approximately US$11,027,000, resulting in a gain on disposal of US$38,000. During the previous financial year ended 31 December 2018, the Group disposed two vessels (one chemical tanker, FSL Tokyo and one containership, FSL Busan) for a total net cash consideration of approximately US$19,146,000, resulting in a gain on disposal of US$886,000.

9. UNITS IN ISSUE

	Number of units '000	**Amount paid US$'000**
Group and Trust		
2019		
At 1 January	637,457	523,284
Units issued (Note (a))	956,185	31,215
Units issued costs (Note (a))	–	(262)
Conversion of convertible bonds (Note (b)) (Note 12)	174,416	7,095*
At 31 December	1,768,058	561,332
2018		
At 1 January and 31 December	637,457	523,284

* Included option reserve of US$560,000

(a) During the financial year ended 31 December 2019, the Group issued 956,184,865 units as part of a Preferential Offering for a total consideration of US$31,215,000 (comprising cash of US$20,991,000 and capitalisation of loan from Sponsor of US$10,224,000) to provide funds for the Group's business operations and newbuilding acquisitions.

(b) During the financial year ended 31 December 2019, the subscribers of the Group's redeemable convertible bonds exercised their right to convert the bonds to 174,416,194 units.

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 Trust. All units rank equally with regard to the Trust's residual assets.

10. RESERVES

	Group		Trust	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Option reserve on convertible bonds (Note 12)	–	560	–	560
Foreign currency translation reserve	(6,725)	(6,725)	–	–
Accumulated losses	(351,726)	(361,857)	(403,410)	(407,600)
	(358,451)	(368,022)	(403,410)	(407,040)

The foreign currency translation reserve comprises: 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 foreign exchange differences on monetary items which form part of the Group's net investment in foreign operations.

11. BANK LOANS

	Group	
	2019 US$'000	2018 US$'000
Secured bank loans		
Non-current	34,517	73,765
Current	35,544	23,269
Total carrying amount of secured bank loans	70,061	97,034
Add: Unamortised debt transaction costs	816	1,874
Total face value of secured bank loans	70,877	98,908

(a) During the previous financial year ended 31 December 2018, the Group repaid in full the term loan facility entered in 2011 amounting to US$151,306,000. In the same year, the Group secured new loan facilities with three lenders, amounting to US$108,000,000. The loans bear interest at margin over US$ 1-month or US$ 3-month LIBOR. In 2019, the principal weighted average interest margin over LIBOR was 4.012% (2018: 4.012%).

(b) The term loan facilities are secured on the following:

(i) a first priority mortgage over the Group's vessels;

(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.

As at 31 December 2019, the Group is in compliance with the terms of the loan agreements.

11. BANK LOANS (CONT'D)

(c) Under the terms of the three new loan facilities entered during the previous financial year ended 31 December 2018, the loans are repayable in monthly or quarterly instalments, and mature between 2020 and 2022. During the financial year ended 31 December 2019, the Group made total loan repayments amounting to US$28,031,000. The table below summarises the maturity profile of the Group's bank loans at the end of the reporting period based on contractual undiscounted repayment obligations.

		Cash flows including interest		
	Carrying amount US$'000	**Total Contractual cash flows US$'000**	**Within one year US$'000**	**Within one to five years US$'000**
Group				
Secured bank loans				
2019	70,061	(76,034)	(39,304)	(36,730)
2018	97,034	(113,476)	(30,439)	(83,037)

12. CONVERTIBLE BONDS

In May 2018, the Trust issued 7% redeemable convertible bonds denominated in United States Dollars (US$) with a nominal value of US$7,250,000. The bonds would mature in November 2020. The bonds may be converted into units of the Trust at the option of the subscriber, at an agreed conversion price of US$0.05687 per unit. The agreed conversion price will be subject to adjustment due to the anti-dilution clause upon the occurrence of certain adjustment events, including rights issues of Units. The maximum number of new units that may be issued by the Trust to the Subscriber will be 127,483,735 new units. The Trust has the option to redeem all the bonds at any time. On maturity date, the Trust will redeem any remaining bonds at 100% of the principal amount of the bond, together with any unpaid accrued interest on the maturity date.

During the year ended 31 December 2019, the carrying amount of the convertible bonds amounting to US$6,535,000 was fully converted into 174,416,194 units of the Trust (Note 9).

