

**First Ship Lease Trust
and its Subsidiaries**

**(Constituted in the Republic of Singapore pursuant to a
Deed of Trust dated 19 March 2007)**

Annual Report
Year ended 31 December 2009

Report of the Trustee-Manager of First Ship Lease Trust

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 2009.

Directors

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

Wong Meng Meng (Chairman)
 Phang Thim Fatt
 Michael John Montesano III
 Philip Clausius
 Cheong Chee Tham

Directors' interests

According to the register kept by the Trustee-Manager for the purposes of Section 76 of the Singapore Business Trusts Act (the "Act"), particulars of interests of directors who held office at the end of the financial year in units, debentures or unit options of the Trust are as follows:

Name of directors	Holdings at beginning of the year		Holdings at end of the year	
	<u>Direct</u>	<u>Deemed</u>	<u>Direct</u>	<u>Deemed</u>
The Trust				
<u>Units</u>				
Philip Clausius	-	650,000	-	715,000
Cheong Chee Tham	135,000	40,000	148,500	44,000
Michael John Montesano III	12,000	-	13,200	-

Except as disclosed above, 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 end of the financial year.

Except as disclosed above, 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 19 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 2010.

Unit options

During the financial year, there were:

- (i) no options granted by the Trustee-Manager to any person to take up unissued units in the Trust; and
- (ii) no units issued by virtue of any exercise of option to take up unissued units of the Trust.

As at the end of the financial year, there were no unissued units of the Trust under option.

Audit committee

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

Phang Thim Fatt (Chairman)
Wong Meng Meng
Michael John Montesano III

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

The Audit Committee has recommended to the Board of Directors, the nomination of Messrs KPMG LLP for re-appointment as auditors of the Trust at the forthcoming Annual General Meeting of the unitholders.


Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

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



Wong Meng Meng
Chairman



Philip Clausius
Director

24 February 2010

Statement by Trustee-Manager

Statement and certification

In our opinion:


- (a) the financial statements set out on pages FS1 to FS34 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Trust as at 31 December 2009 and the results, 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 2009:

- 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;
- 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



Wong Meng Meng
Chairman

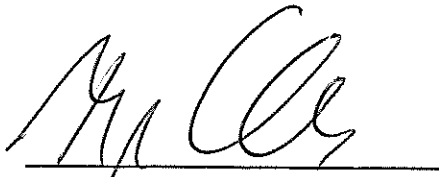


Philip Clausius
Director

24 February 2010

Statement by the Chief Executive Officer

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.



Philip Clausius
Chief Executive Officer

24 February 2010



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Independent auditors' report

Unitholders of First Ship Lease Trust

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 balance sheets of the Group and the Trust as at 31 December 2009, the income statement, statement of comprehensive income, statement of changes in unitholders' funds and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages FS1 to FS34.

Trustee-Manager's responsibility for the financial statements

The Trustee-Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Business Trusts Act (the "Act") and International Financial Reporting Standards. This responsibility includes:

- (a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets that are part of the property of the 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 Trust are properly authorised and that they are recorded as necessary to permit the preparation of true and fair accounts and to maintain accountability of assets;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements 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 Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee-Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion:

- (a) the consolidated financial statements of the Group and the balance sheet of the Trust are properly drawn up in accordance with the provisions of the Act and International Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Trust as at 31 December 2009 and the results, changes in unitholders' funds and cash flows of the Group for the year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Trustee-Manager 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.


KPMG LLP
Public Accountants and
Certified Public Accountants

Singapore
24 February 2010

Balance sheets
As at 31 December 2009

	Note	Group		Trust	
		2009 US\$'000	2008 US\$'000	2009 US\$'000	2008 US\$'000
Non-current assets					
Vessels	3	845,187	905,604	-	-
Subsidiaries	4	-	-	671,584	765,997
		<u>845,187</u>	<u>905,604</u>	<u>671,584</u>	<u>765,997</u>
Current assets					
Prepayments and other receivables	5	1,282	345	96,255	97,450
Cash and cash equivalents	6	56,770	26,716	56,769	24,556
		<u>58,052</u>	<u>27,061</u>	<u>153,024</u>	<u>122,006</u>
Total assets		<u>903,239</u>	<u>932,665</u>	<u>824,608</u>	<u>888,003</u>
Equity attributable to unitholders of the Trust					
Units in issue	7	510,273	477,642	510,273	477,642
Reserves	8	(129,536)	(99,472)	(205,846)	(141,701)
Total equity		<u>380,737</u>	<u>378,170</u>	<u>304,427</u>	<u>335,941</u>
Non-current liability					
Financial liabilities	9	470,853	536,407	470,853	536,407
Current liabilities					
Trade and other payables	10	6,714	7,501	4,393	5,068
Financial liabilities	9	44,935	10,548	44,935	10,548
Current tax payable		-	39	-	39
		<u>51,649</u>	<u>18,088</u>	<u>49,328</u>	<u>15,655</u>
Total liabilities		<u>522,502</u>	<u>554,495</u>	<u>520,181</u>	<u>552,062</u>
Total equity and liabilities		<u>903,239</u>	<u>932,665</u>	<u>824,608</u>	<u>888,003</u>

