
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-32591

SEASPAN CORPORATION

(Exact name of Registrant as specified in its charter)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

Unit 2, 7th Floor, Bupa Centre

141 Connaught Road West

Hong Kong

China

(Address of principal executive office)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

Class A Common Shares, par value of \$0.01 per share

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

28,846,500 Class A Common Shares, par value of \$0.01 per share

7,145,000 Class B Common Shares, par value at \$0.01 per share

100 Class C Common Shares, par value \$0.01 per shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Table of Contents**SEASPAN CORPORATION
INDEX TO REPORT ON FORM 20-F**

	<u>Page</u>
<u>Part I</u>	1
Item 1. <u>Identity of Directors, Senior Management and Advisors</u>	Not applicable
Item 2. <u>Offer Statistics and Expected Timetable</u>	Not applicable
Item 3. <u>Key Information</u>	2
<u>A. Selected Financial Data</u>	2
<u>B. Capitalization and Indebtedness</u>	6
<u>C. Reasons for the Offer and Use of Proceeds</u>	6
<u>D. Risk Factors</u>	6
Item 4. <u>Information on the Company</u>	28
<u>A. History and Development of the Company</u>	28
<u>B. Business Overview</u>	28
<u>C. Organizational Structure</u>	40
<u>D. Property, Plants and Equipment</u>	40
Item 5. <u>Operating and Financial Review and Prospects</u>	53
<u>A. Results of Operations</u>	53
<u>B. Liquidity and Capital Resources</u>	62
<u>C. Research and Development</u>	66
<u>D. Off-Balance Sheet Arrangements</u>	66
<u>E. Contractual Obligations</u>	66
Item 6. <u>Directors, Senior Management and Employees</u>	67
<u>A. Directors and Senior Management</u>	67
<u>B. Compensation</u>	70
<u>C. Board Practices</u>	70
<u>D. Employees</u>	71
<u>E. Share Ownership</u>	72
Item 7. <u>Major Shareholders and Related Party Transactions</u>	72
<u>A. Major Shareholders</u>	72
<u>B. Related Party Transactions</u>	72
Item 8. <u>Financial Information</u>	73
<u>A. Financial Statements and Other Financial Information</u>	73
<u>B. Significant Changes</u>	75
Item 9. <u>The Offer and Listing</u>	75
Item 10. <u>Additional Information</u>	75
<u>A. Share Capital</u>	75
<u>B. Memorandum and Articles of Association</u>	76
<u>C. Material Contracts</u>	76
<u>D. Exchange Controls and Other Limitations Affecting Security Holders</u>	77
<u>E. Taxation</u>	77
<u>F. Dividends and Paying Agents</u>	84
<u>G. Statements by Experts</u>	84
<u>H. Documents on Display</u>	84
Item 11. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	84
Item 12. <u>Description of Securities Other than Equity Securities</u>	Not applicable
<u>PART II</u>	86
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	86
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	86
Item 15. <u>Controls and Procedures</u>	86

Table of Contents

		<u>Page</u>
Item 16A.	<u>Audit Committee Financial Expert</u>	86
Item 16B.	<u>Code of Ethics</u>	86
Item 16C.	<u>Principal Accountant Fees and Services</u>	86
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	Not applicable
Item 16E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	Not applicable
 <u>PART III</u>		88
Item 17.	<u>Financial Statements</u>	Not applicable
Item 18.	<u>Financial Statements</u>	88
Item 19.	<u>Exhibits</u>	89
Signature		91

PART I

This Annual Report should be read in conjunction with the financial statements and accompanying notes included in this report.

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words “expect,” “intend,” “plan,” “believe,” “anticipate,” “estimate” and variations of such words and similar expressions are intended to identify forward-looking statements. These risks and uncertainties include, but are not limited to: future operating or financial results; our expectations relating to dividend payments and forecasts of our ability to make such payments; pending acquisitions, business strategy and expected capital spending; operating expenses, availability of crew, number of off-hire days, drydocking requirements and insurance costs; general market conditions and shipping market trends, including charter rates and factors affecting supply and demand; our financial condition and liquidity, including our ability to obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities; estimated future capital expenditures needed to preserve our capital base; our expectations about the availability of ships to purchase, the time that it may take to construct new ships, or the useful lives of our ships; our continued ability to enter into long-term, fixed-rate time charters with our customers; our ability to leverage to our advantage our Manager’s relationships and reputation in the containership industry; changes in governmental rules and regulations or actions taken by regulatory authorities; changes in worldwide container demand; changes in trading patterns; competitive factors in the markets in which we operate; potential inability to implement our growth strategy; potential for early termination of long-term contracts and our potential inability to renew or replace long-term contracts; ability of our customers to make charter payments; potential liability from future litigation; conditions in the public equity markets; and other factors detailed from time to time in our periodic reports, including our Prospectus filed with the Securities and Exchange Commission, or SEC, on August 8, 2005. Forward-looking statements in this Annual Report are necessarily estimates reflecting the judgment of senior management and involve known and unknown risks and uncertainties. These forward-looking statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Accordingly, these forward-looking statements should, be considered in light of various important factors, including those set forth in this Annual Report under the heading “Risk Factors.”

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. We make no prediction or statement about the performance of our common and subordinated shares. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Unless we specify otherwise, all references and data in this Annual Report to our business, our containerships and our contracted fleet refer to our current fleet of 15 containerships that we have purchased from 15 wholly owned subsidiaries of Seaspan Container Lines Limited, or SCLL, and an additional eight containerships that we have agreed to acquire from eight other wholly owned subsidiaries of SCLL over approximately the next 18 months, in each case, upon their completion and delivery. Those 23 subsidiaries are collectively referred to as the VesselCos. Unless we otherwise specify, when used in this Annual Report, the terms “Seaspan Corporation,” the “Company,” “we,” “our” and “us” refer to Seaspan Corporation, and, for periods before our initial public offering, the predecessor. References to our Manager are to Seaspan Management Services Limited and its wholly owned subsidiaries that provide us with technical, administrative and strategic services.

We use the term “twenty foot equivalent unit,” or “TEU,” the international standard measure of containers, in describing the capacity of our containerships, which are also commonly referred to as vessels. Our 2500 TEU

[Table of Contents](#)

class vessels, 3500 TEU class vessels, 4250 TEU class vessels, 8500 TEU class vessels, and 9600 TEU class vessels have an actual capacity of 2546 TEU, 3534 TEU, 4253 TEU, 8468 TEU, and 9580 TEU, respectively. Unless otherwise indicated, all references to currency amounts in this Annual Report are in U.S. dollars.

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

	Years Ended December 31,				January 1	August 12
	2001(1)	2002(1)	2003(1)	2004(1)	to August 11,	to December 31,
					2005(1)	2005
	(in thousands)					
Statements of operations data (period ended):						
Revenue (2)	\$ 5,140	\$ 20,993	\$ 35,011	\$35,933	\$ 40,157	\$ 34,803
Operating expenses:						
Ship operating	1,346	4,560	6,577	7,157	7,733	8,252
Depreciation	1,311	5,217	8,587	8,808	9,904	7,186
General and administrative (3)	128	131	208	207	218	1,694
Operating earnings	2,355	11,085	19,639	19,761	22,302	17,671
Other expenses (earnings):						
Interest expense	1,070	7,799	12,193	11,804	14,563	1,699
Change in fair value of interest rate swaps (4)	11,066	14,218	(5,808)	(1,416)	(7,308)	—
Interest income	—	—	—	—	—	(124)
Write-off on debt refinancing	7,805	—	—	3,135	—	—
Undrawn credit facility fee	—	—	—	—	—	1,041
Amortization of deferred financing fees	26	126	183	222	450	726
Other	90	74	(36)	(53)	(17)	—
Net earnings (loss)	<u>\$ (17,702)</u>	<u>\$ (11,132)</u>	<u>\$ 13,107</u>	<u>\$ 6,069</u>	<u>\$ 14,614</u>	<u>\$ 14,329</u>
Common shares outstanding						35,991,600
Per share data:						
Earnings from commencement of operations, basic and diluted in dollars						
						\$ 0.40
Cash dividends paid						
						\$ 0.23
Statements of cash flows data (period ended):						
Cash flows provided by (used in):						
Operating activities	\$ 1,837	\$ 9,646	\$ 16,860	\$18,540	\$ 19,289	\$ 24,115
Investing activities	(23,133)	(26,294)	(236,369)	(8,692)	(20,939)	(826,253)
Financing activities	22,560	25,070	212,320	(8,279)	793	817,856

Table of Contents

	Years Ended December 31,				January 1	August 12
	2001(1)	2002(1)	2003(1)	2004(1)	to August 11, 2005(1)	to December 31, 2005
	(in thousands)					
Balance sheet data (at period end):						
Cash and cash equivalents	\$ 1,264	\$ 9,686	\$ 2,497	\$ 4,066	\$ 3,209	\$ 15,718
Current assets	14,364	15,433	9,100	13,258	22,316	18,070
Vessels	200,373	221,021	452,141	454,862	466,112	621,163
Deferred financing fees	1,715	1,562	4,828	8,201	8,548	6,526
Fair value of interest rate swaps, asset (4)	—	—	—	—	—	4,799
Total assets	216,461	238,022	466,069	476,321	496,976	650,558
Current liabilities (excluding current portion of long-term debt)	1,760	3,925	4,135	5,481	5,357	4,226
Current portion of long-term debt (5)	6,698	11,984	12,848	19,773	26,203	—
Long-term debt (5)	164,528	155,359	347,946	376,999	405,495	122,893
Due to related party	49,678	69,440	96,883	64,822	43,393	—
Fair value of interest rate swaps, liability (4)	11,066	25,284	19,476	18,860	11,552	—
Owner's equity (deficiency)	(17,692)	(28,824)	(15,707)	(9,638)	4,976	—
Share capital	—	—	—	—	—	512,589
Total shareholders' equity	—	—	—	—	—	523,439
Other data:						
Number of vessels in operation at period end (2)	2	5	5	6	10	13
TEU capacity at period end	8,506	21,265	21,265	29,733	50,960	63,719
Fleet utilization (6)	100.0%	99.8%	100.0%	100.0%	99.8%	100.0%

- (1) Represents selected financial data for the predecessor for the period prior to our initial public offering.
- (2) The commencement of the predecessor's active operations began with the delivery of two 4250 TEU vessels in 2001. Three additional 4250 TEU vessels were delivered in June, September, and October 2002, respectively. The first 8500 TEU vessel was delivered in December 2004 and the second in January 2005. In 2005, the predecessor also took delivery of three 4250 TEU vessels. On August 12, 2005, we acquired ten containerships from the predecessor, and began active vessel operations. In 2005, we also took delivery of three 4250 TEU vessels. Each of these vessels has been in operation since delivery.
- (3) The predecessor combined financial statements include the general and administrative expenses incurred by the predecessor related to its operations. Subsequent to the completion of the initial public offering and the acquisition of the initial fleet, we have incurred additional administrative expenses, including legal, accounting, treasury, premises, securities regulatory compliance and other costs normally incurred by a listed public entity. Accordingly, general and administrative expenses incurred by and allocated to the predecessor do not purport to be indicative of our current expenses.
- (4) The predecessor entered into interest rate swap agreements to reduce their exposure to market risks from changing interest rates. These derivative instruments have been recognized on the predecessor combined balance sheet at their fair value. As the predecessor did not designate the interest rate swap agreements as hedging instruments in accordance with the requirements in accounting literature, changes in the fair value of the interest rate swaps have been recognized in current period earnings. These changes occur due to changes in market interest rates for debt with substantially similar credit risk and payment terms. These interest rate swaps, together with the underlying debt, were settled by the predecessor and not assumed by us on completion of the initial public offering and the acquisition of the initial fleet. For the fiscal period ended December 31, 2005, we have entered into interest rate swap agreements to reduce our exposure to market risks from changing interest rates. The swap agreements fix LIBOR at 4.6325% based on expected drawdowns and outstanding debt through July 2012. Interest rate swap agreements are recorded on the

Table of Contents

balance sheet at their respective fair values. As the interest swap agreements have been designated as hedging instruments in accordance with the requirements in FASB Statement No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities", as amended, changes in the fair value of the interest rate swap are reported in accumulated other comprehensive income. The fair value will change as market rates change. Interest expense is adjusted to include amounts payable or receivable under the interest rate swaps. The ineffective portion of the interest rate swaps are recognized immediately in net income.

- (5) All predecessor long-term debt was settled on the completion of the initial public offering and was not assumed by us.
- (6) There was no drydocking of the vessels during the periods presented. We calculate fleet utilization by dividing the number of our operating days during a period by the number of our ownership days during the period. We use fleet utilization to measure our efficiency in operating our vessels and the amount of days that our vessels are off-hire. We define operating days as the number of our ownership days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. We use operating days to measure the aggregate number of days in a period during which our vessels actually generate revenues. We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affects the amount of vessel operating expenses that we incur.

Vessel Acquisitions and Recent Developments

The following table lists each of the VesselCos from which we have purchased each of the first 15 vessels of our contracted fleet along with the vessel name, size in TEUs and charterer.

	Company Name	Vessel Name	Size (TEUs)	Charterer
1	CSCL Hamburg Shipping Company Limited	<i>CSCL Hamburg*</i>	4250	CSCL Asia
2	CSCL Chiwan Shipping Company Limited	<i>CSCL Chiwan*</i>	4250	CSCL Asia
3	CSCL Ningbo Shipping Company Limited	<i>CSCL Ningbo*</i>	4250	CSCL Asia
4	CSCL Dalian Shipping Company Limited	<i>CSCL Dalian*</i>	4250	CSCL Asia
5	CSCL Felixstowe Shipping Company Limited	<i>CSCL Felixstowe*</i>	4250	CSCL Asia
6	Clorina Marine Company Limited	<i>CSCL Oceania*</i>	8500	CSCL Asia
7	Elia Shipping Company Limited	<i>CSCL Africa*</i>	8500	CSCL Asia
8	Vancouver Shipping Company Limited	<i>CSCL Vancouver*</i>	4250	CSCL Asia
9	Tofino Shipping Company Limited	<i>CSCL Sydney*</i>	4250	CSCL Asia
10	Nootka Shipping Company Limited	<i>CSCL New York*</i>	4250	CSCL Asia
11	Nanaimo Shipping Company Limited	<i>CSCL Melbourne(1)</i>	4250	CSCL Asia
12	Burrard Shipping Company Limited	<i>CSCL Brisbane(2)</i>	4250	CSCL Asia
13	Seaspan King Shipping Company Limited	<i>CP Kanha(3)</i>	4250	CP USA(6)
14	Seaspan Queen Shipping Company Limited	<i>Dubai Express(4)</i>	4250	CP USA
15	Seaspan Knight Shipping Company Limited	<i>Jakarta Express(5)</i>	4250	CP USA

(*) Indicates delivered vessels as of August 12, 2005.

- (1) Delivered on August 17, 2005.
- (2) Delivered on September 15, 2005.
- (3) Delivered on October 18, 2005.
- (4) Delivered on January 3, 2006.
- (5) Delivered on February 21, 2006.
- (6) CP Ships USA, LLC, or CP USA.

[Table of Contents](#)

On December 30, 2005, China Shipping (Group) Company, or China Shipping, novated its 12 time charters to China Shipping Container Lines (Asia) Co. Ltd., or CSCL Asia, a British Virgin Islands company and a majority owned subsidiary of CSCL. China Shipping Container Lines Co., Ltd, or CSCL, a majority owned subsidiary of China Shipping, had been subchartering these vessels from China Shipping. Each of CSCL and China Shipping Container Lines (Hong Kong) Co., Limited, or CSCL Hong Kong, have guaranteed the obligations and liabilities of CSCL Asia under each the time charter.

We have agreed to acquire two 3500 TEU vessels from Conti 51. Container Schiffahrts—GmbH & Co. KG Nr. 1 and Conti 52. Container Schiffahrts—GmbH & Co. KG Nr. 1, or Conti. The scheduled delivery date for the first vessel is February 28, 2007 and July 31, 2007 for the second.

We have also agreed to acquire four 2500 TEU vessels that will be constructed by Jiangsu Yangzijiang Shipbuilding, or Jiangsu. The scheduled delivery dates for these vessels are: August 30, 2008 for the first, November 30, 2008 for the second, January 30, 2009 for the third, and February 28, 2009 for the fourth vessel.

On March 9, 2006, we paid a dividend of \$12.3 million, or \$0.425 per share, for the quarter ended December 31, 2005.

Additional information about these acquisitions, including our financing of them, and about the dividends we paid is included in “Item 5. Operating and Financial Review and Prospects.”

On February 12, 2006, during the final inspection at the end of the scheduled drydocking of the CSCL Hamburg for her special survey, a 12-16 inch long crack was detected on each side of the rudder horn in the area where the rudder horn is welded to the hull plating. Permanent repairs were concluded on March 7, 2006, and the vessel returned to service under its time charter at midnight on March 9, 2006. The CSCL Hamburg was out of service for approximately of 26 days, and was in drydock for approximately 23 days, approximately 13 days in excess of the ten days budgeted for the special survey. The incremental cost to make the repair was approximately \$75,000, not including the lost time charter revenue. We may be responsible for covering the incremental cost of this repair, while the remainder of the special survey costs will be for the account of our Manager.

Upon learning of this matter, our Manager ordered the inspection of the rudder horn area of the CSCL Chiwan, which had previously completed her special survey on February 15, 2006, and during which no cracks were detected. During the underwater reinspection, one crack, which was significantly smaller than those found on the CSCL Hamburg, was also found on each side of the CSCL Chiwan’s rudder horn. We expect the cost to permanently repair the CSCL Chiwan’s rudder horn will also be approximately \$75,000, that the repairs will be carried out without the vessel having to divert to a drydock, and that repairs will not take longer than four to five days.

On March 13, 2006, our Manager completed the inspection of the CSCL Ningbo. Similar cracks were found, but these were smaller than those found in the CSCL Chiwan. No repairs will be required until the CSCL Ningbo’s scheduled drydocking in 2007,

Our Manager is planning to inspect all of the 4250 TEU vessels that have been, or shortly will be, delivered by Samsung Heavy Industries Co. Ltd., or Samsung, to determine if the cracking problem extends to them as well. Our Manager is currently in consultation with Lloyd’s Register of Shipping, or Lloyd’s, Det Norske Veritas, or Det Norske, Samsung and the manufacturer of the rudder horn, to determine responsibility for the problem. Our Manager is considering all options available to it to seek compensation for the costs of making these repairs. In addition, the off hire periods are still being settled with CSCL Asia and insurance claims have been made.

Additional information about these repairs is included in “Item 5. Operating and Financial Review and Prospects.”

[Table of Contents](#)

B. Capitalization and Indebtedness

The following should be read in conjunction with the historical financial statements and the related notes thereto in this Annual Report as well as “Item 5—Operating and Financial Review and Prospects—A. Results of Operations—Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

The following table sets forth our capitalization as of December 31, 2005:

	Actual
	(in thousands)
Cash and cash equivalents	\$ 15,718
Secured credit facility	122,893
Shareholders’ equity (1)	
Common shares, par value \$0.01 per share, 200,000,000 shares authorized; 28,846,500 shares issued and outstanding as adjusted	605,777
Subordinated shares, par value \$0.01 per share, 25,000,000 shares authorized; 7,145,000 shares issued and outstanding as adjusted	150,045
Incentive shares, par value \$0.01 per share, 100 shares authorized; 100 shares issued and outstanding as adjusted	1
Fees and expenses in connection with issuance of the common shares	(45,330)
Excess of purchase price paid over historical cost on vessel purchase (2)	(197,904)
Retained earnings	6,051
Accumulated other comprehensive income	4,799
Total shareholders’ equity	<u>523,439</u>
Total capitalization	<u>\$ 662,050</u>

- (1) At December 31, 2005, we do not have any options, warrants or other dilutive securities outstanding, other than our option to issue common shares in payment of up to \$100.0 million of the purchase price for the last four of the ten additional containerships in our contracted fleet.
- (2) Reflects the \$197.9 million excess of the purchase price of the initial fleet over the predecessor’s carrying value, which is recorded as a charge to equity.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common shares. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results or cash available for distributions or the trading price of our common shares.

Risks Inherent in Our Business

We may not have sufficient cash from our operations to enable us to pay dividends on our shares following the payment of fees and expenses and the establishment of any reserves.

We intend to pay regular quarterly dividends. We may not, however, have sufficient cash available each quarter to pay dividends. The amount of dividends we can pay depends upon the amount of cash we generate from our operations, which may fluctuate based on, among other things:

- the rates we obtain from our charters;

Table of Contents

- the level of our operating costs;
- the number of unscheduled off-hire days for our fleet and the timing of, and number of days required for, scheduled drydocking of our containerships;
- delays in the delivery of new vessels and the beginning of payments under charters relating to those ships;
- prevailing global and regional economic and political conditions;
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business; and
- changes in the basis of taxation of our activities in various jurisdictions.

The amount of cash we have available for dividends on our common shares will not depend solely on our profitability.

The actual amount of cash we will have available for dividends also will depend on many factors including the following:

- changes in our operating cash flow, capital expenditure requirements, working capital requirements and other cash needs;
- the charter rates on new vessels and those obtained upon the expiration of our existing charters;
- modification or revocation of our dividend policy by our board of directors;
- restrictions under our credit facility and, in any future debt agreements;
- the amount of any cash reserves established by our board of directors; and
- restrictions under Marshall Islands law.

In addition, before we can determine the amount of cash available for the payment of dividends, we must pay fees to our Manager for the technical management of our vessels, must pay a monthly administrative services fee not to exceed \$6,000 per month and must reimburse our Manager for all reasonable costs in providing us with administrative and strategic services.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which will be affected by non-cash items. We may incur other expenses or liabilities that would reduce or eliminate the cash available for distribution as dividends. Our credit facility will also restrict our declaration and payment of dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default. In addition, Marshall Islands law generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend and any such dividend may be discontinued at the discretion of our board of directors. In addition, if our quarterly cash dividend exceeds \$0.485 per common and subordinated share, our Manager will share in incremental dividends through the incentive shares based upon specified sharing ratios, which will reduce the cash available for dividends on our common and subordinated shares. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

Over the long-term, we will be required to make substantial capital expenditures to preserve the operating capacity of our fleet, which could result in a reduction or elimination of our ability to pay dividends.

We must make substantial capital expenditures over the long-term to preserve our capital base. If we do not retain funds in our business in amounts necessary to preserve our capital base, over the long-term, we will not be

[Table of Contents](#)

able to continue to refinance our indebtedness or maintain our dividends. We will likely need at some time in the future to retain funds, on an annual basis, in addition to such amount to provide reasonable assurance of maintaining our capital base over the long-term. There are a number of factors that will not be determinable for a number of years, but that will enter into our board of directors' future decisions regarding the amount of funds to be retained in our business to preserve our capital base. For a description of these factors, please read "Item 5. Operating and Financial Review and Prospects—A. Results of Operations—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Ongoing Capital Expenditures and Dividends." Unless we are successful in making accretive acquisitions with outside sources of financing, which add a material amount to our cash available for retention in our business or unless our board of directors concludes that we will likely be able to recharter our fleet when our current charters expire at rates higher than the rates in our current charters, our board of directors will likely determine at some future date to reduce, or possibly eliminate, our dividend in order to be able to have reasonable assurance that it is retaining the funds necessary to preserve our capital base. When we refer to accretive acquisitions, we mean acquisitions that will increase our distributable cash flow per share.

We will be required to make substantial capital expenditures to complete the acquisition of our contracted fleet and to expand the size of our fleet, which may cause our ability to pay dividends to be diminished, our financial leverage to increase or our shareholders to be diluted.

In order to complete the acquisition of our contracted fleet, we have agreed to purchase an additional eight containerships, incrementally over approximately the next 18 months, at an aggregate cost of \$573.3 million from the VesselCos. Our obligation to purchase the additional eight vessels is not conditional upon our ability to obtain financing for such purchase. We have the option to issue common shares in payment of up to \$100.0 million of the purchase price for the last four of the additional eight containerships. Such common shares would be valued at a net price equal to 95% of our initial public offering price.

In addition, we intend to make substantial capital expenditures to increase the size of our fleet beyond our initial 23 vessels. We have entered into a purchase agreement with Conti to acquire two 3500 TEU vessels over the next 17 months. We have also entered into a ship building contract for four 2500 TEU vessels with Jiangsu. The vessels will be constructed for us over the next 35 months. For a description of these agreements, please read "Item 4. Information on the Company—D. Property, Plants and Equipment—Our Fleet—Acquisition of our Fleet."

To fund the remaining portion of these and other capital expenditures, we will use cash from operations or incur borrowings or raise capital through the sale of additional equity. We intend to raise funds through the issuance of additional equity in order to complete the funding of the acquisition of our contracted fleet. Use of cash from operations may reduce cash available for dividends to our shareholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering and the covenants in our existing debt agreements, as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations, financial condition and ability to pay dividends. Even if we are successful in obtaining the necessary funds, the terms of such financings could limit our ability to pay dividends to our shareholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant shareholder dilution and would increase the aggregate amount of cash required to distribute a consistent level of dividends from earnings to our shareholders, which could have a material adverse effect on our ability to pay dividends.

We cannot assure you that we will be able to borrow amounts under our credit facility and restrictive covenants in our credit facility will impose financial and other restrictions on us, including our ability to pay dividends.

We have entered into a \$1.0 billion secured credit facility of which \$513.3 million is available to complete the acquisition of our contracted fleet and the balance of \$250.0 million will be available to fund the acquisition

[Table of Contents](#)

of any additional new or used containerships. There are restrictions on the amount that can be advanced to us under the credit facility based on the market value of the vessel or vessels in respect of which the advance is being made and, in certain circumstances, based additionally on the TEU capacity of the vessel, and the price at which we acquired the vessel and other factors. Our credit facility has a maturity date of the earlier of (x) the seventh anniversary of the final delivery date of the last of the 23 containerships comprising the contracted fleet or (y) October 31, 2014. For more information, please read “Item 4. Information on the Company—D. Property, Plants and Equipment—Our Credit Facility.”

Our ability to borrow amounts under our credit facility will be subject to the execution of customary documentation relating to the facility, including security documents, satisfaction of certain customary conditions precedent and compliance with terms and conditions included in the loan documents. Prior to each drawdown, we will be required, among other things, to meet specified financial ratios and other requirements. To the extent that we are not able to satisfy these requirements, we may not be able to draw down under our credit facility. We may be required to prepay amounts borrowed under our credit facility if we, or in certain circumstances, our charterers, experience a change of control.

Our credit facility will also impose operating and financial restrictions on us and will require us to comply with certain financial covenants. These restrictions and covenants will limit our ability to, among other things:

- pay dividends if an event of default has occurred and is continuing under our credit facility or if the payment of the dividend would result in an event of default;
- incur additional indebtedness, including through the issuance of guarantees;
- change the flag, class or management of our vessels;
- create liens on our assets;
- sell our vessels without replacing such vessels or prepaying a portion of our loan;
- merge or consolidate with, or transfer all or substantially all our assets to, another person; or
- change our business.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders’ interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders’ consent when needed. If we do not comply with the restrictions and covenants in our credit agreement, we will not be able to pay dividends to you, finance our future operations, make acquisitions or pursue business opportunities.

To fund the construction and acquisition of the 2500 TEU vessels and the 3500 TEU vessels that we recently contracted to acquire, we intend to enter into a new long term debt facility. We expect that the new facility will also contain restrictions.

We cannot assure you that we will be able to refinance any future indebtedness incurred under our credit facility.

We intend to finance our future fleet expansion program with secured indebtedness drawn under our credit facility or future credit facilities. While we intend to refinance amounts drawn under our credit facility or future credit facilities with the net proceeds of future debt and equity offerings, we cannot assure you that we will be able to do so at an interest rate or on terms that are acceptable to us or at all. If we are not able to refinance these amounts with the net proceeds of debt and equity offerings at an interest rate or on terms acceptable to us or at all, we will have to dedicate a portion of our cash flow from operations to pay the principal and interest of this indebtedness. If we are not able to satisfy these obligations, we may have to undertake alternative financing plans. The actual or perceived credit quality of our charterers, any defaults by them, and the market value of our

[Table of Contents](#)

fleet, among other things, may materially affect our ability to obtain alternative financing. In addition, debt service payments under our credit facility, future credit facilities, or alternative financing may limit funds otherwise available for working capital, capital expenditures and other purposes. If we are unable to meet our debt obligations, or if we otherwise default under our credit facility, future credit facilities, or an alternative financing arrangement, our lenders could declare the debt, together with accrued interest and fees, to be immediately due and payable and foreclose on our fleet, which could result in the acceleration of other indebtedness that we may have at such time and the commencement of similar foreclosure proceedings by other lenders.

We derive all of our revenue from two charterers, and the loss of either charterer, any time charter or any vessel could result in a significant loss of revenue and cash flow.

CSCL Asia and CP USA, a subsidiary of CP Ships Limited, or CP Ships (which is a subsidiary of TUI AG, or TUI), are currently our only customers. China Shipping accounted for 100% of the predecessor's containership revenue. China Shipping subchartered its vessels to its wholly owned subsidiary, CSCL. CSCL accounted for 100% of our containership revenue until October 18, 2005, when our first vessel chartered by CP Ships was delivered to us. On December 30, 2005, China Shipping novated its 12 time charters to CSCL Asia, a majority owned subsidiary of CSCL. In addition, CSCL Asia will charter each of the four 2500 TEU vessels that will be constructed and that we expect to be delivered to us between August 2008 and February 2009. Upon delivery of our contracted fleet, we will derive a majority of our revenue and cash flows from CSCL Asia and CP USA. In 2007, we expect two 3500 TEU vessels to be delivered to us. Those vessels will be chartered to COSCO Container Lines Co., Ltd., or COSCON. After the delivery of the two 3500 TEU vessels we will derive all our revenue from three charterers. All of the vessels that we are to acquire are chartered to charterers under long-term time charters, and these charterers' payments to us will be our sole source of operating cash flow. At any given time in the future, cash reserves of the charterers may be diminished or exhausted, and we cannot assure you that the charterers will be able to make charter payments to us. If the charterers are unable to make charter payments to us, our results of operations and financial condition will be materially adversely affected.

We could lose a charterer or the benefits of a time charter if:

- the charterer fails to make charter payments because of its financial inability, disagreements with us, defaults on a payment or otherwise;
- at the time of delivery, the vessel subject to the time charter differs in its specifications from those agreed upon under the ship building contract with each of Samsung, Zhejiang Shipbuilding Co. Ltd., or Zhejiang, and Jiangsu;
- the charterer exercises certain specific limited rights to terminate the charter;
- under our time charters with CP USA, the charters terminate upon a change of control of our company if CP USA fails to consent to such change of control;
- under our time charters with CP USA, the charterer terminates the charter because the ship fails to meet certain guaranteed speed and fuel consumption requirements and we are unable to rectify the situation or otherwise reach a mutually acceptable settlement; or
- under our time charters with COSCON, the charterer terminates the charter because the ship fails to meet certain guaranteed speed requirements and we are unable to rectify the situation or otherwise reach a mutually acceptable settlement.

If we lose a time charter, we may be unable to re-deploy the related vessel on terms as favorable to us. In the worst case, we may not receive any revenue from that vessel, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition.

The loss of any of our charterers, time charters or vessels, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our shareholders.

Table of Contents

A decrease in the level of China's exports of goods or an increase in trade barriers to China's exports will have a material adverse impact on our charterers' business and, in turn, affect our business and results of operations.

There are many more goods exported out of China than are imported. Most of our charterers' container shipping business revenue is derived from the shipment of goods from the Asia Pacific region, primarily China, to various overseas export markets including the United States and Europe. Any reduction in or hindrance to the output of China-based exporters could have a material adverse effect on the growth rate of China's exports and on our charterers' business.

Furthermore, increasing trade protectionism in the markets that our charterers serve has caused an increase in: (i) the cost of goods exported from China, (ii) the length of time required to deliver goods from China and (iii) the risks associated with exporting goods from China. These increases also affect the quantity of goods to be shipped, shipping time schedules, voyage costs and other associated costs.

Any increased trade barriers or restrictions on trade with China would have an adverse impact on our charterers' business, operating results and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. This could have an adverse impact on our financial condition and results of operations.

The legal system in China is not fully developed and has inherent uncertainties that could limit the legal protections available to us.

The Chinese legal system is based on written statutes and their legal interpretation by the standing Committee of the National People's Congress. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. Although our time charters with CSCL Asia are guaranteed by CSCL and CSCL Hong Kong and are governed by English law, if we are required to commence legal proceedings against CSCL or CSCL Hong Kong with respect to the provisions of a time charter or the guarantee, we may have difficulties in enforcing any judgment obtained in such proceedings against CSCL and CSCL Hong Kong in China. Similarly, although Jiangsu provides a warranty against certain defects for each of the four 2500 TEU vessels that it will construct for us, a refund guarantee from a financial institution for the installment payments we will make to Jiangsu, and the ship building contract is governed by English law, if we are required to commence legal proceeding against Jiangsu with respect to the provisions of the ship building contract or the warranty, or against the refund guarantor for a refund of our installment payments, we may have difficulties enforcing any judgment obtained in such proceeding against Jiangsu or the refund guarantor in China.

We depend on our Manager to operate our business.

We are a newly formed company, incorporated in May 2005, with no current plans to have any employees other than our chief financial officer. Pursuant to the management agreement, our Manager and certain of its affiliates will provide us with certain of our officers and with technical, administrative and strategic services (including vessel maintenance, crewing, purchasing, shipyard supervision, insurance, assistance with regulatory compliance and financial services). Our operational success and ability to execute our growth strategy will depend significantly upon our Manager's satisfactory performance of these services. Our business will be harmed if our Manager fails to perform these services satisfactorily. In addition, if the management agreement were to be terminated or if its terms were to be altered, our business could be adversely affected, as we may not be able to immediately replace such services, or even if replacement services are immediately available, the terms offered may be less favorable than the ones currently offered by our Manager.

Table of Contents

Our ability to compete for and to enter into new charters and expand our relationships with our charterers will depend largely on our relationship with our Manager and its reputation and relationships in the shipping industry. If our Manager suffers material damage to its reputation or relationships, it may harm our ability to:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully interact with shipyards during periods of vessel construction constraints;
- obtain financing on commercially acceptable terms;
- maintain satisfactory relationships with our customers and suppliers; or
- successfully execute our growth strategy.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our shareholders.

Delays in deliveries of our newly built containerships could harm our operating results.

We have agreed to purchase eight containerships to complete our contracted fleet. In addition, we have also agreed to purchase an additional six containerships. The eight containerships, which will complete our contracted fleet, are scheduled to be delivered at various times over approximately the next 18 months. Each of these eight vessels is being built at the shipyard in South Korea owned by Samsung. Of the additional six containerships that we have agreed to purchase, two are being built at the shipyard in Ningbo, China, owned by Zhejiang, and four will be built at the shipyards in Jiangsu Province, China, owned by Jiangsu. The delivery of these vessels, or any other newbuildings we may order, could be delayed, which would delay our receipt of revenue under the time charters for the containerships and therefore adversely affect our results of operations and financial condition.

The delivery of the newbuildings could be delayed because of:

- work stoppages or other labor disturbances or other events that disrupt Samsung's, Zhejiang's or Jiangsu's operations;
- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
- lack of raw materials;
- bankruptcy or other financial crisis of Samsung, Zhejiang or Jiangsu;
- a backlog of orders at Samsung, Zhejiang or Jiangsu;
- hostilities, or political or economic disturbances in South Korea or China, where the containerships are being built;
- weather interference or catastrophic event, such as a major earthquake or fire;
- our requests for changes to the original containership specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- our inability to obtain requisite permits or approvals; or
- a dispute with Samsung, Zhejiang or Jiangsu.

In addition, each of the ship building contracts for the eight containerships completing our contracted fleet being built by Samsung and for the additional six containerships that will be or are being built by Zhejiang or Jiangsu contains a "force majeure" provision whereby the occurrence of certain events could delay delivery or

[Table of Contents](#)

possibly terminate the contract. If delivery of a containership is materially delayed or if a ship building contract is terminated, it could adversely affect our results of operations and financial condition and our ability to pay dividends to our shareholders.

We are relying on the VesselCos to pay all costs for the eight containerships completing our contracted fleet and on Conti to pay all costs for the additional two containerships, with certain exceptions, that we will not own until after delivery and inspection.

The VesselCos are responsible for all costs relating to the construction and delivery of the additional eight containerships that we have contracted to purchase, but have not yet been delivered from the shipyard. Conti is responsible for all payments related to the construction and delivery of the additional two 3500 TEU containerships, except for the costs related to the supervision and survey of the construction of the vessels and certain supply costs, for which we are responsible. When the vessels have been delivered and have passed inspection, we will purchase the vessels at a specified price. If the VesselCos or Conti fail to continue to make construction payments for its respective containerships, we could lose access to the containerships as a result of the default or we may need to finance the containerships before they begin operating and generating revenue, which could harm our business and reduce our ability to pay dividends to our shareholders.

We will be paying all costs for the four 2500 TEU vessels that will be built for us by Jiangsu.

For each 2500 TEU vessel, we are required to make five payment installments, each consisting of 10% of the total contracted purchase price for each vessel and a sixth installment for the final 50% balance remaining outstanding for each vessel. To fund the construction of these vessels we intend to enter into a new long term debt facility. If Jiangsu is unable to deliver a vessel or if we reject a vessel and, in either case, we are unable to recover our payments from Jiangsu or its refund guarantor, or if the vessel has material defects that entitle CSCL Asia to reject a vessel and we are unable to re-charter the vessel, we would continue to be responsible for the payments under our new long term debt facility without the benefit of revenue generated from those vessels or the funds paid to Jiangsu to offset our payments. Such an outcome could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our shareholders.

Zhejiang has limited experience building containerships.

Zhejiang has only built bulkcarriers, multipurpose ships, tankers and offshore supply vessels. Zhejiang has recently begun building containerships, and is expected to deliver its first containership in 2006; thus, Zhejiang has limited experience in building containerships. If Zhejiang is unable to build the two 3500 TEU containerships that we have ordered or if we cannot take delivery of the containerships due to flaws or defects, it could adversely affect our results of operations and financial condition and our ability to pay dividends to our shareholders.

Due to our lack of diversification, adverse developments in our containership transportation business could reduce our ability to pay dividends to our shareholders.

We rely exclusively on the cash flow generated from our charters that operate in the containership transportation business. Due to our lack of diversification, an adverse development in the container shipping industry would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets or lines of business.

Our growth depends upon continued growth in demand for containerships and the ocean-going shipping container industry may be at or near the peak of its upward trend and charter hire rates are at or near historical highs; these factors may lead to reductions and volatility in charter hire rates and profitability.

Our articles of incorporation limit our business to the chartering or rechartering of containerships to others and any other lawful act or activity customarily conducted in conjunction with the chartering or rechartering of

Table of Contents

containerships to others, although our business purpose may be modified by our board of directors subject to, for as long as the management agreement with our manager is in effect, the approval of the holders of our incentive shares. Our growth will generally depend on continued growth in world and regional demand for chartering marine container shipping.

The ocean-going shipping container industry is both cyclical and volatile in terms of charter hire rates and profitability. The current industry's upward trend may be at or near its peak and charter hire rates are at or near historical highs. In the future, rates may contract. Fluctuations in charter rates result from changes in the supply and demand for ship capacity and changes in the supply and demand for the major products internationally transported by containerships. The factors affecting the supply and demand for containerships and supply and demand for products shipped in containers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The factors that influence demand for containership capacity include:

- supply and demand for products suitable for shipping in containers;
- changes in global production of products transported by containerships;
- the distance container cargo products are to be moved by sea;
- the globalization of manufacturing;
- global and regional economic and political conditions;
- developments in international trade;
- changes in seaborne and other transportation patterns, including changes in the distances over which container cargoes are transported;
- environmental and other regulatory developments;
- currency exchange rates; and
- weather.

The factors that influence the supply of containership capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older containerships;
- the price of steel and other raw materials;
- changes in environmental and other regulations that may limit the useful life of containerships;
- the number of containerships that are out of service; and
- port congestion.

Our ability to recharter our containerships upon the expiration or termination of their current time charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, the then current state of the containership market. If the containership market is in a period of depression when our ships' charters expire, we may be forced to recharter our ships at reduced rates or even possibly a rate whereby we incur a loss, which may reduce our earnings or make our earnings volatile. The same issues will exist if we acquire additional vessels and attempt to subject them to a long-term time charter arrangement as part of our acquisition and financing plan.

An over-supply of containership capacity may lead to reductions in charter hire rates and profitability.

The market supply of containerships has been increasing and the containerships orderbook reached a new record level as of June 1, 2005. An over-supply of containership capacity may result in a reduction of charter hire

[Table of Contents](#)

rates. If such a reduction occurs upon the expiration or termination of our containerships' current time charters, we may only be able to recharter our containerships for reduced rates or unprofitable rates or we may not be able to recharter our containerships at all.

Our growth depends on our ability to expand relationships with existing charterers and obtain new charterers, for which we will face substantial competition.

One of our principal objectives is to acquire additional containerships in conjunction with entering into additional long-term, fixed-rate time charters for such ships. The process of obtaining new long-term time charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. Container shipping charters are awarded based upon a variety of factors relating to the vessel operator, including:

- shipping industry relationships and reputation for customer service and safety;
- container shipping experience and quality of ship operations (including cost effectiveness);
- quality and experience of seafaring crew;
- the ability to finance containerships at competitive rates and financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new ships according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

We expect substantial competition for providing new containership service from a number of experienced companies, including state-sponsored entities and major shipping companies. Many of these competitors have significantly greater financial resources than we do, and can therefore operate larger fleets and may be able to offer better charter rates. We anticipate that an increasing number of marine transportation companies will enter the containership sector, including many with strong reputations and extensive resources and experience. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our shareholders.

Over time, containership values may fluctuate substantially and, if these values are lower at a time when we are attempting to dispose of a containership, we may incur a loss.

Containership values can fluctuate substantially over time due to a number of different factors, including:

- prevailing economic conditions in the market in which the containership trades;
- a substantial or extended decline in world trade;
- increases in the supply of containership capacity; and
- the cost of retrofitting or modifying existing ships, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise.

If a charter terminates, we may be unable to re-deploy the vessel at attractive rates and, rather than continue to incur costs to maintain and finance the vessel, may seek to dispose of it. Our inability to dispose of the containership at a reasonable price could result in a loss on its sale and adversely affect our results of operations and financial condition and our ability to pay dividends to our shareholders.

[Table of Contents](#)

We may be unable to draw down the full amount of our credit facility if the market value of our vessels declines.

There are restrictions on the amount that can be advanced to us under our credit facility based on the market value of the vessel or vessels in respect of which the advance is being made and, in certain instances, additionally based on the amount of TEU capacity of the vessel, the price at which we acquired the vessel and other factors. If the market value of our fleet declines, we may not be able to draw down the full amount of our credit facility, or obtain other financing or incur debt on terms that are acceptable to us or at all. We may also not be able to refinance our debt or obtain additional financing.

We may be unable to make or realize expected benefits from acquisitions, and implementing our growth strategy through acquisitions may harm our business, financial condition and operating results.

Our growth strategy includes selectively acquiring new containerships, existing containerships, containership related assets and container shipping businesses. Factors that may limit the number of acquisition opportunities in the containership industry in the near term include the relatively small number of independent containership fleet owners and the limited number of modern containerships with appropriate characteristics not subject to existing long-term charters. In addition, competition from other companies could reduce our acquisition opportunities or cause us to pay higher prices.

Any acquisition of a vessel or business may not be profitable to us at or after the time we acquire it and may not generate cash flow sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost savings or cash flow enhancements;
- be unable, through our Manager, to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired;
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges; or
- not be able to retain our ability to pay substantial regular dividends.

Unlike newbuildings, existing containerships typically do not carry warranties as to their condition. While we would inspect existing containerships prior to purchase, such an inspection would normally not provide us with as much knowledge of a containership's condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flow and reduce our liquidity and our ability to pay dividends to our shareholders.

We are subject to regulation and liability under environmental laws that could require significant expenditures and affect our cash flows and net income.

Our business and the operations of our containerships are materially affected by environmental regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which our containerships operate, as well as in the country or countries of their registration, including those

[Table of Contents](#)

governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, water discharges and ballast water management. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with such requirements or the impact thereof on the resale price or useful life of our containerships. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates and financial assurances with respect to our operations. Many environmental requirements are designed to reduce the risk of pollution, such as oil spills, and our compliance with these requirements can be costly.

Environmental requirements can also affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations and natural resource damages, in the event that there is a release of petroleum or other hazardous materials from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of hazardous materials associated with our existing or historic operations. Violations of, or liabilities under, environmental requirements can result in substantial penalties, fines and other sanctions, including in certain instances, seizure or detention of our vessels.

The operation of our containerships is also affected by the requirements set forth in the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. Failure to comply with the ISM Code may subject us to increased liability, may decrease available insurance coverage for the affected ships, and may result in denial of access to, or detention in, certain ports.

In addition, in complying with existing environmental laws and regulations and those that may be adopted, we may incur significant costs in meeting new maintenance and inspection requirements and new restrictions on air emissions from our containerships, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. Substantial violations of applicable requirements or a catastrophic release of bunker fuel from one of our containerships could have a material adverse impact on our financial condition, results of operations and our ability to pay dividends to our shareholders. For additional information on these and other environmental requirements, you should carefully review the information contained in "Item 4. Information on the Company—D. Property, Plants and Equipment—Environmental and Other Regulations."

Increased inspection procedures, tighter import and export controls and new security regulations could cause disruption of the business.

International container shipping is subject to security and customs inspection and related procedures, or inspection procedures, in countries of origin, destination, and trans-shipment points. These inspection procedures can result in cargo seizure, delays in the loading, offloading, trans-shipment, or delivery of containers and the levying of customs duties, fines or other penalties against exporters or importers and, in some cases, charterers.

Since the events of September 11, 2001, United States and Canadian authorities have more than doubled container inspection rates to over 5% of all imported containers. Government investment in non-intrusive container scanning technology has grown and there is interest in electronic monitoring technology, including

[Table of Contents](#)

so-called “e-seals” and “smart” containers, that would enable remote, centralized monitoring of containers during shipment to identify tampering with or opening of the containers, along with potentially measuring other characteristics such as temperature, air pressure, motion, chemicals, biological agents and radiation.

It is unclear what changes, if any, to the existing inspection procedures will ultimately be proposed or implemented, or how any such changes will affect the industry. It is possible that such changes could impose additional financial and legal obligations, including additional responsibility for inspecting and recording the contents of containers. Changes to the inspection procedures and container security could result in additional costs and obligations on carriers and may, in certain cases, render the shipment of certain types of goods by container uneconomical or impractical. Additional costs may arise from current inspection procedures or future proposals may not be fully recoverable from customers through higher rates or security surcharges.

Governments could requisition our containerships during a period of war or emergency, resulting in loss of earnings.

A government of a ship’s registry could requisition for title or seize our containerships. Requisition for title occurs when a government takes control of a ship and becomes the owner. Also, a government could requisition our containerships for hire. Requisition for hire occurs when a government takes control of a ship and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our containerships may negatively impact our revenue and our ability to pay dividends to our shareholders.

Terrorist attacks and international hostilities could affect our results of operations and financial condition.

Terrorist attacks such as the attacks on the United States on September 11, 2001, and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets and may affect our business, results of operations and financial condition. The recent conflict in Iraq may lead to additional acts of terrorism, regional conflict and other armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all.

Terrorist attacks targeted at sea vessels, such as the October 2002 attack in Yemen on the VLCC *Limburg*, a ship not related to us, may in the future also negatively affect our operations and financial condition and directly impact our containerships or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession affecting the United States or the entire world. Any of these occurrences could have a material adverse impact on our operating results, revenue and costs.

Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered could affect us. Hostilities in South Korea could constitute a force majeure event under our contracts with Samsung and could impact the construction of our newbuildings or result in their inability to perform under the contracts. In addition, future hostilities or other political instability in regions where our vessels trade could affect our trade patterns and adversely affect our operations and performance.

An economic slowdown in the Asia Pacific region could have a material adverse effect on our business, financial condition and results of operations.

A significant number of the port calls made by our containerships involve the loading or discharging of containerships in ports in the Asia Pacific region. As a result, a negative change in economic conditions in any Asia Pacific country, and particularly in China or Japan, may have an adverse effect on our business, financial

[Table of Contents](#)

position and results of operations, as well as our future prospects. In particular, in recent years, China has been one of the world's fastest growing economies in terms of gross domestic product. We cannot assure you that such growth will be sustained or that the Chinese economy will not experience contraction in the future. Moreover, any slowdown in the economies of the United States, the European Union or certain Asian countries may adversely affect economic growth in China and elsewhere. Our business, financial condition and results of operations, as well as our future prospects, will likely be materially and adversely affected by an economic downturn in any of these countries.

Risks inherent in the operation of ocean-going vessels could affect our business and reputation, which could adversely affect our expenses, net income and share price.

The operation of ocean-going vessels carries inherent risks. These risks include the possibility of:

- marine disaster;
- environmental accidents;
- grounding, fire, explosions and collisions;
- cargo and property losses or damage;
- business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions; and
- piracy.

Such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of cargo, loss of revenue from or termination of charter contracts, governmental fines, penalties or restrictions on conducting business, higher insurance rates, and damage to our reputation and customer relationships generally. Any of these circumstances or events could increase our costs or lower our revenue, which could result in reduction in the market price of our common shares. The involvement of our vessels in an environmental disaster may harm our reputation as a safe and reliable vessel owner and operator.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations due to the inherent operational risks of the shipping industry.

We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our insurance will include hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We can give no assurance that we will be adequately insured against all risks or that our insurers will pay a particular claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Under the terms of our credit facility, we will be subject to restrictions on the use of any proceeds we may receive from claims under our insurance policies. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

In addition, we do not carry loss-of-hire insurance, which covers the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from accidents. Accordingly, any loss of a vessel or extended vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our shareholders.

[Table of Contents](#)

Maritime claimants could arrest our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest lifted.

In addition, in some jurisdictions, such as South Africa, under the “sister ship” theory of liability, a claimant may arrest both the vessel that is subject to the claimant’s maritime lien and any “associated” vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert “sister ship” liability against one vessel in our fleet for claims relating to another of our ships.

The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. As our fleet ages, we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations, or the addition of new equipment, to our vessels and may restrict the type of activities in which our vessels may engage. Although our current fleet of 15 vessels has an average age of 1.8 years, we cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

As we expand our business, our Manager may need to improve its operating and financial systems and will need to recruit suitable employees and crew for our vessels.

With the recent delivery of five containerships, the future delivery of the eight containerships completing our contracted fleet, and the additional six vessels that we have agreed to purchase or have built, we will more than double the size of our initial fleet. Our Manager’s current operating and financial systems may not be adequate as we implement our plan to expand the size of our fleet, and attempts to improve those systems may be ineffective. In addition, as we expand our fleet, our Manager will need to recruit suitable additional seafarers and shoreside administrative and management personnel. While our Manager has not experienced any difficulty in recruiting to date, we cannot guarantee that it will be able to continue to hire suitable employees as we expand our fleet. If our Manager encounters business or financial difficulties, our Manager may not be able to adequately staff our vessels. If our Manager is unable to grow its and our financial and operating systems or to recruit suitable employees as we expand our fleet, our financial performance may be adversely affected and, among other things, the amount of cash available for dividends to our shareholders may be reduced.

We may have more difficulty entering into long-term, fixed-rate time charters if a more active short-term or spot container shipping market develops.

One of our principal strategies is to enter into additional long-term, fixed-rate container time charters. As more vessels become available for the spot or short-term market, we may have difficulty entering into additional long-term, fixed-rate time charters for our vessels due to the increased supply of vessels and possibly cheaper rates in the spot market and, as a result, our cash flow may be subject to instability in the long-term. A more active short-term or spot market may require us to enter into charters based on changing market prices, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flow in periods when the market price for container shipping is depressed or insufficient funds are available to cover our financing costs for related vessels.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention. Our 4250 TEU vessels are currently enrolled with Det Norske, our 8500 TEU vessels are currently enrolled with Lloyd's. The two 3500 TEU vessels that we have agreed to purchase are being built in compliance with the rules of Germanischer Lloyd. Upon completion, each of the 3500 TEU vessels will be enrolled with either Lloyd's or Det Norske. All of the currently trading vessels have been awarded ISM certification and we expect that each of the vessels to be delivered in the future will be awarded ISM certification upon delivery.

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Each of the vessels in our initial fleet is on a special survey cycle for hull inspection and a continuous survey cycle for machinery inspection. These vessels have qualified within their respective classification societies for drydocking once every five years for inspection of the underwater parts of such vessel.

If any vessel does not maintain its class and/or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable and we could be in violation of certain covenants in our loan agreements. This would negatively impact our revenue.

Our Manager will engage in other businesses and may compete with us.

Pursuant to an omnibus agreement, our Manager, Seaspan International Ltd. and Norsk Pacific Steamship Company Limited, generally will agree, and will cause their controlled affiliates (which does not include us and our subsidiaries), not to engage in the business of chartering or rechartering containerhips to others during the term of the management agreement. The omnibus agreement, however, contains significant exceptions that may allow these entities to compete with us. Please read "Item 4. Information on the Company—B. Business Overview—Management Related Agreements—Omnibus Agreement—Non-competition."

Our officers will not devote all of their time to our business.

Our Manager and its affiliates as well as certain of our officers will be involved in other business activities that may result in their spending less time than is appropriate or necessary in order to manage our business successfully. Our chief executive officer has entered into an employment agreement with our Manager whereby he has agreed to serve as our chief executive officer for an initial term of three years that is renewable annually thereafter by mutual consent. Pursuant to this employment agreement, our chief executive officer will devote substantially all of his time to us and our Manager on our business and affairs. Our chief financial officer will be employed by us and not by our Manager and will devote all of his time to our matters. Other officers appointed by our Manager may spend a material portion of their time providing services to our Manager and its affiliates on matters unrelated to us. Please read "Item 4. Information on the Company—B. Business Overview—Management."

Our Manager and its affiliates have conflicts of interest and limited fiduciary and contractual duties, which may permit them to favor their own interests to your detriment and ours.

Conflicts of interest may arise between our Manager and its affiliates, on the one hand, and us and holders of our common shares, on the other hand. As a result of these conflicts, our Manager may favor its own interests and the interests of its affiliates over the interests of the holders of our common shares. These conflicts include, among others, the following situations:

- the asset purchase agreement, the management agreement and the omnibus agreement and other contractual agreements we have with our Manager and its affiliates were negotiated prior to our initial

[Table of Contents](#)

public offering and were not the result of arm's length negotiations, and the negotiation of these agreements may have resulted in prices and other terms that are less favorable to us than terms we might have obtained in arm's-length negotiations with unaffiliated third parties for similar services;

- our chief executive officer and certain of our directors may also serve as executive officers or directors of our Manager;
- our Manager will advise our board of directors about the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional common shares and reserves, each of which can affect the amount of cash that is available for dividends to our shareholders and the payment of dividends on the incentive shares;
- our Manager may recommend that we borrow funds in order to permit the payment of cash dividends, even if the purpose or effect of the borrowing is to pay a dividend on the subordinated shares;
- other than our chief financial officer, our officers, including our chief executive officer, will not spend all of their time on matters related to our business; and
- our Manager will advise us of costs incurred by it and its affiliates that it believes are reimbursable by us.

Our business depends upon certain employees who may not necessarily continue to work for us.

Our future success depends to a significant extent upon our chief executive officer, Gerry Wang, and certain members of our senior management and that of our Manager. Mr. Wang has substantial experience in the container shipping industry and has worked with our Manager for many years. Mr. Wang and others employed by our Manager are crucial to the development of our business strategy and to the growth and development of our business. If they were no longer to be affiliated with our Manager, or if we otherwise cease to receive advisory services from them, we may fail to recruit other employees with equivalent talent and experience, and our business and financial condition may suffer as a result. Although Mr. Wang has an employment agreement with our Manager, he does not have an employment agreement with us. As such, it is possible that Mr. Wang will no longer provide services to us and that our business may be adversely affected by the loss of such services.

Our Manager could receive substantial sums based on its ownership of the incentive shares if our quarterly dividends to our shareholders are increased, reducing the amount of cash that would otherwise have been available for increased dividends to our shareholders.

Our Manager will share in incremental dividends, based on specified sharing ratios, on its incentive shares if and to the extent that the available cash from operating surplus paid by us exceeds specified target dividend levels. Because these incentive dividends are taken from the total pool of dividends payable to holders of common and subordinated shares, such dividends will reduce the amount of cash which would otherwise have been available to increase the amount to be paid as dividends to our shareholders. Please read "Item 4. Information on the Company—B. Business Overview—Management Related Agreements—Management Agreement—Compensation of Our Manager."

Our Manager is a privately held company and there is little or no publicly available information about it.

The ability of our Manager to continue providing services for our benefit will depend in part on its own financial strength. Circumstances beyond our control could impair our Manager's financial strength, and because it is a privately held company, information about its financial strength is not available. As a result, an investor in our shares might have little advance warning of problems affecting our Manager, even though these problems could have a material adverse effect on us. As part of our reporting obligations as a public company, we will disclose information regarding our Manager that has a material impact on us to the extent that we become aware of such information.

Our substantial debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

Following the completion of the acquisition of all of our contracted fleet of 23 containerships, we will have substantial indebtedness. We will also incur more indebtedness in connection with the acquisition of the additional four 2500 TEU vessels and two 3500 TEU vessels and expect to incur more indebtedness in connection with future acquisitions. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- we may need to use a substantial portion of our cash from operations to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and dividends to our shareholders;
- our debt level could make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally; and
- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing dividends, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Anti-takeover provisions in our organizational documents could make it difficult for our shareholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common shares.

Several provisions of our articles of incorporation and our bylaws could make it difficult for our shareholders to change the composition of our board of directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable.

These provisions include:

- authorizing our board of directors to issue “blank check” preferred shares without shareholder approval;
- providing for a classified board of directors with staggered, three-year terms;
- prohibiting cumulative voting in the election of directors;
- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote for those directors;
- prohibiting shareholder action by written consent unless the written consent is signed by all shareholders entitled to vote on the action;
- limiting the persons who may call special meetings of shareholders;
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings; and
- restricting business combinations with interested shareholders.

[Table of Contents](#)

In addition, upon a change of control, our Manager may elect to have us purchase the incentive shares, which could result in a substantial payment to our Manager and discourage a change of control that might otherwise be beneficial to shareholders.

We have also adopted a shareholder rights plan pursuant to which our board of directors may cause the substantial dilution of the holdings of any person that attempts to acquire us without the prior approval of our board of directors.

These anti-takeover provisions, including the provisions of our shareholder rights plan, could substantially impede the ability of public shareholders to benefit from a change in control and, as a result, may adversely affect the market price of our common shares and your ability to realize any potential change of control premium.

The nineteen 4250 TEU vessels in our contracted fleet have been, or will be, built in accordance with custom designs and are the same in all material respects. In addition, all of the vessels in our contracted fleet have, or will have, the same or similar equipment. As a result, any latent design defect discovered in a 4250 TEU vessel will likely affect all of our 4250 TEU vessels and any equipment defect discovered will likely affect all of the vessels in our contracted fleet.

All of the nineteen 4250 TEU vessels that we have purchased or have agreed to purchase are, or will be, based on standard designs from Samsung and customized by SCLL and our Manager in consultation with the charterers of each vessel and the classification societies, Lloyd's and Det Norske, and are, or will be, uniform in all material respects. As a result, any latent design defect discovered in one of our 4250 TEU vessels will likely affect all of our other vessels in that class. Although the oldest of these 4250 TEU vessels has been operating since 2001 with no evidence of any material defects, we cannot assure you that latent defects will not be discovered in these vessels. In addition, all of the vessels in our contracted fleet have, or will have, the same or similar equipment. As a result, any equipment defect discovered may affect all of the vessels in our contracted fleet. Any disruptions in the operation of the vessels in our contracted fleet resulting from these defects could adversely affect our receipt of revenue under time charters for the vessels affected.

The four 2500 TEU vessels that will be built for us by Jiangsu will be built in accordance with standard designs from Jiangsu and will be the same in all material respects. In addition, all of the 2500 TEU vessels will have the same or similar equipment. As a result, any latent design defect discovered in a 2500 TEU vessel will likely affect all of our 2500 TEU vessels and any equipment defect discovered will likely affect all of the 2500 TEU vessels.

Similarly to our 4250 TEU vessels, all of the four 2500 TEU vessels that will be built for us by Jiangsu will be based on standard designs from Jiangsu and will be uniform in all material respects. As a result, any latent design defect discovered in one of our 2500 TEU vessels will likely affect all of our other vessels in that class. In addition, all of the 2500 TEU vessels that will be built for us by Jiangsu will have the same or similar equipment. As a result, any equipment defect discovered in one 2500 TEU vessel built by Jiangsu may affect all 2500 TEU vessels built by Jiangsu. Any disruptions in the operation of our vessels resulting from these defects could adversely affect our receipt of revenue under time charters for the vessels affected.

There are greater than normal construction, delivery and operational risks with respect to the 9600 TEU vessels that we have agreed to purchase.

The two 9600 TEU vessels on order that we have agreed to purchase are some of the first vessels of this type to be built. Although one other company before us has built, serviced or operated similar vessels built by Samsung, there are unknown and possibly greater than normal construction, delivery and operational risks associated with these vessels. Deliveries of these vessels could be delayed and problems with operation of these vessels could be encountered, either of which would adversely affect our receipt of revenue under time charters for these vessels, as well as their future resale value.

Increased competition in technological innovation could reduce our charter hire income and the value of our vessels.

The charter hire rates and the value and operational life of a vessel are determined by a number of factors including the vessel's efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy and the ability to be loaded and unloaded quickly. Flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits. Physical life is related to the original design and construction, maintenance and the impact of the stress of operations. If new containerships are built that are more efficient or flexible or have longer physical lives than our vessels, competition from these more technologically advanced containerships could adversely affect the amount of charter hire payments we receive for our vessels once their initial charters are terminated and the resale value of our vessels. As a result, our cash available for the payment of dividends could be adversely affected.

Our ability to obtain additional debt financing for future acquisitions of vessels may be dependent on the performance of our then existing charters and the creditworthiness of our charterers.

The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the additional capital resources that we will require to purchase additional vessels or may significantly increase our costs of obtaining such capital. Our inability to obtain additional financing at all or at a higher than anticipated cost may materially affect our results of operation and our ability to implement our business strategy.

We are incorporated in the Republic of the Marshall Islands, which does not have a well developed body of corporate law.

Our corporate affairs are governed by our articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our public shareholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and all of our assets are located outside of the United States. Our principal executive offices are located in Hong Kong. As a result, it may be difficult or impossible for you to bring an action against us or against our directors or our management in the United States if you believe that your rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict you from enforcing a judgment against our assets or our directors and officers.

Tax Risks

In addition to the following risk factors, you should read "Item 10. Additional Information—E. Taxation—United States" for a more complete discussion of expected material U.S. federal income tax consequences of owning and disposing of common shares.

We may have to pay tax on United States source income, which would reduce our earnings.

Under the U.S. Internal Revenue Code of 1986, as amended (the “Code”), 50% of the gross shipping income of a ship owning or chartering corporation, such as ourselves, that is attributable to transportation that begins or ends, but that does not begin and end, in the United States is characterized as U.S. source shipping income and as such is subject to a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder.

We expect that we qualify for this statutory tax exemption and we take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby become subject to U.S. federal income tax on our U.S. source income. For example, 5% shareholders could acquire and own the majority of our outstanding common shares. This would preclude us from being eligible for the Section 883 exemption unless we can establish that among those 5% shareholders, there are sufficient 5% shareholders that are qualified shareholders for purposes of Section 883 to preclude non-qualified 5% shareholders from owning 50% or more of such shares for more than half the number of days during the taxable year. If 5% shareholders acquire the majority of our outstanding common shares, there can be no assurance that a sufficient number of those shareholders will be qualified shareholders for purposes of Section 883 to enable us to continue to be eligible for the Section 883 exemption.

If we or our subsidiaries are not entitled to this exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our U.S. source shipping income. While our charterers generally are obligated under the charters to reimburse us for any 4% U.S. federal income tax imposed on charter hire they pay to us, the imposition of this taxation could have a negative effect on our business and could result in decreased earnings available for distribution to our shareholders.

U.S. tax authorities could treat us as a “passive foreign investment company,” which could have adverse U.S. federal income tax consequences to U.S. holders.

A foreign corporation will be treated as a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes if at least 75% of its gross income for any taxable year consists of certain types of “passive income,” or at least 50% of the average value of the corporation’s assets produce or are held for the production of those types of “passive income.” For purposes of these tests, “passive income” includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute “passive income.” U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our assets, income and operations, we do not believe that we are, nor do we expect to become, a PFIC with respect to any taxable year. We derive substantially all of our income from time chartering and voyage chartering activities and we believe that at least a majority, if not all, such income should be treated for relevant U.S. federal income tax purposes as services income, rather than rental income. Such services income should not constitute “passive income,” and the assets that we own and operate in connection with the production of that income, in particular, at least a majority, if not all, our vessels, should not constitute passive assets for purposes of determining whether we are a PFIC in any taxable year.

The enactment of proposed legislation could affect whether dividends paid by us constitute qualified dividend income eligible for the preferential rate.

Legislation was recently introduced in the U.S. Senate that would deny the preferential rate of federal income tax currently imposed on qualified dividend income with respect to dividends received from a non-U.S. corporation, unless the non-U.S. corporation either is eligible for benefits of a comprehensive income tax treaty

[Table of Contents](#)

with the United States or is created or organized under the laws of a foreign country which has a comprehensive income tax system. Because the Marshall Islands has not entered into a comprehensive income tax treaty with the United States and imposes only limited taxes on corporations organized under its laws, it is unlikely that we could satisfy either of these requirements. Consequently, if this legislation were enacted the preferential rate of federal income tax discussed at “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation of U.S. Holders—Distributions” may no longer be applicable to dividends received from us. As of the date hereof, it is not possible to predict with any certainty whether the proposed legislation will be enacted.

We may become a resident of Canada and have to pay tax in Canada on our worldwide income, which could reduce our earnings, and shareholders could then become taxable in Canada in respect of their ownership of our shares. Moreover, as a non-resident of Canada we may have to pay tax in Canada on our Canadian source income, which could reduce our earnings.

Under the Income Tax Act (Canada) (the Canada Tax Act), a corporation that is resident in Canada is subject to tax in Canada on its worldwide income, and shareholders of a corporation resident in Canada may be subject to Canadian capital gains tax on a disposition of its shares and to Canadian withholding tax on dividends paid in respect of such shares.

Our place of residence, under Canadian law, would generally be determined on the basis of where our central management and control are, in fact, exercised. It is not our current intention that our central management and control be exercised in Canada but, even if it were, there is a specific statutory exemption under the Canada Tax Act that provides that a corporation incorporated, or otherwise formed, under the laws of a country other than Canada will not be resident in Canada in a taxation year if its principal business is the operation of ships that are used primarily in transporting passengers or goods in international traffic, all or substantially all of its gross revenue for the year consists of gross revenue from the operation of ships in transporting passengers or goods in that international traffic, and it was not granted articles of continuance in Canada before the end of the year.

Based on our operations, we do not believe that we are, nor do we expect to be, resident in Canada for purposes of the Canada Tax Act, and we intend that our affairs will be conducted and operated in a manner such that we do not become a resident of Canada under the Canada Tax Act. However, if we were or become resident in Canada, we would be or become subject under the Canada Tax Act to Canadian income tax on our worldwide income. Further, shareholders who are non-residents of Canada may be or become subject under the Canada Tax Act to tax in Canada on any gains realized on the disposition of our shares and would be or become subject to Canadian withholding tax on dividends paid or deemed to be paid by us, subject to any relief that may be available under a tax treaty or convention.

Generally, a corporation that is not resident in Canada will be taxable in Canada on income it earns from carrying on a business in Canada and on gains from the disposition of property used in a business carried on in Canada. However, there are specific statutory exemptions under the Canada Tax Act that provide that income earned in Canada by a non-resident corporation from the operation of a ship in international traffic, and gains realized from the disposition of ships used principally in international traffic, are not included in a non-resident corporation's income for Canadian tax purposes where the corporation's country of residence grants substantially similar relief to a Canadian resident. A Canadian resident corporation that carries on business in the Republic of the Marshall Islands is exempt from income tax under the current laws of the Republic of the Marshall Islands.

We expect that we will qualify for these statutory exemptions under the Canada Tax Act. Based on our operations, we do not believe that we are, nor do we expect to be, carrying on a business in Canada for purposes of the Canada Tax Act other than a business that would provide us with these statutory exemptions from Canadian income tax. However, these statutory exemptions are contingent upon reciprocal treatment being provided under the laws of the Republic of the Marshall Islands. If in the future as a non-resident of Canada, we are carrying on a business in Canada that is not exempt from Canadian income tax, or these statutory exemptions are not accessible due to changes in the laws of the Republic of the Marshall Islands or otherwise, we would be subject to Canadian income tax on our non-exempt income earned in Canada which could reduce our earnings available for distribution to shareholders.

[Table of Contents](#)

Please read “Item 10. Additional Information—E. Taxation—Canadian Federal Income Tax Consequences” for a discussion of expected material Canadian federal income tax consequences of owning and disposing of our common shares.

Item 4. Information on the Company

A. History and Development of the Company

We are Seaspan Corporation, a Marshall Islands corporation that was incorporated on May 3, 2005 to acquire all of SCLL’s current containership business.

Upon the completion of our initial public offering on August 12, 2005, we acquired ten containerships consisting of eight 4250 TEU vessels and two 8500 TEU vessels from the VesselCos. We refer to these ten containerships as our initial fleet. In addition, we entered into a purchase agreement with certain of the VesselCos to acquire an additional 13 new containerships as they are completed and delivered. Of the additional 13 new containerships, we have taken delivery of five 4250 TEU vessels. The next eight containerships, which will complete our contracted fleet, will be acquired over approximately the next 18 months. The eight containerships will consist of six 4250 TEU and two 9600 TEU vessels being constructed by Samsung. We refer to these 23 vessels collectively as our contracted fleet. Our contracted fleet will have approximately 116,900 TEU in capacity. In addition, we have agreed to acquire two 3500 TEU vessels from Conti and four 2500 TEU vessels. Each of the 2500 TEU vessels will be built by Jiangsu and will be acquired over the next 35 months; while, each of the 3500 TEU vessels is being constructed by Zhejiang and will be acquired over the next 17 months. We maintain our principal executive office at Unit 2, 7th floor, Bupa Centre, 141 Connaught Road West, Hong Kong, China. Our telephone number at such address is (852) 2540 1686.

B. Business Overview

General

Our business is to own containerships, charter them pursuant to long-term, fixed rate charters and seek additional accretive vessel acquisitions. We deploy all our vessels on long-term, fixed-rate time charters to take advantage of the stable cash flow and high utilization rates that are typically associated with long-term time charters. Our primary objective is to grow our business in order to increase distributable cash flow per share.

Each vessel in our contracted fleet has been or is being built based upon standard designs from Samsung, customized by SCLL and our Manager in consultation with the charterers of the vessels and two classification societies, Lloyd’s and Det Norske. These designs, which include certain technological advances, make our containerships efficient with respect to both voyage speed and loading when compared to many vessels operating in the industry. Our 8500 TEU vessels are capable of speeds of 25.2 knots on design drafts, making them among the fastest containerships. The average age of the 15 vessels currently in our fleet and that are part of our contracted fleet is 1.8 years and upon the scheduled delivery of the last vessel in our contracted fleet as of August 31, 2007, the average age of our contracted fleet will be 2.3 years. In addition to our contracted fleet, we have also agreed to acquire six additional containerships: four 2500 TEU vessels that will be built for us by Jiangsu and two 3500 TEU vessels that are being built by Zhejiang in compliance with the rules of Germanischer Lloyd. Please read “Item 4. Information on the Company—D. Property, Plants and Equipment—Our Fleet” for more information.

Our customer selection process is targeted at well-established container liner companies that are growing in their trade routes, and that charter-in vessels on a long-term basis as part of their fleet expansion strategy. Currently, 12 containerships in our fleet are under time charters with CSCL Asia, as a result of a novation by China Shipping. CSCL Asia, a British Virgin Islands company, is the wholly owned subsidiary of CSCL, a majority owned subsidiary of China Shipping. CSCL is a Chinese company, is the 6th largest container shipping company in the world, is listed on the Hong Kong Stock Exchange and has a market capitalization of

[Table of Contents](#)

approximately \$2.0 billion. CSCL Asia primarily operates in the China trade routes, which in the past few years have experienced significant growth. Three containerships in our fleet are under time charters with CP USA, a subsidiary of CP Ships. The remaining eight vessels completing our contracted fleet that are under construction are also subject to long-term, fixed-rate charters. Two of these vessels are chartered to CSCL Asia and six are under time charters with CP USA. The four 2500 TEU vessels have also been chartered to CSCL Asia. The additional two 3500 TEU vessels that are under construction are subject to long-term, fixed-rate charters to COSCON. COSCON principally services the Trans-Pacific, Asia-Europe and Inter-Asia trade lanes.

On December 21, 2005, CP Ships announced that it completed its previously-announced amalgamation with Ship Acquisition Inc., a subsidiary of TUI (which, in turn, is the parent company of Hapag-Lloyd). As a result of the amalgamation, TUI now owns 100% of the common shares of CP Ships. CP ships principally services the Transatlantic trade lanes.

Our operations are managed by our Manager, Seaspam Management Services Limited, under the supervision of our board of directors. We have entered into a long-term management agreement pursuant to which our Manager and its affiliates provide us with technical, administrative and strategic services. Our Manager provides a variety of ship management services, including purchasing, crewing, vessel maintenance, insurance procurement and claims handling, inspections, and ensuring compliance with flag, class and other statutory requirements. Our Manager is owned by trusts established for members of the Dennis Washington family and an entity owned by directors and officers of our Manager and SCLL. SCLL is primarily owned by an entity controlled by a director of SCLL and an entity that is a member of the Washington Marine Group. The Washington Marine Group is a group of companies engaged in marine transportation and ship building, and is affiliated with the Washington Companies. The Washington Companies invest in and operate railway, mining, environmental remediation, aviation technology and other infrastructure businesses in North America. Please read “Item 4. Information on the Company—B. Business Overview—Management Related Agreements” for a description of the material terms of the management agreement.

Our Competitive Strengths

We believe that we possess a number of competitive strengths that will allow us to capitalize on the growth opportunities in the containership shipping industry, including the following:

- *Long-term, fixed-rate time charters.* Each vessel in our contracted fleet is subject to a long-term, fixed-rate time charter. As a result, the revenue from our vessels are protected from the volatility of spot rates and short-term charters. In order to further mitigate our risk, we have historically placed newbuilding orders only when we have concurrently entered into long-term time charters with our customers.
- *Full-service solutions approach to securing charters.* We provide integrated solutions for customers that desire to add multiple vessels in order to enter new trade routes or materially expand existing trade routes. Our Manager has the ability to provide ship design, drawing approval, construction supervision and brokering services to our customers. We believe this full-service solutions approach benefits our container liner customers in the form of lower operating and maintenance costs and improved service levels.
- *Strong customer relationships.* We have long-standing relationships with our current customers, CSCL and CP Ships. We have played an important role in CSCL's and CP Ships' growth, and upon delivery of our contracted fleet, we expect our vessels will represent in excess of 15% of CSCL's container shipping capacity and over 7% of Hapag-Lloyd's container shipping capacity. Our relationships with CSCL and with our new customer, COSCON, provides us with exposure to the high-growth China trade market. We believe that we will continue to be a significant provider to these three major container liners as they continue to grow their businesses and that our relationship with COSCON will also continue to grow. In addition, we have extensive relationships with many other leading container liners, which we believe will lead to future business.

[Table of Contents](#)

- *Uniform and newly built fleet.* The majority of our fleet consists of ships that have been ordered based upon standard designs from Samsung and customized by SCLL and our Manager in consultation with the charterers of the vessels and two leading classification societies. The nineteen 4250 TEU vessels are sister ships and will be uniform in all material respects. In addition, a majority of our ships will have the same or similar equipment. This should provide us with significant efficiencies and economies of scale in operations, maintenance and crew training and provide our customers with efficiencies in stowage and scheduling.
- *Experienced management.* Our chief executive officer and chief financial officer each have over 25 years of professional experience in the shipping industry. In addition, the core management from our Manager has experience with many companies in the international ship management industry, including China Merchants Group, Maersk Sealand, Neptune Orient Lines, American President Lines, Safmarine, Columbia Ship Management and Bell Ships. Our Manager's staff has skills in all aspects of ship management, including design, operations and marine engineering, among others. We were the first to order the 8500 TEU vessels and the 9600 TEU vessels. We also believe our Manager's relationship with the Washington Marine Group will enhance our ability to identify and pursue future growth opportunities.

Our Business Strategies

We will seek to increase distributable cash flow per share by employing the following business strategies:

- *Pursue long-term, fixed-rate charters.* We intend to continue to pursue long-term, fixed-rate charters, which provide us with stable future cash flows. Further, container liner companies typically employ long-term charters for strategic expansion into major trade routes while employing spot charters for shorter term discretionary needs. As container liner companies expand their services into these major trade routes, we believe that we will be well positioned to participate in their growth.
- *Expand our customer relationships.* We intend to expand our relationships with CSCL, CP Ships and COSCON, as well as add new customers as container liner companies continue to expand their use of chartered-in vessels to add capacity in their existing trade routes and establish new trade routes. We believe that we will benefit from the continued growth of worldwide container demand, especially in certain high-growth markets, such as China, where we have strong existing customer relationships. We also believe that our Manager's experience in working with container liners to provide ship design, drawing approval, construction supervision and brokering services will improve our ability to secure new customers.
- *Make strategic acquisitions.* We have increased, and continue to intend to increase, the size of our fleet beyond our contracted fleet through timely and selective acquisitions of new and secondhand containerships that we believe will be accretive to distributable cash flow per share. Historically, SCLL and our Manager have acquired containerships at a time when the demand for newbuilding construction and associated newbuilding prices were low. We intend to continue this strategy to the extent market conditions permit, as it will enable us to minimize initial capital costs, enhance returns and reduce rechartering and residual value risk.
- *Concentrate on multiple vessel charters.* We will continue to focus on entering into multiple vessel charters with our customers. We believe that container liner companies prefer the convenience of sourcing multiple vessel charters from a full-service provider rather than relying on multiple providers.
- *Maintain financial flexibility.* We intend to pursue a financial strategy that aims to preserve our financial flexibility so that we will be able to pursue acquisition and expansion opportunities to take advantage of market conditions in the future. We intend to use cash from operations to pay dividends, as well as to reinvest in our business and acquire new vessels.

[Table of Contents](#)

Time Charters

General

We own containerships and charter them pursuant to long-term, fixed rate charters. A time charter is a contract for the use of a vessel for a fixed period of time at a specified daily rate. Under a time charter, the vessel owner provides crewing and other services related to the vessel's operation, the cost of which is included in the daily rate; the charterer is responsible for substantially all of the vessel voyage costs.

Each of the vessels in our contracted fleet is subject to a long-term time charter. Currently, 12 containerships in our fleet are subject to charters with CSCL Asia, a majority owned subsidiary of CSCL. Three containerships are subject to charters with CP USA, a subsidiary of CP Ships. CP Ships has provided a guarantee of the obligations and liabilities of CP USA under each time charter and CSCL Hong Kong and CSCL have each provided a guarantee of the obligations and liabilities of CSCL Asia under each time charter.

Each of the 14 vessels that will be delivered to us over the next 35 months is also subject to a long-term time charter. Six containerships are subject to charters with CP USA, two are subject to charters with China Shipping, which will novate them to CSCL Asia, four are subject to charters with CSCL Asia and the remaining two containerships are subject to charters with COSCON.

We have three general forms of time charters; one, with respect to charters with CSCL Asia, the second with respect to charters with CP USA and the third with respect to charters with COSCON. The following discussion describes the material terms common to all forms, as well as material terms unique to the general forms.

Initial Term; Extensions

The initial term for a time charter commences on the vessel's delivery. Under all of our time charters, the charterer may also extend the term for periods in which the vessel is off-hire, as described below. One of our charterers has a very specific right to terminate its charters prior to expiration of the original term, as described in more detail below.

The charter periods of 18 of the vessels in our fleet chartered to CSCL Asia are as follows. Five of the charters for the 4250 TEU vessels have initial terms of ten years each with options, exercisable by the charterer, to extend the term of each charter for an additional two years. The two charters for the 8500 TEU vessels have initial terms of 12 years with options, in favor of the charterer, to extend the term of each charter for an additional three years. The charters for the remaining five 4250 TEU vessels in our current fleet have terms of 12 years. The four 2500 TEU vessels that will be constructed are also subject to charters of 12 years. The two 9600 TEU vessels under construction are subject to charters with terms of 12 years and the charters will be novated by China Shipping to CSCL Asia upon the vessels' inspection and delivery to us.

The charter periods for the two 3500 TEU vessels currently under construction that are chartered to COSCON are 12 years. There is no option to extend beyond the initial term.

The initial term of each of the time charters with CP USA is three years. CP USA has the right to extend each of the charters for up to an additional seven years in successive one-year extensions. Each one-year extension is automatic, unless CP USA provides written notice to the contrary to us not later than two years prior to the commencement of the respective extension period. If CP USA provides notice of its intention not to extend a time charter at the end of its initial three-year term, it must pay to us, at the end of the term, a termination fee of approximately \$8.0 million. The termination fee declines by \$1.0 million per vessel in years four through nine. If the term of a time charter is extended for the full ten years, CP USA has an option to extend the term for two additional one-year periods.

In the case of our charters with CP USA, while the initial term is only three years, we consider these charters to be long-term charters. Given that CP USA is required to pay a termination fee of approximately \$8.0

[Table of Contents](#)

million to terminate a charter at the end of the initial term, that the charter hire rates are substantially below those rates presently offered in the spot market and short-term time charter market, and that the charters automatically renew unless terminated upon two years prior notice, we believe it is likely that CP USA will extend the charters beyond the initial term.

Hire Rate

“Hire rate” refers to the basic payment from the charterer for the use of the vessel. Under all of our time charters, hire is payable, in advance, in U.S. dollars, as specified in the charter.

If a vessel’s speed is reduced as a result of a defect or breakdown of the hull, machinery or equipment, hire payments under all of our time charters may be reduced by the cost of the time lost and extra fuel consumed. Historically, we have had no instances of hire rate reductions and neither has SCLL.

Under the time charters with CSCL Asia, the hire rate is payable in advance every 15 days at the applicable daily rate. Generally, the hire rate is a fixed daily amount which increases by a fixed amount at varying intervals during the term of the charter and/or any extension to the term.

Under the time charters with CP USA, the hire rate is payable monthly in advance at the applicable daily rate. The hire rate consists of two general components: a fixed hire rate component and a fixed payment for services. Pursuant to the management services agreement entered into by certain VesselCos with our Manager and CP USA, which will be assigned to us on completion of our purchase of the vessel owned by each such VesselCo, CP USA has agreed to make certain payments toward operating expenses directly to our Manager under the direction of those VesselCos. Both components are fixed for the first three years of the charters and for the seven extension years and increase for the two subsequent extension terms.

Similarly to the time charters with CSCL Asia, under the time charters with COSCON, the hire rate is payable in advance every 15 days at the applicable fixed daily rate.

Operations and Expenses

Our Manager operates our vessels and is responsible for ship operating expenses, which include technical management, crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses, if a vessel actually disposes of garbage, garbage fees and capital expenses, which include drydocking of the vessels. Please read “Item 4. Information on the Company—B. Business Overview—Management Related Agreements” for a description of the material terms of the management agreement. The charterer generally pays the voyage expenses, which include all expenses relating to particular voyages, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, garbage fees, agency fees and commissions.

