

**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 2011

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 2011.

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 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	-	715,000	715,000	-
Cheong Chee Tham	148,500	44,000	148,500	44,000
Michael John Montesano III	13,200	-	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 22 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Trust or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

There were no changes in any of the above mentioned interests in the Trust between the end of the financial year and 21 January 2012.

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.

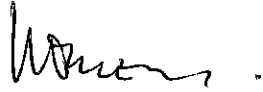
In performing its functions, the Audit Committee reviewed the overall scope of external audit and the assistance given by the Trustee-Manager's officers to the auditors. It met with the Trust's external auditors to discuss the scope and results of their quarterly reviews and annual audit. In addition, 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

29 February 2012

Statement by Trustee-Manager

Statement and certification

In our opinion:

- (a) the financial statements set out on pages FS1 to FS37 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 2011 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 2011:

- 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



Wong Meng Meng
Chairman



Philip Clausius
Director

29 February 2012

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

29 February 2012



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Independent auditors' report

Unitholders of First Ship Lease Trust

Report on the financial statements

We have audited the accompanying 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 statements of financial position of the Group and the Trust as at 31 December 2011, the income statement, statement of comprehensive income, statement of changes in unitholders' funds and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages FS1 to FS37.

Trustee-Manager's responsibility for the financial statements

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 Singapore Business Trusts Act (the "Act") and International Financial Reporting Standards.

The Trustee-Manager has acknowledged that its responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

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 of financial statements that give a true and fair view 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.



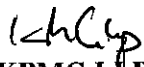
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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 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 2011 and the results, changes in unitholders' funds and cash flows of the Group for the year ended on that date.

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 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
29 February 2012

Statements of financial position
As at 31 December 2011

	Note	Group		Trust	
		2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Assets					
Vessels	4	784,696	775,023	-	-
Subsidiaries	5	-	-	601,828	592,523
Derivative assets	6	426	476	426	476
Non-current assets		785,122	775,499	602,254	592,999
Derivative assets	6	314	188	314	188
Inventories	7	998	738	-	-
Trade and other receivables	8	3,677	3,758	83,030	90,743
Cash and cash equivalents	9	32,304	55,846	28,877	51,790
Current assets		37,293	60,530	112,221	142,721
Total assets		822,415	836,029	714,475	735,720
Equity attributable to unitholders of the Trust					
Units in issue	10	525,412	510,273	525,412	510,273
Reserves	11	(200,433)	(167,825)	(304,168)	(262,466)
Total equity		324,979	342,448	221,244	247,807
Liabilities					
Financial liabilities	12	437,561	446,698	437,561	446,698
Non-current liabilities		437,561	446,698	437,561	446,698
Trade and other payables	13	7,326	8,886	3,122	3,227
Financial liabilities	12	52,548	37,988	52,548	37,988
Current tax payable		1	9	-	-
Current liabilities		59,875	46,883	55,670	41,215
Total liabilities		497,436	493,581	493,231	487,913
Total equity and liabilities		822,415	836,029	714,475	735,720

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

Consolidated income statement
Year ended 31 December 2011

	Note	2011 US\$'000	2010 US\$'000
Revenue	14	110,714	100,494
Depreciation expense on vessels		(59,688)	(59,058)
Impairment loss on vessels	4	(22,117)	(7,865)
Vessel operating expenses		(18,275)	(5,474)
Management fees		(3,652)	(3,563)
Trustee fees		(169)	(175)
Other trust expenses		(3,409)	(4,395)
Results from operating activities		3,404	19,964
Other income		5,000	-
Finance income	15	79	249
Finance expenses	15	(25,549)	(25,903)
Net finance expenses		(25,470)	(25,654)
Loss before income tax	16	(17,066)	(5,690)
Income tax expense	17	-	(9)
Loss for the year		(17,066)	(5,699)
Income available for distribution	18	18,293	26,042
Distribution per unit (US cents)		2.95	4.35
Earnings per unit (US cents)			
Basic	19	(2.72)	(0.95)
Diluted	19	(2.72)	(0.95)

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

Consolidated statement of comprehensive income
Year ended 31 December 2011

	2011	2010
	\$'000	\$'000
Loss for the year	(17,066)	(5,699)
Other comprehensive income/(loss)		
Translation differences relating to financial statements of foreign operations	(1,023)	(1,720)
Exchange differences on monetary items forming part of net investment in foreign operations	(977)	(2,659)
Effective portion of changes in fair value of cash flow hedges	(5,169)	(13,449)
Net change in fair value of cash flow hedges reclassified to income statement	14,953	14,572
Tax on other comprehensive income	-	-
Other comprehensive income/(loss) for the year, net of income tax	7,784	(3,256)
Total comprehensive loss for the year	(9,282)	(8,955)

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

Consolidated statement of changes in unitholders' funds
Year ended 31 December 2011