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

Consolidated income statement
Year ended 31 December 2009

	Note	2009 US\$'000	2008 US\$'000
Revenue	11	98,768	86,621
Depreciation expense on vessels		(61,295)	(54,744)
Management fees		(3,959)	(3,496)
Trustee fees		(183)	(151)
Incentive fees		-	(1,458)
Other trust expenses		(2,334)	(2,655)
Results from operating activities		30,997	24,117
Finance income		2,322	1,111
Finance expenses		(24,910)	(20,449)
Net finance expenses	12	(22,588)	(19,338)
Profit before income tax	13	8,409	4,779
Income tax credit	14	14	44
Profit for the year		8,423	4,823
Income available for distribution	15	41,975	57,656
Distribution per unit (US cents)		7.90	11.52
Earnings per unit (US cents)			
Basic	16	1.57	0.96
Diluted	16	1.57	0.96

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

Consolidated statement of comprehensive income
Year ended 31 December 2009

	2009 \$'000	2008 \$'000
Profit for the year	8,423	4,823
Other comprehensive income:		
Translation differences relating to financial statements of foreign subsidiaries	95	(1,673)
Exchange differences on monetary items forming part of net investment in foreign subsidiaries	(161)	(1,943)
Effective portion of changes in fair value of cash flow hedges	(2,189)	(33,118)
Net change in fair value of cash flow hedges transferred to income statement	12,795	3,528
Other comprehensive income for the year, net of income tax	10,540	(33,206)
Total comprehensive income for the year	18,963	(28,383)

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

Consolidated statement of changes in unitholders' funds
Year ended 31 December 2009

	Note	Units in issue US\$'000	Hedging reserve US\$'000	Foreign currency translation reserve US\$'000	Equity compensation reserve US\$'000	Accumulated losses US\$'000	Total equity US\$'000
Group							
At 1 January 2008		476,775	(8,136)	7,118	-	(16,347)	459,410
Total comprehensive income for the year		-	(29,590)	(3,616)	-	4,823	(28,383)
Contribution by and distributions to unitholders:							
Units issued as payment for incentive fees		867	-	-	-	-	867
Units to be issued as payment for incentive fees		-	-	-	590	-	590
Distribution to unitholders	15	-	-	-	-	(54,314)	(54,314)
At 31 December 2008		477,642	(37,726)	3,502	590	(65,838)	378,170
At 1 January 2009		477,642	(37,726)	3,502	590	(65,838)	378,170
Total comprehensive income for the year		-	10,606	(66)	-	8,423	18,963
Contribution by and distributions to unitholders:							
Units issued as payment for incentive fees		590	-	-	(590)	-	-
Units issued pursuant to Distribution Reinvestment Scheme		3,811	-	-	-	-	3,811
Units issued pursuant to equity placement		28,230	-	-	-	-	28,230
Distribution to unitholders	15	-	-	-	-	(48,437)	(48,437)
At 31 December 2009		510,273	(27,120)	3,436	-	(105,852)	380,737

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

Consolidated cash flow statement
Year ended 31 December 2009

	Note	2009 US\$'000	2008 US\$'000
Operating activities			
Profit before income tax		8,409	4,779
Adjustments for:			
Depreciation expense on vessels		61,295	54,744
Amortisation of debt transaction costs and bank agency fees		1,126	696
Amortisation of initial direct costs		631	476
Interest income		(165)	(607)
Interest expense		23,368	19,562
Ineffective portion of changes in fair value of interest rate swaps		376	-
Equity-settled unit-based payment transactions		-	1,457
Unrealised foreign exchange gain		(1,617)	(524)
		<u>93,423</u>	<u>80,583</u>
Changes in working capital:			
Prepayments and other receivables		(2,175)	524
Trade and other payables		766	(384)
Cash generated from operations		<u>92,014</u>	<u>80,723</u>
Income taxes paid		(23)	(1)
Cash flows from operating activities		<u>91,991</u>	<u>80,722</u>
Investing activities			
Acquisition of vessels		-	(354,109)
Interest received		192	648
Cash flows from investing activities		<u>192</u>	<u>(353,461)</u>
Financing activities			
Proceeds from issuance of units (net of transaction costs)		28,230	-
Distribution to unitholders		(44,626)	(54,314)
Interest paid		(24,917)	(15,195)
Repayment of secured bank loans		(20,816)	-
Proceeds from borrowings (net of transaction costs)		-	350,481
Cash flows from financing activities		<u>(62,129)</u>	<u>280,972</u>
Net increase in cash and cash equivalents		30,054	8,233
Cash and cash equivalents at beginning of the year		26,716	18,483
Cash and cash equivalents at end of the year	6	<u>56,770</u>	<u>26,716</u>

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

Notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Trustee-Manager on 24 February 2010.

1 Domicile and activities

First Ship Lease Trust (the “Trust”) is a Singapore-domiciled business trust constituted pursuant to a Deed of Trust dated 19 March 2007 (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.

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

The Trust is a provider of leasing services on a bareboat charter basis to the international shipping industry. It has a modern, high quality and diverse portfolio of 23 vessels consisting of nine product tankers, seven containerships, three chemical tankers, two dry bulk carriers and two crude oil tankers as at 31 December 2009. These vessels have a weighted average age of approximately five years, and a weighted average remaining lease period of approximately eight years (excluding extension periods and early buy-out options).

The consolidated financial statements relate to the Trust and its subsidiaries (together referred to as the “Group”).

The Trust Deed provides 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 Trustee-Manager, by way of the issue of new units as soon as practicable after the end of the relevant quarter.

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

Trustee fees

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

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

Other fees

The Trustee-Manager is also entitled to the following:

- An acquisition fee amounting to 1.0% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the acquisition price of vessels acquired directly or indirectly by the Trust, pro-rated if applicable, to the proportion of the Trust's interest. The acquisition fee is payable in the form of cash and/or units (as the Trustee-Manager may elect, such election to be irrevocable and made before the payment of the acquisition fee). No acquisition fee is payable on the acquisition of the initial portfolio of vessels.
- A disposal fee amounting to 0.5% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the sale price of vessels disposed, pro-rated if applicable, to the proportion of the Trust's interest. The disposal fee is payable in cash.