Off-hire

Under all forms of time charters, when the vessel is “off-hire,” or not available for service, the charterer generally is not required to pay the hire rate, and we are responsible for all costs, including the cost of fuel bunkers unless the charterer is responsible for the circumstances giving rise to the lack of availability. A vessel generally will be deemed to be off-hire if there is an occurrence preventing the full working of the vessel due to, among other things:

- operational deficiencies;
- drydocking for repairs, maintenance or inspection;
- equipment breakdowns;
- delays due to accidents;

Table of Contents

- crewing strikes, labor boycotts, certain vessel detentions or similar problems; or
- our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

Under our time charters with CP USA, if a vessel is delayed, detained or arrested for 30 consecutive days due to engine or essential gear breakdown, strikes, labor stoppages, boycotts or blockades, or is requisitioned, or other causes affecting the vessel's schedule, other than grounding, collision or similar causes, we must charter a substitute vessel and we must pay any difference in hire cost of the charter for the duration of the substitution. Under our time charter with COSCON, if a vessel is placed off-hire for 30 cumulative days in 365 consecutive days, or is requisitioned, delayed, detained or arrested, COSCON may cancel the time charter with respect to that vessel. CSCL Asia does not have similar rights under its charters with us.

Ship Management and Maintenance

Under each of our time charters, we are responsible for the operation and management of each vessel that includes maintaining the vessel, periodic drydocking, cleaning and painting and performing work required by regulations. Our Manager provides these services to us pursuant to the management agreement between us. Please read "Item 4. Information on the Company—B. Business Overview—Management Related Agreements" for a description of the material terms of the management agreement.

Termination and Suspension

We are generally entitled to withdraw the vessel from service to the charterers if the charterer defaults in its payment obligations, without prejudice to other claims for hire against the charterers. Under our time charters with CP USA, if a vessel consistently fails to perform to a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount, and we are unable to rectify the situation within a reasonable period of time or otherwise reach a mutually acceptable settlement, CP USA has the right to terminate the time charter with respect to that vessel. Under our time charters with COSCON, if a vessel consistently fails to perform to a guaranteed speed and we are unable to rectify the situation within a reasonable period of time or otherwise reach a mutually acceptable settlement, COSCON has the right to terminate the time charter with respect to that vessel. CSCL Asia does not have similar rights under its charters with us.

Change of Control

Under our time charters with CP USA, CP USA's prior consent is required to any material change in our ownership or voting control. CP USA cannot unreasonably withhold such consent. Neither CSCL Asia nor COSCON have similar rights under their charters with us.

Sale of Vessels

Several of our time charters with CSCL Asia allow us to sell the vessels under time charters to any party as long as the warranties under the time charters remain unaffected. The remaining time charters with CSCL Asia allow us to sell the vessels under the time charters to any party as long as we obtain the charterer's prior consent. CSCL Asia cannot unreasonably withhold such consent.

In the event we wish to sell one of the vessels under a time charter with CP USA, we must first notify CP USA and provide CP USA with an opportunity to purchase the vessel. If CP USA refuses to purchase the vessel or if we are unable to reach an agreement with CP USA within 14 days, we will be free to conclude a sale with another party subject to certain terms.

Our time charters with COSCON allow us to sell the vessels under time charters to any buyer suitable to fulfil the charter, but only when justified by circumstances and subject to COSCON's consent, which cannot be unreasonably withheld.

[Table of Contents](#)

Charterers, Trade Routes and Goods Transported

CSCL Asia is a majority owned subsidiary of CSCL. CSCL is the 6th largest container shipping company in the world with over 356,000 TEU of capacity. CSCL is incorporated in China, is listed on the Hong Kong Stock Exchange and has a market capitalization of approximately \$2.0 billion. Currently, CSCL Asia charters 12 of the 15 vessels in our fleet. CSCL and CSCL Hong Kong have provided a guarantee of the obligations and liabilities of CSCL Asia under each time charter.

CP USA was formed pursuant to a merger with another subsidiary of CP Ships under the laws of the state of Delaware and is a subsidiary of CP Ships. CP USA currently charters three vessels in our fleet and will charter a total of six additional vessels in our contracted fleet.

CP Ships was recently acquired by TUI, as a result of an amalgamation of CP Ships with a subsidiary of TUI. CP Ships has a containership fleet capacity of 434,000 TEU. TUI has announced that it plans to integrate CP Ships into its affiliate, Hapag Lloyd to create the world's 5th largest container shipping company.

The actual voyage routes of our vessels are dependant on the demands of each of our charterers. Currently, CSCL Asia employs the 4250 TEU vessels in trade routes between China and the west coast of North America, calling at certain major ports, including Long Beach and Oakland, California, Seattle, Washington and Vancouver, British Columbia and between China and the east coast of North America, calling at certain major ports, including Miami, Florida, Charleston, South Carolina and New York. The North American trade routes include various ports in China, such as Shanghai, Dalian, Ningbo and Xiamen, and major ports in other places, including Hong Kong and Pusan, Korea. CSCL Asia will confirm the intended trading routes for the 2500 TEU vessels once we take delivery of those vessels.

The 8500 TEU vessels are employed in trade routes between China, the Mediterranean and Europe, which include major ports such as Hamburg, Germany, Felixstowe, United Kingdom and Le Havre, France. These European trade routes also include various ports of call in China, such as Shanghai and Dalian.

The goods that are shipped by CSCL Asia from China to North America include primarily consumer goods, including toys, electronics and clothing. The goods that are shipped from North America to China include primarily waste paper, metal scrap, wood materials and frozen foods. The goods that are shipped by CSCL Asia from China to Europe include primarily furniture, toys, clothing, food, metal products, coffee and peanuts. The goods shipped from Europe and the Mediterranean to China include primarily machinery, industrial products, chemicals, sugar and waste paper.

In addition, CP USA currently employs two of the three 4250 TEU vessels that it charters from us in trade between Sri Lanka, India and the east coast of North America, calling at certain major ports, including Norfolk, Virginia, Charleston, South Carolina and New York. The third 4250 TEU vessel chartered by CP USA trades in a new express service between Shanghai, Ningbo and Los Angeles.

In general, the goods that are shipped by CP USA from the Asian ports include primarily textiles, machinery parts, chemicals and seafood. The goods that are shipped by CP USA from North America includes primarily machinery parts, chemicals and poultry.

COSCON is the container shipping subsidiary of China COSCO Holdings Company Limited, or China COSCO, a Chinese company publicly traded on the Hong Kong Stock Exchange, with a market capitalization of approximately \$2.9 billion. China COSCO is one of the leading global providers of integrated container shipping services and COSCON is currently the world's seventh largest container shipping company. COSCON will charter the two 3500 TEU vessels that we are scheduled to acquire in 2007 and will confirm the intended trading routes for those vessels at that time.

[Table of Contents](#)

Competition

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters based upon price, customer relationships, operating expertise, professional reputation and size, age and condition of the vessel.

Competition for providing new containership service comes from a number of experienced shipping companies. Many of our competitors have significantly greater financial resources than we do, and can therefore operate larger fleets and may be able to offer better charter rates. We anticipate that an increasing number of marine transportation companies will enter the containership sector, including many with strong reputations and extensive resources and experience. This increased competition may cause greater price competition for time charters.

Seasonality

Our vessels operate under long-term charters and are not subject to the effect of seasonal variations in demand.

Management Related Agreements

The following summary of the material terms of the ship management agreements does not purport to be complete and is subject to, and qualified in its entirety by reference to, all the provisions of the Management Agreement, Omnibus Agreement and each of the employment agreements with Gerry Wang and Graham Porter. Because the following is only a summary, it does not contain all information that you may find useful. For more complete information, you should read the entire Management Agreement, Omnibus Agreement and each of the employment agreements between subsidiaries of our Manager, Gerry Wang and Graham Porter listed as an exhibit to this Annual Report.

Certain aspects of our operations, including the management of our fleet, is performed by our Manager under the supervision of our board of directors. Our chief executive officer has been made available to us by our Manager to manage our day-to-day operations and affairs. Our chief executive officer and others, including our Manager and its affiliated companies, report to our board of directors regarding strategic, administrative and technical management matters.

Our officers and other individuals providing services to us may face a conflict regarding the allocation of their time between our business and the other business interests of our Manager and its affiliates. Our Manager intends to seek to cause its officers to devote as much time to the management of our business and affairs as is necessary for the proper conduct of our business and affairs.

Management Agreement

Under our management agreement, our Manager is responsible for providing us with substantially all of our services, which include the following:

- *technical services*, which include managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory compliance and compliance with the law of the flag of each vessel and of the places where the vessel trades, ensuring classification society compliance, supervising the maintenance and general efficiency of vessels, arranging our hire of qualified officers and crew, training, transportation, compensation and insurance of the crew (including processing all claims), performing normally scheduled drydocking and general and routine repairs, arranging insurance for vessels (including marine hull and machinery insurance, protection and indemnity insurance and risks and crew insurance), purchasing stores, supplies, spares, lubricating oil and maintenance capital expenditures for vessels, appointing supervisors and technical consultants and providing technical

Table of Contents

support, shoreside support, shipyard supervision, and attending to all other technical matters necessary to run our business (provision of technical services and related costs will be paid for by the Manager at its cost and in return for its technical services, the Manager will receive the fixed daily technical services fee);

- *administrative services*, which include, in each case, at the direction of our board of directors, assistance with the maintenance of our corporate books and records, payroll services, the assistance with the preparation of our tax returns (and paying all vessel taxes) and financial statements, assistance with corporate and regulatory compliance matters not related to our vessels, procuring legal and accounting services (including the preparation of all necessary budgets for us for submission to our board of directors), assistance in complying with United States and other relevant securities laws, human resources, cash management and bookkeeping services, development and monitoring of internal audit controls, disclosure controls and information technology, assistance with all regulatory and reporting functions and obligations, furnishing any reports or financial information that might be requested by us and other non-vessel related administrative services (including all annual, quarterly, current and other reports we are required to file with the SEC pursuant to the Exchange Act), assistance with office space, providing legal and financial compliance services, overseeing banking services (including the opening, closing, operation and management of all our accounts including making any deposits and withdrawals reasonably necessary for the management of our business and day-to-day operations), procuring general insurance and director and officer liability insurance, providing all administrative services required for subsequent debt and equity financings and attending to all other administrative matters necessary to ensure the professional management of our business; and
- *strategic services*, which include chartering our vessels, managing our relationships with our charter parties, chartering, locating, purchasing, financing and negotiating the purchasing and selling of our vessels, providing general strategic planning services and implementing corporate strategy, providing business development services, developing acquisition and divestiture strategies, working closely on the integration of any acquired business, supervising the design and construction of new buildings, licensing to us the tradename “Seaspan” and associated logos, and such other strategic, corporate planning, business development and advisory services as we may reasonably identify from time to time.

Our Manager is responsible for paying for all costs associated with the provision of technical services but will not be responsible for certain “extraordinary costs and expenses”, which consist of repairs for accidents; non-routine drydocking; any improvement, structural change, installation of new equipment imposed by compulsory legislation; increase in crew employment and support expenses resulting from an introduction of new, or change in the interpretation of, applicable laws; or any other similar costs, liabilities and expenses that were not reasonably contemplated by us and the Manager as being encompassed by or a component of the technical services fee at the time the fee was determined. We carry insurance coverage consistent with industry standards for certain matters but we cannot assure you that our insurance will be adequate to cover all extraordinary costs and expenses. Notwithstanding the foregoing, if any extraordinary costs and expenses are caused by our Manager’s fraud, willful misconduct, recklessness or gross negligence, our Manager will be responsible for them.

Subject to certain termination rights, the initial term of the management agreement will expire on December 31, 2025. If not terminated, the management agreement shall automatically renew for a five-year period and shall thereafter be extended in additional five-year increments if we do not provide notice of termination in the fourth quarter of the fiscal year immediately preceding the end of the respective term.

Reporting Structure

Our chief executive officer has been made available to us by our Manager to manage our day-to-day operations and affairs. Pursuant to his employment agreement described below, our chief executive officer devotes substantially all of his time to us and our Manager on our business and affairs. Our Manager reports to

[Table of Contents](#)

our board of directors through our chief executive officer and operates our business. Our board of directors and our chief executive officer and chief financial officer have responsibility for overall corporate strategy, acquisitions, financing and investor relations. Our chief executive officer and chief financial officer utilize the resources of our Manager to run our business. Our chief financial officer is employed by us and devotes all of his time to our matters.

Compensation of Our Manager

In return for its technical management of our ships our Manager receives a daily fixed fee per vessel payable on a monthly basis. The initial fixed fees are \$4,000 per day for each 2500 TEU vessel, \$4,200 per day for each 3500 TEU vessel, \$4,500 per day for each 4250 TEU vessel, \$6,000 per day for each 8500 TEU vessel and \$6,500 per day for each 9600 TEU vessel. We believe these are fair market fees. The initial fixed fees for the 4250 TEU, 8500 TEU and 9600 TEU vessels will be in effect through December 31, 2008 and thereafter will be subject to renegotiation every three years, provided that the fee for the three-year period beginning January 1, 2009 will not be less than the initial technical services fee. The initial fixed fees for the 3500 TEU vessels will be in effect through December 31, 2008 and thereafter will be subject to renegotiation every three years. Similarly, the initial fixed fees for the 2500 TEU vessels will be in effect through December 31, 2011, and thereafter will be subject to renegotiation every three years. With respect to fee renegotiation, if our Manager and the board of directors are unable to reach an agreement an arbitrator will determine the fair market fee. In the event that we acquire an additional vessel, the technical services fee in respect of that vessel will be the same fee as is applicable to vessels of the same size. If there is a material difference in the operating costs associated with the new vessel, or if there are no vessels of a similar size already owned by us, we will negotiate a fair market fee with our Manager. If we are unable to reach an agreement an arbitrator will determine the fair market fee.

In return for providing us with strategic and administrative services, our Manager is entitled to a service fee not exceeding a maximum of \$6,000 per month, and to reimbursement for all of the reasonable costs and expenses incurred by it and its affiliates in providing us with such services. Our Manager provides these services to us directly but may subcontract certain of these services to other entities, including its affiliates. The management agreement provides that we have the right to audit the costs and expenses billed to us and also provides for a third party to settle any billing disputes between us and our Manager.

In connection with providing us with strategic services, our Manager has acquired 100 incentive shares for \$1,000. The incentive shares are entitled to a share of incremental dividends, based on specified sharing ratios, once dividends on our common and subordinated shares reach certain specified targets beginning with the first target of \$0.485 per share. Under the terms of the management agreement, we have the right to reacquire the incentive shares from our Manager at a nominal price under specified circumstances and we have the obligation to reacquire them at a price determined by independent parties under other specified circumstances.

Omnibus Agreement

We have entered into an agreement with our Manager, certain of our Manager's subsidiaries which provide services to us, Norsk, a company within the Washington Marine Group, and Seaspan International, a company that owns substantially all of the Washington Companies' marine transportation shipyards and ship management entities. The following discussion describes the provisions of the omnibus agreement.

Non-competition

Our Manager, Norsk, and Seaspan International have agreed, and have caused their controlled affiliates (other than us and our subsidiaries) to agree, directly or indirectly, not to engage in or otherwise acquire or invest in any business involved in the chartering or rechartering of containerships to others, hereinafter referred to as the "containership business," during the term of the management agreement, except as provided below. In the event that the management agreement is terminated for Manager Cause or Manager Breach or if our Manager elects to

Table of Contents

terminate the management agreement pursuant to its optional termination right, the term of the non-competition agreement shall survive for two years from such date. “Containerships” includes any ocean-going vessel that is intended primarily to transport containers or is being used primarily to transport containers. The non-competition agreement will not prevent Seaspan International, Norsk, our Manager or any of their controlled affiliates (other than us and our subsidiaries) from:

- acquiring and subsequently operating assets that are within the definition of containership business as part of a business if a majority of the fair market value of the acquisition is not attributable to the containership business. However, if at any time a party completes such an acquisition, it must offer to sell the assets that are attributable to the containership business to us for their fair market value plus any additional tax or other similar costs to the acquiring party that would be required to transfer such assets to us separately from the acquired business;
- solely with respect to Seaspan International, acquiring and subsequently operating assets that are within the definition of containership business that relate to discussions, negotiations or agreements that occurred prior to the date of our initial public offering; provided, however, that Seaspan International must offer to sell the assets to us within one year from the acquisition date valued at their “fully built-up cost,” which represents the aggregate expenditures incurred by Seaspan International to acquire and bring such assets to the condition and location necessary for our intended use;
- collectively with Gerry Wang, Graham Porter and the controlled affiliates of Seaspan International, Norsk and our Manager, acquiring up to a 9.9% equity ownership, voting or profit participation for investment purposes only in any publicly traded entity that is engaged in the containership business;
- acquiring operating assets that are within the definition of containership business pursuant to the right of first offer after the management agreement is terminated;
- acquiring, and subsequently operating, containerships that we do not purchase pursuant to the terms of the asset purchase agreement;
- acquiring, and subsequently operating, containerships with a capacity of less than 1,000 TEU; or
- providing technical ship management services relating to containerships.

Rights of First Offer on Containerships

Our Manager and Seaspan International and their controlled affiliates have granted us a 30-day right of first offer on any proposed sale, transfer or other disposition of any assets that fall within the definition of containership business they might own. This right of first offer will not apply to a sale, transfer or other disposition of vessels between any affiliates, or pursuant to the terms of any charter or other agreement with a charterer. Our right of first offer will be in effect during the term of the management agreement and, unless termination is for Company Breach or we terminate pursuant to our early termination right or optional termination right, shall extend for a two year period following its termination.

Prior to any disposition of assets that fall within the definition of containership business, Seaspan International, our Manager and their controlled affiliates, as appropriate, will deliver a written notice setting forth the material terms and conditions of any proposed sale, transfer or disposition of the assets. During the 30-day period after the delivery of such notice, we will negotiate in good faith with Seaspan International, our Manager or their controlled affiliates, as appropriate, to reach an agreement on the transaction. If an agreement is not reached within such 30-day period, Seaspan International or our Manager, as the case may be, will be able within the next 180 days to sell, transfer or dispose of such assets to a third party (or to agree in writing to undertake such transaction with a third party) on terms generally no less favorable to the selling party than those offered pursuant to the written notice.

Our Manager and Seaspan International shall have a similar 30-day right of first offer on any of our assets that fall within the definition of containership business for a period beginning on the date of the termination of

[Table of Contents](#)

the management agreement and extending for a period of two years, unless such termination is for Manager Cause, Manager Breach or the Manager exercises its optional termination right, in which case such right of first offer shall not apply.

Employment Agreement with Gerry Wang

Our chief executive officer has entered into an employment agreement with Seaspan Ship Management Ltd., or SSML, a subsidiary of our Manager. The employment agreement provides that Mr. Wang receive an annual base salary of \$600,000, subject to increases at the discretion of the board of directors of our Manager. We reimburse our Manager for a portion of this amount under the management agreement. Pursuant to this agreement, Mr. Wang serves as the chief executive officer of SSML and as our chief executive officer. He devotes substantially all of his time to us and our Manager on our business and affairs. The initial term of the agreement expires on December 31, 2008. However, unless written notice is provided between 210 and 180 days prior to the termination date, the agreement automatically renews on December 31, 2008, and each subsequent year for an additional one-year term. Except in the case of a termination for cause, the Manager will not terminate the chief executive officer without our prior consent, which shall not be unreasonably withheld.

Mr. Wang has acknowledged in the agreement that by virtue of his employment, he will owe fiduciary obligations to us and to SSML. In such case where our interests and those of SSML conflict, Mr. Wang will act in our best interests and such action or inaction in fulfilling his obligations in our respect will not be a breach of his employment agreement with SSML.

Mr. Wang has agreed to be bound by the terms of the omnibus agreement and not to engage in any activity that the Manager is prohibited from engaging in pursuant to the omnibus agreement.

Employment Agreement with Graham Porter

Graham Porter has entered into an employment agreement with Seaspan Advisory Services Limited, or Seaspan Advisory, a subsidiary of our Manager that provides us with strategic services pursuant to the management agreement. The agreement provides that Mr. Porter receive an annual base salary of \$200,000, subject to increases at the discretion of the board of directors of our Manager. We reimburse our Manager for a portion of this amount under the management agreement. Pursuant to this agreement, Mr. Porter serves as the chief executive officer of Seaspan Advisory. The initial term of the agreement expires on December 31, 2008. However, unless written notice is provided between 210 and 180 days prior to the termination date, the agreement automatically renews on December 31, 2008, and each subsequent year for an additional one-year term.

Mr. Porter has agreed to be bound by the terms of the omnibus agreement and not to engage in any activity that the Manager is prohibited from engaging in pursuant to the omnibus agreement.

Risk of Loss and Insurance

Hull & Machinery, Loss of Hire and War Risks Insurance

We maintain marine hull and machinery and war risks insurance, which covers the risk of actual or constructive total loss, for all of our vessels. Each of our vessels is covered up to at least fair market value with certain deductibles per vessel per incident. We also maintain increased value coverage for each of our vessels. Under this increased value coverage, in the event of total loss of a vessel, we will be entitled to recover amounts not recoverable under our hull and machinery policy due to under-insurance. We have not obtained, and will not obtain, loss-of-hire insurance covering the loss of revenue during extended off-hire periods. We believe that this type of coverage is not economical and is of limited value to us. However, we evaluate the need for such coverage on an ongoing basis, taking into account insurance market conditions and the employment of our vessels.

[Table of Contents](#)

Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I associations, which insure our third-party and crew liabilities in connection with our shipping activities. This includes third-party liability, crew liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations. Subject to the “capping” discussed below, our coverage, except for pollution, is unlimited.

Our protection and indemnity insurance coverage for pollution is \$1.0 billion per vessel per incident. The fourteen P&I associations that comprise the International Group insure approximately 90% of the world’s commercial blue-water tonnage and have entered into a pooling agreement to reinsure each association’s liabilities. As a member of a P&I association, which is a member of the International Group, we are subject to calls payable to the associations based on the International Group’s claim records as well as the claim records of all other members of the individual associations.

Inspection by Classification Societies

Every seagoing vessel must be “classed” by a classification society. The classification society certifies that the vessel is “in class,” signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel’s country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

Each vessel is inspected by a surveyor of the classification society in three surveys of varying frequency and thoroughness: every year for the annual survey, every two to three years for intermediate surveys and every four to five years for special surveys. Should any defects be found, the classification surveyor will issue a “recommendation” for appropriate repairs that have to be made by the shipowner within the time limit prescribed. Vessels may be required, as part of the annual and intermediate survey process, to be drydocked for inspection of the underwater portions of the vessel and for necessary repair stemming from the inspection. Special surveys always require drydocking. The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

C. Organizational Structure

We are not part of a group and do not have any subsidiaries.

D. Property, Plants and Equipment

Our Fleet

Each vessel in our contracted fleet has been or is being built based upon standard designs from Samsung customized by SCLL and our Manager in consultation with the charterers of the vessels and two classification societies, Lloyd’s and Det Norske. These designs, which include certain technological advances, make our containerships efficient with respect to both voyage speed and loading when compared to many vessels operating in the industry. Our 8500 TEU vessels are capable of speeds of 25.2 knots on design drafts, making them among the fastest containerships. The average age of our current fleet of 15 vessels is 1.8 years and upon scheduled delivery of the last vessel in our contracted fleet as of August 31, 2007, the average age of our contracted fleet will be 2.3 years. In addition to our contracted fleet, we have also agreed to acquire six additional containerships:

Table of Contents

four 2500 TEU vessels that will be built for us by Jiangsu and two 3500 TEU vessels that are being built by Zhejiang in compliance with the rules of Germanischer Lloyd. Lloyd's or Det Norske will classify each of the 2500 TEU and 3500 TEU vessels upon their delivery.

All the vessels in our current fleet of 15 containerships are ocean going single screw diesel engine driven fully cellular containerships constructed by Samsung. Thirteen of the vessels have a container capacity of 4250 TEU each. Those vessels are 260.0 meters long, 32.3 meters wide and 19.3 meters deep and have a gross tonnage of 39,941 tons. The remaining two vessels have a container capacity of 8500 TEU each. Those vessels are approximately 334.0 meters long, 42.8 meters wide and 24.6 meters deep. The gross tonnage of each vessel is 90,645 tons.

Fifteen of our vessels were designed and were constructed, inspected and tested in accordance with the rules and regulations of and under special survey of Lloyd's. The classification society for our 4250 TEU vessels is Det Norske and for our 8500 TEU vessels, the classification society is Lloyd's. All of the vessels have been certified as being "in class" by their respective classification societies.

Currently, our fleet of 15 containerships consists of the following vessels:

Vessel Name	Size (TEU)	Time Charter (years)	Commencement of Charter	Options (years)	Charterer
<i>CSCL Hamburg</i>	4253	10	July 2001	2	CSCL Asia
<i>CSCL Chiwan</i>	4253	10	September 2001	2	CSCL Asia
<i>CSCL Ningbo</i>	4253	10	June 2002	2	CSCL Asia
<i>CSCL Dalian</i>	4253	10	September 2002	2	CSCL Asia
<i>CSCL Felixstowe</i>	4253	10	October 2002	2	CSCL Asia
<i>CSCL Oceania</i>	8468	12	December 2004	3	CSCL Asia
<i>CSCL Africa</i>	8468	12	January 2005	3	CSCL Asia
<i>CSCL Vancouver</i>	4253	12	February 2005	—	CSCL Asia
<i>CSCL Sydney</i>	4253	12	April 2005	—	CSCL Asia
<i>CSCL New York</i>	4253	12	May 2005	—	CSCL Asia
<i>CSCL Melbourne</i>	4253	12	August 2005	—	CSCL Asia
<i>CSCL Brisbane</i>	4253	12	September 2005	2	CSCL Asia
<i>CP Kanha</i>	4253	3+7(1)	October 2005	2	CP USA
<i>Dubai Express</i>	4253	3+7(1)	January 2006	2	CP USA
<i>Jakarta Express</i>	4253	3+7(1)	February 2006	2	CP USA

The remaining eight containerships that will complete our contracted fleet are currently under construction and consist of the following vessels:

Vessel Name	Size (TEU)	Time Charter (years)	Options (years)	Charterer	Contractual Delivery Date
<i>Saigon Express</i>	4253	3+7(1)	2	CP USA	June 14, 2006
<i>Lahore Express</i>	4253	3+7(1)	2	CP USA	September 14, 2006
<i>Rio Grande Express</i>	4253	3+7(1)	2	CP USA	November 14, 2006
<i>Santos Express</i>	4253	3+7(1)	2	CP USA	January 14, 2007
<i>Rio de Janeiro Express</i>	4253	3+7(1)	2	CP USA	April 14, 2007
<i>Manila Express</i>	4253	3+7(1)	2	CP USA	June 14, 2007
<i>CSCL Zeebrugge</i>	9580	12	—	China Shipping(2)	May 31, 2007
<i>CSCL Long Beach</i>	9580	12	—	China Shipping(2)	August 31, 2007

- (1) For these charters, the initial terms are three years that automatically extend for up to an additional seven years in successive one-year extensions, unless CP Ships elects to terminate the charters with two years' prior written notice. The charterer is required to pay a termination fee of approximately \$8.0 million to terminate a charter at the end of the initial term. The termination fee declines by \$1.0 million per year per vessel in years four through nine.

Table of Contents

(2) Currently, the time charter is held by China Shipping; however, upon inspection and delivery to us, the charters will be novated to CSCL Asia.

The foregoing table indicates the delivery date for each vessel as stated in the relevant ship building contract. However, Samsung has delivered almost all of the 15 vessels that are part of our contracted fleet prior to their contracted delivery dates and we expect that some of the vessels under construction may also be ready for delivery prior to their contracted delivery dates. Under the relevant ship building contract, any early delivery of a vessel requires that Samsung obtain the consent of the relevant VesselCo, which in turn will require our consent pursuant to our purchase agreement with the VesselCos.

The following table indicates the delivery date for each of the two 3500 TEU vessels being built by Zhejiang and the four 2500 TEU vessels that will be constructed for us by Jiangsu.

Vessel Name	Size (TEU)	Time Charter (years)	Options (years)	Charterer	Contractual Delivery Date
Zhejiang Shipbuilding Hull No. 125	3534	12	—	COSCON	February 28, 2007
Zhejiang Shipbuilding Hull No. 126	3534	12	—	COSCON	July 31, 2007
Jiangsu Shipbuilding Hull YZJ 2006-696C	2546	12	—	CSCL Asia	August 30, 2008
Jiangsu Shipbuilding Hull YZJ 2006-716C	2546	12	—	CSCL Asia	November 30, 2008
Jiangsu Shipbuilding Hull YZJ 2006-717C	2546	12	—	CSCL Asia	January 30, 2009
Jiangsu Shipbuilding Hull YZJ 2006-718C	2546	12	—	CSCL Asia	February 28, 2009

The technical specifications of the four sizes of vessels in our fleet are as follows:

Size (TEU)	Service Speed (knots)	Length (meters)	Breadth (meters)	Engine (BHP)	Approximate Crew Size
2546	22.0	208.9	29.8	21,660	20
3534	22.5	231.0	32.2	42,867	20
4253	24.5	260.0	32.3	49,680	19
8468	25.2	334.0	42.8	93,120	22
9580	26.1	336.7	45.6	93,120	22

The last two vessels of our contracted fleet to be delivered to us are expected to be, at the time of their delivery, the largest operating containerhips in the world. Their container capacity is expected to be 9600 TEU each and they will each have a deadweight of not less than 108,330 metric tons. These vessels will be approximately 336.7 meters long, 45.6 meters wide and 27.2 meters deep.

Acquisition of Our Fleet

The following summary of the material terms of the Asset Purchase Agreement between us and the VesselCos, the Sale and Purchase Agreements between us and Conti, and the Ship Building Contracts between us and Jiangsu, does not purport to be complete and is subject to, and qualified in its entirety by reference to, all the provisions of each of the Asset Purchase Agreement, the Sale and Purchase Agreements and the Ship Building Contracts. Because the following is only a summary, it does not contain all information that you may find useful. For more complete information, you should read the entire Asset Purchase Agreement, each of the Sale and Purchase Agreements and Ship Building Contracts listed as an exhibit to this Annual Report.

Our Contracted Fleet

We acquired 15 of the vessels that are part our contracted fleet from certain of the VesselCos, for a total purchase price of approximately \$941.1 million. Over approximately the next 18 months, we expect to acquire an

[Table of Contents](#)

additional eight containerships from the remainder of the VesselCos for an aggregate purchase price of approximately \$573.3 million, as each of the containerships is delivered and passes inspection. We will also acquire, as of the date of completion of the purchase of a vessel by us, an assignment of the time charter for that vessel, as well as all warranties and all other rights and benefits accruing to the VesselCo under the ship building contract for that vessel, to the extent Samsung agrees to such assignment. To the extent that such rights are not assignable, the relevant VesselCo will enforce such rights on our behalf. SCLL has agreed to cause each of the VesselCos to perform their obligations under the agreement. Upon acquisition of all the vessels, our contracted fleet will consist of nineteen 4250 TEU vessels, two 8500 TEU vessels and two 9600 TEU vessels. Our contracted fleet will have a total of approximately 116,900 TEU in capacity.

Each of the remaining eight containerships that will complete our contracted fleet is being built by Samsung at its shipyard at Koje Island, South Korea, pursuant to a ship building contract with a VesselCo. These ship building contracts will not be assigned to us by the VesselCos prior to delivery and the VesselCos will be responsible for payments due under the ship building contracts. We have the right under our asset purchase agreement with the VesselCos to perform the obligations of a VesselCo, which will reimburse us for any amounts incurred therewith, in the event of a default or an anticipated default by a VesselCo under its shipbuilding contract with Samsung.

The purchase price for the remaining eight containerships in our contracted fleet and related assets is approximately \$573.3 million. The purchase price for the remaining eight containerships in our contracted fleet and related assets will be funded with borrowings under our credit facility and the proceeds of a future equity offering or offerings. We expect to raise approximately \$156.8 million from a future equity offering or offerings within 18 months after our initial public offering in order to complete the funding of the aggregate purchase price for the remaining eight containerships in our contracted fleet and related assets. Our obligation to purchase the remaining eight containerships in our contracted fleet is not conditional upon our ability to obtain financing for such purchases.

We have the option to issue up to \$100.0 million of common shares as part of the purchase price for the last four of the remaining eight containerships in our contracted fleet. We must give 30 days' prior notice to exercise this option. Those common shares will be valued at 95% of the initial public offering price of our common shares. The VesselCos are not obligated to accept the shares if we are in a material default under our credit facility. If the VesselCos do not accept the common shares in such a case, we are not obligated to purchase the respective vessel and are released from all liabilities except for certain out-of-pocket expenses. The option also terminates upon a change of control of us. Otherwise, the option is not revocable by the VesselCos. Assuming the final four vessels are delivered on their contractual delivery dates and the option is exercised on each such vessel, the common shares will be issued in the third fiscal quarter of 2006, or the first fiscal quarter of 2007.

The following table lists each of the VesselCos from which we have agreed to purchase the remaining eight containerships in our contracted fleet along with the vessel name, size in TEUs and charterer.

<u>Company Name</u>	<u>Vessel Name</u>	<u>Size (TEUs)</u>	<u>Charterer</u>
Seaspan Bishop Shipping Company Limited	<i>Saigon Express</i>	4250	CP USA
Seaspan Castle Shipping Company Limited	<i>Lahore Express</i>	4250	CP USA
Seaspan Pawn Shipping Company Limited	<i>Rio Grande Express</i>	4250	CP USA
Seaspan Ace Shipping Company Limited	<i>Santos Express</i>	4250	CP USA
Seaspan Eagle Shipping Company Limited	<i>Rio de Janeiro Express</i>	4250	CP USA
Seaspan Birdie Shipping Company Limited	<i>Manila Express</i>	4250	CP USA
Hemlock Shipping Company Limited	<i>CSCL Zeebrugge</i>	9600	CSCL Asia (1)
Spruce Shipping Company Limited	<i>CSCL Long Beach</i>	9600	CSCL Asia (1)

(1) Currently, the time charter is held by China Shipping; however, upon inspection and delivery to us, the charters will be novated to CSCL Asia.

Table of Contents

We are acquiring the vessels on an “as is/where is” basis provided that the VesselCos’ provide representations and warranties as to the seaworthiness, adequacy and suitability for use in the business, compliance with the requirements of class and the classification society, freedom from encumbrances and good and marketable title of the vessels. We have the right to review the vessels’ records and classification surveys prior to delivery.

It is a condition of our purchase of each vessel that the relevant advances from the existing credit facility of the VesselCo transferring such vessel be repaid from the purchase price and the vessel be transferred to us free and clear of all liens and encumbrances, other than those incurred in to the ordinary course of the vessel’s operations. Security interests in the vessels granted under the VesselCos’ existing credit facilities will be discharged following repayment of advances made under the facilities.

Completion of the purchase of each vessel is also subject to obtaining all necessary consents to assignment to us of the time charter for the vessel and certain customary conditions. If there is a change of control of us prior to the delivery of the additional eight vessels, our successor must post a letter of credit sufficient to satisfy the remaining obligations under the asset purchase agreement.

Each of the VesselCos has agreed that it will not exercise any rights or options granted under the time charter or any ship building contract to which it is a party without our prior written consent. Where the structure, design, specification, tonnage, speed or fuel consumption of a vessel is or will be materially changed from that set out in the relevant ship building contract and such change or the acceptance of such vessel requires the consent of the VesselCo pursuant to that ship building contract, we may not be able to withhold our consent if the charterer under the time charter for that vessel consents to the change and will accept the vessel without any reduction in charter payments. However, if the charterer refuses to accept the vessel without a reduction in charter payments, and a substantially similar replacement charter is not procured, we are under no obligation to purchase the vessel. If we do not purchase such vessel, the applicable VesselCo may purchase and operate the vessel subject to the terms of the omnibus agreement.

If for any reason one or more of the additional eight containerships that are currently on order is not delivered by Samsung to the applicable VesselCo in accordance with the ship building contract, we are not obligated to purchase the vessel and the time charter for that vessel will be excluded from the transaction.

Our Additional Vessels

Our 2500 TEU Vessels

We have entered into four ship building contracts with Jiangsu, pursuant to which we have agreed to acquire four 2500 TEU vessels as each containership is delivered and passes inspection. The aggregate purchase price for all four 2500 TEU vessels is approximately \$178.0 million, subject to certain pre-delivery expenses, such as pre-delivery interest, remaining at budgeted levels. These four vessels will be built by Jiangsu at its shipyards in Jiangsu Province, China, pursuant to the ship building contracts.

Each of the ship building contracts for the 2500 TEU vessels require that Jiangsu provide one or more refund guarantees in our favor from a specified financial institution or refund guarantor. If Jiangsu fails to return to us any installment paid by us in circumstances where we are entitled to receive repayment of such installment, the refund guarantor is required to pay such installment to us.

We expect to fund the purchase price for these four vessels with borrowings under a new long term debt facility that we will arrange and with proceeds of future equity offerings. Our obligation to purchase these four vessels is not conditional upon our ability to obtain financing for such purchases. Each 2500 TEU vessel is subject to a 12 year time charter with CSCL Asia.

In addition to the four 2500 TEU vessels that will be built for us, we have the option to order an additional eight 2500 TEU vessels, in two tranches of four vessels each, for the same price as the initial four vessels. We

[Table of Contents](#)

have made no commitment, financial or otherwise, to proceed with the order for the optional vessels. If CSCL Asia exercises its option to charter the first group of four vessels under the same terms as the initial four 2500 TEU vessels, we will enter into ship building contracts for the optional vessels. CSCL Asia has until June 30, 2006, to exercise its option with respect to these vessels. We would only exercise our option with respect to the second group of optional vessels if acceptable long-term charters were arranged. We have until September 30, 2006, to exercise these options.

Our 3500 TEU Vessels

We have agreed to acquire two 3500 TEU vessels from Conti, as each containership is delivered and passes inspection. The two 3500 TEU vessels are being built by Zhejiang at its shipyard in Ningbo, China, pursuant to a ship building contract between Conti and Zhejiang. These ship building contracts will not be assigned to us by Conti prior to the delivery and Conti will be responsible for all payments related to the construction and delivery of the two containerships. We are responsible for the costs related to certain supplies and to the supervision and survey of the construction of the vessels. Our Manager will perform all tasks related to the supervision and survey of the construction of the vessels.

The aggregate purchase price for the two 3500 TEU vessels is approximately \$100.0 million. We have paid to Conti an aggregate of \$4.0 million, from operating funds, as the first installment for the vessels and the remainder of the purchase price will be due upon delivery of each vessel. Conti Holding GmbH & Co. KG, or Conti Holding, an affiliate of Conti, has guaranteed repayment of the \$4.0 million in the event that Conti fails to repay the \$4.0 million when required to do so. However, the \$4 million will not be repaid to us by Conti in the event the ship building contract is cancelled, rescinded or terminated for any reason whatsoever not due to Conti's default under the ship building contract.

We expect to fund the purchase price for these two vessels with borrowings under a new long-term debt facility that we will arrange and with proceeds of future equity offerings. Our obligation to purchase these two vessels is not conditional upon our ability to obtain financing for such purchases. Both 3500 TEU vessels are subject to 12 year charters with COSCON.

We also have the right to request and effect any changes or modifications to the building contract so long as we notify Conti. Where the cost of any individual change, or cumulative changes, exceeds \$150,000, we will pay the excess into an interest bearing trust account before any change is ordered. If we do not pay such excess, Conti may object to any such change and communicate its objection to Zhejiang. All amounts held in such a trust account will be released to us upon payment of the purchase price along with any interest thereon. If we default on the payment of the purchase price, we will forfeit the moneys in the trust account and any repayment under Conti Holding's guarantee.

Conti may either accept or reject the vessel and cancel the ship building contract for insufficient speed, excessive fuel consumption, deadweight below contract requirements, insufficient number of container loadings, excessive delay in delivery or any other reason provided for in the ship building contract, but only so long as Conti has obtained our consent to do so.

Each of the two 3500 TEU vessels is being built and completed in compliance with the rules of Germanischer Lloyd and for registration in Malta, Liberia or the Marshall Islands. We will retain Germanischer Lloyd as the classification society for each vessel during construction, but upon delivery, we will change the classification society to either Lloyd's or Det Norske. Also upon delivery, we will register each 3500 TEU vessel under the laws of Hong Kong and we will be responsible for any increase of the purchase price under the ship building contract as a result of this change in flag.

Upon delivery of each 3500 TEU vessel, Conti will assign to us any and all rights, titles and interests in the ship building contract, all warranties provided to Conti under the ship building contract and any and all benefits

[Table of Contents](#)

and advantages, including warranties and rebates, granted to Conti by third parties in connection with the ship building contract. However, we will have no warranty claim against Conti with respect to the condition upon delivery of each 3500 TEU vessel.

Our Credit Facility

The following summary of the material terms of the Credit Facility does not purport to be complete and is subject to, and qualified in its entirety by reference to, all the provisions of the Credit Facility. Because the following is only a summary, it does not contain all information that you may find useful. For more complete information, you should read the entire Credit Facility listed as an exhibit to this Annual Report

We have entered into a \$1.0 billion secured loan facility agreement with certain lenders, including Citibank, N.A., Credit Suisse, DnB Nor Bank ASA, Landesbank Hessen-Thüringen and Fortis Capital Corp. This credit facility will be used in part to fund our acquisition of the contracted fleet from the VesselCos and additional new or used containerships we may decide to acquire. Our credit facility has a maturity date of the seventh anniversary of the delivery date of the last of the 23 containerships comprising the contracted fleet and any additional containerships we may acquire (with funds from our credit facility) or October 31, 2014, whichever is earlier.

The total facility amount of \$1.0 billion is divided into two tranches: Tranche A, in the maximum amount of \$750.0 million and Tranche B, in the maximum amount of \$250.0 million. Additionally, the amount that can be advanced to us at any one advance under Tranche A is restricted, in the case of our initial fleet, to the lower of \$450.0 million and a percentage of the market value of the vessels in respect of which such advance is being made and, in the case of our additional eight vessels, to the lower of \$750.0 million, when aggregated with other Tranche A loans, and a percentage of the market value of the vessel in respect of which such advance is being made. In the case of Tranche B, there are additional requirements based on the market value of the vessel, the amount of TEU capacity of the vessel and the price at which we acquired the vessel. The market value of any vessel is generally determined as the average of two independent valuations on a charter-free basis and assuming an arm's length sale on normal commercial terms. In certain circumstances, the market value of any vessel is determined as the aggregate of the present value of the bareboat equivalent charterhire rate for the remaining term of the charter and the present value of the depreciated market value of such vessel at the end of the term of the charter and assuming a useful economic life of 25 years and a specified scrap value for that vessel.

Tranche A will be used to fund our acquisition of the contracted fleet while Tranche B will be used to fund our acquisition of any additional new or used containerships we may decide to acquire. Both Tranche A and Tranche B will be split into several advances. All Tranche A advances must be drawn within three months of the delivery of the last of the 23 vessels comprising the contracted fleet (but not before the acquisition date of the vessel to which the loan relates), and in any event, no later than December 31, 2007. Each Tranche B advance will occur on or after the acquisition date of an additional vessel beyond our contracted fleet, if any. All Tranche B advances must be drawn prior to December 31, 2006 (but not before the acquisition date of the vessel to which the loan relates). Any commitment undrawn by those dates will be canceled.

Our credit facility requires payments of interest at a rate per annum, calculated as the sum of (i) LIBOR, (ii) the margin (based on certain loan to value ratios) and (iii) any increase in the lenders' costs as a result of complying with regulatory requirements. We have entered into hedging arrangements to manage our interest rate exposure from the floating rate under our credit facility.

Our credit facility requires repayment in eight consecutive quarterly installments of \$18,750,000 in respect of Tranche A and \$6,250,000 in respect of Tranche B, starting five years and three months from the earlier of the date of the delivery of the last vessel in our contracted fleet and December 31, 2007. A final balloon payment in satisfaction of all outstanding advances is payable together with the eighth and final installment. In addition, we are required to prepay all outstanding advances or a portion thereof in certain circumstances.

[Table of Contents](#)

Amounts outstanding under our credit facility may be prepaid in whole or in part at our election without penalty on any interest payment date in minimum amounts of \$5.0 million and thereafter in integral multiples of \$1.0 million.

Our credit facility provides that the borrowings thereunder will be secured by the following, among others:

- a first-priority mortgage on our contracted fleet and each of the vessels we agree to purchase with a Tranche B loan;
- an assignment of our time charters and earnings;
- an assignment of the insurances on each of the vessels that are subject to a mortgage;
- an assignment of the vessel management agreement with our Manager;
- a pledge of our retention account; and
- an assignment of our interest in any hedging arrangement.

Our credit facility contains financial covenants requiring us, among other things, to ensure that:

- our tangible net worth (the adjusted amount paid up or credited as paid up on our share capital less intangible assets as further defined in the credit facility) will always exceed \$450.0 million;
- our interest and principal coverage ratio (earnings before interest, taxes, depreciation and amortization to interest and principal payment expense) will at all times be greater than or equal to 1.1 to 1.0;
- our net interest coverage ratio (earnings before interest, taxes, depreciation and amortization to net interest expense) will at all times be greater than 2.5 to 1.0;
- if one or both of CSCL Asia and CP USA defaults under 51% or more of the applicable time charters and no suitable replacement charters are procured within 90 days of such default, the market value of the fleet will not be less than 150% of all outstanding advances;
- if more than 50% of the fleet (assessed by value) is subject to charters with a remaining term of one year or less, we must have minimum liquidity (cash and cash equivalents held by us) of not less than \$25.0 million; and
- our total debt must at all times be less than 65% of our total assets, as defined in the credit facility, which include, generally, the current book value of all vessels owned or leased with a purchase option, cash, certain marketable securities and receivables, and the book value of all other non-shipping assets shown in our latest financial statements.

Our credit facility contains general covenants including covenants requiring us to maintain adequate insurance coverage, provide our facility agent with copies of financial statements, notify the lenders of any event of default, obtain and comply with any necessary authorizations, comply with all applicable laws where the failure to comply is reasonably likely to have a material adverse effect, maintain the classification and repair of the fleet in accordance with industry practice, lawfully and safely operate the fleet, discharge any liabilities and arrest of any containerhips in the fleet within 30 days, provide the lender with information in respect of any total loss, class recommendation and environmental claims and comply with ISM Code and ISPS Code.

Our credit facility contains restrictive covenants that prohibit us from, among other things: substantially changing the general nature of our business, changing the flag, class or management of our vessels without the lenders' consent, participating in mergers with other entities, releasing proceeds of insurance in respect of a vessel without the prior approval of the lenders in amounts equal to or greater than \$20.0 million and paying dividends if an event of default has occurred and is continuing.

We are also prohibited from incurring any additional indebtedness or issuing any guarantees in respect of other financial indebtedness of any person to be secured against any of the assets over which our lenders are to have security.

Table of Contents

In addition, each of the following events with respect to us, in some cases after the passage of time or notice or both, will be an event of default under our credit facility:

- non-payment of amounts due under our credit facility unless due to administrative delay and cured within 3 business days;
- default by us, other than payment default, under any material provision of the loan agreement or security document, except, in the case of a default capable of remedy in accordance with the facility, a default remedied within 30 days of the earlier of notice to us and discovery;
- breach of a material representation or warranty not remedied within 30 days of the earlier of notice to us and discovery;
- cross-default of other indebtedness of \$25.0 million or greater;
- an event of insolvency or bankruptcy;
- failure to pay a final judgment or court order;
- cessation of business;
- any attachment, sequestration, distress, execution or analogous event affecting our assets having an aggregate value of \$25.0 million that is not discharged within 30 days;
- unlawfulness, non-effectiveness or repudiation of any material provision of our credit facility or a related finance document;
- invalidity of a security document in any material respect or if any of those security documents ceases to provide a perfected first priority security interest; and
- if an event of default is outstanding, the lenders may cancel the credit facility and/or declare the outstanding amounts due and payable.

Environmental and Other Regulations

Government regulation affects the ownership and operation of our vessels in a significant manner. We are subject to international conventions and codes, and national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, and water discharges and ballast water management.

A variety of government and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (United States Coast Guard, harbor master or equivalent), classification societies, flag state administrations (country of registry), charterers, and terminal operators. Certain of these entities require us to obtain permits, licenses and certificates for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend the operation of one or more of our vessels in one or more ports.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the shipping industry.

Increasing environmental concerns have created a demand for vessels that conform to the strictest environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States and international regulations.

[Table of Contents](#)

International Maritime Organization

The International Maritime Organization, or IMO, has negotiated international conventions that impose liability for pollution in international waters and a signatory's territorial waters. For example, the International Convention for the Prevention of Pollution from Ships (MARPOL) imposes environmental standards on the shipping industry relating to oil spills, management of garbage, the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions. Annex III of MARPOL regulates the transportation of marine pollutants, including standards on packing, marking, labeling, documentation, stowage, quantity limitations and pollution prevention. These requirements have been expanded by the International Maritime Dangerous Goods Code, which imposes additional standards for all aspects of the transportation of dangerous goods and marine pollutants by sea. Annex VI to MARPOL, which became effective in May 2005, addresses air pollution from ships. All of the vessels we have agreed to purchase are generally Annex VI compliant. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. The United States has not ratified Annex VI.

The operation of our vessels are also affected by the requirements set forth in the IMO's Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires ship owners and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. A Safety Management Certificate is issued under the provisions of the International Convention for the Safety of Life at Sea (SOLAS) to each ship with an SMS verified to be in compliance with the ISM Code. The failure of a ship owner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. As of the date of this Annual Report, each of the 15 vessels in our current fleet is ISM code-certified.

Increasingly, various regions are adopting additional, unilateral requirements on the operation of vessels in their territorial waters. These regulations, as described below, apply to our vessels when they are in their waters and can add to the costs of operating and maintaining those vessels as well as increasing the potential liabilities that apply to spills or releases of oil or other materials or violations of the applicable requirements. What follows will describe these regulations.

United States

The United States Oil Pollution Act of 1990

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States' territorial sea and its two hundred nautical mile exclusive economic zone.

Under OPA, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. OPA defines these other damages broadly to include:

- natural resources damage and the costs of assessment thereof;
- real and personal property damage;
- net loss of taxes, royalties, rents, fees and other lost revenue;

[Table of Contents](#)

- lost profits or impairment of earning capacity due to property or natural resources damage; and
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA limits the liability of responsible parties to the greater of \$600 per gross ton or \$0.5 million per containership that is over 300 gross tons (subject to possible adjustment for inflation). These limits of liability do not apply if an incident was directly caused by violation of applicable United States federal safety, construction or operating regulations or by a responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities. Although OPA is primarily directed at oil tankers (which are not operated by us), it also applies to non-tanker ships, including container ships, with respect to the fuel used to power such ships.

We maintain pollution liability coverage insurance in the amount of \$1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage it could have an adverse effect on our business and results of operation.

The Coast Guard and Maritime Transportation Act of 2004 (the "CGMTA") recently amended OPA to require the owner or operator of any non-tank vessel of 400 gross tons or more that carries oil of any kind as a fuel for main propulsion, to prepare and submit a response plan for each vessel on or before August 8, 2005. Previous law was limited to vessels that carry oil in bulk as cargo. The vessel response plans include detailed information on actions to be taken by vessel personnel to prevent or mitigate any discharge or threat of discharge of oil from the vessel due to operational activities or casualties. Each of our vessels has the necessary response plans in place to comply with the requirements of the CGMTA and OPA.

OPA requires owners and operators of vessels to establish and maintain with the United States Coast Guard evidence of financial responsibility sufficient to meet their potential liabilities under the OPA. Under OPA, an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessels in the fleet having the greatest maximum liability under OPA. Vessel owners and operators may evidence their financial responsibility by insurance, self-insurance, surety bond or guarantee. We have obtained the necessary OPA financial assurance certificates for each of our vessels currently in service.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states, which have enacted such legislation, have not yet issued implementing regulations defining vessels owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call.

CERCLA

The Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, governs spills or releases of hazardous substances other than petroleum or petroleum products. CERCLA imposes joint and several liability, without regard to fault, on the owner or operator of a ship, vehicle or facility from which there has been a release, along with other specified responsible parties. Costs recoverable under CERCLA include cleanup and removal costs, natural resource damages and governmental oversight costs. Liability under CERCLA is generally limited to the greater of \$300 per gross ton or \$0.5 million, unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations, in which case liability is unlimited.

Ballast Water Management

In response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports, the U.S. Coast Guard requires mandatory ballast water management practices

[Table of Contents](#)

for all vessels equipped with ballast water tanks bound for U.S. ports or entering U.S. waters. In addition, a United States District Court has ruled recently that the United States Environmental Protection (or U.S. EPA) lacks the authority to exclude discharges of vessel ballast water from permitting requirements under the Clean Water Act and ordered the U.S. EPA to repeal regulations it had adopted exempting discharges of ballast water from such permitting requirements. Unless this decision is overturned on appeal or the relief in question is modified, vessels entering waters subject to the Clean Water Act's jurisdiction would be required to have a permit to discharge ballast water. This could require the installation of equipment on our vessels to treat ballast water before it is discharged at substantial cost and/or otherwise restrict some or all of our vessels from entering waters in the United States that are subject to this ruling. Additional federal legislation regarding invasive species has been introduced in the U.S. Congress but has not yet been enacted. If more stringent regulation is ultimately enacted, our management costs relating to invasive species could increase in the future.

Canada

Canada has established a complex regulatory enforcement system under the jurisdiction of various ministries and departments for preventing and responding to a marine pollution incident. The legislation prescribes measures to prevent pollution, mandates clean up of marine pollution, and creates civil and criminal liabilities for those responsible for a marine pollution incident.

The Canada Shipping Act

The Canada Shipping Act, or CSA, applies to all vessels operating in Canadian waters and in the exclusive economic zone of Canada and establishes the primary regulatory and liability regime for oil pollution prevention and response. CSA requires ship owners to have an oil pollution emergency response plan and an arrangement with one of the approved pollution response organizations to provide equipment for responding to an oil pollution spill. Vessels must carry a certificate of compliance with the CSA. Failure of a vessel to comply with these requirements can result in a fine of up to C\$250,000. CSA also makes it a strict liability offence to discharge a pollutant, including but not limited to, oil from a vessel. Maximum fines for marine pollution range from C\$250,000 to C\$1 million or imprisonment from six months to three years, or both.

CSA also provides the authorities with broad discretionary powers to enforce its requirements. The CSA authorizes the detention of a vessel where there are reasonable grounds for believing that the vessel caused marine pollution or that an offence has been committed.

Migratory Birds Convention Act

The Migratory Birds Convention Act, or MBCA, implements Canada's obligations under a bilateral Canada—United States treaty designed to protect migrating birds that cross North American land and water areas. MBCA prohibits the deposit of "any oil, oily wastes or other substances harmful to migratory birds in any waters or area frequented by migratory birds." Maximum fines range from C\$50,000 to C\$250,000 or imprisonment from six months to five years, or both.

The Canadian Environmental Protection Act

The Canadian Environmental Protection Act, or CEPA, regulates water pollution, including disposal at sea and the management of hazardous waste. In so far as the shipping industry is concerned, CEPA prohibits the disposal or incineration of substances at sea except with a permit issued under CEPA, the importation or exportation of a substance for disposal at sea without a permit, and the loading on a ship of a substance for disposal at sea without a permit.

Contravention of CEPA can result in maximum fines ranging from C\$300,000 to C\$1 million or imprisonment from six months to three years, or both. The penalties may be increased if damage to the

[Table of Contents](#)

environment results and the person acted intentionally or recklessly. A vessel also may be seized or detained for contravention of CEPA's prohibitions. Costs and expenses of measures taken to remedy a condition or mitigate damage resulting from an offence are also recoverable. CEPA establishes civil liability for restoration of the environment, costs and expenses incurred relating to prevention or remedying environmental damage, or an environmental emergency. Limited defenses are provided but generally would not cover violations arising from ordinary vessel operations.

An Act To Amend The Migratory Birds Convention Act, 1994 and the Canadian Environmental Protection Act, 1999

An Act To Amend The Migratory Birds Convention Act, 1994 , and the Canadian Environmental Protection Act, 1999 clarifies existing prohibitions, expands the investigative and enforcement powers of Environment Canada and provides the government with the ability to enforce the two statutes effectively in Canada's Exclusive Economic Zone. The Act also creates or amends a number of strict liability offences. Other amendments effected by the Act include:

- the extension to every master, chief engineer, owner and operator of a vessel and, if the vessel is owned by a corporation, to certain of its directors and officers, of the duty to take reasonable steps to ensure a vessel's compliance with the prohibition against harmful deposits;
- a provision allowing a foreign vessel to be detained within Canada's Exclusive Economic Zone with the consent of the attorney general;
- an increased maximum fine of C\$1 million or up to three years' imprisonment, or both, for indictable offences and an increased maximum fine of C\$300,000 or up to six months' imprisonment for summary offences, which penalty provisions extend to the vessel's owner, operator, master and chief engineer;
- for offences committed by a vessel in excess of 5,000 tons deadweight, a minimum fine of C\$500,000 for an indictable offence and C\$100,000 for a summary offence;
- a provision that an offence can be committed by a person or a vessel; and
- the grant to a court of the discretion, on application by a person who has incurred monetary loss as a result of an offence, to order the convicted party to pay compensation to that person.

The Act is now in force in Canada. If one of our vessels fails to comply with its provisions, it could have an adverse effect on us.

Fisheries Act

The Fisheries Act prohibits the "spill" of a deleterious substance in waters frequented by fish. The owner of a "deleterious substance," the person having control of the substance and the person causing the spill must report the spill and must take all reasonable measures to counteract, mitigate or remedy any adverse effects resulting from a spill and are subject to maximum fines ranging from C\$300,000 to C\$1 million or imprisonment from six months to three years, or both.

Marine Liability Act

The Marine Liability Act implements the 1992 International Convention on Civil Liability for Oil Pollution Damage (the CLC or Civil Liability Convention) and the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage (the IOPC or Fund Convention). The Marine Liability Act creates strict liability for a vessel owner for damages from oil pollution from a ship, as well as for the costs and expenses incurred for clean up and preventive measures. Both governments and private parties can pursue vessel owners for damages sustained or incurred as a result of such an incident. Although the Act does provide some limited defenses, they are generally not available for spills or pollution incidents arising out of the routine operation of a vessel. The Act limits the overall liability of a vessel owner to amounts that are determined by the tonnage of the containership.

Other Regions

Other regions of the world also have the ability to adopt requirements or regulations that may impose obligations on our vessels and may increase our costs to operate them. We cannot assure you that compliance with these requirements will not entail significant expenditures on our part. However, these requirements would apply to the industry as a whole and should also affect our competitors.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or the MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the United States Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter came into effect in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security Code or ISPS Code. Among the various requirements are:

- on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

The United States Coast Guard regulations, intended to align with international maritime security standards, exempt non-United States vessels from MTSA vessel security measures provided such vessels have on board a valid International Ship Security Certificate, or ISSC, that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. The VesselCos implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code and we intend to do so in the future.

Item 5. Operating and Financial Review and Prospects

A. Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis should be read in conjunction with our historical financial statements and their notes included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk Factors" and elsewhere in this Annual Report. The financial statement balances for the fiscal period ended December 31, 2005 included in this Annual Report as well as in management's discussion and analysis below are from the date of incorporation to December 31, 2005, and include 142 days of operations from August 12, 2005, the date of completion of our initial public offering.

Overview

We are a Marshall Islands corporation incorporated on May 3, 2005. Our business is to own and charter containerships pursuant to long-term, fixed-rate charters to container lines and to grow our fleet through additional accretive acquisitions. Upon completion of our initial public offering, we acquired our initial fleet of ten containerships from ten existing wholly owned subsidiaries of Seaspan Container Lines Limited, or SCLL. In addition, we entered into an agreement to acquire 13 additional vessels from 13 other wholly owned subsidiaries

[Table of Contents](#)

of SCLL, in each case, upon their completion and delivery. Those 23 subsidiaries are collectively referred to as the VesselCos. Unless we otherwise specify, when used in this Annual Report, the terms “Seaspan Corporation,” the “Company,” “we,” “our,” and “us” refer to Seaspan Corporation, and, for periods before our initial public offering, the predecessor.

Our revenue is generated through long-term fixed-rate charters and our operating expenses are substantially fixed. Our financial results will be most significantly affected by the delivery date of containerships. The charter agreements have, to date, all commenced with delivery of each vessel. All of the current vessel construction agreements have contracted delivery dates. A change in the date of delivery of a vessel will significantly impact our results of operations.

Under long-term time charters, we earn a daily charter hire rate and the charterer bears all voyage expenses, including the cost of bunkers (fuel oil) and canal and port charges. Our Manager is responsible for paying the actual ship operating expenses, including the cost of crewing, insuring, repairing and maintaining each vessel. We pay our Manager a fixed daily operating expense rate per vessel for the technical services the Manager provides in respect of ship operating expenses.

The commencement of the predecessor’s active operations began with the delivery of two 4250 TEU vessels in 2001. Three additional 4250 TEU vessels were delivered in June, September, and October 2002, respectively. The first 8500 TEU vessel was delivered in December 2004 and the second in January 2005. In 2005, the predecessor also took delivery of three 4250 TEU vessels. On August 12, 2005, we acquired ten containerships from the predecessor, and began active vessel operations. In 2005, we also took delivery of three 4250 TEU vessels. Two additional 4250 TEU vessels were delivered in 2006. Each of these vessels has been in operation since delivery. Approximately every five years, a vessel is drydocked for an average of ten days at which time major repairs and retrofittings are undertaken. During 2006, the CSCL Chiwan was taken through its scheduled drydocking between February 7, 2006 and February 15, 2006, and no damage or defects were found. The CSCL Hamburg was taken through its scheduled drydocking between February 12, 2006 and March 7, 2006.

During the final inspection at the end of the scheduled drydocking of the CSCL Hamburg for her special survey, a 12-16 inch long crack was detected on each side of the rudder horn in the area where the rudder horn is welded to the hull plating. Permanent repairs were concluded on March 6, 2006, and the vessel returned to service under its time charter at midnight on March 9, 2006. The CSCL Hamburg was out of service for approximately 26 days and was in dry dock for approximately 23 days, approximately 13 days in excess of the ten days budgeted for the special survey. The incremental cost to make the repair was approximately \$75,000, not including the lost time charter revenue. We may be responsible for covering the incremental cost of this repair, while the remainder of the special survey costs will be for the account of our Manager.

Upon learning of this matter, our Manager ordered the inspection of the rudder horn area of the CSCL Chiwan. During the underwater reinspection, one crack, which was significantly smaller than those found on the CSCL Hamburg, was also found on each side of the CSCL Chiwan’s rudder horn. We expect the cost to permanently repair the CSCL Chiwan’s rudder horn will be approximately \$75,000, that the repairs will be carried out without the vessel having to divert to a drydock, and that the repairs will not take longer than four to five days.

On March 13, 2006, our Manager completed the inspection of the CSCL Ningbo. Similar cracks were found, but these were smaller than those found in the CSCL Chiwan. No repairs will be required until the CSCL Ningbo’s scheduled drydocking in 2007,

Our Manager is planning to inspect all of the 4250 TEU vessels that have been, or shortly will be, delivered by Samsung to determine if the cracking problem extends to them as well. In addition, our Manager is currently in consultation with Lloyd’s, Det Norske, Samsung and the manufacturer of the rudder horn, to determine responsibility for the problem. Our Manager is considering all options available to it to seek compensation for the costs of making these repairs. In addition, the offhire periods are still being settled with CSCL Asia and insurance claims have been made.

No additional drydockings are scheduled for 2006.

Critical Accounting Estimates

We prepare our financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”), and we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosures of contingent obligations. On an on-going basis, we evaluate our estimates and judgments. We base our estimate on historical experience and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates.

Senior management has discussed with our audit committee the development, selection, and disclosure of accounting estimates used in the preparation of our financial statements.

Revenue Recognition

Charter revenue is generated from long-term time charters for each vessel and commences as soon as the vessel is delivered. Time charter revenues are recorded on a straight-line basis over the initial term of the charter arrangement. The charters provide for a per vessel fixed daily charter hire rate. We do not enter into spot voyage arrangements with respect to any of our vessels. Although our charter revenues are fixed, and accordingly little judgment is required to be applied to the amount of revenue recognition, there is no certainty as to the daily charter rates or other terms that will be available upon the expiration of our existing charter party agreements.

Vessel Lives

Our vessels represent our most significant assets. The initial fleet is carried at the historical carrying value of the predecessor, which includes capitalized interest during construction and other construction, design, supervision and predelivery costs, less accumulated depreciation. The difference between the purchase price of the initial fleet and the historical carrying value was charged against shareholders’ equity at the time of the acquisition. All additional vessels purchased subsequent to our IPO are recorded at their cost to us, reflecting the fair value of the consideration we pay upon their acquisition. We depreciate our vessels using the straight-line method over their estimated useful lives. We review the estimate of our vessels useful lives on an ongoing basis to ensure they reflect current technology, service potential, and vessel structure. For accounting purposes, we estimate the useful life of the vessels will be 30 years. Should certain factors or circumstances cause us to revise our estimate of vessel service lives in the future, depreciation expense could be materially lower or higher. Such factors include, but are not limited to, the extent of cash flows generated from future charter arrangements, changes in international shipping requirements, and other factors many of which are outside of our control.

Impairment of Long-lived Assets

We evaluate the net carrying value of our vessels for possible impairment when events or conditions exist that cause us to question whether the carrying value of the vessels will be recovered from future undiscounted net cash flows. Considerations in making such an impairment evaluation would include comparison of current carrying value to anticipated future operating cash flows, expectations with respect to future operations, and other relevant factors. To the extent that the carrying value of the vessels exceeds the undiscounted estimated future cash flows, the vessels would be written down to their fair value.

Derivative Instruments

For the fiscal period ended December 31, 2005, we have entered into interest rate swap agreements to reduce our exposure to market risks from changing interest rates. The swap agreements fix LIBOR at 4.6325% based on expected drawdowns and outstanding debt through July 2012. Interest rate swap agreements are recorded on the balance sheet at their respective fair values. As the interest swap agreements have been designated as hedging instruments in accordance with the requirements in FASB Statement No. 133, “Accounting for Derivative Instruments and Certain Hedging Activities”, as amended, changes in the fair value of the interest rate swap are reported in accumulated other comprehensive income. The fair value will change as market rates change. Interest expense is adjusted to include amounts payable or receivable under the interest rate swaps. The ineffective portion of the interest rate swaps are recognized immediately in net income.

[Table of Contents](#)

Historically the predecessor did not designate their interest rate swap agreements as hedging instruments in accordance with the requirements in accounting literature, and recognized changes in the fair value of the interest rate swaps in the earnings of the periods ended August 11, 2005 and December 31, 2004 and December 31, 2003.

Important Financial and Operational Terms and Concepts

We use a variety of financial and operational terms and concepts when analyzing our performance. These include the following:

Bunkers. Heavy fuel and diesel oil used to power a ship's engines.

Charter. The hire of a ship for a specified period of time or a particular voyage to carry a cargo from a loading port to a discharging port. The contract for a charter is commonly called a charterparty.

Charterer. The party that hires a ship for a period of time or for a voyage.

Charterhire. A sum of money paid to the shipowner by a charterer for the use of a ship. Charterhire paid under a voyage charter is also known as "freight."

Classification society. An independent organization that certifies that a ship has been built and maintained according to the organization's rules for that type of ship and complies with the applicable rules and regulations of the country of the ship's registry and the international conventions of which that country is a member. A ship that receives its certification is referred to as being "in-class."

Drydocking. The removal of a ship from the water for inspection and repair of those parts of a ship that are below the water line. During drydockings, which are required to be carried out periodically, certain mandatory classification society inspections are carried out and relevant certifications are issued. Drydockings for container ships are generally required once every five years, one of which must be a Special Survey.

Ship operating expenses. The costs of operating a ship, primarily consisting of crew wages and associated costs, insurance premiums, management fee, lubricants and spare parts, and repair and maintenance costs. Ship operating expenses exclude fuel cost, port expenses, agents' fees, canal dues and extra war risk insurance, as well as commissions, which are included in "voyage expenses."

Special survey. The inspection of a ship by a classification society surveyor that takes place every five years, as part of the recertification of the ship by a classification society.

Spot market. The market for immediate chartering of a ship, usually for single voyages.

TEU. Twenty-foot equivalent unit, the international standard measure for containers and container ship capacity.

Time charter. A charter under which the shipowner hires out a ship for a specified period of time. The shipowner is responsible for providing the crew and paying ship operating expenses while the charterer is responsible for paying the voyage expenses and additional voyage insurance. The shipowner is paid charterhire, which accrues on a daily basis.

Voyage charter. A charter under which a shipowner hires out a ship for a specific voyage between the loading port and the discharging port. The shipowner is responsible for paying both ship operating expenses and voyage expenses. Typically, the charterer is responsible for any delay at the loading or discharging ports. The shipowner is paid freight on the basis of the cargo movement between ports.

Voyage expenses. Expenses incurred due to a ship's traveling from a loading port to a discharging port, such as fuel (bunkers) cost, port expenses, agents' fees, canal dues, extra war risk insurance and commissions.

[Table of Contents](#)

Fiscal period ended December 31, 2005

The following discussion of our financial condition and results of operations is for the fiscal period beginning the date of our incorporation, May 3, 2005, to December 31, 2005, which includes 142 days of operations beginning on August 12, 2005, the date of completion of our initial public offering. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and, except where otherwise specifically indicated, all amounts are expressed in United States dollars.

The following table presents our operating results for the fiscal period ended December 31, 2005

Statement of operations data (in thousands of dollars, except where otherwise stated):	
Revenue	\$ 34,803
Operating expenses:	
Ship operating	8,252
Depreciation	7,186
General and administrative	1,694
Operating earnings	17,671
Other expenses (earnings):	
Interest expense	1,699
Interest income	(124)
Undrawn credit facility fee	1,041
Amortization of deferred financing fees	726
Net earnings	\$ 14,329
Common shares outstanding	35,991,600
Per share data:	
Earnings from commencement of operations, basic and diluted in dollars	\$ 0.40
Cash dividends paid	\$ 0.23
Statement of cash flows data:	
Cash flows provided by (used in):	
Operating activities	\$ 24,115
Investing activities	(826,253)
Financing activities	817,856
Net increase in cash and cash equivalents	\$ 15,718
Selected balance sheet data:	
Cash and cash equivalents	\$ 15,718
Vessels	621,163
Fair value of interest rate swaps	4,799
Other assets	8,878
Total assets	\$ 650,558
Other liabilities	\$ 4,226
Long-term debt	122,893
Shareholders' equity	523,439
Total liabilities and shareholders' equity	\$ 650,558
Other data:	
Number of vessels in operation at period end	13
Average age of fleet in years at period end	1.9
TEU capacity at period end	63,719
Average remaining initial term on outstanding charters (1)	9.2
Fleet utilization	100%

- (1) The remaining initial term on the CP USA charters includes all renewal periods. Our charters with CP USA are for initial terms of three years. CP USA has the right to extend each of the charters for up to an

[Table of Contents](#)

additional seven years in successive one-year extensions. Each one-year extension is automatic, unless CP USA provides written notice to the contrary to us not later than two years prior to the commencement of the respective extension period. If CP USA provides notice of its intention not to extend a time charter at the end of its initial three-year term, it must pay to us, at the end of the term, a termination fee of approximately \$8.0 million. The termination fee declines by \$1.0 million per vessel in years four through nine. If the term of a time charter of a vessel is extended for the full ten years, CP USA has an option to extend the term for two additional one-year periods. Given that CP USA is required to pay a termination fee of approximately \$8.0 million to terminate a charter at the end of the initial term, that the charter hire rates are substantially below those rates presently offered in the spot market and short-term time charter market, and that the charters automatically renew unless terminated upon two years prior notice, we believe it is likely that CP USA will extend the charters beyond the initial term.

142 day operating period ended December 31, 2005 compared to the predecessor's 223 day operating period ended August 11, 2005

We had eight 4250 TEU vessels and two 8500 TEU vessels in operation for the entire 142 day period from August 12, 2005 to December 31, 2005. On August 17, 2005, the 4250 TEU CSCL Melbourne was delivered to us and began operations approximately two weeks ahead of the contractual delivery date. On September 15, 2005, the 4250 TEU CSCL Brisbane was delivered to us and began operations approximately four weeks ahead of the contractual delivery date. On October 18, 2005, the 4250 TEU CP Kanha was delivered to us and began operations approximately eight weeks ahead of the contractual delivery date. The predecessor operated five 4250 TEU vessels, and one 8500 TEU vessel for the 223 day period ended August 11, 2005, and acquired three additional 4250 TEU vessels in February, April and May 2005, and one 8500 TEU vessel in January 2005. Our fleet was 100.0% utilized during our initial 142 day operating period ended December 31, 2005. The predecessor's fleet was 99.8% utilized during the 223 day operating period ended August 11, 2005.

Revenue

Revenue for the period was based on contracted daily rates for each vessel. Charter revenue decreased 13.3%, or \$5.4 million, to \$34.8 million for the 142 day period ended December 31, 2005, from \$40.2 million for the predecessor's 223 day period ended August 11, 2005. The decrease was due to our shorter operating period, net of the additional ships.

Ship Operating Expenses

Ship operating costs increased 6.7%, or \$0.6 million, to \$8.3 million for the 142 day period ended December 31, 2005, from \$7.7 million for the predecessor's 223 day period ended August 11, 2005. The increase was due to the additional vessels in operation and the resulting increase in total operating expenses reflected in the fixed cost we pay to our Manager.

Historically, the predecessor was responsible for and incurred all ship operating expenses. Subsequent to our initial public offering, our ship operating expenses, including crewing, drydocking, victualling, stores, lube oils, communication expenses, repairs and maintenance, insurance and other expenses related to the technical management of the vessels, are borne by our Manager under our management agreement. Operating expenses for the period are calculated based on contracted daily rates for each vessel, as specified in our management agreement, multiplied by the number of days in which each ship operates in a year. Because these payments are fixed at a contracted daily rate, any volatility in actual ship operating expenses will be absorbed by our Manager. However, certain extraordinary costs are not covered by our contracted daily rate. During the 142 day period ended December 31, 2005, we had 10 vessels in full operation. An additional three vessels were delivered in the period, and the associated fixed ship operating expenses commenced from their respective delivery dates.

Depreciation

Depreciation decreased 27.4%, or \$2.7 million to \$7.2 million, for the 142 day period ended December 31, 2005, from \$9.9 million for the predecessor's 223 day period ended August 11, 2005. The decrease was due

[Table of Contents](#)

primarily to a shorter operating period. The depreciation reported represents depreciation from August 12, 2005 to December 31, 2005 for the initial fleet and depreciation on the CSCL Melbourne, the CSCL Brisbane and the CP Kanha from their respective dates of purchase.

General and Administrative Expenses

General and administrative expenses increased \$1.5 million, to \$1.7 million for the 142 day period ended December 31, 2005, from \$0.2 million for the predecessor's 223 day period ended August 11, 2005. Costs for the 142 day period ended December 31, 2005, were higher than those incurred by the predecessor due to additional administrative expenses, including legal, accounting, treasury, rent, securities regulatory compliance, executive salaries, travel, board of directors fees, insurance, audit, agency fees, and other costs normally incurred by a publicly listed company.

Interest Expense, Undrawn Credit Facility Fee and Interest Income

Interest expense decreased 88.4%, or \$12.9 million, to \$1.7 million, for the 142 day period ended December 31, 2005, from \$14.6 million for the predecessor's 223 day period ended August 11, 2005. The decrease was due to a shorter period over which interest expense was incurred and lower outstanding loan balances.

Interest expense for the period is based on the debt drawn under our credit facility. On August 17, 2005, we drew \$18.0 million to purchase the CSCL Melbourne. On September 15, 2005, we drew an additional \$48.0 million to purchase the CSCL Brisbane. On October 18, 2005, we drew an additional \$56.9 million to purchase the CP Kanha. Our credit facility requires that we pay interest of LIBOR plus a margin, which is based on our loan to asset value. All predecessor long term debt was settled on the completion of the initial public offering and was not assumed by us.

We have entered into interest rate swap agreements to reduce our exposure to market risks from changing interest rates. The swap agreements fix LIBOR at 4.6325% based on expected drawdowns and outstanding debt through July 2012. The swaps are accounted for as hedging instruments in accordance with the requirements in accounting literature, as they are effective in mitigating the risks of changes in interest rates over the term of the debt. As a result, changes in the fair value of the interest rate swap agreements are excluded from earnings until settled. The effective portion of changes in the fair value will be recorded to accumulated other comprehensive income until the hedged interest expense is recorded. At each reporting date, the net interest payable/receivable under the swap will be adjusted against the hedged interest expense, thus the interest expense in the income statement will be equal to the fixed interest rate stated in the swap. Ineffectiveness will be recorded in the income statement.

During the 142 day period ended December 31, 2005, we incurred and paid \$1.0 million in undrawn credit facility fees. Our undrawn credit facility fee is a commitment fee of 37.5% of the applicable margin on the difference between our total credit facility amount and our principal amounts outstanding under the credit facility.

During the 142 day period ended December 31, 2005, we earned interest income of \$0.1 million, through investing excess cash balances in highly liquid securities with terms to maturity of three months or less.

Amortization of Deferred Financing Fees

Amortization of deferred financing fees relating to our credit facility increased 61.3%, or \$0.2 million, to \$0.7 million for the 142 day period ended December 31, 2005, from \$0.5 million for the predecessor's 223 day period ended August 11, 2005. The increase was due to fees and other direct costs incurred for entering into our credit facility. These fees are being deferred and amortized over the terms of the credit facility using the interest yield basis.

[Table of Contents](#)

Other Comprehensive Income

As at December 31, 2005, the fair value of our swap agreements was \$4.8 million in our favor. The change in fair value of the swap agreements for the fiscal period ended December 31, 2005 has been recorded to other comprehensive income. Please also read “Quantitative and Qualitative Disclosures About Market Risk” for further discussion.

223 day operating period ended August 11, 2005 compared to year ended December 31, 2004

The predecessor operated five 4250 TEU vessels for the year ended December 31, 2004, and took delivery of its first 8500 TEU vessel in December 2004. The predecessor operated five 4250 TEU vessels, and one 8500 TEU vessel for the 223 day period ended August 11, 2005, and acquired three additional 4250 TEU vessels in February, April and May 2005, and one 8500 TEU vessel in January 2005.

Revenue

Charter revenue increased 11.8%, or \$4.3 million, to \$40.2 million for the 223 day period ended August 11, 2005, from \$35.9 million for the year ended December 31, 2004. The increase was due to the increase in the predecessor’s fleet.

Ship Operating Expenses

Ship operating costs increased 8.0%, or \$0.5 million, to \$7.7 million for the 223 day period ended August 11, 2005, from \$7.2 million for the year ended December 31, 2004. The increase was due to the additional vessels delivered and operating in 2005, increased insurance costs related to those vessels and scheduled repairs and maintenance.

Depreciation

Depreciation expense increased 12.4%, or \$1.1 million, to \$9.9 million for the 223 day period ended August 11, 2005, from \$8.8 million for the year ended December 31, 2004. The increase was due to the additional vessels delivered and operating in 2005.

General and Administrative Expenses

General and administrative expenses remained unchanged at \$0.2 million for the 223 day period ended August 11, 2005 and for the year ended December 31, 2004.

Interest Expense and Change in Fair Value of Interest Rate Swaps

Interest expense for the predecessor increased 23.4%, or \$2.8 million, to \$14.6 million for the 223 day period ended August 11, 2005 from \$11.8 million for the year ended December 31, 2004, due to higher principal balances. All predecessor long term debt was settled on the completion of the initial public offering and was not assumed by us.

The predecessor did not designate their interest rate swap agreements as hedging instruments in accordance with the requirements in accounting literature, and recognized changes in the fair value of the interest rate swaps in the earnings of the periods ended August 11, 2005 and December 31, 2004. Changes in the fair value of the interest rate swap agreements, which is a non-cash item, are due to the change in the interest rate yield profile for the swap arrangements in effect from period to period. Such changes resulted in an increase in gains of \$5.9 million, to \$7.3 million for the 223 day period ended August 11, 2005, from a gain of \$1.4 million for the year ended December 31, 2004, due to market interest rate changes.

[Table of Contents](#)

Amortization of Deferred Financing Fees and Write Off on Debt Refinancing

Amortization of deferred financing fees for the predecessor increased \$0.3 million, to \$0.5 million for the 223 day period ended August 11, 2005, from \$0.2 million for the year ended December 31, 2004. In November 2004, the predecessor also wrote off \$3.1 million due to the debt refinancing.

Year ended December 31, 2004 compared to year ended December 31, 2003

The predecessor operated five 4250 TEU vessels during the twelve months ended December 31, 2003 and December 31, 2004. The predecessor took delivery of its first 8500 TEU vessel in December 2004. Accordingly, the 2004 results reflect the operation of five 4250 TEU vessels for twelve months and one 8500 TEU vessel for approximately one month.

Revenue

Charter revenue increased 2.6%, or \$0.9 million, to \$35.9 million for 2004, from \$35.0 million for 2003. The increase for 2004 is due to the delivery of the first 8500 TEU vessel, the *CSCL Oceania*, in December 2004.

Ship Operating Expenses

Ship operating expenses increased 8.8%, or \$0.6 million, to \$7.2 million for 2004, from \$6.6 million for 2003. The increase for 2004 was due to the addition of the *CSCL Oceania* and increases in insurance costs and scheduled repairs and maintenance.

Depreciation

Depreciation on the vessels increased 2.6%, or \$0.2 million, to \$8.8 million for 2004, from \$8.6 million for 2003. The increase was due to the delivery of the *CSCL Oceania* in December 2004.

General and Administrative Expenses

General and administrative expenses were consistent between 2004 and 2003 at \$0.2 million.

Interest Expense

Interest expense decreased 3.2%, or \$0.4 million, to \$11.8 million for 2004, from \$12.2 million in 2003. Interest is paid on the long-term debt and operating bank loans and under the swap agreements, related to the operating vessels. In November 2004, the predecessor refinanced the five operating 4250 TEU vessels and the two 8500 TEU vessels and three 4250 TEU vessels that were under construction at the time for more favorable repayment terms. As interest expense is at floating rates, the change between 2003 and 2004 was primarily due to lower average interest rates and decreases in principal balances outstanding due to debt repayments made, offset by increased indebtedness due to the *CSCL Oceania* commencing operations in December 2004. The predecessor's historical 2004 and 2003 interest expense represents interest expense under the bank loans prior to our initial public offering and not under our credit facility.

Change in Fair Value of Interest Rate Swaps

In the past, the predecessor entered into interest rate swap agreements to fix the interest rates payable on certain of our long-term debt. However, the predecessor did not account for such swap agreements as hedging instruments. Accordingly, changes in the fair value of the interest rate swap agreements, which is a non-cash item, are due to the change in the interest rate yield profile for the swap arrangements in effect from period to period. During 2004 and 2003, such changes resulted in gains of \$1.4 million and \$5.8 million, respectively, due to market interest rate increases.

[Table of Contents](#)

Amortization of Deferred Financing Fees and Write Off on Debt Refinancing

Amortization of deferred financing fees was consistent between 2004 and 2003 at \$0.2 million. Amortization of deferred financing fees is for fees and other direct costs incurred on the issuance of long-term debt and is amortized using the interest yield method over the term of the underlying obligation. In November 2004, the predecessor wrote off \$3.1 million due to the debt refinancing.

B. Liquidity and Capital Resources

Liquidity and Cash Needs

As at December 31, 2005, our cash totaled \$15.7 million. As at December 31, 2005, we have drawn \$122.9 million of an available \$750.0 million from Tranche A of our credit facility to fund the purchase of three vessels in our contracted fleet. The remaining \$627.1 million will be available to fund the acquisition of our contracted fleet. No amounts have been drawn to date from Tranche B of our credit facility, of which \$250.0 million is available to fund the acquisition of any additional new or used containerships.

All amounts under the Tranche A of our credit facility must be drawn within three months of the delivery of the last of the 23 vessels comprising our contracted fleet (but not before the acquisition date of the vessel to which the loan relates), and in any event, no later than December 31, 2007. All amounts under Tranche B must be drawn prior to December 31, 2006. There are restrictions on the amount that can be advanced to us under our credit facility based on the market value of the vessel or vessels in respect of which the advance is being made and in certain circumstances, based on the amount of TEU capacity of the vessel and the price at which we acquired the vessel, in respect of which the advance is being made.

The credit facility has a maturity date of the earlier of (x) the seventh anniversary of the final delivery date of the last of the 23 containerships comprising our contracted fleet or (y) October 31, 2014. For more information, please read “Our Credit Facility.”