	Note	Units in issue US\$'000	Hedging reserve US\$'000	Foreign currency translation reserve US\$'000	Accumulated losses US\$'000	Total equity US\$'000
Group						
At 1 January 2010		510,273	(27,120)	3,436	(105,852)	380,737
Total comprehensive income/(loss) for the year						
Loss for the year		-	-	-	(5,699)	(5,699)
Other comprehensive income						
Translation differences relating to financial statements of foreign operations		-	-	(1,720)	-	(1,720)
Exchange differences on monetary items forming part of net investment in foreign operations		-	-	(2,659)	-	(2,659)
Effective portion of changes in fair value of cash flow hedges		-	(13,449)	-	-	(13,449)
Net change in fair value of cash flow hedges reclassified to income statement		-	14,572	-	-	14,572
Total other comprehensive income/(loss)		-	1,123	(4,379)	-	(3,256)
Total comprehensive income/(loss) for the year		-	1,123	(4,379)	(5,699)	(8,955)
Transactions with unitholders, recognised directly in equity						
Contributions by and distributions to unitholders						
Distributions to unitholders	18	-	-	-	(29,334)	(29,334)
Total transactions with unitholders		-	-	-	(29,334)	(29,334)
At 31 December 2010		510,273	(25,997)	(943)	(140,885)	342,448

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

Consolidated statement of changes in unitholders' funds (continued)
Year ended 31 December 2011

	Note	Units in issue US\$'000	Hedging reserve US\$'000	Foreign currency translation reserve US\$'000	Accumulated losses US\$'000	Total equity US\$'000
Group						
At 1 January 2011		510,273	(25,997)	(943)	(140,885)	342,448
Total comprehensive income/(loss) for the year						
Loss for the year		-	-	-	(17,066)	(17,066)
Other comprehensive income						
Translation differences relating to financial statements of foreign operations		-	-	(1,023)	-	(1,023)
Exchange differences on monetary items forming part of net investment in foreign operations		-	-	(977)	-	(977)
Effective portion of changes in fair value of cash flow hedges		-	(5,169)	-	-	(5,169)
Net change in fair value of cash flow hedges reclassified to income statement		-	14,953	-	-	14,953
Total other comprehensive income/(loss)		-	9,784	(2,000)	-	7,784
Total comprehensive income/(loss) for the year		-	9,784	(2,000)	(17,066)	(9,282)
Transactions with unitholders, recognised directly in equity						
Contributions by and distributions to unitholders						
Units issued pursuant to equity placement		15,139	-	-	-	15,139
Distributions to unitholders	18	-	-	-	(23,326)	(23,326)
Total transactions with unitholders		15,139	-	-	(23,326)	(8,187)
At 31 December 2011		525,412	(16,213)	(2,943)	(181,277)	324,979

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

Consolidated statement of cash flows
Year ended 31 December 2011

	Note	2011 US\$'000	2010 US\$'000
Cash flows from operating activities			
Loss before income tax		(17,066)	(5,690)
Adjustments for:			
Depreciation expense on vessels		59,688	59,058
Impairment loss on vessels		22,117	7,865
Amortisation of debt transaction costs		2,615	1,377
Amortisation of initial direct costs		554	534
Interest income		(79)	(249)
Interest expense		23,756	24,565
Unrealised foreign exchange gain		(831)	(174)
		<hr/> 90,754	<hr/> 87,286
Changes in trade and other receivables		77	(2,492)
Changes in inventories		(260)	(738)
Changes in trade and other payables		452	1,655
Lease income received in advance		(1,196)	523
Release of pledge/(Pledge) of cash deposit		2,800	(2,800)
Cash generated from operations		<hr/> 92,627	<hr/> 83,434
Income taxes paid		(8)	-
Net cash from operating activities		<hr/> <hr/> 92,619	<hr/> <hr/> 83,434
Cash flows from investing activities			
Acquisition of vessels		(93,183)	-
Costs incurred for dry-docking		(18)	(1,496)
Interest received		87	244
Net cash used in investing activities		<hr/> <hr/> (93,114)	<hr/> <hr/> (1,252)
Cash flows from financing activities			
Proceeds from issuance of units (net of transaction costs)		15,139	-
Distribution to unitholders		(23,326)	(29,334)
Repayment of secured bank loans		(506,264)	(32,000)
Net proceeds from secured bank loans		518,780	-
Interest paid		(24,576)	(24,572)
Net cash used in financing activities		<hr/> <hr/> (20,247)	<hr/> <hr/> (85,906)
Net decrease in cash and cash equivalents		(20,742)	(3,724)
Cash and cash equivalents at 1 January		53,046	56,770
Cash and cash equivalents at 31 December	9	<hr/> <hr/> 32,304	<hr/> <hr/> 53,046

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 29 February 2012.

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 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 provider of leasing services on a bareboat charter basis to the international shipping industry. It has a modern, high quality and diverse portfolio of 25 vessels consisting of 11 product tankers, seven containerships, three chemical tankers, two dry bulk carriers and two crude oil tankers as at 31 December 2011. As at the authorization date of the financial statements, 20 vessels are employed on long-term bareboat leases and have a dollar-weighted average remaining lease period of approximately six years (excluding extension periods and early buy-out options). The remaining five vessels consist of (i) two product tankers currently trading in the product tanker spot market and (ii) three chemical tankers currently pending re-delivery to the Trust. The combined portfolio of vessels has a dollar-weighted average age of approximately six and a half years.

