Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: FSL Trust Management Pte. Ltd.

Security: First Ship Lease Trust

Meeting details:
Date: 22 April 2019
Time: 10.00 a.m.
Venue: Meeting Room 303 & 304, Level 3, Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593

Company Description

First Ship Lease Trust, a business trust, owns a fleet of vessels in various shipping sub-sectors in the Americas, Asia, Europe, and internationally. The company is involved in leasing and chartering vessels on long-term bareboat charters to the international shipping industry; and on short-term time charters, or in pools or spot markets. It operates approximately 19 vessels. The company was incorporated in 2007 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=D8DU)

1. On 26 November 2018, the trustee-manager announced the proposed pro rata, non-renounceable and non-underwritten preferential offering of 956,184,865 new units to raise gross proceeds of up to $43.03 million. The new units will be offered at the ratio of three rights units for every two existing units at an issue price of $0.045 per new unit, which was a discount of 31.8% to the closing price of $0.066 per unit on the date of the announcement.

(i) **Would the board help unitholders understand the reasons to carry out the preferential offering on a <u>non-renounceable</u> basis?** With such a deep discount and carrying out a non-renounceable basis would mean that unitholders who are unable or unwilling to subscribe for the new preferential offering would be severely diluted.

(ii) **What was the basis to determine the ratio of the new units at 3 rights units for every 2 existing units and the new issue price of $0.045 per unit?**

(iii) **Given the terms of the preferential offering, did the board anticipate the market to respond positively to the preferential offering? Has the board reviewed if the preferential offering was the main reason that the price of the trust has fallen to around $0.045?**

(iv) **Given the market's reaction to the proposed offer and the current price of the trust, how confident is the board in making the preferential offering a success? What levers are available to the board to ensure that the preferential offering successfully raises a meaningful amount to strengthen the financial position strongly enough to embark on its fleet renewal programme?**

2. On 6 December 2018, the trust announced that it had entered into a Letter of Intent with a shipyard for two 114,000 dwt scrubber fitted Tier III LR2 product tankers for an indicative aggregate consideration of US$97.2 million. The new vessels are expected to be delivered in November 2020 and January 2021.

(i) **Can the trustee-manager/board help unitholders understand if this could be considered a speculative purchase as there is no firm charter for either of the vessels?**

(ii) **In planning and approving the new build programme, what did the board/trustee-manager use as the projected charter rates when the LR2 product tankers are delivered in 2020/2021?**

(iii) **Given that the trust has disclosed that approximately 50% to 70% of the purchase consideration would be in the form of bank financing, would the trust be once again putting itself in a weak position to negotiate with the banks in due time?**

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3. The group has a carrying value of US$225.5 million for its fleet of 18 vessels, and a carrying value of US$10.99 million for the asset held for sale (FSL Hamburg). The portfolio is starting to show its age as the vessels were built in 2004-2008.

The group recognised a total impairment of US$20.65 million in FY2018 and US$81.13 million in FY2017.

The "Impairment assessment of vessels" is a key audit matter highlighted by the independent auditor.

As noted in the KAM, as at 31 December 2018, the group determined the recoverable amount for each vessel based on the higher of the fair value of the vessel less the estimated costs of disposal and the carrying value of the vessels based on the "value-in-use" (the "VIU") methodology.

As a result of the assessment, the group recognised a total impairment of US$20,648,000 for eight vessels during the financial year ended 31 December 2018. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying values and no further impairment provision was required.

(i) Can management help unitholders understand which vessels were not impaired?

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

(ii) What is the experience of the audit and risk committee (ARC) in matters related to the impairment assessment such as charter hire rates, operating costs, condition of vessels etc?

During the year, FSL Tokyo and FSL Busan were sold with gains on disposal of approximately US$1.7 million. However, FSL Hamburg was sold at below the book value, with the trust recognising an impairment charge of US$6.3 million.

(iii) Can the ARC help unitholders understand how reflective is the carrying value of the vessels?

In the trust's application to SGX-ST for a waiver from complying with Rules 1015 and 1014(2) of the Listing Manual in respect of the Newbuilding Acquisition including the requirement for the trust to obtain unitholders' approval for the acquisition, the trust included the following:

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(h) the market capitalization of FSLT is low due to low unit trading transactions and the market price of the units of FSLT does not reflect the NAV of FSLT (as at the date of the Waiver Application). The market capitalization of FSLT as at the date of the Waiver Application was approximately US$37 million, while the NAV of FSLT (based on the unaudited book values) as at the date of the Waiver Application was approximately US$175 million (in each case as at the date of the Waiver Application);

(iv) Can the board, especially the ARC, justify how it could use the net asset value of the trust as a supporting reason for the waiver when FSL Hamburg had to be sold at a significant haircut? FSL Hamburg is carried on the books at US$10.99 million while the impairment related to the sale was US$6.3 million. The estimated haircut from the book value is approximately 36%.

(v) What is the confidence level of the ARC that the carrying value of the vessels is not materially overstated?

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 and 31 December 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=First%20Ship%20Lease%20Trust&cid=6482,4648,4310

The company's response could be found here: -----