Our primary short-term liquidity needs are to fund our operating expenses, including payments under our management agreement, and payment of our quarterly dividend. Our medium-term liquidity needs primarily relate to the purchase of the remaining containerships under the asset purchase agreement. Our long-term liquidity needs primarily relate to vessel acquisitions and debt repayment. We anticipate that our primary sources of funds for our short and medium-term liquidity needs will be our committed credit facility, new credit facilities, additional equity offerings as well as our cash from operations, while our long-term sources of funds will be from cash from operations and/or debt or equity financings. We believe that these sources of funds will be sufficient to meet our liquidity needs for the foreseeable future.

Our dividend policy will impact our future liquidity needs. Our board of directors has adopted a dividend policy to pay a regular quarterly dividend of \$0.425 per share on our common and subordinated shares and initially we will use all of our operating cash flow surplus (which includes a deduction for drydocking costs and other expenses pursuant to our management agreement) to fund our distributions to shareholders.

We estimate that throughout the period of the delivery of our contracted fleet, we will pay aggregate dividends approximately equal to our operating cash flow surplus. As we complete the acquisition of our contracted fleet and achieve a more balanced capital structure, we expect our operating cash flow per share to increase, which will allow us to retain a portion of our cash for reinvestment in our business while continuing to pay dividends. Retained cash may be used, among other things, to fund vessel or fleet acquisitions, other capital expenditures and debt repayments, as determined by our board of directors. Our dividend policy reflects our judgment that by retaining a portion of our cash in our business over the long-term, we will be able to provide better value to our shareholders by enhancing our longer term dividend paying capacity. It is our goal to further grow our dividend through accretive acquisitions of additional vessels beyond our contracted fleet of 23 containerships, such as the recent acquisition and ship building contracts for the 2500 TEU and 3500 TEU vessels. There can be no assurance that we will be successful in meeting our goal.

[Table of Contents](#)

In the event our future liquidity needs are greater than our current forecast, it could reduce or eliminate the cash available for distribution as dividends. In such event, our board of directors may change our dividend policy.

The cost to complete the acquisition of the additional six containerships is currently estimated to be approximately \$278.0 million, which we expect to fund from a new long term debt facility that we expect to enter into in the near future and future equity offerings. Our obligation to purchase the additional six containerships is not conditional upon our ability to obtain financing for such purchase.

The cost to complete the acquisition of the ten containerships, which will complete our contracted fleet, as at December 31, 2005, is estimated to be approximately \$687.1 million, which we expect to fund primarily from our credit facility and from the sale of additional common shares. We expect that we will complete this sale of additional common shares within the next twelve months. Our obligation to purchase the ten containerships that will complete our contracted fleet is not conditional upon our ability to obtain financing for such purchase.

SCLL and certain VesselCos have agreed to mitigate the risk of completing the sale of additional common shares within 18 months after the completion of our initial public offering by providing us the right to issue common shares in payment of up to \$100.0 million of the purchase price for the last four of the additional 13 containerships in our contracted fleet. Such common shares would be valued at a net price equal to 95% of our initial public offering price. The issuance of the \$100.0 million in common shares, plus the amount that will be available at such time under the \$750.0 million Tranche A of our credit facility will be sufficient to pay for the purchase price for the additional eight containerships completing our contracted fleet.

China Shipping Container Lines (Asia) Co. Ltd., or CSCL Asia, and CP Ships USA, LLC, or CP USA, a subsidiary of CP Ships Limited, or CP Ships (which is a subsidiary of TUI AG, or TUI), are currently our only customers. China Shipping (Group) Company, or China Shipping, accounted for 100% of the predecessor's containership revenue. China Shipping subchartered its vessels to its wholly owned subsidiary, China Shipping Container Lines Co., Ltd, or CSCL. CSCL accounted for 100% of our containership revenue until October 18, 2005, when our first vessel chartered by CP Ships was delivered to us. On December 30, 2005, China Shipping novated its 12 time charters to CSCL Asia, a majority owned subsidiary of CSCL. In addition, CSCL Asia will charter each of the four 2500 TEU vessels that will be constructed and that we expect to be delivered to us between August 2008 and February 2009. Upon delivery of our contracted fleet, we will derive a majority of our revenue and cash flows from CSCL Asia and CP USA. In 2007, we expect two 3500 TEU vessels to be delivered to us. Those vessels will be chartered to COSCO Container Lines Co., Ltd., or COSCON. After the delivery of the two 3500 TEU vessels we will derive all our revenue from three charterers. All of the vessels that we are to acquire are chartered to charterers under long-term time charters, and these charterers' payments to us will be our sole source of operating cash flow. At any given time in the future, cash reserves of the charterers may be diminished or exhausted, and we cannot assure you that the charterers will be able to make charter payments to us. If the charterers are unable to make charter payments to us, our results of operations and financial condition will be materially adversely affected.

We have good commercial relations with each of our customers and we believe they will be able to meet their commitments under their charter agreements with us. Part of our business strategy is to grow our customer base. If our existing charters with CSCL Asia, CP USA or COSCON were terminated, based on current charter rates, we believe we could recharter such vessels at rates higher than our existing rates over similar time periods, although we cannot assure you that this would be the case. If market rates decline and we recharter at lower rates, our results of operations and financial condition could be materially adversely affected.

Operating Activities Cash Flows

Net cash from operating activities increased \$4.8 million, to \$24.1 million during the 142 day period ended December 31, 2005, from \$19.3 million for the 223 day period ended August 11, 2005. Cash flow from operating

[Table of Contents](#)

activities for the 142 day period ended December 31, 2005 reflects net earning from operations of \$14.3 million, non-cash depreciation and amortization of \$7.9 million, and changes in non-cash operating working capital of \$1.9 million.

The predecessor's net cash flow from operating activities was exposed to fluctuations in operating expenses. Our operating expenses are borne by our Manager pursuant to our management agreement. We pay our Manager a contracted daily operating expense rate per vessel for technical services it provides to us. In return for providing us with strategic and administrative management, our Manager is entitled to reimbursement of all reasonable costs and expenses incurred by it and its affiliates in providing us with such services plus a monthly administrative services fee not to exceed \$6,000 per month. As such, we expect that our operating cash flow will increase at a stable incremental rate as the size of our fleet increases, with minor fluctuations for normal changes in working capital balances, vessel off-hire periods, such as drydocking and repairs and maintenance activity and general and administrative expenses.

Net cash from operating activities for the predecessor increased \$0.8 million, to \$19.3 million during the 223 day period ended August 11, 2005, from \$18.5 million for the year ended December 31, 2004. The increase was primarily attributable to the delivery in 2005 of the four additional vessels. Cash flow from operating activities for the 223 day period ended August 11, 2005, reflect net earnings from operations of \$14.6 million, non-cash depreciation and amortization of \$10.4 million, changes in the fair value of interest rate swaps of \$(7.3) million, and changes in non-cash operating working capital of \$1.6 million.

Net cash from operating activities for the predecessor was \$18.5 million during the year ended December 31, 2004, reflecting net earnings from operations of \$6.1 million, non-cash depreciation and amortization of \$9.0 million, changes in the fair value of interest rate swaps of \$(1.4) million, accrued interest capitalized to interest rate swaps of \$0.8 million, a non-cash write off of deferred financing costs on refinancing of \$3.1 million and changes in non-cash operating working capital of \$0.9 million.

Investing Activities Cash Flows

Investing activities cash flow decreased \$805.4 million, to \$(826.3) million for the 142 day period ended December 31, 2005, from \$(20.9) million for the 223 day period ended August 11, 2005. On completion of our initial public offering, we purchased 10 vessels for \$664.0 million. On August 17, 2005, we purchased the CSCL Melbourne for \$52.7 million, on September 15, 2005, we purchased the CSCL Brisbane for \$52.7 million, and on October 18, 2005, we purchased the CP Kanha for \$56.9 million.

Investing activities cash flow for the predecessor decreased \$12.2 million, to \$(20.9) million for the 223 day period ended August 11, 2005, from \$(8.7) million for the year ended December 31, 2004. Cash flow for investing activities for the 223 day period ended August 11, 2005, consisted solely of net cash payments for vessel construction, and increased due to additional vessel construction costs paid.

Net cash used for investing activities for the predecessor was \$8.7 million during the year ended December 31, 2004, reflecting net cash payments for vessel construction of \$7.5 million and repayments to related parties of \$1.2 million.

Financing Activities Cash Flows

Net cash from financing activities increased \$817.1 million, to \$817.9 million for the 142 day period ended December 31, 2005, from \$0.8 million for the 223 day period ended August 11, 2005. During the 142 day period ended December 31, 2005, we completed our initial public offering, issuing 35,715,100 common shares for gross proceeds of \$750.0 million. On September 13, 2005, our underwriters exercised their over-allotment option and we issued an additional 276,500 common shares for gross proceeds of \$5.8 million. We incurred \$45.3 million in costs in connection with our initial public offering. We also incurred an additional \$7.3 million in financing fees as a result of obtaining our credit facility and paid a cash dividend of \$8.3 million, or \$0.23 per share. During the

[Table of Contents](#)

period, we borrowed \$122.9 million from our credit facility to fund the purchase of the CSCL Melbourne, CSCL Brisbane and the CP Kanha. Our credit facility has a maturity date of the seventh anniversary of the delivery date of the last of the 23 containerships comprising the contracted fleet and any additional containerships we may acquire (with funds from our credit facility) or October 31, 2014, whichever is earlier.

Net cash from financing activities for the predecessor increased \$9.1 million, to \$0.8 million for the 223 day period ended August 11, 2005, from \$(8.3) million for the year ended December 31, 2004. Historically, the financing for vessels occurred at the time the predecessor entered into ship building contracts. For the predecessor, vessels were financed primarily with bank loans and cash advances from the vessel owners. This financing would remain in place after the vessels were delivered. In the 223 day period ended August 11, 2005, the predecessor received additional cash under its long-term debt agreements towards the financing of the acquisition of the four 4250 TEU vessels. In November 2004, the predecessor refinanced, for more favorable repayment terms, the five operating 4250 TEU vessels, two 8500 TEU vessels and three 4250 TEU vessels that were under construction at the time. As a result of the refinancing in late 2004, the predecessor obtained additional cash and repaid to SCLL a \$32.1 million cash advance for vessel construction. As the predecessor's long-term debt was settled subsequent to our initial public offering and was not assumed by us, the historical cash flow from financing activities of the predecessor are not indicative of what our net cash flow from financing activities are currently, or will be in the future.

Cash flow for the 223 day period ended August 11, 2005, included a reduction in restricted cash of \$11.5 million, issuance of long term debt of \$45.3 million, repayment of long term debt of \$11.2 million and repayment of amounts due to related party of \$21.4 million.

Net cash from financing activities for the predecessor was \$(8.3) million during the year ended December 31, 2004, and included an increase in restricted cash of \$0.6 million, issuance of long term debt of \$300.3 million and repayment of long term debt of \$269.6 million as part of the debt refinancing, \$7.1 million in financing fees, and repayment of amounts due to related party of \$32.1 million.

Ongoing Capital Expenditures and Dividends

Our operating fleet is less than five years old; as such, no significant capital expenditures for drydocking and maintenance have occurred in the past. In 2006, the CSCL Hamburg incurred approximately \$75,000 in extraordinary drydocking costs related to repairs to the rudder horn. We expect that the CSCL Chiwan will also incur approximately \$75,000 for similar repairs. We may be responsible for covering the incremental cost of this repair, while the remainder of the special survey costs will be for the account of our Manager.

Our Manager has included the cost of routine drydocking within the technical services fee we pay pursuant to the management agreement. Over the next five years, we estimate that our Manager will spend for drydocking an average of approximately \$0.4 million for each 3500 TEU and 4250 TEU vessel and approximately \$0.5 million for each 8500 TEU and 9600 TEU vessel. The technical services fee does not cover extraordinary costs or expenses. We are insured for certain matters, but we cannot assure you that our insurance will be adequate to cover all of these matters.

We must make substantial capital expenditures over the long-term to preserve our capital base. If we do not retain funds in our business in amounts necessary to preserve our capital base, over the long-term, we will not be able to continue to refinance our indebtedness or maintain our dividends. On an annual basis, we will likely need at some time in the future to retain funds in addition to such amount to provide reasonable assurance of maintaining our capital base over the long-term. We believe it is not possible to determine now, with any reasonable degree of certainty, when and how much of our operating cash flow we should retain in our business to preserve our capital base. We believe that the amounts we forecast to be able to retain in our business after the acquisition of our initial fleet will provide a substantial portion of our needs. There are a number of factors that will not be determinable for a number of years, but that will enter into our board of directors' future decisions regarding the amount of funds to be retained in our business to preserve our capital base, including the following:

- the remaining lives of our vessels (we estimate that the vessels in our contracted fleet had or will have, as applicable, useful lives of approximately 30 years when new, but their actual useful lives could vary significantly);

Table of Contents

- the returns that we generate on our retained cash flow, particularly the returns generated from investments in additional vessels (this will depend on the economic terms of any future acquisitions and charters, which are currently unknown);
- future market charter rates for our vessels, particularly with respect to our contracted fleet when the vessels come off charter (this will depend on various factors, including: our existing charters are not expected to expire for approximately 10-12 years from their commencement; the existing charters are at rates substantially below current spot rates and short-term charter rates; but actual market charter rates when the existing charters expire are currently unknown);
- our future operating and interest costs, particularly after the expiration of the initial management fees and financing arrangements described in this Annual Report (our technical operating costs will be fixed until December 31, 2008 and will be subject to renegotiation thereafter; our initial financing costs are effectively hedged through 2012; but future operating and financing costs are currently unknown);
- our future refinancing requirements and alternatives and conditions in the relevant financing and capital markets at that time; and
- unanticipated future events and other contingencies. Please read “Risk Factors.”

Our board of directors will periodically consider these factors in determining our need to retain funds rather than pay them out as dividends. Unless we are successful in making acquisitions with outside sources of financing, which add a material amount to our cash available for retention in our business or unless our board of directors concludes that we will likely be able to recharter our fleet upon expiration of existing charters at rates higher than the rates in our current charters, our board of directors will likely determine at some future date to reduce, or possibly eliminate, our dividend in order to be able to have reasonable assurance that it is retaining the funds necessary to preserve our capital base.

During the 142 day period ended December 31, 2005, we paid a cash dividend of \$8.3 million, or \$0.23 per share for the partial quarter ended September 30, 2005.

C. Research and Development

Not applicable.

D. Off-Balance Sheet Arrangements

At December 31, 2005 we are not party to any arrangements that are considered to be off balance sheet arrangements.

E. Contractual Obligations

On a pro forma basis our long-term undiscounted contractual obligations as of December 31, 2005, excluding amounts payable under our credit facility and interest rate swaps, consists of the following:

	2006	2007	2008	2009	2010	Thereafter	Total
	(in thousands)						
Purchase agreement for additional vessels	\$ 284,467	\$ 402,592	\$ —	\$ —	\$ —	\$ —	\$ 687,059
Fixed payments to the Manager for technical and administrative services under our management agreement(1)	26,606	36,570	40,515	40,515	40,515	607,725	792,446
	<u>\$ 311,073</u>	<u>\$ 439,162</u>	<u>\$ 40,515</u>	<u>\$ 40,515</u>	<u>\$ 40,515</u>	<u>\$ 607,725</u>	<u>\$ 1,479,505</u>

- (1) The technical services portion of the fees are fixed through December 31, 2008 and includes payments for the vessels currently operating in our fleet at December 31, 2005 and fees for the remaining vessels in our

[Table of Contents](#)

contracted fleet of 23 vessels based on each of their contracted delivery dates. The administrative services portion of the fees are capped at \$6,000 per month, plus reimbursement for all reasonable costs and expenses incurred by our Manager and its affiliates in providing us with such services. For purposes of this table only, we have assumed the same rate for 2009 to 2025, the end of the initial term of the management agreement. The amounts presented above do not include reimbursements that may become payable to our Manager for administrative or strategic services provided.

As of December 31, 2005, our amounts payable under our credit facility consists of the following:

	2006	2007	2008	2009	2010	Thereafter	Total
	(in thousands)						
Credit facility principal payments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 122,893	\$ 122,893

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Our directors and executive officers and their ages as of the date of this annual report are listed below:

Name	Age	Position
Kyle Washington	36	Chairman of the Board of Directors
Gerry Wang	43	Chief Executive Officer and Director
Kevin M. Kennedy	46	Chief Financial Officer and Secretary
David Korbin	64	Director
Peter Lorange	62	Director
Peter S. Shaerf	51	Director
Milton K. Wong	67	Director

Certain biographical information about each of these individuals is set forth below:

Kyle Washington. Kyle Washington was appointed our Chairman of the Board in May 2005. Mr. Washington is responsible for the overall corporate strategy of the Washington Marine Group and is active in developing senior level customer, supplier, competitor and governmental relationships. Mr. Washington has been with the Washington Marine Group since 1994. Within the Washington Marine Group, he is a director and the Executive Chairman of Seaspan International Ltd., a marine transportation company that is involved in shipdocking, barging and shipyard enterprises. He is also a director and the Executive Chairman of the Board of SCLL and each of the VesselCos. Mr. Washington is also a director and Chairman of our Manager and certain of its operating subsidiaries. Mr. Washington is also a director of Washington Canadian Ltd. Mr. Washington is a graduate of the University of Montana with a degree in business finance.

Gerry Wang. Gerry Wang was appointed our Chief Executive Officer and Director in May 2005. Mr. Wang joined the Offshore Division of Seaspan International Ltd. in early 1990 and is currently a director, Chief Executive Officer and President of SCLL and each of the VesselCos. Mr. Wang is also a director and Chief Executive Officer of certain affiliates of our Manager. From 1986 to 1989, Mr. Wang was the business manager for China Merchants Group in Hong Kong. He graduated from Shanghai Maritime University in 1983 with a Bachelor's degree in Navigation, and in 1986, he earned a Master's degree in International Economics under the sponsorship program of the United Nations Economic and Social Council Asia Pacific. In 1993, he obtained his MBA degree from the University of British Columbia in Vancouver, BC, Canada.

Kevin M. Kennedy. Kevin M. Kennedy was appointed our Chief Financial Officer and Secretary in May 2005. Mr. Kennedy is also a director of Seaboard Corp. (AMEX), and serves as the financial expert on their Audit Committee. From 1994 to 2001, Mr. Kennedy worked for the GE Capital Services Structured Finance

[Table of Contents](#)

Group Inc., where from 1999 to 2001 he served as the Managing Director and Head of Marine Financing. From 2001 to 2005, Mr. Kennedy served as a Partner in the Great Circle Fund LP, a private equity fund focused on the maritime industry. Mr. Kennedy has an MBA from Columbia University and a B.S., Nautical Science, from the U.S. Merchant Marine Academy.

David Korbin. David Korbin was appointed as a Director in August 2005. Mr. Korbin presently works as a management and financial consultant. He has been a Director of E-Comm Emergency Communications for Southwest British Columbia Incorporated since 2001, serving as Chair of the board of directors since 2004 and as Chair of the audit committee from 2002 to 2003. From 1992 to 2000, he served as director of the Vancouver General Hospital and then the Vancouver Hospital and Health Sciences Centre, serving as Chair of the Vancouver General Hospital audit committee from 1993 to 1994 and Chair of the Vancouver Hospital and Health Sciences Centre from 1995 to 1998. Mr. Korbin was qualified as a Chartered Accountant in 1966. For 16 of his 25 years in the accounting profession, he was managing partner of a number of smaller firms. From 1987 to 1990, Mr. Korbin was managing partner of the Vancouver office of Deloitte Haskins and Sells and from 1990 to 1992, he was managing partner of Deloitte Touche. Mr. Korbin was also on the National Board of both Deloitte Haskins and Sells and Deloitte Touche during his tenure as managing partner.

Peter Lorange. Peter Lorange was appointed as a Director in August 2005. Mr. Lorange has been President of IMD since July 1, 1993. He is Professor of Strategy and holds the Nestlé Chair. He was formerly President of the Norwegian School of Management in Oslo. Mr. Lorange was affiliated with the Wharton School, University of Pennsylvania for more than a decade in various assignments, including director for the Joseph H. Lauder Institute of Management and International Studies, and The William H. Wurster Center for International Management Studies, as well as The William H. Wurster Professor of Multinational Management. He has also taught at the Sloan School of Management (M.I.T.), IMEDE (now IMD), and the Stockholm School of Economics. Mr. Lorange serves on the board of directors of several corporations including: Christiania Eiendomsselskap A/S, S. Ugelstad Shipowners A/S, StreamServe Inc., Preferred Global Health, Zaruma Resources Inc. and Copenhagen Business School. He received his undergraduate education from the Norwegian School of Economics and Business, was awarded a Masters of Arts degree in Operations Management from Yale University, and his Doctor of Business Administration degree from Harvard University.

Peter S. Shaerf. Peter S. Shaerf was appointed as a Director in August 2005. Currently, Mr. Shaerf is a Managing Director at AMA Capital Partners LLC, a maritime investment bank based in New York. He started in the maritime industry over 30 years ago and has worked extensively as a broker of container and dry cargo vessels through The Commonwealth Group, a company he founded. He also operated a small Caribbean liner service while working for a firm of British shipowners. From 1998 to April 2002, Mr. Shaerf was a Managing Director of Poseidon Capital, an independent maritime consulting and investment company that works extensively in the investment community. At AMA, he has continued developing relationships in the capital markets where he has worked primarily advising hedge funds and investors on a variety of maritime investments in both equity and distressed debt. Since May 2001, Mr. Shaerf has been a Director of General Maritime Corp (NYSE). Since May 2005, he has been a director of TBS International (NASDAQ), and since April 2002, a director of Trailer Bridge (NASDAQ). He served as a board member of MC Shipping (AMEX) from 1993 to 2004. He is also a Director of The Containerization and Intermodal Institute and Vice-Chairman of the Government sponsored Short Sea Shipping Co-operative ("SCOOP") and is a member of the Maritime Law Association. Mr. Shaerf received his B.A. in International Business Law from London Guildhall University in London, England.

Milton K. Wong. Milton K. Wong was appointed as a Director in August 2005. Mr. Wong is also a director of Alcan Inc., Genome British Columbia, Pacific Salmon Endowment Fund Society, The Pierre Elliot Trudeau Foundation and The Canada-US Fulbright Program. He founded M.K. Wong & Associates Ltd. ("MKW") in 1980 to provide investment counseling services to pension plans, foundations, mutual funds and individuals. MKW was acquired by HSBC in 1996. Currently, Mr. Wong is the non-executive chairman of the board of directors of HSBC Investments (Canada) Limited and was appointed Chancellor Emeritus of Simon Fraser

[Table of Contents](#)

University in June 2005 after a six year term as Chancellor. He is a recipient of the Order of Canada and the Order of British Columbia and was awarded an Ernst & Young Lifetime Achievement Award in 2002. Mr. Wong received his Bachelor of Arts in Political Science from the University of British Columbia and was awarded an honorary Law Doctorate from Simon Fraser University.

Directors and Officers of Our Manager

The following table provides information about the directors and officers of Seaspan Management Services Limited and officers of certain of its subsidiaries. As described below, our Manager and certain of its wholly owned subsidiaries will provide us with technical, administrative and strategic services, pursuant to the management agreement.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kyle Washington	36	Chairman of the Board of Directors and Director of our Manager
Gerry Wang	43	Director of our Manager and Director, President and Chief Executive Officer of Seaspan Ship Management Ltd.
Graham Porter	35	Managing Director, Deputy Chairman and Director of our Manager
Sai W. Chu	39	Chief Financial Officer of Seaspan Ship Management Ltd.
Peter Curtis	47	Vice President of Seaspan Ship Management Ltd.

Kyle Washington. Kyle Washington was appointed Director and Chairman of our Manager in August 2005.

Gerry Wang. Gerry Wang was appointed Director of our Manager and director, President and Chief Executive Officer of Seaspan Ship Management Ltd. in August 2005.

Graham Porter. Graham Porter was appointed Managing Director, Deputy Chairman and Director of our Manager in July 2005. Mr. Porter plays a key role in the overall strategic management services our Manager provides to us. Mr. Porter joined Seaspan International Ltd. in 1992 as part of the offshore heavy-lift and ocean towing division, and is currently a director, Managing Director and Secretary of SCLL. In 2000, Mr. Porter was part of the senior management and equity team to form SCLL, established to own and operate deep-sea container vessels. Mr. Porter is also a director, Managing Director or Deputy Chairman of certain affiliates of our Manager. He graduated in 1992 with a degree in business, major in transportation and logistics and minor in accounting, from the University of British Columbia in Vancouver, BC, Canada.

Sai W. Chu. Sai W. Chu was appointed Chief Financial Officer of Seaspan Ship Management Ltd., SCLL, each of the VesselCos and Seaspan Crew Management Ltd. in May 2005 after joining Seaspan Ship Management Ltd. as Corporate Controller in September 2004 and the Washington Marine Group as Corporate Controller in April 2004. Mr. Chu qualified as a Chartered Accountant in 1992 having articulated with KPMG's Vancouver office and also qualified as a Certified Management Accountant in 1990. From 1995 to 1998, he was the Assistant Corporate Controller with Imperial Parking Limited, an integrated parking management company with operations in Asia and North America, which, at the time, was listed on the Toronto Stock Exchange. From 1998 to 1999, Mr. Chu was Manager, Financial Reporting, of BC Gas Inc. (now Terasen Inc.), a natural gas and oil transmission and distribution utility, which, at the time, was listed on the Toronto Stock Exchange. From 2000 to April 2004, he was Controller of Datawest Solutions Inc., a technology provider of banking and payment solutions, which, at the time, was listed on the Toronto Stock Exchange.

Peter Curtis. Peter Curtis was appointed Vice President of Seaspan Ship Management Ltd. in April 2001. He is responsible for the overall technical and commercial management of the vessels managed by Seaspan Ship

[Table of Contents](#)

Management Limited, a subsidiary of our Manager. From 1981 to 1989, Mr. Curtis served in the South African Navy, where he attained the rank of Lt Commander in charge of the submarine maintenance facility and design office. From 1989 to 1991, he joined a firm of consultants in Cape Town, working on offshore and naval architectural projects, such as offshore oil and gas as well as normal vessel type of projects. From 1991 to 1999, Mr. Curtis joined Safmarine, where he was responsible for the operations of a mixed fleet of containerships, handy-size and Cape-size bulkcarriers and also oversaw a number of new building programs. Prior to joining Seaspan Ship Management Limited in 2001, Mr. Curtis was based in Cyprus for two years, with Columbia Ship Management as Technical Director. In 1981, he obtained a BSC Mechanical Engineering degree at Natal University in Durban, South Africa. In 1986, Mr. Curtis obtained his Master's degree in Naval Architecture from University College in London, England and in 2000, he obtained his B.Sc. in business from Stellenbosch University in Cape Town, South Africa.

B. Compensation

Each independent member of our board of directors receives an annual cash retainer of \$45,000 payable in equal quarterly installments and pro rated for the initial term. In addition, the chairperson of the Audit Committee receives an annual payment of \$15,000, the chairperson of the Compensation Committee receives an annual payment of \$5,000 and each member of the compensation and audit committee receives an annual payment of \$5,000. Each director is reimbursed for out-of-pocket expenses incurred while attending any meeting of the board of directors or any board committee. Officers who also serve as directors will not receive compensation for their services as directors. In addition, our board of directors has adopted an equity incentive plan as described below and on February 15, 2006, each independent director was awarded an equity incentive award of 3,750 shares of restricted stock.

During the year ended December 31, 2005, we paid to our directors and executive officers (six persons) aggregate cash compensation of \$0.4 million. We do not have a retirement plan for our officers or directors.

Equity Incentive Plan

In December 2005, our board of directors adopted the Seaspan Corporation Stock Incentive Plan, or the Plan, under which our officers, employees and directors may be granted options, restricted stock, phantom shares, and other stock based awards as may be determined by our board of directors. A total of 1,000,000 shares of common stock were reserved for issuance under the Plan, which is administered by our board of directors. The Plan will expire 10 years from the date of its adoption.

C. Board Practices

The Board of Directors consists of six members. The Board of Directors is divided into three classes, with members of each class elected to hold office for a term of three years in accordance with the classification indicated below or until his or her successor is elected and qualifies. Directors Kyle Washington, and David Korbin have terms expiring in 2006 and have been nominated by the Board of Directors for re-election at the 2006 Annual Meeting of Shareholders. Directors Gerry Wang and Peter Lorange have terms expiring in 2007. Directors Peter S. Shaerf and Milton K. Wong have terms expiring in 2008.

There are no service contracts between us and any of our directors providing for benefits upon termination of their employment or service.

The Board has determined that each of the current members of the Board, other than Kyle Washington and Gerry Wang, has no material relationship with us, either directly or as a partner, shareholder or officer of an organization that has a relationship with us, and is independent within the meaning of our director independence standards, which reflect the New York Stock Exchange (or NYSE) director independence standards as currently in effect and as they may be changed from time to time. The Board has the following two committees: Audit

[Table of Contents](#)

Committee and Compensation Committee. The membership of these committees during 2005 and the function of each of the committees are described below. Each of the committees is currently comprised of independent members and operates under a written charter adopted by the Board. All of the committee charters are available under "Corporate Governance" in the Investor Relations section of our Web site at www.seaspancorp.com. During 2005, the Board held four meetings. Each director attended all Board meetings, except for two Board meetings at which one director was absent from one and two were absent from the other. Each director attended all applicable committee meetings, except for one Audit Committee meeting at which one director was absent.

Our Audit Committee is composed entirely of directors who satisfy applicable NYSE and SEC audit committee independence standards. Our Audit Committee includes David Korbin, Peter Lorange, and Milton K. Wong. All members of the committee are financially literate and the Board has determined that Mr. Korbin qualifies as an audit committee financial expert. The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of: the integrity of our financial statements; our compliance with legal and regulatory requirements; the independent auditors' qualifications and independence; and the performance of our internal audit function and independent auditors.

During 2005, our Compensation Committee included Peter Lorange, Peter S. Shaerf and Milton K. Wong. The Compensation Committee: reviews, evaluates, and approves the agreements, plans, policies and programs of the Corporation to compensate the officers and directors of the Corporation, produces a report on executive compensation each year and publishes the report in the Corporation's annual report on Form 20-F, otherwise discharges the Board's responsibilities relating to compensation of the Corporation's officers and directors, and performs such other functions as the Board may assign to the Committee from time to time.

Exemptions from NYSE Corporate Governance Rules

As a foreign private issuer, we are exempted from certain corporate governance rules that apply to domestic companies under NYSE listing standards. The following are the significant ways in which our corporate governance practices differ from those followed by domestic companies:

- we hold annual meetings of shareholders under the BCA, similar to NYSE requirements;
- we do not hold regularly scheduled meetings at which only independent directors are present;
- in lieu of a nominating committee, the full board of directors regulates nominations as set forth in our Bylaws; and
- in lieu of obtaining shareholder approval prior to the adoption of equity compensations plans, the full board of directors approves such adoption.

D. Employees

Our only employee is our Chief Financial Officer. Our Manager provides us with all of our staff and all of our other officers. Our board of directors has the authority to hire additional employees as it deems necessary.

Table of Contents

E. Share Ownership

The following table sets forth the beneficial interests of our directors and officers in our common shares.

Name of Beneficial Owner	Common Shares	Percentage of Common Shares	Subordinated Shares	Percentage of Subordinated Shares	Percentage of Total Common and Subordinated Shares
0731455 B.C. Ltd (1)	—	—	1,191,071	16.7%	3.3%
Kyle Washington	—	—	—	—	—
Kevin M. Kennedy	—	—	—	—	—
David Korbin	3,750	.013%	—	—	.013%
Peter Lorange	3,750	.013%	—	—	.013%
Peter S. Shaerf	3,750	.013%	—	—	.013%
Milton K. Wong	3,750	.013%	—	—	.013%
All executive officers, directors and director nominees as a group (7 persons)	15,000	.05%	1,191,071	16.7%	3.3%

(1) 0731455 B.C. Ltd., a British Columbia company, is owned by Gerry Wang, our chief executive officer.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our common and subordinated shares by each person known by us to be a beneficial owner of more than 5% of the common or subordinated shares.

Name of Beneficial Owner	Common Shares	Percentage of Common Shares	Subordinated Shares	Percentage of Subordinated Shares	Percentage of Total Common and Subordinated Shares
Dennis R. Washington	—	—	1,786,250	25.0%	5.0%
The Kevin Lee Washington Trust II	—	—	1,786,250	25.0%	5.0%
Tiger Container Shipping Company Limited (1)	—	—	2,381,429	33.3%	6.6%
Neuberger & Berman L.P.	4,186,312	14.5%	—	—	11.6%

(1) Tiger Container Shipping Company Limited, a Cayman Islands company, is owned by Graham Porter, a managing director and director of our Manager.

The Company's major shareholders have the same voting rights as other shareholders of the Company.

As at December 31, 2005, 2,800 of our common shares were held by five holders of record in the United States.

We are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control.

B. Related Party Transactions

We, our Manager and certain affiliates entered into various documents and agreements that effected the transactions relating to our formation, our initial public offering and the application of the proceeds from our initial public offering. These agreements were not the result of arm's-length negotiations and they, or any of the

[Table of Contents](#)

transactions that they provide for, may not have been effected on terms at least as favorable to the parties to these agreements as they could have obtained from unaffiliated third parties. All of the expenses incurred in connection with our initial public offering were paid from the proceeds of the offering. In accordance with our conflicts of interest policy, all material related party transactions will be subject to approval by a majority of the independent directors on our board of directors.

Registration Rights Agreement

In connection with our initial public offering, we agreed to register for resale on a shelf registration statement under the Securities Act of 1933, as amended, or Securities Act, and applicable state securities laws, any subordinated shares proposed to be sold by the holders of the subordinated shares (or the underlying common shares upon their conversion) upon expiration of a certain holding period and the VesselCos if we exercise our right to issue to them common shares as part of the purchase price for the vessels if an exemption from the registration requirements is not otherwise available or advisable. These holders also have certain piggyback registration rights allowing them to participate in offerings by us to the extent that their participation does not interfere or impede with our offering. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions. Please read “Item 10. Additional Information—C. Material Contracts—Registration Rights Agreement” for a description of this agreement.

Management Related Agreements

For a description of our management agreement and omnibus agreement, please read “Item 4—B. Business Overview—Management Related Agreements.”

Asset Purchase Agreement

For a description of our asset purchase agreement, please read “Item 4. Information on the Company—D. Property, Plants and Equipment—Acquisition of Our Fleet.”

Sale of Subordinated Shares

Concurrently with our initial public offering, we sold 7,145,000 subordinated shares to members of the Washington family, or trusts set up on their behalf, to an entity owned by our chief executive officer, Gerry Wang, and to an entity owned by Graham Porter, a director of our Manager, at a purchase price per share equal to the initial public offering price of our common shares.

Loans from SCLL

SCLL made an intercompany loan to us of \$3.0 million to serve as collateral under the swap agreements prior to the closing of our initial public offering. These amounts were returned to us, and we repaid the loan to SCLL, upon the closing of the credit facility. In addition, SCLL made a \$0.5 million loan to us to cover certain expenses incurred prior to our initial public offering, such as administrative expenses and travel expenses. The \$0.5 million loan was repaid to SCLL upon completion of the initial public offering.

Item 8. Financial Information

A. Financial Statements and Other Financial Information

Please see Item 18 below.

Legal Proceedings

We have not been involved in any legal proceedings that may have, or have had a significant effect on our business, financial position, results of operations or liquidity, and we are not aware of any proceedings that are pending or threatened that may have a material effect on our business, financial position, results of operations or liquidity. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

Although not directly related to us, beginning in early 2001, the Washington Group International, Inc., or WGI, an entity in which Dennis Washington was a large shareholder and is currently a director, experienced a liquidity crisis. The crisis ultimately led to the commencement, on May 14, 2001, of reorganization cases for WGI and certain of WGI's direct and indirect subsidiaries under Chapter 11 of the United States Bankruptcy Code. WGI reorganized and emerged from bankruptcy in January 2002.

Dividend Policy

Our board of directors has adopted a dividend policy to pay a regular quarterly dividend of \$0.425 per share on our common and subordinated shares while reinvesting a portion of our operating cash flow in our business. We paid our first dividend, in the amount of \$0.23 per share, on December 5, 2005, on a pro rated basis for the partial quarter ended September 30, 2005. We intend to pay dividends on a quarterly basis. Declaration and payment of dividends is at the discretion of our board of directors and there can be no assurance we will not reduce or eliminate our dividend.

We estimate that throughout the period of the delivery of our contracted fleet, we will pay aggregate dividends approximately equal to our operating cash flow surplus (which includes a deduction for drydocking costs and other expenses pursuant to our management agreement). As we complete the acquisition of our contracted fleet and achieve a more balanced capital structure, we expect our operating cash flow per share to increase, which will enable us to retain a portion of our cash flow for reinvestment in our business while continuing to pay quarterly dividends. Retained cash flow may be used, among other things, to fund vessel or fleet acquisitions, other capital expenditures and debt repayments, as determined by our board of directors. Our dividend policy reflects our judgment that by retaining a portion of our cash flow in our business, we will be able to provide better value to our shareholders by enhancing our longer term dividend paying capacity. It is our goal to grow our dividend through accretive acquisitions of additional vessels beyond our contracted fleet of 23 containerships, such as the recent acquisition and ship building contracts for the 2500 TEU and 3500 TEU vessels. There can be no assurance that we will be successful in meeting our goal.

Concurrently with our initial public offering, we sold to members of the Washington family or trusts set up on their behalf, to an entity owned by our chief executive officer, Gerry Wang, and to an entity owned by Graham Porter, a director of our Manager, 7,145,000 subordinated shares at a per share price equal to the initial public offering price for the common shares. The terms of our subordinated shares are intended to provide added assurance that we will be able to pay quarterly dividends on our common shares equal to \$0.425 per share during the delivery period of our contracted fleet. In general, our common shares will receive regular quarterly dividends of \$0.425 per share, plus any arrearages from prior quarters, before our subordinated shares will receive any dividends. Our subordinated shares will not be entitled to arrearages. Each of our subordinated shares will convert into a common share after the end of the subordination period, which extends until the first day of any quarter after September 30, 2008 that both of the following tests are met:

- (1) we have paid quarterly dividends an amount at least equal to \$0.425 per share on both our common and subordinated shares for the immediately preceding four-quarter period; and
- (2) the cash generated from operations available to pay the dividends during the four-quarter period referred to above equaled on a quarterly basis at least \$0.425 per share on all of our outstanding common and subordinated shares on a fully diluted basis during that period.

[Table of Contents](#)

Notwithstanding the above, the subordination period will end immediately prior to the occurrence of a change of control as such term is defined in our articles of incorporation.

As compensation for providing strategic services, our Manager received 100 incentive shares. The purpose of the incentive shares is to incentivize the Manager to increase the amount of distributable cash flow per share. The incentive shares will share in incremental dividends only after quarterly dividends on the common and subordinated shares exceed \$0.485 per share as follows:

- *first*, 90% of incremental dividends to all common shares and subordinated shares, pro rata, and 10% of incremental dividends to the incentive shares, until each common and subordinated share has received a total of \$0.550 for that quarter;
- *second*, 80% of incremental dividends to all common shares and subordinated shares, pro rata, and 20% of incremental dividends to the incentive shares, until each common and subordinated share has received a total of \$0.675 for that quarter; and
- *after that*, 75% of the incremental dividends to all common shares and subordinated shares, pro rata, and 25% of incremental dividends to the incentive shares.

You may not receive dividends in the intended amounts described above, or at all. Please read “Item 3. Key Information—D. Risk Factors—Risks Inherent In Our Business—We may not have sufficient cash from our operations to enable us to pay dividends on our shares following the payment of fees and expenses and the establishment of any reserves,” “—The amount of cash we have available for dividends on our common shares will not depend solely on our profitability,” “—Over the long-term, we will be required to make substantial capital expenditures to preserve the operating capacity of our fleet, which could result in a reduction or elimination of our ability to pay dividends,” and “—We will be required to make substantial capital expenditures to complete the acquisition of our contracted fleet and to expand the size of our fleet, which may cause our ability to pay dividends to be diminished, our financial leverage to increase or our shareholders to be diluted” for a more detailed description of various factors that could reduce or eliminate our ability to pay dividends.

B. Significant Changes

Not applicable.

Item 9. The Offer and Listing

Our common stock is traded on the NYSE under the symbol “SSW.”

The following table sets forth the high and low prices for the common shares on the NYSE since the date of listing for the periods indicated.

	<u>High</u>	<u>Low</u>
August 9, 2005 to December 31, 2005	\$21.51	\$ 17.20
August 9, 2005 to September 30, 2005	\$21.51	\$ 18.60

Item 10. Additional Information

A. Share Capital

Under our articles of incorporation, our authorized shares consist of 200,000,000 common shares (referred to in our articles of incorporation as the Class A Common Shares), par value \$0.01 per share, of which 28,861,500 common shares are issued and outstanding; 25,000,000 subordinated shares (referred to in our articles of incorporation as the Class B Common Shares), par value \$0.01 per share, of which 7,145,000 shares are issued and outstanding, 100 incentive shares (referred to in our articles of incorporation as the Class C

[Table of Contents](#)

Common Shares), par value \$0.01 per share, of which 100 shares are issued and outstanding, and 65,000,000 preferred shares (referred to in our articles of incorporation as the Preferred Shares), par value \$0.01 per share, of which no shares are issued and outstanding.

The rights, preferences and restrictions attaching to each class of our capital stock are described in the section entitled "Description of Capital Stock" of our Rule 424(b)(1) prospectus (File No. 333-126762), filed with the SEC on August 9, 2005 and hereby incorporated by reference into this Annual Report and there have been no changes since that date.

B. Memorandum and Articles of Association

Our Articles of Incorporation have previously been filed as exhibit 3.1 to Amendment No. 2 to Form F-1 (File No. 333-126762), filed with the SEC on August 4, 2005 and are hereby incorporated by reference into this Annual Report. Our Bylaws have previously been filed as exhibit 3.2 to Form F-1 (File No. 333-126762) filed with the SEC on July 21, 2005 and are hereby incorporated by reference into this Annual Report.

The necessary actions required to change the rights of shareholders and the conditions governing the manner in which annual general meetings and special meetings of shareholders are convoked are described in our Bylaws filed as exhibit 3.2 to Form F-1 (File No. 333-126762) filed with the SEC on July 21, 2005 and are hereby incorporated by reference into this Annual Report.

We have in place a rights agreement that would have the effect of delaying, deferring or preventing a change in control of Seaspan. The rights agreement has been filed as part of our Form 8-A (File No. 001-32591), filed with the SEC on August 2, 2005, and hereby incorporated by reference into this Annual Report.

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities imposed by the laws of the Republic of the Marshall Islands or by our Articles of Incorporation or Bylaws.

C. Material Contracts

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which we are a party, for the two years immediately preceding the date of this Annual Report:

(a) Underwriting Agreement among Seaspan Corporation, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Lehman Brothers Inc., UBS Securities LLC, Fortis Securities LLC, Legg Mason Wood Walker, Incorporated, Wachovia Capital Markets, LLC, DnB NOR Markets, Inc. and Dahlman Rose & Company, LLC, dated as of August 8, 2005, previously filed as exhibit 1.1 to Form F-1 (File No. 333-126762) filed with the SEC on July 21, 2005 and are hereby incorporated by reference into this Annual Report.

(b) Subscription Agreement between Seaspan Corporation and Dennis Washington, The Kevin Lee Washington Trust II, 0731455 B.C. Ltd., and Tiger Container Shipping Company Limited, dated August 8, 2005, previously filed as exhibit 10.6 to Amendment No. 2 to Form F-1 (File No. 333-126762), filed with the SEC on August 4, 2005 and is hereby incorporated by reference into this Annual Report.

(c) Shareholder Rights Agreement between Seaspan Corporation and American Stock Transfer & Trust Company, dated August 4, 2005, previously filed as exhibit 10.7 to Amendment No. 2 to Form F-1 (File No. 333-126762), filed with the SEC on August 4, 2005 and is hereby incorporated by reference into this Annual Report.

[Table of Contents](#)

(d) Indemnification Agreement between Seaspan Corporation and each of Kyle Washington, Gerry Wang, Kevin Kennedy, David Korbin, Peter Shaerf, Peter Lorange and Milton K. Wong, previously filed as exhibit 10.10 to Form F-1 (File No. 333-126762) filed with the SEC on July 21, 2005 and is hereby incorporated by reference into this Annual Report.

(e) Agreement between Seaspan Corporation and Relational Advisors LLC, dated May 18, 2005, previously filed as exhibit 10.11 to Form F-1 (File No. 333-126762) filed with the SEC on July 21, 2005 and are hereby incorporated by reference into this Annual Report.

D. Exchange Controls and Other Limitations Affecting Security Holders

We are not aware of any governmental laws, decrees or regulations in the Republic of The Marshall Islands that restrict the export or import of capital, including foreign exchange controls, or that affect the remittance of dividends, interest or other payments to non-resident holders of our securities.

We are not aware of any limitations on the right of non-resident or foreign owners to hold or vote our securities imposed by the laws of the Republic of the Marshall Islands or our Articles of Incorporation and Bylaws.

E. Taxation

The following discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed U.S. Treasury Department regulations, administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report.

United States Federal Income Taxation of Our Company

Taxation of Operating Income

Unless exempt from U.S. federal income taxation under the rules discussed below, a foreign corporation that earns income from transportation beginning or ending in the United States is subject to U.S. federal income taxation under one of two alternative tax regimes: (i) the 4% gross basis tax or (ii) the net basis tax and branch tax.

The 4% Gross Basis Tax

We may be subject to a 4% U.S. federal income tax on the U.S. source portion of our gross income (without benefit of deductions) attributable to transportation that begins or ends (but not both) in the United States, unless the exemption provided under Section 883 of the Code (the “Section 883 Exemption”) applies (as more fully described below under “The Section 883 Exemption”) and we file a U.S. federal income tax return to claim that exemption. For this purpose, gross income attributable to transportation (“Transportation Income”) includes income from the use, hiring or leasing of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes time charter or bareboat charter income. The U.S. source portion of our Transportation Income is deemed to be 50% of the income attributable to voyages that begin or end (but not both) in the United States. Generally, no amount of the income from voyages that begin and end outside the United States is treated as U.S. source, and consequently none of the Transportation Income attributable to such voyages is subject to U.S. federal income tax. Although the entire amount of Transportation Income from voyages that begin and end in the United States would be U.S. source, we do not expect to have any Transportation Income from voyages that begin and end in the United States.

The Net Basis Tax and Branch Profits Tax

We currently do not and do not expect to have a fixed place of business in the United States. Nonetheless, if this were to change or we otherwise were treated as having such a fixed place of business involved in earning

[Table of Contents](#)

U.S. source Transportation Income, such Transportation Income may be treated as effectively connected with the conduct of a trade or business in the United States.

If, contrary to the above, we earn income that is treated as “U.S. effectively connected income,” that income would be subject to U.S. federal corporate income tax (the highest statutory rate is currently 35%) unless the Section 883 Exemption (as discussed below) applies. The 4% U.S. federal income tax described above is inapplicable to U.S. effectively connected income, however.

Unless the Section 883 Exemption applies, a 30% branch profits tax imposed under Section 884 of the Code also would apply to our earnings that result from U.S. effectively connected income, and a branch interest tax could be imposed on certain interest paid or deemed paid by us. Furthermore, on the sale of a ship that has produced U.S. effectively connected income, we could be subject to the net basis corporate income tax and to the 30% branch profits tax with respect to our gain not in excess of certain prior deductions for depreciation that reduced U.S. effectively connected income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a ship, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles.

The Section 883 Exemption

In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (the “Section 883 Regulations”), it will not be subject to the 4% gross basis tax or the net basis tax and branch profits tax described above on its U.S. source Transportation Income attributable to voyages that begin or end (but not both) in the United States (“U.S. Source International Shipping Income”).

A non-U.S. corporation will qualify for the Section 883 Exemption if, among other things, it meets the following three requirements:

- (i) it is organized in a jurisdiction outside the United States that grants an equivalent exemption from tax to corporations organized in the United States (an “Equivalent Exemption”);
- (ii) it satisfies one of the following three ownership tests (discussed in more detail below): (a) the more than 50% ownership test (the “50% Ownership Test”), (b) the controlled foreign corporation test (the “CFC Test”) or (c) the “Publicly Traded Test”; and
- (iii) it meets certain substantiation, reporting, and other requirements.

We are organized under the laws of the Republic of the Marshall Islands. The U.S. Treasury Department has recognized the Republic of the Marshall Islands as a jurisdiction that grants an Equivalent Exemption; therefore, we meet the first requirement for the Section 883 Exemption.

The 50% Ownership Test

In order to satisfy the 50% Ownership Test, a non-U.S. corporation must be able to substantiate that more than 50% of the value of its stock is owned, directly or indirectly applying attribution rules, by “Qualified Shareholders.” For this purpose, Qualified Shareholders are: (i) individuals who are residents (as defined for U.S. federal income tax purposes) of countries that grant an Equivalent Exemption, (ii) foreign corporations that meet the Publicly Traded Test of the Section 883 Regulations and are organized in countries that grant an Equivalent Exemption, or (iii) certain foreign governments, non profit organizations, and certain beneficiaries of foreign pension funds. Shareholders who are U.S. citizens or residents or are domestic corporations are not Qualified Shareholders.

A corporation claiming the Section 883 Exemption based on the 50% Ownership Test must obtain statements from the holders relied upon to satisfy the 50% Ownership Test, signed under penalty of perjury,

[Table of Contents](#)

including the holder's name, permanent address and country where the holder is fully liable to tax, if any, a description of the holder's ownership interest in the non-U.S. corporation, including information regarding ownership in any intermediate entities, and certain other information. In addition, we are required to file a U.S. federal income tax return and list on such return the name and address of each shareholder holding 5% or more of the value of our common shares who is relied upon to meet the 50% Ownership Test.

We do not believe we satisfy the 50% Ownership Test due to the widely-held ownership of our stock.

The CFC Test

The CFC Test requires that the non-U.S. corporation claiming the Section 883 Exemption be treated as a controlled foreign corporation ("CFC") for U.S. federal income tax purposes (for the definition of a CFC, please read the discussion below under "Consequences of Possible CFC Classification") and meet an income inclusion test.

We do not believe that we meet the CFC Test, as we do not believe we are a CFC (please read below under "Consequences of Possible CFC Classification").

The Publicly Traded Test

The Publicly Traded Test requires that one or more classes of equity representing more than 50% of the voting power and value in a non-U.S. corporation be "primarily and regularly traded" on an established securities market either in the United States or in a foreign country that grants an Equivalent Exemption. For this purpose, if one or more 5% shareholders own in the aggregate 50% or more of the vote and value of a class of equity, such class of equity will not be treated as primarily and regularly traded on an established securities market (the "5% Override Rule"). For purposes of applying the 5% Override Rule, a 5% shareholder is a shareholder holding, directly, indirectly or constructively, at least 5% of the vote and value of a class of equity (a "5% Shareholder").

The Section 883 Regulations provide, in pertinent part, that stock of a foreign corporation will be considered to be "primarily traded" on an established securities market in a given country if the number of shares of each class of stock that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. We believe our common shares are "primarily traded" on the New York Stock Exchange.

Under the Section 883 Regulations, our shares will be considered to be "regularly traded" on an established securities market if one or more classes of our stock representing in the aggregate more than 50% of our outstanding stock, by voting power and value, will be listed on such market or markets, which we refer to as the listing threshold. We believe our common shares listed on the New York Stock Exchange represent more than 50% of our outstanding stock by voting power and value. Therefore, we believe that we satisfy the listing threshold.

It is further required with respect to each class of stock relied upon to meet the listing threshold that: (i) such class of stock is traded on an established securities market, other than in minimal quantities, on at least 60 days during the taxable year or 1/6 of the days in a short taxable year; and (ii) the aggregate number of shares of such class of stock traded on such market during the taxable year is at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year. We believe we satisfy these trading frequency and trading volume tests.

As discussed above, if 50% or more of our common shares are owned by 5% Shareholders, our common shares will be treated as failing the Publicly Traded Test under the 5% Override Rule. To identify 5% Shareholders for purposes of applying the 5% Override Rule, the Section 883 Regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the SEC as having a 5% or

[Table of Contents](#)

more beneficial interest in our common shares. The Section 883 Regulations further provide that an investment company that is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Shareholder for such purposes.

There is some uncertainty as to whether our common and subordinated shares will be treated as a single or two separate classes of stock for purposes of applying the 5% Override Rule. For 2005, regardless of whether they are treated as a single or two separate classes of stock for this purpose, we believe that we were not subject to the 5% Override Rule and therefore satisfied the Publicly Traded Trust and qualified for the Section 883 Exemption. There can be no assurance that we will not be subject to the 5% Override Rule in the future, and there can be no assurance that we will qualify for the Section 883 Exemption at any time in the future.

United States Federal Income Taxation of U.S. Holders

As used herein, the term “U.S. Holder” means a beneficial owner of our common shares that is a U.S. citizen or resident, U.S. corporation or other U.S. entity taxable as a corporation, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If a partnership or other entity taxed as a pass-through entity holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the pass-through entity. If you are a partner in a pass-through entity holding our common shares, you should consult your tax advisor to determine the appropriate tax treatment to you of the partnership’s ownership of our shares.

Distributions

Subject to the discussion of PFICs below, any distributions made by us with respect to our common shares to a U.S. Holder will generally constitute dividends, which may be taxable as ordinary income or “qualified dividend income” as described in more detail below, to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in his common shares on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a U.S. corporation, U.S. Holders that are corporations generally will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common shares will generally be treated as “passive income” (or “passive category income” for taxable years beginning after December 31, 2006) or, in the case of certain types of U.S. Holders, “financial services income,” (which will be treated as “general category income” for taxable years beginning after December 31, 2006) for purposes of computing allowable foreign tax credits for U.S. federal income tax purposes.

Dividends paid on our common shares to a U.S. Holder who is an individual, trust or estate (a “U.S. Individual Holder”) will be treated as “qualified dividend income” that is taxable to such U.S. Individual Holder at preferential tax rates (through 2008) provided that: (i) such shares are readily tradable on an established securities market in the United States (such as the New York Stock Exchange on which our common shares are traded); (ii) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we do not believe we are, have been or will be); (iii) the U.S. Individual Holder has owned the shares for more than 60 days in the 121-day period beginning 60 days before the date on which the common shares become ex-dividend; and (iv) the U.S. Individual Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property. There is no assurance that any dividends paid on our common shares will be eligible for these preferential rates in the hands of a U.S. Individual Holder, and we note that proposed legislation has recently been introduced in the United States Senate that may affect your entitlement to a preferential rate of tax on our dividends.

[Table of Contents](#)

Under proposed legislation, the preferential rate of federal income tax currently imposed on qualified dividend income would be denied with respect to dividends received from a non-U.S. corporation, unless the non-U.S. corporation either is eligible for benefits of a comprehensive income tax treaty with the United States or is created or organized under the laws of a foreign country which has a comprehensive income tax system. Because the Marshall Islands has not entered into a comprehensive income tax treaty with the United States and imposes only limited taxes on corporations organized under its laws, it is unlikely that we could satisfy either of these requirements. Consequently, if this legislation were enacted the preferential rate of federal income tax imposed on qualified dividend income may no longer be applicable to dividends received from us. Any dividends paid on our common shares that are not eligible for the preferential rate will be taxed as ordinary income to a U.S. Individual Holder. As of the date hereof, it is not possible to predict with any certainty whether the proposed legislation will be enacted.

Special rules may apply to any “extraordinary dividend” paid by us. An extraordinary dividend is, generally, a dividend equal to or in excess of 10 percent of a shareholder’s adjusted basis (or fair market value in certain circumstances) in a share of common stock. If we pay an “extraordinary dividend” on our common shares that is treated as “qualified dividend income,” then any loss derived by a U.S. Individual Holder from the sale or exchange of such common shares will be treated as long-term capital loss to the extent of such dividend.

Any dividends paid on our common shares that are not eligible for the preferential rate of tax on qualified dividend income will be taxed as ordinary income to a U.S. Individual Holder. See below for special rules, however, that may be applicable in the event we were treated as a PFIC.

Consequences of Possible PFIC Classification

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to a “look through” rule, either: (i) at least 75% of its gross income is “passive” income, or (ii) at least 50% of the average value of its assets is attributable to assets that produce passive income or are held for the production of passive income.

Based on our current operations and future projections, we do not believe that we are, and we do not expect to become, a PFIC with respect to any taxable year. Although there is no legal authority directly on point, our belief is based principally on the position that at least a majority, if not all, the gross income we derive from our time chartering and voyage chartering activities should constitute services income, rather than rental income. Correspondingly, such services income should not constitute passive income, and the assets that we own and operate in connection with the production of such income, in particular, at least a majority, if not all, the vessels, should not constitute passive assets for purposes of determining whether we are a PFIC. We believe there is substantial legal authority supporting this position consisting of case law and IRS pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, in the absence of any legal authority specifically relating to the statutory provisions governing PFICs, the IRS or a court could disagree with this position. In addition, there is no assurance that the nature of our assets, income and operations will remain the same in the future. Moreover, the market value of our stock may be treated as reflecting the value of our assets at any given time. Therefore, a decline in the market value of our stock (which is not within our control) may impact the determination of whether we are a PFIC.

If we were classified as a PFIC for any year during which a U.S. Holder owns shares, he generally will be subject to special rules (regardless of whether we continue thereafter to be a PFIC) with respect to: (i) any “excess distribution” (generally, any distribution received by a shareholder in a taxable year that is greater than 125% of the average annual distributions received by the shareholder in the three preceding taxable years or, if shorter, the shareholder’s holding period for the shares), and (ii) any gain realized upon the sale or other disposition of shares. Under these rules:

- the excess distribution or gain will be allocated ratably over the shareholder’s holding period;

Table of Contents

- the amount allocated to the current taxable year and any year prior to the first year in which we were a PFIC will be taxed as ordinary income in the current year; and
- the amount allocated to each of the other taxable years in the shareholder's holding period will be subject to U.S. federal income tax at the highest rate in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year.

Certain elections, such as a qualified electing fund election or mark to market election, may be available to a shareholder if we are classified as a PFIC. If we determine that we are or will be a PFIC, we will provide shareholders with information concerning the potential availability of such elections.

As described above, current law provides that dividends received by a U.S. Individual Holder from a domestic corporation or a qualified foreign corporation (generally through 2008) are treated as net capital gains and subject to U.S. federal income tax at reduced rates (generally 15%). However, if we are classified as a PFIC for a taxable year in which we pay a dividend or the immediately preceding taxable year, we would not be considered a qualified foreign corporation, and a U.S. Individual Holder receiving such dividends would not be eligible for the reduced rate of U.S. federal income tax and would instead be taxed on distributions as described above.

Consequences of Possible CFC Classification

If more than 50% of either the total combined voting power of our outstanding shares entitled to vote or the total value of all of our outstanding shares were owned, directly, indirectly or constructively, by citizens or residents of the United States, U.S. partnerships or corporations, or U.S. estates or trusts (as defined for U.S. federal income tax purposes), each of which owned, directly, indirectly or constructively, 10% or more of the total combined voting power of our outstanding shares entitled to vote (each, a "CFC Shareholder"), we could be treated as a CFC. CFC Shareholders are treated as receiving current distributions of their share of certain income of the CFC (not including, under current law, certain undistributed earnings attributable to shipping income) without regard to any actual distributions and are subject to other burdensome U.S. federal income tax and administrative requirements but generally are not also subject to the requirements generally applicable to shareholders of a PFIC. Although we do not believe we are a CFC, U.S. persons purchasing a substantial interest in us should consider the potential implications of being treated as a CFC Shareholder in the event we become a CFC in the future.

Sale, Exchange or other Disposition of Common Shares

Assuming we do not constitute a PFIC for any taxable year, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common shares in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such shares. Subject to the discussion of extraordinary dividends above, such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as U.S.-source income or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

Tax Rates

The highest statutory rate of U.S. federal income tax for individuals is currently 35%, and the highest statutory rate of U.S. federal income tax imposed on net capital gains of an individual is currently 15% if the asset disposed of was held for more than one year at the time of disposition.

[Table of Contents](#)

United States Federal Income Taxation of Non-U.S. Holders

A beneficial owner of our common shares that is not a U.S. person is a Non-U.S. Holder.

Distributions

Distributions we pay to a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax if the Non-U.S. Holder is not engaged in a U.S. trade or business. If the Non-U.S. Holder is engaged in a U.S. trade or business, distributions we pay will be subject to U.S. federal income tax if those distributions are effectively connected with that Non-U.S. Holder's U.S. trade or business. However, distributions paid to a Non-U.S. Holder who is engaged in a trade or business may be exempt from taxation under income tax treaties if the distributions are not attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder.

Disposition of Shares

The U.S. federal income taxation of Non-U.S. Holders on any gain resulting from the disposition of our common shares is generally the same as described above regarding distributions. However, Non-U.S. Holders who are individuals can also be subject to tax on U.S. source gain resulting from the disposition of our common shares if they are present in the United States for 183 days or more during the taxable year in which those shares are disposed.

Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States will be subject to information reporting requirements and backup withholding tax if a U.S. Individual Holder:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that he has failed to report all interest or dividends required to be shown on his U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on an IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

If a Non-U.S. Holder sells shares to or through a U.S. office of a broker, the payment of the proceeds is subject to both U.S. backup withholding and information reporting unless the holder certifies that he is a non-U.S. person under penalties of perjury or otherwise establishes an exemption. If a holder sells his common stock through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid outside of the United States, then information reporting and backup withholding generally will not apply to such payment. However, U.S. information reporting requirements (but not backup withholding requirements) will apply to a payment of sales proceeds, even if such payment is made outside of the United States, if a holder sells shares through a non-U.S. office of a broker that is a U.S. person or has certain other contacts with the United States.

Backup withholding is not an additional tax. Rather, a holder generally may obtain a refund of any amounts withheld under backup withholding rules exceeding such holder's U.S. federal income tax liability by filing a claim for refund with the IRS.

Marshall Islands Tax Consequences

Because we do not, and we do not expect that we will, conduct business or operations in the Republic of the Marshall Islands, under current Marshall Islands law you will not be subject to Marshall Islands taxation or withholding on distributions, including upon a return of capital, we make to you as a shareholder. In addition,

[Table of Contents](#)

you will not be subject to Marshall Islands stamp, capital gains or other taxes on the purchase, ownership or disposition of common shares, and you will not be required by the Republic of the Marshall Islands to file a tax return relating to the common shares.

Canadian Federal Income Tax Consequences

Subject to the assumptions below, under the Canada Tax Act, we believe no taxes on income (including taxable capital gains and withholding tax on dividends) are payable by U.S. Resident Holders in respect of the acquisition, holding, disposition or redemption of our shares. Our belief is based upon the assumptions that we are not a resident in Canada and such U.S. Resident Holders do not have, and have not had, for the purposes of the Canada-U.S. Treaty, a permanent establishment or fixed base in Canada to which such shares pertain and, in addition, do not use or hold and are not deemed or considered to use or hold such shares in the course of carrying on a business in Canada. We will not be resident in Canada in a taxation year if our principal business is the operation of ships that are used primarily in transporting passengers or goods in international traffic, all or substantially all of our gross revenue for the year consists of gross revenue from the operation of ships in transporting passengers or goods in that international traffic, and we were not granted articles of continuance in Canada before the end of the year. Income earned in Canada by a non-resident corporation from the operation of a ship in international traffic, and gains realized from the disposition of ships used principally in international traffic, are not included in a non-resident corporation's income for Canadian tax purposes where the corporation's country of residence grants substantially similar relief to a Canadian resident.

F. Dividends and Paying Agents

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

Documents concerning us that are referred to herein may be inspected at our principal executive headquarters at Unit 2, 7th Floor, Bupa Centre, 141 Connaught Road West, Hong Kong. Those documents electronically filed via the Electronic Data Gathering, Analysis, and Retrieval (or *EDGAR*) system may also be obtained from the SEC's website at www.sec.gov or from the SEC public reference room at Judiciary Plaza, 450 Fifth Street, Washington, D.C. 20549. Further information on the operation of the public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330. Copies of documents can be requested from the SEC public reference rooms for a copying fee.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates. We use interest rate swaps to manage interest rate price risks, but do not use these financial instruments for trading or speculative purposes.

Interest Rate Risk

As of December 31, 2005, our floating-rate borrowings totaled \$122.9 million, of which we had entered into interest rate swap agreements to fix the rates on a notional principal of \$88.4 million. These interest rate swaps have a fair value of \$4.8 million in our favor.

[Table of Contents](#)

The table below provides information about our financial instruments at December 31, 2005 that are sensitive to changes in interest rates. See note 7 to our financial statements included elsewhere herein, which provides additional information with respect to our existing debt agreement. The information in this table is based upon our credit facility.

	Principal Repayment Dates					
	2006	2007	2008	2009	2010	Thereafter
(dollars in thousands)						
Credit Facility:						
Bearing interest at variable interest rates	—	—	—	—	—	\$ 34,455
Bearing interest at fixed interest rates	—	—	—	—	—	\$ 88,438
Fixed pay rate (1)	—	—	—	—	—	4.6325%

\$ 34,455
\$ 88,438
4.6325%

- (1) Represents principal payments on our credit facility that bears interest at variable rates for which we have entered into interest rate swap agreements to fix the LIBOR.

In connection with our credit facility, we have entered into interest rate swap agreements to reduce our exposure to market risks of changing interest rates. The swaps are accounted for as hedging instruments as they are expected to be effective in mitigating the risks of changes in interest rates over the term of the debt. As a result, changes in the fair value of the interest rates swap are excluded from earnings until settled. The ineffective portion of the interest rate swaps are recognized immediately in net income.

Counterparties to these financial instruments expose us to credit-related losses in the event of nonperformance; however, counterparties to these agreements are major financial institutions, and we consider the risk of loss due to nonperformance to be minimal. We do not require collateral from these institutions. We do not hold and will not issue interest rate swaps for trading purposes.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

We conducted an evaluation of our disclosure under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. Based on our evaluation, we concluded that disclosure controls and procedures were effective as of December 31, 2005.

During 2005 there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or internal controls will prevent all error and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Seaspan have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Item 16A. Audit Committee Financial Expert

The Board has determined that director and Chair of the Audit Committee, David Korbin, qualifies as an audit committee financial expert and is independent under applicable NYSE and SEC standards.

Item 16B. Code of Ethics

We have adopted Standards for Business Conduct that include a Code of Ethics for all employees and directors. This document is available under “Corporate Governance” in the Investor Relations section of our Web site (www.seaspancorp.com). We also intend to disclose any waivers to or amendments of our Standards of Business Conduct or Code of Ethics for the benefit of our directors and executive officers on our website. We will provide a hard copy of our Code of Ethics free of charge upon written request of a shareholders. Please contact Kevin M. Kennedy for any such request.

Item 16C. Principal Accountant Fees and Services

Our principal accountant for 2005 was KPMG LLP, Chartered Accountants. The following table shows the fees we paid or accrued for audit and other services provided by KPMG LLP for 2005.

[Table of Contents](#)

In the 2005 fiscal period, the fees paid to the Auditors were as follows:

	2005
Audit Fees	\$ 645,000
Audit-Related Fees	8,000
Tax Fees	18,000
All Other Fees	—
	<u>\$ 671,000</u>

Audit Fees

Audit fees for 2005 include fees related to our initial public offering completed in August 2005.

Audit-Related Fees

Audit-related fees for 2005 are primarily for accounting advice.

Tax Fees

Tax fees for 2005 are primarily for assistance with tax planning.

The Audit Committee has the authority to pre-approve permissible audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees. Engagements for proposed services either may be separately pre-approved by the Audit Committee or entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee, as long as the Audit Committee is informed on a timely basis of any engagement entered into on that basis. The Audit Committee separately pre-approved all engagements and fees paid to our principal accountant in 2005.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

The following financial statements, together with the report of KPMG LLP, Chartered Accountants thereon, are filed as part of this Annual Report:

	<u>Page</u>
SEASPAN CORPORATION (PREDECESSOR)	
Report of Independent Registered Public Accounting Firm	F-1
Predecessor Combined Balance Sheets as of December 31, 2004 and August 11, 2005	F-2
Predecessor Combined Statement of Operations and Owners' Equity (Deficiency) for the Years Ended December 31, 2003 and 2004, and the 223 Day Period Ended August 11, 2005	F-3
Predecessor Combined Statements of Cash Flows for the Years ended December 31, 2003 and 2004, and the 223 Day Period Ended August 11, 2005	F-4
Notes to the Predecessor Combined Financial Statements for the Years ended December 31, 2004 and 2003, and the 223 day period Ended August 11, 2005	F-5
SEASPAN CORPORATION	
Management's Statement of Responsibilities	F-18
Report of Independent Registered Public Accounting Firm	F-19
Balance Sheet as of December 31, 2005	F-20
Statement of Operations for the Fiscal Period Ended December 31, 2005	F-21
Statement of Shareholders' Equity for the Fiscal Period Ended December 31, 2005	F-22
Statement of Cash Flows for the Fiscal Period Ended December 31, 2005	F-23
Notes to the Financial Statements for the Fiscal Period Ended December 31, 2005	F-24

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required, are inapplicable or have been disclosed in the Notes to the Financial Statements and therefore have been omitted.

[Table of Contents](#)

Item 19. Exhibits

The following exhibits are filed as part of this Annual Report:

Exhibit Number	Description
1.1(***)	Amended and Restated Articles of Incorporation of Seaspan Corporation
1.2(*)	Bylaws of Seaspan Corporation
2.1(*)	Specimen of Share Certificate of Seaspan Corporation
2.2(**)	Registration Rights Agreement
4.1(*)	Form of Underwriting Agreement
4.2	Seaspan Corporation Stock Incentive Plan
4.3(**)	Management Agreement between Seaspan Corporation, Seaspan Management Services Limited, Seaspan Advisory Services Limited, Seaspan Ship Management Ltd. and Seaspan Crew Management Ltd.
4.4(*)	Omnibus Agreement by and among Seaspan Corporation, Seaspan Management Services Limited, Seaspan Ship Management Ltd., Seaspan Advisory Services Limited, Norsk Pacific Steamship Company Limited and Seaspan International Ltd.
4.5(*)	Employment Agreement between Gerry Wang and Seaspan Ship Management Ltd.
4.6(*)	Employment Agreement between Graham Porter and Seaspan Advisory Services Limited
4.7(**)	Credit Agreement between Seaspan Corporation and Arranged by Citigroup Global Markets Limited and Fortis Capital, with Citigroup Global Markets Limited, Credit Suisse, Landesbank Hessen-Thuringen, DnB Nor Bank ASA, Fortis Capital Corp. as Mandated Lead Arrangers with Fortis Capital Corp. as Facility Agent
4.8(***)	Subscription Agreement between Seaspan Corporation and Dennis Washington, The Kevin Lee Washington Trust II, 0731455 B.C. Ltd., and Tiger Container Shipping Company Limited
4.9(***)	Form of Shareholders Rights Agreement
4.10(**)	Asset Purchase Agreement by and among Seaspan Corporation and the VesselCos
4.11(*)	Form of Indemnification Agreement between Seaspan Corporation and each of Kyle Washington, Gerry Wang and Kevin M. Kennedy
4.12(*)	Agreement between Seaspan Corporation and Relational Advisors LLC
4.13	Sale and Purchase Agreement between Conti 51. Container Schiffahrts—GmbH & Co. KG Nr. 1 and Seaspan Corporation, dated February 10, 2006
4.14	Sale and Purchase Agreement between Conti 52. Container Schiffahrts—GmbH & Co. KG Nr. 1 and Seaspan Corporation, dated February 10, 2006
4.15	Ship Building Contract between Seaspan Corporation, Jiangsu Yangzijiang Shipbuilding Co., Ltd. and Guangdong Machinery Imp. & Exp. Co. Ltd., for Hull No. YZJ2006-696C, dated February 28, 2006
4.16	Ship Building Contract between Seaspan Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. for Hull No. YZJ2006-716C, dated February 28, 2006
4.17	Ship Building Contract between Seaspan Corporation, Jiangsu Yangzijiang Shipbuilding Co., Ltd. and Guangdong Machinery Imp. & Exp. Co. Ltd. for Hull No. YZJ2006-717C, dated February 28, 2006

Table of Contents

Exhibit Number	Description
4.18	Ship Building Contract between Seaspan Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. for Hull No. YZJ2006-718C, dated February 28, 2006
8.1(*)	Subsidiaries of Seaspan Corporation
11.1	Code of Ethics
11.2(****)	Compensation Committee Annual Report
11.3(****)	Audit Committee Annual Report
12.1	Rule 13a-14(a)/15d-14(a) Certification of Seaspan's Chief Executive Officer
12.2	Rule 13a-14(a)/15d-14(a) Certification of Seaspan's Chief Financial Officer
13.1	Seaspan Corporation Certification of Gerry Wang, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Seaspan Corporation Certification of Kevin M. Kennedy, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- * Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (Registration No. 333-126762), filed with the SEC on July 21, 2005, and hereby incorporated by reference to such Registration Statement.
- ** Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (Registration No. 333-126762), filed with the SEC on August 2, 2005, and hereby incorporated by reference to such Registration Statement.
- *** Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (Registration No. 333-126762), filed with the SEC on August 4, 2005, and hereby incorporated by reference to such Registration Statement.
- **** Previously filed as an exhibit to the Company's Form 6-K (File No. 1-32591), filed with the SEC on March 17, 2006, and hereby incorporated by reference to such Report.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

SEASPAN CORPORATION

By: /s/ KEVIN M. KENNEDY
 Kevin M. Kennedy
 Chief Financial Officer
 (Principal Financial and Accounting Officer)

Dated: March 17, 2006

[Table of Contents](#)

Predecessor Combined Financial Statements
(Expressed in United States dollars)

SEASPAN CORPORATION

Years ended December 31, 2004 and 2003
223 day period ended August 11, 2005



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors of Seaspan Corporation

We have audited the accompanying predecessor combined balance sheets of the predecessor to Seaspan Corporation as of August 11, 2005 and December 31, 2004 and the related predecessor combined statements of operations and owner's equity (deficiency) and cash flows for the 223 day period ended August 11, 2005 and for each of the years in the two-year period ended December 31, 2004. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our audit opinion.

In our opinion, the predecessor combined financial statements referred to above present fairly, in all material respects, the financial position of the predecessor to Seaspan Corporation as of August 11, 2005 and December 31, 2004 and the results of their operations and their cash flows for the 223 day period ended August 11, 2005 and for each of the years in the two-year period ended December 31, 2004 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

February 22, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

[Table of Contents](#)

SEASPAN CORPORATION

Predecessor Combined Balance Sheets
(Expressed in thousands of United States dollars)

	December 31, 2004	August 11, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,066	\$ 3,209
Restricted cash (note 3)	4,544	16,059
Accounts receivable	1,929	125
Inventories	438	878
Due from related parties (note 4(a))	1,655	1,084
Prepaid expenses	626	961
	13,258	22,316
Vessels (note 5)	454,862	466,112
Deferred financing fees and other (note 6)	8,201	8,548
	<u>\$ 476,321</u>	<u>\$496,976</u>
Liabilities and Owner's Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (note 9(a))	\$ 5,028	\$ 4,249
Deferred revenue	453	1,108
Due to related party (note 4(b))	64,822	43,393
Current portion of long-term debt	19,773	26,203
	90,076	74,953
Long-term debt (note 7)	376,999	405,495
Fair value of interest rate swaps	18,860	11,552
Other long-term liabilities	24	—
	485,959	492,000
Owner's equity (deficiency)	(9,638)	4,976
	<u>\$ 476,321</u>	<u>\$496,976</u>
Commitments and contingent obligations (note 10)		
Subsequent events (notes 1 and 14)		

See accompanying notes to predecessor combined financial statements.

[Table of Contents](#)

SEASPAN CORPORATION

Predecessor Combined Statements of Operations and Owner's Equity (Deficiency)
(Expressed in thousands of United States dollars)

	Years ended December 31,		223 day period ended
	2003	2004	August 11, 2005
Revenue	\$ 35,011	\$ 35,933	\$ 40,157
Operating expenses:			
Ship operating	6,577	7,157	7,733
Depreciation	8,587	8,808	9,904
General and administrative	208	207	218
	<u>15,372</u>	<u>16,172</u>	<u>17,855</u>
Operating earnings	19,639	19,761	22,302
Other expenses (earnings):			
Interest (note 8)	12,193	11,804	14,563
Amortization of deferred financing fees	183	222	450
Write off on debt refinancing (note 6)	—	3,135	—
Change in fair value of interest rate swaps	(5,808)	(1,416)	(7,308)
Other	(36)	(53)	(17)
	<u>6,532</u>	<u>13,692</u>	<u>7,688</u>
Net earnings	13,107	6,069	14,614
Owner's equity (deficiency), beginning of period	(28,824)	(15,707)	(9,638)
Owner's investment	10	—	—
Owner's equity (deficiency), end of period	<u><u>\$ (15,707)</u></u>	<u><u>\$ (9,638)</u></u>	<u><u>\$ 4,976</u></u>

See accompanying notes to predecessor combined financial statements.

[Table of Contents](#)

SEASpan CORPORATION

Predecessor Combined Statements of Cash Flows
(Expressed in thousands of United States dollars)

	Years ended December 31,		223 day period ended August 11, 2005
	2003	2004	
Cash provided by (used in):			
Operating activities:			
Net earnings	\$ 13,107	\$ 6,069	\$ 14,614
Items not involving cash:			
Depreciation	8,587	8,808	9,904
Amortization of deferred financing fees	183	222	450
Change in fair value of interest rate swaps	(5,808)	(1,416)	(7,308)
Accrued interest capitalized to interest rate swaps	—	801	—
Write-off on debt refinancing	—	3,135	—
Change in non-cash operating working capital (note 9(b))	791	921	1,629
Cash from operating activities	<u>16,860</u>	<u>18,540</u>	<u>19,289</u>
Investing activities:			
Vessels	(236,558)	(7,475)	(20,939)
Due from related parties	183	(1,217)	—
Other	6	—	—
Cash used in investing activities	<u>(236,369)</u>	<u>(8,692)</u>	<u>(20,939)</u>
Financing activities:			
Owner's investments	10	—	—
Change in restricted cash	(1,620)	611	(11,515)
Issuance of long-term debt	203,138	300,318	45,267
Repayment of long-term debt	(12,674)	(269,629)	(11,215)
Due to related party	27,443	—	(21,429)
Repayment of due to related party	—	(32,061)	571
Financing fees incurred	(3,611)	(7,054)	(862)
Other long-term liabilities	(366)	(464)	(24)
Cash from (used in) financing activities	<u>212,320</u>	<u>(8,279)</u>	<u>793</u>
Increase (decrease) in cash and cash equivalents	<u>(7,189)</u>	<u>1,569</u>	<u>(857)</u>
Cash and cash equivalents, beginning of period	<u>9,686</u>	<u>2,497</u>	<u>4,066</u>
Cash and cash equivalents, end of period	<u>\$ 2,497</u>	<u>\$ 4,066</u>	<u>\$ 3,209</u>

Supplementary information (note 9(c))

See accompanying notes to predecessor combined financial statements.

[Table of Contents](#)

SEASpan CORPORATION

Notes to Predecessor Combined Financial Statements
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

1. General:

Seaspan Corporation was incorporated in the Marshall Islands for the purpose of acquiring ten containerships (the “Vessels”) from ten existing Republic of Cyprus incorporated wholly owned subsidiaries of Seaspan Container Lines Limited (“SCLL”) and to enter into agreements to acquire 13 additional vessels from 13 other Cyprus incorporated wholly owned subsidiaries of SCLL on completion of their construction, which completion is scheduled to occur between 2005-2007. The subsidiaries of SCLL that currently own the Vessels and Seaspan Corporation are collectively referred to as the “Company” in these predecessor combined financial statements. The primary activity of each of the entities included in the Company is the ownership and operation of the Vessels which are engaged in the deep-sea container transportation business. At August 11, 2005, the initial fleet that the Company owned, or had rights and obligations related to the acquisition of, consisted of eight 4250 Twenty-foot Equivalent Unit (“TEU”) containerships and two 8500 TEU containerships. These predecessor combined financial statements have been prepared to reflect the combined financial position, results of operations and cash flows of the legal entities that owned the Vessels, and represent the predecessor to Seaspan Corporation which will acquire the Vessels pursuant to the terms of the acquisition agreements entered into between Seaspan Corporation and each predecessor owner (note 14).

The following table sets out the details of the ten legal entries and the Vessels included in these predecessor combined financial statements:

Vessel Group / Company Name	Vessel name	Commencement of charter	Size (TEUs)
<i>CSG I Vessel Companies:</i>			
CSCL Hamburg Shipping	CSCL Hamburg	July 2001	4250
CSCL Chiwan Shipping	CSCL Chiwan	September 2001	4250
CSCL Ningbo Shipping	CSCL Ningbo	June 2002	4250
CSCL Dalian Shipping	CSCL Dalian	September 2002	4250
CSCL Felixstowe Shipping	CSCL Felixstowe	October 2002	4250
<i>CSG II Vessel Companies:</i>			
Clorina Marine	CSCL Oceania	December 2004	8500
Elia Shipping	CSCL Africa	January 2005	8500
<i>CSG III Vessel Companies:</i>			
Vancouver Shipping	CSCL Vancouver	February 2005	4250
Tofino Shipping	CSCL Sydney	April 2005	4250
Nootka Shipping	CSCL New York	May 2005	4250

Commencement of charter is the month in which the Vessel commenced revenue generating operations.

2. Significant accounting policies:

(a) Basis of accounting:

These predecessor combined financial statements are prepared in accordance with accounting principles generally accepted in the United States and combine the financial position, results of

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

operations and cash flows of the legal entities comprising the Company as discussed in note 1. Owner's equity (deficiency) represents the interest of SCLL in the net carrying value of the assets and liabilities of the Company. All inter-entity transactions and balances have been eliminated.

These predecessor combined financial statements include the general and administrative expenses incurred by the predecessor in their operations. The Company believes these general and administrative expenses reflect the cost reasonable to present the results of operations of the predecessor. However, the financial position, results of operations and cash flows of the Company are not indicative of those that would have been achieved had the Company owned and operated the Vessels as an independent publicly listed entity during the periods, as Seaspan Corporation will incur additional administrative expenses, including legal, accounting, treasury, rent, securities regulatory compliance and other costs normally incurred by a listed public entity. Accordingly, the predecessor combined financial statements do not purport to be indicative of future financial position, results of operations or cash flows of Seaspan Corporation.

Seaspan Corporation currently estimates that actual costs of general and administrative expenses will significantly increase from historical levels when all of the contracted fleet of 23 vessels are in operation.

(b) Foreign currency translation:

The functional and reporting currency is the United States dollar. Transactions incurred in other currencies are translated into United States dollars using the exchange rate at the time of the transaction. Monetary assets and liabilities as of the functional reporting date are translated into United States dollars using exchange rates at that date. Exchange gains and losses are included in net earnings. For the periods presented in the predecessor combined statements of operations, exchange gains and losses were not significant.

(c) Cash equivalents:

Cash equivalents include highly liquid securities with terms to maturity of three months or less when acquired.

(d) Inventories:

Inventories represented lubricant oils on board the Vessels carried at the lower of cost or replacement cost. Cost is determined substantially on a first-in first-out basis. The cost of spare parts and supplies to operate the Vessels are expensed as incurred.

(e) Vessels:

Vessels are carried at cost and include capitalized interest during construction and other construction, design, supervision and pre-delivery costs. Depreciation is provided on a straight-line basis over the estimated useful life of each Vessel. No charge for depreciation is made until each Vessel is put into operation.

The carrying value of the Vessels is evaluated when events or circumstances indicate that there has been a possible impairment in value, which would occur in the period when the net carrying value was no longer expected to be recovered from future estimated cash flows. Such evaluations include

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)

(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

comparison of current and anticipated operating cash flows, assessment of future operations and other relevant factors. To the extent that the carrying value of the Vessels exceeded the undiscounted estimated future cash flows, the Vessels would be written down to their fair value.

Normal repair and maintenance costs, including such costs incurred during drydocking, are expensed as incurred.