The fair value of the liability component, included in non-current liabilities is calculated using a market interest rate for an equivalent non-convertible bond at the date of issue. The residual amount, representing the value of the equity conversion component, is included in the Statement of Changes in Unitholders' Funds. The carrying amount of the liability component of the convertible bonds at the reporting date was derived as follows:

	Group and Trust 2018 US$'000
Face value of convertible bonds at issuance, net of cost	6,585
Equity conversion component on initial recognition (Note 10)	(560)
Liability component on initial recognition	6,025
Accumulated amortisation of interest expense	574
Accumulated payments of interest	(312)
Conversion of convertible bonds	–
Liability component at end of financial year	6,287

13. TRADE AND OTHER PAYABLES

	Group		Trust	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Trade payables	118	93	–	–
Accrued financing expenses	522	838	–	127
Accrued operating expenses	245	383	152	136
Lease income received in advance	–	1,688	–	–
Other payables	1,039	890	59	431
Amounts due to agent	–	539	–	–
Amounts due to related parties	132	57	–	4
Amounts due to the Trustee-Manager	159	97	–	–
	2,215	4,585	211	698

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.

14. REVENUE

	Group	
	2019 US$'000	2018 US$'000
Performance obligations satisfied overtime		
Bareboat charter lease income	26,205	30,310
Time charter income	8,369	6,205
Pool income	38,147	24,749
Freight income	386	5,782
	73,107	67,046

Bareboat charter lease income relates to lease income derived from operating leases. Included in bareboat charter lease income for the previous financial year ended 31 December 2018 was US$678,000 relating to recognition of the deferred income in the income statement for the year.

Time charter income relates to income derived from two vessels time chartered to an international transportation provider.

Pool income relates to income substantially derived from two crude oil tankers, FSL Hong Kong and FSL Shanghai and five product tankers, FSL Hamburg, FSL Singapore, FSL Piraeus, FSL Perth and FSL Osaka, deployed on pool arrangements.

Freight income relates to income derived from the two chemical tankers and one crude oil tanker trading in the spot market.

15. FINANCE INCOME AND EXPENSES

	Group 2019 US$'000	Group 2018 US$'000
Finance income		
Interest income from cash and cash equivalents	367	–
Finance costs:		
– bank loans and convertible bonds	(6,020)	(7,826)
– interest to agent	(20)	(12)
– amortisation of debt transaction costs	(1,058)	(533)
– commitment and bank agency fees	–	(113)
Net foreign exchange loss	(5)	(14)
	(7,103)	(8,498)
Net finance costs recognised in the income statement	(6,736)	(8,498)

16. PROFIT/(LOSS) BEFORE TAX

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

	Group 2019 US$'000	Group 2018 US$'000
Gain on disposal of vessels	(38)	(886)
Audit fees paid/payable to auditors of the Trust	98	97
Non-audit fees paid/payable to:		
– auditors of the Trust	6	6
Professional fees[(1)]	342	897
Amortisation of initial direct costs	217	217

(1) Professional fees included cost incurred on the loan restructuring and corporate actions.

17. INCOME TAX EXPENSE/(REFUND)

	Group	
	2019 US$'000	**2018 US$'000**
Income tax		
Current tax expense	39	–
Over provision in prior years	–	(1)
	39	(1)

	Group	
	2019 US$'000	**2018 US$'000**
Reconciliation of effective tax rate		
Profit/(Loss) before income tax	10,170	(18,987)
Tax calculated using the Singapore tax rate of 17%	1,729	(3,228)
Effect of tax rate in foreign jurisdiction	–	(2)
Expenses not deductible for tax purposes[1]	993	4,379
Income not subject to tax	99	69
Exempt shipping activities	(2,769)	(1,218)
Singapore statutory tax exemption	(13)	–
Over provision in prior years	–	(1)
	39	(1)

(1) Includes impairment on vessels.

The lease income derived by the Group's entities from the respective bareboat charters qualifies for tax exemption under the Maritime Sector Incentive ("MSI") scheme and further extension for a period of five years from 8 February 2017 was granted to 12 vessels. 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's Singapore entities are 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 2019, the Group has estimated unutilised tax exempt losses and unabsorbed capital allowance of Nil (2018: US$267,000) and US$7,483,000 (2018: US$12,275,000) 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 2.13).