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

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 Basis of preparation

2.1 Statement of compliance

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

2.2 Basis of measurement

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 as set out in the accounting policies under Note 3 of the financial statements.

2.3 Functional and presentation 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.

2.4 Use of estimates and judgements

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.

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 3.6 – classification of leases;
- Note 4 – impairment assessment and recoverable amounts of vessels; and depreciation, useful lives and residual values of vessels; and
- Note 20 – valuation of financial instruments.

3 Significant accounting policies

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.

With effect from 1 January 2011, the Group has adopted all the applicable new and revised accounting standards that are mandatory for financial year beginning on or after 1 January 2011. The adoption of these standards and interpretations has no significant impact to the Group with the exception of the revised IAS 24 *Related Party Disclosures* (2010) as described below.

From 1 January 2011, the Group has applied the revised IAS 24 *Related Party Disclosures* (2010) to identify parties that are related to the Group and to determine the disclosures to be made on transactions and outstanding balances, including commitments, between the Group and its related parties. IAS 24 (2010) improved the definition of a related party in order to eliminate inconsistencies and ensure symmetrical identification of relationships between two parties.

The adoption of IAS 24 (2010) has resulted in additional parties being identified as related to the Group. Transactions, including commitments, with these related parties for the current and comparative years have been disclosed accordingly in note 22 to the financial statements.

The adoption of IAS 24 (2010) affects only the disclosures made in the financial statements. There is no financial effect on the results and financial position of the Group for the current and previous financial years. Accordingly, the adoption of IAS 24 (2010) has no impact on earnings per unit.

3.1 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 statement of financial position at cost less accumulated impairment losses.

3.2 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 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.

3.3 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 leased on a bareboat charter basis under operating lease agreements 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 ranges from seven to twelve years. The estimated residual value is 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.

Vessels deployed in product tanker spot market 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 each vessel deployed in product tanker spot market is estimated based on the average scrap steel price per light deadweight tonne in recent years.

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

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

3.4 Inventories

Inventories comprise bunkers and consumable stores. 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.

3.5 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, deposits, 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 other comprehensive income and transferred to hedging reserve in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

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

Impairment of financial assets

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

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. The reversal is recognised in the income statement.

Units in issue

Units issued are classified as equity.

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

3.6 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.

3.7 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.

3.8 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.9 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.

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

3.10 Finance income and finance expense

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

Finance expense comprises interest expense on borrowings, net foreign currency losses, 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.

3.11 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 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 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 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.

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 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.

3.12 New standards and interpretations not adopted

The Group has not applied the new/revised accounting standards (including its consequential amendments) and interpretations that have been issued as of the date of the statements of financial position but are not yet effective. The initial application of these standards 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 date of the statements of financial position.

4 Vessels

Group	Vessels US\$'000	Initial direct costs US\$'000	Total US\$'000
Cost			
At 1 January 2010	985,651	6,124	991,775
Additions	1,496	-	1,496
Translation differences on consolidation	(6,015)	-	(6,015)
At 31 December 2010	981,132	6,124	987,256
Additions	92,018	1,183	93,201
Translation differences on consolidation	(2,705)	-	(2,705)
At 31 December 2011	<u>1,070,445</u>	<u>7,307</u>	<u>1,077,752</u>
Accumulated depreciation/amortisation			
At 1 January 2010	145,412	1,176	146,588
Depreciation/amortisation charge for the year	59,058	534	59,592
Impairment losses	7,639	226	7,865
Translation differences on consolidation	(1,812)	-	(1,812)
At 31 December 2010	210,297	1,936	212,233
Depreciation/amortisation charge for the year	59,688	554	60,242
Impairment losses	22,117	-	22,117
Translation differences on consolidation	(1,536)	-	(1,536)
At 31 December 2011	<u>290,566</u>	<u>2,490</u>	<u>293,056</u>
Carrying amount			
At 1 January 2010	840,239	4,948	845,187
At 31 December 2010	770,835	4,188	775,023
At 31 December 2011	<u>779,879</u>	<u>4,817</u>	<u>784,696</u>

All of the Group's vessels, with a net carrying value of US\$779,879,000 (2010: US\$770,835,000), are mortgaged to financial institutions (see note 12).

Depreciation, useful lives and residual values of vessels

Vessels under operating lease

Vessels under operating lease 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 reporting 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 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 under operating lease 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 2011.

Vessels deployed in product tanker spot market

Vessels deployed in product tanker spot market 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 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 deployed in product tanker spot market is estimated based on the average scrap steel price per light deadweight tonne in recent years. There was no revision to the residual value previously estimated 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 2011.

Chemical tankers pending re-delivery to the Trust

The three chemical tankers pending re-delivery to the Trust, were depreciated in 2011 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 of 12 years. As at 31 December 2011, the residual value of each vessel was estimated on the same bases as the vessels under operating lease.