Drydocking costs, which improve or extend the useful life of the Vessels, are capitalized as incurred and depreciated prospectively over the period to the next scheduled drydocking. The time between scheduled drydockings is five years. As each of the Vessels was put into service in the last five years, no drydocking costs have been capitalized or depreciated in the periods presented.

(f) Deferred financing fees:

Deferred financing fees represent the unamortized costs incurred on issuance of long-term debt. Amortization is provided on the interest-yield basis over the term of the underlying obligation.

(g) Income taxes:

All income from shipping activities arising out of the ownership of vessels registered in the Republic of Cyprus is exempt from taxation in Cyprus.

The owner of the vessel is responsible for all taxes, fees or other levies charged by countries other than the Republic of Cyprus on vessels due to having cargo on board. Under charter party agreements, this responsibility has been assumed by the charterer. Accordingly, any such taxes, fees or levies have not been recognized in these predecessor combined financial statements. Any such taxes paid by the Company, as a result of the charterer's failure to pay, will be recognized when the Company's obligation is determinable.

(h) Revenue recognition:

Revenue from charter hire services is recognized as services are rendered and collection is reasonably assured. Any expected losses on shipping contracts are provided for as they become known. Cash received in excess of earned revenue is recorded as deferred revenue.

(i) Derivatives instruments:

Interest rate swap agreements have been entered into to reduce the Company's exposure to market risks from changing interest rates. Derivatives and hedging activities are accounted for in accordance with FASB Statement No. 133, "*Accounting for Derivative Instruments and Certain Hedging Activities*", as amended, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. The Company recognizes the interest rate swap agreements on the balance sheet at their fair value. As the interest rate swap agreements have not been designated as hedging instruments in accordance with the requirements in accounting literature, changes in the fair value of the interest rate swap are reported in current period earnings. The fair value will change as market interest rates change.

The Company does not hedge foreign currency translation of assets or liabilities or foreign currency transactions or use financial instruments for trading or other speculative purposes.

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

(j) Guarantees:

The Company recognizes the fair value of the obligation under guarantees and indemnification arrangements that the underlying legal entities have issued. Conditions that are subject to the guarantee are monitored to identify whether the charge against the Vessels has a material fair value or it is probable that a loss has occurred. Any such losses would be recognized when estimable. In the future, the existing guarantees and indemnification arrangements will no longer be applicable as they will be discharged upon the completion of Seaspan Corporation's offering.

(k) Use of estimates:

The preparation of combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the combined balance sheet dates and the reported amounts of revenue and expenses during the reporting periods. Areas where accounting judgments and estimates are significant to the Company include the assessment of the Vessel lives and the recoverability of the carrying value of Vessels, which are subject to future market events. Actual results could differ from those estimates.

3. Restricted cash:

Certain of the Company's bank accounts are subject to restrictions under the credit agreements, which give priority to principal and interest payments and limit the amount of cash available for operations.

4. Related party transactions:

(a) Due from related parties:

The balance due from related parties is for funds advanced to entities with common ownership, to fund current operating costs of the Vessels. The amounts are intended to be repaid in the ordinary course of business.

(b) Due to related party:

The amount is due to SCLL, the Company's parent. It is non-interest bearing, unsecured and has no fixed terms of repayment.

(c) Related party transactions:

For Vessels under construction during the period, Seaspan Ship Management Limited ("SSML") provided management supervision, insurance arrangements, accounting and treasury, and provisioning services in the amount of \$90,000 (2004—\$620,000; 2003—\$620,000). For Vessels operating or that began operations during the period, SSML provided technical management services, in the amount of \$573,000 (2004—\$474,000; 2003—\$425,000) and Seaspan Crew Management Limited provided crew management services, in the amount of \$113,000 (2004—\$113,000; 2003—\$74,000). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. SSML and SCLL have also negotiated supplier and builder rebates. To August 11, 2005, substantially all supplier rebates have related to vessels under construction. These supplier rebates have been recognized by the Company as

[Table of Contents](#)

SEASpan CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

a reduction to the capital cost of the applicable Vessel when earned. Included in accounts receivable at August 11, 2005 is nil (2004—\$1,852,000; 2003—nil) of supplier rebates that are receivable from construction suppliers. Builder rebates, based on fleet volume discounts, are for the account of SCLL.

5. Vessels:

December 31, 2004	Cost	Accumulated depreciation	Net book value
Vessels	\$301,996	\$ 23,922	\$278,074
Deposits on vessels	176,788	—	176,788
	<u>\$478,784</u>	<u>\$ 23,922</u>	<u>\$454,862</u>

August 11, 2005	Cost	Accumulated depreciation	Net book value
Vessels	\$499,939	\$ 33,827	\$466,112

At December 31, 2004, four of the legal entities within the Company had entered into ship building contracts with Samsung Heavy Industries Co. Ltd. ("Samsung") for the construction of three 4250 TEU and one 8500 TEU containership by Samsung. Terms of the ship building contracts required a deposit in payment of 90% of the construction costs prior to commencing construction, with the balance due upon delivery of the Vessel. At May 27, 2005, all four of these Vessels have been delivered.

The deposit includes advances to Samsung for the construction of the Vessels under the terms of the ship building contracts, capitalized interest and other construction, supervision, design and predelivery costs. As security for the deposits, Samsung provided Irrevocable Letters of Refundment Guarantee (the "Refundment Guarantees") issued by a bank, covering 90% of the contract value. The Refundment Guarantees have been assigned to the bank under terms of the credit facilities (note 7).

6. Deferred financing fees and other:

	December 31, 2004	August 11, 2005
Deferred financing fees, beginning of year	\$ 4,828	\$ 8,201
Costs incurred	7,075	862
Amortization capitalized	(344)	(65)
Amortization expensed	(222)	(450)
Write-off on debt refinancing	(3,136)	—
Deferred financing fees, end of year	<u>\$ 8,201</u>	<u>\$ 8,548</u>

During 2004, the Company refinanced certain long-term debt facilities, as described in note 7. For accounting purposes, these refinancings constituted, in part, modifications and, in part, extinguishments of the original debt instruments. As a result, during 2004, previously capitalized costs of \$2,450,000 and costs incurred during 2004 of \$686,000 were expensed.

[Table of Contents](#)

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

7. Long-term debt:

	December 31, 2004	August 11, 2005
Bank term loans:		
CSG I Vessel Companies	\$ 165,000	\$ 158,815
CSG II Vessel Companies	130,000	126,000
CSG III Vessel Companies	96,772	102,383
Junior loans:		
CSG I Vessel Companies	—	12,500
CSG II Vessel Companies	5,000	20,000
CSG III Vessel Companies	—	12,000
	396,772	431,698
Current portion	19,773	26,203
	<u>\$ 376,999</u>	<u>\$ 405,495</u>

(a) Bank term loans—CSG I Vessel Companies:

The five CSG I Vessel Companies (see note 1) jointly entered into a loan agreement to finance the ownership of five deep-sea Vessels. During the year ended December 31, 2004, the CSG I Vessel Companies refinanced their long-term debt facilities. The original facilities were repaid with financing received under substantially the same terms as the former debt, but at revised interest rates and with different principal repayment terms and with certain different lenders.

The bank term loans for the CSG I Vessel Companies are comprised of five loans, one for each CSG I Vessel Company. Each term loan bears interest at the LIBOR plus 1.4% per annum. The CSG I Vessel Companies have entered into interest rate swap agreements to reduce their exposure to market risks from changing interest rates (note 12(c)). The CSG I Vessel Companies have the option, after providing notice, to prepay the loans at any time, together with accrued interest in increments of \$200,000 per loan.

Each bank term loan is repayable as to principal and interest in forty quarterly installments to approximately November 2014 with a remaining balance of \$9,050,000 per loan.

As at August 11, 2005, the principal repayments due for the next five years and thereafter are:

2005	\$ 8,250
2006	8,250
2007	8,250
2008	8,250
2009	22,625
Thereafter	103,190
	<u>\$ 158,815</u>

The bank term loans are secured by mortgages on the Vessels owned by the CSG I Vessel Companies (the “CSG I Vessels”), assignments of the charter party agreements with China Shipping (Group)

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

Company (“CSG”) and assignments of the retention and earnings bank accounts of each CSG I Vessel Company. The credit agreements also provide restrictions against the use of funds in these bank accounts, which give priority to principal and interest payments and limit the amount of cash available for operations.

The CSG I Vessel Companies future charter revenues are protected by a loss of earnings and/or charter hire insurance policies. These policies have been assigned to the bank as security for the loans.

Subsequent to August 11, 2005, the bank term loans were repaid (note 14).

(b) Junior loans—CSG I Vessel Companies:

Each CSG I Vessel Company has entered into a junior loan facility of \$5,000,000 that may be drawn at any time before October 30, 2005.

Each junior loan bears interest at the LIBOR plus 4.0% per annum. The CSG I Vessel Companies have the option, after providing written notice, to prepay the loan at any time, together with accrued interest in increments of \$200,000 per loan. Once the junior facilities are drawn upon, principal and interest payments are repayable in forty consecutive installments commencing three months after first drawdown of funds.

The junior loans are secured by a second priority on the following: mortgages on the CSG I Vessels and assignments of the charter party agreements with CSG. The junior loans also have a second priority on certain bank accounts and on the insurance proceeds of the CSG I Vessels.

The CSG I Vessel Companies’ future charter revenue are protected by a loss of earnings and/or charter hire insurance policies. These policies will have a second priority assignment to the bank as security for the junior loans.

Subsequent to August 11, 2005, the CSG I Junior loans were repaid.

(c) Bank term loans—CSG II Vessel Companies:

The two CSG II Vessel Companies (see note 1) jointly entered into a loan agreement to finance the construction and ownership of two deep-sea container vessels. During the year ended December 31, 2004, the CSG II Vessel Companies refinanced their long-term debt facility. The original facilities were repaid with the proceeds from the new debt facility, under substantially the same terms as the former debt, but at reduced interest rates and with different principal repayment terms and with certain different lenders.

The bank term loans for the CSG II Vessel Companies are comprised of two loans, one for each CSG II Vessel Company. Each bank term loan bears interest at the aggregate of the LIBOR plus 1.25% per annum. The CSG II Vessel Companies have entered into interest rate swap agreements to reduce their exposure to market risks from changing interest rates (note 12(c)). The CSG II Vessel Companies have the option, after providing notice, to prepay the loans at any time, together with accrued interest in increments of \$200,000 per loan.

Interest only payments are accrued quarterly until three months after the vessel delivery dates, after which time the bank term loans are repayable in forty quarterly installments to approximately January 2015.

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

As at August 11, 2005, the principal repayments due for the next five years and thereafter are:

2005	\$ 8,000
2006	8,000
2007	8,000
2008	8,000
2009	8,000
Thereafter	86,000
	<u>\$ 126,000</u>

The bank term loans are secured by mortgages on the Vessels owned by the CSG II Vessel Companies (the “CSG II Vessels”), assignments of the charter party agreements with CSG after the vessel launch date and assignments of the ship building contracts and Refundment Guarantees prior to vessel deliveries. The loans are also secured by assignments of certain bank accounts, insurance proceeds of the CSG II Vessel Companies and a pledge of shares.

The CSG II Vessel Companies’ future charter revenues are protected by a loss of earnings and/or charter hire insurance policies. These policies have been assigned to the bank as security for the loans.

Subsequent to August 11, 2005, the CSG II bank term loans were repaid.

(d) Junior loans—CSG II Vessel Companies:

Each CSG II Vessel Company has entered into a junior loan facility of \$10,000,000 that may be drawn in two installments. The delivery drawing of \$5,000,000 may be drawn at any time before July 31, 2005 to partially settle the delivery installment due to Samsung (note 5) and the post-delivery drawing of \$5,000,000 may be drawn at anytime before November 12, 2005.

Each junior loan bears interest at the LIBOR plus 4.0% per annum. The CSG II Vessel Companies have agreed to enter into interest rate swap agreements to reduce their exposure to market risks from changing interest rates (note 12(c)). The CSG II Vessel Companies have the option, after providing written notice, to prepay the loans at any time, together with accrued interest in increments of \$200,000 per loan.

Once the junior facility is drawn upon, principal and interest payments are repayable in twenty-seven consecutive installments commencing three months after vessel deliveries.

The junior loans are secured by second priority on the following; mortgages on the CSG II Vessels, assignments of the charter party agreements with CSG after the CSG II Vessel launch dates, assignments of the ship building contracts and Refundment Guarantees prior to CSG II Vessel deliveries. The junior loans also have a second priority on certain bank accounts and on the insurance proceeds of the CSG II Vessel Companies and a pledge of shares.

The CSG II Vessel Companies’ future charter revenues are protected by a loss of earnings and/or a charter hire insurance policies. These policies will have a second priority assignment to the bank as security for the junior loans.

Subsequent to August 11, 2005, the CSG II Junior loans were repaid (note 14).

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

(e) Bank term loans—CSG III Vessel Companies:

The bank term loans that relate to the CSG III Vessel Companies (see note 1) are drawn under a credit agreement comprising seven loans, one for each of the CSG III Vessel Companies, and for each of Burrard Shipping Company Limited, Nanaimo Shipping Company Limited, Spruce Shipping Company Limited and Hemlock Shipping Company Limited, companies under common control that are excluded from these predecessor combined financial statements.

During the year ended December 31, 2004, the CSG III Vessel Companies modified their original debt instruments but at reduced interest rates and with different principal repayment terms.

The bank term loans for each CSG III Vessel Company are available in two tranches. Tranche A, with an available limit of \$32,362,500, may be drawn upon at any time prior to deliveries. Upon deliveries, the amount of Tranche A funds outstanding must be the lesser of 75% of the vessel construction cost or the available limit. Tranche B, with an available limit of \$2,157,500, may only be drawn upon after vessel deliveries and at the lesser of 5% of the vessel construction cost or the available limit. Tranche A bears interest at the aggregate of the LIBOR, a 0.8% pre-delivery margin and a 0.3725% exposure fee until vessel deliveries and at the aggregate of the commercial interest reference rate of 4.63% and an exposure rate of 0.3725% after vessel deliveries. Tranche B bears interest at the LIBOR plus a 2.0% post delivery margin after vessel deliveries. The CSG III Vessel Companies have the obligation to enter into an interest swap agreements, on Tranche B, after deliveries, to reduce their exposure to market risks from changing interest rates. The CSG III Vessel Companies also have the option, after providing notice, to prepay the loans at any time, together with accrued interest, in increments of \$1,000,000 per loan.

Interest only payments are to be payable quarterly, settled by way of additional drawdown, on the Tranche A bank term loans until the vessel delivery dates. Tranche A of the bank term loans are repayable in forty-eight quarterly installments beginning on the second quarter day after the vessel delivery dates, except if the Vessel delivery dates are a quarter day, then repayment begins on the next quarter day. Quarter days are March 15, June 15, September 15 and December 15. Interest only payments are to be payable quarterly, settled by way of additional drawdown, on the Tranche B of the bank term loans until four years and three months after the vessel delivery dates, at which time the outstanding balance on Tranche B of \$2,157,500 is due and payable.

As at August 11, 2005, the principal repayments due for the next five years and thereafter are:

2005	\$ 8,051
2006	8,051
2007	8,051
2008	8,051
2009	8,051
Thereafter	62,128
	<u>\$ 102,383</u>

The term loans are secured by mortgages on the Vessels to be owned by the CSG III Vessel Companies (the “CSG III Vessels”), assignments of the charter party agreements with CSG after the CSG III

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003
223 day period ended August 11, 2005

Vessel launch date and assignments of the ship building contracts and the Refundment Guarantees prior to CSG III Vessel deliveries. The loans are also secured by assignments of certain bank accounts, insurance proceeds of the CSG III Vessel Companies and a pledge of shares.

The CSG III Vessel Companies' future charter revenues are to be protected by a loss of earnings and/or charter hire insurance policies. These policies will be assigned to the bank as security for the loans.

Under this credit agreement, the CSG III Vessel Companies are jointly liable with Burrard Shipping Company Limited, Nanaimo Shipping Company Limited, Spruce Shipping Company Limited and Hemlock Shipping Company Limited, companies under common control, for the repayment of term loans totaling up to approximately \$294,951,138 at August 11, 2005.

(f) Junior loans—CSG III Vessel Companies:

The junior loans for the CSG III Vessel Companies are drawn under a credit agreement comprising seven loans, one for each of the CSG III Vessel Companies, and one for each of Burrard Shipping Company Limited, Nanaimo Shipping Company Limited, Spruce Shipping Company Limited and Hemlock Shipping Company Limited, companies under common control that are excluded from the predecessor combined financial statements.

Each junior loan facility of \$4,000,000 will be drawn at the time of delivery of the CSG III Vessels to partially settle the delivery installment due to Samsung (note 5).

Each junior loan bears interest at the LIBOR plus 4.0% per annum. The CSG III Vessel Companies have agreed to enter into interest rate swap agreements to reduce their exposure to market risks from changing interest rates. The CSG III Vessel Companies have the option, after providing written notice, to prepay the loans at any time, together with accrued interest in increments of \$500,000 per loan.

Once the junior facilities are drawn upon, principal and interest payments are repayable in thirty seven consecutive installments commencing three months after vessel deliveries.

The junior loans are secured by a second priority on the following: mortgages on the CSG III Vessels, assignments of the charter party agreements with CSG after the CSG III Vessel launch date, assignments of the ship building contracts and Refundment Guarantees prior to CSG III Vessel deliveries. The junior loans also have a second priority on certain bank accounts and on the insurance proceeds of the CSG III Vessel Companies.

The CSG III Vessel Companies' future charter revenues are protected by a loss of earnings and/or a charter hire insurance policies. These policies will have a second priority assignment to the bank as security for the loans.

Under this credit agreement, the CSG III Vessel Companies are jointly liable with Burrard Shipping Company Limited, Nanaimo Shipping Company Limited, Spruce Shipping Company Limited and Hemlock Shipping Company Limited, companies under common control, for the repayment of the junior loans totaling \$20,000,000.

[Table of Contents](#)

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)

(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

8. Interest expense:

The Company capitalizes interest cost to deposits on Vessels as a component of the cost of construction in progress. The following is a summary of interest cost incurred on long-term debt during each of the years presented:

	December 31,		August 11,
	2003	2004	2005
Interest costs incurred	\$15,120	\$17,286	\$15,715
Less: interest capitalized	(2,927)	(5,482)	(1,152)
Interest expense	<u>\$12,193</u>	<u>\$11,804</u>	<u>\$14,563</u>

9. Other information:

(a) Accounts payable and accrued liabilities:

The principal components of accounts payable and accrued liabilities in the predecessor combined balance sheets are:

	December 31,	August 11,
	2004	2005
Trade accounts	\$ 1,792	\$ 1,067
Accrued interest	2,553	2,248
Other accrued liabilities	683	934
	<u>\$ 5,028</u>	<u>\$ 4,249</u>

(b) Working capital:

The net change in non-cash operating working capital items related to operating activities set out in the predecessor combined statements of cash flows consists of:

	December 31,		August 11,
	2003	2004	2005
Cash provided by (used in):			
Accounts receivable	\$ 31	\$ (31)	\$ 2,528
Inventories	402	49	(440)
Prepaid expenses	148	(149)	(335)
Accounts payable and accrued liabilities	410	1,297	(779)
Deferred revenue	(200)	(245)	655
	<u>\$ 791</u>	<u>\$ 921</u>	<u>\$ 1,629</u>

[Table of Contents](#)

SEASpan CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

(c) Supplementary information to the predecessor combined statements of cash flows consists of:

	December 31,		August 11,
	2003	2004	2005
Interest paid, excluding interest capitalized	\$12,151	\$10,745	\$ 14,572
Non-cash transactions:			
Reclassification of deposits on Vessels to Vessels	—	74,000	176,788
Accrued and capitalized interest costs, including amortization of deferred financing fees	3,089	5,826	216

10. Commitments and contingent obligations:

The Company is a member of a protection and indemnity association under which multiple parties' risks are insured and the Company could be liable for calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. The Company accounts for such calls as contingent obligations and will recognize its obligation when the amount of any liability under the call arrangement can be reasonably estimated. Calls are included in estimated annual premiums which are billed annually. To date, no calls for additional annual premium payments have been made.

11. Charter party:

The Company is committed under charter party agreements with CSG as follows:

Vessel name	Time charter (years)	Commencement of charter	Options (years)	Daily hire rate
CSCL Hamburg	10	July 2001	2	\$ 18.0
CSCL Chiwan	10	September 2001	2	18.0
CSCL Ningbo	10	June 2002	2	19.9
CSCL Dalian	10	September 2002	2	19.9
CSCL Felixstowe	10	October 2002	2	19.9
CSCL Oceania	12	December 2004	3	29.5
CSCL Africa	12	January 2005	3	29.5
CSCL Vancouver	12	February 2005	—	17.0
CSCL Sydney	12	April 2005	—	17.0
CSCL New York	12	May 2005	—	17.0

The Company is committed under the charter party agreements with CSG to supply the Vessel on a full-time basis for a fixed daily charter rate. The charter party agreements obligate the Company to certain performance criteria over the term of the agreement.

12. Financial instruments:

(a) Concentration of credit risk:

CSG is the Company's sole customer at August 11, 2005.

SEASPAN CORPORATION

Notes to Predecessor Combined Financial Statements—(Continued)
(Tabular amounts expressed in thousands of United States dollars)

Years ended December 31, 2004 and 2003

223 day period ended August 11, 2005

(b) Fair value:

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, due from related parties and accounts payable and accrued liabilities in the balance sheet approximate their fair values because of their short term to maturity. The carrying value of long-term debt and other long-term liabilities, recalculated at current interest rates, approximates their carrying value. The fair value of the due to related party is not readily determinable due to the related party relationship and the lack of a market for such instruments.

The fair value of the interest rate swap agreements is recognized on the predecessor combined balance sheet.

(c) Interest rate risk management agreement:

The Company uses derivative financial instruments, consisting of interest rate swap agreements, to manage its exposure to adverse movements in interest rates.

Pursuant to the credit agreement related to the CSG I and CSG II Vessel Companies (note 7) at August 11, 2005, certain legal entities within the Company have entered into interest rate swap agreements to fix the LIBOR at per annum interest rates on notional loan balances as follows:

Vessel companies	Notional amount	Fixed LIBOR	Ending date
CSG I	\$165,000	5.974%	November 9, 2014
CSG II—bank loans	65,000	4.350%	December 5, 2012
CSG II—junior loans	5,000	4.430%	December 6, 2011

13. Guarantee:

As described in notes 7(e) and (f), the CSG III Vessel Companies are jointly liable under credit agreements underlying the bank term loans and junior loans with four subsidiaries of SCLL that are not included in these predecessor combined financial statements.

14. Subsequent event:

On August 12, 2005, Seaspan Corporation completed an initial public offering, selling 28,570,000 common shares for gross proceeds of \$599,970,000 and 7,145,000 subordinated shares for proceeds of \$150,045,000. These proceeds were used to acquire the Vessels described in note 1, as well as repay all outstanding debt, accrued interest and swap obligations on the Vessels.

[Table of Contents](#)

Financial Statements
(Expressed in United States dollars)

SEASPAN CORPORATION

For the fiscal period from date of incorporation on May 3, 2005
to December 31, 2005

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The management of Seaspan Corporation (the "Company") is responsible for the preparation of the accompanying financial statements and the preparation and presentation of information in the Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal controls to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded and that financial reports are properly maintained to provide accurate and reliable financial statements.

The Company's audit committee is comprised entirely of non-management directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review the financial statements and the independent auditors' report.

The financial statements have been reviewed by the audit committee, which has recommended their approval by the Board of Directors. The Company's independent auditors, KPMG LLP, have examined the financial statements and their report follows.

/s/ GERRY WANG

Gerry Wang
Chief Executive Officer

/s/ KEVIN M. KENNEDY

Kevin M. Kennedy
Chief Financial Officer

February 22, 2006, except for note 13(e), which is as of February 28, 2006



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders

We have audited the accompanying balance sheet of Seaspan Corporation as of December 31, 2005 and the related statements of operations, shareholders' equity and cash flows for the fiscal period from date of incorporation on May 3, 2005 to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our audit opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seaspan Corporation as of December 31, 2005 and the results of its operations and its cash flows for the fiscal period ended December 31, 2005 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

February 22, 2006, except for note 13(e), which is as of February 28, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

[Table of Contents](#)**SEASPAN CORPORATION**

Balance Sheet

(Expressed in thousands of United States dollars)

December 31, 2005

Assets	
Current assets:	
Cash and cash equivalents	\$ 15,718
Prepaid expenses	2,352
	<u>18,070</u>
Vessels (note 5)	621,163
Deferred financing fees (note 6)	6,526
Fair value of interest rate swaps	4,799
	<u>\$ 650,558</u>
Liabilities and Shareholders' Equity	
Current liabilities:	
Accounts payable and accrued liabilities (note 9(a))	\$ 1,467
Deferred revenue	2,759
	<u>4,226</u>
Long-term debt (note 7)	<u>122,893</u>
	<u>127,119</u>
Share capital (note 8)	
Class A common shares; \$0.01 par value; 200,000,000 shares authorized; 28,846,500 shares issued and outstanding	
Class B common shares; \$0.01 par value; 25,000,000 shares authorized; 7,145,000 shares issued and outstanding	
Class C common shares; \$0.01 par value; 100 shares authorized; 100 shares issued and outstanding	
Preferred shares; \$0.01 par value; 65,000,000 shares authorized; none issued and outstanding	512,589
Retained earnings	6,051
Accumulated other comprehensive income	4,799
Total shareholders' equity	<u>523,439</u>
	<u>\$ 650,558</u>

Commitments and contingent obligations (notes 10 and 11)

Subsequent events (note 13)

Approved on behalf of the Board:

/s/ GERRY WANG

Director

/s/ DAVID KORBIN

Director

See accompanying notes to financial statements.

[Table of Contents](#)

SEASPAN CORPORATION

Statement of Operations

(Expressed in thousands of United States dollars, except per share amount)

For the fiscal period ended December 31, 2005 (note 1)

Revenue	\$34,803
Operating expenses:	
Ship operating (note 4(a))	8,252
Depreciation	7,186
General and administrative	1,694
	<u>17,132</u>
Operating earnings	17,671
Other expenses (earnings):	
Interest expense	1,699
Interest income	(124)
Undrawn credit facility fee	1,041
Amortization of deferred financing fees	726
	<u>3,342</u>
Net earnings	<u>\$14,329</u>
Earnings per share, basic and diluted from commencement of operations	<u>\$ 0.40</u>

See accompanying notes to financial statements.

[Table of Contents](#)

SEASPAN CORPORATION

Statement of Shareholders' Equity

(Expressed in thousands of United States dollars, except per share amount)

For the fiscal period ended December 31, 2005 (note 1)

	Number of common shares			Common shares	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity	Total comprehensive income
	Class A	Class B	Class C					
Class A common shares issued on initial public offering	28,570,000	—	—	\$ 599,970	\$ —	\$ —	\$ 599,970	
Class B common shares issued on initial public offering	—	7,145,000	—	150,045	—	—	150,045	
Class C common shares issued on initial public offering	—	—	100	1	—	—	1	
Excess of purchase price paid over historical cost on vessel purchase (note 8)	—	—	—	(197,904)	—	—	(197,904)	
Class A common shares issued on exercise of over-allotment option	276,500	—	—	5,807	—	—	5,807	
Fees and expenses in connection with issuance of the common shares	—	—	—	(45,330)	—	—	(45,330)	
Net earnings	—	—	—	—	14,329	—	14,329	\$ 14,329
Other comprehensive net income:								
Change in fair value of interest rate swaps designated as cash flow hedging instruments	—	—	—	—	—	4,799	4,799	4,799
								\$ 19,128
Dividends on common shares	—	—	—	—	(8,278)	—	(8,278)	
	<u>28,846,500</u>	<u>7,145,000</u>	<u>100</u>	<u>\$ 512,589</u>	<u>\$ 6,051</u>	<u>\$ 4,799</u>	<u>\$ 523,439</u>	

See accompanying notes to financial statements.

[Table of Contents](#)

SEASPAN CORPORATION

Statement of Cash Flows

(Expressed in thousands of United States dollars)

For the fiscal period ended December 31, 2005 (note 1)

Cash provided by (used in):

Operating activities:

Net earnings	\$ 14,329
Items not involving cash:	
Depreciation	7,186
Amortization of deferred financing fees	726
Changes in non-cash operating working capital:	
Prepaid expenses	(2,352)
Accounts payable and accrued liabilities	1,467
Deferred revenue	2,759
Cash from operating activities	<u>24,115</u>

Investing activities:

Expenditures for vessels	(162,237)
Vessels acquired at completion of initial public offering (note 8)	(664,016)
Cash used in investing activities	<u>(826,253)</u>

Financing activities:

Common shares issued, net of share issue costs	710,493
Draws on credit facility	122,893
Financing fees incurred	(7,252)
Dividends on common shares	(8,278)
Cash from financing activities	<u>817,856</u>

Increase in cash and cash equivalents	15,718
---------------------------------------	--------

Cash and cash equivalents, beginning of fiscal period	—
---	---

Cash and cash equivalents, end of fiscal period	<u>\$ 15,718</u>
---	------------------

Supplementary information (note 9(b))

See accompanying notes to financial statements.

[Table of Contents](#)**SEASpan CORPORATION**

Notes to Financial Statements

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

1. General:

Seaspan Corporation (the "Company") was incorporated on May 3, 2005 in the Marshall Islands. These financial statements are for the fiscal period from date of incorporation on May 3, 2005 to December 31, 2005, and include 142 days of operation from the date of the initial public offering ("IPO") on August 12, 2005.

The Company was formed for the purpose of acquiring ten containerships (the "Initial Fleet") from ten existing Republic of Cyprus incorporated wholly owned subsidiaries (collectively, the "Predecessor") of Seaspan Container Lines Limited ("SCLL") and to enter into an agreement to acquire 13 additional vessels from 13 other Cyprus incorporated wholly owned subsidiaries of SCLL (all 13 subsidiaries collectively referred to as "VesselCos") on completion of their construction, which completion is scheduled to occur between 2005-2007 (the "Asset Purchase Agreement"). The primary activity of the Company is the ownership and operation of the vessels which are engaged in the deep-sea container transportation business. At August 12, 2005, the Initial Fleet that the Company owned consisted of eight 4250 Twenty-foot Equivalent Unit ("TEU") containerships and two 8500 TEU containerships. At December 31, 2005, the fleet of the Company consists of eleven 4250 TEU containerships and two 8500 TEU containerships.

The following table sets out the vessels included in these financial statements

<u>Vessel name</u>	<u>Commencement of charter</u>	<u>Size (TEUs)</u>
CSCL Hamburg	July 2001	4250
CSCL Chiwan	September 2001	4250
CSCL Ningbo	June 2002	4250
CSCL Dalian	September 2002	4250
CSCL Felixstowe	October 2002	4250
CSCL Oceania	December 2004	8500
CSCL Africa	January 2005	8500
CSCL Vancouver	February 2005	4250
CSCL Sydney	April 2005	4250
CSCL New York	May 2005	4250
CSCL Melbourne	August 2005	4250
CSCL Brisbane	September 2005	4250
CP Kanha	October 2005	4250

Commencement of charter is the month in which the vessel commenced revenue generating operations.

[Table of Contents](#)**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

2. Initial public offering:

On August 12, 2005, the Company completed an IPO and issued 28,570,000 common shares and 7,145,000 subordinated shares for gross proceeds of \$599,970,000 and \$150,045,000 respectively. On August 12, 2005, the Company also issued 100 incentive shares to Seaspac Advisory Services Limited, a wholly-owned subsidiary of Seaspac Management Services Limited. On September 13, 2005, the underwriters exercised their overallotment option and the Company issued an additional 276,500 common shares for gross proceeds of \$5,806,500. The proceeds received by the Company from the IPO and the use of those proceeds are summarized as follows:

Proceeds received:	
Sale of 28,570,000 common shares and 7,145,000 subordinated shares at \$21.00 per share	\$ 750,015
Sale of 276,500 common shares at \$21.00 per share	5,807
	<u>\$ 755,822</u>
Use of proceeds from sale of common shares:	
Purchase of Initial Fleet	\$ 664,016
Underwriting and structuring fees paid to third parties	37,847
Repayment of advances from SCLL	1,411
Professional fees and other offering expenses to third parties	7,483
Credit facility costs	7,252
Partial funding of purchase price of the CSCL Melbourne	34,671
Working capital	3,142
	<u>\$ 755,822</u>

3. Significant accounting policies:

(a) Basis of accounting:

These financial statements are prepared in accordance with accounting principles generally accepted in the United States and reflect operations of the Company for the fiscal period ended December 31, 2005.

(b) Foreign currency translation:

The functional and reporting currency of the Company is the United States dollar. Transactions incurred in other currencies are translated into United States dollars using the exchange rate at the time of the transaction. Monetary assets and liabilities as of the financial reporting date are translated into United States dollars using exchange rates at that date. Exchange gains and losses are included in net earnings.

(c) Cash equivalents:

Cash equivalents include highly liquid securities with terms to maturity of three months or less when acquired.

SEASPAN CORPORATION

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

(d) Vessels:

Vessels purchased on completion of the IPO are carried at the historical carrying value of the Predecessor which includes capitalized interest during construction and other construction, design, supervision and pre-delivery costs.

The additional vessels purchased pursuant to the Asset Purchase Agreement are recorded at their cost to the Company, reflecting the predetermined purchase price in the agreement (note 10).

Depreciation is provided on a straight-line basis over the 30 year estimated useful life of each vessel.

The carrying value of the vessels is evaluated when events or circumstances indicate that there has been a possible impairment in value, which would occur in the fiscal period when the net carrying value was no longer expected to be recovered from future estimated cash flows. Such evaluations include comparison of current and anticipated operating cash flows, assessment of future operations and other relevant factors. To the extent that the carrying value of the vessels exceeds the undiscounted estimated future cash flows, the vessels would be written down to their fair value.

(e) Deferred financing fees:

Deferred financing fees represent the unamortized costs incurred on issuance of the credit facility. Amortization is provided on the interest-yield basis over the term of the underlying obligation.

(f) Income taxes:

There are no taxes on income in the jurisdiction in which the Company is incorporated. The Company is not subject to taxes on income in any other jurisdiction where the Company operates.

The owner of the vessel is responsible for all taxes, fees or other levies charged by countries other than Hong Kong on vessels due to having cargo on board. Under charter party agreements, this responsibility has been assumed by the charterer. Taxes, fees or levies charged by Hong Kong are included in technical services, as part of the management agreement (note 4(a)). Any such taxes paid by the Company, as a result of the charterer's failure to pay, will be recognized when the Company's obligation is determinable.

(g) Revenue recognition:

Revenue from charter hire services is recognized as services are rendered and collection is reasonably assured. Any expected losses on shipping contracts are provided for as they become known. Cash received in excess of earned revenue is recorded as deferred revenue.

(h) Derivatives instruments:

Interest rate swap agreements have been entered into to reduce the Company's exposure to market risks from changing interest rates. Derivatives and hedging activities are accounted for in accordance with FASB Statement No. 133, "*Accounting for Derivative Instruments and Certain Hedging Activities*", as amended, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. The Company recognizes the interest rate swap agreements on the balance sheet at their fair value. As the interest rate swap agreements have been designated as hedging instruments in accordance with the requirements in the accounting literature, changes in the fair value of the interest rate swap are reported in accumulated other comprehensive income. The fair value will change as

SEASPAN CORPORATION

Notes to Financial Statements—(Continued)
(Tabular amounts in thousands of United States dollars)
For the fiscal period ended December 31, 2005

market interest rates change. Interest expense is adjusted to include amounts payable or receivable under the interest rate swaps. The ineffective portion of the interest rate swaps are recognized immediately in net income.

The Company does not hedge foreign currency translation of assets or liabilities or foreign currency transactions or use financial instruments for trading or other speculative purposes.

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reporting fiscal periods. Areas where accounting judgments and estimates are significant to the Company include the assessment of the vessel lives and the recoverability of the carrying value of vessels, which are subject to future market events. Actual results could differ from those estimates.

4. Related party transactions:

(a) Management Agreement:

Seaspan Management Services Limited and its wholly-owned subsidiaries (the “Manager”) is owned by a group of individuals through companies and two trusts who also own the Company’s 7,145,000 Class B common shares issued and outstanding, representing a 19.9% voting interest in the Company for the fiscal period ended December 31, 2005.

Under the Management Agreement, the Manager provides services to the Company for fees which are fixed through December 31, 2008 and thereafter will be subject to renegotiation every three years as follows:

- **Technical Services**—The Manager is responsible for providing ship operating expenses to the Company in exchange for a fixed fee of \$4,500 per day for each 4250 TEU vessel, \$6,000 per day for each 8500 TEU vessel and \$6,500 per day for each 9600 TEU vessel. The technical services fee does not include certain extraordinary items. For vessels operating or that began operations during the fiscal period ended December 31, 2005, the Manager provided technical services at a cost of \$8,251,000 to the Company.
- **Administrative and Strategic Services**—The Manager provides administrative and strategic services to the Company for the management of the business for a fixed fee of \$72,000 per year. The Company will also reimburse all reasonable expenses incurred by the Manager in providing these services to the Company. During the fiscal period ended December 31, 2005, the Manager provided fixed fee administrative and strategic services at a cost of \$27,871, and the Company reimbursed expenses incurred by the Manager in the amount of \$313,623.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In connection with entering into the agreement to provide the Company with the above strategic services, the Company has issued 100 incentive shares to the Manager. The incentive shares are entitled to a share of incremental dividends, based on specified sharing ratios, once dividends on the

[Table of Contents](#)**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

Company's common and subordinated shares reach certain specified targets beginning with the first target of \$0.485 per share per quarter. At December 31, 2005, the incentive shares do not have rights to incremental dividends.

(b) Due to related parties:

As at December 31, 2005, \$534,582 is due to related parties for reimbursement of administrative and strategic services expenses paid on the Company's behalf. The amounts are to be repaid in the ordinary course of business.

5. Vessels:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Vessels	<u>\$628,349</u>	<u>\$ 7,186</u>	<u>\$621,163</u>

The Initial Fleet purchased from the Predecessor on completion of the IPO is recorded at the Predecessor's historical carrying value in the amount of \$466,112,668. Pursuant to the Asset Purchase Agreement (note 10), during the fiscal period ended December 31, 2005, the Company also purchased the CSCL Melbourne and CSCL Brisbane at a cost of \$52,671,339 each and the CP Kanha at a cost of \$56,893,397.

6. Deferred financing fees:

	<u>Tranche A</u>	<u>Tranche B</u>	<u>Total</u>
Deferred financing fees, beginning of fiscal period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Costs incurred	5,453	1,799	7,252
Amortization expensed	236	490	726
Deferred financing fees, end of fiscal period	<u>\$ 5,217</u>	<u>\$ 1,309</u>	<u>\$6,526</u>

7. Long-term debt:

During the fiscal period, the Company entered into a \$1.0 billion secured loan facility agreement with certain lenders. This credit facility will be used in part to fund the acquisition of the fleet from the VesselCos (note 10) and any additional new or used containerships the Company may decide to acquire. The credit facility has a maturity date of the seventh anniversary of the delivery date of the last of the 23 containerships comprising the contracted fleet and any additional containerships the Company may acquire or October 31, 2014, whichever is earlier.

The total facility amount of \$1.0 billion is divided into two tranches: Tranche A, in the maximum amount of \$750.0 million and Tranche B, in the maximum amount of \$250.0 million. Additionally, the amount that can be advanced at any one advance under Tranche A is restricted, in the case of the additional vessels, to the lower of \$750.0 million, when aggregated with other Tranche A loans, and a percentage of the market value of the vessel in respect of which such advance is being made. In the case of Tranche B, there are additional requirements based on the market value of the vessel, the amount of TEU capacity of the vessel and the price at which the Company acquires the vessel.

SEASPAN CORPORATION

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

Tranche A will be used to fund our acquisition of the contracted fleet while Tranche B will be used to fund our acquisition of any additional new or used containerhips we may decide to acquire. Both Tranche A and Tranche B will be split into several advances. All Tranche A advances must be drawn within three months of the delivery of the last of the 23 vessels comprising the contracted fleet (but not before the acquisition date of the vessel to which the loan relates), and in any event, no later than December 31, 2007. Each Tranche B advance will occur on or after the acquisition date of an additional vessel beyond our contracted fleet, if any. All Tranche B advances must be drawn prior to December 31, 2006 (but not before the acquisition date of the vessel to which the loan relates). Any commitment undrawn by those dates will be canceled.

The credit facility requires payments of interest at a rate per annum, calculated as the sum of (i) LIBOR, (ii) the margin and (iii) any increase in the lenders' costs as a result of complying with regulatory requirements. The margin at any particular date will be based on certain "loan to value ratios." The "loan to value ratio" as of any particular date is the ratio of the aggregate principal amount of outstanding advances under the credit facility as of that date, less any cash collateral in bank accounts or cash equivalents secured in favor of the lenders, to the aggregate of the market values (as determined on a charter-free basis by the average of two independent appraisers) of those vessels actually delivered. The Company has entered into hedging arrangements to manage the interest rate exposure from the floating rate under the credit facility.

The credit facility requires payments of a commitment fee of 37.5% of the applicable margin on the difference between our total credit facility amount and our principal amounts outstanding under the credit facility.

The credit facility requires repayment in eight consecutive quarterly installments of \$18,750,000 in respect of Tranche A and \$6,250,000 in respect of Tranche B, starting five years and three months after the date of the delivery of the last vessel in the contracted fleet. A final balloon payment in satisfaction of all outstanding advances is payable together with the eighth and final installment. In addition, the Company is required to prepay all outstanding advances or a portion thereof in the event of default of certain conditions. Amounts outstanding under the credit facility may be prepaid in whole or in part at the Company's election without penalty on any interest payment date in minimum amounts of \$5.0 million and thereafter in integral multiples of \$1.0 million.

The credit facility is secured by the following, among others:

- a first-priority mortgage on our contracted fleet and each of the vessels we agree to purchase with a Tranche B loan;
- an assignment of our time charters and earnings;
- an assignment of the insurances on each of the vessels that are subject to a mortgage;
- an assignment of the vessel management agreement with our Manager;
- a pledge of our retention accounts; and
- an assignment of our interest in any hedging arrangement.

Our credit facility contains certain financial covenants including covenants requiring the Company to maintain a minimum tangible net worth, and interest and principal coverage ratios.

[Table of Contents](#)**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

As at December 31, 2005, the principal payments due for the next five years and thereafter are:

2006	\$ —
2007	—
2008	—
2009	—
2010	—
Thereafter	122,893
	<u>\$ 122,893</u>

8. Share capital:

Class A common shares carry certain rights and class B common shares are subordinated to the class A common shares for the fiscal period from the completion of the IPO to any quarter after September 30, 2008 where (i) the Company has paid quarterly dividends of an amount at least equal to \$0.425 per share on both class A and class B common shares for the immediately preceding four-quarter fiscal period and (ii) the cash generated from operations available to pay the dividends during such four-quarter fiscal period equaled, on a quarterly basis, at least \$0.425 per share on all of the Company's common shares calculated on a fully diluted basis during that fiscal period (the "Subordination Fiscal period").

During the Subordination Fiscal period, subject to the discretion of the Board of Directors, the Company intends to pay a regular quarterly dividend on the class A common shares of \$0.425 per share, plus any arrears in the payment of the \$0.425 per share amount from prior quarters, before class B common shares are entitled to any dividends from operating surplus. The class A common shares will accrue arrears during the Subordination Fiscal period.

The class B common shares are subordinated shares and may not receive any dividends from the Company's operating surplus, until the class A common shares have received a quarterly dividend of \$0.425 per share and any arrears in the payment of the \$0.425 per share amount from prior quarters. The class B common shares will not accrue arrears. The class B shares will convert to class A common shares on a one-for-one basis after the expiration of the Subordination Fiscal period, as defined in the articles of incorporation.

The class C common shares are incentive shares that are entitled to share in incremental dividends if certain target dividend levels have been met. The class C common shares will not convert to class A common shares.

On August 12, 2005 the Company purchased 10 vessels from the Predecessor. The Initial Fleet was recorded at the Predecessor's historical carrying value, as the Company was formed by SCLL to succeed the Predecessor's business upon completion of the IPO. As a result, the excess of the purchase price of the Initial Fleet over the historical carrying value was recorded as a charge to shareholders' equity.

The following table summarizes the reduction to the Initial Fleet's purchase price and the charge to shareholders' equity:

Purchase price of the Initial Fleet paid in cash	\$ 664,016
Vessels at historical carrying value of Predecessor	<u>(466,112)</u>
Charge to share capital	<u>\$ 197,904</u>

[Table of Contents](#)**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

9. Other information:

- (a) Accounts payable and accrued liabilities:

The principal components of accounts payable and accrued liabilities are:

Due to related parties (note 4(b))	\$ 535
Accrued interest	297
Other accrued liabilities	<u>635</u>
	<u>\$1,467</u>

- (b) Supplementary information to the statement of cash flows consists of:

Interest paid	\$ 1,390
Undrawn credit facility fee paid	1,034
Non-cash transactions:	
Excess of purchase price over carrying value of the Initial Fleet	197,904

10. Commitments and contingent obligations:

Pursuant to the Asset Purchase Agreement, the Company is committed to purchase the following additional ten vessels on completion of construction from VesselCos at the following predetermined purchase prices:

Vendor	
Seaspan Queen Shipping Company Limited	\$ 56,893
Seaspan Knight Shipping Company Limited	56,893
Seaspan Bishop Shipping Company Limited	56,893
Seaspan Castle Shipping Company Limited	56,893
Seaspan Pawn Shipping Company Limited	56,893
Seaspan Ace Shipping Company Limited	56,893
Seaspan Eagle Shipping Company Limited	56,893
Seaspan Birdie Shipping Company Limited	56,893
Hemlock Shipping Company Limited	115,956
Spruce Shipping Company Limited	115,956
	<u>\$ 687,056</u>

SEASPAN CORPORATION

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

11. Charter party:

The Company is committed under charter party agreements with China Shipping Container Lines (Asia) Co. Ltd. (“CSCL Asia”), a subsidiary of China Shipping (Group) Company (“CSCL”) and CP Ships USA LLC (“CP USA”), a subsidiary of CP Ships Limited, as follows:

Vessel name	Time charter (years)	Commencement of charter	Options (years)	Daily hire rate
CSCL Hamburg	10	July 2001	2	\$ 18.0
CSCL Chiwan	10	September 2001	2	18.0
CSCL Ningbo	10	June 2002	2	19.9
CSCL Dalian	10	September 2002	2	19.9
CSCL Felixstowe	10	October 2002	2	19.9
CSCL Oceania	12	December 2004	3	29.5
CSCL Africa	12	January 2005	3	29.5
CSCL Vancouver	12	February 2005	—	17.0
CSCL Sydney	12	April 2005	—	17.0
CSCL New York	12	May 2005	—	17.0
CSCL Melbourne	12	August 2005	—	17.0
CSCL Brisbane	12	September 2005	2	17.0
CP Kanha	3+7(1)	October 2005	2	18.0

- (1) For this charter, the initial term is three years that automatically extends for up to an additional seven years in successive one-year extensions, unless CP USA elects to terminate the charter with two years’ prior written notice. The charterer is required to pay a termination fee of approximately \$8.0 million to terminate a charter at the end of the initial term. The termination fee declines by \$1.0 million per year in years four through nine.

The Company is committed under the charter party agreements with CSCL Asia to supply the vessel on a full-time basis for a fixed daily charter rate. The charter party agreements obligate the Company to certain performance criteria over the term of the agreement.

The Company is also committed under charter party agreements with CP USA to supply vessels on a full time basis for a fixed daily charter rate, once vessel construction is complete. The charter party agreements obligate the Company to certain performance criteria over the term of the agreement.

As at December 31, 2005, minimum future revenues to be received on time charters currently in place are approximately:

2006	\$ 93,737
2007	93,499
2008	94,354
2009	93,802
2010	92,772
	<u>\$ 468,164</u>

SEASPAN CORPORATION

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars)

For the fiscal period ended December 31, 2005

12. Financial instruments:

- (a) Concentration of credit risk:

CSCCL Asia and CP USA are the Company's only customers as at December 31, 2005.

- (b) Fair value:

The carrying value of cash and cash equivalents, receivable from charterer, and accounts payable and accrued liabilities in the balance sheet approximate their fair values because of their short term to maturity. The carrying value of long-term debt recalculated at current interest rates, approximates its carrying value.

The fair value of the interest rate swap agreements is recognized on the balance sheet.

- (c) Interest rate risk management agreement:

The Company uses derivative financial instruments, consisting of interest rate swap agreements, to manage its exposure to adverse movements in interest rates.

Pursuant to the credit facility agreement (note 7) at December 31, 2005 the Company has entered into interest rate swap agreements to fix the LIBOR at per annum interest rates on notional loan balances as follows:

	Notional amount	Fixed LIBOR	Ending date
Interest rate swaps	\$ 88,438	4.6325%	July 16, 2012

13. Subsequent events:

- (a) On January 3, 2006, the Company acquired the Dubai Express from Seaspan Queen Shipping Company Limited at a cost of \$56,893,397 pursuant to the Asset Purchase Agreement. The Dubai Express is the second of nine vessels subject to long-term, fixed-rate charters with CP USA. On January 3, 2006, the Company drew an additional \$56,893,397 on the credit facility to fund the purchase of the Dubai Express.
- (b) On February 10, 2006, the Company declared a cash dividend of \$0.425 per share, representing a total cash distribution of \$15.3 million. The cash dividend is payable on March 9, 2006, to all shareholders of record on February 23, 2006.
- (c) On February 14, 2006, the Company agreed to purchase two 3500 TEU vessels under construction, from affiliates of Conti Holdings GmbH & Co. KG ("Conti"). The delivery cost is expected to be approximately \$50.0 million per vessel. The Company paid a \$4.0 million deposit upon signing the transaction. The vessels are expected to be delivered in February and July 2007.
- On February 14, 2006, the Company simultaneously signed 12 year charter agreements for the two 3500 TEU vessels with Cosco Container Lines Co. Ltd. at \$19,000 per day. The Manager will provide technical services for the two 3500 TEU vessels at an initial rate of \$4,200 per day through 2008.
- (d) On February 21, 2006, the Company acquired the Jakarta Express from Seaspan Knight Shipping Company Limited at a cost of \$56,893,397 pursuant to the Asset Purchase Agreement. The Jakarta Express is the third of nine vessels subject to long-term, fixed-rate charters with CP USA.

SEASPAN CORPORATION

Notes to Financial Statements—(Continued)
(Tabular amounts in thousands of United States dollars)
For the fiscal period ended December 31, 2005

On February 21, 2006, the Company drew an additional \$56,893,397 on the credit facility to fund the purchase of the Jakarta Express.

- (e) On February 28, 2006, the Company agreed to purchase four 2500 TEU vessels that will be built by Jiangsu Yangzijiang Shipbuilding in China. The delivery cost is expected to be approximately \$44.5 million per vessel. The vessels are expected to be delivered between August 2008 and February 2009.

On February 28, 2006, the Company simultaneously signed 12 year charter agreements for the four 2500 TEU vessels with CSCL Asia at an initial rate of \$16,750 per day, increasing to \$16,900 per day after six years. The manager will provide technical services for the four 2500 TEU vessels at an initial rate of \$4,000 per day through 2011.

The Company has the option to order an additional eight 2500 TEU vessels from Jiangsu Yangzijiang Shipbuilding, in two tranches of four vessels each, for the same price as the initial four. If the additional vessels are built, CSCL Asia would have the option to charter the second group of four vessels under the same terms as the first four. The last group of four vessels would only be built if acceptable long-term charters were arranged. The Company has made no commitment, financial or otherwise, to build any of the option vessels and has until June 30, 2006 to exercise these options.

**SEASPAN CORPORATION
STOCK INCENTIVE PLAN**

SECTION 1. Purpose of the Plan.

The Seaspans Corporation Stock Incentive Plan (the "Plan") is intended to promote the interests of Seaspans Corporation, a Marshall Islands company (the "Company"), by encouraging Employees, Consultants and Directors to acquire or increase their equity interest in the Company and to provide a means whereby they may develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to remain with and devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its stockholders. The Plan is also contemplated to enhance the ability of the Company and its Affiliates to attract and retain the services of individuals who are essential for the growth and profitability of the Company.

SECTION 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"Award" means an Option, Restricted Stock, Phantom Share or Other Stock-Based Award.

"Award Agreement" means any written or electronic agreement, contract, instrument or document evidencing any Award, which may, but need not, be executed or acknowledged by a Participant.

"Board" means the Board of Directors of the Company, as constituted from time to time.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations thereunder.

"Committee" means the administrator of the Plan in accordance with Section 3, and shall include reference to the Compensation Committee of the Board (or any other committee of the Board designated, from time to time, by the Board to act as the Committee under the Plan), the Board or a subcommittee of the Board, as applicable.

"Consultant" means any individual who is not an Employee or a Director and who provides consulting, advisory or other similar services to the Company or a subsidiary of the Company and shall include any Person who is eligible to be covered under the Form S-8 filed for the Plan with the SEC.

"Director" means any member of the Board who is not an Employee.

"Employee" means any employee of the Company or an Affiliate.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means, as of any applicable date, the last reported sales price for a Share on the New York Stock Exchange (or such other national securities exchange which constitutes the principal trading market for the Shares) for the applicable date as reported by such reporting service approved by the Committee; provided, however, that if Shares shall not have been quoted or traded on such applicable date, Fair Market Value shall be determined based on the next preceding date on which they were quoted or traded, or, if deemed appropriate by the

Committee, in such other manner as it may determine to be appropriate. In the event the Shares are not publicly traded at the time a determination of its Fair Market Value is required to be made hereunder, the determination of Fair Market Value shall be made in good faith by the Committee.

“Option” means a stock option granted under the Plan.

“Other Stock-Based Award” means an Award granted pursuant to Section 6(d) of the Plan.

“Participant” means any Employee, Consultant or Director granted an Award under the Plan.

“Person” means individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

“Phantom Shares” means an Award of the right to receive Shares, cash equal to the Fair Market Value of such Shares or any combination thereof, in the Committee’s discretion.

“Restricted Period” means the period established by the Committee with respect to an Award during which the Award either remains subject to forfeiture or is not exercisable by the Participant, as the case may be.

“Restricted Stock” means any Share prior to the lapse of the Restricted Period with respect to such Shares.

“Rule 16b-3” means Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

“SEC” means the Securities and Exchange Commission or any successor thereto.

“Shares” or “Common Shares” or “Common Stock” means the common stock of the Company and such other securities or property as may become the subject of Awards under the Plan.

SECTION 3. Administration.

(a) The Committee. The Plan shall be administered by the Board or such committee of the Board as designated, from time to time, by the Board to act as the Committee under the Plan.

(b) Committee Powers. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) interpret and administer the Plan and any instrument or agreement relating to an Award made under the Plan; (vii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (viii) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Subsidiary, any Participant, any holder or beneficiary of any Award, any stockholder and any other Person.

(c) Delegation to a Subcommittee. The Committee may, subject to any applicable law, regulatory, securities exchange or other similar restrictions, delegate to one or more members of the Board or officers of the

Company (the “subcommittee”) the authority to administer the Plan as to Awards to Employees and Consultants who are not subject to Section 16(b) of the Exchange Act. The Committee may impose such limitations and restrictions, in addition to any required restrictions/limitations, as the Committee may determine in its sole discretion. Any grant made pursuant to such a delegation shall be subject to all of the provisions of the Plan concerning this type of Award.

SECTION 4. Shares Available for Awards.

(a) Shares Available. Subject to adjustment as provided in paragraph (c) below, the number of Shares that may be issued with respect to Awards granted under the Plan shall be 1,000,000. If an Award is forfeited or otherwise lapses, expires, terminates or is canceled without the actual delivery of Shares or is settled in cash, then the Shares covered by such Award, to the extent of such forfeiture, expiration, lapse, termination, cancellation or cash settlement, shall again be Shares that may be issued with respect to Awards granted under the Plan. Shares tendered to or withheld by the Company to satisfy its tax withholding obligations or the exercise price shall be available for issuance under future Awards, subject to the overall limitation provided in the first sentence above.

(b) Sources of Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares.

(c) Adjustments. In the event of a stock dividend or stock split with respect to Shares, the number of Shares with respect to which Awards may be granted, the number of Shares subject to outstanding Awards and the grant or exercise price with respect to outstanding Awards automatically shall be proportionately adjusted, without action by the Committee; provided, however, such automatic adjustment shall be evidenced by written addendums to the Plan and Award Agreements prepared by the Company and, with respect to Options, shall be in accordance with the Treasury Regulations concerning Incentive Stock Options. Further, in the event that the Committee determines that any distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, reorganization, merger, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

SECTION 5. Eligibility.

Any Employee, Consultant or Director shall be eligible to be designated a Participant by the Committee. No individual shall have any right to be granted an Award pursuant to this Plan.

SECTION 6. Awards.

(a) Options. Subject to the provisions of the Plan, the Committee shall have the authority to determine Participants to whom Options shall be granted, the number of Shares to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan. An Option may not be granted only to those Persons with respect to whom, for purposes of Section 409A, the Shares are “stock of the service recipient.”

(1) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee at the time the Option is granted, but shall not be less than the Fair Market Value per Share on the effective date of such grant.

(2) Time and Method of Exercise. The Committee shall determine and provide in the Award Agreement or by action subsequent to the grant the time or times at which an Option may be exercised in whole or in part, and the method or methods by which, and the form or forms (which may include, without limitation, cash, check acceptable to the Company, Shares already-owned, Shares issuable upon Option exercise, a “cashless-broker” exercise (through procedures approved by the Committee), or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price) in which payment of the exercise price and tax withholding obligation with respect thereto may be made or deemed to have been made. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may vest and be exercised. No portion of an Option which is unexercisable at termination of the Participant’s employment or service, as applicable, shall thereafter become exercisable, except as may be otherwise provided by the Committee either in the Award Agreement or by action following the grant of the Option.

(b) Restricted Stock. Subject to the provisions of the Plan, the Committee shall have the authority to determine the Participants to whom Restricted Stock shall be granted, the number of Shares of Restricted Stock to be granted to each such Participant, the duration of the Restricted Period during which, and the conditions or other criteria, including the passage of time, under which the Restricted Stock may vest or be forfeited to the Company, and the other terms and conditions of such Awards, if any.

(1) Dividends. Dividends paid on Restricted Stock may be paid directly to the Participant, may be subject to risk of forfeiture and/or transfer restrictions during any period established by the Committee or sequestered and held in a bookkeeping cash account (with or without interest) or reinvested on an immediate or deferred basis in additional shares of Common Stock, which credit or shares may be subject to the same restrictions as the underlying Award or such other restrictions, all as determined by the Committee in its discretion, as provided in the Award Agreement.

(2) Registration. Any Restricted Stock may be evidenced in such manner as the Committee shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Restricted Stock granted under the Plan, such certificate shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

(3) Forfeiture and Restrictions Lapse. Except as otherwise determined by the Committee or the terms of the Award Agreement, upon a Participant’s termination of employment or service (as determined under criteria established by the Committee) for any reason during the applicable Restricted Period, all Restricted Stock shall be forfeited by the Participant and re-acquired by the Company. The Committee may waive in whole or in part any or all remaining restrictions with respect to such Participant’s Restricted Stock. Unrestricted Shares, evidenced in such manner as the Committee shall deem appropriate, shall be issued to the holder of Restricted Stock promptly after the applicable restrictions have lapsed or otherwise been satisfied.

(4) Restrictions. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, restrictions on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter. During the Restricted Period, Restricted Stock will be subject to such limitations on transfer as necessary to comply with Section 83 of the Code.

(c) Phantom Shares. The Committee shall have the authority to grant Awards of Phantom Shares to Participants upon such terms and conditions as the Committee may determine.

(1) Terms and Conditions. Each Phantom Share Award shall constitute an agreement by the Company to issue or transfer a specified number of Shares or pay an amount of cash equal to the Fair Market Value of a specified number of Shares, or a combination thereof to the Participant in the future, subject to the fulfillment during the Restricted Period of such conditions, including the passage of time, if

any, as the Committee may specify at the date of grant. During the Restricted Period, the Participant shall not have any rights of ownership in the Phantom Shares and shall not have any right to vote such shares.

(2) Dividend Equivalents. Any Phantom Share award may provide, in the discretion of the Committee, that any or all dividends or other distributions paid on Shares during the Restricted Period be credited in a cash bookkeeping account (with or without interest) or that equivalent additional Phantom Shares be awarded, which account or Phantom Shares may be subject to the same restrictions as the underlying Award or such other restrictions as the Committee may determine.

(3) Forfeiture and Restrictions Lapse. Except as otherwise determined by the Committee or set forth in the Award Agreement, upon a Participant's termination of employment or service (as determined under criteria established by the Committee) for any reason during the applicable Restricted Period, all Phantom Shares shall be forfeited by the Participant. The Committee may waive in whole or in part any or all remaining restrictions with respect to such Participant's Phantom Shares.

(4) Payment of Phantom Shares. Phantom Shares shall be paid in cash and/or in Shares, in the sole discretion of the Committee, in a lump sum following the close of the Restricted Period.

(d) Other Stock-Based Awards. The Committee may grant to Participants an Other Stock-Based Award, which shall consist of an Award denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares. Subject to the terms of the Plan, the Committee shall determine the terms and conditions of any such Other Stock-Based Award. An Other Stock-Based Award may be paid in cash, Shares or any combination thereof in the discretion of the Committee.

(e) General.

(1) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, any other Award granted under the Plan or any award granted under any other plan of the Company or any Subsidiary. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(2) Limits on Transfer of Awards.

(A) Except as provided in paragraph (C) below, each Award, and each right under any Award, shall be exercisable only by the Participant during the Participant's lifetime, or if permissible under applicable law, by the Participant's guardian or legal representative as determined by the Committee.

(B) Except as provided in paragraph (C) below, no Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution, and any such purported prohibited assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Subsidiary.

(C) To the extent specifically approved in writing by the Committee, an Award may be transferred to immediate family members or related family trusts, limited partnerships or similar entities on such terms and conditions as the Committee may establish or approve.

(3) Terms of Awards. The term of each Award shall be for such period as may be determined by the Committee; provided, that in no event shall the term of any Award exceed a period of 10 years from the date of its grant.

(4) Share Certificate. All certificates for Shares or other securities of the Company or any Subsidiary delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such

stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(5) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.

(6) Delivery of Shares or other Securities and Payment by Participant of Consideration. No Shares or other securities shall be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award Agreement (including, without limitation, any exercise price or tax withholding) is received by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, Shares, other securities, other Awards or other property, withholding of Shares, cashless exercise with simultaneous sale, or any combination thereof, provided that the combined value, as determined by the Committee, of all cash and cash equivalents and the Fair Market Value of any such Shares or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid pursuant to the plan or the applicable Award Agreement to the Company.

SECTION 7. Amendment and Termination.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award Agreement or in the Plan:

(1) Amendments to the Plan. The Board or the Committee may amend, alter, suspend, discontinue, or terminate the Plan without the consent of any stockholder, Participant, other holder or beneficiary of an Award, or other Person.

(2) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award theretofore granted, provided no change in any Award shall materially adversely affect the rights of a Participant under the Award without the consent of such Participant.

SECTION 8. General Provisions.

(a) No Rights to Awards. No Participant or other Person shall have any claim to be granted any Award, there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards and the terms and conditions of Awards need not be the same with respect to each recipient.

(b) Tax Withholding. The Company or any Affiliate is authorized to withhold from any Award, from any payment due or transfer made under any Award or from any compensation or other amount owing to a Participant the amount (in cash, Shares, or other property) of any taxes required to be withheld by the Company or Affiliate in respect of the Award, its exercise, the lapse of restrictions thereon, or any payment or transfer under the Award and to take such other action as may be necessary in the opinion of the Company to satisfy all of its obligations for the payment of such taxes. In addition, the Committee may provide, in an Award Agreement, that the Participant may direct the Company to satisfy such Participant's tax withholding obligations through the withholding of Shares otherwise to be acquired upon the exercise or payment of such Award.

(c) No Right to Employment or Retention. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate or under any other service contract with the Company or any Affiliate, or to remain on the Board. Further, the Company or an Affiliate may at any time dismiss a Participant from employment or terminate any contractual agreement or relationship with any Consultant, free from any liability or any claim under the Plan, with or without cause, unless otherwise expressly provided in the Plan, in any Award Agreement or any other agreement or contract between the Company or an Affiliate and the

affected Participant. If a Participant's employer ceases to be an Affiliate, such Participant shall be deemed to have terminated employment for purposes of the Plan, unless specifically provided otherwise in the Award Agreement.

(d) Change of Control, Unusual Transactions or Events. In the event of any distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, reorganization, merger, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or any corporate transaction, as defined in Treasury Regulations §1.424-1(a)(3), "change of ownership, or effective control of a corporation or change of ownership of a substantial portion of the assets of a corporation," as defined in the Treasury Regulations under Section 409A of the Code, or event or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations or accounting principles, and whenever the Committee determines that action is appropriate in order to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles, the Committee, in its sole discretion and on such terms and conditions as it deems appropriate, either by amendment of the terms of any outstanding Awards or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions:

(1) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 8(d) the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;

(2) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(3) To make adjustments in the number and type of Shares (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Awards and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Awards and Awards which may be granted in the future;

(4) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

(5) To provide that the Award cannot vest, be exercised or become payable after such event.

(e) Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of New York and applicable U.S. federal law.

(f) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(g) Other Laws. The Committee may refuse to issue or transfer any Shares or other consideration under an Award, permit the exercise of an Award and/or the satisfaction of its tax withholding obligation in the

manner elected by the Participant, holder or beneficiary if, acting in its sole discretion, it determines that the issuance of transfer or such Shares or such other consideration, the manner of exercise or satisfaction of the tax withholding obligation might violate any applicable law or regulation.

(h) No Trust or Fund Created. Neither the Plan nor the Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company or any Subsidiary.

(i) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be cancelled, terminated, or otherwise eliminated.

(j) Headings. Headings are given to the Section and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the plan or any provision thereof.

SECTION 9. Compliance with Section 409A. Nothing in the Plan or any Award Agreement shall operate or be construed to cause the Plan or an Award to fail to comply with the requirements of Section 409A of the Internal Revenue Code. With respect to an Award that is subject to Section 409A of the Code, notwithstanding anything in the Plan or the Award Agreement to the contrary,

(1) payment under the Plan may not be made earlier than as permitted by Section 409A(a)(2) of the Code, i.e., a separation from service, death, a specified time (or fixed schedule) specified at the date of the deferral, a “change in ownership, control or effective control, as provided in regulations or other guidance under Section 409A”, or the occurrence of an unforeseen event;

(2) the time or schedule of any payment under the Plan may not be accelerated except as provided in regulations or guidance issued under Section 409A;

(3) no elections may be made by a Participant to defer compensation under the Plan; and

(4) no elections may be made by a Participant to change the time and form of payment under the Plan.

SECTION 10. Effective Date of Plan.

The Plan shall become effective as of the date it is approved by the Board.

SECTION 11. Term of the Plan.

No Award shall be granted under the Plan after the 10th anniversary of the date this Plan is adopted by the Board. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted prior to such termination, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under such Award, shall extend beyond such termination date.

Sale and Purchase Agreement

This **Sale and Purchase Agreement** is made this 10th day of February, 2006 between **CONTI 51. CONTAINER SCHIFFAHRTS - GMBH & CO. KG Nr. 1** ("**Conti**"), a limited partnership (KG) organized and existing under the laws of the Federal Republic of Germany and having its registered office at Wernher-von-Braun-Straße 10, 85640 Putzbrunn, Federal Republic of Germany and **SEASPAN CORPORATION** ("**Seaspan**"), a corporation formed under the laws of the Republic of the Marshall Islands and listed on the New York Stock Exchange and having a place of business at Room 503, 5/F, Lucky Commercial Center, 103 Des Voeux Road West, Hong Kong, China.

Whereas

1. Conti and **ZHEJIANG SHIPBUILDING CO. LTD.**, a corporation organized and existing under the laws of the People's Republic of China and having its registered office at No. 69 Jiangnan Road, Ningbo 315040, the People's Republic of China (the "**Shipyard**") and **CHINA-BASE NINGBO FOREIGN TRADE CO. LTD.**, a corporation formed, existing and organised under the laws of the People's Republic of China and having its registered office at No. 1 Youngor Avenue, Ningbo, People's Republic of China (the "**Trading House**" and together with the Shipyard the "**Builder**"), have entered into a shipbuilding contract dated 18th June, 2004 as amended from time to time (the "**Building Contract**") regarding the construction and delivery of a 3500 teu class container vessel with Builder's hull number ZJB04-125 (the "**Vessel**");
2. The Vessel is more closely specified in the Building Contract, the Building Specification (Drawing No. SC4339-010-02SM), the General Arrangement (Drawing No. SC4339-010-03), the Midship Section (Drawing No. SC4339-010-04) and the Maker List (Drawing No. SC4339 (ZJ) 010-05) together with any amendment thereto up to the date hereof (the "**Contract Documentation**") which is known to and accepted by Seaspan;
3. Pursuant to the Building Contract, the date of delivery of the Vessel is the 28th February, 2007. It is, however, agreed in the Building Contract that the delivery of the Vessel may be accelerated as a consequence of early completion of the Vessel or delayed as a consequence of the occurrence of any permitted or not permitted delays as defined in the Building Contract up to 218 days upon which time Conti may, at any time thereafter, cancel the Building Contract by giving a written notice of cancellation to the Builder, all as specified in the Building Contract;
4. Conti has arranged construction finance and long term finance of the Vessel from Norddeutsche Landesbank - Girozentrale, Hannover, Federal Republic of Germany ("**Nord/LB**");
5. Conti has entered into with Bremer Bereederungsgesellschaft mbH & Co. KG, Bremen, Federal Republic of Germany ("**BBG**") a construction supervision contract pursuant to which BBG is acting for Conti with respect to the construction supervision of the Vessel;
6. It was the original intention of Conti and Seaspan that Conti would novate the Building Contract to Seaspan such that Seaspan, rather than Conti, would be bound by the terms of the Building Contract as though it were named as the "Buyer" thereunder and Conti would be released from any of its obligations under the Building Contract; and
7. For various reasons, Conti and Seaspan now wish to enter into this Sale and Purchase Agreement whereby Seaspan will purchase the Vessel from Conti immediately following its delivery by the Builder to Conti, but Seaspan will obtain full authority

vis-à-vis Conti under the Building Contract and will assume full responsibility for, among other things, the supervision and inspection of the construction of the Vessel with effect from the date of this Agreement and the liability of Conti will be limited as set out in Art. X hereof.

NOW, THEREFORE, IN CONSIDERATION OF the covenants and agreements set forth in this agreement and for other good and valuable consideration, the parties agree as follows:

I. Sale of Vessel

Conti hereby offers the Vessel for sale to Seaspan and Seaspan hereby accepts such offer and buys the Vessel from Conti.

II. Purchase Price

The purchase price to be paid by Seaspan to Conti for the Vessel shall be calculated as set out in Exhibit I hereto (the “**Purchase Price**”).

III. Time and Condition of Delivery

1. Time and Condition

a) Conti will deliver the Vessel to Seaspan hereunder at the same time and in the state and condition as the Vessel is delivered by the Builder to Conti pursuant to the terms of the Building Contract.

The Vessel shall be delivered hereunder with all appurtenances and equipment including spare parts and spare equipment as delivered by the Builder to Conti pursuant to the Building Contract. Seaspan shall take over the bunkers, lubricating oils and other consumable stores (the “**Consumable Stores**”) remaining on board at the time of delivery of the Vessel from the Builder to Conti and pay such prices as are payable by Conti to the Builder under the Building Contract. The Purchase Price shall be adjusted accordingly.

b) Insofar as Conti must provide for such Consumable Stores for the trial runs or otherwise under the Building Contract, Seaspan shall make such provision at its own cost and without adjustment of the Purchase Price. Any payments paid to Conti from the Builder for the consumption of such Consumable Stores shall be credited to Seaspan by adjustment of the Purchase Price.

c) Any deficiencies of the Vessel as described in Article III or any other provision of the Building Contract not entitling Conti to rescind or cancel the Building Contract have to be accepted by Seaspan as adjusted for price thereunder without any liability of Conti.

2. Adjustment of Purchase Price

a) Any penalty (whether by way of liquidated damages or otherwise) paid by the Builder under the Building Contract or reduction of the purchase price under the Building Contract for late delivery of the Vessel or for other deficiencies of the Vessel as determined in Article III of the Building Contract at the time of her delivery shall be for the benefit of Seaspan and the Purchase Price shall be adjusted as per Exhibit I hereto.

Seaspan (having authority and being responsible for the building supervision as per Art. VII hereof) will inform Conti promptly upon the occurrence of any such delay and/or deficiency.

b) Seaspan (having authority and being responsible for the building supervision as per Art. VII hereof) will likewise inform Conti of any acceleration of the delivery of the Vessel when such acceleration has been notified by the Builder.

3. Cancellation of Building Contract

a) Insofar as Conti is entitled under Articles III, VI, VIII or any other provision of the Building Contract to, at its option, either accept the Vessel or reject the Vessel and cancel the Building Contract for insufficient speed, excessive fuel consumption, deadweight below contract requirements, insufficient number of container loadings, excessive delay in delivery or any other reason, as the case may be, Conti will accept or reject the Vessel only on the instruction of Seaspan. Seaspan will provide such instruction to Conti at least three German working days (hereinafter “**Working Days**”) prior to the time at which Conti, pursuant to the Building Contract, must declare rejection or acceptance of the Vessel or cancellation of the Building Contract to the Builder.

For the avoidance of doubt and without prejudice to the generality of Art. III.1 hereof, any liability of Conti to Seaspan under this subclause for any deficiencies of the Vessel or delay in delivery accepted by Conti in accordance with the instruction of Seaspan is excluded.

b) If Seaspan fails to instruct Conti in accordance with the above sub-clause 3. a or Seaspan instructs Conti to reject the Vessel and to cancel the Building Contract, Conti shall be free to accept the Vessel or to cancel the Building Contract.

Should Seaspan either fail to timely instruct Conti in accordance with the above sub-clause 3.a) or instruct Conti to reject the Vessel and to cancel the Building Contract, this Agreement shall be deemed cancelled irrespective of whether or not Conti continues the Building Contract and Conti shall retain the First Instalment (as defined hereafter) and all monies on the Change Limit Trust Account (as defined hereafter) including interest. Neither party shall have a claim against each other for reason of this Agreement being deemed cancelled.

c) Should the Building Contract be cancelled, rescinded or terminated for any reason whatsoever, this Agreement shall also be deemed cancelled and neither party shall have a claim against each other for reason of this Agreement being deemed cancelled. Notwithstanding the aforesaid if such cancellation, rescission or termination of the Building Contract is due to Conti’s default (defined in the Building Contract as Buyers’ Default as per Art. XI of the Building Contract, except were caused by Seaspan’s default under this Agreement), Conti shall return to Seaspan the First Instalment and all monies on the Change Limit Trust Account (both as defined hereafter) including interest immediately; otherwise such funds are to remain with and be released to Conti. Furthermore Seaspan shall in case of Conti’s default be entitled to claim due compensation for its losses (excluding consequential losses) and for all reasonable expenses together with interest.

d) If the cancellation, rescission or termination of the Building Contract is held invalid by an award or a decision of the competent court, this Agreement shall not be deemed cancelled by either party and Seaspan shall remain obliged to take delivery of the vessel in accordance with the provisions of this agreement.

4. Classification/Registration

The Building Contract provides that the Vessel shall be built and completed in compliance with the rules of Germanischer Lloyd (“**GL**”) and for registration in Malta, Liberia or the Marshall Islands. Seaspan will keep GL as the classification society for the

Vessel during construction but upon the delivery of the Vessel by Conti to Seaspan pursuant to the terms of this Agreement, Seaspan will change the classification society to either Lloyd's Register of Shipping or Det Norske Veritas, at Seaspan's sole discretion. At the request of Seaspan, Conti will take all reasonable steps necessary to obtain from GL any documents or information that Seaspan may need to change the classification society as contemplated herein or for registering the Vessel in accordance with the laws of Hong Kong. Any costs and expenses incurred thereby to be for Seaspan's account and not included in Article II of this Agreement.

Upon delivery of the Vessel to Seaspan hereunder, Seaspan will register the Vessel under the laws of Hong Kong and Conti will use reasonable endeavours to cause the Builder to alter the Building Contract accordingly. Any increases of the purchase price under the Building Contract as a result of the change in flag shall result in a corresponding increase of the Purchase Price as per Exhibit I hereof. Furthermore, Seaspan shall pay any other costs resulting therefrom as and when they come due directly to the Builder.

5. Delivery Documentation

In exchange for payment of the Purchase Price as per Art. VI. hereof, Conti will deliver the Vessel together with the documents listed in Exhibit II hereto to Seaspan and any other documents that Seaspan may reasonably require in order to register the Vessel in Hong Kong (together, the "**Documents**"). Conti will provide Seaspan with one (1) original of each Document and two (2) copies. Conti will use reasonable endeavours to cause the Builder to issue or cause to be issued (as the case may be) all such Documents in the name of Seaspan as the Vessel's owner. Any extra cost charged by the Builder for issuing such documents in the name of Seaspan shall be for Seaspan's account and Seaspan will pay such amount to the Builder directly. Seaspan will for this purpose deliver any information required by the Builder.

IV. Place of Delivery and Place of Closing

1. The Vessel shall be delivered hereunder at the place where the Vessel is delivered to Conti by the Builder under the Building Contract.
2. The place of the documentary closing is Hamburg, Germany except that if Seaspan determines that documentary closing in Hamburg will have an adverse tax consequence to it then the documentary closing will be moved to a jurisdiction which is tax neutral to both Conti and Seaspan.

V. Notice of Time of Delivery

Conti will notify Seaspan and Seaspan will notify Conti of the time at which the Builder intends to tender the Vessel for delivery to Conti. Delivery of the Vessel by Conti to Seaspan as contemplated hereunder will take place immediately upon the Vessel being effectively delivered by the Builder to Conti in accordance with the terms of the Building Contract. Any delay of delivery under the Building Contract shall delay delivery hereunder accordingly.

VI. Payment of Purchase Price

1. Within five New York Business Days of signing this Agreement Seaspan shall pay to Conti free of all banking charges the amount of USD 2,000,000.00 (hereinafter the **"First Instalment"**), repayment of such amount according to the provisions of this Agreement to be guaranteed by Conti Holding GmbH & Co. KG, Putzbrunn / Germany in a form acceptable to Seaspan.
2. The Purchase Price as calculated in accordance with Exhibit I less the First Instalment and the fifth instalment (delivery instalment) under the Building Contract shall be transferred to a trust account (the **"Trust Account"**) held by Nord/LB (details of the Trust Account to be indicated timely by Conti) to be received on the Trust Account latest five New York Business Days prior to the time of delivery of the Vessel from the Builder. The Purchase Price so paid shall be held by Nord/LB on behalf of either Seaspan or its remitting bank until the Vessel is delivered from the Builder to Conti and simultaneously from Conti to Seaspan. In case the delivery fails to take place as anticipated within a period of ten New York Business Days from the deposit of the Purchase Price, Seaspan has the right to request Nord/LB to return the Purchase Price to the remitting bank. The Purchase Price shall be paid out to Conti by Nord/LB upon presentation to Nord/LB of the Protocol of Delivery and Acceptance duly signed by Seaspan's and Conti's authorized representatives.

An amount equal to the fifth instalment (delivery instalment) under the Building Contract shall be transferred in the name of Conti by Seaspan to the account nominated by the Builder at least two (2) New York Business Days prior to the delivery date of the Vessel according to the Building Contract by telegraphic transfer to the Builder's Bank remaining for a period of five (5) days with an irrevocable instruction that the said amount shall be released to the Builder against presentation by the Builder to the said Builder's Bank of a duplicate original of the Protocol of Delivery and Acceptance of the Vessel duly signed by Conti's authorized representative and the Builder's authorized representative and with the further instruction to release the said amount to Seaspan if the aforementioned Protocol of Delivery and Acceptance of the Vessel is not presented before expiry of the period of five (5) days calculated from the date of remittance of the funds. Interest, if any, accrued from such deposit, shall be for the benefit of Seaspan. Seaspan will provide Conti with evidence of such payment and corresponding instructions at the time of payment.

However, when the new scheduled delivery date is notified to Conti by the Builder, Conti will notify Seaspan promptly and Seaspan shall make the telegraphic transfer in accordance with the same terms and conditions as said out above.

3. Any taxes, fees and expenses in connection with the purchase and registration under Seaspan's flag shall be for Seaspan's account.
4. Conti shall pay all broker's fees charged in connection with the purchase and sale of the Vessel as contemplated herein, including but not limited to the fees of W. J. Hinneberg of Hamburg, Germany except any brokers engaged by Seaspan.

VII. Technical Responsibility / Building Supervision / Modifications

Seaspan shall have authority and be responsible for all technical matters regarding the construction of the Vessel and, accordingly, shall organize the supervision and survey of the construction of the Vessel on the terms and conditions provided for in the Building Contract at its own cost, responsibility and risk. For greater certainty, as of the Commencement Date (as defined below), Conti will not take any part in the supervision and survey of the construction of the Vessel and will not be responsible for any technical matters related to construction unless requested to do so by Seaspan.

1. Building Supervision

- a) As of the day on which Conti receives the First Installment from Seaspan (the “**Commencement Date**”), Seaspan shall have authority and be responsible for the supervision and inspection tasks as provided for in Article IV, VI and VII of the Building Contract and as may otherwise be provided for in the Building Contract (the “**Services**”). Seaspan will appoint Seaspan Ship Management Ltd. as its agent to perform the Services on its behalf. As of the Commencement Date, Conti will cease to provide such Services and will terminate any contract that it may have with BBG or any other third party for the provision of such Services with respect to the Vessel.
- b) Seaspan shall be responsible for ensuring that its personnel meet the requirements set out in Art. IV.1 (Appointment of the Buyer’s Supervisor) of the Building Contract. Furthermore, Seaspan acknowledges that Conti’s affiliated companies have an ongoing business relationship with the Builder. Thus, Seaspan will use reasonable efforts to ensure that the supervision and inspection tasks with respect to the Vessel are performed in such manner as not to adversely affect this ongoing business relationship.
- c) Seaspan shall indemnify Conti against all claims costs damages or any other liabilities whatsoever (including all reasonable legal costs) incurred by Conti resulting out of or in connection with Seaspan’s personnel performing the supervision and inspection tasks except to the extent they are incurred pursuant to Article VII 1 d) below.
- d) Seaspan shall provide to Conti monthly written reports in the English language regarding the building progress and Conti shall have the right to dispatch its own supervisor to the Builder at its own costs (hereinafter the “**Conti’s Inspector**”) to attend at the shipyard at any time, with the consent of Seaspan (not to be unreasonably withheld). Conti’s Inspector shall only act as an observer and shall not give any orders or instructions to the Builder.
- e) On the Commencement Date and thereafter as reasonably requested by Seaspan, Conti will send a written notice to the Builder (with a copy to Seaspan) in the form attached hereto as Exhibit V advising of, among other things, the change in Conti’s representatives for the purpose of the Building Contract, the names and identities of Seaspan’s personnel acting as such representatives and instructing the Builder to send to Seaspan a copy of any communications the Builder may have with Conti. Conti will take all reasonable endeavours to procure from the Builder a signed copy of the notice acknowledging the replacement of Conti’s supervisors and agreeing to provide Seaspan with a copy of the communications as requested.
- f) In so far as the approval of plans and drawings or suppliers is concerned, such approval shall only be granted by Seaspan after corresponding information has been given to Conti. Notwithstanding this obligation, the approval of such plans and drawings or suppliers will be within the sole discretion of Seaspan.

2. Modification, Changes and BUYER’S SUPPLIED ITEMS

- a) As the Commencement Date, Seaspan has the right to request and effect any changes or modifications to the Contract Documentation as provided for in Article V. 1 – 3 (Modification, Changes and Extras) of the Building Contract (the “**Changes**”). All intended Changes shall be notified to Conti for its information and are subject only to Conti’s objection as provided for below.
- b) Where the cost of any individual Change exceeds the sum of USD 150,000.00 (hereinafter the “**Change Limit**”) or where the cumulative costs of any number of Changes requested by Seaspan as of the Commencement Date exceed the Change Limit, Seaspan shall pay each such excess into an interest bearing trust account (the “**Change Limit Trust Account**” or “**CLTA**”) before such Change is ordered failing which Conti may object to any such Change and communicate such objection to the Builder.