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 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial statements have been prepared on the historical cost basis except for financial derivatives and certain financial assets and financial liabilities which are stated at fair value and/or amortised cost.

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.

The preparation of financial statements in conformity with IFRS requires the Trustee-Manager to make judgements, 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 2.6 – classification of leases
- Note 3 – impairment assessment, depreciation, useful lives and residual values of vessels
- Note 17 – valuation of financial instruments

Changes in accounting policies

Starting as of 1 January 2009 on adoption of new/revised FRSS, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements

Determination and presentation of operating segments

As of 1 January 2009, the Group determines and presents operating segments based on the information that is internally provided to the Board of Directors of the Trustee-Manager, who is the Group’s chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously, operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per unit.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Board of Directors of the Trustee-Manager to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors of the Trustee-Manager include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group has only one reportable segment – leasing of vessels. The segment information is presented in respect of the Group's major customers.

Presentation of financial statements

The Group applied revised IAS 1 *Presentation of Financial Statements* (2007), which became effective from 1 January 2009. As a result, the Group presents in the consolidated statement of changes in unitholders' funds all owner changes in unitholders' funds, whereas all non-owner changes in unitholders' funds are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it conforms with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per unit.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained above, which addresses changes in accounting policies.

2.2 Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. 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. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

Accounting for subsidiaries by the Trust

Investment in subsidiaries are stated in the Trust's balance sheet at cost less accumulated impairment losses.

2.3 Foreign currencies

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. The functional currencies of the Group entities are the US dollar and the Euro. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the reporting 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 on which the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, 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 prevailing at 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 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 the Trust's income statement. Such exchange differences 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.

2.4 Vessels

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

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

The cost of replacing part of an item of 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.

Depreciation on vessels is recognised in the income statement on a straight-line basis down to the estimated residual value at the end of the base lease term, which range from seven to twelve years.

Residual values of vessels are estimated and re-assessed at the end of the financial year based on regression analysis of the median historical values of similar vessels of the respective vintage over a period of time.

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

2.5 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise other receivables, cash and cash equivalents, financial liabilities, and trade and other payables.

Non-derivative financial instruments not recognised at fair value through profit or loss, are recognised initially at fair value plus, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any allowance for impairment losses.

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

Cash and cash equivalents comprise cash balances and bank deposits.

Derivative financial instruments and hedging activities

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

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

Cash flow hedges

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

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

Impairment of financial assets

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

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

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

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.

2.6 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 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 are not expected to be sufficiently lower than the fair values at the date the options become exercisable, the Group judged 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.

2.7 Impairment – non-financial assets

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

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

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

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

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

2.8 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.9 Revenue recognition

Lease income receivable under operating leases is recognised in the income statement on a straight-line basis over the period of the respective lease terms.

2.10 Finance income and expenses

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 expenses comprise interest expense on borrowings, net foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the income statement. All borrowing costs are recognised in the income statement using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale.

2.11 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, in which case it is recognised in other comprehensive income.

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 using the balance sheet method, providing for 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 by 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.

The lease income derived by the Group's entities from the respective bareboat charter agreements qualifies for tax exemption under the Maritime Finance Incentive ("MFI") scheme, with effect from 19 March 2007. This tax exemption on the qualifying income will be granted for the remaining useful life of any vessel that is acquired by the Trust during the initial period of 10 years from the effective date. 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 Group would be subject to tax on its non-tax exempt income such as interest income at the prevailing corporate tax rate, after adjusting for allowable expenses.

3 Vessels

Group	Vessels US\$'000	Initial direct costs US\$'000	Total US\$'000
Cost			
At 1 January 2008	637,595	2,054	639,649
Additions	350,000	4,109	354,109
Translation differences on consolidation	(4,218)	-	(4,218)
At 31 December 2008	983,377	6,163	989,540
Cost adjustment	-	(39)	(39)
Translation differences on consolidation	2,274	-	2,274
At 31 December 2009	985,651	6,124	991,775
Accumulated depreciation/amortisation			
At 1 January 2008	29,774	69	29,843
Depreciation/amortisation charge for the year	54,744	476	55,220
Translation differences on consolidation	(1,127)	-	(1,127)
At 31 December 2008	83,391	545	83,936
Depreciation/amortisation charge for the year	61,295	631	61,926
Translation differences on consolidation	726	-	726
At 31 December 2009	145,412	1,176	146,588
Carrying amount			
At 1 January 2008	607,821	1,985	609,806
At 31 December 2008	899,986	5,618	905,604
At 31 December 2009	840,239	4,948	845,187

All of the Group's vessels, with a net carrying value of US\$840,239,000 (2008: US\$899,986,000), are mortgaged to financial institutions (see note 9).

Depreciation, useful lives and residual values of vessels

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 base lease term, excluding any early buy-out options or extended lease periods. At the balance sheet date, the Group considered the base lease term to be the period which the vessels are expected to be available for use by the lessees. Therefore, should there be any notification received from the lessees to exercise the early buy-out option or to extend the lease period beyond the base lease term, the depreciation expense of the Group's vessels in the future periods may therefore be revised. There were no changes in the useful lives of vessels noted for the current year.