Impairment assessment of vessels

Impairment loss is recognised when events and circumstances indicate that the vessel may be impaired and the carrying amount of the vessel exceeds the recoverable amount. The recoverable amount for each vessel is determined based on the higher of 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.

Vessels under operating lease

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 the 20 vessels under operating leases (excluding the three chemical tankers) to be impaired.

Vessels deployed in product tanker spot market

The recoverable amount of the vessels is determined based on value-in-use calculation using projected cash flows over the remaining useful life. The discount rate of 7.76% takes into account the time value of money and the risks specific to the vessels' estimated cash flows. The projected cash inflows are based on near-term freight rates forecasted by an independent industry consultant and observable historical trend of the daily charter income of a vessel of similar specifications under a one-year time charter arrangement. The projected cash outflows take into account existing and projected vessels' voyage and operating expenses. The terminal value of each vessel is determined based on the average scrap steel price per light deadweight tonne in recent years.

Chemical tankers pending re-delivery to the Trust

In February 2012, the lessees of three chemical tankers, namely, 'Pertiwi', 'Prita Dewi' and 'Pujawati', had defaulted on their lease payments under their respective lease agreements. These lessees are wholly-owned subsidiaries of PT Berlian Laju Tanker Tbk ("BLT"). Following the default in lease payments, the recoverable amount of the vessels as at 31 December 2011 was re-assessed on the basis that the contractual cash flows over the base lease term was no longer relevant. Upon re-assessment of the recoverable amount, the impairment losses of US\$22,117,000 were recognised for the year ended 31 December 2011 as the payment default was assessed to be an adjusting post-balance sheet event.

The recoverable amount of the vessels is re-assessed based on value-in-use calculation using projected cash flows over the remaining useful life. The discount rate of 7.76% takes into account the time value of money and the risks specific to the vessels' estimated cash flows. The projected cash inflows are based on near-term freight rates forecasted by an independent industry consultant and observable historical trend of the daily charter income of a vessel of similar specifications under a one-year time charter arrangement. The projected cash outflows take into account projected vessels' voyage and operating expenses. The terminal value of each vessel is determined based on the scrap steel price per light deadweight tonne of similar tankers scrapped recently.

5 Subsidiaries

	Trust	
	2011	2010
	US\$'000	US\$'000
Equity investments, at cost	119,359	119,259
Amounts due from subsidiaries (non-trade)	482,469	473,264
	601,828	592,523

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of Incorporation	Effective equity held by the Group	
		2011 %	2010 %
FSL-1, Inc.	Marshall Islands	100	100
FSL-2, Inc.	Marshall Islands	100	100
FSL-3, Inc.	Marshall Islands	100	100
FSL-4, Inc.	Marshall Islands	100	100
FSL-5, Inc.	Marshall Islands	100	100
FSL-6, Inc.	Marshall Islands	100	100
FSL-7, Inc.	Marshall Islands	100	100
FSL-8, Inc.	Marshall Islands	100	100
FSL-9 Pte. Ltd.	Singapore	100	100
FSL-10 Pte. Ltd.	Singapore	100	100
FSL-11 Pte. Ltd.	Singapore	100	100
FSL-12 Pte. Ltd.	Singapore	100	100
FSL-13 Pte. Ltd.	Singapore	100	100
FSL-14, Inc.	Marshall Islands	100	100
FSL-15, Inc.	Marshall Islands	100	100
FSL-16, Inc.	Marshall Islands	100	100
FSL-18 Pte. Ltd.	Singapore	100	100
FSL-19 Pte. Ltd.	Singapore	100	100
FSL-20, Inc.	Marshall Islands	100	100
FSL-21, Inc.	Marshall Islands	100	100
FSL-22, Inc.	Marshall Islands	100	100
FSL-23 Pte. Ltd.	Singapore	100	100
FSL-24 Pte. Ltd.	Singapore	100	100
FSL-25 Pte. Ltd.	Singapore	100	-
FSL-26 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.

6 Derivative assets

	Group and Trust	
	2011	2010
	US\$'000	US\$'000
Non-current		
Financial derivatives	426	476
	<hr/> <hr/>	<hr/> <hr/>
Current		
Financial derivatives	314	188
	<hr/> <hr/>	<hr/> <hr/>

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

	Carrying amount	Cash flows		
	US\$'000	Contractual cash flows	Within 1 year	Within 1 to 5 years
	US\$'000	US\$'000	US\$'000	US\$'000
Group and Trust				
2011				
Derivative financial assets				
Cross currency swap contracts used for hedging				
- inflows	740	746	314	432
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
2010				
Derivative financial assets				
Cross currency swap contracts used for hedging				
- inflows	664	675	188	487
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7 Inventories

	Group		Trust	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Bunkers	716	395	-	-
Consumable stores	282	343	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	998	738	-	-

8 Trade and other receivables

	Group		Trust	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Other receivables	374	60	352	44
Amounts due from subsidiaries (non-trade)	-	-	82,513	90,586
Deposits	-	1,637	-	-
Trade receivables	2,951	1,803	-	-
Loans and receivables	3,325	3,500	82,865	90,630
Prepayments	352	258	165	113
	<u>3,677</u>	<u>3,758</u>	<u>83,030</u>	<u>90,743</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.