All amounts held in the CLTA shall be released to Seaspan upon full payment of the Purchase Price; otherwise they shall be released to Conti pursuant to Art. III.3.c) hereof. The release of all amounts held on the CLTA as aforesaid shall occur against the joint written instructions of Conti and Seaspan or against presentation of a certified copy of a final and binding court judgment pursuant to Article XIII hereof.

The costs of the CLTA shall be divided between Conti and Seaspan. Any interest accrued shall be credited to the party which is entitled to the principal deposited thereon.

- c) As of the date of this Agreement, Seaspan shall bear the costs of and provide the so called 'BUYER SUPPLIED ITEMS' as per Art. V. 4 of the Building Contract. Seaspan shall indemnify Conti against any claims which the Builder may make against Conti under or in connection with the Building Contract for failure or delay of delivery of the 'BUYER'S SUPPLIED ITEMS' and should the Builder be entitled to proceed with the construction of the Vessel without installation of such items, Seaspan shall:
 - aa) accept the Vessel in such condition without any claim whatsoever against Conti and
 - bb) in case Seaspan does not take delivery of the Vessel for any reason whatsoever indemnify Conti against any and all costs, damages, liabilities and losses (including consequential losses) arising out of the non-installation of the 'BUYERS SUPPLIED ITEMS' or installation of the 'BUYERS SUPPLIED ITEMS' after delivery of the Vessel.

VIII. Exchange of Documents and Information

Within 30 days of the date of this Agreement, Conti will provide Seaspan with, and will cause BBG, to provide Seaspan with, a copy of all documentation related to the Vessel, in any form whatsoever, that is in the possession of Conti or BBG, (as the case may be), including but not limited documents related to plan approval arrangements, disputes with maker and the Builder, details of all agreements with makers and extras and credits and all correspondence between BBG and third parties with regard to technical aspects of the construction of the Vessel.

Seaspan shall be entitled from the Commencement Date to contact the Builder directly in order to obtain any additional documentation with regard to the technical aspects of the construction of the Vessel and Conti shall advise the Builder of this entitlement in accordance with Article VII 1 e) hereof.

IX. Builder's Warranty and Third Party Benefits

- 1. Conti will assign to Seaspan at the delivery of the Vessel under the Building Contract:
 - a) any and all of Conti's right, title and interest present and future in the Building Contract and all warranties provided to Conti as purchaser of the Vessel under the Building Contract, including but not limited to all its rights and remedies as set out in Art. IX of the Building Contract and the right to appoint a guarantee engineer, any extended guarantee rights contained therein and any other material warranties in respect of the Vessel (hereinafter the "**Builder's Benefits**");

-
- b) any and all benefits and advantages, including but not limited warranties and rebates, granted to Conti by third parties in connection with the Building Contract and in respect of the construction of the Vessel (the “**Third Party Benefits**” and together with the Builder’s Benefits, the “**Benefits and Warranties**”); and
 2. Conti will execute and deliver to Seaspan assignment documents and all other documents as are necessary to validly complete the assignment of the rights contemplated in Art. IX.1 above, in form and content acceptable to Seaspan and Conti, at the same time as it delivers the Vessel to Seaspan.
 3. If the Builder or relevant third party, as the case may be, does not agree to the assignment of the Benefits and Warranties, or if for any other reason Conti is not able to fully assign these rights to Seaspan as contemplated in Art. IX.1 above, Conti will, at the request of Seaspan, enforce all or any of its rights with respect to the Benefits and Warranties or the right to appoint a guarantee engineer for the Vessel, as the case may be, and promptly deliver to Seaspan any such benefits received thereunder.
 4. Seaspan shall indemnify Conti against any and all reasonable costs and expenses it may incur arising out of or in connection with a claim made at the request of Seaspan pursuant to this Article.
 5. If Seaspan elects to nominate a guarantee engineer (hereinafter the “**Guarantee Engineer**”) to serve the Vessel as per Art. XI. 5 of the Building Contract, Seaspan will enter into the agreement required pursuant to Art. XI. 5. of the Building Contract regarding the costs of the guarantee engineer directly with the Builder. If Seaspan elects to nominate a guarantee engineer but does not enter into such an agreement with the Builder, Seaspan will indemnify Conti against any and all reasonable costs and expenses it may incur arising out and or in connection with the services of the guarantee engineer for the Vessel (including but not limited to legal costs).

X. Building Contract

1. The liability of Conti with regard to the Building Contract is limited to the representation and warranty that the Building Contract is validly concluded by Conti and has not been amended or changed since then except for the amendments set out in Exhibit VI. Any future amendment to the Building Contract requires Seaspan’s prior written consent.
2. It is herewith expressly agreed between Conti and Seaspan that Seaspan shall have no warranty claim whatsoever in regard of the condition of the Vessel against Conti. In this context, ‘warranty claims’ shall mean any claims whatsoever on account of any deficiency of the Vessel including any documentation, spare parts, equipment and absolutely everything belonging to the Vessel that was part of the deliveries of the Builder under the Building Contract.
3. Seaspan expressly acknowledges that it has received the Building Contract and all connected documents as set out in Exhibit VI and expressly accepts them.

XI. Dispute Resolution

For any event incurred during the period from the Commencement Date to the date if any Seaspan rejects the Vessel hereunder, Seaspan will be responsible for resolving any disputes arising out of or with respect to the Building Contract even if such disputes are with respect to matters arising before the Commencement Date, and Seaspan will be entitled to exercise any of Conti’s rights under, and receive any benefits arising out of, the provisions of Article XIV of the Building Contract. If the Builder refuses to acknowledge Seaspan’s exercise of such rights, Conti will attend to the resolution of the dispute in all respects, including any appeals, at the direction of Seaspan. In either case, Conti will fully co-operate with Seaspan to resolve the matter, including but not limited to providing Seaspan with any and all documentation (in any

medium whatsoever) related to the dispute and attending meetings, proceedings, arbitrations and appeals at the request of Seaspan. Seaspan will indemnify Conti for any costs and expenses of whatsoever nature it incurs in assisting Seaspan with a dispute (including reasonable legal costs).

XII. Novation Option

1. The parties acknowledge the following:
 - (a) their original intent was that Conti would novate the Building Contract to Seaspan and assign any interest that Conti had in the refund guarantee for the Vessel to Seaspan;
 - (b) prior to entering into this Agreement, the parties negotiated a novation agreement (the “**Novation Agreement**”) for the Building Contract and an assignment agreement for the refund guarantee (the “**Assignment**”), both of which were acceptable in form and content to each of the parties hereto;
 - (c) because the refund guarantor and/or the Builder were unable or unwilling to consent to the assignment of the refund guarantee by Conti to Seaspan, the parties agreed to enter into this Agreement as an alternative.
2. Conti will use commercially reasonable efforts to obtain the consent of the refund guarantor and/or the Builder to the assignment of the refund guarantee for the Vessel by Conti to Seaspan and try to obtain any approvals or authorisations from any governmental authorities in respect of such assignment of the refund guarantee. If the consent of the refund guarantor and Builder is obtained, the parties will enter into the Novation Agreement and the Assignment in substantially the same form as previously agreed or any other form mutually acceptable and any other necessary agreements to fully effect the novation of the Building Contract to Seaspan and this Agreement will be terminated and replaced by the Novation Agreement. The fulfilment of any outstanding obligations that may be owed by either party hereunder on the date of such termination will either be incorporated into the Novation Agreement or addressed in another agreement before this Agreement is terminated.

XIII. Events of Default

1. Seaspan’s Default
 - a) Should the First Installment not be paid in accordance with Art. VI, Conti has the right to cancel this Agreement and it shall be entitled to claim (a) liquidated damages in the amount of USD 2,000,000.00 and (b) compensation for all reasonable expenses incurred together with interest.
 - b) Should the Purchase Price not be paid in accordance with Art. VI, Conti has the right to cancel this Agreement, in which case the First Installment remains with Conti and any moneys held in the Change Limit Trust Account shall be released to Conti together with interest. In addition, Conti shall be entitled to claim further compensation for its losses (excluding consequential losses) and for all reasonable expenses incurred together with interest.
2. Conti’s Default

If Conti takes delivery of the Vessel from the Builder and fails to deliver the Vessel to Seaspan within three Working Days thereafter, Seaspan shall have the option of specific performance of or cancelling this Agreement and the First Instalment together with any amounts held on the Change Limit Trust Account together with interest shall be released to it. Furthermore, Seaspan shall be entitled to claim due compensation for its

losses (excluding consequential losses) and for all reasonable expenses together with interest.

XIV. Representations and Warranties

1. Representations and Warranties of Conti

Conti represents and warrants that:

- a) Conti is a corporation duly organized, validly existing and in good standing under the laws of the Federal Republic of Germany and is duly qualified as a corporation authorized to do business under the laws of the Federal Republic of Germany;
- b) Conti has all requisite corporate power, authority and legal right to enter into this Agreement and to perform and observe the provisions of this Agreement;
- c) the execution, delivery and performance by Conti of this Agreement and the consummation of the transactions contemplated thereby are within corporate powers and do not contravene Conti's constituting documents;
- d) this Agreement constitutes valid and binding obligations of Conti, enforceable against Conti in accordance with their terms;
- e) apart from those already obtained by Conti, no authorization, approval, consent or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other consent or approval is required for the due execution, delivery and performance by Conti of this Agreement and the consummation of the transactions contemplated thereby;
- f) Conti has not previously assigned or granted a security interest in the Building Contract to any other person other than Nord/LB in connection with the financing of the purchase price of the Vessel, which interest will be fully released and discharged as of the delivery of the Vessel to Seaspan;
- g) Conti has provided Seaspan with a full and complete copy of the Building Contract, including the amendments as set out in Exhibit VI and the refund guarantee and there are no other amendments; and
- h) the Building Contract is in full force and effect and, as of the date hereof, Conti is in full compliance with its terms and conditions.

2. Representations and Warranties of Seaspan

Seaspan represents and warrants as follows:

- a) Seaspan is a corporation duly organized, validly existing and in good standing under the laws of the Republic of the Marshall Islands and is duly qualified as a corporation authorized to do business under the laws of the Republic of the Marshall Islands;
- b) Seaspan has all requisite corporate power, authority and legal right to enter into this Agreement and to perform and observe the provisions of this Agreement;
- c) the execution, delivery and performance by Seaspan of this Agreement and the consummation of the transactions contemplated thereby are within Seaspan's corporate powers, have been duly authorized by all necessary corporate action and do not contravene Seaspan's articles or memorandum;

-
- d) apart from those already obtained by Seaspan, no authorization, approval, consent or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other consent or approval is required for the due execution, delivery and performance by Seaspan of this Agreement and the consummation of the transactions contemplated thereby; and
 - e) this Agreement constitutes valid and binding obligations of Seaspan, enforceable against Seaspan in accordance with their terms.

XV. Notices and Demands

Any and all notices, requests, demands, instructions, advices and communications in connection with this Agreement shall be written in English, sent by registered mail, telefax or cable, and shall be deemed to be given when first received whether by registered mail, telefax or cable. They shall be addressed as follows, unless and until otherwise advised in writing:

to Seaspan: **SEASPAN CORPORATION**
Room 503, 5/F
Lucky Commercial Center
103 Des Voeux Road West
Hong Kong, China
Attention: Gerry Wang
Telephone No.: (852) - 25401686
Fax No.: (852) - 25401689

with a copy to: **SEASPAN SHIP MANAGEMENT LTD.**
2600- 200 Granville Street
Vancouver, British Columbia,
Canada
Attention: **Peter Curtis / Peter Jackson**
Telephone No.: 1-604-638-2575
Fax Number: 1-604-638-2595

to Conti: **CONTI 51. CONTAINER SCHIFFFAHRTS -**
GMBH & CO. KG NR. 1
c/o Conti Reederei Management GmbH & Co.
Konzeptions-KG
Att.: Mr. Obermeier
Wernher-von-Braun-Strasse 10
85640 Putzbrunn
Federal Republic of Germany
Tel: 49-89-456 550 0
Fax: 49-89-456 550 55

XVI. Applicable Law

This Agreement is governed by the laws of England and subject to the exclusive jurisdiction of the High Court of England and Wales in London.

XVII. Further Assurances

Before and after the delivery of the Vessel by Conti to Seaspan, Conti will execute and deliver promptly, at the request of Seaspan, all further documents and take all further action

reasonably necessary or appropriate to give effect to the provisions and intent of this Agreement and to complete the transactions contemplated by this Agreement.

XVIII. Counterparts

This Agreement may be signed by facsimile and executed in counterparts and each such counterpart will constitute an original document and such counterparts, taken together, will constitute one and the same instrument.

XIX. Assignment

Neither party shall be entitled to transfer any or all of its rights and obligations under this Agreement to any third party without the prior written consent of either party, such consent not to be unreasonably withheld.

Both parties shall however be entitled to assign any and all rights under the Agreement to any bank or financial institution in respect of the raising of funds.

XX. Enurement

This Agreement will enure to the benefit of and will be binding upon the parties and their respective successors and assigns.

In **witness whereof** the parties hereto have executed this Sale and Purchase Agreement the day first above written.

CONTI 51. CONTAINER SCHIFFFAHRTS - GMBH & CO. KG NR. 1

By: **GERD NAUSCH**

Name: Gerd Nausch

Title: President

JOSEF OBERMEIER

Josef Obermeier

Senior Executive Vice President

SEASPAN CORPORATION

By: **GERRY WANG**

Name: Gerry Wang

Title: Chief Executive Officer

EXHIBIT I**PURCHASE PRICE OF THE VESSEL**

The Purchase Price shall be computed as follows; all figures to be proven on an open book basis:

1. Payment of purchase price made by Conti to the Builder pursuant to the terms of the Building Contract
USD 36,650,000.00 +
Euro 6,250,000.00
2. Interest paid or payable by Conti for financing the installments under the Building Contract as from December 1, 2005 onwards plus any fees paid or payable by Conti related to the financing of the Vessel and the financial handling of this Agreement.
exact amount to be notified immediately prior to delivery of the Vessel hereunder (on open book basis)
3. Bank commitment fee as from December 1, 2005 onwards for Vessel's long term finance (open book basis)
exact amount to be notified immediately prior to delivery of the Vessel hereunder
4. Any adjustment to 1. above (increase or reduction as the case may be) calculated and/or agreed between Seaspan (in consultation with Conti) and the Builder at Vessel's delivery under the Building Contract as well as any adjustments agreed with the Builder prior to the Commencement Date of which notice has been given to Seaspan.
total amount to be notified immediately prior to delivery of the Vessel hereunder
5. the First Installment
USD 2,000,000.00
6. any amounts credited to Conti by the Builder for Consumables Stores
7. any costs regarding the flag change as per Art. III.2 of the Agreement

EXHIBIT II

A. Payment of First Instalment

The obligation of Seaspan to pay the First Instalment in accordance with this Agreement is subject to the fulfilment of the following conditions:

1. the representations and warranties of Conti contained in this Agreement being true and correct on and as of the date the First Instalment is to be paid with the same effect as though such representations and warranties had been made as of such date;
2. all of the covenants and obligations of Conti to be performed or observed on or before the date the First Instalment is to be paid, if any, pursuant to this Agreement having been duly performed or observed;
3. Conti has delivered to Seaspan a duly executed copy of the following documents and agreements:
 - (a) a certificate of Conti dated the day of payment of the First Instalment, executed by an authorized officer or director of Conti, certifying items 1 and 2 above;
 - (b) a guarantee from Conti Holding GmbH & Co. KG or such related party as Seaspan may approve, in which the guarantor agrees to repay the First Instalment in accordance with this Agreement, in form satisfactory to Seaspan (the “**Guarantee**”);
 - (c) a consent and agreement from Conti’s lenders consenting to the transactions contemplated hereunder and agreeing to release all security, in form satisfactory to Seaspan upon payment of the balance of the Purchase Price and presentation of a Protocol of Delivery and Acceptance duly signed by Conti’s authorized representative and the Builder’s authorized representative;
 - (d) notice to the Builder in form satisfactory to Seaspan;
 - (e) a legal opinion from German counsel to Conti with respect to the due authorisation, execution and delivery of this Agreement and the Guarantee in form acceptable to Seaspan, acting reasonably; and
4. no legal or regulatory action or proceeding shall be pending or threatened by any governmental authority to enjoin, restrict or prohibit the purchase and sale of the Vessel or with respect to the Building Contract;

The foregoing conditions are for the benefit of the Seaspan only and accordingly Seaspan will be entitled to waive compliance with any such conditions if it sees fit to do so, without prejudice to its rights and remedies at law and in equity and also without prejudice to any of its rights of termination in the event of non-performance of any other conditions in whole or in part.

B. Documents to be delivered by Conti to Seaspan at Vessel’s Delivery

I. Documents to be delivered by the Builder under the Building Contract

1. The Builder’s Certificate and Bill of Sale,;
2. The Protocol of Trials of the Vessel made pursuant to the Building Contract and the Specifications,;
3. The Protocol of Inventory of the equipment to the Vessel, including spare parts, all as specified in the Specifications,

-
4. The Protocol of Stores of Consumable Nature, such as all fuel oil and fresh water remaining in tanks if its cost is charged to Seaspan under Article VI. 5. of the Building Contract;
 5. Drawings and Plans pertaining to the Vessel as stipulated in the Specifications, which shall be furnished to Seaspan at no additional cost;
 6. The Protocol of Deadweight Calculation and Inclining Experiment;
 7. All Certificates required to be furnished upon delivery of the Vessel pursuant to the Building Contract and the Specifications, see Art. VII. 3. of the Building Contract and
However, it is agreed by the parties that if the Classification Certificates and/or other certificates are not available at the time of delivery of the Vessel, provisional certificates shall be accepted by Seaspan, provided that Conti shall furnish Seaspan with formal certificates as promptly as possible after such formal certificates have been issued.
 8. Copy of the DECLARATION OF WARRANTY of the Builder that the Vessel is delivered to the Seller free and clear of any liens, claims, mortgages, or other encumbrances upon Conti's title thereto, and in particular, that the Vessel is absolutely free of all burdens in the nature of imposts, taxes, or charges imposed by the prefecture or country of the port of delivery, as well as of all liabilities of the Builder to its sub-contractors and employees and crew and of all liabilities arising from the operation of the Vessel in trial runs, or otherwise, prior to delivery except as otherwise provided under the Building Contract.

II. Documents to be issued by Conti

1. Bill of Sale, duly notarized and apostilled, evidencing that title to the Vessel is transferred to Seaspan free of mortgages, liens and other encumbrances, such Bill of Sale to be executed in the form as attached hereto as Exhibit III.
2. Power of Attorney, duly notarised, authorizing representatives of Conti to take all necessary steps to accept delivery of title to the Vessel from the Builder and give delivery of and convey title to the Vessel to Seaspan.
3. Notarised excerpt from the German Commercial Register showing the names and authorization of the Managing Directors of Conti accompanied by an in-house translation into English.

III. Documents to be executed by Conti and Seaspan

Protocol of Delivery and Acceptance with respect to the Vessel executed by Conti and Seaspan in the form as attached hereto as Exhibit IV or such other form acceptable to the Hong Kong Marine Department.

IV. Documents to be delivered by Seaspan at Vessel's Delivery

1. Notarially attested copy of Minutes of Meeting of the Board of Directors of Seaspan authorizing the purchase of the Vessel from Conti and the granting of a Power of Attorney to perform all acts necessary in connection with taking delivery of and acquiring title to the Vessel.

-
2. Notarially attested Power of Attorney, authorizing all acts necessary in connection with taking delivery of and acquiring title to the Vessel.
 3. Original Certificate of Good Standing of Seaspan, dated no more than 10 Working Days prior to delivery of the Vessel.

Sale and Purchase Agreement

This **Sale and Purchase Agreement** is made this 10th day of February, 2006 between **CONTI 52. CONTAINER SCHIFFAHRTS - GMBH & CO. KG Nr. 1** ("**Conti**"), a limited partnership (KG) organized and existing under the laws of the Federal Republic of Germany and having its registered office at Wernher-von-Braun-Straße 10, 85640 Putzbrunn Federal Republic of Germany and **SEASPAN CORPORATION** ("**Seaspan**"), a corporation formed under the laws of the Republic of the Marshall Islands and listed on the New York Stock Exchange and having a place of business at Room 503, 5/F, Lucky Commercial Center, 103 Des Voeux Road West, Hong Kong, China.

Whereas

1. Conti and **ZHEJIANG SHIPBUILDING CO. LTD.**, a corporation organized and existing under the laws of the People's Republic of China and having its registered office at No. 69 Jiangnan Road, Ningbo 315040, the People's Republic of China (the "**Shipyards**" or the "**Builder**") have entered into a shipbuilding contract dated 18th June, 2004 as amended from time to time (the "**Building Contract**") regarding the construction and delivery of a 3500 teu class container vessel with Builder's hull number ZJB04-126 (the "**Vessel**");
2. The Vessel is more closely specified in the Building Contract, the Building Specification (Drawing No. SC4339-010-02SM), the General Arrangement (Drawing No. SC4339-010-03), the Midship Section (Drawing No. SC4339-010-04) and the Maker List (Drawing No. SC4339 (ZJ) 010-05) together with any amendment thereto up to the date hereof (the "**Contract Documentation**") which is known to and accepted by Seaspan;
3. Pursuant to the Building Contract, the date of delivery of the Vessel is the 31st July, 2007. It is, however, agreed in the Building Contract that the delivery of the Vessel may be accelerated as a consequence of early completion of the Vessel or delayed as a consequence of the occurrence of any permitted or not permitted delays as defined in the Building Contract up to 218 days upon which time Conti may, at any time thereafter, cancel the Building Contract by giving a written notice of cancellation to the Builder, all as specified in the Building Contract;
4. Conti has arranged construction finance and long term finance of the Vessel from Norddeutsche Landesbank - Girozentrale, Hannover, Federal Republic of Germany ("**Nord/LB**");
5. Conti has entered into with Bremer Bereederungsgesellschaft mbH & Co. KG, Bremen, Federal Republic of Germany ("**BBG**") a construction supervision contract pursuant to which BBG is acting for Conti with respect to the construction supervision of the Vessel;
6. It was the original intention of Conti and Seaspan that Conti would novate the Building Contract to Seaspan such that Seaspan, rather than Conti, would be bound by the terms of the Building Contract as though it were named as the "Buyer" thereunder and Conti would be released from any of its obligations under the Building Contract; and
7. For various reasons, Conti and Seaspan now wish to enter into this Sale and Purchase Agreement whereby Seaspan will purchase the Vessel from Conti immediately following its delivery by the Builder to Conti, but Seaspan will obtain full authority vis-à-vis Conti under the Building Contract and will assume full responsibility for, among other things, the supervision and inspection of the construction of the Vessel with effect from the date of this Agreement and the liability of Conti will be limited as set out in Art. X hereof.

NOW, THEREFORE, IN CONSIDERATION OF the covenants and agreements set forth in this agreement and for other good and valuable consideration, the parties agree as follows:

I. Sale of Vessel

Conti hereby offers the Vessel for sale to Seaspan and Seaspan hereby accepts such offer and buys the Vessel from Conti.

II. Purchase Price

The purchase price to be paid by Seaspan to Conti for the Vessel shall be calculated as set out in Exhibit I hereto (the “**Purchase Price**”).

III. Time and Condition of Delivery

1. Time and Condition

a) Conti will deliver the Vessel to Seaspan hereunder at the same time and in the state and condition as the Vessel is delivered by the Builder to Conti pursuant to the terms of the Building Contract.

The Vessel shall be delivered hereunder with all appurtenances and equipment including spare parts and spare equipment as delivered by the Builder to Conti pursuant to the Building Contract. Seaspan shall take over the bunkers, lubricating oils and other consumable stores (the “**Consumable Stores**”) remaining on board at the time of delivery of the Vessel from the Builder to Conti and pay such prices as are payable by Conti to the Builder under the Building Contract. The Purchase Price shall be adjusted accordingly.

b) Insofar as Conti must provide for such Consumable Stores for the trial runs or otherwise under the Building Contract, Seaspan shall make such provision at its own cost and without adjustment of the Purchase Price. Any payments paid to Conti from the Builder for the consumption of such Consumable Stores shall be credited to Seaspan by adjustment of the Purchase Price.

c) Any deficiencies of the Vessel as described in Article III or any other provision of the Building Contract not entitling Conti to rescind or cancel the Building Contract have to be accepted by Seaspan as adjusted for price thereunder without any liability of Conti.

2. Adjustment of Purchase Price

a) Any penalty (whether by way of liquidated damages or otherwise) paid by the Builder under the Building Contract or reduction of the purchase price under the Building Contract for late delivery of the Vessel or for other deficiencies of the Vessel as determined in Article III of the Building Contract at the time of her delivery shall be for the benefit of Seaspan and the Purchase Price shall be adjusted as per Exhibit I hereto.

Seaspan (having authority and being responsible for the building supervision as per Art. VII hereof) will inform Conti promptly upon the occurrence of any such delay and/or deficiency.

b) Seaspan (having authority and being responsible for the building supervision as per Art. VII hereof) will likewise inform Conti of any acceleration of the delivery of the Vessel when such acceleration has been notified by the Builder.

3. Cancellation of Building Contract

a) Insofar as Conti is entitled under Articles III, VI, VIII or any other provision of the Building Contract to, at its option, either accept the Vessel or reject the Vessel and cancel the Building Contract for insufficient speed, excessive fuel consumption,

deadweight below contract requirements, insufficient number of container loadings, excessive delay in delivery or any other reason, as the case may be, Conti will accept or reject the Vessel only on the instruction of Seaspan. Seaspan will provide such instruction to Conti at least three German working days (hereinafter "**Working Days**") prior to the time at which Conti, pursuant to the Building Contract, must declare rejection or acceptance of the Vessel or cancellation of the Building Contract to the Builder.

For the avoidance of doubt and without prejudice to the generality of Art. III.1 hereof, any liability of Conti to Seaspan under this subclause for any deficiencies of the Vessel or delay in delivery accepted by Conti in accordance with the instruction of Seaspan is excluded.

b) If Seaspan fails to instruct Conti in accordance with the above sub-clause 3. a or Seaspan instructs Conti to reject the Vessel and to cancel the Building Contract, Conti shall be free to accept the Vessel or to cancel the Building Contract.

Should Seaspan either fail to timely instruct Conti in accordance with the above sub-clause 3.a) or instruct Conti to reject the Vessel and to cancel the Building Contract, this Agreement shall be deemed cancelled irrespective of whether or not Conti continues the Building Contract and Conti shall retain the First Instalment (as defined hereafter) and all monies on the Change Limit Trust Account (as defined hereafter) including interest. Neither party shall have a claim against each other for reason of this Agreement being deemed cancelled.

c) Should the Building Contract be cancelled, rescinded or terminated for any reason whatsoever, this Agreement shall also be deemed cancelled and neither party shall have a claim against each other for reason of this Agreement being deemed cancelled. Notwithstanding the aforesaid if such cancellation, rescission or termination of the Building Contract is due to Conti's default (defined in the Building Contract as Buyers' Default as per Art. XI of the Building Contract, except were caused by Seaspan's default under this Agreement), Conti shall return to Seaspan the First Instalment and all monies on the Change Limit Trust Account (both as defined hereafter) including interest immediately; otherwise such funds are to remain with and be released to Conti. Furthermore Seaspan shall in case of Conti's default be entitled to claim due compensation for its losses (excluding consequential losses) and for all reasonable expenses together with interest.

d) If the cancellation, rescission or termination of the Building Contract is held invalid by an award or a decision of the competent court, this Agreement shall not be deemed cancelled by either party and Seaspan shall remain obliged to take delivery of the vessel in accordance with the provisions of this agreement.

4. Classification/Registration

The Building Contract provides that the Vessel shall be built and completed in compliance with the rules of Germanischer Lloyd ("**GL**") and for registration in Malta, Liberia or the Marshall Islands. Seaspan will keep GL as the classification society for the Vessel during construction but upon the delivery of the Vessel by Conti to Seaspan pursuant to the terms of this Agreement, Seaspan will change the classification society to either Lloyd's Register of Shipping or Det Norske Veritas, at Seaspan's sole discretion. At the request of Seaspan, Conti will take all reasonable steps necessary to obtain from GL any documents or information that Seaspan may need to change the classification society as contemplated herein or for registering the Vessel in accordance with the laws of Hong Kong. Any costs and expenses incurred thereby to be for Seaspan's account and not included in Article II of this Agreement.

Upon delivery of the Vessel to Seaspan hereunder, Seaspan will register the Vessel under the laws of Hong Kong and Conti will use reasonable endeavours to cause the Builder to alter the Building Contract accordingly. Any increases of the purchase price under the Building Contract as a result of the change in flag shall result in a corresponding increase of the Purchase Price as per Exhibit I hereof. Furthermore, Seaspan shall pay any other costs resulting therefrom as and when they come due directly to the Builder.

5. Delivery Documentation

In exchange for payment of the Purchase Price as per Art. VI. hereof, Conti will deliver the Vessel together with the documents listed in Exhibit II hereto to Seaspan and any other documents that Seaspan may reasonably require in order to register the Vessel in Hong Kong (together, the “**Documents**”). Conti will provide Seaspan with one (1) original of each Document and two (2) copies. Conti will use reasonable endeavours to cause the Builder to issue or cause to be issued (as the case may be) all such Documents in the name of Seaspan as the Vessel’s owner. Any extra cost charged by the Builder for issuing such documents in the name of Seaspan shall be for Seaspan’s account and Seaspan will pay such amount to the Builder directly. Seaspan will for this purpose deliver any information required by the Builder.

IV. Place of Delivery and Place of Closing

1. The Vessel shall be delivered hereunder at the place where the Vessel is delivered to Conti by the Builder under the Building Contract.
2. The place of the documentary closing is Hamburg, Germany except that if Seaspan determines that documentary closing in Hamburg will have an adverse tax consequence to it then the documentary closing will be moved to a jurisdiction which is tax neutral to both Conti and Seaspan.

V. Notice of Time of Delivery

Conti will notify Seaspan and Seaspan will notify Conti of the time at which the Builder intends to tender the Vessel for delivery to Conti. Delivery of the Vessel by Conti to Seaspan as contemplated hereunder will take place immediately upon the Vessel being effectively delivered by the Builder to Conti in accordance with the terms of the Building Contract. Any delay of delivery under the Building Contract shall delay delivery hereunder accordingly.

VI. Payment of Purchase Price

1. Within five New York Business Days of signing this Agreement Seaspan shall pay to Conti free of all banking charges the amount of USD 2,000,000.00 (hereinafter the “**First Instalment**”), repayment of such amount according to the provisions of this Agreement to be guaranteed by Conti Holding GmbH & Co. KG, Putzbrunn / Germany in a form acceptable to Seaspan.
2. The Purchase Price as calculated in accordance with Exhibit I less the First Instalment and the fifth instalment (delivery instalment) under the Building Contract shall be transferred to a trust account (the “**Trust Account**”) held by Nord/LB (details of the Trust Account to be indicated timely by Conti) to be received on the Trust Account latest five New York Business Days prior to the time of delivery of the Vessel from the Builder. The Purchase Price so paid shall be held by Nord/LB on behalf of either Seaspan or its remitting bank until the Vessel is delivered from the Builder to Conti and simultaneously from Conti to Seaspan. In case the delivery fails to take place as anticipated within a period of ten New York Business Days from the deposit of the Purchase Price, Seaspan has the right to request Nord/LB to return the Purchase Price to the remitting bank. The Purchase Price shall be paid out to Conti by Nord/LB upon presentation to Nord/LB of the Protocol of Delivery and Acceptance duly signed by Seaspan’s and Conti’s authorized representatives.

An amount equal to the fifth instalment (delivery instalment) under the Building Contract shall be transferred in the name of Conti by Seaspan to the account nominated by the Builder at least two (2) New York Business Days prior to the delivery date of the Vessel according to the Building Contract by telegraphic transfer to the Builder’s Bank

remaining for a period of five (5) days with an irrevocable instruction that the said amount shall be released to the Builder against presentation by the Builder to the said Builder's Bank of a duplicate original of the Protocol of Delivery and Acceptance of the Vessel duly signed by Conti's authorized representative and the Builder's authorized representative and with the further instruction to release the said amount to Seaspan if the aforementioned Protocol of Delivery and Acceptance of the Vessel is not presented before expiry of the period of five (5) days calculated from the date of remittance of the funds. Interest, if any, accrued from such deposit, shall be for the benefit of Seaspan. Seaspan will provide Conti with evidence of such payment and corresponding instructions at the time of payment.

However, when the new scheduled delivery date is notified to Conti by the Builder, Conti will notify Seaspan promptly and Seaspan shall make the telegraphic transfer in accordance with the same terms and conditions as said out above.

3. Any taxes, fees and expenses in connection with the purchase and registration under Seaspan's flag shall be for Seaspan's account.
4. Conti shall pay all broker's fees charged in connection with the purchase and sale of the Vessel as contemplated herein, including but not limited to the fees of W. J. Hinneberg of Hamburg, Germany except any brokers engaged by Seaspan.

VII. Technical Responsibility / Building Supervision / Modifications

Seaspan shall have authority and be responsible for all technical matters regarding the construction of the Vessel and, accordingly, shall organize the supervision and survey of the construction of the Vessel on the terms and conditions provided for in the Building Contract at its own cost, responsibility and risk. For greater certainty, as of the Commencement Date (as defined below), Conti will not take any part in the supervision and survey of the construction of the Vessel and will not be responsible for any technical matters related to construction unless requested to do so by Seaspan.

1. Building Supervision
 - a) As of the day on which Conti receives the First Installment from Seaspan (the "**Commencement Date**"), Seaspan shall have authority and be responsible for the supervision and inspection tasks as provided for in Article IV, VI and VII of the Building Contract and as may otherwise be provided for in the Building Contract (the "**Services**"). Seaspan will appoint Seaspan Ship Management Ltd. as its agent to perform the Services on its behalf. As of the Commencement Date, Conti will cease to provide such Services and will terminate any contract that it may have with BBG or any other third party for the provision of such Services with respect to the Vessel.
 - b) Seaspan shall be responsible for ensuring that its personnel meet the requirements set out in Art. IV.1 (Appointment of the Buyer's Supervisor) of the Building Contract. Furthermore, Seaspan acknowledges that Conti's affiliated companies have an ongoing business relationship with the Builder. Thus, Seaspan will use reasonable efforts to ensure that the supervision and inspection tasks with respect to the Vessel are performed in such manner as not to adversely affect this ongoing business relationship.
 - c) Seaspan shall indemnify Conti against all claims costs damages or any other liabilities whatsoever (including all reasonable legal costs) incurred by Conti resulting out of or in connection with Seaspan's personnel performing the supervision and inspection tasks except to the extent they are incurred pursuant to Article VII 1 d) below.
 - d) Seaspan shall provide to Conti monthly written reports in the English language regarding the building progress and, Conti shall have the right to dispatch its own supervisor to the Builder at its own costs (hereinafter the "**Conti's Inspector**") to attend at the shipyard at any time, with the consent of Seaspan (not to be unreasonably withheld). Conti's Inspector shall only act as an observer and shall not give any orders or instructions to the Builder.

-
- e) On the Commencement Date and thereafter as reasonably requested by Seaspan, Conti will send a written notice to the Builder (with a copy to Seaspan) in the form attached hereto as Exhibit V advising of, among other things, the change in Conti's representatives for the purpose of the Building Contract, the names and identities of Seaspan's personnel acting as such representatives and instructing the Builder to send to Seaspan a copy of any communications the Builder may have with Conti. Conti will take all reasonable endeavours to procure from the Builder a signed copy of the notice acknowledging the replacement of Conti's supervisors and agreeing to provide Seaspan with a copy of the communications as requested.
 - f) In so far as the approval of plans and drawings or suppliers is concerned, such approval shall only be granted by Seaspan after corresponding information has been given to Conti. Notwithstanding this obligation, the approval of such plans and drawings or suppliers will be within the sole discretion of Seaspan.

2. Modification, Changes and BUYER'S SUPPLIED ITEMS

- a) As the Commencement Date, Seaspan has the right to request and effect any changes or modifications to the Contract Documentation as provided for in Article V. 1 – 3 (Modification, Changes and Extras) of the Building Contract (the “**Changes**”). All intended Changes shall be notified to Conti for its information and are subject only to Conti's objection as provided for below.
- b) Where the cost of any individual Change exceeds the sum of USD 150,000.00 (hereinafter the “**Change Limit**”) or where the cumulative costs of any number of Changes requested by Seaspan as of the Commencement Date exceed the Change Limit, Seaspan shall pay each such excess into an interest bearing trust account (the “**Change Limit Trust Account**” or “**CLTA**”) before such Change is ordered failing which Conti may object to any such Change and communicate such objection to the Builder.

All amounts held in the CLTA shall be released to Seaspan upon full payment of the Purchase Price; otherwise they shall be released to Conti pursuant to Art. III.3.c) hereof. The release of all amounts held on the CLTA as aforesaid shall occur against the joint written instructions of Conti and Seaspan or against presentation of a certified copy of a final and binding court judgment pursuant to Article XIII hereof.

The costs of the CLTA shall be divided between Conti and Seaspan. Any interest accrued shall be credited to the party which is entitled to the principal deposited thereon.
- c) As of the date of this Agreement, Seaspan shall bear the costs of and provide the so called ‘BUYER SUPPLIED ITEMS’ as per Art. V. 4 of the Building Contract. Seaspan shall indemnify Conti against any claims which the Builder may make against Conti under or in connection with the Building Contract for failure or delay of delivery of the ‘BUYER SUPPLIED ITEMS’ and should the Builder be entitled to proceed with the construction of the Vessel without installation of such items, Seaspan shall:
 - aa) accept the Vessel in such condition without any claim whatsoever against Conti and
 - bb) in case Seaspan does not take delivery of the Vessel for any reason whatsoever indemnify Conti against any and all costs, damages, liabilities and losses (including consequential losses) arising out of the non-installation of the ‘BUYERS SUPPLIED ITEMS’ or installation of the ‘BUYERS SUPPLIED ITEMS’ after delivery of the Vessel.

VIII. Exchange of Documents and Information

Within 30 days of the date of this Agreement, Conti will provide Seaspan with, and will cause BBG, to provide Seaspan with, a copy of all documentation related to the Vessel, in any form whatsoever, that is in the possession of Conti or BBG, (as the case may be), including but not limited documents related to plan approval arrangements, disputes with maker and the Builder, details of all agreements with makers and extras and credits and all correspondence between BBG and third parties with regard to technical aspects of the construction of the Vessel.

Seaspan shall be entitled from the Commencement Date to contact the Builder directly in order to obtain any additional documentation with regard to the technical aspects of the construction of the Vessel and Conti shall advise the Builder of this entitlement in accordance with Article VII 1 e) hereof.

IX. Builder's Warranty and Third Party Benefits

1. Conti will assign to Seaspan at the delivery of the Vessel under the Building Contract:
 - a) any and all of Conti's right, title and interest present and future in the Building Contract and all warranties provided to Conti as purchaser of the Vessel under the Building Contract, including but not limited to all its rights and remedies as set out in Art. IX of the Building Contract and the right to appoint a guarantee engineer, any extended guarantee rights contained therein and any other material warranties in respect of the Vessel (hereinafter the "**Builder's Benefits**");
 - b) any and all benefits and advantages, including but not limited warranties and rebates, granted to Conti by third parties in connection with the Building Contract and in respect of the construction of the Vessel (the "**Third Party Benefits**" and together with the Builder's Benefits, the "**Benefits and Warranties**"); and
2. Conti will execute and deliver to Seaspan assignment documents and all other documents as are necessary to validly complete the assignment of the rights contemplated in Art. IX.1 above, in form and content acceptable to Seaspan and Conti, at the same time as it delivers the Vessel to Seaspan.
3. If the Builder or relevant third party, as the case may be, does not agree to the assignment of the Benefits and Warranties, or if for any other reason Conti is not able to fully assign these rights to Seaspan as contemplated in Art. IX.1 above, Conti will, at the request of Seaspan, enforce all or any of its rights with respect to the Benefits and Warranties or the right to appoint a guarantee engineer for the Vessel, as the case may be, and promptly deliver to Seaspan any such benefits received thereunder.
4. Seaspan shall indemnify Conti against any and all reasonable costs and expenses it may incur arising out of or in connection with a claim made at the request of Seaspan pursuant to this Article.
5. If Seaspan elects to nominate a guarantee engineer (hereinafter the "**Guarantee Engineer**") to serve the Vessel as per Art. XI. 5 of the Building Contract, Seaspan will enter into the agreement required pursuant to Art. XI. 5. of the Building Contract regarding the costs of the guarantee engineer directly with the Builder. If Seaspan elects to nominate a guarantee engineer but does not enter into such an agreement with the Builder, Seaspan will indemnify Conti against any and all reasonable costs and expenses it may incur arising out and or in connection with the services of the guarantee engineer for the Vessel (including but not limited to legal costs).

X. Building Contract

1. The liability of Conti with regard to the Building Contract is limited to the representation and warranty that the Building Contract is validly concluded by Conti and has not been amended or changed since then except for the amendments set out in Exhibit VI. Any future amendment to the Building Contract requires Seaspan's prior written consent.

-
2. It is herewith expressly agreed between Conti and Seaspan that Seaspan shall have no warranty claim whatsoever in regard of the condition of the Vessel against Conti. In this context, 'warranty claims' shall mean any claims whatsoever on account of any deficiency of the Vessel including any documentation, spare parts, equipment and absolutely everything belonging to the Vessel that was part of the deliveries of the Builder under the Building Contract.
 3. Seaspan expressly acknowledges that it has received the Building Contract and all connected documents as set out in Exhibit VI and expressly accepts them.

XI. Dispute Resolution

For any event incurred during the period from the Commencement Date to the date if any Seaspan rejects the Vessel hereunder, Seaspan will be responsible for resolving any disputes arising out of or with respect to the Building Contract even if such disputes are with respect to matters arising before the Commencement Date, and Seaspan will be entitled to exercise any of Conti's rights under, and receive any benefits arising out of, the provisions of Article XIV of the Building Contract. If the Builder refuses to acknowledge Seaspan's exercise of such rights, Conti will attend to the resolution of the dispute in all respects, including any appeals, at the direction of Seaspan. In either case, Conti will fully co-operate with Seaspan to resolve the matter, including but not limited to providing Seaspan with any and all documentation (in any medium whatsoever) related to the dispute and attending meetings, proceedings, arbitrations and appeals at the request of Seaspan. Seaspan will indemnify Conti for any costs and expenses of whatsoever nature it incurs in assisting Seaspan with a dispute (including reasonable legal costs).

XII. Novation Option

1. The parties acknowledge the following:
 - (a) their original intent was that Conti would novate the Building Contract to Seaspan and assign any interest that Conti had in the refund guarantee for the Vessel to Seaspan;
 - (b) prior to entering into this Agreement, the parties negotiated a novation agreement (the "**Novation Agreement**") for the Building Contract and an assignment agreement for the refund guarantee (the "**Assignment**"), both of which were acceptable in form and content to each of the parties hereto;
 - (c) because the refund guarantor and/or the Builder were unable or unwilling to consent to the assignment of the refund guarantee by Conti to Seaspan, the parties agreed to enter into this Agreement as an alternative.
2. Conti will use commercially reasonable efforts to obtain the consent of the refund guarantor and/or the Builder to the assignment of the refund guarantee for the Vessel by Conti to Seaspan and try to obtain any approvals or authorisations from any governmental authorities in respect of such assignment of the refund guarantee. If the consent of the refund guarantor and Builder is obtained, the parties will enter into the Novation Agreement and the Assignment in substantially the same form as previously agreed or any other form mutually acceptable and any other necessary agreements to fully effect the novation of the Building Contract to Seaspan and this Agreement will be terminated and replaced by the Novation Agreement. The fulfilment of any outstanding obligations that may be owed by either party hereunder on the date of such termination will either be incorporated into the Novation Agreement or addressed in another agreement before this Agreement is terminated.

XIII. Events of Default

1. Seaspan's Default
 - a) Should the First Installment not be paid in accordance with Art. VI, Conti has the right to cancel this Agreement and it shall be entitled to claim (a) liquidated damages in the

amount of USD 2,000,000.00 and (b) compensation for all reasonable expenses incurred together with interest.

- b) Should the Purchase Price not be paid in accordance with Art. VI, Conti has the right to cancel this Agreement, in which case the First Installment remains with Conti and any moneys held in the Change Limit Trust Account shall be released to Conti together with interest. In addition, Conti shall be entitled to claim further compensation for its losses (excluding consequential losses) and for all reasonable expenses incurred together with interest.

2. Conti's Default

If Conti takes delivery of the Vessel from the Builder and fails to deliver the Vessel to Seaspan within three Working Days thereafter, Seaspan shall have the option of specific performance of or cancelling this Agreement and the First Instalment together with any amounts held on the Change Limit Trust Account together with interest shall be released to it. Furthermore, Seaspan shall be entitled to claim due compensation for its losses (excluding consequential losses) and for all reasonable expenses together with interest.

XIV. Representations and Warranties

1. Representations and Warranties of Conti

Conti represents and warrants that:

- a) Conti is a corporation duly organized, validly existing and in good standing under the laws of the Federal Republic of Germany and is duly qualified as a corporation authorized to do business under the laws of the Federal Republic of Germany;
- b) Conti has all requisite corporate power, authority and legal right to enter into this Agreement and to perform and observe the provisions of this Agreement;
- c) the execution, delivery and performance by Conti of this Agreement and the consummation of the transactions contemplated thereby are within corporate powers and do not contravene Conti's constituting documents;
- d) this Agreement constitutes valid and binding obligations of Conti, enforceable against Conti in accordance with their terms;
- e) apart from those already obtained by Conti, no authorization, approval, consent or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other consent or approval is required for the due execution, delivery and performance by Conti of this Agreement and the consummation of the transactions contemplated thereby;
- f) Conti has not previously assigned or granted a security interest in the Building Contract to any other person other than Nord/LB in connection with the financing of the purchase price of the Vessel, which interest will be fully released and discharged as of the delivery of the Vessel to Seaspan;
- g) Conti has provided Seaspan with a full and complete copy of the Building Contract, including the amendments as set out in Exhibit VI and the refund guarantee and there are no other amendments; and
- h) the Building Contract is in full force and effect and, as of the date hereof, Conti is in full compliance with its terms and conditions.

2. Representations and Warranties of Seaspan

Seaspan represents and warrants as follows:

- a) Seaspan is a corporation duly organized, validly existing and in good standing under the laws of the Republic of the Marshall Islands and is duly qualified as a corporation authorized to do business under the laws of the Republic of the Marshall Islands;

-
- b) Seaspam has all requisite corporate power, authority and legal right to enter into this Agreement and to perform and observe the provisions of this Agreement;
 - c) the execution, delivery and performance by Seaspam of this Agreement and the consummation of the transactions contemplated thereby are within Seaspam's corporate powers, have been duly authorized by all necessary corporate action and do not contravene Seaspam's articles or memorandum;
 - d) apart from those already obtained by Seaspam, no authorization, approval, consent or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other consent or approval is required for the due execution, delivery and performance by Seaspam of this Agreement and the consummation of the transactions contemplated thereby; and
 - e) this Agreement constitutes valid and binding obligations of Seaspam, enforceable against Seaspam in accordance with their terms.

XV. Notices and Demands

Any and all notices, requests, demands, instructions, advices and communications in connection with this Agreement shall be written in English, sent by registered mail, telefax or cable, and shall be deemed to be given when first received whether by registered mail, telefax or cable. They shall be addressed as follows, unless and until otherwise advised in writing:

to Seaspam: **SEASPAN CORPORATION**
Room 503, 5/F
Lucky Commercial Center
103 Des Voeux Road West
Hong Kong, China
Attention: Gerry Wang
Telephone No.: (852) - 25401686
Fax No.: (852) - 25401689

with a copy to: **SEASPAN SHIP MANAGEMENT LTD.**
2600- 200 Granville Street
Vancouver, British Columbia,
Canada
Attention: **Peter Curtis / Peter Jackson**
Telephone No.: 1-604-638-2575
Fax Number: 1-604-638-2595

to Conti: **CONTI 52. CONTAINER SCHIFFFAHRTS - GMBH & CO. KG NR. 1**
c/o Conti Reederei Management GmbH & Co.
Konzeptions-KG
Att.: Mr. Obermeier
Wernher-von-Braun-Strasse 10
85640 Putzbrunn
Federal Republic of Germany
Tel: 49-89-456 550 0
Fax: 49-89-456 550 55

XVI. Applicable Law

This Agreement is governed by the laws of England and subject to the exclusive jurisdiction of the High Court of England and Wales in London.

XVII. Further Assurances

Before and after the delivery of the Vessel by Conti to Seaspan, Conti will execute and deliver promptly, at the request of Seaspan, all further documents and take all further action reasonably necessary or appropriate to give effect to the provisions and intent of this Agreement and to complete the transactions contemplated by this Agreement.

XVIII. Counterparts

This Agreement may be signed by facsimile and executed in counterparts and each such counterpart will constitute an original document and such counterparts, taken together, will constitute one and the same instrument.

XIX. Assignment

Neither party shall be entitled to transfer any or all of its rights and obligations under this Agreement to any third party without the prior written consent of either party, such consent not to be unreasonably withheld.

Both parties shall however be entitled to assign any and all rights under the Agreement to any bank or financial institution in respect of the raising of funds.

XX. Enurement

This Agreement will enure to the benefit of and will be binding upon the parties and their respective successors and assigns.

In **witness whereof** the parties hereto have executed this Sale and Purchase Agreement the day first above written.

CONTI 52. CONTAINER SCHIFFFAHRTS - GMBH & CO. KG NR. 1

By: **GERD NAUSCH**

Name: Gerd Nausch
Title: President

JOSEF OBERMEIER

Josef Obermeier
Senior Executive Vice President

SEASPAN CORPORATION

By: **GERRY WANG**

Name: Gerry Wang
Title: Chief Executive Officer

EXHIBIT I**PURCHASE PRICE OF THE VESSEL**

The Purchase Price shall be computed as follows; all figures to be proven on an open book basis:

1. Payment of purchase price made by Conti to the Builder pursuant to the terms of the Building Contract

USD 36,650,000.00 +
Euro 6,250,000.00
2. Interest paid or payable by Conti for financing the installments under the Building Contract as from December 1, 2005 onwards plus any fees paid or payable by Conti related to the financing of the Vessel and the financial handling of this Agreement.
exact amount to be notified immediately prior to delivery of the Vessel hereunder (on open book basis)
3. Bank commitment fee as from December 1, 2005 onwards for Vessel's long term finance (open book basis)
exact amount to be notified immediately prior to delivery of the Vessel hereunder
4. Any adjustment to 1. above (increase or reduction as the case may be) calculated and/or agreed between Seaspan (in consultation with Conti) and the Builder at Vessel's delivery under the Building Contract as well as any adjustments agreed with the Builder prior to the Commencement Date of which notice has been given to Seaspan.
total amount to be notified immediately prior to delivery of the Vessel hereunder
5. the First Installment

USD 2,000,000.00
6. any amounts credited to Conti by the Builder for Consumables Stores
7. any costs regarding the flag change as per Art. III.2 of the Agreement

EXHIBIT II

A. Payment of First Instalment

The obligation of Seaspan to pay the First Instalment in accordance with this Agreement is subject to the fulfilment of the following conditions:

1. the representations and warranties of Conti contained in this Agreement being true and correct on and as of the date the First Instalment is to be paid with the same effect as though such representations and warranties had been made as of such date;
2. all of the covenants and obligations of Conti to be performed or observed on or before the date the First Instalment is to be paid, if any, pursuant to this Agreement having been duly performed or observed;
3. Conti has delivered to Seaspan a duly executed copy of the following documents and agreements:
 - (a) a certificate of Conti dated the day of payment of the First Instalment, executed by an authorized officer or director of Conti, certifying items 1 and 2 above;
 - (b) a guarantee from Conti Holding GmbH & Co. KG or such related party as Seaspan may approve, in which the guarantor agrees to repay the First Instalment in accordance with this Agreement, in form satisfactory to Seaspan (the “**Guarantee**”);
 - (c) a consent and agreement from Conti’s lenders consenting to the transactions contemplated hereunder and agreeing to release all security, in form satisfactory to Seaspan upon payment of the balance of the Purchase Price and presentation of a Protocol of Delivery and Acceptance duly signed by Conti’s authorized representative and the Builder’s authorized representative;
 - (d) notice to the Builder in form satisfactory to Seaspan;
 - (e) a legal opinion from German counsel to Conti with respect to the due authorisation, execution and delivery of this Agreement and the Guarantee in form acceptable to Seaspan, acting reasonably; and
4. no legal or regulatory action or proceeding shall be pending or threatened by any governmental authority to enjoin, restrict or prohibit the purchase and sale of the Vessel or with respect to the Building Contract;

The foregoing conditions are for the benefit of the Seaspan only and accordingly Seaspan will be entitled to waive compliance with any such conditions if it sees fit to do so, without prejudice to its rights and remedies at law and in equity and also without prejudice to any of its rights of termination in the event of non-performance of any other conditions in whole or in part.

B. Documents to be delivered by Conti to Seaspan at Vessel’s Delivery

I. Documents to be delivered by the Builder under the Building Contract

1. The Builder’s Certificate and Bill of Sale,;
2. The Protocol of Trials of the Vessel made pursuant to the Building Contract and the Specifications,
3. The Protocol of Inventory of the equipment to the Vessel, including spare parts, all as specified in the Specifications,
4. The Protocol of Stores of Consumable Nature, such as all fuel oil and fresh water remaining in tanks if its cost is charged to Seaspan under Article VI. 5. of the Building Contract;

-
5. Drawings and Plans pertaining to the Vessel as stipulated in the Specifications, which shall be furnished to Seaspan at no additional cost;
 6. The Protocol of Deadweight Calculation and Inclining Experiment;
 7. All Certificates required to be furnished upon delivery of the Vessel pursuant to the Building Contract and the Specifications, see Art. VII. 3. of the Building Contract and
However, it is agreed by the parties that if the Classification Certificates and/or other certificates are not available at the time of delivery of the Vessel, provisional certificates shall be accepted by Seaspan, provided that Conti shall furnish Seaspan with formal certificates as promptly as possible after such formal certificates have been issued.
 8. Copy of the DECLARATION OF WARRANTY of the Builder that the Vessel is delivered to the Seller free and clear of any liens, claims, mortgages, or other encumbrances upon Conti's title thereto, and in particular, that the Vessel is absolutely free of all burdens in the nature of imposts, taxes, or charges imposed by the prefecture or country of the port of delivery, as well as of all liabilities of the Builder to its sub-contractors and employees and crew and of all liabilities arising from the operation of the Vessel in trial runs, or otherwise, prior to delivery except as otherwise provided under the Building Contract.

II. Documents to be issued by Conti

1. Bill of Sale, duly notarized and apostilled, evidencing that title to the Vessel is transferred to Seaspan free of mortgages, liens and other encumbrances, such Bill of Sale to be executed in a the form as attached hereto as Exhibit III.
2. Power of Attorney, duly notarised, authorizing representatives of Conti to take all necessary steps to accept delivery of title to the Vessel from the Builder and give delivery of and convey title to the Vessel to Seaspan.
3. Notarised excerpt from the German Commercial Register showing the names and authorization of the Managing Directors of Conti accompanied by an in-house translation into English.

III. Documents to be executed by Conti and Seaspan

Protocol of Delivery and Acceptance with respect to the Vessel executed by Conti and Seaspan in the form as attached hereto as Exhibit IV or such other form acceptable to the Hong Kong Marine Department.

IV. Documents to be delivered by Seaspan at Vessel's Delivery

1. Notarially attested copy of Minutes of Meeting of the Board of Directors of Seaspan authorizing the purchase of the Vessel from Conti and the granting of a Power of Attorney to perform all acts necessary in connection with taking delivery of and acquiring title to the Vessel.
2. Notarially attested Power of Attorney, authorizing all acts necessary in connection with taking delivery of and acquiring title to the Vessel.
3. Original Certificate of Good Standing of Seaspan, dated no more than 10 Working Days prior to delivery of the Vessel.

SHIP BUILDING CONTRACT
(Contract Number: 1st Vessel – 06CA44S1981003
FOR
CONSTRUCTION OF ONE 2500 TEU CONTAINER VESSEL
(HULL No. YZJ2005–696C)]
Between
SEASPAN CORPORATION
as Buyer
and
JIANGSU YANGZIJANG SHIPBUILDING CO., LTD. and
GUANGDONG MACHINERY IMP. & EXP. CO., LTD.
collectively as Seller

TABLE OF CONTENTS

ARTICLE I - DESCRIPTION AND CLASS	2
1. Description:	2
2. Principal Dimensions and Characteristics:	2
3. Classification, Rules and Regulations:	3
4. Registration:	4
5. Contract Specifications and Approved Drawings:	4
6. Subcontracting and New Shipyard:	4
ARTICLE II - CONTRACT PRICE AND TERMS OF PAYMENT	5
1. Contract Price:	5
2. Adjustment of Contract Price:	5
3. Currency:	5
4. Terms of Payment:	6
(a) First Instalment:	6
(b) Second Instalment:	6
(c) Third Instalment:	6
(d) Fourth Instalment:	6
(e) Fifth Instalment:	6
(f) Sixth Instalment (the “ Delivery Instalment ”):	7
5. Method of Payment:	7
6. Expenses:	8
7. Advance Payment:	8
8. Refundment Guarantee:	8
ARTICLE III - ADJUSTMENT OF CONTRACT PRICE	10
1. Delivery:	10
2. Speed:	11
3. Fuel Consumption:	11
4. Deadweight:	11
5. Container capacity:	12
6. Reductions to be Independent of Each Other:	12
7. Application of Adjustment:	13
8. Effect of Rescission:	13
ARTICLE IV - APPROVAL OF PLANS AND DRAWINGS AND INSPECTION DURING CONSTRUCTION	14
1. Approval of Plans and Drawings:	14
2. Appointment of BUYER’s Representatives:	14
3. Inspection by BUYER’s Representatives:	15
4. Rights of the Representatives:	15
5. Facilities:	17
6. Liability for the Representatives:	17
7. Salaries and Costs:	17
8. SELLER’s Obligation:	17
9. Replacement of the Representatives:	18
10. Responsibility of BUYER:	18
11. Information to Representatives:	18
ARTICLE V - MODIFICATIONS, CHANGES AND EXTRAS	19
1. How Effected:	19
2. Changes in Rules of Classification Society, Regulations, etc.:	19
3. Substitution of Materials:	20

ARTICLE VI - TRIALS AND ACCEPTANCE	21
1. Notice:	21
2. Weather Condition:	21
3. How Conducted:	21
4. Method of Acceptance or Rejection:	22
5. Effect of Acceptance:	23
6. Disposition of Surplus Consumable Stores:	23
ARTICLE VII - DELIVERY	24
1. Time and Place:	24
2. When and How Effected:	24
3. Documents to be delivered to BUYER:	24
4. Tender of VESSEL:	25
5. Title and Risk:	25
6. Removal of VESSEL:	26
7. Notices:	26
ARTICLE VIII - DELAYS AND EXTENSION OF TIME FOR DELIVERY (FORCE MAJEURE)	27
1. Causes of Delay (Force Majeure):	27
2. Notice of Delay:	27
3. Definition of Permissible Delay:	28
4. Right to Rescind for Excessive Delay:	28
ARTICLE IX - WARRANTY OF QUALITY	29
1. Guarantee:	29
2. Guarantee from Manufacturers and Suppliers:	29
3. Notice of Defects:	29
4. Extent of SELLER's Obligation:	29
5. Remedy of Defects:	30
6. Guarantee Period:	31
7. Application to Defects Remedied:	32
8. SELLER to Remain Liable:	32
9. Guarantee Engineer:	32
ARTICLE X - SELLER's DEFAULT - RESCISSION BY BUYER	34
1. SELLER's Default:	34
2. Effect of SELLER's Default:	35
3. Notice:	35
4. Refundment by SELLER:	35
5. Discharge of Obligations:	36
ARTICLE XI - DEFAULT BY THE BUYER	37
1. Definition of BUYER's Default:	37
2. Effect of BUYER's Default on or before Delivery of VESSEL:	37
3. Disposal of VESSEL:	38
ARTICLE XII - ARBITRATION	39
1. Decisions by the Classification Society:	39
2. Proceedings of Arbitration:	39
3. Notice of Award:	40
4. Expenses:	40
5. Entry in Court:	40
6. Alteration of Delivery Date:	40
ARTICLE XIII - ASSIGNMENT - SUCCESSOR AND ASSIGNS	42

ARTICLE XIV - TAXES AND DUTIES	42
1. Taxes and Duties Incurred in China:	42
2. Taxes and Duties Incurred outside China:	42
ARTICLE XV - PATENTS, TRADEMARKS, COPYRIGHTS, ETC.	43
1. Patents, Trademarks and Copyrights:	43
2. General Plans, Specifications and Working Drawings:	43
ARTICLE XVI - BUYER'S SUPPLIES	44
1. Responsibility of BUYER:	44
2. Responsibility of SELLER:	44
ARTICLE XVII - INSURANCE	46
1. Extent of Insurance Coverage:	46
2. Application of the Recovered Amounts:	46
3. Termination of SELLER's Obligation to Insure:	47
ARTICLE XVIII - NOTICES	48
1. Address:	48
2. Language:	48
3. Effective Date of Notice:	49
4. Change of Address:	49
ARTICLE XIX - EFFECTIVE DATE OF CONTRACT	50
ARTICLE XX - INTERPRETATION	51
1. Laws Applicable:	51
2. Joint and Several Liability:	51
3. Entire Agreement:	51
4. Amendments and Supplements:	51
5. Banking Day:	51
6. No Set Off, Deduction or Counter-claim:	52
7. Deemed Benefit for Servants, etc.:	52
8. Responsibility:	52
9. Time of the Essence:	52
10. Headings:	53

THIS CONTRACT, made and entered into on this 28th day of February, 2006, by and between:

Seaspan Corporation, a corporation incorporated and existing under the laws of the Republic of the Marshall Islands, having a place of business at Room 503, 5/F, Lucky Commercial Center, 103 Des Voeux Road West, Hong Kong, China (hereinafter referred to as the “**BUYER**”), of the one part;

and

Jiangsu Yangzijiang Shipbuilding Co., Ltd. (the “**Builder**”), a company organized and existing under the laws of China with a registered office at Emeizui Huangshan, Jiangyin City, Jiangsu Province, 214431, The People’s Republic of China and Guangdong Machinery Imp. & Exp. Co. Ltd. (the “**Trading House**”) a company organized and existing under the laws of the People’s Republic of China and having a registered office at 726 Dong Feng Road East, Guangzhou, 510080 (hereinafter referred to collectively as the “**SELLER**”), of the other part.

For the purpose of this Contract, the Builder and Trading House are agents for each other in relation to the BUYER so that any notice, message, payment or consent duly given to or by any of them shall be deemed to have been duly given also to or by the other whenever applicable, and that they are jointly and severally liable under this Contract in relation to the BUYER.

WITNESSETH:

In consideration of the mutual covenants herein contained, the SELLER agrees to design, build, launch, equip and complete in accordance with first class shipbuilding practice in China, this Contract, the Specifications, the Approved Drawings and the Classification Society Rules, in all respects, one (1) Ocean Going Single Screw diesel engine driven fully Cellular Container Vessel as described herein and in the Specifications referred to herein (hereinafter called the “**VESSEL**” which term shall, where it appears, include its design, drawings, plans machinery, engines, equipment, fittings, outfittings, appurtenances, furniture, materials, parts, spares, articles and things whatsoever specified or required by the Specifications and/or otherwise under this Contract), at the SELLER’s shipyard located in Emeizui Huangshan, Jiangyin City, Jiangsu Province, People’s Republic of China (hereinafter called the “**Shipyard**”) and to deliver and sell the same to the BUYER free and clear of all liens, charges, mortgages and encumbrances, and the BUYER hereby agrees to purchase and accept delivery of the VESSEL from the SELLER and to pay for the same upon the terms and conditions hereinafter set forth.

ARTICLE I - DESCRIPTION AND CLASS

1. Description:

The VESSEL shall be a Single Screw Cellular Container VESSEL having the Builder's Hull No. YZJ2005-696C and shall be designed, constructed, equipped, inspected, tested, ready for sea and suitable in all respects for its intended use, in accordance with the provisions of this Contract, the Specifications, the Approved Drawings and the Classification Society Rules (each as hereinafter defined). The Approved Drawings and the Classification Society Rules shall constitute an integral part hereof. A reference hereafter in this Contract to Specifications shall be deemed to include the Approved Drawings and the Classification Society Rules. The SELLER undertakes that the quality of the design, construction, testing and trials of the VESSEL and the quality of the VESSEL and of her workmanship shall be in accordance with the first class shipbuilding practice in China.

2. Principal Dimensions and Characteristics:

- (a) The SELLER guarantees that the VESSEL will have the following:

Length, overall	app.	208.50 m
Length, between perpendiculars		196.50 m
Breadth, moulded		29.80 m
Depth, moulded		16.40 m
Designed draught, moulded		10.10 m
Scantling draught, moulded		11.50 m
Main Engine		MAN B&W 6K80MC-C (with alpha lubricator)
MCR x RPM		21660 KW at 104 RPM
CSR (90% MCR)		19494 KW at 100.4 RPM

- (b) The SELLER guarantees that the VESSEL shall have the following capacity of ISO standard 20' x 8' x 8' 6" Containers (the "**Guaranteed Container Capacity**"), compliant with IMO visibility requirements, namely:

Nominal capacity

Under deck -	984 TEU
On deck -	<u>1562</u> TEU (in 8 tiers)
Total -	2546 TEU

Homogenous capacity (14 ton per TEU): 1900 TEU

- (c) The SELLER guarantees that the VESSEL shall have a deadweight of not less than 33,800 metric tons on scantling draught as calculated in accordance with the provisions of the Specifications (hereinafter called the "**Guaranteed Deadweight**"). The actual deadweight of the VESSEL expressed in tonnes of 1,000 kilograms shall be determined in the presence of the Representatives of the BUYER, the Classification Society and the SELLER on the basis of the actual measurement of the lightweight of the completed

VESSEL, and thereafter a certificate of deadweight shall be issued by the SELLER. The cost, if any, shall be for the account of the SELLER.

- (d) The SELLER guarantees that the speed of the VESSEL, based on calculations from sea trial as stipulated and on the conditions prescribed in the Specifications, shall be twenty two (22) knots, at design draught of 10.10 metres and at CSR (90% MCR) of main engine (hereinafter called the **"Guaranteed Speed"**).
- (e) The SELLER guarantees that fuel consumption for the main engine, the figure of which shall be calculated by applying I.S.O. reference condition to the result obtained at the shop trial, shall not exceed 171 g/KWh at a normal continuous output as stipulated and on the conditions prescribed in the Specifications (hereinafter called the **"Guaranteed Fuel Consumption"**).

The details of the aforementioned particulars as well as the definitions and method of measurements and calculations are as indicated in the Specifications.

3. Classification, Rules and Regulations:

The VESSEL shall be designed, constructed, equipped, inspected, tested and completed in accordance with the rules and regulations of and under special survey of Lloyds Register of Shipping (hereinafter called the **"Classification Society"**), the editions and amendments in force as of the date of this Contract (the **"Classification Society Rules"**, and wherever the term "Classification Society Rules" is used in this Contract, it means the rules of the Classification Society as stipulated in the Contract and the Specifications).

The VESSEL shall be distinguished in the register by the symbol of ✱100A1 Containership *IWS, LI, ShipRight (SDA, CM) ✱LMC, UMS NAV1, SCM, with descriptive notes "ShipRight BWMP(F). Pt. Ht." Details of Class notation shall be in accordance with the Specifications.

Decisions of the Classification Society as to compliance or non-compliance with the classification rules and regulations shall be final and binding upon both parties hereto, except where this Contract provides for Arbitration.

The VESSEL shall comply with rules, regulations, recommendations and requirements of the authorities as described and listed in the Specifications in force as of the date of the Contract signing, together with all mandatory rules and regulations with amendment, which have already been ratified up to the contract signing date and to come into effect prior to the scheduled delivery date of the VESSEL.

The SELLER shall arrange with the Classification Society for the assignment by the Classification Society of a representative (hereinafter referred to as the **"Classification Surveyor"**) to the VESSEL during all stages of construction. All materials, workmanship and major plans used in the construction of the VESSEL shall be subject to inspection and test by the Classification Society in accordance with the rules and regulations of the Classification Society. All fees and charges in connection with or incidental to the classification of the VESSEL, to all certificates required under this Contract and the Specifications, and to compliance with the above specified rules, regulations and requirements, shall be for the account of the SELLER.

No omission of the Classification Society and/or Classification Surveyor shall, in any way, diminish or impair the obligations and liabilities of the SELLER under the terms of this Contract.

4. Registration:

The VESSEL, at the time of her delivery and acceptance, shall be designed and constructed to qualify for registration at the port of registry by the BUYER under the Hong Kong flag. The costs of registration of the VESSEL in Hong Kong are for the BUYER's expense. The SELLER shall obtain and deliver to the BUYER at delivery and acceptance the Certificates required pursuant to the Specifications.

5. Contract Specifications and Approved Drawings:

(a) Definition

In this Contract, "**Specifications**" means the full specifications with reference no. M2004M-4034-01A, General Arrangement Drawing reference no. Q84.4197.100.002, Midship Section reference no. Q84.4197.110.001 and Makers List reference no. M2004M-4034-02A signed by each of the parties for identification and constituting an integral part hereof. In this contract "**Approved Drawings**" means the drawings and plans approved by the BUYER pursuant to ARTICLE IV, Clause 1. Subject to provisions of Sub-clause (b) hereunder, the Specifications and the Approved Drawings are intended to complement this Contract as well as one another and everything contained in the Specifications and/or the Approved Drawings shall have full force and effect as if incorporated within the body of this Contract.

The parties acknowledge that the design and configuration of the VESSEL is based on the design and configuration for Hull No. YZJ2004-680C, subject to the Specifications, the drawings approved pursuant to ARTICLE IV and this Contract.

(b) Precedence

Should there be any inconsistency or discrepancy between this Contract and the Specifications or between this Contract and the Approved Drawings, this Contract shall prevail. Should there be any inconsistency or discrepancy between the Specifications and the Approved Drawings, the Specifications shall prevail.

6. Subcontracting and New Shipyard:

The SELLER may, with prior written notice to and consent from the BUYER, subcontract construction of the blocks of the VESSEL, except the major hull structure parts, to experienced subcontractors within Jiangsu Province area, but delivery and final assembly into the VESSEL of any such work subcontracted shall be at the yard of the SELLER. The BUYER acknowledges that the Builder is affiliated with the shipyard located at Jingjiang, Jiangsu Province (the "**New Shipyard**") and the SELLER may use the New Shipyard for construction of the VESSEL. The SELLER shall always remain fully responsible for the performance of this Contract with regard to the work done or materials supplied or used by such Subcontractors or the New Shipyard in accordance with this Contract. The subcontractors and the New Shipyard shall perform up to the same standard as the SELLER for such work performed by them.

(end of Article)

ARTICLE II - CONTRACT PRICE AND TERMS OF PAYMENT

1. Contract Price:

The agreed purchase price of the VESSEL is forty-one million two hundred and fifty thousand United States Dollars (US\$41,250,000), net receivable by the SELLER (hereinafter called the “**Contract Price**”).

The Contract Price shall be subject to upward or downward adjustment, if any, as herein after set forth in this Contract. The Contract Price includes payment for services in the design, inspection, tests, trials, survey and classification of the VESSEL which shall be rendered by the Classification Society and all costs and expenses for supplying all drawings and plans (except those to be furnished by the BUYER in respect of the BUYER's Supplies) and designs, machinery, engines, equipment, fittings, outfittings, appurtenances, furniture, materials, parts, spares, articles and things whatsoever and specified or required by the Specifications and/or otherwise under this Contract for the VESSEL and all other items and acts necessary for the due and punctual performance of the SELLER's obligations under or pursuant to this Contract.

The Contract Price does not include the cost of items to be supplied by the BUYER as stipulated in Clause 1 of ARTICLE XVI of this Contract.

2. Adjustment of Contract Price:

Any increase or decrease of the Contract Price due to adjustments made in accordance with the provisions of this Contract shall be adjusted by way of addition to or subtraction from the Delivery Instalment of the Contract Price upon delivery of the VESSEL in the manner as hereinafter provided.

No later than five (5) Banking Days prior to the scheduled date for the acceptance of delivery of the VESSEL, the parties hereto shall conclude an agreement on all adjustments of the Contract Price, if any. If the parties cannot agree on the adjustments specified in ARTICLE III, delivery of the VESSEL shall take place as provided herein and:

- (a) the adjustments to which the parties have agreed will be made to the Delivery Instalment; and
- (b) the adjustments or portion thereof that have not yet been agreed shall be determined by arbitration pursuant to ARTICLE XII herein.

Notwithstanding the foregoing, adjustment in connection with the delay in delivery of the VESSEL shall be made on delivery to the Delivery Instalment.

3. Currency:

Any and all payments which are due under this Contract or to be refunded under the terms thereof shall be made in United States Dollars.

4. Terms of Payment:

Subject to ARTICLE II, Clause 8, the Contract Price shall be due and payable by the BUYER to the SELLER in five instalments as follows:

(a) First Instalment:

The first instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid by the BUYER within five (5) Banking Days of the Effective Date (as defined by ARTICLE XIX).

(b) Second Instalment:

The second instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid on the first Banking Day that is twelve (12) months after the date of this Contract.

(c) Third Instalment:

The third instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of the notice of cutting of the first steel plate of the VESSEL in the SELLER's workshop has occurred.

The SELLER shall give a fax or letter notice to the BUYER stating that the first steel plate has been cut in its workshop and demand for payment of this instalment. Such notice shall include a Builder's certificate of steel cutting, which shall be endorsed by the Classification Surveyor.

(d) Fourth Instalment:

The fourth instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of notice of keel-laying of the first section of the VESSEL.

The SELLER shall give a fax or letter notice to the BUYER stating that the first section has been carried out and demand for payment of this instalment. Such notice shall include a Builder's certificate of keel-laying, which shall be endorsed by the Classification Surveyor.

(e) Fifth Instalment:

The fifth instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of notice of launching of the VESSEL.

The SELLER shall give a fax or letter notice to the BUYER stating that the launching has been carried out and demand for payment of this instalment. Such notice shall include a Builder's certificate of launching which shall be endorsed by the surveyor of the Classification Society.

(f) Sixth Instalment (the “**Delivery Instalment**”):

The sixth instalment amounting to US\$20,625,000 representing fifty percent (50%) of the Contract Price, plus any increase or minus any decrease due to adjustment of the Contract Price under the provisions of this Contract shall be due and payable and shall be paid simultaneously with the delivery to and acceptance of the VESSEL by the BUYER and upon the signing of the Protocol of Delivery and Acceptance by both parties.

5. Method of Payment:

All the pre-delivery payments and the payment due on delivery in settlement of the Contract Price as provided for in Clause 4 of this ARTICLE II shall be made in United States Dollars on or before the due date thereof by telegraphic transfer as follows:

(a) Payment of the instalments prior to the Delivery Instalment

Payment of the first, second, third, fourth and fifth instalments shall be made by remitting the respective amounts, at the BUYER’s own cost and expense, to the receiving bank nominated by the SELLER and advised to the BUYER not less than ten (10) days prior to the date of the relevant instalment, for credit to the account of the SELLER with SELLER’S Bank, or through other receiving bank to be nominated by the SELLER from time to time, and such nomination shall be notified to the BUYER at least ten (10) days prior to the due date for payment (herein referred to as the “**SELLER’s Bank**”).

(b) Payment of the Delivery Instalment

The BUYER shall, at least three (3) business days prior to the actual date of delivery of the VESSEL, request BUYER’s bank to make an irrevocable cash deposit in an account in the name of BUYER’s bank with the SELLER’s Bank, the People’s Republic of China, for a period of fifteen (15) days and covering the amount of this instalment (as adjusted in accordance with the provisions of this Contract), with an irrevocable instruction that the said amount shall be released to the SELLER against presentation by the SELLER to the said SELLER’s Bank of a copy of the Protocol of Delivery and Acceptance signed by the BUYER’s authorized representative and the SELLER. Interest, if any, accrued from such deposit, shall be for the benefit of the BUYER.

If the SELLER has not presented the said original of the Protocol of Delivery and Acceptance duly signed by the SELLER and BUYER to the SELLER’s Bank on or before the expiry of the aforesaid fifteen (15) day deposit period, the BUYER shall have the right to withdraw the said deposit plus accrued interest upon the expiry of such fifteen (15) day period. However, if a new delivery date is agreed between the BUYER and the SELLER, the BUYER shall make the cash deposit in accordance with the same terms and conditions as set out above.

The SELLER’s Bank will be Bank of China Ltd. (Guangdong Branch), Bank of China Ltd. (Jiangyin Branch), the Export-Import Bank of China or such other bank to which the SELLER and BUYER may agree.

For the avoidance of doubt any interest earned on the cash deposit before delivery and acceptance of the VESSEL shall belong to the BUYER and the BUYER shall be entitled to instruct the Bank accordingly.

If or when the SELLER advises the BUYER of a revised scheduled delivery date in accordance with this Contract, the BUYER shall redeposit the Delivery Instalment in the same manner as stated above at least one business day prior to such revised scheduled delivery date or if not possible upon notice.

Simultaneously with each of such payments, the BUYER shall advise the SELLER of the details of such payments by telex, fax or cable.

If any of the above payment dates is not a Banking Day then the payment(s) so due on such non-Banking Day shall be understood to be payable on the next Banking Day after the date on which payment should have been made in accordance with this Clause 5.

In the event of default in the payment of any instalment in Clause (a) or (b) of this Clause 5, the BUYER shall pay default interest, charges and expenses in accordance with Clause 2 (a) of ARTICLE XI hereof.

6. Expenses:

All charges, expenses and bank charges outside of China for remitting payments and any taxes, duties, expenses and fees outside of China connected with such payment shall be for the account of the BUYER. All charges, expenses and bank charges and any taxes, duties, expenses and fees arising inside China for remitting payment shall be for the account of SELLER.

7. Advance Payment:

The payment of the Contract Price by way of the instalments set out in Clause 4 of this ARTICLE II shall be in the nature of advance(s) and shall be subject to refund to the BUYER in accordance with the provisions of this Contract.

8. Refundment Guarantee:

As security for the refund of instalments paid by the BUYER to the SELLER prior to delivery of the VESSEL, including interest thereon as set out in ARTICLE X herein, the SELLER will provide the BUYER with an Irrevocable Letter of Refundment Guarantee (the “**Refundment Guarantee**”) in favour of the BUYER issued by the SELLER’S Bank (hereinafter called the “**Refundment Guarantor**”) for each instalment of the Contract Price. Each Refundment Guarantee will cover the amount of the relevant instalment, together with interest thereon as set out in ARTICLE X herein, and the receipt of the Refundment Guarantee by the BUYER is a pre-condition to payment by the BUYER of the relevant instalment.

Alternatively, the SELLER may provide the BUYER with one Refundment Guarantee issued by the Refundment Guarantor that covers the aggregate amount of 1st, 2nd, 3rd, 4th and 5th instalments together with interest thereon as set out in ARTICLE X herein. This form of Refundment Guarantee would remain a pre-condition to the payment by the BUYER of the first instalment.

The Refund Guarantee or Guarantees, as the case may be, will become effective upon receipt of the relevant instalment to which the Refund Guarantee relates by the SELLER and must remain in effect until the earlier of: (1) the VESSEL is delivered to and accepted by the BUYER; (2) a refund of the full amount covered by the Refund Guarantee has been made by the SELLER or the Refund Guarantor; and (3) 180 days after the Delivery Date. The BUYER will not be required to make any further instalment to the SELLER if at any time a Refund Guarantee or Guarantees which was in effect ceases to be in effect.

The Refundment Guarantee or Guarantees, as the case may be, shall be substantially in the form of Exhibit "A" attached hereto. If the condition in Article XIX (b) is satisfied, the SELLER will have sixty (60) days from the condition satisfaction date to provide to the BUYER a Refundment Guarantee with respect to the first instalment substantially in the form attached as Exhibit "A" hereto and approved by the Refund Guarantor and the BUYER'S bank. Prior to delivery to the BUYER, the Refundment Guarantee or Guarantees, as the case may be, must be registered with or approved by (only if registration or approval is required) the relevant government agencies pursuant to any legislation in the People's Republic of China applicable to the provision of such instruments, including The State Administration of Foreign Exchange.

However, in the event of any dispute between the SELLER and the BUYER with regard to the SELLER's obligation to repay the instalment or instalments paid by the BUYER and to the BUYER's right to demand payment from the Refundment Guarantor, under its guarantee, and such dispute is submitted either by the SELLER or by the BUYER for arbitration in accordance with ARTICLE XII hereof, the Refundment Guarantor shall withhold and defer payment until the arbitration award between the SELLER and the BUYER is published. The Refundment Guarantor shall not be obliged to make any payment unless the arbitration award orders the SELLER to make repayment. If the SELLER fails to honour the award within 10 days of notice, then the Refundment Guarantor shall make payment to the BUYER under the Refundment Guarantee.

All expenses in issuing and maintaining the Refundment Guarantee or Refundment Guarantees, as the case may be, by the Refund Guarantor shall be borne by the SELLER.

(end of Article)

ARTICLE III - ADJUSTMENT OF CONTRACT PRICE

The Contract Price shall be subject to adjustment, as hereinafter set forth, in the event of any of the following contingencies (it being agreed and understood by both parties that any reduction of the Contract Price under this ARTICLE III is by way of liquidated damages and not by way of penalty).

1. Delivery:

- (a) No adjustment shall be made and the Contract Price shall remain unchanged for the first thirty (30) days of delay in delivery of the VESSEL beyond the Delivery Date as defined in ARTICLE VII hereof (ending as of 11:59 p.m. in China of the 30th day of delay).
- (b) If the delivery of the VESSEL is delayed by more than thirty (30) days after the Delivery Date, then, in such event, beginning at twelve o'clock midnight in China of the 30th day after the Delivery Date, the Contract Price shall be reduced by deduction therefrom as follows: from the 31st day to 60th day - US\$15,000 per day and from the 61st day to the 150th day - US\$23,500 per day. In any event (including the event that the BUYER consents to take the VESSEL at the later delivery date after the expiration of one hundred and fifty (150) days delay of delivery as described in Clause 1(c) of this ARTICLE III or in Clause 4 of ARTICLE VIII) the total reduction in the Contract Price shall not exceed the amount due to cover the delay of 120 days after the first 30 days hereinabove referred to for the delay in delivery of the VESSEL at the rate of reduction as specified above.
- (c) However, if the delay in delivery of the VESSEL should continue for a period of one hundred and fifty days from the Delivery Date, then in such event, and after such period has expired, the BUYER may, at its option, rescind this Contract in accordance with the provisions of ARTICLE X hereof and reject the VESSEL.

The SELLER may, at any time after the expiration of the aforementioned one hundred and fifty days of delay in delivery, if the BUYER has not served notice of rescission as provided in ARTICLE X hereof, demand in writing that the BUYER shall make an election, in which case the BUYER shall within twenty (20) days after such demand is received by it notify the SELLER of its intention either to rescind this Contract or to consent to the acceptance of the VESSEL at an agreed future date. If the BUYER shall not make an election within twenty (20) days as provided herein above, the BUYER shall be deemed to have accepted such extension of the delivery date to the future delivery date indicated by the SELLER and it being understood by the parties hereto that if the VESSEL is not delivered by such future date, the BUYER shall have the same right of rescission upon the same terms and conditions as herein above provided.

- (d) For the purpose of this ARTICLE III, the delivery of the VESSEL shall be deemed not to be delayed and the Contract Price shall not be reduced when and if the Delivery Date of the VESSEL is extended by reason of causes and provisions of ARTICLE IV Clause 4(i)(2), ARTICLE V, ARTICLE VI, ARTICLE XI, ARTICLE XII, ARTICLE XVI and ARTICLE XVII or by reason of Permissible Delay as defined in ARTICLE VIII.