The residual value is reviewed at each reporting date, with any change in estimate accounted for as a change in estimate prospectively. The residual value of each vessel is estimated based on regression analysis of the median historical values for standard vessels obtained from third party sources, and for non-standard vessels obtained from specialised brokers. Factors such as asset price, quality and fungibility are also taken into consideration to determine the acceptable level of residual value. Any significant changes in the residual value of the Group's vessels in future periods can affect the depreciation expense. Based on the Group's re-assessment of the residual value of the Group's vessels at the financial year-end, no revision to the residual value previously estimated is considered necessary since any revised residual value would not have a material effect on the current year's depreciation expense and the carrying value of vessels as of 31 December 2009.

Impairment assessment of vessels

Impairment loss is recognised when events and circumstances indicate that the vessel may be impaired and the carrying amounts of the vessels exceed the recoverable amounts. The recoverable amount for each vessel is determined based on the higher of fair value less costs to sell and value-in-use calculation.

The fair value is determined based on valuation report from independent shipbrokers. The valuation of vessels was prepared assuming a sale between a willing seller and a willing buyer and on a charter-free basis.

The value-in-use calculation uses cash flow projections based on the contractual cash flows over the period of the base lease term and projected residual value, discounted at rates which reflect the specific risks relating to each vessel.

The Group does not consider its vessels to be impaired.

4 Subsidiaries

	Trust	
	2009	2008
	US\$'000	US\$'000
Equity investments, at cost	119,259	119,259
Amounts due from subsidiaries (non-trade)	552,325	646,738
	<u>671,584</u>	<u>765,997</u>

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Effective equity held by the Group %
FSL-1, Inc.	Marshall Islands	100
FSL-2, Inc.	Marshall Islands	100
FSL-3, Inc.	Marshall Islands	100
FSL-4, Inc.	Marshall Islands	100
FSL-5, Inc.	Marshall Islands	100
FSL-6, Inc.	Marshall Islands	100
FSL-7, Inc.	Marshall Islands	100
FSL-8, Inc.	Marshall Islands	100

Name of subsidiaries	Country of incorporation	Effective equity held by the Group %
FSL-9 Pte. Ltd.	Singapore	100
FSL-10 Pte. Ltd.	Singapore	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
FSL-15, Inc.	Marshall Islands	100
FSL-16, Inc.	Marshall Islands	100
FSL-18 Pte. Ltd.	Singapore	100
FSL-19 Pte. Ltd.	Singapore	100
FSL-20, Inc.	Marshall Islands	100
FSL-21, Inc.	Marshall Islands	100
FSL-22, Inc.	Marshall Islands	100
FSL-23 Pte. Ltd.	Singapore	100
FSL-24 Pte. Ltd.	Singapore	100

KPMG LLP, Singapore are the auditors for all of the Singapore-incorporated subsidiaries. No statutory audit is required for subsidiaries incorporated in the Marshall Islands under the laws of incorporation.

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

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

5 Prepayments and other receivables

	Group		Trust	
	2009	2008	2009	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Prepayments	164	180	52	54
Other receivables	1,118	165	1,118	155
Amounts due from subsidiaries (non-trade)	-	-	95,085	97,241
	<u>1,282</u>	<u>345</u>	<u>96,255</u>	<u>97,450</u>

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. There is no allowance for doubtful debts arising from the outstanding balances.

As at 31 December 2009, the financial assets classified as "loans and receivables" held by the Trust amounted to US\$95,085,000 (2008: US\$97,241,000).

6 Cash and cash equivalents

	Group		Trust	
	2009	2008	2009	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Fixed deposits with financial institutions	41,919	19,125	41,919	19,125
Cash at bank	14,851	7,591	14,850	5,431
	<u>56,770</u>	<u>26,716</u>	<u>56,769</u>	<u>24,556</u>

The weighted average effective interest rate relating to cash and cash equivalents at the balance sheet date for the Group and Trust is 0.43% (2008: 2.82%) per annum. Interest rates repriced at intervals within 3 months.

All the cash and cash equivalents are primarily denominated in the functional currencies of the Group entities.

7 Units in issue

	Group and Trust	
	2009	2008
	Number of	Number of
	units	units
	'000	'000
Fully paid units:		
At 1 January	501,270	500,000
Issue of units pursuant to Distribution Reinvestment Scheme	15,554	-
Issue of units pursuant to equity placement	80,000	-
Issue of units as payment for incentive fees to the Trustee-Manager	1,841	1,270
At 31 December	<u>598,665</u>	<u>501,270</u>

The Trust had deployed the proceeds from Distribution Reinvestment Scheme towards the repayment of secured bank loans.

During the year, the Trust carried out an equity placement exercise. The proceeds from the equity placement, earmarked for acquisition of vessels, had not been deployed as at 31 December 2009. The unit issue costs, comprising professional, advisory and other costs relating to the issuance of units in the Trust, were deducted directly against the unitholders' funds.

Each unit in the Trust represents an undivided interest in the Trust. The rights and interests of unitholders are contained in the Trust Deed and include the right to:

- receive income and other distributions attributable to the units held;
- participate in the termination of the Trust by receiving a share of all net cash proceeds derived from the realisation of the assets of the Trust less any liabilities, in accordance with their proportionate interests in the Trust;

- exercise one vote per unit at all unitholders' meetings; and
- receive audited accounts and the annual report of the Trust.