18. INCOME AVAILABLE FOR DISTRIBUTION

	Group 2019 US$'000	Group 2018 US$'000
Profit/(Loss) for the year	10,131	(18,986)
Net adjustments (Note A)	4,604	18,986
Income available for distribution to Unitholders	14,735	–

Note A

	Group 2019 US$'000	Group 2018 US$'000
Net adjustments comprise:		
Non-cash adjustments:		
– Depreciation expense on vessels(1)	23,498	30,120
– Amortisation of initial direct costs(2)	29	29
– Amortisation of deferred income	–	(678)
– Gain on disposal of vessels	(38)	(886)
– Impairment on vessels	4,994	20,648
Total non-cash adjustments	28,483	49,233
Repayment of secured bank loans(3)	(23,879)	(141,014)
Loan drawdown	–	108,000
Utilisation of cash retained from previous periods	–	2,767
Net adjustments	4,604	18,986

(1) Excluding dry-docking of US$1,303,000 (2018: US$1,611,000).
(2) Excluding deferred arrangement fees of US$188,000 (2018: US$188,000).
(3) This included the total repayment of secured bank loans amounted to US$23,879,000 (2018: US$124,781,000) and prepayment of secured bank loans amounted to Nil (2018: US$16,233,000) arising from the proceeds from disposal of vessels.

On 5 February 2020, the directors of the Trustee-Manager declared the distribution of 1.50 US cents per unit for the financial results from 1 October 2019 to 31 December 2019 amounting to US$26,520,865 and payable on 13 March 2020. This distribution is not reflected in these financial statements and will be recognised in equity in the financial year ending 31 December 2020.

19. EARNINGS/(LOSS) PER UNIT

	Group 2019	Group 2018
Basic and diluted earnings/(loss) per unit is based on:		
Profit/(Loss) for the year (US$'000)	10,131	(18,986)
Weighted average number of units at the end of the year (basic) ('000)	1,255,727	637,457
Basic earnings/(loss) per unit (US cents)	0.81	(2.98)
Weighted average number of units at the end of the year (diluted) ('000)	1,328,335	637,457
Diluted earnings/(loss) per unit (US cents)	0.80	(2.98)

As the conversion of convertible bonds to units were anti-dilutive, the weighted average number of issued units remained at 637,456,577 for the previous financial year ended 31 December 2018. If the conversion was dilutive, the weighted average number of units in issue as at 31 December 2018 would be 716,042,441 taking into account the dilutive effect arising from full conversion of convertible bonds to units.

20. COMMITMENTS

(a) Operating lease commitments

The undiscounted lease payments from the operating leases to be received after the reporting date are as follows:

	Group 2019 US$'000	Group 2018 US$'000
Within one year	21,044	34,902
Between one to two years	2,505	20,239
Between two to three years	1,022	2,505
Between three to four years	1,018	1,022
Between four to five years	–	1,018
	25,589	59,686

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 four years (2018: one to five years) at the end of the financial year. In one lease agreement (2018: two lease agreements) held by the Group, the lessees have the option to extend the lease period beyond the base lease period up to two years (2018: two years). The lessees have the option to purchase the related vessels in four lease agreements (2018: seven lease agreements). Where considered necessary to reduce credit risk, the Group may obtain guarantees for the term of the lease.

Bareboat charter lease income from vessels is disclosed in Note 14.

Operating lease-Time charter

As at 31 December 2019, there are two time charter lease arrangements (2018: two time charter lease arrangement) with rental rates fixed over a period of six months (2018: one year six months). For both lease agreements held by the Group, the lessees have the option to extend the lease period beyond the base lease period up to one year and the option to purchase the related vessels.

The rentals received from the two lease agreements with rentals based on market rates for the year ended 31 December 2019 amounted to US$8,300,000 (2018: US$4,100,000).

Time charter income from vessels is disclosed in Note 14.

(b) Capital commitments

Capital expenditures contracted for at the reporting date but not recognised in the financial statements are as follows:

	Group 2019 US$'000	Group 2018 US$'000
Shipbuilding contracts (Two LR2 Product Tankers)		
Within one year	48,800	24,400
Within one to five years	29,280	73,200
	78,080	97,600

21. 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 conducted at terms agreed between the parties:

	Group	
	2019 US$'000	**2018 US$'000**
Transactions with the Trustee-Manager:		
Management fees	2,125	1,842
Trustee fees	55	61
Disposal fees	58	100
Transactions with other related parties:		
Directors' fees paid to non-executive directors[(1)]	170	164
Technical management fees paid to Prime Tanker Management Inc[(2)]	685	170
Loan interest for bridging loan paid to FSL Holdings Pte. Ltd.[(3)]	224	–

(1) Directors' fees paid to the four Non-Executive and Independent Directors (2018: ex-Chairman, Tim Reid, and the three Non-Executive and Independent Directors).