2. Speed:

- (a) The Contract Price shall not be affected or changed by reason of the actual trial speed (as determined according to the Specifications) being less than the Guaranteed Speed, if such deficiency is not more than 0.15 of one (1) knot below the Guaranteed Speed.
- (b) However, commencing with and including a deficiency of more than 0.15 of one (1) knot in actual speed below the Guaranteed Speed, the Contract Price shall be reduced by USD50,000 for each successive whole 0.10 of a knot and pro-rata for any fraction thereof in excess of a deficiency of 0.15 of a knot.
- (c) If the deficiency in the actual trial speed upon final sea trial is more than 0.55 of a knot below the Guaranteed Speed of the VESSEL, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof, or may accept the VESSEL at a reduction in the Contract Price as above provided that the total reduction does not exceed two hundred thousand United States Dollars (US\$200,000) being the maximum.

3. Fuel Consumption:

- (a) The Contract Price shall not be affected or changed in case the actual fuel consumption, as determined by the engine manufacturer's shop trial (171 g/KWh) as specified in the Specifications, is not more than tolerance margin of five percent (5%) in excess of the Guaranteed Fuel Consumption.
- (b) However, in the event that the actual fuel consumption at the shop trial is in excess of five percent (5%) of the Guaranteed Fuel Consumption, the Contract Price shall be reduced by the sum of seventy thousand United States Dollars (US\$70,000) for each full one percent (1%) increase in fuel consumption and pro rata for any fraction of one percent (1%) of the Guaranteed Fuel Consumption in excess of the said five percent (5%) up to maximum of eight percent (8%) over the Guaranteed Fuel Consumption.
- (c) If the fuel consumption of the main engine exceeds the Guaranteed Fuel Consumption by more than eight percent (8%), then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof, or may accept the VESSEL at a reduction in the Contract Price as above provided for eight percent (8%) only, that is, at a total reduction of two hundred and ten thousand United States Dollars (US\$210,000) being the maximum.

4. Deadweight:

- (a) In the event that there is a deficiency in the actual deadweight of the VESSEL (33800 MT) determined as provided in the Specifications, the Contract Price shall not be decreased if such deficiency is two hundred (200) metric tons or less below the guaranteed deadweight described in the Specification.
- (b) In the event that the actual deadweight of the VESSEL as determined in accordance with the Specifications is less than the Guaranteed Deadweight, the Contract Price shall be

reduced by the sum of two thousand United States Dollars (US\$2,000) for each full metric ton of such deficiency being more than two hundred (200) metric tons.

- (c) In the event of such deficiency in the actual deadweight of the VESSEL being eight hundred (800) metric tons or more, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or accept the VESSEL at a reduction in the Contract Price as above provided for eight hundred (800) metric tons only, that is, at a total reduction of one million two hundred thousand United States Dollars (US\$1,200,000).

5. Container capacity:

- (a) In the event that the actual nominal container capacity of the VESSEL as determined in accordance with the Specifications is less than the Guaranteed Container Capacity of 2546 TEU by more than forty-six (46) TEUs, the Contract Price shall be reduced by the sum of thirty thousand United States Dollars (US\$30,000) for each container TEU of deficiency in excess of forty-six (46) TEUs.
- (b) In the event of the foregoing deficiency is fifty-five (55) TEU containers or more, the BUYER may, at its option reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or may accept the VESSEL at a total reduction in the Contract Price as above provided of two hundred and seventy thousand United States Dollars (US\$270,000).
- (c) Notwithstanding anything contained herein, the homogenous intake of containers of 14 ton TEU will not be below 1900.
- (d) In the event that the actual homogenous intake of containers of 14 ton TEU is less than 1900, the Contract Price shall be reduced by the sum of:
(1) twenty-one thousand five hundred United States Dollars (US\$21,500) for each TEU of such deficiency up to and including twenty (20) TEUs; and
(2) thirty-five thousand United States Dollars (US\$35,000) for each TEU of such deficiency from and including twenty-one (21) TEU up to and including twenty-five TEU.
- (e) In the event of such deficiency in the actual homogenous intake of containers being twenty-six (26) TEU or more, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or may accept the VESSEL at a total reduction in the Contract Price as above provided of six hundred and five thousand United States Dollars (US\$605,000).

6. Reductions to be Independent of Each Other:

Reductions permitted herein are independent of each other and in the event of there being contingencies which necessitate the application of two or more Clauses, there shall be separate reductions in the Contract Price in respect of each contingency.

7. Application of Adjustment:

Unless the parties agree otherwise, the total reduction in the Contract price shall be deducted from the Delivery Instalment of the Contract Price in accordance with ARTICLE II, Clause 4.

8. Effect of Rescission:

It is expressly understood and agreed by the parties hereto that in any case as stated herein, if the BUYER rescinds this Contract pursuant to any provision under this ARTICLE III, the BUYER, save its rights and remedies set out in ARTICLE X hereof, shall not be entitled to any liquidated damages or compensation whether described above or otherwise.

(end of Article)

**ARTICLE IV - APPROVAL OF PLANS AND DRAWINGS AND INSPECTION DURING
CONSTRUCTION**

1. Approval of Plans and Drawings:

- (a) The SELLER shall submit to the BUYER three (3) copies of the plans and drawings to be submitted thereto for its approval at its address as set forth in ARTICLE XVIII hereof. For those plans and drawings that have been approved as of the date of the Contract by the BUYER of Hull No. YZJ2004-680C and are unaffected by Specifications herein, the SELLER shall submit such plans and drawings to the BUYER within 45 days of date of the Contract. The BUYER shall have ninety (90) days thereafter to submit comments and return one plan or drawing, as the case may be, to the SELLER.

For all other plans and drawings, to be approved hereunder, the BUYER shall, within twenty-one (21) days after receipt thereof, return to the SELLER one (1) copy of such plans and drawings with the BUYER's approval or comments written thereon, if any, within the terms of the Specifications and the Contract. The SELLER must respond to the comments of the BUYER within twenty-one (21) days. Any alterations to the Specifications resulting from such comments shall be dealt with in accordance with ARTICLE V, Clause 1. If any modifications and or changes are made to the plans which have been reviewed or approved by the BUYER, the SELLER shall submit such plans either partially or totally to the BUYER for reapproval in accordance with this Clause. A list of the plans and drawings to be so submitted to the BUYER shall be mutually agreed upon between the parties hereto and such plans and drawings shall then constitute "**Approved Drawings**".

- (b) In the event that the BUYER shall fail to return the plans and drawings to the SELLER by fax or otherwise within the time limit as hereinabove provided, such plans and drawings shall be deemed to have been automatically approved without any comment.
- (c) No act or omission of the BUYER in reviewing or approving the plans and/or drawings shall, in any way, diminish or impair the obligations and liabilities of the SELLER under the terms of this Contract.

2. Appointment of BUYER's Representatives:

The BUYER may send to and maintain at the Shipyard, at the BUYER's own cost and expense, one or more Representatives who shall be duly authorized in writing by the BUYER (herein called the "**Representatives**") to supervise the construction by the SELLER of the VESSEL and to act on behalf of the BUYER in connection with the modifications of the Specifications, approval of the plans and drawings, attendance to the tests, inspections and trials relating to the VESSEL, and any other matters for which he is specifically authorized by the BUYER. The Representatives may appoint assistant(s) to attend at the Shipyard for the purposes as aforesaid.

Upon appointment of the Representatives, the BUYER shall notify the SELLER in writing of the name and the scope of authority of the Representatives. Before the commencement of any item of work under this Contract, the SELLER shall, whenever reasonably required, exhibit,

furnish to, and within the limits of the Representative's authority, secure the approval from the Representatives of any plans and drawings prepared in connection therewith.

3. Inspection by BUYER's Representatives:

The necessary inspections and testing of the VESSEL shall be carried out by the Classification Society, other regulatory bodies and an inspection team of the BUYER, including the Representatives, throughout the entire period of construction, in order to ensure that the construction of the VESSEL is duly performed in accordance with this Contract and the Specifications.

4. Rights of the Representatives:

- (a) The Representatives shall, at all times during the construction until delivery and acceptance of the VESSEL, have the reasonable right to inspect the VESSEL and all work in progress, materials utilized and quality of work in connection with the construction thereof wherever such work is being done within the Shipyard's premises or wherever such materials and equipment are stored, for the purpose of determining that the VESSEL is being constructed in accordance with the terms of this Contract and the Specifications.
- (b) The Representatives shall have the unrestricted right to visit the VESSEL and all work in progress. The Representatives shall also have the reasonable right to visit, with the SELLER'S attendance or introduction as necessary, all property and premises utilized in connection with the construction of the VESSEL, wherever and whenever such premises is being utilized or such property is stored.
- (c) The construction of the VESSEL shall be subjected, throughout the entire period of construction, to quality control by a quality control department of the SELLER. The necessary tests and inspection by the Classification Society and other regulatory bodies concerned shall also be carried out and recorded and all results of quality control and tests and inspections shall be communicated in the form documented, or in the absence of documentation, orally, to the Representatives.
- (d) The Representatives may attend during construction of the VESSEL, tests and inspection of the VESSEL, its machinery and equipment. The SELLER shall give the Representatives at least one (1) week advance notice for tests and inspections within the Shipyard stating approximate particulars of any tests or inspections which may be attended by the Representatives provided that in exceptional circumstances the manner in which such notice is given may be modified by mutual agreement. Notice of tests and inspections to be conducted shall also be given to the Representatives latest up to 5:00 p.m. of the day prior to the day on which any tests or inspections shall occur.

For test or inspections outside the Shipyard, including manufacturer's shop tests, sufficient advance notice to allow for the Representatives to arrange transportation shall be given. This advance notice should not be less than seven (7) days for tests or inspections that require air travel for attendance.

Inspection schedule must be reasonable at all times in order to allow the BUYER's Representatives to carry out their duties properly and inspections must be spread over a reasonable time, but to follow building schedule at the same rate. In principle, inspections will not take place on Saturdays, Sundays and Holidays, unless mutually agreed upon and necessary in order to meet the SELLER'S schedule.

Failure of the Representatives to be present at the tests and inspections after due notice shall be deemed to be a waiver of the BUYER's right to be present. In such case the BUYER shall be obliged to accept the result of such test on the basis of the SELLER'S certificate, signed by the Classification Society, that the said result is conforming to the provisions of this Contract and the Specifications.

- (e) The Representatives shall notify the SELLER promptly, in writing, if, in his opinion, the VESSEL is not being constructed in accordance with this Contract or the Specifications. The BUYER may at its election send a copy of such notification to the Classification Society.
- (f) No act or omission of the Representatives or his assistants shall, in any way, diminish or impair the liability of the SELLER under this Contract and/or the Specifications.
- (g) The Representatives shall advise and consult the SELLER on all matters pertaining to the construction of the VESSEL, as may be required by the SELLER, or as he may deem necessary.
- (h) The inspection thus exercised on behalf of the BUYER shall not alter or diminish the responsibility of the SELLER to construct the VESSEL in accordance with the Contract and the Specifications.
- (i) In the event that the Representatives advise the SELLER that they have discovered and believe the VESSEL is not being constructed in accordance with this Contract or the Specifications, and the SELLER shall not agree with the views of the Representatives in such respect, as provided in Clause (e) of this ARTICLE III, either the BUYER or the SELLER shall seek a decision of the Classification Society in accordance with Clause 1 of ARTICLE XII of this Contract. The Classification Society shall determine whether or not a non-conformity with the provisions of this Contract or the Specifications exists.
 - (1) If the Classification Society enters a determination in favour of the BUYER, then in such case the SELLER shall make the necessary alterations or changes, or if such alterations or changes cannot be made in time to meet the construction schedule for the VESSEL and the BUYER so agrees, which shall not be unreasonably withheld, but without prejudice to BUYER's other rights under this Contract, the Contract Price shall be fairly and reasonably reduced (as agreed between the Parties hereto and failing which by Arbitration as hereinafter provided) in lieu of such alterations and changes.
 - (2) If the Classification Society enters a determination in favour of the SELLER, then the time for delivery of the VESSEL shall be extended for the period of delay in construction, if any, occasioned by such proceedings, and the BUYER shall compensate the SELLER for the proven loss and damages incurred by the SELLER as a result of the dispute herein referred to.

The SELLER undertakes to inform the Classification Society in writing within thirty (30) days of the date of this Contract that the SELLER has no objection to the BUYER making an arrangement with the Classification Society for receiving copies of any technical correspondence exchanged between the SELLER and the Classification Society in the course of design, testing, approval, inspection, survey, supervision, certification and construction of the VESSEL.

5. Facilities:

The SELLER shall, at no cost to the BUYER, furnish suitably lighted and air conditioned office space for a team of approximately twelve (12) Representatives all along, including desks, chairs, tables, changing room, toilet and shower space, office furniture, drawing table, filing cabinets, telephone circuit and use of other communications equipment such as telephone, facsimile, email/internet and such other reasonable facilities as may be required. International and domestic telecommunication service shall be paid by the BUYER at the normal rate of charges of the Chinese telecommunication company.

6. Liability for the Representatives:

As between SELLER and BUYER, the Representatives and their assistants shall at all times be deemed as the employees of BUYER. SELLER shall not be under any liability whatsoever to BUYER, or the Representatives and their assistants for personal injuries, including death, suffered during the time when they were aboard the VESSEL or within the premises of the SELLER or its subcontractors, to such Representatives and their assistants unless such personal injuries, including death, were caused by gross negligence or willful misconduct of SELLER or its employees, agents or subcontractors or by employees or agents of such subcontractors. Nor shall SELLER be under any liability whatsoever to BUYER for damage to, or loss or destruction of, property of the Representatives and their assistants unless such damage, loss or destruction was caused by gross negligence or willful misconduct of SELLER or its employees, agents or subcontractors or by employees or agents of such subcontractors.

7. Salaries and Costs:

All salaries and other costs of the Representatives shall be for BUYER's account.

8. SELLER's Obligation:

Nothing under this ARTICLE IV shall change or reduce the SELLER's sole responsibility and obligation to design, build and deliver the VESSEL in a condition fully in accordance with the Contract and its attachments. All respective rights of the BUYER on delivery of the VESSEL remain fully valid and unprejudiced by this ARTICLE IV.

9. Replacement of the Representatives:

The SELLER has the right to request the BUYER in writing to replace any Representative who is deemed by the SELLER, acting reasonably, unsuitable and unsatisfactory for the proper progress of the VESSEL'S construction together with reasons. The BUYER shall investigate the situation at the Shipyard, if necessary, and if such SELLER's request is justified, the BUYER should effect the replacement as soon as conveniently arrangable.

10. Responsibility of BUYER:

The Representatives and their assistant(s) shall observe the work rules and regulations prevailing at the SELLER's and its subcontractors' and suppliers' premises.

11. Information to Representatives:

The SELLER shall reasonably promptly provide all required information to the Representatives and their assistant(s) and shall secure that its subcontractors and suppliers shall reasonably promptly provide all such information as he or they may reasonably request in connection with the construction of the VESSEL.

(end of Article)

ARTICLE V - MODIFICATIONS, CHANGES AND EXTRAS

1. How Effected:

Any modifications and/or changes in the Specifications under which the VESSEL is to be constructed shall be made by written agreement of the parties hereto provided, however, that any modifications and/or changes will not adversely affect the SELLER's planning or programme in relation to the SELLER's other commitments and if the BUYER and SELLER shall agree to adjustment of the Contract Price, time for delivery of the VESSEL and other terms and conditions of this Contract as hereinafter provided. The SELLER hereby agrees to exert its best efforts to accommodate such reasonable request by the BUYER so that the said changes and/or modifications may be made at a reasonable cost and within the shortest period of time which is reasonably possible. Any such agreement for modifications and/or changes shall include an agreement as to the increase or decrease, if any, in the Contract Price of the VESSEL and if necessary which instalment is to reflect the increase or decrease of the Contract Price together with an agreement as to any extension or reduction in the time of delivery, or any other alterations in this Contract, or the Specifications or the Approved Drawings occasioned by such modifications and/or changes.

If after the exertion of such best efforts by the SELLER in response to the BUYER's reasonable request, the parties fail to conclude the above-mentioned agreement, then the SELLER shall have no obligation to comply with the BUYER'S request.

The aforementioned agreement to modify and/or change the Specifications and/or Approved Drawings may be effected by an exchange of letters signed by the authorized Representatives of the parties hereto, or telex or facsimile confirmed in writing, manifesting such agreement. Such letters and confirmed telex and facsimile exchanged by the parties hereto pursuant to the foregoing shall constitute an amendment of the Specifications, and such letters and telex and facsimile shall be incorporated into this Contract and made a part hereof.

The SELLER may make minor changes to the Specifications, if found necessary for introduction of improved production methods or otherwise, provided that the SELLER shall first obtain the BUYER's written approval which shall not be unreasonably withheld.

2. Changes in Rules of Classification Society, Regulations, etc.:

In the event that, after the date of signing this Contract, any requirements as to class, or as to rules and regulations to which the construction of the VESSEL is required to conform are altered or changed by the Classification Society or the other regulatory bodies authorized to make such alterations or changes, the following provisions shall apply:

- (a) If such alterations or changes are compulsory for the VESSEL, either of the parties hereto, upon receipt of such information from the Classification Society or such other regulatory bodies, shall promptly transmit the same to the other in writing, and the SELLER shall thereupon incorporate such alterations or changes into the construction of the VESSEL, provided that the BUYER shall first agree to reasonable adjustments required by the SELLER in the Contract Price, the Delivery Date and other terms and

conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes.

- (b) If such alterations or changes are not compulsory for the VESSEL, but the BUYER desires to incorporate such alterations or changes into the construction of the VESSEL, then the BUYER shall notify the SELLER of such intention. The SELLER shall accept such alterations or changes, provided that such alterations or changes will not, in the judgment of the SELLER, adversely affect the SELLER's planning or program in relation to the SELLER's other commitments, and provided, further, that the BUYER shall first agree to reasonable adjustments required by the SELLER in the Contract Price, the Delivery Date and other terms and conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes. Agreements as to such alterations or changes under this Clause 2(b) shall be made in the same manner as provided in Clause 1 of this ARTICLE V for modifications or changes to the Specifications. If after the exertion of such best efforts by the SELLER in response to the BUYER's reasonable request, the parties fail to conclude the above-mentioned agreement, then the SELLER shall have no obligation to comply with the BUYER's request.

3. Substitution of Materials:

In the event that any of the materials and equipment more specifically described in the definition of VESSEL and required by the Specifications or otherwise under this Contract for the construction of the VESSEL can not be procured in time to effect delivery of the VESSEL, or are in short supply to maintain the delivery date of the VESSEL, the SELLER may, provided the BUYER so agrees in writing, supply other materials and equipment of the available and equal or better quality, meeting the requirements of the Classification Society and of the rules, regulations, requirements and recommendations with which the construction of the VESSEL must comply. Any agreement as to such substitution of materials and equipment shall be effected in the manner as provided in Clause 1 of this ARTICLE V, and shall, likewise, be in accordance with the terms and conditions of this Contract affected by such substitution.

(end of Article)

ARTICLE VI - TRIALS AND ACCEPTANCE

1. Notice:

The sea trial shall start when the VESSEL is ready for the sea trial according to the Specifications.

The SELLER shall give the BUYER at least twenty-one (21) days estimated prior notice and Five (5) days confirming prior notice by facsimile confirmed in writing of the time and place of any trial run of the VESSEL, and the BUYER shall promptly acknowledge receipt of such notice. The BUYER shall have its Representatives on board the VESSEL to witness such trial run.

Should such Representatives fail to be present after the SELLER's due notice to the BUYER as provided above, then in such event, the BUYER shall be deemed to have waived its right to have its Representatives on board the VESSEL during the trial run and the SELLER shall be entitled to conduct such trial run with the presence of the Classification Surveyor only without the Representatives of the BUYER being present and in such case the BUYER shall be obligated to accept the VESSEL on the basis of a certificate of the Classification Society and certificate of the SELLER stating that the VESSEL, upon trial run, is found to conform to this Contract and Specifications.

2. Weather Condition:

The trial run shall be carried out under the weather condition which is deemed favorable enough in the reasonable judgment of the SELLER. In the event of unfavourable weather on the date specified for the trial run, the same shall take place on the first available day thereafter that the weather condition permits. It is agreed that, if during the speed trial of the VESSEL, the weather is unfavourable (i.e. sea state of 3 and wind state of Beaufort 3 or worse) that orderly conduct of the speed trial can no longer be continued, the speed trial shall be discontinued and postponed until the first favorable day next following, unless the BUYER shall assent in writing to acceptance of the VESSEL on the basis of the speed trial already made before such discontinuance has occurred.

Any delay of the trial run caused by such unfavourable weather condition shall operate to postpone the Delivery Date by the period of the delay involved and such delay shall be deemed as Permissible Delay in the delivery of the VESSEL.

3. How Conducted:

- (a) The VESSEL shall run the official sea trial in the manner as specified in the Specifications and shall prove fulfillment of the performance requirements for the trial run as set forth in the Specification.
- (b) All expenses in connection with the trial run (including bunkers, diesel oil, lubricating oil and greases) including proper insurance are to be for account of the SELLER and the

SELLER shall provide, at its own expense, the necessary crew to comply with conditions of safe navigation.

4. Method of Acceptance or Rejection:

- (a) Upon completion of the trial run, the SELLER shall give the BUYER a notice by telex or facsimile confirmed in writing of completion of the trial run and promptly provide the BUYER with all protocols and records of tests and trials, as and if the SELLER considers that the results of the trial run prove conformity of the VESSEL to this Contract and Specifications.

The BUYER shall, within six (6) working days after receipt of the aforementioned records of tests and trials from the SELLER, notify the SELLER by telex or facsimile confirmed in writing of its acceptance or rejection of the VESSEL's conformity to this Contract and the Specifications.

- (b) Should the records of tests and trials indicate that the VESSEL does not conform to the requirements of this Contract or the Specifications and if the SELLER agrees with the BUYER's notice of non-conformity, then the SELLER shall promptly take the necessary steps to correct such non-conformity and notify the BUYER promptly in writing or by telex or facsimile confirmed in writing advising the BUYER of the estimated additional time required for the necessary alterations to correct such non-conformity.

Upon completion of correction of such non-conformity, new trial run or runs as necessary will be made to prove conformity of the VESSEL to this Contract and Specifications if so found necessary by the SELLER, the Classification Society and the Representatives. The SELLER shall notify the BUYER of the time and place of any new trial run no less than five (5) working days beforehand, unless otherwise mutually agreed to. All provisions of the trial run shall apply to such new trial run.

Notwithstanding the aforesaid, the BUYER may accept the VESSEL qualifying its acceptance by reservations regarding works or parts which have not been completed or properly installed prior to such acceptance. In the event that BUYER makes such qualified acceptance the parties will reach an agreement in writing, prior to the delivery of the VESSEL, as to how and when to remedy the items being the subject of the qualified acceptance, at the SELLER's cost and expense, either before or after the delivery, as quickly as possible, without delaying the date of delivery and without causing the BUYER inconvenience in the operation of the VESSEL.

- (c) In the event that the SELLER fails to correct any non-conformity of which it has been given notice by the BUYER, which non-conformity has been confirmed by the Classification Society, the BUYER shall indicate what aspect of the VESSEL does not conform to this Contract and/or the Specifications and the SELLER shall promptly correct those non-conformities.
- (d) In the event that the BUYER fails to give notice to the SELLER by fax and/or telex confirmed in writing of the VESSEL within the period as provided in the above Sub-clause (a) or (b), the BUYER shall be deemed to have accepted the VESSEL.

-
- (e) Any dispute between the SELLER and the BUYER as to the conformity or non-conformity of the VESSEL to the requirements of this Contract and/or the Specifications shall be submitted for final decision in accordance with ARTICLE XII hereof.

5. Effect of Acceptance:

Acceptance of the VESSEL as above provided shall be final and binding in so far as conformity of the VESSEL to this Contract and Specifications is concerned and shall preclude the BUYER from refusing formal delivery of the VESSEL as hereinafter provided, if the SELLER complies with all other requirements for delivery as provided in ARTICLE VII hereof. However, the BUYER's acceptance, of the VESSEL shall not affect the BUYER's right under ARTICLE IX hereof and/or under law.

6. Disposition of Surplus Consumable Stores:

- (a) Any fuel oil, lubricating oil and greases furnished and paid for by the SELLER for trial runs remaining on the VESSEL, at the time of acceptance of the VESSEL by the BUYER, shall be bought by the BUYER from the SELLER at the SELLER's net purchase price for such supply in China and the payment by the BUYER thereof shall be made at the time of delivery of the VESSEL.
- (b) If any of the consumables under (a) above are furnished by the BUYER, SELLER shall pay at time of delivery for quantities consumed until delivery at BUYER'S net purchase price.

(end of Article)

ARTICLE VII - DELIVERY

1. Time and Place:

The VESSEL, duly completed in accordance with this Contract and the Specifications, shall be delivered by the SELLER to the BUYER at the SELLER's wharf at the Shipyard safely afloat on or before August 30, 2008 (hereinafter called the "**Delivery Date**") after completion of satisfactory tests and trials and acceptance in accordance with ARTICLE VI hereof, except that, in the event of delays in the construction of the VESSEL or any performance required under this Contract due to causes which under the terms of this Contract permit postponement of the date for delivery, the aforementioned Delivery Date of the VESSEL shall be postponed accordingly.

Earlier Delivery Date is subject to BUYER's prior written consent, such consent not to be unreasonably withheld.

2. When and How Effected:

Provided that the SELLER and the BUYER shall have fulfilled all of their obligations stipulated under this Contract, the delivery of the VESSEL shall be effected forthwith upon acceptance thereof by the BUYER, by concurrent delivery by each of the parties hereto to the other of the PROTOCOL OF DELIVERY AND ACCEPTANCE, acknowledging delivery of the VESSEL by the SELLER and acceptance thereof by the BUYER, which Protocol of Delivery and Acceptance shall be prepared in quadruplicate and signed by each of the parties hereto with additional copies as required by the BUYER or the SELLER.

3. Documents to be delivered to BUYER:

Acceptance of the VESSEL by the BUYER shall be conditional upon receipt by the BUYER from the SELLER of the following duly authenticated documents (all in the English language), which shall accompany the aforementioned PROTOCOL OF DELIVERY AND ACCEPTANCE:

- (a) PROTOCOL OF TRIALS of the VESSEL made pursuant to the Specifications.
- (b) PROTOCOL OF INVENTORY of the equipment of the VESSEL, including spare parts and the like, as specified in the Specifications.
- (c) PROTOCOL OF STORES OF CONSUMABLE NATURE covering items referred to under Clause 6 of ARTICLE VI hereof.
- (d) ALL CERTIFICATES required to be furnished upon delivery of the VESSEL pursuant to this Contract and the Specifications and for the customary shipbuilding practice.

It is agreed that if, through no fault on the part of the SELLER, the Classifications certificates and/or other certificates are not available at the time of delivery of the VESSEL, provisional certificates valid for at least five (5) months shall be accepted by the BUYER, provided that the SELLER shall furnish the BUYER with the formal certificates as

promptly as possible after such certificates have been issued, but in any event timely before the expiry of the provisional certificates.

All certificates to be delivered to the BUYER hereunder pursuant hereto shall be issued by the relevant authorities or Classification Society and shall be clean and valid in every respect and without any recommendation or notation.

- (e) DECLARATION OF WARRANTY of the SELLER that the VESSEL is delivered to the BUYER free and clear of any liens, charges, claims, mortgages, or other encumbrances upon the BUYER's title thereto, and in particular that the VESSEL is absolutely free of all burdens in the nature of imposts, taxes or charges imposed by the Chinese governmental authorities whether national or local as well as of all liabilities of the SELLER to its subcontractors, suppliers, employees and crew(s), and of all the liabilities arising from the operation of the VESSEL in trial runs, or otherwise, prior to delivery.
- (f) DRAWINGS AND PLANS in quadruplicate pertaining to the VESSEL, including lists of Finished Plans and As Built Space and the trim and stability booklet technical descriptions, test results and other data, information or documents in the possession of the SELLER concerning the design and constructions of the VESSEL which shall be forwarded to the BUYER at no additional cost as stipulated in the Specification.
- (g) COMMERCIAL INVOICE
- (h) BILL OF SALE
- (i) BUILDER's CERTIFICATE. If required by the BUYER, the SELLER shall arrange for the notarization of the BUILDER's CERTIFICATE by the local authorized notary public institution in China, or for the BUILDER's CERTIFICATE to be otherwise authenticated as required by the Hong Kong Shipping Registry.

4. Tender of VESSEL:

If the BUYER fails to take delivery of the VESSEL after completion thereof according to this Contract and Specifications without any justifiable reason, the SELLER shall have the right to tender delivery of the VESSEL after fulfillment of all SELLER's obligations as provided herein.

5. Title and Risk:

Title to and risk of loss of or damage to the VESSEL shall pass to the BUYER only upon the delivery and acceptance thereof having been completed as stated above; it being expressly understood that, until such delivery is effected, title to and risk of loss of or damage to the VESSEL and her equipment and risk of items and materials supplied by the BUYER or its suppliers shall be with the SELLER.

Notwithstanding the provisions of this ARTICLE VII, the title to the material and equipment supplied by the BUYER shall remain with the BUYER.

6. Removal of VESSEL:

The BUYER shall take possession of the VESSEL immediately upon delivery and acceptance thereof and shall remove the VESSEL from the premises of the Shipyard within ten (10) days after delivery and acceptance thereof is effected.

If the BUYER shall not remove the VESSEL from the premises of the Shipyard within the aforesaid ten (10) days, in such event, the BUYER shall pay to the SELLER the reasonable mooring charges of the VESSEL.

7. Notices:

Prior to the delivery of the VESSEL, the SELLER shall give notice to the BUYER with the following schedule:

90 DAYS PRIOR TO DELIVERY - 15 DAYS ESTIMATED DELIVERY DATE;
60 DAYS PRIOR TO DELIVERY - 10 DAYS ESTIMATED DELIVERY DATE;
30 DAYS PRIOR TO DELIVERY - 7 DAYS ESTIMATED DELIVERY DATE;
15 DAYS PRIOR TO DELIVERY - 1 DAY DEFINITE DELIVERY DATE

(end of Article)

ARTICLE VIII - DELAYS AND EXTENSION OF TIME FOR DELIVERY (FORCE MAJEURE)

1. Causes of Delay (Force Majeure):

If at any time before the actual delivery, the construction of the VESSEL, any performance required as a prerequisite of delivery of the VESSEL or actual delivery of the VESSEL is delayed due to acts of princes or rulers; compulsory requirements of government authorities; war, blockade, revolution, insurrections, mobilization, civil war or commotion; vandalism; sabotages, strikes in the shipbuilding industry in China, riots, strikes, lockouts or other labor disturbances; acts of a public enemy, plague or other epidemic, quarantines; flood, typhoon, hurricanes, earthquakes; tidal waves; landslides; fires, explosions; embargoes; import restrictions; prolonged failure of electric current; delays caused by the Classification Society or other bodies whose documents are required; destruction of the Shipyard; other causes or accidents beyond the reasonable control of the SELLER; provided all the foregoing events were not existing and known to the SELLER at the date of this Contract or the effect of which could not have been avoided or reduced by the exercise of due diligence by the SELLER or his relevant subcontractors, as the case may be, and provided further that the events and/or delays were not caused or contributed by the negligence or misconduct of the SELLER and provided further that any of the above events directly affect the construction schedule of the VESSEL; then and in any such case, the date of delivery shall be postponed for a period of one day for every one day actually lost by any of the aforesaid events, subject nevertheless to the BUYER's right of cancellation under this ARTICLE VIII and subject to all relevant provisions of this Contract which authorize and permit extension of the time of delivery of the VESSEL.

The SELLER shall take immediate steps to overcome and mitigate the delay and to recover time lost, if any. Delays resulting from contingencies occurring simultaneously shall count as one delay only.

Any cause of delay for which the SELLER claims that it is entitled to a postponement of the Delivery Date under this Contract resulting from the SELLER's subcontractors shall be subject to any of the aforementioned contingencies being applicable to the subcontractors.

2. Notice of Delay:

As soon as possible after and in any event within seven (7) days after the date of the commencement of any cause of delay, on account of which the SELLER claims that it is entitled under this Contract to a postponement of the Delivery Date excluding days due to arbitration, the SELLER shall notify the BUYER in writing or by telex or facsimile confirmed in writing of the date when such cause of delay commenced and the reasons thereof, and the estimated duration of the probable delay in delivery of the VESSEL, and shall provide the BUYER, if available, evidence to justify the delay claimed. Likewise, within seven (7) days after the date of ending of such cause of delay, the SELLER shall notify the BUYER in writing or by telex or facsimile confirmed in writing of the date when such cause of delay ended.

In any event the SELLER shall also notify the BUYER of the period of time by which the SELLER claims the Delivery Date should be postponed by reason of such cause of delay within the same seven (7) day period as aforesaid. Failure of the SELLER to notify the BUYER of its

claim for postponement of the Delivery Date within a period of seven (7) days from the date of cessation of the event causing the delay shall be deemed a waiver of its claim.

Failure of the BUYER to object to the SELLER's claim for postponement of the Delivery Date within Fourteen (14) days after receipt by the BUYER of such notice of claim shall be deemed to be a waiver by the BUYER of its right to object to such postponement of the Delivery Date.

The burden of proof shall always be on the SELLER to establish the facts entitling it to rely on this Clause and that due notices were given and that it has taken all reasonable steps to avoid or mitigate the delay.

3. Definition of Permissible Delay:

Delays on account of such causes as specified in Clause 1 of this ARTICLE VIII and in ARTICLE IV, Clause 4(i)(2)), ARTICLE V, ARTICLE VI, ARTICLE XI, ARTICLE XII, ARTICLE XVII and ARTICLE XVI shall be understood to be Permissible Delays and are to be distinguished from unauthorized delays on account of which the Contract Price is subject to adjustment and/or the Contract is subject to rescission as provided for respectively in Article III and Article X hereof.

4. Right to Rescind for Excessive Delay:

If the total accumulated time of all delays on account of the causes specified in Clause 1 of this ARTICLE VIII and unauthorized delays as described in the Clause 1 of ARTICLE III aggregate to 180 days or more, in any circumstances, then, in such event, the BUYER may rescind this Contract by delivering or faxing to the SELLER notice of cancellation which shall be confirmed in writing and in accordance with the provisions of ARTICLE X hereof.

The SELLER may, at any time after the accumulated time of the aforementioned delays justifying the rescission by the BUYER, demand in writing that the BUYER shall make an election, in which case the BUYER shall, within twenty one (21) days after such demand is received by the BUYER, either notify the SELLER of its intention to rescind this Contract, or consent to a postponement of the Delivery Date to an agreed specific future date. If the BUYER elects to consent to the postponement of the Delivery Date at such agreed specific future date, then such date shall become the contractual delivery date, for the purpose of this Contract and if the VESSEL is not delivered by such revised delivery date, the BUYER shall have the same right of rescission upon the same terms as herein provided.

(end of Article)

ARTICLE IX - WARRANTY OF QUALITY

1. Guarantee:

The SELLER guarantees the VESSEL in her entirety and each and every part thereof and in particular but without prejudice to the generality of the foregoing, her design, drawing, plans, the hull and all machinery, engines, engine room auxiliaries, equipment, fittings, outfittings, appurtenances, furniture, parts, spares, paint and materials manufactured, furnished, installed or incorporated in the VESSEL by the SELLER and/or its subcontractors under this Contract against all defects, omissions, shortages and non-conformity, defective or unsuitable materials or equipment, faulty design and/or performance or poor workmanship or negligence, (hereinafter collectively referred to as “**Defect(s)**”), whether or not such Defect(s) affect seaworthiness or class within the Guarantee Period as hereinafter defined.

The SELLER shall pass to the BUYER information about any claims that the SELLER may have against subcontractors for Defect(s) in deliveries to the VESSEL, without in any way, diminishing the SELLER’s guarantee as aforesaid.

2. Guarantee from Manufacturers and Suppliers:

In the event that the normal guarantee period stipulated by manufacturers or suppliers or various components of machinery, materials, equipment, paint, appurtenances and outfit furnished to the SELLER and embodied in the VESSEL exceeds the Guarantee Period (as hereinafter defined), the benefits of such extended guarantee rights shall be made available to the BUYER by the SELLER without any additional cost to the BUYER.

Notwithstanding the foregoing, the SELLER shall arrange a guarantee from the paint manufacturer for defects in paint and/or application on under water parts of the VESSEL for an additional 24 calendar months from the date of delivery of the VESSEL to the BUYER.

3. Notice of Defects:

The BUYER or its duly authorized Representatives shall notify the SELLER in writing by delivery or facsimile of any Defect for which claim is made under this guarantee, as promptly as possible after discovery thereof. The BUYER’s written notice shall describe in reasonable detail the nature and extent of the Defect(s).

The SELLER shall have no obligation for any Defect discovered prior to the expiry date of the Guarantee Period unless notice of such Defect is received by the SELLER not later than thirty (30) days after such expiry date. Telex or facsimile advice within the Guarantee Period that a claim is forthcoming will be sufficient compliance with the requirement as to time, provided that full description of such Defect(s) in written form shall be received by the SELLER not later than forty-five 45 days after the Guarantee Period.

4. Extent of SELLER’s Obligation:

The SELLER shall have no obligation for any Defect unless the Defect has arisen within a period of twelve (12) calendar months from the date when the VESSEL was delivered to and accepted by the BUYER (the “**Guarantee Period**”).

The SELLER shall not be obligated to repair or be liable for damages to the VESSEL, or to any part of the equipment thereof, if and to the extent the damages are due to:

- (a) ordinary wear and tear;
- (b) defects other than those specified in Clause (a) above;
- (c) mismanagement, accidents, negligence, or willful misconduct of or caused by the BUYER, its employees or agents including the VESSEL's officers, crew and passengers, or any persons on or doing work on the VESSEL other than the SELLER, its employees, agents or sub-contractors;
- (d) repairs or replacements which were made by those other than the SELLER and/or their sub-contractors, unless those repairs or replacements were approved by the SELLER.

The SELLER shall not, in any circumstances, be liable for any consequential loss or special loss arising from any cause whatsoever including, without limitation, loss of time, loss of profit or earnings or demurrage directly or indirectly from any commitments of the BUYER in connection with the VESSEL.

The guarantee in this ARTICLE IX shall not be altered or varied except by a written instrument signed by the duly authorized representatives of the SELLER and the BUYER.

5. Remedy of Defects:

- (a) The SELLER shall remedy, at its cost and expense, any Defect(s) against which the VESSEL is guaranteed under this ARTICLE IX, by making all necessary repairs or replacements as well as dismantling, removal, reassembling and incidental works at the Shipyard or elsewhere as provided in Clause (b) of this Clause, at the BUYER's convenience.

If the cause of the Defect(s) is not known or if the Defect(s) is of a recurring nature the SELLER shall, at its expense, explore the reason for such Defect(s) and take all necessary steps and measures to remedy same in such a way as to eliminate the reoccurrence thereof.

- (b) However, if, in the BUYER's sole discretion, it is impracticable to bring the VESSEL to the Shipyard, the BUYER may cause the necessary repairs or replacements to be made elsewhere which is deemed suitable by the BUYER for the purpose (including by the VESSEL's crew), provided that, in such event, the SELLER may forward or supply replacement parts or materials to the VESSEL, unless forwarding or supplying to the VESSEL would impair or delay the operation or working schedule of the VESSEL. In the event that the BUYER proposes to cause the necessary repairs or replacements for the VESSEL to be made at any other shipyard or works than the Shipyard, the BUYER shall first, but in all events as soon as possible, give the SELLER notice in writing by telex or facsimile confirmed in writing of the time and place when and where such repairs will be made, and if the VESSEL is not thereby delayed, or her operation or working

schedule is not thereby impaired, the SELLER shall have the right at its own cost and expense to verify by its own representatives the nature, cause and extent of the Defect(s) complained of. It is understood that defects to underwater parts of the VESSEL, which were found and detected during the Guarantee Period, may be made good at the time of the first dry-docking of the VESSEL following the expiration of the Guarantee Period.

The SELLER shall, in such case, promptly advise the BUYER by telex or facsimile confirmed in writing, after such examination has been completed, of its acceptance or rejection of the Defect(s) as ones that are covered by the guarantee herein provided. Upon the SELLER's acceptance of the Defect(s) as justifying remedy under this ARTICLE IX, or upon award of the arbitration so determining, the SELLER shall pay to the BUYER for such repairs or replacements a sum equal to the reasonable cost of making the same repairs or replacements in a first class Chinese shipyard, at the prices prevailing at the time of such repairs or replacements are made. Payment for the work done to remedy the Defect(s) shall be settled regularly during the Guarantee Period and the actual reimbursement for the guarantee shall be made in a lump sum at the expiry of the Guarantee Period for minor items (up to US\$50,000) and promptly by the SELLER after settlement of the same for major items.

- (c) In any case, the VESSEL shall be taken, at the BUYER's cost and responsibility, to the place elected, ready in all respects for such repairs or replacement. In case of breakdown at sea due to Defects, the cost of bringing the VESSEL to a repair yard shall be for SELLER's account.
- (d) Notwithstanding anything contained in Clause 5(a) of this ARTICLE IX, the BUYER shall be entitled to require the SELLER to forward to the VESSEL, wherever it may be, replacement(s) for defective part(s) to which the SELLER's guarantee under this ARTICLE IX applies, and in such case the SELLER shall forward the same by such means as to reach the VESSEL as expeditiously as possible.

In emergency cases when the VESSEL will be prevented from sailing or from completing its voyage, forwarding of replacement(s) as aforesaid will be effected by the SELLER by air cargo. The SELLER shall bear and pay all C.I.F. costs of the replacement(s) until they arrive on board the VESSEL.

- (e) Any dispute under this ARTICLE IX shall be referred to arbitration in accordance with the provisions of ARTICLE XII hereof.

6. Guarantee Period:

Notwithstanding the foregoing, the Guarantee Period shall be extended in, inter alia, the following cases and to the following extent:

- (a) If, during the Guarantee Period, the VESSEL shall not be capable of performing services for periods consisting of at least twenty four (24) hours each and aggregating to eight (8) days or more and such non-capability shall be as a result of any Defect(s) covered by the SELLER's guarantee under Clause 1 of this ARTICLE IX, the Guarantee Period shall be extended by such period(s) of time lost in remedying of the defect(s) for which the SELLER is responsible according to this Contract or in awaiting part(s) required for the

purpose to remedying such defect(s), which accumulated extension period shall not exceed twelve (12) months.

- (b) In relation to reservations made by the BUYER pursuant to Clause 4(b) of ARTICLE VI hereof, the Guarantee Period for the aforesaid reservations shall further be extended up to the expiration of twelve (12) calendar months following the time when such reservations are respectively made good by the SELLER after the delivery of the VESSEL to the BUYER as herein provided.

7. Application to Defects Remedied:

Wherever any Defect(s) covered by the SELLER's Guarantee under this ARTICLE IX has been remedied, in whole or in part, the SELLER's Guarantee under this ARTICLE IX and the provisions of this ARTICLE IX shall apply anew in respect of the part(s) to which such remedying relates and the aforesaid Guarantee Period shall apply in respect thereof, save that the said Guarantee Period shall commence as from the time of such remedying, and shall end not more than twenty-four (24) months from the date of delivery of the VESSEL to the BUYER.

8. SELLER to Remain Liable:

If attempts at remedying any Defect(s) covered by the SELLER's Guarantee under this ARTICLE IX, carried out by or on behalf of the SELLER as aforesaid, are unsuccessful, the SELLER shall remain liable to remedy such Defect(s) until same be satisfactorily remedied. The SELLER shall be liable under its Guarantee under this ARTICLE IX also for damage to any part of the VESSEL occasioned directly by any Defect(s) to which the SELLER's Guarantee under this ARTICLE IX extends in any other part of the VESSEL.

9. Guarantee Engineer:

The SELLER shall at the request of the BUYER appoint an English speaking Guarantee Engineer to serve on the VESSEL as its Representative for a period of three (3) months from the date the VESSEL is delivered. However, if the BUYER and the SELLER shall deem it necessary to keep the Guarantee Engineer on the VESSEL for a longer period, then he shall remain on board the VESSEL after the said three (3) months but not longer than six (6) months from the delivery of the VESSEL.

The BUYER, and its employees shall give such Guarantee Engineer full cooperation in carrying out his duties as the representative of the SELLER on board the VESSEL.

The BUYER shall accord the Guarantee Engineer treatment comparable to the VESSEL's Chief Engineer as far as possible, and shall provide board and lodging at no cost to the SELLER and/or the Guarantee Engineer. The SELLER and the BUYER shall, prior to delivery of the VESSEL, execute a separate agreement regarding the Guarantee Engineer.

While the Guarantee Engineer is on board the VESSEL, the BUYER shall pay to the SELLER the sum of US\$2,500 per month and the expenses of his repatriation to Shanghai, People's Republic of China by air (economy class) upon termination of his service. The expenses of his communication with the SELLER incurred in performing his duties shall be for SELLER's

account and expenses, if any, of his medical and hospital care in the VESSEL's hospital shall be for BUYER's account. Notwithstanding the above, the Guarantee Engineer shall remain at all times an employee of the SELLER.

The BUYER, its successors and/or assigns shall be liable to and indemnify the SELLER for damage or loss arising from personal injury or death of the Guarantee Engineer or from loss or destruction of the property of the Guarantee Engineer if such death, personal injury or property damage is caused by the negligence or willful misconduct of the BUYER, its successors or assigns, employees or agents. The BUYER shall be responsible for risk insurance for the Guarantee Engineer.

(end of Article)

ARTICLE X - SELLER'S DEFAULT - RESCISSION BY BUYER

1. SELLER's Default:

The BUYER shall be entitled, but not bound, to declare the SELLER in default and to rescind this Contract, all as stipulated in this Contract and Specifications, in any of the following cases:

- (a) any breach of or default by the SELLER in any Fundamental Term. **"Fundamental Term"** means any of the following:
 - (i) an event described in a provision of this Contract specifically permitting the BUYER to rescind this Contract including and without restricting the generality of the foregoing, those contained in ARTICLE III (Adjustment of Contract Price) and ARTICLE XVII, Clause 2(b) (Insurance);
 - (ii) failure of SELLER to prosecute the work with such diligence and in such manner as will enable it to deliver VESSEL within the period granted under the terms of this Contract, provided that the BUYER shall have given the SELLER written notice specifying such failure, and the SELLER shall not within ten (10) days of such notice, have taken steps sufficient to remedy or justify the failure.
 - (iii) failure to deliver the VESSEL free and clear of all liens, charges, mortgages and encumbrances at the actual time of delivery and possession;
 - (iv) any other failure, not specifically referred to above, to build in accordance with this Contract or the Specifications, provided that the BUYER shall have given the SELLER written notice specifying such failure, and the SELLER shall not within ten (10) days of such notice, have taken steps sufficient to remedy or justify the failure; or
- (b) Discontinuance of business by either the Builder or Trading House, general assignment by either the Builder or Trading House for the benefit of creditors, any composition by either the Builder or Trading House with its creditors, appointment of a receiver, trustee or liquidator for either the Builder or Trading House of all or any substantial part of their assets, application or consent by either the Builder or Trading House for or to appointment of the same, winding up by either the Builder or Trading House, adjudication of either the Builder or Trading House as bankrupt or insolvent, filing by either the Builder or Trading House of a petition for liquidation, a petition in bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors or seeking to take advantage of any law relating to relief of debtors or admission by either the Builder or Trading House (by answer, default or otherwise) of the material allegations of petition against them in any proceedings for liquidation, bankruptcy, reorganization, arrangement or insolvency or in any proceedings relating to relief of debtors, excluding mergers, consolidations, reorganizations or restructurings that are unrelated to bankruptcy, insolvency or other financial distress of the Builder or Trading House.

2. Effect of SELLER's Default:

If the SELLER shall be in any default as provided for in Clause 1 of this ARTICLE X hereinabove, the BUYER may, at its option, rescind this Contract in accordance with provisions of this ARTICLE X.

3. Notice:

In the event that the BUYER shall exercise its right of rescission of this Contract under and pursuant to any of the provisions of this Contract specifically permitting the BUYER to do so, then the BUYER shall notify the SELLER in writing or by fax and/or telex confirmed in writing, and such rescission shall be effective as of the date notice thereof is received by the SELLER.

4. Refundment by SELLER:

In case the SELLER receives the notice stipulated in Clause 3 of this ARTICLE X, the SELLER shall promptly refund to the BUYER the full amount of all sums paid by the BUYER to the SELLER on account of the VESSEL together with interest (as set out below) thereon.

If the BUYER's cancellation or rescission of this Contract is disputed by the SELLER by instituting arbitration as aforesaid, then no refund shall be made by the SELLER, and the BUYER shall not be entitled to demand repayment from the Refundment Guarantor under its Refundment Guarantee, until the arbitration award between the BUYER and the SELLER which shall be in favour of the BUYER, declaring the BUYER's cancellation and/or rescission justified, is made and delivered to the SELLER by the arbitration tribunal.

In case of refundment, the SELLER shall pay the BUYER interest at the rate of six percent (6%) per annum on the amount required herein to be refunded to the BUYER, if the cancellation or rescission of the Contract is exercised by the BUYER for the delay of aggregate one hundred and eighty (180) days in accordance with the provision of Clause 3 of ARTICLE VIII or for the events described in ARTICLE III 1(c), 2(c), 3(c), 4(c), 5(b) or 5(e) hereof computed from the respective dates on which such sums were paid by the BUYER to the SELLER to the date of receipt (remittance by wire transfer) of such refund by the BUYER from the SELLER.

If pursuant to the provisions of this Contract the SELLER is required to refund to the BUYER the instalments paid by the BUYER to the SELLER, the SELLER shall return to the BUYER all of the BUYER's supplies not incorporated into the VESSEL and pay to the BUYER an amount equal to the purchased price by the BUYER of those supplies incorporated into the VESSEL, together with interest as aforesaid, in which case title to such supplies incorporated into the VESSEL shall transfer to the SELLER.

Any and all refunds or payments due to the BUYER under this Contract shall be effected by telegraphic transfer to the account and bank specified by the BUYER free of bank charges, remittance fees, taxes and other applicable withholdings.

5. Discharge of Obligations:

Upon such refund by the SELLER to the BUYER, and upon compliance with the provisions of Clause 4 of this ARTICLE X, all obligations, duties and liabilities of each of the parties hereto to the other under this Contract shall be forthwith completely discharged.

(end of Article)

ARTICLE XI - DEFAULT BY THE BUYER

1. Definition of BUYER's Default:

The BUYER shall be deemed to be in default of its performance of obligations under this Contract in the following cases (hereinafter called "**BUYER's Default**");

- (a) If any of the first or second or third or fourth or fifth instalment is not paid by the BUYER to the SELLER as provided in ARTICLE II hereof; or
- (b) If the delivery instalment is not deposited to the SELLER's Bank by the BUYER to the SELLER for the delivery of the VESSEL as provided in ARTICLE II hereof; or
- (c) If the increased amount, if any, in the Contract Price as adjusted pursuant to ARTICLE V due and payable upon delivery of the VESSEL is not paid by the BUYER concurrently with the delivery of the VESSEL as provided in ARTICLE II hereof; or
- (d) If the BUYER, when the VESSEL is duly completed in conformity with the terms of this Contract and the Specifications and is tendered for delivery by the SELLER in accordance with the provisions of this Contract, fails to take delivery of the VESSEL within Five (5) days from the tendered date without any specific and valid ground therefor under this Contract.

2. Effect of BUYER's Default on or before Delivery of VESSEL:

- (a) Should the BUYER make default in payment of any instalment of the Contract Price before delivery of the VESSEL, the BUYER shall pay the instalment(s) in default plus accrued interest thereon at the rate of six percent (6%) per annum computed from the due date for payment of such instalment to the date when the SELLER receives the payment, and, for the purpose of Clause 1 of ARTICLE VII hereof the Delivery Date of the VESSEL shall be automatically extended by the period of continuance of such default by the BUYER.
- (b) If any BUYER's Default continues for a period of Twenty One (21) days, the SELLER may, at its option, rescind this Contract by giving notice to such effect to the BUYER by telex or facsimile confirmed in writing.

Upon receipt by the BUYER of such notice of rescission, this Contract shall be forthwith rescinded and terminated. In the event of such rescission of this Contract, the SELLER shall, subject to Clause 3 below, be entitled to retain any instalment or instalments already paid by the BUYER to the SELLER on account of this Contract and the BUYER's Supplies, if any.

3. Disposal of VESSEL:

- (a) In the event that this Contract is rescinded by the SELLER under the provisions of Clause 2(b) of this ARTICLE XI, the SELLER may, at its sole discretion, either complete the VESSEL and sell the same, or sell the VESSEL in its incomplete state, free of any right or claim of the BUYER. Such sale of the VESSEL by the SELLER shall be either by public auction or private contract at the SELLER's sole discretion and on such terms and conditions as the SELLER shall deem fit, provided that the SELLER shall use reasonable endeavors to obtain the best price obtainable. The SELLER shall send to the BUYER invitation to participate in any tender for the sale of the VESSEL. Such invitation shall be sent by telex or facsimile at least fifteen (15) days in advance before the closing date of the tender.
- (b) In the event of such sale of the VESSEL in its completed state, the proceeds of the sale received by the SELLER shall be applied firstly to payment of all expenses attending such sale and then to payment of all unpaid instalment(s) of the Contract Price and interest on such instalment(s) at the rate of six percent (6%) per annum from the respective due date thereof to the date of application.
- (c) In the event of sale of the VESSEL in its incomplete state, the proceeds of sale received by the SELLER shall be applied firstly to all expenses attending such sale and otherwise incurred by the SELLER as a result of the BUYER's default as provided hereinbefore, and then to payment of all costs of construction of the VESSEL less BUYER's Supplies as defined in ARTICLE XVI hereof and less the instalments so retained by the SELLER and compensation to the SELLER for a reasonable loss of profit - if any - due to the rescission of this Contract.
- (d) In either of the above events of sale, if the proceeds of sale exceed the total amounts to which such proceeds are to be applied as aforesaid, the SELLER shall promptly pay the excess to the BUYER without interest provided, however, that the amount of each payment to the BUYER shall in no event exceed the total amount of instalments already paid by the BUYER and the cost of the BUYER's supplies, if any.
- (e) If the proceeds of sale are insufficient to pay such total amounts payable as aforesaid, the BUYER shall promptly pay the deficiency to the SELLER upon request.

(end of Article)

ARTICLE XII - ARBITRATION

1. Decisions by the Classification Society:

If any dispute arises between the parties hereto in regard to the design and/or construction of the VESSEL, its machinery and equipment, and/or in respect of the materials and/or workmanship thereof and/or thereon, and/or in respect of interpretation of this Contract or the Specifications, the parties may by mutual agreement refer the dispute to the Classification Society headquarters or to such other expert as may be mutually agreed between the parties hereto, and in such case the decision of the principal surveyor or such expert, as the case may be, shall be final, conclusive and binding upon the parties hereto.

2. Proceedings of Arbitration:

In the event that the parties hereto do not agree to settle a dispute according to Clause 1 of this ARTICLE XII and/or in the event of any other dispute of any kind whatsoever between the parties and relating to, arising out of or in connection with, this Contract or its rescission or any stipulation herein, such dispute shall be submitted to and settled by arbitration in London, England in accordance with Arbitration Act 1996 c.23 (UK) as amended, and the arbitration shall be conducted in accordance with the London Maritime Arbitrators Association (LMAA) Terms current at the time when the arbitration proceedings are commenced (except as expressly provided herein). The SELLER and the BUYER shall each independently appoint one arbitrator to arbitrate the matter, and the SELLER and the BUYER shall together appoint a third arbitrator. In the event that the BUYER and SELLER cannot agree on the appointment of the third arbitrator within twenty (20) days of the appointment of the second arbitrator, the two appointed arbitrators shall be responsible for appointing the third arbitrator.

If the two arbitrators are unable to agree upon a third arbitrator within twenty (20) days, either of the said two arbitrators may apply to the President for the time being of the London Maritime Arbitrators Association to appoint the third arbitrator, and the three arbitrators shall constitute the board of arbitration.

Such arbitration shall be in accordance with and subject to the provisions of the relevant English Arbitration Act for the time being in force at the time of the action. Either party may demand arbitration of any such dispute by giving notice to the other party.

Any demand for arbitration by either of the parties hereto shall state the name of the arbitrator appointed by such party and shall also state specifically the question or questions as to which such party is demanding arbitration. Within twenty (20) days after receipt of notice of such demand for arbitration, the other party shall in turn appoint a second arbitrator and give notice in writing of such appointment to the party demanding arbitration. If a party fails to appoint an arbitrator as aforementioned within twenty (20) days following receipt of notice of demand for arbitration by the other party, the party failing to appoint an arbitrator shall be deemed to have accepted and appointed, as its own arbitrator, the arbitrator appointed by the party demanding arbitration and the arbitration shall proceed before this sole arbitrator who alone in all such events shall constitute the Arbitration Board.

The award of the sole arbitrator and/or of the majority of the three arbitrators, as the case may be, shall be final and binding on both parties. If the majority of the three arbitrators is not obtained, then the decision of the third arbitrator shall be final and binding upon the parties hereto.

3. Notice of Award:

The award shall immediately be given to the BUYER and the SELLER by telex or facsimile confirmed in writing.

4. Expenses:

The Arbitration Board shall determine which party shall bear the expenses of the arbitration or the portion of such expenses which each party shall bear.

5. Entry in Court:

In case of failure by either party to respect the award of the arbitration, judgment upon the award may be entered in any court having jurisdiction thereof.

6. Alteration of Delivery Date:

In the event of reference to arbitration of any dispute arising out of matters occurring prior to delivery of the VESSEL, the SELLER shall not be entitled to extend the Delivery Date as defined in ARTICLE VII hereof and the BUYER shall not be entitled to postpone its acceptance of the VESSEL on the Delivery Date or on such newly planned time of delivery of the VESSEL as declared by the SELLER. However, if the construction of the VESSEL is affected by any arbitration or court proceeding, the SELLER shall then be permitted to extend the Delivery Date as defined in ARTICLE VII and the decision or the award shall include a finding as to what extent the SELLER shall be permitted to extend the Delivery Date.

(end of Article)

ARTICLE XIII - ASSIGNMENT - SUCCESSOR AND ASSIGNS

This Contract with the exception of the right to make demand under the Refund Guarantee may, with the prior approval of the SELLER, which the SELLER shall not unreasonably withhold, be assigned and transferred by the BUYER to and title be taken by another company. In the event of any assignment pursuant to the terms of this Contract, the assignee, its successors and assigns shall succeed to all of the rights and obligations of the BUYER hereunder. However, the BUYER shall remain responsible for performance by the assignee, its successors, and assigns of all the BUYER's obligations, liabilities and responsibilities under this Contract. It is understood that any expenses or charges incurred by the transfer of this Contract shall be for the account of the BUYER.

Notwithstanding the above, the BUYER has the right to assign this Contract with the exception of the right to make demand under the Refund Guarantee to a bank or syndicate of banks or financial institution or any commercial corporation assisting in the finance of the VESSEL prior to delivery of the VESSEL provided that the BUYER has given the SELLER a notice of assignment in form and content acceptable to the SELLER and the BUYER, acting reasonably. The SELLER shall, at the BUYER's request, acknowledge and consent to such assignment by signing an acknowledgement and consent acceptable to the SELLER and the BUYER, acting reasonably.

The SELLER shall have the right to assign this Contract at any time after the Effective Date hereof, provided that prior written agreement is obtained from the BUYER, provided always that SELLER shall remain responsible for the due and punctual performance of this Contract by the Assignee.

(end of Article)

ARTICLE XIV - TAXES AND DUTIES

1. Taxes and Duties Incurred in China:

The SELLER shall bear and pay all taxes, duties, stamps and fees incurred in China in connection with execution and/or performance of its obligations under this Contract.

The BUYER shall bear and pay all taxes, duties, stamps and fees incurred in China in connection with execution and/or performance of its obligations under this Contract, including any taxes and duties imposed in China upon the BUYER's Supplies.

2. Taxes and Duties Incurred outside China:

The BUYER shall bear and pay all taxes, duties, stamps and fees incurred outside China in connection with execution and/or performance of its obligations under this Contract.

The SELLER shall bear and pay all taxes, duties, stamps and fees incurred outside China in connection with execution and/or performance of its obligations under this Contract, including taxes and duties imposed upon these items to be procured by the SELLER for the construction of the VESSEL.

(end of Article)

ARTICLE XV - PATENTS, TRADEMARKS, COPYRIGHTS, ETC.

1. Patents, Trademarks and Copyrights:

Machinery and equipment of the VESSEL may bear the patent number, trademarks or trade names of the manufacturers. The SELLER shall defend and hold harmless the BUYER from patent liability or claims for or on account of any patents, copyrights or design or for infringement thereof of any nature and kind, including costs and expenses for, or on account of any patented or patentable invention made or used in the performance of this Contract and also including costs and expenses of litigation, if any, in connection therewith.

Nothing contained herein shall be construed as transferring any patent or trademark rights or copyrights in equipment covered by this Contract, and all such rights are hereby expressly reserved to the true and lawful owners thereof.

The SELLER's warranty hereunder does not extend to the BUYER's Supplies.

The SELLER's obligation under this ARTICLE XV shall not be terminated by the passage of any period of time.

2. General Plans, Specifications and Working Drawings:

The SELLER retains copyright with respect to the Specifications, and plans and working drawings, technical descriptions, calculations, test results and other data, information and documents concerning the design and construction of the VESSEL and the BUYER undertakes therefore not to disclose the same or divulge any information contained therein to any third parties, without the prior written consent of the SELLER, except where it is necessary for usual operation, repair and maintenance of the VESSEL and its financing.

(end of Article)

ARTICLE XVI - BUYER'S SUPPLIES

1. Responsibility of BUYER:

- (a) The BUYER shall, at its own risk, cost and expense, supply and deliver to the SELLER all of the items to be furnished by the BUYER as specified in the Specifications (herein called the "**BUYER's Supplies**") at a warehouse or other storage facility of the Shipyard in the proper condition ready for installation in or on the VESSEL, in accordance with the time schedule designated and advised to the BUYER by the SELLER.
- (b) In order to facilitate installation by the SELLER of the BUYER's Supplies in or on the VESSEL, the BUYER shall furnish the SELLER with necessary specifications, plans, drawings, instruction books, manuals, test reports and certificates required by the rules and regulations of the Specifications. If so requested by the SELLER, the BUYER shall, without any charge to the SELLER, cause the representatives of the manufacturers of the BUYER's Supplies to assist the SELLER in installation thereof in or on the VESSEL and/or to carry out installation thereof by themselves or to make necessary adjustments at the Shipyard.
- (c) Any and all of the BUYER's Supplies shall be subject to the SELLER's reasonable right of rejection, as and if they are found to be unsuitable or in improper condition for installation. However, if so requested by the BUYER, the SELLER may repair or adjust the BUYER's Supplies without prejudice to the SELLER's other rights hereunder and without being responsible for any consequences arising therefrom.
- (d) Should the BUYER fail to deliver any of the BUYER's Supplies within the time designated by one (1) month prior notice to the BUYER by the SELLER, the Delivery Date shall be extended for a period which actually caused the delay in the delivery of the VESSEL.
- (e) If delay in delivery of any of the BUYER's Supplies exceeds twenty (20) days, then the SELLER shall be entitled to proceed with construction of the VESSEL without installation thereof in or on the VESSEL as hereinabove provided, and the BUYER shall accept and take delivery of the VESSEL so constructed, unless such delay is caused by any of the events referred to in ARTICLE VIII in which case the provision of Clause 1(d) of this ARTICLE XVI shall apply.
- (f) The SELLER shall not be liable under ARTICLE IX for any defects in the BUYER's Supplies (if any) but the SELLER shall be liable under ARTICLE IX for any Defect(s) in respect of installation of the BUYER's Supplies and their adaptation to the VESSEL.

2. Responsibility of SELLER:

The SELLER shall be responsible for storing, safekeeping and handling with reasonable care of the BUYER's Supplies after delivery thereof at the Shipyard, and shall, at its own cost and expense, install them in or on the VESSEL, unless otherwise provided herein or agreed by the parties hereto, provided, always, that the SELLER shall not be responsible for quality, efficiency and/or performance of any of the BUYER's Supplies.

However, if any BUYER's Supplies are lost or damaged after acceptance by the SELLER without rejection while in the custody of the SELLER, the SELLER shall be responsible for such loss or damage and shall either replace the items or reimburse the BUYER accordingly. The SELLER shall further be responsible for wrongful or negligent installation of the BUYER's Supplies in the course of their installation by the SELLER.

(end of Article)

ARTICLE XVII - INSURANCE

1. Extent of Insurance Coverage:

From the time of keel laying until delivery of the VESSEL, the SELLER shall, at its own cost and expense, insure the VESSEL and all machinery and equipment, appurtenances and outfits delivered to the Shipyard or other building facility utilized by the SELLER, including the BUYER's Supplies when at a warehouse or other storage facility of the SELLER or built into or installed in or upon the VESSEL, against all risks under the Builder's Risks Insurance Clause on terms and conditions not less than the current British Institute Time Clauses and British War Clauses Builder's Risks, with first class insurance company or underwriters in China recognized in the international insurance market. The amount of such insurance coverage shall not be less than the aggregate amount of all instalments paid by the BUYER to the SELLER. The policy referred to hereinabove shall be taken out in the name of the SELLER and all losses under such policy shall be payable to the SELLER.

2. Application of the Recovered Amounts:

In the event that the VESSEL shall be damaged from any cause at any time before delivery of the VESSEL, and in the further event that such damage shall not constitute an actual or constructive total loss of the VESSEL, the amount received from insurance in respect of the VESSEL shall be applied by the SELLER in repair of such damage, satisfactory to the Classification Society requirements and in conformity with the terms of this Contract and the Specifications, and the BUYER shall accept the VESSEL under this Contract if completed in accordance with this Contract and the Specifications and so certified by the Classification Surveyor.

Should the VESSEL from any cause become an actual or constructive total loss:

- (a) the SELLER and the BUYER may mutually agree to build another VESSEL in place of the VESSEL so lost or reconstruct the VESSEL's damage and proceed in accordance with the terms of this Contract, in which case the amount received from insurance in respect of the VESSEL shall be applied to the construction of a new VESSEL or reconstruction of the VESSEL, provided the parties hereto shall have first agreed thereto in writing and to such reasonable extension of delivery time as may be necessary for the completion of such construction or reconstruction.

If the parties fail to reach agreement pursuant to Clause 2(a) above within forty-five (45) days after the VESSEL is determined to be an actual or constructive total loss, the provisions of Clause 2(b) shall apply.

- (b) The SELLER shall refund promptly to the BUYER the full amount of all sums paid by the BUYER to the SELLER as instalments in advance of delivery of the VESSEL together with interest thereon at the rate of six percent (6%) per annum, and promptly deliver to the BUYER all BUYER's Supplies (or the insurance proceeds paid with respect thereto), in which case this Contract shall be deemed to be automatically rescinded and all rights, duties, liabilities and obligations of each of the parties to the other shall forthwith cease and terminate.

If the SELLER fails to refund within fifteen (15) Banking Days, the full amount of all sums required to be paid by the SELLER to the BUYER in accordance with this Clause (b), the BUYER shall be entitled to rescind this Contract.

Payment of refunds pursuant to this Clause shall be effected by telegraphic transfer to the account and bank specified by the BUYER free of bank charges, remittance fees, taxes and any other applicable withholdings.

3. Termination of SELLER's Obligation to Insure:

The SELLER shall be under no obligation to insure the VESSEL hereunder after her delivery to, and her acceptance by, the BUYER.

(end of Article)

ARTICLE XVIII - NOTICES

1. Address:

Any and all notices, invoices, requests, demands, instructions, advices, and communications (collectively “**Notices**”) in connection with this Contract shall be addressed as follows:

To the BUYER:

For the commercial:

Seaspan Corporation
Room 503
5/F, Lucky Commercial Center
103 Des Voeux Road West
Hong Kong, China
Facsimile: (852) 2540-1689
Attention: Gerry Wang, Director

For the technical:

Seaspan Ship Management Ltd.
2600 – 200 Granville Street
Vancouver, British Columbia
V6C 1S4
Canada
Facsimile: 1-604-638-2595
Attention: Peter Curtis / Peter Jackson

To the SELLER:

Jiangsu Yangzijiang Shipbuilding Co., Ltd.
Emeizui, Huangshan Jiangyin City
Jiangsu Province, PRC
Facsimile: 0086-510-86856631
Attention: Wang Dong / Shen Qiang

Guangdong Machinery Imp. & Exp. Co., Ltd.
726 Dong Feng Road East, Guangzhou
Guangdon Province, PRC
Facsimile: 0086-20-87301829
Attention: Chen Hui / Liu Zhi Ke

2. Language:

All Notices shall be written in the English language.

3. Effective Date of Notice:

Any Notice shall become effective from the date when such Notice is received by the BUYER or by the SELLER except as otherwise described in the Contract.

Notices shall be deemed to be received by the addressee when delivered (in case of personal delivery), within 7 (seven) days of dispatch (if sent by registered airmail postage prepaid) and when dispatched (in case of telex or fax) as proven by answer back call sign or transmission report. Any such Notice received on a non-working day or after business hours in the place of receipt shall be deemed to be received on the next following working day in such place.

4. Change of Address:

Each of the parties hereto shall be entitled to give the other party notice, in writing, of any change in any of the addresses relating to the party giving such notice and Clause 1 of this ARTICLE XVIII shall be deemed modified by and in accordance with every such notice of change.

(end of Article)

ARTICLE XIX - EFFECTIVE DATE OF CONTRACT

This Contract shall become effective on the date of fulfillment or waiver by the BUYER of all the following conditions (the “**Effective Date**”):

- (a) Due signing of this Contract and the Specifications; and
- (b) Approval of this Contract by the board of directors of the BUYER.

If, due to any reason whatsoever, any of the above conditions fails to be fulfilled by March 30, 2006, then this Contract shall be made forthwith null and void, having no effect whatsoever. No party shall be liable to the other for any loss or damage (if any).

(end of Article)

ARTICLE XX - INTERPRETATION

1. Laws Applicable:

The parties hereto agree that the validity and interpretation of this Contract and of each Article and part thereof shall be governed by and be construed and interpreted in accordance with the laws of England.

2. Joint and Several Liability:

For the purpose of this Contract, the Builder and Trading House are agents for each other in relation to the BUYER so that any notice, message, payment or consent duly given to or by any of them shall be deemed to have been duly given also to or by the other whenever applicable, and that they are jointly and severally liable under this Contract in relation to the BUYER.

3. Entire Agreement:

This Contract contains the entire agreement and understanding between the parties hereto and supersedes all prior negotiations, representations, undertakings and agreement on any subject matter of this Contract.

This Contract and the subject matter thereof shall not be subject to any general Terms and Conditions of the SELLER or any other terms and conditions normally or at any time put forward by the SELLER with reference to any order from or work undertaken by the SELLER and all such General Terms and Conditions and other terms and conditions are hereby explicitly and expressly excluded from this Contract, shall form no part thereof and shall have no force and effect.

4. Amendments and Supplements:

Any supplement, memorandum of understanding or amendment, whatsoever form it may be relating to this Contract, to be made and signed among parties hereof after signing this Contract, shall be predominant over the respective corresponding Article and/or Clause of this Contract, unless otherwise expressly stipulated.

5. Banking Day:

A Banking Day under this Contract is defined as a day on which the banks are open in China, Hong Kong and New York.

6. No Set Off, Deduction or Counter-claim:

All moneys refundable or payable to the BUYER under or pursuant to this Contract shall be paid to the BUYER without set-off or deduction or counter-claim and all moneys payable to the SELLER pursuant to this Contract shall be paid to the SELLER without set off or deduction or counter-claim.

7. Deemed Benefit for Servants, etc.:

Any exemptions from liability and any undertaking to hold harmless which have been stipulated in this Contract to the benefit of either of the parties hereto shall be deemed to have been stipulated also to the benefit of the servants, sub-contractors, vendors and suppliers of such party and of the servants of the said sub-contractors, vendors and suppliers.

8. Responsibility:

Notwithstanding any other term of this Contract or the Specifications, the SELLER shall be fully responsible for the due, proper, accurate, diligent and punctual designing, building, equipping, launching, outfitting and completing of the VESSEL and for the quality of the materials employed and work done and for the delivery in due time of the VESSEL to the BUYER as herein provided, and the BUYER shall have and bear no responsibility whatsoever in respect thereof or in connection therewith as stipulated in the Contract and the Specifications.

9. Time of the Essence:

Time shall be of the essence hereof.

10. Headings:

The descriptive headings of Articles and Clauses herein are for the convenience of reference only and are not to be used in construing or interpreting this Contract.

IN WITNESS WHEREOF, the parties hereto have caused this Contract to be duly executed on the day and year first above written.

BUYER
SEASPAN CORPORATION
Signature:

GERRY WANG

Name: Gerry Wang
Title: Chief Executive Officer

SELLER
JIANGSU YANGZIJIAN
SHIPBUILDING CO., LTD.
Signature:

Name:
Title:
and:
GUANGDONG MACHINERY IMP.
& EXP. CO., LTD.
Signature:

Name:
Title:

SHIP BUILDING CONTRACT
(Contract Number: 2006YZJ023CA)
FOR
CONSTRUCTION OF ONE 2500 TEU CONTAINER VESSEL
(HULL No. YZJ2006-716C)
Between
SEASPAN CORPORATION
as Buyer
and
JIANGSU YANGZIJIAN SHIPBUILDING CO., LTD.
as Seller

TABLE OF CONTENTS

ARTICLE I - DESCRIPTION AND CLASS	2
1. Description:	2
2. Principal Dimensions and Characteristics:	2
3. Classification, Rules and Regulations:	3
4. Registration:	4
5. Contract Specifications and Approved Drawings:	4
6. Subcontracting and New Shipyard:	4
ARTICLE II - CONTRACT PRICE AND TERMS OF PAYMENT	5
1. Contract Price:	5
2. Adjustment of Contract Price:	5
3. Currency:	5
4. Terms of Payment:	6
(a) First Instalment:	6
(b) Second Instalment:	6
(c) Third Instalment:	6
(d) Fourth Instalment:	6
(e) Fifth Instalment:	6
(f) Sixth Instalment (the “ Delivery Instalment ”):	7
5. Method of Payment:	7
6. Expenses:	8
7. Advance Payment:	8
8. Refundment Guarantee:	8
ARTICLE III - ADJUSTMENT OF CONTRACT PRICE	10
1. Delivery:	10
2. Speed:	11
3. Fuel Consumption:	11
4. Deadweight:	11
5. Container capacity:	12
6. Reductions to be Independent of Each Other:	12
7. Application of Adjustment:	13
8. Effect of Rescission:	13
ARTICLE IV - APPROVAL OF PLANS AND DRAWINGS AND INSPECTION DURING CONSTRUCTION	14
1. Approval of Plans and Drawings:	14
2. Appointment of BUYER’s Representatives:	14
3. Inspection by BUYER’s Representatives:	15
4. Rights of the Representatives:	15
5. Facilities:	17
6. Liability for the Representatives:	17
7. Salaries and Costs:	17
8. SELLER’s Obligation:	17
9. Replacement of the Representatives:	18
10. Responsibility of BUYER:	18
11. Information to Representatives:	18
ARTICLE V - MODIFICATIONS, CHANGES AND EXTRAS	19
1. How Effected:	19
2. Changes in Rules of Classification Society, Regulations, etc.:	19
3. Substitution of Materials:	20

ARTICLE VI - TRIALS AND ACCEPTANCE	21
1. Notice:	21
2. Weather Condition:	21
3. How Conducted:	21
4. Method of Acceptance or Rejection:	22
5. Effect of Acceptance:	23
6. Disposition of Surplus Consumable Stores:	23
ARTICLE VII - DELIVERY	24
1. Time and Place:	24
2. When and How Effected:	24
3. Documents to be delivered to BUYER:	24
4. Tender of VESSEL:	25
5. Title and Risk:	25
6. Removal of VESSEL:	26
7. Notices:	26
ARTICLE VIII - DELAYS AND EXTENSION OF TIME FOR DELIVERY (FORCE MAJEURE)	27
1. Causes of Delay (Force Majeure):	27
2. Notice of Delay:	27
3. Definition of Permissible Delay:	28
4. Right to Rescind for Excessive Delay:	28
ARTICLE IX - WARRANTY OF QUALITY	29
1. Guarantee:	29
2. Guarantee from Manufacturers and Suppliers:	29
3. Notice of Defects:	29
4. Extent of SELLER's Obligation:	29
5. Remedy of Defects:	30
6. Guarantee Period:	31
7. Application to Defects Remedied:	32
8. SELLER to Remain Liable:	32
9. Guarantee Engineer:	32
ARTICLE X - SELLER's DEFAULT - RESCISSION BY BUYER	34
1. SELLER's Default:	34
2. Effect of SELLER's Default:	35
3. Notice:	35
4. Refundment by SELLER:	35
5. Discharge of Obligations:	36
ARTICLE XI - DEFAULT BY THE BUYER	37
1. Definition of BUYER's Default:	37
2. Effect of BUYER's Default on or before Delivery of VESSEL:	37
3. Disposal of VESSEL:	38
ARTICLE XII - ARBITRATION	39
1. Decisions by the Classification Society:	39
2. Proceedings of Arbitration:	39
3. Notice of Award:	40
4. Expenses:	40
5. Entry in Court:	40
6. Alteration of Delivery Date:	40
ARTICLE XIII - ASSIGNMENT - SUCCESSOR AND ASSIGNS	41

ARTICLE XIV - TAXES AND DUTIES	42
1. Taxes and Duties Incurred in China:	42
2. Taxes and Duties Incurred outside China:	42
ARTICLE XV - PATENTS, TRADEMARKS, COPYRIGHTS, ETC.	43
1. Patents, Trademarks and Copyrights:	43
2. General Plans, Specifications and Working Drawings:	43
ARTICLE XVI - BUYER'S SUPPLIES	44
1. Responsibility of BUYER:	44
2. Responsibility of SELLER:	44
ARTICLE XVII - INSURANCE	46
1. Extent of Insurance Coverage:	46
2. Application of the Recovered Amounts:	46
3. Termination of SELLER's Obligation to Insure:	47
ARTICLE XVIII - NOTICES	48
1. Address:	48
2. Language:	48
3. Effective Date of Notice:	48
4. Change of Address:	49
ARTICLE XIX - EFFECTIVE DATE OF CONTRACT	50
ARTICLE XX - INTERPRETATION	51
1. Laws Applicable:	51
2. Entire Agreement:	51
3. Amendments and Supplements:	51
4. Banking Day:	51
5. No Set Off, Deduction or Counter-claim:	51
6. Deemed Benefit for Servants, etc.:	52
7. Responsibility:	52
8. Time of the Essence:	52
9. Headings:	53

THIS CONTRACT, made and entered into on this 28th day of February, 2006, by and between:

Seaspan Corporation, a corporation incorporated and existing under the laws of the Republic of the Marshall Islands, having a place of business at Room 503, 5/F, Lucky Commercial Center, 103 Des Voeux Road West, Hong Kong, China (hereinafter referred to as the **"BUYER"**), of the one part;

and

Jiangsu Yangzijiang Shipbuilding Co., Ltd. (the **"Builder"**), a company organized and existing under the laws of China with a registered office at Emeizui Huangshan, Jiangyin City, Jiangsu Province, 214431, The People's Republic of China (hereinafter referred to as the **"SELLER"**), of the other part.

WITNESSETH:

In consideration of the mutual covenants herein contained, the SELLER agrees to design, build, launch, equip and complete in accordance with first class shipbuilding practice in China, this Contract, the Specifications, the Approved Drawings and the Classification Society Rules, in all respects, one (1) Ocean Going Single Screw diesel engine driven fully Cellular Container Vessel as described herein and in the Specifications referred to herein (hereinafter called the **"VESSEL"** which term shall, where it appears, include its design, drawings, plans machinery, engines, equipment, fittings, outfitings, appurtenances, furniture, materials, parts, spares, articles and things whatsoever specified or required by the Specifications and/or otherwise under this Contract), at the SELLER's shipyard located in Emeizui Huangshan, Jiangyin City, Jiangsu Province, People's Republic of China (hereinafter called the **"Shipyard"**) and to deliver and sell the same to the BUYER free and clear of all liens, charges, mortgages and encumbrances, and the BUYER hereby agrees to purchase and accept delivery of the VESSEL from the SELLER and to pay for the same upon the terms and conditions hereinafter set forth.

ARTICLE I - DESCRIPTION AND CLASS

1. Description:

The VESSEL shall be a Single Screw Cellular Container VESSEL having the Builder's Hull No. YZJ2006-716C and shall be designed, constructed, equipped, inspected, tested, ready for sea and suitable in all respects for its intended use, in accordance with the provisions of this Contract, the Specifications, the Approved Drawings and the Classification Society Rules (each as hereinafter defined). The Approved Drawings and the Classification Society Rules shall constitute an integral part hereof. A reference hereafter in this Contract to Specifications shall be deemed to include the Approved Drawings and the Classification Society Rules. The SELLER undertakes that the quality of the design, construction, testing and trials of the VESSEL and the quality of the VESSEL and of her workmanship shall be in accordance with the first class shipbuilding practice in China.

2. Principal Dimensions and Characteristics:

- (a) The SELLER guarantees that the VESSEL will have the following:

Length, overall	app. 208.50 m
Length, between perpendiculars	196.50 m
Breadth, moulded	29.80 m
Depth, moulded	16.40 m
Designed draught, moulded	10.10 m
Scantling draught, moulded	11.50 m
Main Engine	MAN B&W 6K80MC-C (with alpha lubricator)
MCR x RPM	21660 KW at 104 RPM
CSR (90% MCR)	19494 KW at 100.4 RPM

- (b) The SELLER guarantees that the VESSEL shall have the following capacity of ISO standard 20' x 8' x 8' 6" Containers (the "**Guaranteed Container Capacity**"), compliant with IMO visibility requirements, namely:

Nominal capacity

Under deck -	984 TEU
On deck -	<u>1562 TEU (in 8 tiers)</u>
Total -	2546 TEU

Homogenous capacity (14 ton per TEU): 1900 TEU

- (c) The SELLER guarantees that the VESSEL shall have a deadweight of not less than 33,800 metric tons on scantling draught as calculated in accordance with the provisions of the Specifications (hereinafter called the "**Guaranteed Deadweight**"). The actual deadweight of the VESSEL expressed in tonnes of 1,000 kilograms shall be determined in the presence of the Representatives of the BUYER, the Classification Society and the SELLER on the basis of the actual measurement of the lightweight of the completed

VESSEL, and thereafter a certificate of deadweight shall be issued by the SELLER. The cost, if any, shall be for the account of the SELLER.

- (d) The SELLER guarantees that the speed of the VESSEL, based on calculations from sea trial as stipulated and on the conditions prescribed in the Specifications, shall be twenty two (22) knots, at design draught of 10.10 metres and at CSR (90% MCR) of main engine (hereinafter called the **"Guaranteed Speed"**).
- (e) The SELLER guarantees that fuel consumption for the main engine, the figure of which shall be calculated by applying I.S.O. reference condition to the result obtained at the shop trial, shall not exceed 171 g/KWh at a normal continuous output as stipulated and on the conditions prescribed in the Specifications (hereinafter called the **"Guaranteed Fuel Consumption"**).

The details of the aforementioned particulars as well as the definitions and method of measurements and calculations are as indicated in the Specifications.

3. Classification, Rules and Regulations:

The VESSEL shall be designed, constructed, equipped, inspected, tested and completed in accordance with the rules and regulations of and under special survey of Lloyds Register of Shipping (hereinafter called the **"Classification Society"**), the editions and amendments in force as of the date of this Contract (the **"Classification Society Rules"**, and wherever the term "Classification Society Rules" is used in this Contract, it means the rules of the Classification Society as stipulated in the Contract and the Specifications).

The VESSEL shall be distinguished in the register by the symbol of ✱100A1 Containership *IWS, LI, ShipRight (SDA, CM) ✱LMC, UMS NAV1, SCM, with descriptive notes "ShipRight BWMP(F). Pt. Ht." Details of Class notation shall be in accordance with the Specifications.