The restrictions of a unitholder include the following:

- a unitholder has no right to request the Trustee-Manager to transfer to him any assets (or part thereof) or of any estate or interest in any asset (or part thereof) of the Trust;
- a unitholder cannot give any directions to the Trustee-Manager (whether at a meeting of unitholders or otherwise) if it would require the Trustee-Manager to do or omit doing anything which may result in:
 - the Trust ceasing to comply with applicable laws and regulations; or
 - the exercise of any discretion expressly conferred to the Trustee-Manager by the Trust Deed.
- a unitholder's right is limited to the right to require due administration of the Trust in accordance with the provisions of the Trust Deed; and
- a unitholder has no right to request the Trustee-Manager to redeem his units while the units are listed on Singapore Exchange Securities Trading Limited.

A unitholder's liability is limited to the amount paid or payable for any units in the Trust. The provisions of the Trust Deed provide that no unitholders will be personally liable to indemnify the Trustee-Manager or any creditor of the Trustee-Manager in the event the liabilities of the Trust exceed its assets.

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 Trust. The Trustee-Manager monitors the distribution per unit, which is the annualised distribution to unitholders divided by total number of units.

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

There were no changes in the Trust's approach to capital management during the year.

The Trust is not subject to externally or regulatory imposed capital requirements.

8 Reserves

	Group		Trust	
	2009	2008	2009	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Hedging reserve	(27,120)	(37,726)	(27,120)	(37,726)
Foreign currency translation reserve	3,436	3,502	-	-
Equity compensation reserve	-	590	-	590
Accumulated losses	(105,852)	(65,838)	(178,726)	(104,565)
	<u>(129,536)</u>	<u>(99,472)</u>	<u>(205,846)</u>	<u>(141,701)</u>

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

The foreign currency translation reserve comprises:

- (a) foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries whose functional currencies are different from the functional currency of the Trust; and
- (b) foreign exchange differences on monetary items which form part of the Group's net investment in foreign operations provided certain conditions are met.

The equity compensation reserve comprises the value of services rendered by the Trustee-Manager to be settled by way of the issue of new units, and is recognised according to the bases set out in note 1.

The accumulated losses refer to the cumulative accounting profits earned after deduction of distributions to unitholders. At the balance sheet date, the cumulative distributions were in excess of the cumulative accounting profits recorded, as allowed under the Singapore Business Trusts Act. The movement of the accumulated losses is disclosed in the Consolidated Statement of Changes in Unitholders' funds.

9 Financial liabilities

	Group and Trust	
	2009	2008
	US\$'000	US\$'000
Non-current		
Secured bank loans	456,292	509,229
Financial derivatives	14,561	27,178
	<u>470,853</u>	<u>536,407</u>
Current		
Secured bank loans	32,000	-
Financial derivatives	12,935	10,548
	<u>44,935</u>	<u>10,548</u>

The Trust has substantially utilised the revolving credit facility of US\$515,000,000 (“combined facility”) to finance the acquisition of vessels.

During the year, the Trustee-Manager successfully obtained an agreement from the secured lenders to reduce the minimum coverage ratio of the charter-free fair market value of the Trust’s vessel portfolio over its outstanding indebtedness from 145% to 100% till 30 June 2011 (the “Amendment Period”). The Trust will also make quarterly loan repayments of US\$8 million (applied on a pro-rata basis to all the three tranches) during the Amendment Period.

As the combined facility is revolving in nature, the Trust will be able to re-draw on the committed but undrawn portion of the facility after the Amendment Period.

The combined facility is secured on the following:

- (i) a first priority mortgage over the Group’s vessels in the portfolio;
- (ii) a first priority assignment of the Group’s rights, title, interest in the insurances to and for each vessel, including insurance for hull and machinery, protection and indemnity and war risks; and
- (iii) a first priority assignment of the Group’s rights, title and interest in and to the bareboat charter agreement and the charter income of each vessel.

Terms and debt repayment schedule

The terms and conditions of the outstanding bank loans are as follows:

		Nominal interest rate	Year of maturity	Face value US\$’000	Carrying amount US\$’000
Group and Trust					
Liabilities carried at amortised cost					
US\$ floating rate loans	(i)	US\$ 3-month LIBOR + 1.7% [#]	2014	246,008	244,415
	(ii)	US\$ 3-month LIBOR + 1.7% ^{##}	2012	196,807	195,062
	(iii)	US\$ 3-month LIBOR + 1.7% ^{##}	2010 – 2012	49,449	48,815
				492,264*	488,292

[#] This margin applies during the Amendment Period, and will be reduced to 1.25% per annum after the Amendment Period.

^{##} This margin applies during the Amendment Period, and will be reduced to 1.45% per annum after the Amendment Period.

* Before the deduction of unamortised debt transaction costs of US\$3,972,000.

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

Group	Carrying amount US\$'000	Cash flows			
		Contractual cash flows US\$'000	Within 1 year US\$'000	Within 1 to 5 years US\$'000	More than 5 years US\$'000
2009					
Non-derivative financial liabilities					
US\$ floating rate loans	489,667	(548,216)	(42,716)	(505,500)	-
Trade and other payables	1,606	(1,606)	(1,606)	-	-
	<u>491,273</u>	<u>(549,822)</u>	<u>(44,322)</u>	<u>(505,500)</u>	<u>-</u>
2008					
Non-derivative financial liabilities					
US\$ floating rate loans	513,683	(582,218)	(14,048)	(315,833)	(252,337)
Trade and other payables	844	(844)	(844)	-	-
	<u>514,527</u>	<u>(583,062)</u>	<u>(14,892)</u>	<u>(315,833)</u>	<u>(252,337)</u>
Trust					
2009					
Non-derivative financial liabilities					
US\$ floating rate loans	489,667	(548,216)	(42,716)	(505,500)	-
Trade payables	1,444	(1,444)	(1,444)	-	-
	<u>491,111</u>	<u>(549,660)</u>	<u>(44,160)</u>	<u>(505,500)</u>	<u>-</u>
2008					
Non-derivative financial liabilities					
US\$ floating rate loans	513,683	(582,218)	(14,048)	(315,833)	(252,337)
Trade payables	570	(570)	(570)	-	-
	<u>514,253</u>	<u>(582,788)</u>	<u>(14,618)</u>	<u>(315,833)</u>	<u>(252,337)</u>