(2) Prime Tanker Management Inc. is an affiliate of Prime Shareholdings Inc., who is deemed interested in 1,292,288,508 of the Trust's issued units as at 31 December 2019.

(3) FSL Holdings Pte. Ltd. who is deemed interested in 1,292,288,508 of the Trust's issued units as at 31 December 2019.

22. 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	
	2019	**2018**
	US$'000	**US$'000**
Asia	25,816	14,210
Europe	11,362	18,391
Others	35,929	34,445
	73,107	67,046

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 2019, the Group has four customers (2018: four customers) each accounted for more than 10% (2018: 10%) of the Group's total revenue.

23. 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 from time to time may use 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.

(a) 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 2019 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statements of Financial Position.

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit Risk (cont'd)

Cash and cash equivalents and other financial assets

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. Deposits are held with a major financial institution with external credit rating (as provided by independent rating agency) of A3.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The Group uses a similar approach for assessment of expected credit loss for cash and cash equivalents to those used for debt investments. The amount of the allowance on cash and cash equivalents are assessed to be minimal.

Credit risk grading guideline

The Group has established the Group's internal credit risk grading to the different exposures according to their degree of default risk. The internal credit risk grading which are used to report the Group's credit risk exposure to key management personnel for credit risk management purposes are set out in Note 2.7(a) to the financial statements.

Credit risk exposure and significant credit risk concentration

The Group have assessed the financial assets as performing, counterparties having low risk of default and does not have any past due amounts. The basis of recognition of expected credit loss for trade and other receivables are set out in Note 6 to the financial statements. The ageing of trade receivables at the reporting date was:

	Group	
	2019	**2018**
	US$'000	**US$'000**
Not past due	5,819	4,218

(b) 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.

The contractual undiscounted cash outflows for bank loans and convertible bonds are disclosed in Note 11 and Note 12 to the financial statements. The contractual undiscounted cash outflows for trade and other payables approximate their carrying amounts stated in the Statements of Financial Position due to their short term maturity.

(c) 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.

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) 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.

Sensitivity analysis

With respect to the variable rate bank loans, an increase of 50 bps in interest rate at the reporting date would (increase)/decrease profit after tax (2018: increase/(decrease) loss after tax) by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit/Loss for the year 2019 US$'000	2018 US$'000
Group and Trust		
Variable rate bank loans	429	539

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

(e) Foreign Currency Risk

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:

	2019		2018	
	Euro US$'000	Singapore dollar US$'000	Euro US$'000	Singapore dollar US$'000
Group				
Other receivables	–	18	2	47
Cash and cash equivalents	3	95	9	121
Trade and other payables	(1)	(215)	–	(213)
Trust				
Other receivables	–	6	–	39
Cash and cash equivalents	3	47	2	60
Trade and other payables	–	(152)	–	(139)

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Foreign Currency Risk (cont'd)

Sensitivity analysis

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

	Profit/(Loss) for the year and other comprehensive income/(loss)	
	Strengthening of US Dollars US$'000	Weakening of US Dollars US$'000
Group		
2019		
Euro	–	–
Singapore dollar	11	(11)
2018		
Euro	1	(1)
Singapore dollar	(5)	5

(f) Fair Values Measurements

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

Non-derivative financial liabilities

The carrying amount of the variable rate bank loans, which are repriced on a monthly or quarterly basis at prevailing market interest rates (Level 2), 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 due to their short period to maturity and where the effect of discount is immaterial.

Fair Value Hierarchy

Fair value measurement disclosure of other assets that are recognised or measured at fair value, are disclosed in Note 4 and Note 8 to the financial statements.

- 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).

23. FINANCIAL RISK MANAGEMENT (CONT'D)

(g) 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	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Total debt[1]	70,061	103,321	–	6,287
Equity	202,881	155,262	157,922	116,244
Total debt and equity	272,942	258,583	157,922	122,531
Total debt against total debt and equity	0.26	0.40	–	0.05

(1) Total debt = Bank loans + Convertible bonds

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 18).