Decisions of the Classification Society as to compliance or non-compliance with the classification rules and regulations shall be final and binding upon both parties hereto, except where this Contract provides for Arbitration.

The VESSEL shall comply with rules, regulations, recommendations and requirements of the authorities as described and listed in the Specifications in force as of the date of the Contract signing, together with all mandatory rules and regulations with amendment, which have already been ratified up to the contract signing date and to come into effect prior to the scheduled delivery date of the VESSEL.

The SELLER shall arrange with the Classification Society for the assignment by the Classification Society of a representative (hereinafter referred to as the **"Classification Surveyor"**) to the VESSEL during all stages of construction. All materials, workmanship and major plans used in the construction of the VESSEL shall be subject to inspection and test by the Classification Society in accordance with the rules and regulations of the Classification Society. All fees and charges in connection with or incidental to the classification of the VESSEL, to all certificates required under this Contract and the Specifications, and to compliance with the above specified rules, regulations and requirements, shall be for the account of the SELLER.

No omission of the Classification Society and/or Classification Surveyor shall, in any way, diminish or impair the obligations and liabilities of the SELLER under the terms of this Contract.

4. Registration:

The VESSEL, at the time of her delivery and acceptance, shall be designed and constructed to qualify for registration at the port of registry by the BUYER under the Hong Kong flag. The costs of registration of the VESSEL in Hong Kong are for the BUYER's expense. The SELLER shall obtain and deliver to the BUYER at delivery and acceptance the Certificates required pursuant to the Specifications.

5. Contract Specifications and Approved Drawings:

(a) Definition

In this Contract, "**Specifications**" means the full specifications with reference no. M2004M-4034-01A, General Arrangement Drawing reference no. Q84.4197.100.002, Midship Section reference no. Q84.4197.110.001 and Makers List reference no. M2004M-4034-02A signed by each of the parties for identification and constituting an integral part hereof. In this contract "**Approved Drawings**" means the drawings and plans approved by the BUYER pursuant to ARTICLE IV, Clause 1. Subject to provisions of Sub-clause (b) hereunder, the Specifications and the Approved Drawings are intended to complement this Contract as well as one another and everything contained in the Specifications and/or the Approved Drawings shall have full force and effect as if incorporated within the body of this Contract.

The parties acknowledge that the design and configuration of the VESSEL is based on the design and configuration for Hull No. YZJ2004-680C, subject to the Specifications, the drawings approved pursuant to ARTICLE IV and this Contract.

(b) Precedence

Should there be any inconsistency or discrepancy between this Contract and the Specifications or between this Contract and the Approved Drawings, this Contract shall prevail. Should there be any inconsistency or discrepancy between the Specifications and the Approved Drawings, the Specifications shall prevail.

6. Subcontracting and New Shipyard:

The SELLER may, with prior written notice to and consent from the BUYER, subcontract construction of the blocks of the VESSEL, except the major hull structure parts, to experienced subcontractors within Jiangsu Province area, but delivery and final assembly into the VESSEL of any such work subcontracted shall be at the yard of the SELLER. The BUYER acknowledges that the Builder is affiliated with the shipyard located at Jingjiang, Jiangsu Province (the "**New Shipyard**") and the SELLER may use the New Shipyard for construction of the VESSEL. The SELLER shall always remain fully responsible for the performance of this Contract with regard to the work done or materials supplied or used by such Subcontractors or the New Shipyard in accordance with this Contract. The subcontractors and the New Shipyard shall perform up to the same standard as the SELLER for such work performed by them.

(end of Article)

ARTICLE II - CONTRACT PRICE AND TERMS OF PAYMENT

1. Contract Price:

The agreed purchase price of the VESSEL is forty-one million two hundred and fifty thousand United States Dollars (US\$41,250,000), net receivable by the SELLER (hereinafter called the “**Contract Price**”).

The Contract Price shall be subject to upward or downward adjustment, if any, as herein after set forth in this Contract. The Contract Price includes payment for services in the design, inspection, tests, trials, survey and classification of the VESSEL which shall be rendered by the Classification Society and all costs and expenses for supplying all drawings and plans (except those to be furnished by the BUYER in respect of the BUYER's Supplies) and designs, machinery, engines, equipment, fittings, outfittings, appurtenances, furniture, materials, parts, spares, articles and things whatsoever and specified or required by the Specifications and/or otherwise under this Contract for the VESSEL and all other items and acts necessary for the due and punctual performance of the SELLER's obligations under or pursuant to this Contract.

The Contract Price does not include the cost of items to be supplied by the BUYER as stipulated in Clause 1 of ARTICLE XVI of this Contract.

2. Adjustment of Contract Price:

Any increase or decrease of the Contract Price due to adjustments made in accordance with the provisions of this Contract shall be adjusted by way of addition to or subtraction from the Delivery Instalment of the Contract Price upon delivery of the VESSEL in the manner as hereinafter provided.

No later than five (5) Banking Days prior to the scheduled date for the acceptance of delivery of the VESSEL, the parties hereto shall conclude an agreement on all adjustments of the Contract Price, if any. If the parties cannot agree on the adjustments specified in ARTICLE III, delivery of the VESSEL shall take place as provided herein and:

- (a) the adjustments to which the parties have agreed will be made to the Delivery Instalment; and
- (b) the adjustments or portion thereof that have not yet been agreed shall be determined by arbitration pursuant to ARTICLE XII herein.

Notwithstanding the foregoing, adjustment in connection with the delay in delivery of the VESSEL shall be made on delivery to the Delivery Instalment.

3. Currency:

Any and all payments which are due under this Contract or to be refunded under the terms thereof shall be made in United States Dollars.

4. Terms of Payment:

Subject to ARTICLE II, Clause 8, the Contract Price shall be due and payable by the BUYER to the SELLER in five instalments as follows:

(a) First Instalment:

The first instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid by the BUYER within five (5) Banking Days of the Effective Date (as defined by ARTICLE XIX).

(b) Second Instalment:

The second instalment amounting to US\$4,125,000 representing ten (10%) of the Contract Price shall be due and payable and shall be paid on the first Banking Day that is twelve (12) months after the date of this Contract.

(c) Third Instalment:

The third instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of the notice of cutting of the first steel plate of the VESSEL in the SELLER's workshop has occurred .

The SELLER shall give a fax or letter notice to the BUYER stating that the first steel plate has been cut in its workshop and demand for payment of this instalment. Such notice shall include a Builder's certificate of steel cutting, which shall be endorsed by the Classification Surveyor.

(d) Fourth Instalment:

The fourth instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of notice of keel-laying of the first section of the VESSEL.

The SELLER shall give a fax or letter notice to the BUYER stating that the first section has been carried out and demand for payment of this instalment. Such notice shall include a Builder's certificate of keel-laying, which shall be endorsed by the Classification Surveyor.

(e) Fifth Instalment:

The fifth instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of notice of launching of the VESSEL.

The SELLER shall give a fax or letter notice to the BUYER stating that the launching has been carried out and demand for payment of this instalment. Such notice shall include a Builder's certificate of launching which shall be endorsed by the surveyor of the Classification Society.

(f) Sixth Instalment (the “**Delivery Instalment**”):

The sixth instalment amounting to US\$20,625,000 representing fifty percent (50%) of the Contract Price, plus any increase or minus any decrease due to adjustment of the Contract Price under the provisions of this Contract shall be due and payable and shall be paid simultaneously with the delivery to and acceptance of the VESSEL by the BUYER and upon the signing of the Protocol of Delivery and Acceptance by both parties.

5. Method of Payment:

All the pre-delivery payments and the payment due on delivery in settlement of the Contract Price as provided for in Clause 4 of this ARTICLE II shall be made in United States Dollars on or before the due date thereof by telegraphic transfer as follows:

(a) Payment of the instalments prior to the Delivery Instalment

Payment of the first, second, third, fourth and fifth instalments shall be made by remitting the respective amounts, at the BUYER's own cost and expense, to the receiving bank nominated by the SELLER and advised to the BUYER not less than ten (10) days prior to the date of the relevant instalment, for credit to the account of the SELLER with SELLER'S Bank, or through other receiving bank to be nominated by the SELLER from time to time, and such nomination shall be notified to the BUYER at least ten (10) days prior to the due date for payment (herein referred to as the “**SELLER's Bank**”).

(b) Payment of the Delivery Instalment

The BUYER shall, at least three (3) business days prior to the actual date of delivery of the VESSEL, request BUYER's bank to make an irrevocable cash deposit in an account in the name of BUYER's bank with the SELLER's Bank, the People's Republic of China, for a period of fifteen (15) days and covering the amount of this instalment (as adjusted in accordance with the provisions of this Contract), with an irrevocable instruction that the said amount shall be released to the SELLER against presentation by the SELLER to the said SELLER's Bank of a copy of the Protocol of Delivery and Acceptance signed by the BUYER's authorized representative and the SELLER. Interest, if any, accrued from such deposit, shall be for the benefit of the BUYER.

If the SELLER has not presented the said original of the Protocol of Delivery and Acceptance duly signed by the SELLER and BUYER to the SELLER's Bank on or before the expiry of the aforesaid fifteen (15) day deposit period, the BUYER shall have the right to withdraw the said deposit plus accrued interest upon the expiry of such fifteen (15) day period. However, if a new delivery date is agreed between the BUYER and the SELLER, the BUYER shall make the cash deposit in accordance with the same terms and conditions as set out above.

The SELLER's Bank will be Bank of China Ltd. (Guangdong Branch), Bank of China Ltd. (Jiangyin Branch), the Export-Import Bank of China or such other bank to which the SELLER and BUYER may agree.

For the avoidance of doubt any interest earned on the cash deposit before delivery and acceptance of the VESSEL shall belong to the BUYER and the BUYER shall be entitled to instruct the Bank accordingly.

If or when the SELLER advises the BUYER of a revised scheduled delivery date in accordance with this Contract, the BUYER shall redeposit the Delivery Instalment in the same manner as stated above at least one business day prior to such revised scheduled delivery date or if not possible upon notice.

Simultaneously with each of such payments, the BUYER shall advise the SELLER of the details of such payments by telex, fax or cable.

If any of the above payment dates is not a Banking Day then the payment(s) so due on such non-Banking Day shall be understood to be payable on the next Banking Day after the date on which payment should have been made in accordance with this Clause 5.

In the event of default in the payment of any instalment in Clause (a) or (b) of this Clause 5, the BUYER shall pay default interest, charges and expenses in accordance with Clause 2 (a) of ARTICLE XI hereof.

6. Expenses:

All charges, expenses and bank charges outside of China for remitting payments and any taxes, duties, expenses and fees outside of China connected with such payment shall be for the account of the BUYER. All charges, expenses and bank charges and any taxes, duties, expenses and fees arising inside China for remitting payment shall be for the account of SELLER.

7. Advance Payment:

The payment of the Contract Price by way of the instalments set out in Clause 4 of this ARTICLE II shall be in the nature of advance(s) and shall be subject to refund to the BUYER in accordance with the provisions of this Contract.

8. Refundment Guarantee:

As security for the refund of instalments paid by the BUYER to the SELLER prior to delivery of the VESSEL, including interest thereon as set out in ARTICLE X herein, the SELLER will provide the BUYER with an Irrevocable Letter of Refundment Guarantee (the “**Refundment Guarantee**”) in favour of the BUYER issued by the SELLER’S Bank (hereinafter called the “**Refundment Guarantor**”) for each instalment of the Contract Price. Each Refundment Guarantee will cover the amount of the relevant instalment, together with interest thereon as set out in ARTICLE X herein, and the receipt of the Refundment Guarantee by the BUYER is a pre-condition to payment by the BUYER of the relevant instalment.

Alternatively, the SELLER may provide the BUYER with one Refundment Guarantee issued by the Refundment Guarantor that covers the aggregate amount of 1st, 2nd, 3rd, 4th and 5th instalments together with interest thereon as set out in ARTICLE X herein. This form of Refundment Guarantee would remain a pre-condition to the payment by the BUYER of the first instalment.

The Refund Guarantee or Guarantees, as the case may be, will become effective upon receipt of the relevant instalment to which the Refund Guarantee relates by the SELLER and must remain in effect until the earlier of: (1) the VESSEL is delivered to and accepted by the BUYER; (2) a refund of the full amount covered by the Refund Guarantee has been made by the SELLER or the Refund Guarantor; and (3) 180 days after the Delivery Date. The BUYER will not be required to make any further instalment to the SELLER if at any time a Refund Guarantee or Guarantees which was in effect ceases to be in effect.

The Refundment Guarantee or Guarantees, as the case may be, shall be substantially in the form of Exhibit "A" attached hereto. If the condition in Article XIX (b) is satisfied, the SELLER will have sixty (60) days from the condition satisfaction date to provide to the BUYER a Refundment Guarantee with respect to the first instalment substantially in the form attached as Exhibit "A" hereto and approved by the Refund Guarantor and the BUYER'S bank. Prior to delivery to the BUYER, the Refundment Guarantee or Guarantees, as the case may be, must be registered with or approved by (only if registration or approval is required) the relevant government agencies pursuant to any legislation in the People's Republic of China applicable to the provision of such instruments, including The State Administration of Foreign Exchange.

However, in the event of any dispute between the SELLER and the BUYER with regard to the SELLER's obligation to repay the instalment or instalments paid by the BUYER and to the BUYER's right to demand payment from the Refundment Guarantor, under its guarantee, and such dispute is submitted either by the SELLER or by the BUYER for arbitration in accordance with ARTICLE XII hereof, the Refundment Guarantor shall withhold and defer payment until the arbitration award between the SELLER and the BUYER is published. The Refundment Guarantor shall not be obliged to make any payment unless the arbitration award orders the SELLER to make repayment. If the SELLER fails to honour the award within 10 days of notice, then the Refundment Guarantor shall make payment to the BUYER under the Refundment Guarantee.

All expenses in issuing and maintaining the Refundment Guarantee or Refundment Guarantees, as the case may be, by the Refund Guarantor shall be borne by the SELLER.

(end of Article)

ARTICLE III - ADJUSTMENT OF CONTRACT PRICE

The Contract Price shall be subject to adjustment, as hereinafter set forth, in the event of any of the following contingencies (it being agreed and understood by both parties that any reduction of the Contract Price under this ARTICLE III is by way of liquidated damages and not by way of penalty).

1. Delivery:

- (a) No adjustment shall be made and the Contract Price shall remain unchanged for the first thirty (30) days of delay in delivery of the VESSEL beyond the Delivery Date as defined in ARTICLE VII hereof (ending as of 11:59 p.m. in China of the 30th day of delay).
- (b) If the delivery of the VESSEL is delayed by more than thirty (30) days after the Delivery Date, then, in such event, beginning at twelve o'clock midnight in China of the 30th day after the Delivery Date, the Contract Price shall be reduced by deduction therefrom as follows: from the 31st day to 60th day - US\$15,000 per day and from the 61st day to the 150th day - US\$23,500 per day. In any event (including the event that the BUYER consents to take the VESSEL at the later delivery date after the expiration of one hundred and fifty (150) days delay of delivery as described in Clause 1(c) of this ARTICLE III or in Clause 4 of ARTICLE VIII) the total reduction in the Contract Price shall not exceed the amount due to cover the delay of 120 days after the first 30 days hereinabove referred to for the delay in delivery of the VESSEL at the rate of reduction as specified above.
- (c) However, if the delay in delivery of the VESSEL should continue for a period of one hundred and fifty days from the Delivery Date, then in such event, and after such period has expired, the BUYER may, at its option, rescind this Contract in accordance with the provisions of ARTICLE X hereof and reject the VESSEL.

The SELLER may, at any time after the expiration of the aforementioned one hundred and fifty days of delay in delivery, if the BUYER has not served notice of rescission as provided in ARTICLE X hereof, demand in writing that the BUYER shall make an election, in which case the BUYER shall within twenty (20) days after such demand is received by it notify the SELLER of its intention either to rescind this Contract or to consent to the acceptance of the VESSEL at an agreed future date. If the BUYER shall not make an election within twenty (20) days as provided herein above, the BUYER shall be deemed to have accepted such extension of the delivery date to the future delivery date indicated by the SELLER and it being understood by the parties hereto that if the VESSEL is not delivered by such future date, the BUYER shall have the same right of rescission upon the same terms and conditions as herein above provided.

- (d) For the purpose of this ARTICLE III, the delivery of the VESSEL shall be deemed not to be delayed and the Contract Price shall not be reduced when and if the Delivery Date of the VESSEL is extended by reason of causes and provisions of ARTICLE IV Clause 4(i)(2), ARTICLE V, ARTICLE VI, ARTICLE XI, ARTICLE XII, ARTICLE XVI and ARTICLE XVII or by reason of Permissible Delay as defined in ARTICLE VIII.

2. Speed:

- (a) The Contract Price shall not be affected or changed by reason of the actual trial speed (as determined according to the Specifications) being less than the Guaranteed Speed, if such deficiency is not more than 0.15 of one (1) knot below the Guaranteed Speed.
- (b) However, commencing with and including a deficiency of more than 0.15 of one (1) knot in actual speed below the Guaranteed Speed, the Contract Price shall be reduced by USD50,000 for each successive whole 0.10 of a knot and pro-rata for any fraction thereof in excess of a deficiency of 0.15 of a knot.
- (c) If the deficiency in the actual trial speed upon final sea trial is more than 0.55 of a knot below the Guaranteed Speed of the VESSEL, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof, or may accept the VESSEL at a reduction in the Contract Price as above provided that the total reduction does not exceed two hundred thousand United States Dollars (US\$200,000) being the maximum.

3. Fuel Consumption:

- (a) The Contract Price shall not be affected or changed in case the actual fuel consumption, as determined by the engine manufacturer's shop trial (171 g/KWh) as specified in the Specifications, is not more than tolerance margin of five percent (5%) in excess of the Guaranteed Fuel Consumption.
- (b) However, in the event that the actual fuel consumption at the shop trial is in excess of five percent (5%) of the Guaranteed Fuel Consumption, the Contract Price shall be reduced by the sum of seventy thousand United States Dollars (US\$70,000) for each full one percent (1%) increase in fuel consumption and pro rata for any fraction of one percent (1%) of the Guaranteed Fuel Consumption in excess of the said five percent (5%) up to maximum of eight percent (8%) over the Guaranteed Fuel Consumption.
- (c) If the fuel consumption of the main engine exceeds the Guaranteed Fuel Consumption by more than eight percent (8%), then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof, or may accept the VESSEL at a reduction in the Contract Price as above provided for eight percent (8%) only, that is, at a total reduction of two hundred and ten thousand United States Dollars (US\$210,000) being the maximum.

4. Deadweight:

- (a) In the event that there is a deficiency in the actual deadweight of the VESSEL (33800 MT) determined as provided in the Specifications, the Contract Price shall not be decreased if such deficiency is two hundred (200) metric tons or less below the guaranteed deadweight described in the Specification.
- (b) In the event that the actual deadweight of the VESSEL as determined in accordance with the Specifications is less than the Guaranteed Deadweight, the Contract Price shall be

reduced by the sum of two thousand United States Dollars (US\$2,000) for each full metric ton of such deficiency being more than two hundred (200) metric tons.

- (c) In the event of such deficiency in the actual deadweight of the VESSEL being eight hundred (800) metric tons or more, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or accept the VESSEL at a reduction in the Contract Price as above provided for eight hundred (800) metric tons only, that is, at a total reduction of one million two hundred thousand United States Dollars (US\$1,200,000).

5. Container capacity:

- (a) In the event that the actual nominal container capacity of the VESSEL as determined in accordance with the Specifications is less than the Guaranteed Container Capacity of 2546 TEU by more than forty-six (46) TEUs, the Contract Price shall be reduced by the sum of thirty thousand United States Dollars (US\$30,000) for each container TEU of deficiency in excess of forty-six (46) TEUs.
- (b) In the event of the foregoing deficiency is fifty-five (55) TEU containers or more, the BUYER may, at its option reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or may accept the VESSEL at a total reduction in the Contract Price as above provided of two hundred and seventy thousand United States Dollars (US\$270,000).
- (c) Notwithstanding anything contained herein, the homogenous intake of containers of 14 ton TEU will not be below 1900.
- (d) In the event that the actual homogenous intake of containers of 14 ton TEU is less than 1900, the Contract Price shall be reduced by the sum of:
(1) twenty-one thousand five hundred United States Dollars (US\$21,500) for each TEU of such deficiency up to and including twenty (20) TEUs; and
(2) thirty-five thousand United States Dollars (US\$35,000) for each TEU of such deficiency from and including twenty-one (21) TEU up to and including twenty-five TEU.
- (e) In the event of such deficiency in the actual homogenous intake of containers being twenty-six (26) TEU or more, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or may accept the VESSEL at a total reduction in the Contract Price as above provided of six hundred and five thousand United States Dollars (US\$605,000).

6. Reductions to be Independent of Each Other:

Reductions permitted herein are independent of each other and in the event of there being contingencies which necessitate the application of two or more Clauses, there shall be separate reductions in the Contract Price in respect of each contingency.

7. Application of Adjustment:

Unless the parties agree otherwise, the total reduction in the Contract price shall be deducted from the Delivery Instalment of the Contract Price in accordance with ARTICLE II, Clause 4.

8. Effect of Rescission:

It is expressly understood and agreed by the parties hereto that in any case as stated herein, if the BUYER rescinds this Contract pursuant to any provision under this ARTICLE III, the BUYER, save its rights and remedies set out in ARTICLE X hereof, shall not be entitled to any liquidated damages or compensation whether described above or otherwise.

(end of Article)

**ARTICLE IV - APPROVAL OF PLANS AND DRAWINGS AND INSPECTION DURING
CONSTRUCTION**

1. Approval of Plans and Drawings:

- (a) The SELLER shall submit to the BUYER three (3) copies of the plans and drawings to be submitted thereto for its approval at its address as set forth in ARTICLE XVIII hereof. For those plans and drawings that have been approved as of the date of the Contract by the BUYER of Hull No. YZJ2004-680C and are unaffected by Specifications herein, the SELLER shall submit such plans and drawings to the BUYER within 45 days of date of the Contract. The BUYER shall have ninety (90) days thereafter to submit comments and return one plan or drawing, as the case may be, to the SELLER.

For all other plans and drawings, to be approved hereunder, the BUYER shall, within twenty-one (21) days after receipt thereof, return to the SELLER one (1) copy of such plans and drawings with the BUYER's approval or comments written thereon, if any, within the terms of the Specifications and the Contract. The SELLER must respond to the comments of the BUYER within twenty-one (21) days. Any alterations to the Specifications resulting from such comments shall be dealt with in accordance with ARTICLE V, Clause 1. If any modifications and or changes are made to the plans which have been reviewed or approved by the BUYER, the SELLER shall submit such plans either partially or totally to the BUYER for reapproval in accordance with this Clause. A list of the plans and drawings to be so submitted to the BUYER shall be mutually agreed upon between the parties hereto and such plans and drawings shall then constitute "**Approved Drawings**".

- (b) In the event that the BUYER shall fail to return the plans and drawings to the SELLER by fax or otherwise within the time limit as hereinabove provided, such plans and drawings shall be deemed to have been automatically approved without any comment.
- (c) No act or omission of the BUYER in reviewing or approving the plans and/or drawings shall, in any way, diminish or impair the obligations and liabilities of the SELLER under the terms of this Contract.

2. Appointment of BUYER's Representatives:

The BUYER may send to and maintain at the Shipyard, at the BUYER's own cost and expense, one or more Representatives who shall be duly authorized in writing by the BUYER (herein called the "**Representatives**") to supervise the construction by the SELLER of the VESSEL and to act on behalf of the BUYER in connection with the modifications of the Specifications, approval of the plans and drawings, attendance to the tests, inspections and trials relating to the VESSEL, and any other matters for which he is specifically authorized by the BUYER. The Representatives may appoint assistant(s) to attend at the Shipyard for the purposes as aforesaid.

Upon appointment of the Representatives, the BUYER shall notify the SELLER in writing of the name and the scope of authority of the Representatives. Before the commencement of any item of work under this Contract, the SELLER shall, whenever reasonably required, exhibit,

furnish to, and within the limits of the Representative's authority, secure the approval from the Representatives of any plans and drawings prepared in connection therewith.

3. Inspection by BUYER's Representatives:

The necessary inspections and testing of the VESSEL shall be carried out by the Classification Society, other regulatory bodies and an inspection team of the BUYER, including the Representatives, throughout the entire period of construction, in order to ensure that the construction of the VESSEL is duly performed in accordance with this Contract and the Specifications.

4. Rights of the Representatives:

- (a) The Representatives shall, at all times during the construction until delivery and acceptance of the VESSEL, have the reasonable right to inspect the VESSEL and all work in progress, materials utilized and quality of work in connection with the construction thereof wherever such work is being done within the Shipyard's premises or wherever such materials and equipment are stored, for the purpose of determining that the VESSEL is being constructed in accordance with the terms of this Contract and the Specifications.
- (b) The Representatives shall have the unrestricted right to visit the VESSEL and all work in progress. The Representatives shall also have the reasonable right to visit, with the SELLER'S attendance or introduction as necessary, all property and premises utilized in connection with the construction of the VESSEL, wherever and whenever such premises is being utilized or such property is stored.
- (c) The construction of the VESSEL shall be subjected, throughout the entire period of construction, to quality control by a quality control department of the SELLER. The necessary tests and inspection by the Classification Society and other regulatory bodies concerned shall also be carried out and recorded and all results of quality control and tests and inspections shall be communicated in the form documented, or in the absence of documentation, orally, to the Representatives.
- (d) The Representatives may attend during construction of the VESSEL, tests and inspection of the VESSEL, its machinery and equipment. The SELLER shall give the Representatives at least one (1) week advance notice for tests and inspections within the Shipyard stating approximate particulars of any tests or inspections which may be attended by the Representatives provided that in exceptional circumstances the manner in which such notice is given may be modified by mutual agreement. Notice of tests and inspections to be conducted shall also be given to the Representatives latest up to 5:00 p.m. of the day prior to the day on which any tests or inspections shall occur.

For test or inspections outside the Shipyard, including manufacturer's shop tests, sufficient advance notice to allow for the Representatives to arrange transportation shall be given. This advance notice should not be less than seven (7) days for tests or inspections that require air travel for attendance.

Inspection schedule must be reasonable at all times in order to allow the BUYER's Representatives to carry out their duties properly and inspections must be spread over a reasonable time, but to follow building schedule at the same rate. In principle, inspections will not take place on Saturdays, Sundays and Holidays, unless mutually agreed upon and necessary in order to meet the SELLER'S schedule.

Failure of the Representatives to be present at the tests and inspections after due notice shall be deemed to be a waiver of the BUYER's right to be present. In such case the BUYER shall be obliged to accept the result of such test on the basis of the SELLER'S certificate, signed by the Classification Society, that the said result is conforming to the provisions of this Contract and the Specifications.

- (e) The Representatives shall notify the SELLER promptly, in writing, if, in his opinion, the VESSEL is not being constructed in accordance with this Contract or the Specifications. The BUYER may at its election send a copy of such notification to the Classification Society.
- (f) No act or omission of the Representatives or his assistants shall, in any way, diminish or impair the liability of the SELLER under this Contract and/or the Specifications.
- (g) The Representatives shall advise and consult the SELLER on all matters pertaining to the construction of the VESSEL, as may be required by the SELLER, or as he may deem necessary.
- (h) The inspection thus exercised on behalf of the BUYER shall not alter or diminish the responsibility of the SELLER to construct the VESSEL in accordance with the Contract and the Specifications.
- (i) In the event that the Representatives advise the SELLER that they have discovered and believe the VESSEL is not being constructed in accordance with this Contract or the Specifications, and the SELLER shall not agree with the views of the Representatives in such respect, as provided in Clause (e) of this ARTICLE III, either the BUYER or the SELLER shall seek a decision of the Classification Society in accordance with Clause 1 of ARTICLE XII of this Contract. The Classification Society shall determine whether or not a non-conformity with the provisions of this Contract or the Specifications exists.
 - (1) If the Classification Society enters a determination in favour of the BUYER, then in such case the SELLER shall make the necessary alterations or changes, or if such alterations or changes cannot be made in time to meet the construction schedule for the VESSEL and the BUYER so agrees, which shall not be unreasonably withheld, but without prejudice to BUYER's other rights under this Contract, the Contract Price shall be fairly and reasonably reduced (as agreed between the Parties hereto and failing which by Arbitration as hereinafter provided) in lieu of such alterations and changes.
 - (2) If the Classification Society enters a determination in favour of the SELLER, then the time for delivery of the VESSEL shall be extended for the period of delay in construction, if any, occasioned by such proceedings, and the BUYER shall compensate the SELLER for the proven loss and damages incurred by the SELLER as a result of the dispute herein referred to.

The SELLER undertakes to inform the Classification Society in writing within thirty (30) days of the date of this Contract that the SELLER has no objection to the BUYER making an arrangement with the Classification Society for receiving copies of any technical correspondence exchanged between the SELLER and the Classification Society in the course of design, testing, approval, inspection, survey, supervision, certification and construction of the VESSEL.

5. Facilities:

The SELLER shall, at no cost to the BUYER, furnish suitably lighted and air conditioned office space for a team of approximately twelve (12) Representatives all along, including desks, chairs, tables, changing room, toilet and shower space, office furniture, drawing table, filing cabinets, telephone circuit and use of other communications equipment such as telephone, facsimile, email/internet and such other reasonable facilities as may be required. International and domestic telecommunication service shall be paid by the BUYER at the normal rate of charges of the Chinese telecommunication company.

6. Liability for the Representatives:

As between SELLER and BUYER, the Representatives and their assistants shall at all times be deemed as the employees of BUYER. SELLER shall not be under any liability whatsoever to BUYER, or the Representatives and their assistants for personal injuries, including death, suffered during the time when they were aboard the VESSEL or within the premises of the SELLER or its subcontractors, to such Representatives and their assistants unless such personal injuries, including death, were caused by gross negligence or willful misconduct of SELLER or its employees, agents or subcontractors or by employees or agents of such subcontractors. Nor shall SELLER be under any liability whatsoever to BUYER for damage to, or loss or destruction of, property of the Representatives and their assistants unless such damage, loss or destruction was caused by gross negligence or willful misconduct of SELLER or its employees, agents or subcontractors or by employees or agents of such subcontractors.

7. Salaries and Costs:

All salaries and other costs of the Representatives shall be for BUYER's account.

8. SELLER's Obligation:

Nothing under this ARTICLE IV shall change or reduce the SELLER's sole responsibility and obligation to design, build and deliver the VESSEL in a condition fully in accordance with the Contract and its attachments. All respective rights of the BUYER on delivery of the VESSEL remain fully valid and unprejudiced by this ARTICLE IV.

9. Replacement of the Representatives:

The SELLER has the right to request the BUYER in writing to replace any Representative who is deemed by the SELLER, acting reasonably, unsuitable and unsatisfactory for the proper progress of the VESSEL'S construction together with reasons. The BUYER shall investigate the situation at the Shipyard, if necessary, and if such SELLER's request is justified, the BUYER should effect the replacement as soon as conveniently arrangable.

10. Responsibility of BUYER:

The Representatives and their assistant(s) shall observe the work rules and regulations prevailing at the SELLER's and its subcontractors' and suppliers' premises.

11. Information to Representatives:

The SELLER shall reasonably promptly provide all required information to the Representatives and their assistant(s) and shall secure that its subcontractors and suppliers shall reasonably promptly provide all such information as he or they may reasonably request in connection with the construction of the VESSEL.

(end of Article)

ARTICLE V - MODIFICATIONS, CHANGES AND EXTRAS

1. How Effected:

Any modifications and/or changes in the Specifications under which the VESSEL is to be constructed shall be made by written agreement of the parties hereto provided, however, that any modifications and/or changes will not adversely affect the SELLER's planning or programme in relation to the SELLER's other commitments and if the BUYER and SELLER shall agree to adjustment of the Contract Price, time for delivery of the VESSEL and other terms and conditions of this Contract as hereinafter provided. The SELLER hereby agrees to exert its best efforts to accommodate such reasonable request by the BUYER so that the said changes and/or modifications may be made at a reasonable cost and within the shortest period of time which is reasonably possible. Any such agreement for modifications and/or changes shall include an agreement as to the increase or decrease, if any, in the Contract Price of the VESSEL and if necessary which instalment is to reflect the increase or decrease of the Contract Price together with an agreement as to any extension or reduction in the time of delivery, or any other alterations in this Contract, or the Specifications or the Approved Drawings occasioned by such modifications and/or changes.

If after the exertion of such best efforts by the SELLER in response to the BUYER's reasonable request, the parties fail to conclude the above-mentioned agreement, then the SELLER shall have no obligation to comply with the BUYER'S request.

The aforementioned agreement to modify and/or change the Specifications and/or Approved Drawings may be effected by an exchange of letters signed by the authorized Representatives of the parties hereto, or telex or facsimile confirmed in writing, manifesting such agreement. Such letters and confirmed telex and facsimile exchanged by the parties hereto pursuant to the foregoing shall constitute an amendment of the Specifications, and such letters and telex and facsimile shall be incorporated into this Contract and made a part hereof.

The SELLER may make minor changes to the Specifications, if found necessary for introduction of improved production methods or otherwise, provided that the SELLER shall first obtain the BUYER's written approval which shall not be unreasonably withheld.

2. Changes in Rules of Classification Society, Regulations, etc.:

In the event that, after the date of signing this Contract, any requirements as to class, or as to rules and regulations to which the construction of the VESSEL is required to conform are altered or changed by the Classification Society or the other regulatory bodies authorized to make such alterations or changes, the following provisions shall apply:

- (a) If such alterations or changes are compulsory for the VESSEL, either of the parties hereto, upon receipt of such information from the Classification Society or such other regulatory bodies, shall promptly transmit the same to the other in writing, and the SELLER shall thereupon incorporate such alterations or changes into the construction of the VESSEL, provided that the BUYER shall first agree to reasonable adjustments required by the SELLER in the Contract Price, the Delivery Date and other terms and

conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes.

- (b) If such alterations or changes are not compulsory for the VESSEL, but the BUYER desires to incorporate such alterations or changes into the construction of the VESSEL, then the BUYER shall notify the SELLER of such intention. The SELLER shall accept such alterations or changes, provided that such alterations or changes will not, in the judgment of the SELLER, adversely affect the SELLER's planning or program in relation to the SELLER's other commitments, and provided, further, that the BUYER shall first agree to reasonable adjustments required by the SELLER in the Contract Price, the Delivery Date and other terms and conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes. Agreements as to such alterations or changes under this Clause 2(b) shall be made in the same manner as provided in Clause 1 of this ARTICLE V for modifications or changes to the Specifications. If after the exertion of such best efforts by the SELLER in response to the BUYER's reasonable request, the parties fail to conclude the above-mentioned agreement, then the SELLER shall have no obligation to comply with the BUYER's request.

3. Substitution of Materials:

In the event that any of the materials and equipment more specifically described in the definition of VESSEL and required by the Specifications or otherwise under this Contract for the construction of the VESSEL can not be procured in time to effect delivery of the VESSEL, or are in short supply to maintain the delivery date of the VESSEL, the SELLER may, provided the BUYER so agrees in writing, supply other materials and equipment of the available and equal or better quality, meeting the requirements of the Classification Society and of the rules, regulations, requirements and recommendations with which the construction of the VESSEL must comply. Any agreement as to such substitution of materials and equipment shall be effected in the manner as provided in Clause 1 of this ARTICLE V, and shall, likewise, be in accordance with the terms and conditions of this Contract affected by such substitution.

(end of Article)

ARTICLE VI - TRIALS AND ACCEPTANCE

1. Notice:

The sea trial shall start when the VESSEL is ready for the sea trial according to the Specifications.

The SELLER shall give the BUYER at least twenty-one (21) days estimated prior notice and Five (5) days confirming prior notice by facsimile confirmed in writing of the time and place of any trial run of the VESSEL, and the BUYER shall promptly acknowledge receipt of such notice. The BUYER shall have its Representatives on board the VESSEL to witness such trial run.

Should such Representatives fail to be present after the SELLER's due notice to the BUYER as provided above, then in such event, the BUYER shall be deemed to have waived its right to have its Representatives on board the VESSEL during the trial run and the SELLER shall be entitled to conduct such trial run with the presence of the Classification Surveyor only without the Representatives of the BUYER being present and in such case the BUYER shall be obligated to accept the VESSEL on the basis of a certificate of the Classification Society and certificate of the SELLER stating that the VESSEL, upon trial run, is found to conform to this Contract and Specifications.

2. Weather Condition:

The trial run shall be carried out under the weather condition which is deemed favorable enough in the reasonable judgment of the SELLER. In the event of unfavourable weather on the date specified for the trial run, the same shall take place on the first available day thereafter that the weather condition permits. It is agreed that, if during the speed trial of the VESSEL, the weather is unfavourable (i.e. sea state of 3 and wind state of Beaufort 3 or worse) that orderly conduct of the speed trial can no longer be continued, the speed trial shall be discontinued and postponed until the first favorable day next following, unless the BUYER shall assent in writing to acceptance of the VESSEL on the basis of the speed trial already made before such discontinuance has occurred.

Any delay of the trial run caused by such unfavourable weather condition shall operate to postpone the Delivery Date by the period of the delay involved and such delay shall be deemed as Permissible Delay in the delivery of the VESSEL.

3. How Conducted:

- (a) The VESSEL shall run the official sea trial in the manner as specified in the Specifications and shall prove fulfillment of the performance requirements for the trial run as set forth in the Specification.
- (b) All expenses in connection with the trial run (including bunkers, diesel oil, lubricating oil and greases) including proper insurance are to be for account of the SELLER and the

SELLER shall provide, at its own expense, the necessary crew to comply with conditions of safe navigation.

4. Method of Acceptance or Rejection:

- (a) Upon completion of the trial run, the SELLER shall give the BUYER a notice by telex or facsimile confirmed in writing of completion of the trial run and promptly provide the BUYER with all protocols and records of tests and trials, as and if the SELLER considers that the results of the trial run prove conformity of the VESSEL to this Contract and Specifications.

The BUYER shall, within six (6) working days after receipt of the aforementioned records of tests and trials from the SELLER, notify the SELLER by telex or facsimile confirmed in writing of its acceptance or rejection of the VESSEL's conformity to this Contract and the Specifications.

- (b) Should the records of tests and trials indicate that the VESSEL does not conform to the requirements of this Contract or the Specifications and if the SELLER agrees with the BUYER's notice of non-conformity, then the SELLER shall promptly take the necessary steps to correct such non-conformity and notify the BUYER promptly in writing or by telex or facsimile confirmed in writing advising the BUYER of the estimated additional time required for the necessary alterations to correct such non-conformity.

Upon completion of correction of such non-conformity, new trial run or runs as necessary will be made to prove conformity of the VESSEL to this Contract and Specifications if so found necessary by the SELLER, the Classification Society and the Representatives. The SELLER shall notify the BUYER of the time and place of any new trial run no less than five (5) working days beforehand, unless otherwise mutually agreed to. All provisions of the trial run shall apply to such new trial run.

Notwithstanding the aforesaid, the BUYER may accept the VESSEL qualifying its acceptance by reservations regarding works or parts which have not been completed or properly installed prior to such acceptance. In the event that BUYER makes such qualified acceptance the parties will reach an agreement in writing, prior to the delivery of the VESSEL, as to how and when to remedy the items being the subject of the qualified acceptance, at the SELLER's cost and expense, either before or after the delivery, as quickly as possible, without delaying the date of delivery and without causing the BUYER inconvenience in the operation of the VESSEL.

- (c) In the event that the SELLER fails to correct any non-conformity of which it has been given notice by the BUYER, which non-conformity has been confirmed by the Classification Society, the BUYER shall indicate what aspect of the VESSEL does not conform to this Contract and/or the Specifications and the SELLER shall promptly correct those non-conformities.
- (d) In the event that the BUYER fails to give notice to the SELLER by fax and/or telex confirmed in writing of the VESSEL within the period as provided in the above Sub-clause (a) or (b), the BUYER shall be deemed to have accepted the VESSEL.

-
- (e) Any dispute between the SELLER and the BUYER as to the conformity or non-conformity of the VESSEL to the requirements of this Contract and/or the Specifications shall be submitted for final decision in accordance with ARTICLE XII hereof.

5. Effect of Acceptance:

Acceptance of the VESSEL as above provided shall be final and binding in so far as conformity of the VESSEL to this Contract and Specifications is concerned and shall preclude the BUYER from refusing formal delivery of the VESSEL as hereinafter provided, if the SELLER complies with all other requirements for delivery as provided in ARTICLE VII hereof. However, the BUYER's acceptance, of the VESSEL shall not affect the BUYER's right under ARTICLE IX hereof and/or under law.

6. Disposition of Surplus Consumable Stores:

- (a) Any fuel oil, lubricating oil and greases furnished and paid for by the SELLER for trial runs remaining on the VESSEL, at the time of acceptance of the VESSEL by the BUYER, shall be bought by the BUYER from the SELLER at the SELLER's net purchase price for such supply in China and the payment by the BUYER thereof shall be made at the time of delivery of the VESSEL.
- (b) If any of the consumables under (a) above are furnished by the BUYER, SELLER shall pay at time of delivery for quantities consumed until delivery at BUYER'S net purchase price.

(end of Article)

ARTICLE VII - DELIVERY

1. Time and Place:

The VESSEL, duly completed in accordance with this Contract and the Specifications, shall be delivered by the SELLER to the BUYER at the SELLER's wharf at the Shipyard safely afloat on or before November 30, 2008 (hereinafter called the "**Delivery Date**") after completion of satisfactory tests and trials and acceptance in accordance with ARTICLE VI hereof, except that, in the event of delays in the construction of the VESSEL or any performance required under this Contract due to causes which under the terms of this Contract permit postponement of the date for delivery, the aforementioned Delivery Date of the VESSEL shall be postponed accordingly.

Earlier Delivery Date is subject to BUYER's prior written consent, such consent not to be unreasonably withheld.

2. When and How Effected:

Provided that the SELLER and the BUYER shall have fulfilled all of their obligations stipulated under this Contract, the delivery of the VESSEL shall be effected forthwith upon acceptance thereof by the BUYER, by concurrent delivery by each of the parties hereto to the other of the PROTOCOL OF DELIVERY AND ACCEPTANCE, acknowledging delivery of the VESSEL by the SELLER and acceptance thereof by the BUYER, which Protocol of Delivery and Acceptance shall be prepared in quadruplicate and signed by each of the parties hereto with additional copies as required by the BUYER or the SELLER.

3. Documents to be delivered to BUYER:

Acceptance of the VESSEL by the BUYER shall be conditional upon receipt by the BUYER from the SELLER of the following duly authenticated documents (all in the English language), which shall accompany the aforementioned PROTOCOL OF DELIVERY AND ACCEPTANCE:

- (a) PROTOCOL OF TRIALS of the VESSEL made pursuant to the Specifications.
- (b) PROTOCOL OF INVENTORY of the equipment of the VESSEL, including spare parts and the like, as specified in the Specifications.
- (c) PROTOCOL OF STORES OF CONSUMABLE NATURE covering items referred to under Clause 6 of ARTICLE VI hereof.
- (d) ALL CERTIFICATES required to be furnished upon delivery of the VESSEL pursuant to this Contract and the Specifications and for the customary shipbuilding practice.

It is agreed that if, through no fault on the part of the SELLER, the Classifications certificates and/or other certificates are not available at the time of delivery of the VESSEL, provisional certificates valid for at least five (5) months shall be accepted by the BUYER, provided that the SELLER shall furnish the BUYER with the formal certificates as

promptly as possible after such certificates have been issued, but in any event timely before the expiry of the provisional certificates.

All certificates to be delivered to the BUYER hereunder pursuant hereto shall be issued by the relevant authorities or Classification Society and shall be clean and valid in every respect and without any recommendation or notation.

- (e) DECLARATION OF WARRANTY of the SELLER that the VESSEL is delivered to the BUYER free and clear of any liens, charges, claims, mortgages, or other encumbrances upon the BUYER's title thereto, and in particular that the VESSEL is absolutely free of all burdens in the nature of imposts, taxes or charges imposed by the Chinese governmental authorities whether national or local as well as of all liabilities of the SELLER to its subcontractors, suppliers, employees and crew(s), and of all the liabilities arising from the operation of the VESSEL in trial runs, or otherwise, prior to delivery.
- (f) DRAWINGS AND PLANS in quadruplicate pertaining to the VESSEL, including lists of Finished Plans and As Built Space and the trim and stability booklet technical descriptions, test results and other data, information or documents in the possession of the SELLER concerning the design and constructions of the VESSEL which shall be forwarded to the BUYER at no additional cost as stipulated in the Specification.
- (g) COMMERCIAL INVOICE
- (h) BILL OF SALE
- (i) BUILDER's CERTIFICATE. If required by the BUYER, the SELLER shall arrange for the notarization of the BUILDER's CERTIFICATE by the local authorized notary public institution in China, or for the BUILDER's CERTIFICATE to be otherwise authenticated as required by the Hong Kong Shipping Registry.

4. Tender of VESSEL:

If the BUYER fails to take delivery of the VESSEL after completion thereof according to this Contract and Specifications without any justifiable reason, the SELLER shall have the right to tender delivery of the VESSEL after fulfillment of all SELLER's obligations as provided herein.

5. Title and Risk:

Title to and risk of loss of or damage to the VESSEL shall pass to the BUYER only upon the delivery and acceptance thereof having been completed as stated above; it being expressly understood that, until such delivery is effected, title to and risk of loss of or damage to the VESSEL and her equipment and risk of items and materials supplied by the BUYER or its suppliers shall be with the SELLER.

Notwithstanding the provisions of this ARTICLE VII, the title to the material and equipment supplied by the BUYER shall remain with the BUYER.

6. Removal of VESSEL:

The BUYER shall take possession of the VESSEL immediately upon delivery and acceptance thereof and shall remove the VESSEL from the premises of the Shipyard within ten (10) days after delivery and acceptance thereof is effected.

If the BUYER shall not remove the VESSEL from the premises of the Shipyard within the aforesaid ten (10) days, in such event, the BUYER shall pay to the SELLER the reasonable mooring charges of the VESSEL.

7. Notices:

Prior to the delivery of the VESSEL, the SELLER shall give notice to the BUYER with the following schedule:

90 DAYS PRIOR TO DELIVERY - 15 DAYS ESTIMATED DELIVERY DATE;
60 DAYS PRIOR TO DELIVERY - 10 DAYS ESTIMATED DELIVERY DATE;
30 DAYS PRIOR TO DELIVERY - 7 DAYS ESTIMATED DELIVERY DATE;
15 DAYS PRIOR TO DELIVERY - 1 DAY DEFINITE DELIVERY DATE

(end of Article)

ARTICLE VIII - DELAYS AND EXTENSION OF TIME FOR DELIVERY (FORCE MAJEURE)

1. Causes of Delay (Force Majeure):

If at any time before the actual delivery, the construction of the VESSEL, any performance required as a prerequisite of delivery of the VESSEL or actual delivery of the VESSEL is delayed due to acts of princes or rulers; compulsory requirements of government authorities; war, blockade, revolution, insurrections, mobilization, civil war or commotion; vandalism; sabotages, strikes in the shipbuilding industry in China, riots, strikes, lockouts or other labor disturbances; acts of a public enemy, plague or other epidemic, quarantines; flood, typhoon, hurricanes, earthquakes; tidal waves; landslides; fires, explosions; embargoes; import restrictions; prolonged failure of electric current; delays caused by the Classification Society or other bodies whose documents are required; destruction of the Shipyard; other causes or accidents beyond the reasonable control of the SELLER; provided all the foregoing events were not existing and known to the SELLER at the date of this Contract or the effect of which could not have been avoided or reduced by the exercise of due diligence by the SELLER or his relevant subcontractors, as the case may be, and provided further that the events and/or delays were not caused or contributed by the negligence or misconduct of the SELLER and provided further that any of the above events directly affect the construction schedule of the VESSEL; then and in any such case, the date of delivery shall be postponed for a period of one day for every one day actually lost by any of the aforesaid events, subject nevertheless to the BUYER's right of cancellation under this ARTICLE VIII and subject to all relevant provisions of this Contract which authorize and permit extension of the time of delivery of the VESSEL.

The SELLER shall take immediate steps to overcome and mitigate the delay and to recover time lost, if any. Delays resulting from contingencies occurring simultaneously shall count as one delay only.

Any cause of delay for which the SELLER claims that it is entitled to a postponement of the Delivery Date under this Contract resulting from the SELLER's subcontractors shall be subject to any of the aforementioned contingencies being applicable to the subcontractors.

2. Notice of Delay:

As soon as possible after and in any event within seven (7) days after the date of the commencement of any cause of delay, on account of which the SELLER claims that it is entitled under this Contract to a postponement of the Delivery Date excluding days due to arbitration, the SELLER shall notify the BUYER in writing or by telex or facsimile confirmed in writing of the date when such cause of delay commenced and the reasons thereof, and the estimated duration of the probable delay in delivery of the VESSEL, and shall provide the BUYER, if available, evidence to justify the delay claimed. Likewise, within seven (7) days after the date of ending of such cause of delay, the SELLER shall notify the BUYER in writing or by telex or facsimile confirmed in writing of the date when such cause of delay ended.

In any event the SELLER shall also notify the BUYER of the period of time by which the SELLER claims the Delivery Date should be postponed by reason of such cause of delay within the same seven (7) day period as aforesaid. Failure of the SELLER to notify the BUYER of its

claim for postponement of the Delivery Date within a period of seven (7) days from the date of cessation of the event causing the delay shall be deemed a waiver of its claim.

Failure of the BUYER to object to the SELLER's claim for postponement of the Delivery Date within Fourteen (14) days after receipt by the BUYER of such notice of claim shall be deemed to be a waiver by the BUYER of its right to object to such postponement of the Delivery Date.

The burden of proof shall always be on the SELLER to establish the facts entitling it to rely on this Clause and that due notices were given and that it has taken all reasonable steps to avoid or mitigate the delay.

3. Definition of Permissible Delay:

Delays on account of such causes as specified in Clause 1 of this ARTICLE VIII and in ARTICLE IV, Clause 4(i)(2)), ARTICLE V, ARTICLE VI, ARTICLE XI, ARTICLE XII, ARTICLE XVII and ARTICLE XVI shall be understood to be Permissible Delays and are to be distinguished from unauthorized delays on account of which the Contract Price is subject to adjustment and/or the Contract is subject to rescission as provided for respectively in Article III and Article X hereof.

4. Right to Rescind for Excessive Delay:

If the total accumulated time of all delays on account of the causes specified in Clause 1 of this ARTICLE VIII and unauthorized delays as described in the Clause 1 of ARTICLE III aggregate to 180 days or more, in any circumstances, then, in such event, the BUYER may rescind this Contract by delivering or faxing to the SELLER notice of cancellation which shall be confirmed in writing and in accordance with the provisions of ARTICLE X hereof.

The SELLER may, at any time after the accumulated time of the aforementioned delays justifying the rescission by the BUYER, demand in writing that the BUYER shall make an election, in which case the BUYER shall, within twenty one (21) days after such demand is received by the BUYER, either notify the SELLER of its intention to rescind this Contract, or consent to a postponement of the Delivery Date to an agreed specific future date. If the BUYER elects to consent to the postponement of the Delivery Date at such agreed specific future date, then such date shall become the contractual delivery date, for the purpose of this Contract and if the VESSEL is not delivered by such revised delivery date, the BUYER shall have the same right of rescission upon the same terms as herein provided.

(end of Article)

ARTICLE IX - WARRANTY OF QUALITY

1. Guarantee:

The SELLER guarantees the VESSEL in her entirety and each and every part thereof and in particular but without prejudice to the generality of the foregoing, her design, drawing, plans, the hull and all machinery, engines, engine room auxiliaries, equipment, fittings, outfittings, appurtenances, furniture, parts, spares, paint and materials manufactured, furnished, installed or incorporated in the VESSEL by the SELLER and/or its subcontractors under this Contract against all defects, omissions, shortages and non-conformity, defective or unsuitable materials or equipment, faulty design and/or performance or poor workmanship or negligence, (hereinafter collectively referred to as “**Defect(s)**”), whether or not such Defect(s) affect seaworthiness or class within the Guarantee Period as hereinafter defined.

The SELLER shall pass to the BUYER information about any claims that the SELLER may have against subcontractors for Defect(s) in deliveries to the VESSEL, without in any way, diminishing the SELLER’s guarantee as aforesaid.

2. Guarantee from Manufacturers and Suppliers:

In the event that the normal guarantee period stipulated by manufacturers or suppliers or various components of machinery, materials, equipment, paint, appurtenances and outfit furnished to the SELLER and embodied in the VESSEL exceeds the Guarantee Period (as hereinafter defined), the benefits of such extended guarantee rights shall be made available to the BUYER by the SELLER without any additional cost to the BUYER.

Notwithstanding the foregoing, the SELLER shall arrange a guarantee from the paint manufacturer for defects in paint and/or application on under water parts of the VESSEL for an additional 24 calendar months from the date of delivery of the VESSEL to the BUYER.

3. Notice of Defects:

The BUYER or its duly authorized Representatives shall notify the SELLER in writing by delivery or facsimile of any Defect for which claim is made under this guarantee, as promptly as possible after discovery thereof. The BUYER’s written notice shall describe in reasonable detail the nature and extent of the Defect(s).

The SELLER shall have no obligation for any Defect discovered prior to the expiry date of the Guarantee Period unless notice of such Defect is received by the SELLER not later than thirty (30) days after such expiry date. Telex or facsimile advice within the Guarantee Period that a claim is forthcoming will be sufficient compliance with the requirement as to time, provided that full description of such Defect(s) in written form shall be received by the SELLER not later than forty-five 45 days after the Guarantee Period.

4. Extent of SELLER’s Obligation:

The SELLER shall have no obligation for any Defect unless the Defect has arisen within a period of twelve (12) calendar months from the date when the VESSEL was delivered to and accepted by the BUYER (the “**Guarantee Period**”).

The SELLER shall not be obligated to repair or be liable for damages to the VESSEL, or to any part of the equipment thereof, if and to the extent the damages are due to:

- (a) ordinary wear and tear;
- (b) defects other than those specified in Clause (a) above;
- (c) mismanagement, accidents, negligence, or willful misconduct of or caused by the BUYER, its employees or agents including the VESSEL's officers, crew and passengers, or any persons on or doing work on the VESSEL other than the SELLER, its employees, agents or sub-contractors;
- (d) repairs or replacements which were made by those other than the SELLER and/or their sub-contractors, unless those repairs or replacements were approved by the SELLER.

The SELLER shall not, in any circumstances, be liable for any consequential loss or special loss arising from any cause whatsoever including, without limitation, loss of time, loss of profit or earnings or demurrage directly or indirectly from any commitments of the BUYER in connection with the VESSEL.

The guarantee in this ARTICLE IX shall not be altered or varied except by a written instrument signed by the duly authorized representatives of the SELLER and the BUYER.

5. Remedy of Defects:

- (a) The SELLER shall remedy, at its cost and expense, any Defect(s) against which the VESSEL is guaranteed under this ARTICLE IX, by making all necessary repairs or replacements as well as dismantling, removal, reassembling and incidental works at the Shipyard or elsewhere as provided in Clause (b) of this Clause, at the BUYER's convenience.

If the cause of the Defect(s) is not known or if the Defect(s) is of a recurring nature the SELLER shall, at its expense, explore the reason for such Defect(s) and take all necessary steps and measures to remedy same in such a way as to eliminate the reoccurrence thereof.

- (b) However, if, in the BUYER's sole discretion, it is impracticable to bring the VESSEL to the Shipyard, the BUYER may cause the necessary repairs or replacements to be made elsewhere which is deemed suitable by the BUYER for the purpose (including by the VESSEL's crew), provided that, in such event, the SELLER may forward or supply replacement parts or materials to the VESSEL, unless forwarding or supplying to the VESSEL would impair or delay the operation or working schedule of the VESSEL. In the event that the BUYER proposes to cause the necessary repairs or replacements for the VESSEL to be made at any other shipyard or works than the Shipyard, the BUYER shall first, but in all events as soon as possible, give the SELLER notice in writing by telex or facsimile confirmed in writing of the time and place when and where such repairs will be made, and if the VESSEL is not thereby delayed, or her operation or working

schedule is not thereby impaired, the SELLER shall have the right at its own cost and expense to verify by its own representatives the nature, cause and extent of the Defect(s) complained of. It is understood that defects to underwater parts of the VESSEL, which were found and detected during the Guarantee Period, may be made good at the time of the first dry-docking of the VESSEL following the expiration of the Guarantee Period.

The SELLER shall, in such case, promptly advise the BUYER by telex or facsimile confirmed in writing, after such examination has been completed, of its acceptance or rejection of the Defect(s) as ones that are covered by the guarantee herein provided. Upon the SELLER's acceptance of the Defect(s) as justifying remedy under this ARTICLE IX, or upon award of the arbitration so determining, the SELLER shall pay to the BUYER for such repairs or replacements a sum equal to the reasonable cost of making the same repairs or replacements in a first class Chinese shipyard, at the prices prevailing at the time of such repairs or replacements are made. Payment for the work done to remedy the Defect(s) shall be settled regularly during the Guarantee Period and the actual reimbursement for the guarantee shall be made in a lump sum at the expiry of the Guarantee Period for minor items (up to US\$50,000) and promptly by the SELLER after settlement of the same for major items.

- (c) In any case, the VESSEL shall be taken, at the BUYER's cost and responsibility, to the place elected, ready in all respects for such repairs or replacement. In case of breakdown at sea due to Defects, the cost of bringing the VESSEL to a repair yard shall be for SELLER's account.
- (d) Notwithstanding anything contained in Clause 5(a) of this ARTICLE IX, the BUYER shall be entitled to require the SELLER to forward to the VESSEL, wherever it may be, replacement(s) for defective part(s) to which the SELLER's guarantee under this ARTICLE IX applies, and in such case the SELLER shall forward the same by such means as to reach the VESSEL as expeditiously as possible.

In emergency cases when the VESSEL will be prevented from sailing or from completing its voyage, forwarding of replacement(s) as aforesaid will be effected by the SELLER by air cargo. The SELLER shall bear and pay all C.I.F. costs of the replacement(s) until they arrive on board the VESSEL.
- (e) Any dispute under this ARTICLE IX shall be referred to arbitration in accordance with the provisions of ARTICLE XII hereof.

6. Guarantee Period:

Notwithstanding the foregoing, the Guarantee Period shall be extended in, inter alia, the following cases and to the following extent:

- (a) If, during the Guarantee Period, the VESSEL shall not be capable of performing services for periods consisting of at least twenty four (24) hours each and aggregating to eight (8) days or more and such non-capability shall be as a result of any Defect(s) covered by the SELLER's guarantee under Clause 1 of this ARTICLE IX, the Guarantee Period shall be extended by such period(s) of time lost in remedying of the defect(s) for which the SELLER is responsible according to this Contract or in awaiting part(s) required for the

purpose to remedying such defect(s), which accumulated extension period shall not exceed twelve (12) months.

- (b) In relation to reservations made by the BUYER pursuant to Clause 4(b) of ARTICLE VI hereof, the Guarantee Period for the aforesaid reservations shall further be extended up to the expiration of twelve (12) calendar months following the time when such reservations are respectively made good by the SELLER after the delivery of the VESSEL to the BUYER as herein provided.

7. Application to Defects Remedied:

Wherever any Defect(s) covered by the SELLER's Guarantee under this ARTICLE IX has been remedied, in whole or in part, the SELLER's Guarantee under this ARTICLE IX and the provisions of this ARTICLE IX shall apply anew in respect of the part(s) to which such remedying relates and the aforesaid Guarantee Period shall apply in respect thereof, save that the said Guarantee Period shall commence as from the time of such remedying, and shall end not more than twenty-four (24) months from the date of delivery of the VESSEL to the BUYER.

8. SELLER to Remain Liable:

If attempts at remedying any Defect(s) covered by the SELLER's Guarantee under this ARTICLE IX, carried out by or on behalf of the SELLER as aforesaid, are unsuccessful, the SELLER shall remain liable to remedy such Defect(s) until same be satisfactorily remedied. The SELLER shall be liable under its Guarantee under this ARTICLE IX also for damage to any part of the VESSEL occasioned directly by any Defect(s) to which the SELLER's Guarantee under this ARTICLE IX extends in any other part of the VESSEL.

9. Guarantee Engineer:

The SELLER shall at the request of the BUYER appoint an English speaking Guarantee Engineer to serve on the VESSEL as its Representative for a period of three (3) months from the date the VESSEL is delivered. However, if the BUYER and the SELLER shall deem it necessary to keep the Guarantee Engineer on the VESSEL for a longer period, then he shall remain on board the VESSEL after the said three (3) months but not longer than six (6) months from the delivery of the VESSEL.

The BUYER, and its employees shall give such Guarantee Engineer full cooperation in carrying out his duties as the representative of the SELLER on board the VESSEL.

The BUYER shall accord the Guarantee Engineer treatment comparable to the VESSEL's Chief Engineer as far as possible, and shall provide board and lodging at no cost to the SELLER and/or the Guarantee Engineer. The SELLER and the BUYER shall, prior to delivery of the VESSEL, execute a separate agreement regarding the Guarantee Engineer.

While the Guarantee Engineer is on board the VESSEL, the BUYER shall pay to the SELLER the sum of US\$2,500 per month and the expenses of his repatriation to Shanghai, People's Republic of China by air (economy class) upon termination of his service. The expenses of his communication with the SELLER incurred in performing his duties shall be for SELLER's

account and expenses, if any, of his medical and hospital care in the VESSEL's hospital shall be for BUYER's account. Notwithstanding the above, the Guarantee Engineer shall remain at all times an employee of the SELLER.

The BUYER, its successors and/or assigns shall be liable to and indemnify the SELLER for damage or loss arising from personal injury or death of the Guarantee Engineer or from loss or destruction of the property of the Guarantee Engineer if such death, personal injury or property damage is caused by the negligence or willful misconduct of the BUYER, its successors or assigns, employees or agents. The BUYER shall be responsible for risk insurance for the Guarantee Engineer.

(end of Article)

ARTICLE X - SELLER'S DEFAULT - RESCISSION BY BUYER

1. SELLER's Default:

The BUYER shall be entitled, but not bound, to declare the SELLER in default and to rescind this Contract, all as stipulated in this Contract and Specifications, in any of the following cases:

- (a) any breach of or default by the SELLER in any Fundamental Term. "Fundamental Term" means any of the following:
 - (i) an event described in a provision of this Contract specifically permitting the BUYER to rescind this Contract including and without restricting the generality of the foregoing, those contained in ARTICLE III (Adjustment of Contract Price) and ARTICLE XVII, Clause 2(b) (Insurance);
 - (ii) failure of SELLER to prosecute the work with such diligence and in such manner as will enable it to deliver VESSEL within the period granted under the terms of this Contract, provided that the BUYER shall have given the SELLER written notice specifying such failure, and the SELLER shall not within ten (10) days of such notice, have taken steps sufficient to remedy or justify the failure.
 - (iii) failure to deliver the VESSEL free and clear of all liens, charges, mortgages and encumbrances at the actual time of delivery and possession;
 - (iv) any other failure, not specifically referred to above, to build in accordance with this Contract or the Specifications, provided that the BUYER shall have given the SELLER written notice specifying such failure, and the SELLER shall not within ten (10) days of such notice, have taken steps sufficient to remedy or justify the failure; or
- (b) Discontinuance of business by the Builder, general assignment by the Builder for the benefit of creditors, any composition by the Builder with its creditors, appointment of a receiver, trustee or liquidator for the Builder of all or any substantial part of its assets, application or consent by the Builder for or to appointment of the same, winding up by the Builder, adjudication of the Builder as bankrupt or insolvent, filing by the Builder of a petition for liquidation, a petition in bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors or seeking to take advantage of any law relating to relief of debtors or admission by the Builder (by answer, default or otherwise) of the material allegations of petition against it in any proceedings for liquidation, bankruptcy, reorganization, arrangement or insolvency or in any proceedings relating to relief of debtors, excluding mergers, consolidations, reorganizations or restructurings that are unrelated to bankruptcy, insolvency or other financial distress of the Builder.

2. Effect of SELLER's Default:

If the SELLER shall be in any default as provided for in Clause 1 of this ARTICLE X hereinabove, the BUYER may, at its option, rescind this Contract in accordance with provisions of this ARTICLE X.

3. Notice:

In the event that the BUYER shall exercise its right of rescission of this Contract under and pursuant to any of the provisions of this Contract specifically permitting the BUYER to do so, then the BUYER shall notify the SELLER in writing or by fax and/or telex confirmed in writing, and such rescission shall be effective as of the date notice thereof is received by the SELLER.

4. Refundment by SELLER:

In case the SELLER receives the notice stipulated in Clause 3 of this ARTICLE X, the SELLER shall promptly refund to the BUYER the full amount of all sums paid by the BUYER to the SELLER on account of the VESSEL together with interest (as set out below) thereon.

If the BUYER's cancellation or rescission of this Contract is disputed by the SELLER by instituting arbitration as aforesaid, then no refund shall be made by the SELLER, and the BUYER shall not be entitled to demand repayment from the Refundment Guarantor under its Refundment Guarantee, until the arbitration award between the BUYER and the SELLER which shall be in favour of the BUYER, declaring the BUYER's cancellation and/or rescission justified, is made and delivered to the SELLER by the arbitration tribunal.

In case of refundment, the SELLER shall pay the BUYER interest at the rate of six percent (6%) per annum on the amount required herein to be refunded to the BUYER, if the cancellation or rescission of the Contract is exercised by the BUYER for the delay of aggregate one hundred and eighty (180) days in accordance with the provision of Clause 3 of ARTICLE VIII or for the events described in ARTICLE III 1(c), 2(c), 3(c), 4(c), 5(b) or 5(e) hereof computed from the respective dates on which such sums were paid by the BUYER to the SELLER to the date of receipt (remittance by wire transfer) of such refund by the BUYER from the SELLER.

If pursuant to the provisions of this Contract the SELLER is required to refund to the BUYER the instalments paid by the BUYER to the SELLER, the SELLER shall return to the BUYER all of the BUYER's supplies not incorporated into the VESSEL and pay to the BUYER an amount equal to the purchased price by the BUYER of those supplies incorporated into the VESSEL, together with interest as aforesaid, in which case title to such supplies incorporated into the VESSEL shall transfer to the SELLER.

Any and all refunds or payments due to the BUYER under this Contract shall be effected by telegraphic transfer to the account and bank specified by the BUYER free of bank charges, remittance fees, taxes and other applicable withholdings.

5. Discharge of Obligations:

Upon such refund by the SELLER to the BUYER, and upon compliance with the provisions of Clause 4 of this ARTICLE X, all obligations, duties and liabilities of each of the parties hereto to the other under this Contract shall be forthwith completely discharged.

(end of Article)

ARTICLE XI - DEFAULT BY THE BUYER

1. Definition of BUYER's Default:

The BUYER shall be deemed to be in default of its performance of obligations under this Contract in the following cases (hereinafter called "**BUYER's Default**");

- (a) If any of the first or second or third or fourth or fifth instalment is not paid by the BUYER to the SELLER as provided in ARTICLE II hereof; or
- (b) If the delivery instalment is not deposited to the SELLER's Bank by the BUYER to the SELLER for the delivery of the VESSEL as provided in ARTICLE II hereof; or
- (c) If the increased amount, if any, in the Contract Price as adjusted pursuant to ARTICLE V due and payable upon delivery of the VESSEL is not paid by the BUYER concurrently with the delivery of the VESSEL as provided in ARTICLE II hereof; or
- (d) If the BUYER, when the VESSEL is duly completed in conformity with the terms of this Contract and the Specifications and is tendered for delivery by the SELLER in accordance with the provisions of this Contract, fails to take delivery of the VESSEL within Five (5) days from the tendered date without any specific and valid ground therefor under this Contract.

2. Effect of BUYER's Default on or before Delivery of VESSEL:

- (a) Should the BUYER make default in payment of any instalment of the Contract Price before delivery of the VESSEL, the BUYER shall pay the instalment(s) in default plus accrued interest thereon at the rate of six percent (6%) per annum computed from the due date for payment of such instalment to the date when the SELLER receives the payment, and, for the purpose of Clause 1 of ARTICLE VII hereof the Delivery Date of the VESSEL shall be automatically extended by the period of continuance of such default by the BUYER.
- (b) If any BUYER's Default continues for a period of Twenty One (21) days, the SELLER may, at its option, rescind this Contract by giving notice to such effect to the BUYER by telex or facsimile confirmed in writing.

Upon receipt by the BUYER of such notice of rescission, this Contract shall be forthwith rescinded and terminated. In the event of such rescission of this Contract, the SELLER shall, subject to Clause 3 below, be entitled to retain any instalment or instalments already paid by the BUYER to the SELLER on account of this Contract and the BUYER's Supplies, if any.

3. Disposal of VESSEL:

- (a) In the event that this Contract is rescinded by the SELLER under the provisions of Clause 2(b) of this ARTICLE XI, the SELLER may, at its sole discretion, either complete the VESSEL and sell the same, or sell the VESSEL in its incomplete state, free of any right or claim of the BUYER. Such sale of the VESSEL by the SELLER shall be either by public auction or private contract at the SELLER's sole discretion and on such terms and conditions as the SELLER shall deem fit, provided that the SELLER shall use reasonable endeavors to obtain the best price obtainable. The SELLER shall send to the BUYER invitation to participate in any tender for the sale of the VESSEL. Such invitation shall be sent by telex or facsimile at least fifteen (15) days in advance before the closing date of the tender.
- (b) In the event of such sale of the VESSEL in its completed state, the proceeds of the sale received by the SELLER shall be applied firstly to payment of all expenses attending such sale and then to payment of all unpaid instalment(s) of the Contract Price and interest on such instalment(s) at the rate of six percent (6%) per annum from the respective due date thereof to the date of application.
- (c) In the event of sale of the VESSEL in its incomplete state, the proceeds of sale received by the SELLER shall be applied firstly to all expenses attending such sale and otherwise incurred by the SELLER as a result of the BUYER's default as provided hereinbefore, and then to payment of all costs of construction of the VESSEL less BUYER's Supplies as defined in ARTICLE XVI hereof and less the instalments so retained by the SELLER and compensation to the SELLER for a reasonable loss of profit - if any - due to the rescission of this Contract.
- (d) In either of the above events of sale, if the proceeds of sale exceed the total amounts to which such proceeds are to be applied as aforesaid, the SELLER shall promptly pay the excess to the BUYER without interest provided, however, that the amount of each payment to the BUYER shall in no event exceed the total amount of instalments already paid by the BUYER and the cost of the BUYER's supplies, if any.
- (e) If the proceeds of sale are insufficient to pay such total amounts payable as aforesaid, the BUYER shall promptly pay the deficiency to the SELLER upon request .

(end of Article)

ARTICLE XII - ARBITRATION

1. Decisions by the Classification Society:

If any dispute arises between the parties hereto in regard to the design and/or construction of the VESSEL, its machinery and equipment, and/or in respect of the materials and/or workmanship thereof and/or thereon, and/or in respect of interpretation of this Contract or the Specifications, the parties may by mutual agreement refer the dispute to the Classification Society headquarters or to such other expert as may be mutually agreed between the parties hereto, and in such case the decision of the principal surveyor or such expert, as the case may be, shall be final, conclusive and binding upon the parties hereto.

2. Proceedings of Arbitration:

In the event that the parties hereto do not agree to settle a dispute according to Clause 1 of this ARTICLE XII and/or in the event of any other dispute of any kind whatsoever between the parties and relating to, arising out of or in connection with, this Contract or its rescission or any stipulation herein, such dispute shall be submitted to and settled by arbitration in London, England in accordance with Arbitration Act 1996 c.23 (UK) as amended, and the arbitration shall be conducted in accordance with the London Maritime Arbitrators Association (LMAA) Terms current at the time when the arbitration proceedings are commenced (except as expressly provided herein). The SELLER and the BUYER shall each independently appoint one arbitrator to arbitrate the matter, and the SELLER and the BUYER shall together appoint a third arbitrator. In the event that the BUYER and SELLER cannot agree on the appointment of the third arbitrator within twenty (20) days of the appointment of the second arbitrator, the two appointed arbitrators shall be responsible for appointing the third arbitrator.

If the two arbitrators are unable to agree upon a third arbitrator within twenty (20) days, either of the said two arbitrators may apply to the President for the time being of the London Maritime Arbitrators Association to appoint the third arbitrator, and the three arbitrators shall constitute the board of arbitration.

Such arbitration shall be in accordance with and subject to the provisions of the relevant English Arbitration Act for the time being in force at the time of the action. Either party may demand arbitration of any such dispute by giving notice to the other party.

Any demand for arbitration by either of the parties hereto shall state the name of the arbitrator appointed by such party and shall also state specifically the question or questions as to which such party is demanding arbitration. Within twenty (20) days after receipt of notice of such demand for arbitration, the other party shall in turn appoint a second arbitrator and give notice in writing of such appointment to the party demanding arbitration. If a party fails to appoint an arbitrator as aforementioned within twenty (20) days following receipt of notice of demand for arbitration by the other party, the party failing to appoint an arbitrator shall be deemed to have accepted and appointed, as its own arbitrator, the arbitrator appointed by the party demanding arbitration and the arbitration shall proceed before this sole arbitrator who alone in all such events shall constitute the Arbitration Board.

The award of the sole arbitrator and/or of the majority of the three arbitrators, as the case may be, shall be final and binding on both parties. If the majority of the three arbitrators is not obtained, then the decision of the third arbitrator shall be final and binding upon the parties hereto.

3. Notice of Award:

The award shall immediately be given to the BUYER and the SELLER by telex or facsimile confirmed in writing.

4. Expenses:

The Arbitration Board shall determine which party shall bear the expenses of the arbitration or the portion of such expenses which each party shall bear.

5. Entry in Court:

In case of failure by either party to respect the award of the arbitration, judgment upon the award may be entered in any court having jurisdiction thereof.

6. Alteration of Delivery Date:

In the event of reference to arbitration of any dispute arising out of matters occurring prior to delivery of the VESSEL, the SELLER shall not be entitled to extend the Delivery Date as defined in ARTICLE VII hereof and the BUYER shall not be entitled to postpone its acceptance of the VESSEL on the Delivery Date or on such newly planned time of delivery of the VESSEL as declared by the SELLER. However, if the construction of the VESSEL is affected by any arbitration or court proceeding, the SELLER shall then be permitted to extend the Delivery Date as defined in ARTICLE VII and the decision or the award shall include a finding as to what extent the SELLER shall be permitted to extend the Delivery Date.

(end of Article)

ARTICLE XIII - ASSIGNMENT - SUCCESSOR AND ASSIGNS

This Contract with the exception of the right to make demand under the Refund Guarantee may, with the prior approval of the SELLER, which the SELLER shall not unreasonably withhold, be assigned and transferred by the BUYER to and title be taken by another company. In the event of any assignment pursuant to the terms of this Contract, the assignee, its successors and assigns shall succeed to all of the rights and obligations of the BUYER hereunder. However, the BUYER shall remain responsible for performance by the assignee, its successors, and assigns of all the BUYER's obligations, liabilities and responsibilities under this Contract. It is understood that any expenses or charges incurred by the transfer of this Contract shall be for the account of the BUYER.

Notwithstanding the above, the BUYER has the right to assign this Contract with the exception of the right to make demand under the Refund Guarantee to a bank or syndicate of banks or financial institution or any commercial corporation assisting in the finance of the VESSEL prior to delivery of the VESSEL provided that the BUYER has given the SELLER a notice of assignment in form and content acceptable to the SELLER and the BUYER, acting reasonably. The SELLER shall, at the BUYER's request, acknowledge and consent to such assignment by signing an acknowledgement and consent acceptable to the SELLER and the BUYER, acting reasonably.

The SELLER shall have the right to assign this Contract at any time after the Effective Date hereof, provided that prior written agreement is obtained from the BUYER, provided always that SELLER shall remain responsible for the due and punctual performance of this Contract by the Assignee.

(end of Article)

ARTICLE XIV - TAXES AND DUTIES

1. Taxes and Duties Incurred in China:

The SELLER shall bear and pay all taxes, duties, stamps and fees incurred in China in connection with execution and/or performance of its obligations under this Contract.

The BUYER shall bear and pay all taxes, duties, stamps and fees incurred in China in connection with execution and/or performance of its obligations under this Contract, including any taxes and duties imposed in China upon the BUYER's Supplies.

2. Taxes and Duties Incurred outside China:

The BUYER shall bear and pay all taxes, duties, stamps and fees incurred outside China in connection with execution and/or performance of its obligations under this Contract.

The SELLER shall bear and pay all taxes, duties, stamps and fees incurred outside China in connection with execution and/or performance of its obligations under this Contract, including taxes and duties imposed upon these items to be procured by the SELLER for the construction of the VESSEL.

(end of Article)

ARTICLE XV - PATENTS, TRADEMARKS, COPYRIGHTS, ETC.

1. Patents, Trademarks and Copyrights:

Machinery and equipment of the VESSEL may bear the patent number, trademarks or trade names of the manufacturers. The SELLER shall defend and hold harmless the BUYER from patent liability or claims for or on account of any patents, copyrights or design or for infringement thereof of any nature and kind, including costs and expenses for, or on account of any patented or patentable invention made or used in the performance of this Contract and also including costs and expenses of litigation, if any, in connection therewith.

Nothing contained herein shall be construed as transferring any patent or trademark rights or copyrights in equipment covered by this Contract, and all such rights are hereby expressly reserved to the true and lawful owners thereof.

The SELLER's warranty hereunder does not extend to the BUYER's Supplies.

The SELLER's obligation under this ARTICLE XV shall not be terminated by the passage of any period of time.

2. General Plans, Specifications and Working Drawings:

The SELLER retains copyright with respect to the Specifications, and plans and working drawings, technical descriptions, calculations, test results and other data, information and documents concerning the design and construction of the VESSEL and the BUYER undertakes therefore not to disclose the same or divulge any information contained therein to any third parties, without the prior written consent of the SELLER, except where it is necessary for usual operation, repair and maintenance of the VESSEL and its financing.

(end of Article)

ARTICLE XVI - BUYER'S SUPPLIES

1. Responsibility of BUYER:

- (a) The BUYER shall, at its own risk, cost and expense, supply and deliver to the SELLER all of the items to be furnished by the BUYER as specified in the Specifications (herein called the "**BUYER's Supplies**") at a warehouse or other storage facility of the Shipyard in the proper condition ready for installation in or on the VESSEL, in accordance with the time schedule designated and advised to the BUYER by the SELLER.
- (b) In order to facilitate installation by the SELLER of the BUYER's Supplies in or on the VESSEL, the BUYER shall furnish the SELLER with necessary specifications, plans, drawings, instruction books, manuals, test reports and certificates required by the rules and regulations of the Specifications. If so requested by the SELLER, the BUYER shall, without any charge to the SELLER, cause the representatives of the manufacturers of the BUYER's Supplies to assist the SELLER in installation thereof in or on the VESSEL and/or to carry out installation thereof by themselves or to make necessary adjustments at the Shipyard.
- (c) Any and all of the BUYER's Supplies shall be subject to the SELLER's reasonable right of rejection, as and if they are found to be unsuitable or in improper condition for installation. However, if so requested by the BUYER, the SELLER may repair or adjust the BUYER's Supplies without prejudice to the SELLER's other rights hereunder and without being responsible for any consequences arising therefrom.
- (d) Should the BUYER fail to deliver any of the BUYER's Supplies within the time designated by one (1) month prior notice to the BUYER by the SELLER, the Delivery Date shall be extended for a period which actually caused the delay in the delivery of the VESSEL.
- (e) If delay in delivery of any of the BUYER's Supplies exceeds twenty (20) days, then the SELLER shall be entitled to proceed with construction of the VESSEL without installation thereof in or on the VESSEL as hereinabove provided, and the BUYER shall accept and take delivery of the VESSEL so constructed, unless such delay is caused by any of the events referred to in ARTICLE VIII in which case the provision of Clause 1(d) of this ARTICLE XVI shall apply.
- (f) The SELLER shall not be liable under ARTICLE IX for any defects in the BUYER's Supplies (if any) but the SELLER shall be liable under ARTICLE IX for any Defect(s) in respect of installation of the BUYER's Supplies and their adaptation to the VESSEL.

2. Responsibility of SELLER:

The SELLER shall be responsible for storing, safekeeping and handling with reasonable care of the BUYER's Supplies after delivery thereof at the Shipyard, and shall, at its own cost and expense, install them in or on the VESSEL, unless otherwise provided herein or agreed by the parties hereto, provided, always, that the SELLER shall not be responsible for quality, efficiency and/or performance of any of the BUYER's Supplies.

However, if any BUYER's Supplies are lost or damaged after acceptance by the SELLER without rejection while in the custody of the SELLER, the SELLER shall be responsible for such loss or damage and shall either replace the items or reimburse the BUYER accordingly. The SELLER shall further be responsible for wrongful or negligent installation of the BUYER's Supplies in the course of their installation by the SELLER.

(end of Article)

ARTICLE XVII - INSURANCE

1. Extent of Insurance Coverage:

From the time of keel laying until delivery of the VESSEL, the SELLER shall, at its own cost and expense, insure the VESSEL and all machinery and equipment, appurtenances and outfits delivered to the Shipyard or other building facility utilized by the SELLER, including the BUYER's Supplies when at a warehouse or other storage facility of the SELLER or built into or installed in or upon the VESSEL, against all risks under the Builder's Risks Insurance Clause on terms and conditions not less than the current British Institute Time Clauses and British War Clauses Builder's Risks, with first class insurance company or underwriters in China recognized in the international insurance market. The amount of such insurance coverage shall not be less than the aggregate amount of all instalments paid by the BUYER to the SELLER. The policy referred to hereinabove shall be taken out in the name of the SELLER and all losses under such policy shall be payable to the SELLER.

2. Application of the Recovered Amounts:

In the event that the VESSEL shall be damaged from any cause at any time before delivery of the VESSEL, and in the further event that such damage shall not constitute an actual or constructive total loss of the VESSEL, the amount received from insurance in respect of the VESSEL shall be applied by the SELLER in repair of such damage, satisfactory to the Classification Society requirements and in conformity with the terms of this Contract and the Specifications, and the BUYER shall accept the VESSEL under this Contract if completed in accordance with this Contract and the Specifications and so certified by the Classification Surveyor.

Should the VESSEL from any cause become an actual or constructive total loss:

- (a) the SELLER and the BUYER may mutually agree to build another VESSEL in place of the VESSEL so lost or reconstruct the VESSEL's damage and proceed in accordance with the terms of this Contract, in which case the amount received from insurance in respect of the VESSEL shall be applied to the construction of a new VESSEL or reconstruction of the VESSEL, provided the parties hereto shall have first agreed thereto in writing and to such reasonable extension of delivery time as may be necessary for the completion of such construction or reconstruction.

If the parties fail to reach agreement pursuant to Clause 2(a) above within forty-five (45) days after the VESSEL is determined to be an actual or constructive total loss, the provisions of Clause 2(b) shall apply.

- (b) The SELLER shall refund promptly to the BUYER the full amount of all sums paid by the BUYER to the SELLER as instalments in advance of delivery of the VESSEL together with interest thereon at the rate of six percent (6%) per annum, and promptly deliver to the BUYER all BUYER's Supplies (or the insurance proceeds paid with respect thereto), in which case this Contract shall be deemed to be automatically rescinded and all rights, duties, liabilities and obligations of each of the parties to the other shall forthwith cease and terminate.

If the SELLER fails to refund within fifteen (15) Banking Days, the full amount of all sums required to be paid by the SELLER to the BUYER in accordance with this Clause (b), the BUYER shall be entitled to rescind this Contract.

Payment of refunds pursuant to this Clause shall be effected by telegraphic transfer to the account and bank specified by the BUYER free of bank charges, remittance fees, taxes and any other applicable withholdings.

3. Termination of SELLER's Obligation to Insure:

The SELLER shall be under no obligation to insure the VESSEL hereunder after her delivery to, and her acceptance by, the BUYER.