In 2010, deposits were in relation to security deposit posted with the Japanese Court for the release of a vessel, 'FSL Singapore'. This security deposit was released in 2011.

The ageing of trade receivables (applicable to income generated from vessels placed in the spot market) at the reporting date was:

	Group	
	2011	2010
	US\$'000	US\$'000
Past due 1 – 30 days	2,796	1,036
Past due 31 – 60 days	18	175
Past due 61 – 90 days	93	70
More than 90 days	44	522
	<u>2,951</u>	<u>1,803</u>

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

9 Cash and cash equivalents

	Group		Trust	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Restricted cash	-	2,800	-	2,800
Fixed deposits with financial institutions	25,410	48,312	25,410	48,312
Cash at bank	6,894	4,734	3,467	678
Cash and cash equivalents in the Statement of Financial Position	<u>32,304</u>	<u>55,846</u>	<u>28,877</u>	<u>51,790</u>
Less: Restricted cash	-	(2,800)	-	(2,800)
Cash and cash equivalents in the Consolidated Statement of Cash Flows	<u>32,304</u>	<u>53,046</u>	<u>28,877</u>	<u>48,990</u>

In 2010, restricted cash was in relation to a banker's guarantee of US\$2.8 million, pledged as security for the release of an arrested vessel, 'FSL Hamburg', in favour of Daxin Petroleum Pte. Ltd. ("Daxin"). Pursuant to the amicable out-of-court settlement on a without-admission-of-liability basis between the Trust and Daxin in November 2011, this banker's guarantee was returned and the pledge was released.

The weighted average effective interest rate relating to cash and cash equivalents at the reporting date for the Group and Trust is 0.22% (2010: 0.25%) per annum. Interest rates reprice at intervals within 3 months.

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

10 Units in issue

	Group and Trust	
	2011	2010
Fully paid units:	Number of	Number of
	units	units
	'000	'000
At 1 January	598,665	598,665
Issue of units pursuant to equity placement	56,000	-
At 31 December	654,665	598,665

In 2009 and 2011, the Trust carried out equity placement exercises. The proceeds from the equity placements have been deployed for acquisition of two vessels 'TORM Margrethe' and 'TORM Marie'. 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.

11 Reserves

	Group		Trust	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Hedging reserve	(16,213)	(25,997)	(16,213)	(25,997)
Foreign currency translation reserve	(2,943)	(943)	-	-
Accumulated losses	(181,277)	(140,885)	(287,955)	(236,469)
	<u>(200,433)</u>	<u>(167,825)</u>	<u>(304,168)</u>	<u>(262,466)</u>

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

The foreign currency translation reserve comprises:

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

The accumulated losses were arrived after deduction of distributions to unitholders. Under the Singapore Business Trusts Act, the distribution to unitholders is allowed even when the cumulative distributions were in excess of the cumulative accounting profits recorded.

12 Financial liabilities

	Group and Trust	
	2011	2010
	US\$'000	US\$'000
Non-current		
Secured bank loans	428,780	432,409
Financial derivatives	8,781	14,289
	437,561	446,698
Current		
Secured bank loans	44,000	25,240
Financial derivatives	8,548	12,748
	52,548	37,988

In December 2011, the Trustee-Manager, on behalf of the Trust, secured a 6-year amortising term loan facility of US\$479.6 million. The term loan facility was fully drawn in December 2011 to refinance its existing revolving credit facility with an outstanding loan balance of US\$483.1 million. The remaining loan balance of US\$3.5 million was repaid in cash from the Trust's internal funds.

Under the term loan facility, the Trust will make quarterly loan repayments of US\$11.0 million and a lump sum repayment on maturity date.

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

Security value to loan ratio	Margin over US\$ 3-month LIBOR
>125% to 140%	3.0%
>140% to 180%	2.8%
>180%	2.6%

As at 31 December 2011, the applicable margin over US\$ 3-month LIBOR was 3.0% as the security value to loan ratio was 130%. The security value to loan ratio will be assessed semi-annually.

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

Group and Trust	Nominal interest rate	Year of maturity	Face value US\$'000	Carrying amount US\$'000
US\$ floating rate loans	US\$ 3-month LIBOR + applicable margin	2017	479,558*	472,780

* Before the deduction of unamortised debt transaction costs of US\$6,778,000.