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

	Carrying amount	Cash flows			
		Contractual cash flows	Within 1 year	Within 1 to 5 years	More than 5 years
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Group and Trust					
2009					
Derivative financial liabilities					
Interest rate swaps used for hedging					
- outflow	25,917	(27,919)	(14,043)	(13,876)	-
Cross currency swap contracts used for hedging					
- outflow	1,579	(1,641)	(497)	(1,144)	-
	<u>27,496</u>	<u>(29,560)</u>	<u>(14,540)</u>	<u>(15,020)</u>	<u>-</u>
2008					
Derivative financial liabilities					
Interest rate swaps used for hedging					
- outflow	37,103	(38,432)	(10,306)	(27,160)	(966)
Cross currency swap contracts used for hedging					
- (outflow)/inflow	623	(630)	(319)	(341)	30
	<u>37,726</u>	<u>(39,062)</u>	<u>(10,625)</u>	<u>(27,501)</u>	<u>(936)</u>

10 Trade and other payables

	Group		Trust	
	2009	2008	2009	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables	31	49	31	49
Accrued financing expenses	2,949	4,498	2,949	4,498
Accrued operating expenses	1,575	795	1,413	521
Lease income received in advance	2,159	2,159	-	-
	<u>6,714</u>	<u>7,501</u>	<u>4,393</u>	<u>5,068</u>

11 Revenue

Revenue relates to lease income derived from operating leases.

12 Finance income and expenses

	Group	
	2009 US\$'000	2008 US\$'000
Recognised in the income statement		
Interest income from cash and cash equivalents	165	607
Net foreign exchange gain	2,157	504
Finance income	2,322	1,111
Interest expense:		
- bank loans	23,368	19,562
- amortisation of debt transaction costs	1,072	647
- commitment and bank agency fees	94	240
Ineffective portion of changes in fair value of interest rate swaps	376	-
Finance expenses	24,910	20,449
Net finance expenses recognised in income statement	(22,588)	(19,338)

13 Profit before income tax

The following items have been included in arriving at profit before income tax:

	Group	
	2009 US\$'000	2008 US\$'000
Non-audit fees paid/payable to:		
- auditors of the Trust	107	92
Amortisation of initial direct costs	631	476

14 Income tax expense

	Group	
	2009 US\$'000	2008 US\$'000
Current tax (credit)/expense		
Current year	-	26
Over provision in prior year	(14)	(70)
	(14)	(44)

	Group	
	2009	2008
	US\$'000	US\$'000
<i>Reconciliation of effective tax rate</i>		
Profit before income tax	8,409	4,779
Tax calculated using Singapore tax rate of 17% (2008: 18%)	1,430	860
Income not subject to tax	(17,157)	(15,753)
Expenses not deductible for tax purposes	15,727	14,919
Over provision in prior year	(14)	(70)
	<u>(14)</u>	<u>(44)</u>

15 Income available for distribution

	Group	
	2009	2008
	US\$'000	US\$'000
Income available for distribution to unitholders at the beginning of the year	15,442	12,100
Profit for the year	8,423	4,823
Net adjustments (Note A)	33,552	52,833
Income available for distribution	<u>41,975</u>	<u>57,656</u>
Distribution to unitholders:		
For the period from 1 October 2007 to 31 December 2007		
- Distribution of US2.42 cents per unit (tax-exempt income)	-	(12,100)
For the period from 1 January 2008 to 31 March 2008		
- Distribution of US2.59 cents per unit (tax-exempt income)	-	(12,950)
For the period from 1 April 2008 to 30 June 2008		
- Distribution of US2.80 cents per unit (tax-exempt income)	-	(14,003)
For the period from 1 July 2008 to 30 September 2008		
- Distribution of US3.05 cents per unit (tax-exempt income)	-	(15,261)
For the period from 1 October 2008 to 31 December 2008		
- Distribution of US3.08 cents per unit (tax-exempt income)	(15,439)	-
For the period from 1 January 2009 to 31 March 2009		
- Distribution of US2.45 cents per unit (tax-exempt income)	(12,326)	-
For the period from 1 April 2009 to 30 June 2009		
- Distribution of US2.45 cents per unit (tax-exempt income)	(12,707)	-
For the period from 1 July 2009 to 30 September 2009		
- Distribution of US1.50 cents per unit (tax-exempt income)	(7,965)	-
	<u>(48,437)</u>	<u>(54,314)</u>
Income available for distribution to unitholders at the end of the year	<u>8,980</u>	<u>15,442</u>

On 25 January 2010, the Trust declared a distribution of US1.50 cents per unit for the period from 1 October 2009 to 31 December 2009.