The cash flows from the operating activities of the Group and the Trust are sufficient to fund the scheduled debt service, payments to the Trustee-Manager and working capital requirements. To the extent that financing for additional vessels as described in Note 20 (b) or otherwise 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.

24. LEGAL CASE

FSL-25 Pte. Ltd. ("FSL-25") and FSL-26 Pte. Ltd. ("FSL-26"), wholly-owned subsidiaries of First Ship Lease Trust ("FSLT") and respective owners of the LR2 Product Tankers "FSL Piraeus" (formerly known as "Torm Margrethe") and "FSL Perth" (formerly known as "Torm Marie"), had entered into seven year bareboat charter agreements with Torm Singapore Pte. Ltd. ("TORM") in June 2011.

In mid 2018, TORM redelivered these two vessels back to FSL-25 and FSL-26 in breach of the redelivery provisions of the bareboat charters.

Consequently, in order to protect the interests of the Unitholders, FSL-25 and FSL-26 performed all necessary repairs.

As at the date of financial statements, litigation claims against TORM for the costs and losses are on-going and there is no further development on this legal case.

25. SUBSEQUENT EVENTS

Subsequent to year-end, the Group executed a Memorandum of Agreement to sell the crude oil tanker, FSL Shanghai, to an unaffiliated third party and has received the initial 10% deposit in escrow.

LEASE PORTFOLIO

31 DECEMBER 2019

Vessel	Year Built	Capacity	Employment	Lessee	Lease Commencement
Chemical Tanker					
FSL New York	2006	19,970 DWT	Time Charter	Golden Stena Baycrest	12 Jun 2018
FSL London	2006	19,966 DWT	Time Charter	Golden Stena Baycrest	19 Jun 2018
Crude Oil Tanker					
FSL Hong Kong	2007	115,000 DWT	Vessel is employed in 'Teekay RSA Aframax Pool'		
FSL Shanghai	2007	115,000 DWT	Vessel is employed in 'Teekay RSA Aframax Pool'		
Product Tanker					
Cumbrian Fisher	2004	12,921 DWT	Bareboat Charter	James Fisher	24 Dec 2017*
Clyde Fisher	2005	12,984 DWT	Bareboat Charter	James Fisher	24 Dec 2017*
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 2017*
Seniority	2006	4,426 DWT	Bareboat Charter	James Fisher	01 Jun 2017*
Superiority	2007	4,426 DWT	Bareboat Charter	James Fisher	01 Jun 2017*
FSL Singapore	2006	47,470 DWT	Vessel is employed in 'Hafnia MR Pool'		
FSL Osaka	2007	45,998 DWT	Vessel is employed in 'Hafnia MR Pool'		
FSL Piraeus	2006	109,672 DWT	Vessel is employed in 'Heidmar's Sigma Tanker Pool'		
FSL Perth	2006	109,672 DWT	Vessel is employed in 'Heidmar's Sigma Tanker Pool'		
Containership					
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

Note:

* Commencement date for lease renewal period

ADDITIONAL INFORMATION

INTERESTED PERSON TRANSACTIONS

The transactions entered into with interested persons for the financial period 1 January to 31 December 2019 which fall under the Listing Manual of the SGX-ST and the Business Trusts Act, Chapter 31A of Singapore are:

Name of Interested Person	Nature of relationship	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than S$100,000 (equivalent to approximately US$74,311^))
Prime Tanker Management Inc. – services rendered	An affiliate of Prime Shareholdings Inc., who is deemed interested in the units held by FSL Holdings Pte. Ltd	US$ 685,250
FSL Holdings Pte. Ltd. – services rendered	The controlling Unitholder of FSL Trust	US$ 223,888

Notes:

^ Based on prevailing exchange rate as at 31 December 2019.

The above does not include 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; and

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.

Except as disclosed above, there were no minterested person transactions (excluding transactions less than S$100,000 (US$74,311) equivalent) entered into up to and including 31 December 2019.