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	Cash flows			
	US\$'000	Contractual cash flows US\$'000	Within 1 year US\$'000	Within 1 to 5 years US\$'000	After 5 years US\$'000
2011					
Non-derivative financial liabilities					
US\$ floating rate loans [^]	473,348	(574,838)	(61,928)	(239,516)	(273,394)
Trade and other payables	3,719	(3,719)	(3,719)	-	-
	<u>477,067</u>	<u>(578,557)</u>	<u>(65,647)</u>	<u>(239,516)</u>	<u>(273,394)</u>
2010					
Non-derivative financial liabilities					
US\$ floating rate loans [^]	459,001	(487,013)	(34,192)	(452,821)	-
Trade and other payables	3,261	(3,261)	(3,261)	-	-
	<u>462,262</u>	<u>(490,274)</u>	<u>(37,453)</u>	<u>(452,821)</u>	<u>-</u>
Trust					
2011					
Non-derivative financial liabilities					
US\$ floating rate loans [^]	473,348	(574,838)	(61,928)	(239,516)	(273,394)
Trade and other payables	1,001	(1,001)	(1,001)	-	-
	<u>474,349</u>	<u>(575,839)</u>	<u>(62,929)</u>	<u>(239,516)</u>	<u>(273,394)</u>
2010					
Non-derivative financial liabilities					
US\$ floating rate loans [^]	459,001	(487,013)	(34,192)	(452,821)	-
Trade and other payables	284	(284)	(284)	-	-
	<u>459,285</u>	<u>(487,297)</u>	<u>(34,476)</u>	<u>(452,821)</u>	<u>-</u>

[^] Inclusive of accrued interest as at the reporting date.

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

Group and Trust	Carrying amount	Cash flows		
	US\$'000	Contractual cash flows US\$'000	Within 1 year US\$'000	Within 1 to 5 years US\$'000
2011				
Derivative financial liabilities				
Interest rate swaps used for hedging - outflows	17,329	19,025	10,131	8,894
2010				
Derivative financial liabilities				
Interest rate swaps used for hedging - outflows	27,037	28,910	14,366	14,544

13 Trade and other payables

	Group		Trust	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Trade payables	208	720	83	23
Accrued financing expenses	2,121	2,943	2,121	2,943
Accrued operating expenses	2,325	1,383	918	261
Lease income received in advance	1,486	2,682	-	-
Other payables	1,186	1,158	-	-
	<u>7,326</u>	<u>8,886</u>	<u>3,122</u>	<u>3,227</u>

14 Revenue

	Group	
	2011 US\$'000	2010 US\$'000
Bareboat charter lease income	89,124	94,559
Freight income	21,590	5,935
	<u>110,714</u>	<u>100,494</u>

Bareboat charter lease income relates to lease income derived from operating leases.

Freight income relates to income derived from two vessels 'FSL Hamburg' and 'FSL Singapore' deployed in the product tanker spot market.

15 Finance income and expenses

	Group	
	2011	2010
	US\$'000	US\$'000
Recognised in the income statement		
Interest income from cash and cash equivalents	79	249
Finance income	79	249
Interest expense:		
- bank loans	23,756	24,565
- amortisation of debt transaction costs	2,615	1,377
- commitment and bank agency fees	258	183
Net foreign exchange gain	(1,080)	(222)
Finance expenses	25,549	25,903
Net finance expenses recognised in income statement	(25,470)	(25,654)

16 Loss before income tax

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

	Group	
	2011	2010
	US\$'000	US\$'000
Other income [^]	(5,000)	-
Audit fees paid/payable to auditors of the Trust	107	90
Non-audit fees paid/payable to:		
- auditors of the Trust*	127	213
- other auditors	20	35
Amortisation of initial direct costs	554	534

[^] Pertained to the receipt of settlement sum from Daxin pursuant to the amicable out-of-court settlement on a without-admission-of-liability basis between the Trust and Daxin in November 2011.

* Inclusive of review fees on quarterly results.

17 Income tax expense

	Group	
	2011	2010
	US\$'000	US\$'000
Current tax expense		
Current year	-	9
	<u>-</u>	<u>9</u>
<i>Reconciliation of effective tax rate</i>		
Loss before income tax	(17,066)	(5,690)
Tax calculated using Singapore tax rate of 17%	(2,901)	(967)
Income not subject to tax	(19,868)	(17,155)
Expenses not deductible for tax purposes	22,769	18,131
	<u>-</u>	<u>9</u>

18 Income available for distribution

	Group	
	2011	2010
	US\$'000	US\$'000
Income available for distribution to unitholders at the beginning of the year	5,688	8,980
Loss for the year	(17,066)	(5,699)
Net adjustments (Note A)	35,359	31,741
Income available for distribution	<u>18,293</u>	<u>26,042</u>
Distribution to unitholders:		
For the period from 1 October 2009 to 31 December 2009		
- Distribution of US1.50 cents per unit (tax-exempt income)	-	(8,980)
For the period from 1 January 2010 to 31 March 2010		
- Distribution of US1.50 cents per unit (tax-exempt income)	-	(8,980)
For the period from 1 April 2010 to 30 June 2010		
- Distribution of US0.95 cents per unit (tax-exempt income)	-	(5,687)
For the period from 1 July 2010 to 30 September 2010		
- Distribution of US0.95 cents per unit (tax-exempt income)	-	(5,687)
For the period from 1 October 2010 to 31 December 2010		
- Distribution of US0.95 cents per unit (tax-exempt income)	(5,688)	-
For the period from 1 January 2011 to 31 March 2011		
- Distribution of US0.95 cents per unit (tax-exempt income)	(5,687)	-
For the period from 1 April 2011 to 30 June 2011		
- Distribution of US0.95 cents per unit (tax-exempt income)	(5,732)	-
For the period from 1 July 2011 to 30 September 2011		
- Distribution of US0.95 cents per unit (tax-exempt income)	(6,219)	-
	<u>(23,326)</u>	<u>(29,334)</u>
Income available for distribution to unitholders at the end of the year	<u>655</u>	<u>5,688</u>