Note A

	Group	
	2009	2008
	US\$'000	US\$'000
Net adjustments comprise:		
Non-cash adjustments:		
- Depreciation expense on vessels	61,295	54,744
- Amortisation of debt transaction costs	213	210
- Amortisation of initial direct costs	109	90
- Unrealised foreign exchange gain	(1,617)	(524)
Ineffective portion of changes in fair value of interest rate swaps	376	-
	<u>60,376</u>	<u>54,520</u>
Initial direct costs paid	-	(750)
Repayment of secured bank loans	(17,005)	-
Amount not available for distribution	(9,819)	(937)
Net adjustments	<u>33,552</u>	<u>52,833</u>

16 Earnings per unit

	Group	
	2009	2008
	US\$'000	US\$'000
Basic earnings per unit is based on:		
Profit for the year	<u>8,423</u>	<u>4,823</u>
	Number of units	
	'000	'000
Issued units at beginning of the year	501,270	500,000
Effect of units issued	<u>34,119</u>	<u>315</u>
Weighted average number of units at the end of the year	<u>535,389</u>	<u>500,315</u>
	US\$'000	US\$'000
Diluted earnings per unit is based on:		
Profit for the year	<u>8,423</u>	<u>4,823</u>

For the purpose of calculation of the diluted earnings per unit, the weighted average number of units in issue is adjusted to take into account the dilutive effect arising from the issuable units as payment for incentive fees to the Trustee-Manager.

The effect of the units that were issued as payment for incentive fees on the weighted average number of units in issue is as follows:

	Group	
	2009	2008
	Number of units	
	'000	'000
Weighted average number of:		
Units used in the calculation of basic earnings per unit	535,389	500,315
Potential units issuable as payment for incentive fees	-	1,841
Weighted average number of issued units and potential units issuable	<u>535,389</u>	<u>502,156</u>

In the prior year, the units issuable as payment for incentive fees to the Trustee-Manager for the 4th quarter of 2008, amounting to US\$590,000 were settled through the issue of 1,841,000 new units in the Trust on 10 February 2009.

17 Financial risk management

Overview

Risk management is integral to the whole business of the Group. The Group is exposed to credit, liquidity and market risks. The Group uses derivative financial instruments to hedge its interest rate and foreign currency risk exposures. As at 31 December 2009, the Group does not hold or issue derivative financial instruments for trading purposes.

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

Credit risk

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

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

The Group's credit risk is concentrated in lessees in the shipping industry; and the Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations as of 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheets.

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.

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 Group also ensures that it has sufficient cash for quarterly distributions to its unitholders. In conjunction with the agreement obtained from the secured lenders in September 2009 (see note 9), the Trust will be able to re-draw on the committed but undrawn portion of its credit facility after 30 June 2011. As at the reporting date, the undrawn portion of the credit facility is US\$22,736,000 (2008: US\$1,920,000) and there were no outstanding commitments for any acquisition of vessels.

Market risk

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

Interest rate risk

The Group adopts a policy of ensuring that 100% of its exposure to changes in interest rates on bank loans is hedged. Where natural hedges are not available, the Group manages the risk using interest rate swaps to convert the floating rates under the bank loans to fixed rates. Nine interest rate swaps, denominated in US dollar, have been entered into to achieve this purpose. The swaps mature over the next five years following the maturity of the related loan obligations. The all-in effective interest rates for these interest rate swaps range from 4.74% to 6.94% per annum (2008: 4.24% to 6.24% per annum).

As at 31 December 2009, the Group has interest rate swaps with a total notional contract amount of US\$378,045,000 (2008: US\$374,678,000), whereby it pays fixed interest rates ranging from 3.04% per annum to 5.24% per annum and receives a variable rate equal to the US\$ 3-month LIBOR. The Trust classifies these interest rate swaps as hedging instruments under the cash flow hedge model.

The net cumulative fair value change of these interest rate swaps as at 31 December 2009 is US\$25,917,000 (2008: US\$37,103,000). This amount is recognised as financial derivatives in "financial liabilities".

Sensitivity analysis

With respect to the interest rate swaps (recognised as hedging instruments under cash flow hedge model), variable rate bank loans and certain floating rate lease agreements, a change of 100 bp in interest rate at the reporting date would increase (decrease) hedging reserve and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Hedging reserve		Profit or loss	
	100 bp increase US\$'000	100 bp decrease US\$'000	100 bp increase US\$'000	100 bp decrease US\$'000
Group and Trust				
31 December 2009				
Variable rate bank loans	-	-	(5,123)	5,123
Interest rate swaps	12,289	(10,173)	3,820	(3,820)
	12,289	(10,173)	(1,303)	1,303
Floating rate lease income	-	-	1,382	(1,382)
	12,289	(10,173)	79	(79)
31 December 2008				
Variable rate bank loans	-	-	(3,087)	3,087
Interest rate swaps	15,852	(16,434)	2,383	(2,383)
	15,852	(16,434)	(704)	704
Floating rate lease income	-	-	704	(704)
	15,852	(16,434)	-	-

The Group has entered into two floating rate lease arrangements ("host contracts") which are pegged to the US\$ 3-month LIBOR ("embedded derivatives"). These arrangements provide an economic hedge against the interest rate risk exposure arising from the respective loans relating to these leases.

The Trustee-Manager considers the economic characteristics and risks of these embedded derivatives to be closely related to the economic characteristics and risks of the host contracts. Accordingly, in respect of these embedded derivatives, no separate accounting from the host contracts is required as the embedded derivatives are essentially contingent rentals based on variable interest rates.

Foreign currency risk

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

The Group hedges 100% of its forecasted lease income denominated in the Euro. As at 31 December 2009, the Group uses cross currency swap contracts with a total notional contract amount of US\$31,979,000 (2008: US\$41,434,000), to hedge the foreign currency risk associated with its forecasted revenue. The net cumulative fair value loss for these cross currency swap contracts as at 31 December 2009 is US\$1,579,000 (2008: US\$623,000). This amount is recognised as financial derivatives in "financial liabilities".