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

STATISTICS OF UNITHOLDINGS

AS AT 18 MARCH 2020

No. of units issued	:	1,768,057,636
Class of units	:	Ordinary units with 1 vote per unit
Treasury Units	:	Nil

DISTRIBUTION OF UNITHOLDINGS

Size of Unitholdings	Number of Unitholders	%	Number of Units	%
1 – 99	6	0.20	70	0.00
100 – 1,000	223	7.44	203,500	0.01
1,001 – 10,000	1,279	42.66	6,652,650	0.38
10,001 – 1,000,000	1,446	48.23	136,382,791	7.71
1,000,001 and above	44	1.47	1,624,818,625	91.90
Total	**2,998**	**100.00**	**1,768,057,636**	**100.00**

TWENTY LARGEST UNITHOLDERS

No.	Name of Unitholders	Number of Units	%
1.	FSL HOLDINGS PTE. LTD.	1,283,670,931	72.60
2.	RAFFLES NOMINEES (PTE) LIMITED	80,346,600	4.54
3.	MAYBANK KIM ENG SECURITIES PTE. LTD.	53,969,800	3.05
4.	DBS NOMINEES (PRIVATE) LIMITED	45,321,733	2.56
5.	CITIBANK NOMINEES SINGAPORE PTE LTD	29,328,100	1.66
6.	NG HWEE KOON	20,066,400	1.13
7.	PHILLIP SECURITIES PTE LTD	8,847,600	0.50
8.	FSL TRUST MANAGEMENT PTE. LTD.	8,617,577	0.49
9.	TAN SIEW KENG CHRISTINA	8,400,000	0.48
10.	PEH KOK WAH @ PEH WAH CHYE	6,800,000	0.38
11.	HSBC (SINGAPORE) NOMINEES PTE LTD	6,522,000	0.37
12.	ANG ZHIHAO	5,300,000	0.30
13.	LAM PIN FAN	4,965,000	0.28
14.	ONG EUGENE	4,775,000	0.27
15.	CHIO KIAN HUAT	4,190,000	0.24
16.	WIRTZ JOCHEN	4,026,200	0.23
17.	LEE GUAN HUAT	4,000,000	0.23
18.	PANG CHENG CHUA	4,000,000	0.23
19.	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	3,000,550	0.17
20.	NG CHEE KEONG	2,800,000	0.16
	Total	**1,588,947,491**	**89.87**

STATISTICS OF UNITHOLDINGS

AS AT 18 MARCH 2020

SUBSTANTIAL UNITHOLDERS

(As shown in the Register of Substantial Unitholders)

Name of Substantial Unitholder	Direct Interests	%	Deemed Interests	%
FSL Holdings Pte. Ltd.[1]	1,283,670,931	72.60	8,617,577	0.49
Prime Shareholdings Inc.[2]	-	-	1,292,288,508	73.09
Prime Investments and Holdings Ltd[2]	-	-	1,292,288,508	73.09
Prime Marine Corporation[2]	-	-	1,292,288,508	73.09
PMC Holding Inc.[2]	-	-	1,292,288,508	73.09
Joelma Holding Inc.[2]	-	-	1,292,288,508	73.09
Geomel Holding Inc.[2]	-	-	1,292,288,508	73.09
Stella Maris Holding Inc.[2]	-	-	1,292,288,508	73.09
Efstathios Topouzoglou[2]	-	-	1,292,288,508	73.09
Michail Chalkias[2]	-	-	1,292,288,508	73.09
Georgios Kouleris[2]				

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 8,617,577 units held by FSL Trust Management Pte. Ltd.

2. FSLH is a wholly-owned subsidiary of Prime Shareholdings Inc. (“PSI”). PSI is a wholly-owned subsidiary of Prime Investments and Holdings Ltd, which is a wholly-owned subsidiary of Prime Marine Corporation, which is in turn a wholly-owned subsidiary of PMC Holding Inc. (“PMCHI”). PMCHI is 57% held by Joelma Holding Inc., which is 100% held by Efstathios Topouzoglou, 21.5% held by Geomel Holding Inc., which is 100% held by Michail Chalkias, and 21.5% held by Stella Maris Holding Inc., which is 100% held by Georgios Kouleris.

FREE FLOAT

Based on information available as at 18 March 2020, approximately 26.57% 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.

IMPORTANT NOTICE
COVID-19 IMPACT ON ANNUAL GENERAL MEETING 2020

In view of the Ministry of Health's advisory on 24 March 2020, requiring all events and mass gatherings to be deferred or cancelled, regardless of size, FSL Trust Management Pte. Ltd., as Trustee-Manager of First Ship Lease Trust ("Trust"), has decided to defer the annual general meeting ("AGM") of the Trust to a further date to be determined. The Notice of AGM and Proxy Form will be despatched separately to Unitholders at a later date.

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FSL TRUST MANAGEMENT PTE. LTD.
as Trustee-Manager for First Ship Lease Trust
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