On 19 January 2012, the Trust declared a distribution of US0.10 cents per unit for the period from 1 October 2011 to 31 December 2011.

Note A

	Group	
	2011	2010
	US\$'000	US\$'000
Net adjustments comprise:		
Non-cash adjustments:		
- Depreciation expense on vessels	59,385	58,996
- Amortisation of debt transaction costs	841	226
- Amortisation of initial direct costs	73	88
- Unrealised foreign exchange gain	(831)	(174)
- Impairment loss on vessels	22,117	7,865
	81,585	67,001
Repayment of secured bank loans	(26,707)	(32,000)
Amount not available for distribution	(19,519)	(3,260)
Net adjustments	35,359	31,741

19 Earnings per unit

	Group	
	2011	2010
	US\$'000	US\$'000
Basic and diluted earnings per unit is based on:		
Loss for the year	(17,066)	(5,699)
	Number of units	
	'000	'000
Issued units at beginning of the year	598,665	598,665
Effect of units issued	29,458	-
Weighted average number of units at the end of the year	628,123	598,665

20 Financial risk management

Overview

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

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

Credit risk

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

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

The Group's credit risk is concentrated in lessees in the shipping industry; and the Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations as of 31 December 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statements of financial position.

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

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. As at the reporting date, 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. Arising from the drawdown under the new term loan facility in December 2011, certain tenure of the loan remains unhedged. The Trustee-Manager, on behalf of the Trust, is currently reviewing this unhedged portion and will hedge them in accordance with the Trust's policy in due course.

As at 31 December 2011, the Group has nine interest rate swaps with a total notional contract amount of US\$364,943,000 (2010: US\$376,074,000), whereby it pays fixed interest rates ranging from 3.04% per annum to 5.24% per annum and receives a variable rate equal to 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 2011 is US\$17,329,000 (2010: US\$27,037,000). This amount is recognised as financial derivatives in “financial liabilities”.

Sensitivity analysis

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

Group and Trust	Other comprehensive income		Profit or loss	
	50 bp increase US\$'000	50 bp decrease US\$'000	50 bp increase US\$'000	50 bp decrease US\$'000
31 December 2011				
Variable rate bank loans	-	-	(2,370)	2,370
Interest rate swaps	2,523	(2,449)	1,887	(1,887)
	<u>2,523</u>	<u>(2,449)</u>	<u>(483)</u>	<u>483</u>
Floating rate lease income	-	-	654	(654)
	<u>2,523</u>	<u>(2,449)</u>	<u>171</u>	<u>(171)</u>
31 December 2010				
Variable rate bank loans	-	-	(2,398)	2,398
Interest rate swaps	4,605	(3,794)	1,925	(1,925)
	<u>4,605</u>	<u>(3,794)</u>	<u>(473)</u>	<u>473</u>
Floating rate lease income	-	-	673	(673)
	<u>4,605</u>	<u>(3,794)</u>	<u>200</u>	<u>(200)</u>

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.

As at 31 December 2011, the Group hedged 66% of its forecasted lease income denominated in the Euro. The Group uses cross currency swap contracts with a total notional contract amount of US\$15,392,000 (2010: US\$22,523,000), to hedge the foreign currency risk associated with its forecasted Euro revenue. The net cumulative fair value gain for these cross currency swap contracts as at 31 December 2011 is US\$740,000 (2010: US\$664,000). This amount is recognised as financial derivatives in “derivative assets”.

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 2011		31 December 2010	
	Euro US\$'000	Singapore dollar US\$'000	Euro US\$'000	Singapore dollar US\$'000
Group				
Cross currency swap contracts* (notional amounts)	15,392	-	22,523	-
Other receivables	-	357	-	22
Cash and cash equivalents	516	560	533	245
Trade and other payables	(17)	(66)	(53)	(40)
Trust				
Cross currency swap contracts* (notional amounts)	15,392	-	22,523	-
Other receivables	-	344	-	22
Cash and cash equivalents	9	360	10	205
Trade payables	-	(51)	-	(22)

* Designated as hedging instruments under cash flow hedge model.