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:

	31 December 2009		31 December 2008	
	Euro	Singapore	Euro	Singapore
	US\$'000	dollar	US\$'000	dollar
	US\$'000	US\$'000	US\$'000	US\$'000
Group				
Cross currency swap contracts (notional amounts)	31,979	-	41,434	-
Other receivables	-	101	-	96
Cash and cash equivalents	11	1,189	2	100
Trust				
Cross currency swap contracts (notional amounts)	31,979	-	41,434	-
Other receivables	-	101	-	85
Cash and cash equivalents	11	1,189	2	100

Sensitivity analysis

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

	Group		Trust	
	Hedging	Profit or	Hedging	Profit or
	reserve	loss	reserve	loss
	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2009				
Euro	3,239	(1)	3,239	(1)
Singapore dollar	-	(117)	-	(117)
31 December 2008				
Euro	4,035	*	4,035	*
Singapore dollar	-	(20)	-	(19)

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

	Group		Trust	
	Hedging	Profit or	Hedging	Profit or
	reserve	loss	reserve	loss
	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2009				
Euro	(3,239)	1	(3,239)	1
Singapore dollar	-	117	-	117
31 December 2008				
Euro	(4,035)	*	(4,035)	*
Singapore dollar	-	20	-	19

* Less than US\$1,000.

Estimation of fair values

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

Derivatives

The fair value of derivative instruments is calculated by reference to current forward exchange rates and interest rates for contracts with similar maturity profiles, and discounting the estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Non-derivative financial liabilities

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

Other financial assets and liabilities

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

Interest rates used in determining fair values

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

	2009 %	2008 %
Interest rate swaps	0.24 – 2.69	0.25 – 2.10
Cross currency swap contracts	0.09 – 2.78	0.41 – 2.96

Fair value hierarchy

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

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

As at 31 December 2009, the Group and the Trust had derivative financial liabilities amounting to US\$27,496,000 that were categorised as Level 2 in the fair value hierarchy above.

18 Commitments

The non-cancellable operating lease rentals receivable relating to the 23 leases are as follows:

	Group	
	2009	2008
	US\$'000	US\$'000
Within 1 year	101,292	101,292
After 1 year but within 5 years	400,869	405,863
After 5 years	254,603	350,901
	<u>756,764</u>	<u>858,056</u>

Except for two lease agreements in which their base rental contains an adjustment which is pegged to US\$ 3-month LIBOR, the Group leases out its vessels under operating leases with fixed rental rates during the base lease term. The base lease terms under these non-cancellable leases range from seven to twelve years. In eleven lease agreements held by the Group, the lessees have the options to extend the lease period beyond the base lease period up to ten years. The lessees also have the option to purchase the related vessels in all of the lease agreements.

19 Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common significant influence. Related parties may be individuals or other entities. The Trustee-Manager is a subsidiary of a substantial unitholder of the Trust.

Other than disclosed elsewhere in the financial statements, transactions with related parties are as follows:

	Group	
	2009	2008
	US\$'000	US\$'000
Transactions with the Trustee-Manager:		
Management fees	3,959	3,496
Trustee fees	183	151
Incentive fees	-	1,458
Acquisition fees	-	3,500
Transactions with other related parties:		
Directors' fees paid/payable to non-executive directors	173	205
Lease rentals received from Schoeller Holdings Ltd *	(6,541)	(6,969)
Inspection fees paid to Columbia Shipmanagement Ltd *	<u>159</u>	<u>121</u>

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

* Related parties of a unitholder who holds 26% of the Trust as at 31 December 2009.

20 Segment information

No operating segment information has been prepared as the Group has only one reportable segment – leasing of vessels. With respect to the presentation of 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 revenues and non-current assets to specific geographical areas.

Major customers

In the reporting periods set out below, certain customers below accounted for greater than 10% of the Group's total revenues:

	Group	
	2009	2008
	US\$'000	US\$'000
James Fisher	11,804	11,832
Groda Shipping/Rosneft	15,111	15,111
Geden	12,290	10,848
Berlian Laju Tanker	14,153	14,153
Evergreen Marine	11,696	11,696
Yang Ming Marine	20,055	9,272
	85,109	72,912

21 New accounting standards and interpretations not yet adopted

The Group has not applied the following accounting standards (including its consequential amendments) and interpretations that have been issued as of the balance sheet date but are not yet effective:

- IAS 24 *Related Party Disclosures* (revised 2009)
- Amendments to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- Amendment to IFRS 2 *Share-based Payment – Group cash-settled share-based payment transactions*
- IFRS 3 (revised 2008) *Business Combinations* and IAS 27 (amended) *Separate and Consolidated Financial Statements*
- IFRS 9 *Financial Instruments*

- Improvements to *IFRSs 2009*
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The amendment to IAS 39 on eligible hedged items will become effective for the Group's financial statements for the year ending 31 December 2010. The amendments, which clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation, should be applied in two particular situations: (i) the designation of a one-sided risk in a hedged item; and (ii) the designation of inflation in particular situations. The application of these amendments is not expected to have any significant impact on the Group's financial statements.

Improvements to IFRSs 2009 contain amendments to numerous accounting standards that result in accounting changes for presentation, recognition or measurement and disclosure purposes. The Group is in the process of assessing the impact of these amendments.

Other than improvements to IFRSs 2009, the initial application of these standards (and its consequential amendments) and interpretations is not expected to have any material impact on the Group's financial statements. The Group has not considered the impact of accounting standards issued after the balance sheet date.