Sensitivity analysis

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

	Group		Trust	
	Other comprehensive income US\$'000	Profit or loss US\$'000	Other comprehensive income US\$'000	Profit or loss US\$'000
31 December 2011				
Euro	1,452	(56)	1,452	(1)
Singapore dollar	-	(95)	-	(73)
31 December 2010				
Euro	2,149	(54)	2,149	(1)
Singapore dollar	-	(25)	-	(23)

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

	Group		Trust	
	Other comprehensive income US\$'000	Profit or loss US\$'000	Other comprehensive income US\$'000	Profit or loss US\$'000
	31 December 2011			
Euro	(1,452)	56	(1,452)	1
Singapore dollar	-	95	-	73
31 December 2010				
Euro	(2,149)	54	(2,149)	1
Singapore dollar	-	25	-	23

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 trade and other receivables, cash and cash equivalents and trade and other payables) approximate their fair values because of the short period to maturity.

Interest rates used in determining fair values

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

	2011 %	2010 %
Interest rate swaps	0.20 – 0.78	0.15 – 1.43
Cross currency swap contracts	0.06 – 0.80	0.19 – 1.64

Carrying amount of financial assets and liabilities

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

	Group		Trust	
	Loan and receivables US\$'000	Financial liabilities at amortised cost US\$'000	Loan and receivables US\$'000	Financial liabilities at amortised cost US\$'000
2011				
Trade and other receivables	3,325	-	82,865	-
Cash and cash equivalents	32,304	-	28,877	-
Trade and other payables	-	7,326	-	3,122
Secured bank loans	-	472,780	-	472,780
	<u>35,629</u>	<u>480,106</u>	<u>111,742</u>	<u>475,902</u>
2010				
Trade and other receivables	3,500	-	90,630	-
Cash and cash equivalents	55,846	-	51,790	-
Trade and other payables	-	8,886	-	3,227
Secured bank loans	-	457,649	-	457,649
	<u>59,346</u>	<u>466,535</u>	<u>142,420</u>	<u>460,876</u>

Fair value hierarchy

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

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

Group and Trust 31 December 2011	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Derivative assets	-	740	-	740
Liabilities				
Derivative liabilities	-	17,329	-	17,329

Group and Trust	Level 1	Level 2	Level 3	Total
31 December 2010	US\$'000	US\$'000	US\$'000	US\$'000
Assets				
Derivative assets	-	664	-	664
Liabilities				
Derivative liabilities	-	27,037	-	27,037

21 Commitments

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

	Group	
	2011	2010
	US\$'000	US\$'000
Within 1 year	83,616	86,181
After 1 year but within 5 years	298,495	333,113
After 5 years	109,652	178,004
	<u>491,763</u>	<u>597,298</u>

Except for two lease agreements in which their base rental contains an adjustment which is pegged to US\$ 3-month LIBOR, the rental rates of the lease arrangements are fixed over the base lease term. The base lease terms under these non-cancellable leases range from seven to twelve years (2010: nine to twelve years). In eleven lease agreements (2010: nine 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.

Arising from the post-balance sheet adjusting event, the contractual cash flows for the three vessels leased to the wholly-owned subsidiaries of BLT have been excluded in the above commitments.

22 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 or joint-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, significant transactions with related parties are as follows:

	Group	
	2011	2010
	US\$'000	US\$'000
Transactions with the Trustee-Manager:		
Management fees	3,652	3,563
Trustee fees	169	175
Transactions with other related parties:		
Directors' fees paid to non-executive directors	201	184
Lease rentals received from Schoeller Holdings Ltd*	6,555	6,193
Inspection fees paid to Columbia Shipmanagement Ltd*	171	90
Commission paid to United Product Tankers*	247	54
	69,288	80,963

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 24% of the Trust's issued units as at 31 December 2011.

23 Segment information

No operating segment information has been prepared as the Group has only one reportable segment. 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

Each of the following customers accounted for more than 10% of the Group's total revenue:

	Group	
	2011	2010
	US\$'000	US\$'000
Yang Ming Marine	20,055	20,055
Berlian Laju Tanker	14,153	14,153
James Fisher	11,716	11,770
Evergreen Marine	11,695	11,695
Geden Lines	11,669	11,623
Groda Shipping/Rosneft	-	11,667
	69,288	80,963

24 Subsequent event

Before the issuance of the audited financial statements, three wholly-owned subsidiaries of BLT, the lessees of chemical tankers, 'Pertiwi', 'Prita Dewi' and 'Pujawati', defaulted on their February 2012 lease payments under their respective lease agreements. BLT's Press Release "Debt restructuring and debt standstill" dated 26 January 2012 attributed the default to "*the global economic slowdown combined with the rapid global fleet growth of the past few years resulted in lower freight rates, which combined with higher bunker fuel costs as well as other operating costs have significantly impacted the Company's business and financial position... the Company has decided to temporarily cease repayments on all of the Company's bank loans and bonds and payments on ship leases and on similar obligations of its other subsidiaries...*".

Following the default, the recoverable amount of these vessels as at 31 December 2011 was re-assessed on the basis that the contractual cash flows over the period of the base lease term was no longer relevant. Upon re-assessment, an impairment loss of US\$22,117,000 was recognised for the year ended 31 December 2011 as the payment default was assessed to be an adjusting post-balance sheet event.