(end of Article)

ARTICLE XVIII - NOTICES

1. Address:

Any and all notices, invoices, requests, demands, instructions, advices, and communications (collectively “**Notices**”) in connection with this Contract shall be addressed as follows:

To the BUYER:

For the commercial:

Seaspan Corporation
Room 503
5/F, Lucky Commercial Center
103 Des Voeux Road West
Hong Kong, China
Facsimile: (852) 2540-1689
Attention: Gerry Wang, Director

For the technical:

Seaspan Ship Management Ltd.
2600 – 200 Granville Street
Vancouver, British Columbia
V6C 1S4
Canada
Facsimile: 1-604-638-2595
Attention: Peter Curtis / Peter Jackson

To the SELLER:

Jiangsu Yangzijiang Shipbuilding Co., Ltd.
Emeizui, Huangishan Jiangyin City
Jiangsu Province, PRC
Facsimile: 0086-510-86856631
Attention: Wang Dong / Shen Qiang

2. Language:

All Notices shall be written in the English language.

3. Effective Date of Notice:

Any Notice shall become effective from the date when such Notice is received by the BUYER or by the SELLER except as otherwise described in the Contract.

Notices shall be deemed to be received by the addressee when delivered (in case of personal delivery), within 7 (seven) days of dispatch (if sent by registered airmail postage prepaid) and when dispatched (in case of telex or fax) as proven by answer back call sign or transmission report. Any such Notice received on a non-working day or after business hours in the place of receipt shall be deemed to be received on the next following working day in such place.

4. Change of Address:

Each of the parties hereto shall be entitled to give the other party notice, in writing, of any change in any of the addresses relating to the party giving such notice and Clause 1 of this ARTICLE XVIII shall be deemed modified by and in accordance with every such notice of change.

(end of Article)

ARTICLE XIX - EFFECTIVE DATE OF CONTRACT

This Contract shall become effective on the date of fulfillment or waiver by the BUYER of all the following conditions (the “**Effective Date**”):

- (a) Due signing of this Contract and the Specifications; and
- (b) Approval of this Contract by the board of directors of the BUYER.

If, due to any reason whatsoever, any of the above conditions fails to be fulfilled by March 30, 2006, then this Contract shall be made forthwith null and void, having no effect whatsoever. No party shall be liable to the other for any loss or damage (if any).

(end of Article)

ARTICLE XX - INTERPRETATION

1. Laws Applicable:

The parties hereto agree that the validity and interpretation of this Contract and of each Article and part thereof shall be governed by and be construed and interpreted in accordance with the laws of England.

2. Entire Agreement:

This Contract contains the entire agreement and understanding between the parties hereto and supersedes all prior negotiations, representations, undertakings and agreement on any subject matter of this Contract.

This Contract and the subject matter thereof shall not be subject to any general Terms and Conditions of the SELLER or any other terms and conditions normally or at any time put forward by the SELLER with reference to any order from or work undertaken by the SELLER and all such General Terms and Conditions and other terms and conditions are hereby explicitly and expressly excluded from this Contract, shall form no part thereof and shall have no force and effect.

3. Amendments and Supplements:

Any supplement, memorandum of understanding or amendment, whatsoever form it may be relating to this Contract, to be made and signed among parties hereof after signing this Contract, shall be predominant over the respective corresponding Article and/or Clause of this Contract, unless otherwise expressly stipulated.

4. Banking Day:

A Banking Day under this Contract is defined as a day on which the banks are open in China, Hong Kong and New York.

5. No Set Off, Deduction or Counter-claim:

All moneys refundable or payable to the BUYER under or pursuant to this Contract shall be paid to the BUYER without set-off or deduction or counter-claim and all moneys payable to the SELLER pursuant to this Contract shall be paid to the SELLER without set off or deduction or counter-claim.

6. Deemed Benefit for Servants, etc.:

Any exemptions from liability and any undertaking to hold harmless which have been stipulated in this Contract to the benefit of either of the parties hereto shall be deemed to have been stipulated also to the benefit of the servants, sub-contractors, vendors and suppliers of such party and of the servants of the said sub-contractors, vendors and suppliers.

7. Responsibility:

Notwithstanding any other term of this Contract or the Specifications, the SELLER shall be fully responsible for the due, proper, accurate, diligent and punctual designing, building, equipping, launching, outfitting and completing of the VESSEL and for the quality of the materials employed and work done and for the delivery in due time of the VESSEL to the BUYER as herein provided, and the BUYER shall have and bear no responsibility whatsoever in respect thereof or in connection therewith as stipulated in the Contract and the Specifications.

8. Time of the Essence:

Time shall be of the essence hereof.

9. Headings:

The descriptive headings of Articles and Clauses herein are for the convenience of reference only and are not to be used in construing or interpreting this Contract.

IN WITNESS WHEREOF, the parties hereto have caused this Contract to be duly executed on the day and year first above written.

BUYER
SEASPAN CORPORATION
Signature:
GERRY WANG
Name: Gerry Wang
Title: Chief Executive Officer

SELLER
JIANGSU YANGZIJANG SHIPBUILDING CO., LTD.
Signature:
YUANLIN REU
Name: Yuanlin Reu
Title: President & General Manager

SHIP BUILDING CONTRACT
(Contract Number: 06CA44S1981005)
FOR
CONSTRUCTION OF ONE 2500 TEU CONTAINER VESSEL
(HULL No. YZJ2006-717C)
Between
SEASPAN CORPORATION
as Buyer
and
JIANGSU YANGZIJANG SHIPBUILDING CO., LTD. and
GUANGDONG MACHINERY IMP. & EXP. CO., LTD.
collectively as Seller

TABLE OF CONTENTS

ARTICLE I - DESCRIPTION AND CLASS	2
1. Description:	2
2. Principal Dimensions and Characteristics:	2
3. Classification, Rules and Regulations:	3
4. Registration:	4
5. Contract Specifications and Approved Drawings:	4
6. Subcontracting and New Shipyard:	4
ARTICLE II - CONTRACT PRICE AND TERMS OF PAYMENT	5
1. Contract Price:	5
2. Adjustment of Contract Price:	5
3. Currency:	5
4. Terms of Payment:	6
(a) First Instalment:	6
(b) Second Instalment:	6
(c) Third Instalment:	6
(d) Fourth Instalment:	6
(e) Fifth Instalment:	6
(f) Sixth Instalment (the “ Delivery Instalment ”):	7
5. Method of Payment:	7
6. Expenses:	8
7. Advance Payment:	8
8. Refundment Guarantee:	8
ARTICLE III - ADJUSTMENT OF CONTRACT PRICE	10
1. Delivery:	10
2. Speed:	11
3. Fuel Consumption:	11
4. Deadweight:	11
5. Container capacity:	12
6. Reductions to be Independent of Each Other:	12
7. Application of Adjustment:	13
8. Effect of Rescission:	13
ARTICLE IV - APPROVAL OF PLANS AND DRAWINGS AND INSPECTION DURING CONSTRUCTION	14
1. Approval of Plans and Drawings:	14
2. Appointment of BUYER’s Representatives:	14
3. Inspection by BUYER’s Representatives:	15
4. Rights of the Representatives:	15
5. Facilities:	17
6. Liability for the Representatives:	17
7. Salaries and Costs:	17
8. SELLER’s Obligation:	17
9. Replacement of the Representatives:	18
10. Responsibility of BUYER:	18
11. Information to Representatives:	18
ARTICLE V - MODIFICATIONS, CHANGES AND EXTRAS	19
1. How Effected:	19
2. Changes in Rules of Classification Society, Regulations, etc.:	19
3. Substitution of Materials:	20

ARTICLE VI - TRIALS AND ACCEPTANCE	21
1. Notice:	21
2. Weather Condition:	21
3. How Conducted:	21
4. Method of Acceptance or Rejection:	22
5. Effect of Acceptance:	23
6. Disposition of Surplus Consumable Stores:	23
ARTICLE VII - DELIVERY	24
1. Time and Place:	24
2. When and How Effected:	24
3. Documents to be delivered to BUYER:	24
4. Tender of VESSEL:	25
5. Title and Risk:	25
6. Removal of VESSEL:	26
7. Notices:	26
ARTICLE VIII - DELAYS AND EXTENSION OF TIME FOR DELIVERY (FORCE MAJEURE)	27
1. Causes of Delay (Force Majeure):	27
2. Notice of Delay:	27
3. Definition of Permissible Delay:	28
4. Right to Rescind for Excessive Delay:	28
ARTICLE IX - WARRANTY OF QUALITY	29
1. Guarantee:	29
2. Guarantee from Manufacturers and Suppliers:	29
3. Notice of Defects:	29
4. Extent of SELLER's Obligation:	29
5. Remedy of Defects:	30
6. Guarantee Period:	31
7. Application to Defects Remedied:	32
8. SELLER to Remain Liable:	32
9. Guarantee Engineer:	32
ARTICLE X - SELLER's DEFAULT - RESCISSION BY BUYER	34
1. SELLER's Default:	34
2. Effect of SELLER's Default:	35
3. Notice:	35
4. Refundment by SELLER:	35
5. Discharge of Obligations:	36
ARTICLE XI - DEFAULT BY THE BUYER	37
1. Definition of BUYER's Default:	37
2. Effect of BUYER's Default on or before Delivery of VESSEL:	37
3. Disposal of VESSEL:	38
ARTICLE XII - ARBITRATION	39
1. Decisions by the Classification Society:	39
2. Proceedings of Arbitration:	39
3. Notice of Award:	40
4. Expenses:	40
5. Entry in Court:	40
6. Alteration of Delivery Date:	40
ARTICLE XIII - ASSIGNMENT - SUCCESSOR AND ASSIGNS	41

ARTICLE XIV - TAXES AND DUTIES	42
1. Taxes and Duties Incurred in China:	42
2. Taxes and Duties Incurred outside China:	42
ARTICLE XV - PATENTS, TRADEMARKS, COPYRIGHTS, ETC.	43
1. Patents, Trademarks and Copyrights:	43
2. General Plans, Specifications and Working Drawings:	43
ARTICLE XVI - BUYER'S SUPPLIES	44
1. Responsibility of BUYER:	44
2. Responsibility of SELLER:	44
ARTICLE XVII - INSURANCE	46
1. Extent of Insurance Coverage:	46
2. Application of the Recovered Amounts:	46
3. Termination of SELLER's Obligation to Insure:	47
ARTICLE XVIII - NOTICES	48
1. Address:	48
2. Language:	48
3. Effective Date of Notice:	49
4. Change of Address:	49
ARTICLE XIX - EFFECTIVE DATE OF CONTRACT	50
ARTICLE XX - INTERPRETATION	51
1. Laws Applicable:	51
2. Joint and Several Liability:	51
3. Entire Agreement:	51
4. Amendments and Supplements:	51
5. Banking Day:	51
6. No Set Off, Deduction or Counter-claim:	52
7. Deemed Benefit for Servants, etc.:	52
8. Responsibility:	52
9. Time of the Essence:	52
10. Headings:	53

THIS CONTRACT, made and entered into on this 28th day of February, 2006, by and between:

Seaspan Corporation, a corporation incorporated and existing under the laws of the Republic of the Marshall Islands, having a place of business at Room 503, 5/F, Lucky Commercial Center, 103 Des Voeux Road West, Hong Kong, China (hereinafter referred to as the “**BUYER**”), of the one part;

and

Jiangsu Yangzijiang Shipbuilding Co., Ltd. (the “**Builder**”), a company organized and existing under the laws of China with a registered office at Emeizui Huangshan, Jiangyin City, Jiangsu Province, 214431, The People’s Republic of China and Guangdong Machinery Imp. & Exp. Co. Ltd. (the “**Trading House**”) a company organized and existing under the laws of the People’s Republic of China and having a registered office at 726 Dong Feng Road East, Guangzhou, 510080 (hereinafter referred to collectively as the “**SELLER**”), of the other part.

For the purpose of this Contract, the Builder and Trading House are agents for each other in relation to the BUYER so that any notice, message, payment or consent duly given to or by any of them shall be deemed to have been duly given also to or by the other whenever applicable, and that they are jointly and severally liable under this Contract in relation to the BUYER.

WITNESSETH:

In consideration of the mutual covenants herein contained, the SELLER agrees to design, build, launch, equip and complete in accordance with first class shipbuilding practice in China, this Contract, the Specifications, the Approved Drawings and the Classification Society Rules, in all respects, one (1) Ocean Going Single Screw diesel engine driven fully Cellular Container Vessel as described herein and in the Specifications referred to herein (hereinafter called the “**VESSEL**” which term shall, where it appears, include its design, drawings, plans machinery, engines, equipment, fittings, outfittings, appurtenances, furniture, materials, parts, spares, articles and things whatsoever specified or required by the Specifications and/or otherwise under this Contract), at the SELLER’s shipyard located in Emeizui Huangshan, Jiangyin City, Jiangsu Province, People’s Republic of China (hereinafter called the “**Shipyard**”) and to deliver and sell the same to the BUYER free and clear of all liens, charges, mortgages and encumbrances, and the BUYER hereby agrees to purchase and accept delivery of the VESSEL from the SELLER and to pay for the same upon the terms and conditions hereinafter set forth.

ARTICLE I - DESCRIPTION AND CLASS

1. Description:

The VESSEL shall be a Single Screw Cellular Container VESSEL having the Builder's Hull No. YZJ2006-717C and shall be designed, constructed, equipped, inspected, tested, ready for sea and suitable in all respects for its intended use, in accordance with the provisions of this Contract, the Specifications, the Approved Drawings and the Classification Society Rules (each as hereinafter defined). The Approved Drawings and the Classification Society Rules shall constitute an integral part hereof. A reference hereafter in this Contract to Specifications shall be deemed to include the Approved Drawings and the Classification Society Rules. The SELLER undertakes that the quality of the design, construction, testing and trials of the VESSEL and the quality of the VESSEL and of her workmanship shall be in accordance with the first class shipbuilding practice in China.

2. Principal Dimensions and Characteristics:

- (a) The SELLER guarantees that the VESSEL will have the following:

Length, overall	app. 208.50 m
Length, between perpendiculars	196.50 m
Breadth, moulded	29.80 m
Depth, moulded	16.40 m
Designed draught, moulded	10.10 m
Scantling draught, moulded	11.50 m
Main Engine	MAN B&W 6K80MC-C (with alpha lubricator)
MCR x RPM	21660 KW at 104 RPM
CSR (90% MCR)	19494 KW at 100.4 RPM

- (b) The SELLER guarantees that the VESSEL shall have the following capacity of ISO standard 20' x 8' x 8' 6" Containers (the "**Guaranteed Container Capacity**"), compliant with IMO visibility requirements, namely:

Nominal capacity

Under deck -	984 TEU
On deck -	<u>1562</u> TEU (in 8 tiers)
Total -	2546 TEU

Homogenous capacity (14 ton per TEU): 1900 TEU

- (c) The SELLER guarantees that the VESSEL shall have a deadweight of not less than 33,800 metric tons on scantling draught as calculated in accordance with the provisions of the Specifications (hereinafter called the "**Guaranteed Deadweight**"). The actual deadweight of the VESSEL expressed in tonnes of 1,000 kilograms shall be determined in the presence of the Representatives of the BUYER, the Classification Society and the SELLER on the basis of the actual measurement of the lightweight of the completed

VESSEL, and thereafter a certificate of deadweight shall be issued by the SELLER. The cost, if any, shall be for the account of the SELLER.

- (d) The SELLER guarantees that the speed of the VESSEL, based on calculations from sea trial as stipulated and on the conditions prescribed in the Specifications, shall be twenty two (22) knots, at design draught of 10.10 metres and at CSR (90% MCR) of main engine (hereinafter called the **"Guaranteed Speed"**).
- (e) The SELLER guarantees that fuel consumption for the main engine, the figure of which shall be calculated by applying I.S.O. reference condition to the result obtained at the shop trial, shall not exceed 171 g/KWh at a normal continuous output as stipulated and on the conditions prescribed in the Specifications (hereinafter called the **"Guaranteed Fuel Consumption"**).

The details of the aforementioned particulars as well as the definitions and method of measurements and calculations are as indicated in the Specifications.

3. Classification, Rules and Regulations:

The VESSEL shall be designed, constructed, equipped, inspected, tested and completed in accordance with the rules and regulations of and under special survey of Lloyds Register of Shipping (hereinafter called the **"Classification Society"**), the editions and amendments in force as of the date of this Contract (the **"Classification Society Rules"**, and wherever the term "Classification Society Rules" is used in this Contract, it means the rules of the Classification Society as stipulated in the Contract and the Specifications).

The VESSEL shall be distinguished in the register by the symbol of ✱100A1 Containership *IWS, LI, ShipRight (SDA, CM) ✱LMC, UMS NAV1, SCM, with descriptive notes "ShipRight BWMP(F). Pt. Ht." Details of Class notation shall be in accordance with the Specifications.

Decisions of the Classification Society as to compliance or non-compliance with the classification rules and regulations shall be final and binding upon both parties hereto, except where this Contract provides for Arbitration.

The VESSEL shall comply with rules, regulations, recommendations and requirements of the authorities as described and listed in the Specifications in force as of the date of the Contract signing, together with all mandatory rules and regulations with amendment, which have already been ratified up to the contract signing date and to come into effect prior to the scheduled delivery date of the VESSEL.

The SELLER shall arrange with the Classification Society for the assignment by the Classification Society of a representative (hereinafter referred to as the **"Classification Surveyor"**) to the VESSEL during all stages of construction. All materials, workmanship and major plans used in the construction of the VESSEL shall be subject to inspection and test by the Classification Society in accordance with the rules and regulations of the Classification Society. All fees and charges in connection with or incidental to the classification of the VESSEL, to all certificates required under this Contract and the Specifications, and to compliance with the above specified rules, regulations and requirements, shall be for the account of the SELLER.

No omission of the Classification Society and/or Classification Surveyor shall, in any way, diminish or impair the obligations and liabilities of the SELLER under the terms of this Contract.

4. Registration:

The VESSEL, at the time of her delivery and acceptance, shall be designed and constructed to qualify for registration at the port of registry by the BUYER under the Hong Kong flag. The costs of registration of the VESSEL in Hong Kong are for the BUYER's expense. The SELLER shall obtain and deliver to the BUYER at delivery and acceptance the Certificates required pursuant to the Specifications.

5. Contract Specifications and Approved Drawings:

(a) Definition

In this Contract, "**Specifications**" means the full specifications with reference no. M2004M-4034-01A, General Arrangement Drawing reference no. Q84.4197.100.002, Midship Section reference no. Q84.4197.110.001 and Makers List reference no. M2004M-4034-02A signed by each of the parties for identification and constituting an integral part hereof. In this contract "**Approved Drawings**" means the drawings and plans approved by the BUYER pursuant to ARTICLE IV, Clause 1. Subject to provisions of Sub-clause (b) hereunder, the Specifications and the Approved Drawings are intended to complement this Contract as well as one another and everything contained in the Specifications and/or the Approved Drawings shall have full force and effect as if incorporated within the body of this Contract.

The parties acknowledge that the design and configuration of the VESSEL is based on the design and configuration for Hull No. YZJ2004-680C, subject to the Specifications, the drawings approved pursuant to ARTICLE IV and this Contract.

(b) Precedence

Should there be any inconsistency or discrepancy between this Contract and the Specifications or between this Contract and the Approved Drawings, this Contract shall prevail. Should there be any inconsistency or discrepancy between the Specifications and the Approved Drawings, the Specifications shall prevail.

6. Subcontracting and New Shipyard:

The SELLER may, with prior written notice to and consent from the BUYER, subcontract construction of the blocks of the VESSEL, except the major hull structure parts, to experienced subcontractors within Jiangsu Province area, but delivery and final assembly into the VESSEL of any such work subcontracted shall be at the yard of the SELLER. The BUYER acknowledges that the Builder is affiliated with the shipyard located at Jingjiang, Jiangsu Province (the "**New Shipyard**") and the SELLER may use the New Shipyard for construction of the VESSEL. The SELLER shall always remain fully responsible for the performance of this Contract with regard to the work done or materials supplied or used by such Subcontractors or the New Shipyard in accordance with this Contract. The subcontractors and the New Shipyard shall perform up to the same standard as the SELLER for such work performed by them.

(end of Article)

ARTICLE II - CONTRACT PRICE AND TERMS OF PAYMENT

1. Contract Price:

The agreed purchase price of the VESSEL is forty-one million two hundred and fifty thousand United States Dollars (US\$41,250,000), net receivable by the SELLER (hereinafter called the “**Contract Price**”).

The Contract Price shall be subject to upward or downward adjustment, if any, as herein after set forth in this Contract. The Contract Price includes payment for services in the design, inspection, tests, trials, survey and classification of the VESSEL which shall be rendered by the Classification Society and all costs and expenses for supplying all drawings and plans (except those to be furnished by the BUYER in respect of the BUYER's Supplies) and designs, machinery, engines, equipment, fittings, outfittings, appurtenances, furniture, materials, parts, spares, articles and things whatsoever and specified or required by the Specifications and/or otherwise under this Contract for the VESSEL and all other items and acts necessary for the due and punctual performance of the SELLER's obligations under or pursuant to this Contract.

The Contract Price does not include the cost of items to be supplied by the BUYER as stipulated in Clause 1 of ARTICLE XVI of this Contract.

2. Adjustment of Contract Price:

Any increase or decrease of the Contract Price due to adjustments made in accordance with the provisions of this Contract shall be adjusted by way of addition to or subtraction from the Delivery Instalment of the Contract Price upon delivery of the VESSEL in the manner as hereinafter provided.

No later than five (5) Banking Days prior to the scheduled date for the acceptance of delivery of the VESSEL, the parties hereto shall conclude an agreement on all adjustments of the Contract Price, if any. If the parties cannot agree on the adjustments specified in ARTICLE III, delivery of the VESSEL shall take place as provided herein and:

- (a) the adjustments to which the parties have agreed will be made to the Delivery Instalment; and
- (b) the adjustments or portion thereof that have not yet been agreed shall be determined by arbitration pursuant to ARTICLE XII herein.

Notwithstanding the foregoing, adjustment in connection with the delay in delivery of the VESSEL shall be made on delivery to the Delivery Instalment.

3. Currency:

Any and all payments which are due under this Contract or to be refunded under the terms thereof shall be made in United States Dollars.

4. Terms of Payment:

Subject to ARTICLE II, Clause 8, the Contract Price shall be due and payable by the BUYER to the SELLER in five instalments as follows:

(a) First Instalment:

The first instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid by the BUYER within five (5) Banking Days of the Effective Date (as defined by ARTICLE XIX).

(b) Second Instalment:

The second instalment amounting to US\$4,125,000 representing ten (10%) of the Contract Price shall be due and payable and shall be paid on the first Banking Day that is twelve (12) months after the date of this Contract.

(c) Third Instalment:

The third instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of the notice of cutting of the first steel plate of the VESSEL in the SELLER's workshop has occurred .

The SELLER shall give a fax or letter notice to the BUYER stating that the first steel plate has been cut in its workshop and demand for payment of this instalment. Such notice shall include a Builder's certificate of steel cutting, which shall be endorsed by the Classification Surveyor.

(d) Fourth Instalment:

The fourth instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of notice of keel-laying of the first section of the VESSEL.

The SELLER shall give a fax or letter notice to the BUYER stating that the first section has been carried out and demand for payment of this instalment. Such notice shall include a Builder's certificate of keel-laying, which shall be endorsed by the Classification Surveyor.

(e) Fifth Instalment:

The fifth instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of notice of launching of the VESSEL.

The SELLER shall give a fax or letter notice to the BUYER stating that the launching has been carried out and demand for payment of this instalment. Such notice shall include a Builder's certificate of launching which shall be endorsed by the surveyor of the Classification Society.

(f) Sixth Instalment (the “**Delivery Instalment**”):

The sixth instalment amounting to US\$20,625,000 representing fifty percent (50%) of the Contract Price, plus any increase or minus any decrease due to adjustment of the Contract Price under the provisions of this Contract shall be due and payable and shall be paid simultaneously with the delivery to and acceptance of the VESSEL by the BUYER and upon the signing of the Protocol of Delivery and Acceptance by both parties.

5. Method of Payment:

All the pre-delivery payments and the payment due on delivery in settlement of the Contract Price as provided for in Clause 4 of this ARTICLE II shall be made in United States Dollars on or before the due date thereof by telegraphic transfer as follows:

(a) Payment of the instalments prior to the Delivery Instalment

Payment of the first, second, third, fourth and fifth instalments shall be made by remitting the respective amounts, at the BUYER’s own cost and expense, to the receiving bank nominated by the SELLER and advised to the BUYER not less than ten (10) days prior to the date of the relevant instalment, for credit to the account of the SELLER with SELLER’S Bank, or through other receiving bank to be nominated by the SELLER from time to time, and such nomination shall be notified to the BUYER at least ten (10) days prior to the due date for payment (herein referred to as the “**SELLER’S Bank**”).

(b) Payment of the Delivery Instalment

The BUYER shall, at least three (3) business days prior to the actual date of delivery of the VESSEL, request BUYER’s bank to make an irrevocable cash deposit in an account in the name of BUYER’s bank with the SELLER’s Bank, the People’s Republic of China, for a period of fifteen (15) days and covering the amount of this instalment (as adjusted in accordance with the provisions of this Contract), with an irrevocable instruction that the said amount shall be released to the SELLER against presentation by the SELLER to the said SELLER’s Bank of a copy of the Protocol of Delivery and Acceptance signed by the BUYER’s authorized representative and the SELLER. Interest, if any, accrued from such deposit, shall be for the benefit of the BUYER.

If the SELLER has not presented the said original of the Protocol of Delivery and Acceptance duly signed by the SELLER and BUYER to the SELLER’s Bank on or before the expiry of the aforesaid fifteen (15) day deposit period, the BUYER shall have the right to withdraw the said deposit plus accrued interest upon the expiry of such fifteen (15) day period. However, if a new delivery date is agreed between the BUYER and the SELLER, the BUYER shall make the cash deposit in accordance with the same terms and conditions as set out above.

The SELLER’s Bank will be Bank of China Ltd. (Guangdong Branch), Bank of China Ltd. (Jiangyin Branch), the Export-Import Bank of China or such other bank to which the SELLER and BUYER may agree.

For the avoidance of doubt any interest earned on the cash deposit before delivery and acceptance of the VESSEL shall belong to the BUYER and the BUYER shall be entitled to instruct the Bank accordingly.

If or when the SELLER advises the BUYER of a revised scheduled delivery date in accordance with this Contract, the BUYER shall redeposit the Delivery Instalment in the same manner as stated above at least one business day prior to such revised scheduled delivery date or if not possible upon notice.

Simultaneously with each of such payments, the BUYER shall advise the SELLER of the details of such payments by telex, fax or cable.

If any of the above payment dates is not a Banking Day then the payment(s) so due on such non-Banking Day shall be understood to be payable on the next Banking Day after the date on which payment should have been made in accordance with this Clause 5.

In the event of default in the payment of any instalment in Clause (a) or (b) of this Clause 5, the BUYER shall pay default interest, charges and expenses in accordance with Clause 2 (a) of ARTICLE XI hereof.

6. Expenses:

All charges, expenses and bank charges outside of China for remitting payments and any taxes, duties, expenses and fees outside of China connected with such payment shall be for the account of the BUYER. All charges, expenses and bank charges and any taxes, duties, expenses and fees arising inside China for remitting payment shall be for the account of SELLER.

7. Advance Payment:

The payment of the Contract Price by way of the instalments set out in Clause 4 of this ARTICLE II shall be in the nature of advance(s) and shall be subject to refund to the BUYER in accordance with the provisions of this Contract.

8. Refundment Guarantee:

As security for the refund of instalments paid by the BUYER to the SELLER prior to delivery of the VESSEL, including interest thereon as set out in ARTICLE X herein, the SELLER will provide the BUYER with an Irrevocable Letter of Refundment Guarantee (the “**Refundment Guarantee**”) in favour of the BUYER issued by the SELLER’S Bank (hereinafter called the “**Refundment Guarantor**”) for each instalment of the Contract Price. Each Refundment Guarantee will cover the amount of the relevant instalment, together with interest thereon as set out in ARTICLE X herein, and the receipt of the Refundment Guarantee by the BUYER is a pre-condition to payment by the BUYER of the relevant instalment.

Alternatively, the SELLER may provide the BUYER with one Refundment Guarantee issued by the Refundment Guarantor that covers the aggregate amount of 1st, 2nd, 3rd, 4th and 5th instalments together with interest thereon as set out in ARTICLE X herein. This form of Refundment Guarantee would remain a pre-condition to the payment by the BUYER of the first instalment.

The Refund Guarantee or Guarantees, as the case may be, will become effective upon receipt of the relevant instalment to which the Refund Guarantee relates by the SELLER and must remain in effect until the earlier of: (1) the VESSEL is delivered to and accepted by the BUYER; (2) a refund of the full amount covered by the Refund Guarantee has been made by the SELLER or the Refund Guarantor; and (3) 180 days after the Delivery Date. The BUYER will not be required to make any further instalment to the SELLER if at any time a Refund Guarantee or Guarantees which was in effect ceases to be in effect.

The Refundment Guarantee or Guarantees, as the case may be, shall be substantially in the form of Exhibit "A" attached hereto. If the condition in Article XIX (b) is satisfied, the SELLER will have sixty (60) days from the condition satisfaction date to provide to the BUYER a Refundment Guarantee with respect to the first instalment substantially in the form attached as Exhibit "A" hereto and approved by the Refund Guarantor and the BUYER'S bank. Prior to delivery to the BUYER, the Refundment Guarantee or Guarantees, as the case may be, must be registered with or approved by (only if registration or approval is required) the relevant government agencies pursuant to any legislation in the People's Republic of China applicable to the provision of such instruments, including The State Administration of Foreign Exchange.

However, in the event of any dispute between the SELLER and the BUYER with regard to the SELLER's obligation to repay the instalment or instalments paid by the BUYER and to the BUYER's right to demand payment from the Refundment Guarantor, under its guarantee, and such dispute is submitted either by the SELLER or by the BUYER for arbitration in accordance with ARTICLE XII hereof, the Refundment Guarantor shall withhold and defer payment until the arbitration award between the SELLER and the BUYER is published. The Refundment Guarantor shall not be obliged to make any payment unless the arbitration award orders the SELLER to make repayment. If the SELLER fails to honour the award within 10 days of notice, then the Refundment Guarantor shall make payment to the BUYER under the Refundment Guarantee.

All expenses in issuing and maintaining the Refundment Guarantee or Refundment Guarantees, as the case may be, by the Refund Guarantor shall be borne by the SELLER.

(end of Article)

ARTICLE III - ADJUSTMENT OF CONTRACT PRICE

The Contract Price shall be subject to adjustment, as hereinafter set forth, in the event of any of the following contingencies (it being agreed and understood by both parties that any reduction of the Contract Price under this ARTICLE III is by way of liquidated damages and not by way of penalty).

1. Delivery:

- (a) No adjustment shall be made and the Contract Price shall remain unchanged for the first thirty (30) days of delay in delivery of the VESSEL beyond the Delivery Date as defined in ARTICLE VII hereof (ending as of 11:59 p.m. in China of the 30th day of delay).
- (b) If the delivery of the VESSEL is delayed by more than thirty (30) days after the Delivery Date, then, in such event, beginning at twelve o'clock midnight in China of the 30th day after the Delivery Date, the Contract Price shall be reduced by deduction therefrom as follows: from the 31st day to 60th day - US\$15,000 per day and from the 61st day to the 150th day - US\$23,500 per day. In any event (including the event that the BUYER consents to take the VESSEL at the later delivery date after the expiration of one hundred and fifty (150) days delay of delivery as described in Clause 1(c) of this ARTICLE III or in Clause 4 of ARTICLE VIII) the total reduction in the Contract Price shall not exceed the amount due to cover the delay of 120 days after the first 30 days hereinabove referred to for the delay in delivery of the VESSEL at the rate of reduction as specified above.
- (c) However, if the delay in delivery of the VESSEL should continue for a period of one hundred and fifty days from the Delivery Date, then in such event, and after such period has expired, the BUYER may, at its option, rescind this Contract in accordance with the provisions of ARTICLE X hereof and reject the VESSEL.

The SELLER may, at any time after the expiration of the aforementioned one hundred and fifty days of delay in delivery, if the BUYER has not served notice of rescission as provided in ARTICLE X hereof, demand in writing that the BUYER shall make an election, in which case the BUYER shall within twenty (20) days after such demand is received by it notify the SELLER of its intention either to rescind this Contract or to consent to the acceptance of the VESSEL at an agreed future date. If the BUYER shall not make an election within twenty (20) days as provided herein above, the BUYER shall be deemed to have accepted such extension of the delivery date to the future delivery date indicated by the SELLER and it being understood by the parties hereto that if the VESSEL is not delivered by such future date, the BUYER shall have the same right of rescission upon the same terms and conditions as herein above provided.

- (d) For the purpose of this ARTICLE III, the delivery of the VESSEL shall be deemed not to be delayed and the Contract Price shall not be reduced when and if the Delivery Date of the VESSEL is extended by reason of causes and provisions of ARTICLE IV Clause 4(i)(2), ARTICLE V, ARTICLE VI, ARTICLE XI, ARTICLE XII, ARTICLE XVI and ARTICLE XVII or by reason of Permissible Delay as defined in ARTICLE VIII.

2. Speed:

- (a) The Contract Price shall not be affected or changed by reason of the actual trial speed (as determined according to the Specifications) being less than the Guaranteed Speed, if such deficiency is not more than 0.15 of one (1) knot below the Guaranteed Speed.
- (b) However, commencing with and including a deficiency of more than 0.15 of one (1) knot in actual speed below the Guaranteed Speed, the Contract Price shall be reduced by USD50,000 for each successive whole 0.10 of a knot and pro-rata for any fraction thereof in excess of a deficiency of 0.15 of a knot.
- (c) If the deficiency in the actual trial speed upon final sea trial is more than 0.55 of a knot below the Guaranteed Speed of the VESSEL, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof, or may accept the VESSEL at a reduction in the Contract Price as above provided that the total reduction does not exceed two hundred thousand United States Dollars (US\$200,000) being the maximum.

3. Fuel Consumption:

- (a) The Contract Price shall not be affected or changed in case the actual fuel consumption, as determined by the engine manufacturer's shop trial (171 g/KWh) as specified in the Specifications, is not more than tolerance margin of five percent (5%) in excess of the Guaranteed Fuel Consumption.
- (b) However, in the event that the actual fuel consumption at the shop trial is in excess of five percent (5%) of the Guaranteed Fuel Consumption, the Contract Price shall be reduced by the sum of seventy thousand United States Dollars (US\$70,000) for each full one percent (1%) increase in fuel consumption and pro rata for any fraction of one percent (1%) of the Guaranteed Fuel Consumption in excess of the said five percent (5%) up to maximum of eight percent (8%) over the Guaranteed Fuel Consumption.
- (c) If the fuel consumption of the main engine exceeds the Guaranteed Fuel Consumption by more than eight percent (8%), then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof, or may accept the VESSEL at a reduction in the Contract Price as above provided for eight percent (8%) only, that is, at a total reduction of two hundred and ten thousand United States Dollars (US\$210,000) being the maximum.

4. Deadweight:

- (a) In the event that there is a deficiency in the actual deadweight of the VESSEL (33800 MT) determined as provided in the Specifications, the Contract Price shall not be decreased if such deficiency is two hundred (200) metric tons or less below the guaranteed deadweight described in the Specification.
- (b) In the event that the actual deadweight of the VESSEL as determined in accordance with the Specifications is less than the Guaranteed Deadweight, the Contract Price shall be

reduced by the sum of two thousand United States Dollars (US\$2,000) for each full metric ton of such deficiency being more than two hundred (200) metric tons.

- (c) In the event of such deficiency in the actual deadweight of the VESSEL being eight hundred (800) metric tons or more, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or accept the VESSEL at a reduction in the Contract Price as above provided for eight hundred (800) metric tons only, that is, at a total reduction of one million two hundred thousand United States Dollars (US\$1,200,000).

5. Container capacity:

- (a) In the event that the actual nominal container capacity of the VESSEL as determined in accordance with the Specifications is less than the Guaranteed Container Capacity of 2546 TEU by more than forty-six (46) TEUs, the Contract Price shall be reduced by the sum of thirty thousand United States Dollars (US\$30,000) for each container TEU of deficiency in excess of forty-six (46) TEUs.
- (b) In the event of the foregoing deficiency is fifty-five (55) TEU containers or more, the BUYER may, at its option reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or may accept the VESSEL at a total reduction in the Contract Price as above provided of two hundred and seventy thousand United States Dollars (US\$270,000).
- (c) Notwithstanding anything contained herein, the homogenous intake of containers of 14 ton TEU will not be below 1900.
- (d) In the event that the actual homogenous intake of containers of 14 ton TEU is less than 1900, the Contract Price shall be reduced by the sum of:
(1) twenty-one thousand five hundred United States Dollars (US\$21,500) for each TEU of such deficiency up to and including twenty (20) TEUs; and
(2) thirty-five thousand United States Dollars (US\$35,000) for each TEU of such deficiency from and including twenty-one (21) TEU up to and including twenty-five TEU.
- (e) In the event of such deficiency in the actual homogenous intake of containers being twenty-six (26) TEU or more, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or may accept the VESSEL at a total reduction in the Contract Price as above provided of six hundred and five thousand United States Dollars (US\$605,000).

6. Reductions to be Independent of Each Other:

Reductions permitted herein are independent of each other and in the event of there being contingencies which necessitate the application of two or more Clauses, there shall be separate reductions in the Contract Price in respect of each contingency.

7. Application of Adjustment:

Unless the parties agree otherwise, the total reduction in the Contract price shall be deducted from the Delivery Instalment of the Contract Price in accordance with ARTICLE II, Clause 4.

8. Effect of Rescission:

It is expressly understood and agreed by the parties hereto that in any case as stated herein, if the BUYER rescinds this Contract pursuant to any provision under this ARTICLE III, the BUYER, save its rights and remedies set out in ARTICLE X hereof, shall not be entitled to any liquidated damages or compensation whether described above or otherwise.

(end of Article)

ARTICLE IV - APPROVAL OF PLANS AND DRAWINGS AND INSPECTION DURING CONSTRUCTION

1. Approval of Plans and Drawings:

- (a) The SELLER shall submit to the BUYER three (3) copies of the plans and drawings to be submitted thereto for its approval at its address as set forth in ARTICLE XVIII hereof. For those plans and drawings that have been approved as of the date of the Contract by the BUYER of Hull No. YZJ2004-680C and are unaffected by Specifications herein, the SELLER shall submit such plans and drawings to the BUYER within 45 days of date of the Contract. The BUYER shall have ninety (90) days thereafter to submit comments and return one plan or drawing, as the case may be, to the SELLER.

For all other plans and drawings, to be approved hereunder, the BUYER shall, within twenty-one (21) days after receipt thereof, return to the SELLER one (1) copy of such plans and drawings with the BUYER's approval or comments written thereon, if any, within the terms of the Specifications and the Contract. The SELLER must respond to the comments of the BUYER within twenty-one (21) days. Any alterations to the Specifications resulting from such comments shall be dealt with in accordance with ARTICLE V, Clause 1. If any modifications and or changes are made to the plans which have been reviewed or approved by the BUYER, the SELLER shall submit such plans either partially or totally to the BUYER for reapproval in accordance with this Clause. A list of the plans and drawings to be so submitted to the BUYER shall be mutually agreed upon between the parties hereto and such plans and drawings shall then constitute "**Approved Drawings**".

- (b) In the event that the BUYER shall fail to return the plans and drawings to the SELLER by fax or otherwise within the time limit as hereinabove provided, such plans and drawings shall be deemed to have been automatically approved without any comment.
- (c) No act or omission of the BUYER in reviewing or approving the plans and/or drawings shall, in any way, diminish or impair the obligations and liabilities of the SELLER under the terms of this Contract.

2. Appointment of BUYER's Representatives:

The BUYER may send to and maintain at the Shipyard, at the BUYER's own cost and expense, one or more Representatives who shall be duly authorized in writing by the BUYER (herein called the "**Representatives**") to supervise the construction by the SELLER of the VESSEL and to act on behalf of the BUYER in connection with the modifications of the Specifications, approval of the plans and drawings, attendance to the tests, inspections and trials relating to the VESSEL, and any other matters for which he is specifically authorized by the BUYER. The Representatives may appoint assistant(s) to attend at the Shipyard for the purposes as aforesaid.

Upon appointment of the Representatives, the BUYER shall notify the SELLER in writing of the name and the scope of authority of the Representatives. Before the commencement of any item of work under this Contract, the SELLER shall, whenever reasonably required, exhibit,

furnish to, and within the limits of the Representative's authority, secure the approval from the Representatives of any plans and drawings prepared in connection therewith.

3. Inspection by BUYER's Representatives:

The necessary inspections and testing of the VESSEL shall be carried out by the Classification Society, other regulatory bodies and an inspection team of the BUYER, including the Representatives, throughout the entire period of construction, in order to ensure that the construction of the VESSEL is duly performed in accordance with this Contract and the Specifications.

4. Rights of the Representatives:

- (a) The Representatives shall, at all times during the construction until delivery and acceptance of the VESSEL, have the reasonable right to inspect the VESSEL and all work in progress, materials utilized and quality of work in connection with the construction thereof wherever such work is being done within the Shipyard's premises or wherever such materials and equipment are stored, for the purpose of determining that the VESSEL is being constructed in accordance with the terms of this Contract and the Specifications.
- (b) The Representatives shall have the unrestricted right to visit the VESSEL and all work in progress. The Representatives shall also have the reasonable right to visit, with the SELLER'S attendance or introduction as necessary, all property and premises utilized in connection with the construction of the VESSEL, wherever and whenever such premises is being utilized or such property is stored.
- (c) The construction of the VESSEL shall be subjected, throughout the entire period of construction, to quality control by a quality control department of the SELLER. The necessary tests and inspection by the Classification Society and other regulatory bodies concerned shall also be carried out and recorded and all results of quality control and tests and inspections shall be communicated in the form documented, or in the absence of documentation, orally, to the Representatives.
- (d) The Representatives may attend during construction of the VESSEL, tests and inspection of the VESSEL, its machinery and equipment. The SELLER shall give the Representatives at least one (1) week advance notice for tests and inspections within the Shipyard stating approximate particulars of any tests or inspections which may be attended by the Representatives provided that in exceptional circumstances the manner in which such notice is given may be modified by mutual agreement. Notice of tests and inspections to be conducted shall also be given to the Representatives latest up to 5:00 p.m. of the day prior to the day on which any tests or inspections shall occur.

For test or inspections outside the Shipyard, including manufacturer's shop tests, sufficient advance notice to allow for the Representatives to arrange transportation shall be given. This advance notice should not be less than seven (7) days for tests or inspections that require air travel for attendance.

Inspection schedule must be reasonable at all times in order to allow the BUYER's Representatives to carry out their duties properly and inspections must be spread over a reasonable time, but to follow building schedule at the same rate. In principle, inspections will not take place on Saturdays, Sundays and Holidays, unless mutually agreed upon and necessary in order to meet the SELLER'S schedule.

Failure of the Representatives to be present at the tests and inspections after due notice shall be deemed to be a waiver of the BUYER's right to be present. In such case the BUYER shall be obliged to accept the result of such test on the basis of the SELLER'S certificate, signed by the Classification Society, that the said result is conforming to the provisions of this Contract and the Specifications.

- (e) The Representatives shall notify the SELLER promptly, in writing, if, in his opinion, the VESSEL is not being constructed in accordance with this Contract or the Specifications. The BUYER may at its election send a copy of such notification to the Classification Society.
- (f) No act or omission of the Representatives or his assistants shall, in any way, diminish or impair the liability of the SELLER under this Contract and/or the Specifications.
- (g) The Representatives shall advise and consult the SELLER on all matters pertaining to the construction of the VESSEL, as may be required by the SELLER, or as he may deem necessary.
- (h) The inspection thus exercised on behalf of the BUYER shall not alter or diminish the responsibility of the SELLER to construct the VESSEL in accordance with the Contract and the Specifications.
- (i) In the event that the Representatives advise the SELLER that they have discovered and believe the VESSEL is not being constructed in accordance with this Contract or the Specifications, and the SELLER shall not agree with the views of the Representatives in such respect, as provided in Clause (e) of this ARTICLE III, either the BUYER or the SELLER shall seek a decision of the Classification Society in accordance with Clause 1 of ARTICLE XII of this Contract. The Classification Society shall determine whether or not a non-conformity with the provisions of this Contract or the Specifications exists.
 - (1) If the Classification Society enters a determination in favour of the BUYER, then in such case the SELLER shall make the necessary alterations or changes, or if such alterations or changes cannot be made in time to meet the construction schedule for the VESSEL and the BUYER so agrees, which shall not be unreasonably withheld, but without prejudice to BUYER's other rights under this Contract, the Contract Price shall be fairly and reasonably reduced (as agreed between the Parties hereto and failing which by Arbitration as hereinafter provided) in lieu of such alterations and changes.
 - (2) If the Classification Society enters a determination in favour of the SELLER, then the time for delivery of the VESSEL shall be extended for the period of delay in construction, if any, occasioned by such proceedings, and the BUYER shall compensate the SELLER for the proven loss and damages incurred by the SELLER as a result of the dispute herein referred to.

The SELLER undertakes to inform the Classification Society in writing within thirty (30) days of the date of this Contract that the SELLER has no objection to the BUYER making an arrangement with the Classification Society for receiving copies of any technical correspondence exchanged between the SELLER and the Classification Society in the course of design, testing, approval, inspection, survey, supervision, certification and construction of the VESSEL.

5. Facilities:

The SELLER shall, at no cost to the BUYER, furnish suitably lighted and air conditioned office space for a team of approximately twelve (12) Representatives all along, including desks, chairs, tables, changing room, toilet and shower space, office furniture, drawing table, filing cabinets, telephone circuit and use of other communications equipment such as telephone, facsimile, email/internet and such other reasonable facilities as may be required. International and domestic telecommunication service shall be paid by the BUYER at the normal rate of charges of the Chinese telecommunication company.

6. Liability for the Representatives:

As between SELLER and BUYER, the Representatives and their assistants shall at all times be deemed as the employees of BUYER. SELLER shall not be under any liability whatsoever to BUYER, or the Representatives and their assistants for personal injuries, including death, suffered during the time when they were aboard the VESSEL or within the premises of the SELLER or its subcontractors, to such Representatives and their assistants unless such personal injuries, including death, were caused by gross negligence or willful misconduct of SELLER or its employees, agents or subcontractors or by employees or agents of such subcontractors. Nor shall SELLER be under any liability whatsoever to BUYER for damage to, or loss or destruction of, property of the Representatives and their assistants unless such damage, loss or destruction was caused by gross negligence or willful misconduct of SELLER or its employees, agents or subcontractors or by employees or agents of such subcontractors.

7. Salaries and Costs:

All salaries and other costs of the Representatives shall be for BUYER's account.

8. SELLER's Obligation:

Nothing under this ARTICLE IV shall change or reduce the SELLER's sole responsibility and obligation to design, build and deliver the VESSEL in a condition fully in accordance with the Contract and its attachments. All respective rights of the BUYER on delivery of the VESSEL remain fully valid and unprejudiced by this ARTICLE IV.

9. Replacement of the Representatives:

The SELLER has the right to request the BUYER in writing to replace any Representative who is deemed by the SELLER, acting reasonably, unsuitable and unsatisfactory for the proper progress of the VESSEL'S construction together with reasons. The BUYER shall investigate the situation at the Shipyard, if necessary, and if such SELLER's request is justified, the BUYER should effect the replacement as soon as conveniently arrangeable.

10. Responsibility of BUYER:

The Representatives and their assistant(s) shall observe the work rules and regulations prevailing at the SELLER's and its subcontractors' and suppliers' premises.

11. Information to Representatives:

The SELLER shall reasonably promptly provide all required information to the Representatives and their assistant(s) and shall secure that its subcontractors and suppliers shall reasonably promptly provide all such information as he or they may reasonably request in connection with the construction of the VESSEL.

(end of Article)

ARTICLE V - MODIFICATIONS, CHANGES AND EXTRAS

1. How Effected:

Any modifications and/or changes in the Specifications under which the VESSEL is to be constructed shall be made by written agreement of the parties hereto provided, however, that any modifications and/or changes will not adversely affect the SELLER's planning or programme in relation to the SELLER's other commitments and if the BUYER and SELLER shall agree to adjustment of the Contract Price, time for delivery of the VESSEL and other terms and conditions of this Contract as hereinafter provided. The SELLER hereby agrees to exert its best efforts to accommodate such reasonable request by the BUYER so that the said changes and/or modifications may be made at a reasonable cost and within the shortest period of time which is reasonably possible. Any such agreement for modifications and/or changes shall include an agreement as to the increase or decrease, if any, in the Contract Price of the VESSEL and if necessary which instalment is to reflect the increase or decrease of the Contract Price together with an agreement as to any extension or reduction in the time of delivery, or any other alterations in this Contract, or the Specifications or the Approved Drawings occasioned by such modifications and/or changes.

If after the exertion of such best efforts by the SELLER in response to the BUYER's reasonable request, the parties fail to conclude the above-mentioned agreement, then the SELLER shall have no obligation to comply with the BUYER'S request.

The aforementioned agreement to modify and/or change the Specifications and/or Approved Drawings may be effected by an exchange of letters signed by the authorized Representatives of the parties hereto, or telex or facsimile confirmed in writing, manifesting such agreement. Such letters and confirmed telex and facsimile exchanged by the parties hereto pursuant to the foregoing shall constitute an amendment of the Specifications, and such letters and telex and facsimile shall be incorporated into this Contract and made a part hereof.

The SELLER may make minor changes to the Specifications, if found necessary for introduction of improved production methods or otherwise, provided that the SELLER shall first obtain the BUYER's written approval which shall not be unreasonably withheld.

2. Changes in Rules of Classification Society, Regulations, etc.:

In the event that, after the date of signing this Contract, any requirements as to class, or as to rules and regulations to which the construction of the VESSEL is required to conform are altered or changed by the Classification Society or the other regulatory bodies authorized to make such alterations or changes, the following provisions shall apply:

- (a) If such alterations or changes are compulsory for the VESSEL, either of the parties hereto, upon receipt of such information from the Classification Society or such other regulatory bodies, shall promptly transmit the same to the other in writing, and the SELLER shall thereupon incorporate such alterations or changes into the construction of the VESSEL, provided that the BUYER shall first agree to reasonable adjustments required by the SELLER in the Contract Price, the Delivery Date and other terms and

conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes.

- (b) If such alterations or changes are not compulsory for the VESSEL, but the BUYER desires to incorporate such alterations or changes into the construction of the VESSEL, then the BUYER shall notify the SELLER of such intention. The SELLER shall accept such alterations or changes, provided that such alterations or changes will not, in the judgment of the SELLER, adversely affect the SELLER's planning or program in relation to the SELLER's other commitments, and provided, further, that the BUYER shall first agree to reasonable adjustments required by the SELLER in the Contract Price, the Delivery Date and other terms and conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes. Agreements as to such alterations or changes under this Clause 2(b) shall be made in the same manner as provided in Clause 1 of this ARTICLE V for modifications or changes to the Specifications. If after the exertion of such best efforts by the SELLER in response to the BUYER's reasonable request, the parties fail to conclude the above-mentioned agreement, then the SELLER shall have no obligation to comply with the BUYER's request.

3. Substitution of Materials:

In the event that any of the materials and equipment more specifically described in the definition of VESSEL and required by the Specifications or otherwise under this Contract for the construction of the VESSEL can not be procured in time to effect delivery of the VESSEL, or are in short supply to maintain the delivery date of the VESSEL, the SELLER may, provided the BUYER so agrees in writing, supply other materials and equipment of the available and equal or better quality, meeting the requirements of the Classification Society and of the rules, regulations, requirements and recommendations with which the construction of the VESSEL must comply. Any agreement as to such substitution of materials and equipment shall be effected in the manner as provided in Clause 1 of this ARTICLE V, and shall, likewise, be in accordance with the terms and conditions of this Contract affected by such substitution.

(end of Article)

ARTICLE VI - TRIALS AND ACCEPTANCE

1. Notice:

The sea trial shall start when the VESSEL is ready for the sea trial according to the Specifications.

The SELLER shall give the BUYER at least twenty-one (21) days estimated prior notice and Five (5) days confirming prior notice by facsimile confirmed in writing of the time and place of any trial run of the VESSEL, and the BUYER shall promptly acknowledge receipt of such notice. The BUYER shall have its Representatives on board the VESSEL to witness such trial run.

Should such Representatives fail to be present after the SELLER's due notice to the BUYER as provided above, then in such event, the BUYER shall be deemed to have waived its right to have its Representatives on board the VESSEL during the trial run and the SELLER shall be entitled to conduct such trial run with the presence of the Classification Surveyor only without the Representatives of the BUYER being present and in such case the BUYER shall be obligated to accept the VESSEL on the basis of a certificate of the Classification Society and certificate of the SELLER stating that the VESSEL, upon trial run, is found to conform to this Contract and Specifications.

2. Weather Condition:

The trial run shall be carried out under the weather condition which is deemed favorable enough in the reasonable judgment of the SELLER. In the event of unfavourable weather on the date specified for the trial run, the same shall take place on the first available day thereafter that the weather condition permits. It is agreed that, if during the speed trial of the VESSEL, the weather is unfavourable (i.e. sea state of 3 and wind state of Beaufort 3 or worse) that orderly conduct of the speed trial can no longer be continued, the speed trial shall be discontinued and postponed until the first favorable day next following, unless the BUYER shall assent in writing to acceptance of the VESSEL on the basis of the speed trial already made before such discontinuance has occurred.

Any delay of the trial run caused by such unfavourable weather condition shall operate to postpone the Delivery Date by the period of the delay involved and such delay shall be deemed as Permissible Delay in the delivery of the VESSEL.

3. How Conducted:

- (a) The VESSEL shall run the official sea trial in the manner as specified in the Specifications and shall prove fulfillment of the performance requirements for the trial run as set forth in the Specification.
- (b) All expenses in connection with the trial run (including bunkers, diesel oil, lubricating oil and greases) including proper insurance are to be for account of the SELLER and the

SELLER shall provide, at its own expense, the necessary crew to comply with conditions of safe navigation.

4. Method of Acceptance or Rejection:

- (a) Upon completion of the trial run, the SELLER shall give the BUYER a notice by telex or facsimile confirmed in writing of completion of the trial run and promptly provide the BUYER with all protocols and records of tests and trials, as and if the SELLER considers that the results of the trial run prove conformity of the VESSEL to this Contract and Specifications.

The BUYER shall, within six (6) working days after receipt of the aforementioned records of tests and trials from the SELLER, notify the SELLER by telex or facsimile confirmed in writing of its acceptance or rejection of the VESSEL's conformity to this Contract and the Specifications.

- (b) Should the records of tests and trials indicate that the VESSEL does not conform to the requirements of this Contract or the Specifications and if the SELLER agrees with the BUYER's notice of non-conformity, then the SELLER shall promptly take the necessary steps to correct such non-conformity and notify the BUYER promptly in writing or by telex or facsimile confirmed in writing advising the BUYER of the estimated additional time required for the necessary alterations to correct such non-conformity.

Upon completion of correction of such non-conformity, new trial run or runs as necessary will be made to prove conformity of the VESSEL to this Contract and Specifications if so found necessary by the SELLER, the Classification Society and the Representatives. The SELLER shall notify the BUYER of the time and place of any new trial run no less than five (5) working days beforehand, unless otherwise mutually agreed to. All provisions of the trial run shall apply to such new trial run.

Notwithstanding the aforesaid, the BUYER may accept the VESSEL qualifying its acceptance by reservations regarding works or parts which have not been completed or properly installed prior to such acceptance. In the event that BUYER makes such qualified acceptance the parties will reach an agreement in writing, prior to the delivery of the VESSEL, as to how and when to remedy the items being the subject of the qualified acceptance, at the SELLER's cost and expense, either before or after the delivery, as quickly as possible, without delaying the date of delivery and without causing the BUYER inconvenience in the operation of the VESSEL.

- (c) In the event that the SELLER fails to correct any non-conformity of which it has been given notice by the BUYER, which non-conformity has been confirmed by the Classification Society, the BUYER shall indicate what aspect of the VESSEL does not conform to this Contract and/or the Specifications and the SELLER shall promptly correct those non-conformities.
- (d) In the event that the BUYER fails to give notice to the SELLER by fax and/or telex confirmed in writing of the VESSEL within the period as provided in the above Sub-clause (a) or (b), the BUYER shall be deemed to have accepted the VESSEL.

-
- (e) Any dispute between the SELLER and the BUYER as to the conformity or non-conformity of the VESSEL to the requirements of this Contract and/or the Specifications shall be submitted for final decision in accordance with ARTICLE XII hereof.

5. Effect of Acceptance:

Acceptance of the VESSEL as above provided shall be final and binding in so far as conformity of the VESSEL to this Contract and Specifications is concerned and shall preclude the BUYER from refusing formal delivery of the VESSEL as hereinafter provided, if the SELLER complies with all other requirements for delivery as provided in ARTICLE VII hereof. However, the BUYER's acceptance, of the VESSEL shall not affect the BUYER's right under ARTICLE IX hereof and/or under law.

6. Disposition of Surplus Consumable Stores:

- (a) Any fuel oil, lubricating oil and greases furnished and paid for by the SELLER for trial runs remaining on the VESSEL, at the time of acceptance of the VESSEL by the BUYER, shall be bought by the BUYER from the SELLER at the SELLER's net purchase price for such supply in China and the payment by the BUYER thereof shall be made at the time of delivery of the VESSEL.
- (b) If any of the consumables under (a) above are furnished by the BUYER, SELLER shall pay at time of delivery for quantities consumed until delivery at BUYER'S net purchase price.

(end of Article)

ARTICLE VII - DELIVERY

1. Time and Place:

The VESSEL, duly completed in accordance with this Contract and the Specifications, shall be delivered by the SELLER to the BUYER at the SELLER's wharf at the Shipyard safely afloat on or before January 30, 2009 (hereinafter called the "**Delivery Date**") after completion of satisfactory tests and trials and acceptance in accordance with ARTICLE VI hereof, except that, in the event of delays in the construction of the VESSEL or any performance required under this Contract due to causes which under the terms of this Contract permit postponement of the date for delivery, the aforementioned Delivery Date of the VESSEL shall be postponed accordingly.

Earlier Delivery Date is subject to BUYER's prior written consent, such consent not to be unreasonably withheld.

2. When and How Effected:

Provided that the SELLER and the BUYER shall have fulfilled all of their obligations stipulated under this Contract, the delivery of the VESSEL shall be effected forthwith upon acceptance thereof by the BUYER, by concurrent delivery by each of the parties hereto to the other of the PROTOCOL OF DELIVERY AND ACCEPTANCE, acknowledging delivery of the VESSEL by the SELLER and acceptance thereof by the BUYER, which Protocol of Delivery and Acceptance shall be prepared in quadruplicate and signed by each of the parties hereto with additional copies as required by the BUYER or the SELLER.

3. Documents to be delivered to BUYER:

Acceptance of the VESSEL by the BUYER shall be conditional upon receipt by the BUYER from the SELLER of the following duly authenticated documents (all in the English language), which shall accompany the aforementioned PROTOCOL OF DELIVERY AND ACCEPTANCE:

- (a) PROTOCOL OF TRIALS of the VESSEL made pursuant to the Specifications.
- (b) PROTOCOL OF INVENTORY of the equipment of the VESSEL, including spare parts and the like, as specified in the Specifications.
- (c) PROTOCOL OF STORES OF CONSUMABLE NATURE covering items referred to under Clause 6 of ARTICLE VI hereof.
- (d) ALL CERTIFICATES required to be furnished upon delivery of the VESSEL pursuant to this Contract and the Specifications and for the customary shipbuilding practice.

It is agreed that if, through no fault on the part of the SELLER, the Classifications certificates and/or other certificates are not available at the time of delivery of the VESSEL, provisional certificates valid for at least five (5) months shall be accepted by the BUYER, provided that the SELLER shall furnish the BUYER with the formal certificates as

promptly as possible after such certificates have been issued, but in any event timely before the expiry of the provisional certificates.

All certificates to be delivered to the BUYER hereunder pursuant hereto shall be issued by the relevant authorities or Classification Society and shall be clean and valid in every respect and without any recommendation or notation.

- (e) DECLARATION OF WARRANTY of the SELLER that the VESSEL is delivered to the BUYER free and clear of any liens, charges, claims, mortgages, or other encumbrances upon the BUYER's title thereto, and in particular that the VESSEL is absolutely free of all burdens in the nature of imposts, taxes or charges imposed by the Chinese governmental authorities whether national or local as well as of all liabilities of the SELLER to its subcontractors, suppliers, employees and crew(s), and of all the liabilities arising from the operation of the VESSEL in trial runs, or otherwise, prior to delivery.
- (f) DRAWINGS AND PLANS in quadruplicate pertaining to the VESSEL, including lists of Finished Plans and As Built Space and the trim and stability booklet technical descriptions, test results and other data, information or documents in the possession of the SELLER concerning the design and constructions of the VESSEL which shall be forwarded to the BUYER at no additional cost as stipulated in the Specification.
- (g) COMMERCIAL INVOICE
- (h) BILL OF SALE
- (i) BUILDER's CERTIFICATE. If required by the BUYER, the SELLER shall arrange for the notarization of the BUILDER's CERTIFICATE by the local authorized notary public institution in China, or for the BUILDER's CERTIFICATE to be otherwise authenticated as required by the Hong Kong Shipping Registry.

4. Tender of VESSEL:

If the BUYER fails to take delivery of the VESSEL after completion thereof according to this Contract and Specifications without any justifiable reason, the SELLER shall have the right to tender delivery of the VESSEL after fulfillment of all SELLER's obligations as provided herein.

5. Title and Risk:

Title to and risk of loss of or damage to the VESSEL shall pass to the BUYER only upon the delivery and acceptance thereof having been completed as stated above; it being expressly understood that, until such delivery is effected, title to and risk of loss of or damage to the VESSEL and her equipment and risk of items and materials supplied by the BUYER or its suppliers shall be with the SELLER.

Notwithstanding the provisions of this ARTICLE VII, the title to the material and equipment supplied by the BUYER shall remain with the BUYER.

6. Removal of VESSEL:

The BUYER shall take possession of the VESSEL immediately upon delivery and acceptance thereof and shall remove the VESSEL from the premises of the Shipyard within ten (10) days after delivery and acceptance thereof is effected.

If the BUYER shall not remove the VESSEL from the premises of the Shipyard within the aforesaid ten (10) days, in such event, the BUYER shall pay to the SELLER the reasonable mooring charges of the VESSEL.

7. Notices:

Prior to the delivery of the VESSEL, the SELLER shall give notice to the BUYER with the following schedule:

90 DAYS PRIOR TO DELIVERY - 15 DAYS ESTIMATED DELIVERY DATE;

60 DAYS PRIOR TO DELIVERY - 10 DAYS ESTIMATED DELIVERY DATE;

30 DAYS PRIOR TO DELIVERY - 7 DAYS ESTIMATED DELIVERY DATE;

15 DAYS PRIOR TO DELIVERY - 1 DAY DEFINITE DELIVERY DATE

(end of Article)

ARTICLE VIII - DELAYS AND EXTENSION OF TIME FOR DELIVERY (FORCE MAJEURE)

1. Causes of Delay (Force Majeure):

If at any time before the actual delivery, the construction of the VESSEL, any performance required as a prerequisite of delivery of the VESSEL or actual delivery of the VESSEL is delayed due to acts of princes or rulers; compulsory requirements of government authorities; war, blockade, revolution, insurrections, mobilization, civil war or commotion; vandalism; sabotages, strikes in the shipbuilding industry in China, riots, strikes, lockouts or other labor disturbances; acts of a public enemy, plague or other epidemic, quarantines; flood, typhoon, hurricanes, earthquakes; tidal waves; landslides; fires, explosions; embargoes; import restrictions; prolonged failure of electric current; delays caused by the Classification Society or other bodies whose documents are required; destruction of the Shipyard; other causes or accidents beyond the reasonable control of the SELLER; provided all the foregoing events were not existing and known to the SELLER at the date of this Contract or the effect of which could not have been avoided or reduced by the exercise of due diligence by the SELLER or his relevant subcontractors, as the case may be, and provided further that the events and/or delays were not caused or contributed by the negligence or misconduct of the SELLER and provided further that any of the above events directly affect the construction schedule of the VESSEL; then and in any such case, the date of delivery shall be postponed for a period of one day for every one day actually lost by any of the aforesaid events, subject nevertheless to the BUYER's right of cancellation under this ARTICLE VIII and subject to all relevant provisions of this Contract which authorize and permit extension of the time of delivery of the VESSEL.

The SELLER shall take immediate steps to overcome and mitigate the delay and to recover time lost, if any. Delays resulting from contingencies occurring simultaneously shall count as one delay only.

Any cause of delay for which the SELLER claims that it is entitled to a postponement of the Delivery Date under this Contract resulting from the SELLER's subcontractors shall be subject to any of the aforementioned contingencies being applicable to the subcontractors.

2. Notice of Delay:

As soon as possible after and in any event within seven (7) days after the date of the commencement of any cause of delay, on account of which the SELLER claims that it is entitled under this Contract to a postponement of the Delivery Date excluding days due to arbitration, the SELLER shall notify the BUYER in writing or by telex or facsimile confirmed in writing of the date when such cause of delay commenced and the reasons thereof, and the estimated duration of the probable delay in delivery of the VESSEL, and shall provide the BUYER, if available, evidence to justify the delay claimed. Likewise, within seven (7) days after the date of ending of such cause of delay, the SELLER shall notify the BUYER in writing or by telex or facsimile confirmed in writing of the date when such cause of delay ended.

In any event the SELLER shall also notify the BUYER of the period of time by which the SELLER claims the Delivery Date should be postponed by reason of such cause of delay within the same seven (7) day period as aforesaid. Failure of the SELLER to notify the BUYER of its

claim for postponement of the Delivery Date within a period of seven (7) days from the date of cessation of the event causing the delay shall be deemed a waiver of its claim.

Failure of the BUYER to object to the SELLER's claim for postponement of the Delivery Date within Fourteen (14) days after receipt by the BUYER of such notice of claim shall be deemed to be a waiver by the BUYER of its right to object to such postponement of the Delivery Date.

The burden of proof shall always be on the SELLER to establish the facts entitling it to rely on this Clause and that due notices were given and that it has taken all reasonable steps to avoid or mitigate the delay.

3. Definition of Permissible Delay:

Delays on account of such causes as specified in Clause 1 of this ARTICLE VIII and in ARTICLE IV, Clause 4(i)(2)), ARTICLE V, ARTICLE VI, ARTICLE XI, ARTICLE XII, ARTICLE XVII and ARTICLE XVI shall be understood to be Permissible Delays and are to be distinguished from unauthorized delays on account of which the Contract Price is subject to adjustment and/or the Contract is subject to rescission as provided for respectively in Article III and Article X hereof.

4. Right to Rescind for Excessive Delay:

If the total accumulated time of all delays on account of the causes specified in Clause 1 of this ARTICLE VIII and unauthorized delays as described in the Clause 1 of ARTICLE III aggregate to 180 days or more, in any circumstances, then, in such event, the BUYER may rescind this Contract by delivering or faxing to the SELLER notice of cancellation which shall be confirmed in writing and in accordance with the provisions of ARTICLE X hereof.

The SELLER may, at any time after the accumulated time of the aforementioned delays justifying the rescission by the BUYER, demand in writing that the BUYER shall make an election, in which case the BUYER shall, within twenty one (21) days after such demand is received by the BUYER, either notify the SELLER of its intention to rescind this Contract, or consent to a postponement of the Delivery Date to an agreed specific future date. If the BUYER elects to consent to the postponement of the Delivery Date at such agreed specific future date, then such date shall become the contractual delivery date, for the purpose of this Contract and if the VESSEL is not delivered by such revised delivery date, the BUYER shall have the same right of rescission upon the same terms as herein provided.

(end of Article)

ARTICLE IX - WARRANTY OF QUALITY

1. Guarantee:

The SELLER guarantees the VESSEL in her entirety and each and every part thereof and in particular but without prejudice to the generality of the foregoing, her design, drawing, plans, the hull and all machinery, engines, engine room auxiliaries, equipment, fittings, outfittings, appurtenances, furniture, parts, spares, paint and materials manufactured, furnished, installed or incorporated in the VESSEL by the SELLER and/or its subcontractors under this Contract against all defects, omissions, shortages and non-conformity, defective or unsuitable materials or equipment, faulty design and/or performance or poor workmanship or negligence, (hereinafter collectively referred to as “**Defect(s)**”), whether or not such Defect(s) affect seaworthiness or class within the Guarantee Period as hereinafter defined.

The SELLER shall pass to the BUYER information about any claims that the SELLER may have against subcontractors for Defect(s) in deliveries to the VESSEL, without in any way, diminishing the SELLER’s guarantee as aforesaid.

2. Guarantee from Manufacturers and Suppliers:

In the event that the normal guarantee period stipulated by manufacturers or suppliers or various components of machinery, materials, equipment, paint, appurtenances and outfit furnished to the SELLER and embodied in the VESSEL exceeds the Guarantee Period (as hereinafter defined), the benefits of such extended guarantee rights shall be made available to the BUYER by the SELLER without any additional cost to the BUYER.

Notwithstanding the foregoing, the SELLER shall arrange a guarantee from the paint manufacturer for defects in paint and/or application on under water parts of the VESSEL for an additional 24 calendar months from the date of delivery of the VESSEL to the BUYER.

3. Notice of Defects:

The BUYER or its duly authorized Representatives shall notify the SELLER in writing by delivery or facsimile of any Defect for which claim is made under this guarantee, as promptly as possible after discovery thereof. The BUYER’s written notice shall describe in reasonable detail the nature and extent of the Defect(s).

The SELLER shall have no obligation for any Defect discovered prior to the expiry date of the Guarantee Period unless notice of such Defect is received by the SELLER not later than thirty (30) days after such expiry date. Telex or facsimile advice within the Guarantee Period that a claim is forthcoming will be sufficient compliance with the requirement as to time, provided that full description of such Defect(s) in written form shall be received by the SELLER not later than forty-five 45 days after the Guarantee Period.

4. Extent of SELLER’s Obligation:

The SELLER shall have no obligation for any Defect unless the Defect has arisen within a period of twelve (12) calendar months from the date when the VESSEL was delivered to and accepted by the BUYER (the “**Guarantee Period**”).

The SELLER shall not be obligated to repair or be liable for damages to the VESSEL, or to any part of the equipment thereof, if and to the extent the damages are due to:

- (a) ordinary wear and tear;
- (b) defects other than those specified in Clause (a) above;
- (c) mismanagement, accidents, negligence, or willful misconduct of or caused by the BUYER, its employees or agents including the VESSEL's officers, crew and passengers, or any persons on or doing work on the VESSEL other than the SELLER, its employees, agents or sub-contractors;
- (d) repairs or replacements which were made by those other than the SELLER and/or their sub-contractors, unless those repairs or replacements were approved by the SELLER.

The SELLER shall not, in any circumstances, be liable for any consequential loss or special loss arising from any cause whatsoever including, without limitation, loss of time, loss of profit or earnings or demurrage directly or indirectly from any commitments of the BUYER in connection with the VESSEL.

The guarantee in this ARTICLE IX shall not be altered or varied except by a written instrument signed by the duly authorized representatives of the SELLER and the BUYER.

5. Remedy of Defects:

- (a) The SELLER shall remedy, at its cost and expense, any Defect(s) against which the VESSEL is guaranteed under this ARTICLE IX, by making all necessary repairs or replacements as well as dismantling, removal, reassembling and incidental works at the Shipyard or elsewhere as provided in Clause (b) of this Clause, at the BUYER's convenience.

If the cause of the Defect(s) is not known or if the Defect(s) is of a recurring nature the SELLER shall, at its expense, explore the reason for such Defect(s) and take all necessary steps and measures to remedy same in such a way as to eliminate the reoccurrence thereof.

- (b) However, if, in the BUYER's sole discretion, it is impracticable to bring the VESSEL to the Shipyard, the BUYER may cause the necessary repairs or replacements to be made elsewhere which is deemed suitable by the BUYER for the purpose (including by the VESSEL's crew), provided that, in such event, the SELLER may forward or supply replacement parts or materials to the VESSEL, unless forwarding or supplying to the VESSEL would impair or delay the operation or working schedule of the VESSEL. In the event that the BUYER proposes to cause the necessary repairs or replacements for the VESSEL to be made at any other shipyard or works than the Shipyard, the BUYER shall first, but in all events as soon as possible, give the SELLER notice in writing by telex or facsimile confirmed in writing of the time and place when and where such repairs will be made, and if the VESSEL is not thereby delayed, or her operation or working

schedule is not thereby impaired, the SELLER shall have the right at its own cost and expense to verify by its own representatives the nature, cause and extent of the Defect(s) complained of. It is understood that defects to underwater parts of the VESSEL, which were found and detected during the Guarantee Period, may be made good at the time of the first dry-docking of the VESSEL following the expiration of the Guarantee Period.

The SELLER shall, in such case, promptly advise the BUYER by telex or facsimile confirmed in writing, after such examination has been completed, of its acceptance or rejection of the Defect(s) as ones that are covered by the guarantee herein provided. Upon the SELLER's acceptance of the Defect(s) as justifying remedy under this ARTICLE IX, or upon award of the arbitration so determining, the SELLER shall pay to the BUYER for such repairs or replacements a sum equal to the reasonable cost of making the same repairs or replacements in a first class Chinese shipyard, at the prices prevailing at the time of such repairs or replacements are made. Payment for the work done to remedy the Defect(s) shall be settled regularly during the Guarantee Period and the actual reimbursement for the guarantee shall be made in a lump sum at the expiry of the Guarantee Period for minor items (up to US\$50,000) and promptly by the SELLER after settlement of the same for major items.

- (c) In any case, the VESSEL shall be taken, at the BUYER's cost and responsibility, to the place elected, ready in all respects for such repairs or replacement. In case of breakdown at sea due to Defects, the cost of bringing the VESSEL to a repair yard shall be for SELLER's account.
- (d) Notwithstanding anything contained in Clause 5(a) of this ARTICLE IX, the BUYER shall be entitled to require the SELLER to forward to the VESSEL, wherever it may be, replacement(s) for defective part(s) to which the SELLER's guarantee under this ARTICLE IX applies, and in such case the SELLER shall forward the same by such means as to reach the VESSEL as expeditiously as possible.

In emergency cases when the VESSEL will be prevented from sailing or from completing its voyage, forwarding of replacement(s) as aforesaid will be effected by the SELLER by air cargo. The SELLER shall bear and pay all C.I.F. costs of the replacement(s) until they arrive on board the VESSEL.
- (e) Any dispute under this ARTICLE IX shall be referred to arbitration in accordance with the provisions of ARTICLE XII hereof.

6. Guarantee Period:

Notwithstanding the foregoing, the Guarantee Period shall be extended in, inter alia, the following cases and to the following extent:

- (a) If, during the Guarantee Period, the VESSEL shall not be capable of performing services for periods consisting of at least twenty four (24) hours each and aggregating to eight (8) days or more and such non-capability shall be as a result of any Defect(s) covered by the SELLER's guarantee under Clause 1 of this ARTICLE IX, the Guarantee Period shall be extended by such period(s) of time lost in remedying of the defect(s) for which the SELLER is responsible according to this Contract or in awaiting part(s) required for the

purpose to remedying such defect(s), which accumulated extension period shall not exceed twelve (12) months.

- (b) In relation to reservations made by the BUYER pursuant to Clause 4(b) of ARTICLE VI hereof, the Guarantee Period for the aforesaid reservations shall further be extended up to the expiration of twelve (12) calendar months following the time when such reservations are respectively made good by the SELLER after the delivery of the VESSEL to the BUYER as herein provided.

7. Application to Defects Remedied:

Wherever any Defect(s) covered by the SELLER's Guarantee under this ARTICLE IX has been remedied, in whole or in part, the SELLER's Guarantee under this ARTICLE IX and the provisions of this ARTICLE IX shall apply anew in respect of the part(s) to which such remedying relates and the aforesaid Guarantee Period shall apply in respect thereof, save that the said Guarantee Period shall commence as from the time of such remedying, and shall end not more than twenty-four (24) months from the date of delivery of the VESSEL to the BUYER.

8. SELLER to Remain Liable:

If attempts at remedying any Defect(s) covered by the SELLER's Guarantee under this ARTICLE IX, carried out by or on behalf of the SELLER as aforesaid, are unsuccessful, the SELLER shall remain liable to remedy such Defect(s) until same be satisfactorily remedied. The SELLER shall be liable under its Guarantee under this ARTICLE IX also for damage to any part of the VESSEL occasioned directly by any Defect(s) to which the SELLER's Guarantee under this ARTICLE IX extends in any other part of the VESSEL.

9. Guarantee Engineer:

The SELLER shall at the request of the BUYER appoint an English speaking Guarantee Engineer to serve on the VESSEL as its Representative for a period of three (3) months from the date the VESSEL is delivered. However, if the BUYER and the SELLER shall deem it necessary to keep the Guarantee Engineer on the VESSEL for a longer period, then he shall remain on board the VESSEL after the said three (3) months but not longer than six (6) months from the delivery of the VESSEL.

The BUYER, and its employees shall give such Guarantee Engineer full cooperation in carrying out his duties as the representative of the SELLER on board the VESSEL.

The BUYER shall accord the Guarantee Engineer treatment comparable to the VESSEL's Chief Engineer as far as possible, and shall provide board and lodging at no cost to the SELLER and/or the Guarantee Engineer. The SELLER and the BUYER shall, prior to delivery of the VESSEL, execute a separate agreement regarding the Guarantee Engineer.

While the Guarantee Engineer is on board the VESSEL, the BUYER shall pay to the SELLER the sum of US\$2,500 per month and the expenses of his repatriation to Shanghai, People's Republic of China by air (economy class) upon termination of his service. The expenses of his communication with the SELLER incurred in performing his duties shall be for SELLER's

account and expenses, if any, of his medical and hospital care in the VESSEL's hospital shall be for BUYER's account. Notwithstanding the above, the Guarantee Engineer shall remain at all times an employee of the SELLER.

The BUYER, its successors and/or assigns shall be liable to and indemnify the SELLER for damage or loss arising from personal injury or death of the Guarantee Engineer or from loss or destruction of the property of the Guarantee Engineer if such death, personal injury or property damage is caused by the negligence or willful misconduct of the BUYER, its successors or assigns, employees or agents. The BUYER shall be responsible for risk insurance for the Guarantee Engineer.

(end of Article)

ARTICLE X - SELLER'S DEFAULT - RESCISSION BY BUYER

1. SELLER's Default:

The BUYER shall be entitled, but not bound, to declare the SELLER in default and to rescind this Contract, all as stipulated in this Contract and Specifications, in any of the following cases:

- (a) any breach of or default by the SELLER in any Fundamental Term. **"Fundamental Term"** means any of the following:
 - (i) an event described in a provision of this Contract specifically permitting the BUYER to rescind this Contract including and without restricting the generality of the foregoing, those contained in ARTICLE III (Adjustment of Contract Price) and ARTICLE XVII, Clause 2(b) (Insurance);
 - (ii) failure of SELLER to prosecute the work with such diligence and in such manner as will enable it to deliver VESSEL within the period granted under the terms of this Contract, provided that the BUYER shall have given the SELLER written notice specifying such failure, and the SELLER shall not within ten (10) days of such notice, have taken steps sufficient to remedy or justify the failure.
 - (iii) failure to deliver the VESSEL free and clear of all liens, charges, mortgages and encumbrances at the actual time of delivery and possession;
 - (iv) any other failure, not specifically referred to above, to build in accordance with this Contract or the Specifications, provided that the BUYER shall have given the SELLER written notice specifying such failure, and the SELLER shall not within ten (10) days of such notice, have taken steps sufficient to remedy or justify the failure; or
- (b) Discontinuance of business by either the Builder or Trading House, general assignment by either the Builder or Trading House for the benefit of creditors, any composition by either the Builder or Trading House with its creditors, appointment of a receiver, trustee or liquidator for either the Builder or Trading House of all or any substantial part of their assets, application or consent by either the Builder or Trading House for or to appointment of the same, winding up by either the Builder or Trading House, adjudication of either the Builder or Trading House as bankrupt or insolvent, filing by either the Builder or Trading House of a petition for liquidation, a petition in bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors or seeking to take advantage of any law relating to relief of debtors or admission by either the Builder or Trading House (by answer, default or otherwise) of the material allegations of petition against them in any proceedings for liquidation, bankruptcy, reorganization, arrangement or insolvency or in any proceedings relating to relief of debtors, excluding mergers, consolidations, reorganizations or restructurings that are unrelated to bankruptcy, insolvency or other financial distress of the Builder or Trading House.

2. Effect of SELLER's Default:

If the SELLER shall be in any default as provided for in Clause 1 of this ARTICLE X hereinabove, the BUYER may, at its option, rescind this Contract in accordance with provisions of this ARTICLE X.

3. Notice:

In the event that the BUYER shall exercise its right of rescission of this Contract under and pursuant to any of the provisions of this Contract specifically permitting the BUYER to do so, then the BUYER shall notify the SELLER in writing or by fax and/or telex confirmed in writing, and such rescission shall be effective as of the date notice thereof is received by the SELLER.

4. Refundment by SELLER:

In case the SELLER receives the notice stipulated in Clause 3 of this ARTICLE X, the SELLER shall promptly refund to the BUYER the full amount of all sums paid by the BUYER to the SELLER on account of the VESSEL together with interest (as set out below) thereon.

If the BUYER's cancellation or rescission of this Contract is disputed by the SELLER by instituting arbitration as aforesaid, then no refund shall be made by the SELLER, and the BUYER shall not be entitled to demand repayment from the Refundment Guarantor under its Refundment Guarantee, until the arbitration award between the BUYER and the SELLER which shall be in favour of the BUYER, declaring the BUYER's cancellation and/or rescission justified, is made and delivered to the SELLER by the arbitration tribunal.

In case of refundment, the SELLER shall pay the BUYER interest at the rate of six percent (6%) per annum on the amount required herein to be refunded to the BUYER, if the cancellation or rescission of the Contract is exercised by the BUYER for the delay of aggregate one hundred and eighty (180) days in accordance with the provision of Clause 3 of ARTICLE VIII or for the events described in ARTICLE III 1(c), 2(c), 3(c), 4(c), 5(b) or 5(e) hereof computed from the respective dates on which such sums were paid by the BUYER to the SELLER to the date of receipt (remittance by wire transfer) of such refund by the BUYER from the SELLER.

If pursuant to the provisions of this Contract the SELLER is required to refund to the BUYER the instalments paid by the BUYER to the SELLER, the SELLER shall return to the BUYER all of the BUYER's supplies not incorporated into the VESSEL and pay to the BUYER an amount equal to the purchased price by the BUYER of those supplies incorporated into the VESSEL, together with interest as aforesaid, in which case title to such supplies incorporated into the VESSEL shall transfer to the SELLER.

Any and all refunds or payments due to the BUYER under this Contract shall be effected by telegraphic transfer to the account and bank specified by the BUYER free of bank charges, remittance fees, taxes and other applicable withholdings.

5. Discharge of Obligations:

Upon such refund by the SELLER to the BUYER, and upon compliance with the provisions of Clause 4 of this ARTICLE X, all obligations, duties and liabilities of each of the parties hereto to the other under this Contract shall be forthwith completely discharged.

(end of Article)

ARTICLE XI - DEFAULT BY THE BUYER

1. Definition of BUYER's Default:

The BUYER shall be deemed to be in default of its performance of obligations under this Contract in the following cases (hereinafter called "**BUYER's Default**");

- (a) If any of the first or second or third or fourth or fifth instalment is not paid by the BUYER to the SELLER as provided in ARTICLE II hereof; or
- (b) If the delivery instalment is not deposited to the SELLER's Bank by the BUYER to the SELLER for the delivery of the VESSEL as provided in ARTICLE II hereof; or
- (c) If the increased amount, if any, in the Contract Price as adjusted pursuant to ARTICLE V due and payable upon delivery of the VESSEL is not paid by the BUYER concurrently with the delivery of the VESSEL as provided in ARTICLE II hereof; or
- (d) If the BUYER, when the VESSEL is duly completed in conformity with the terms of this Contract and the Specifications and is tendered for delivery by the SELLER in accordance with the provisions of this Contract, fails to take delivery of the VESSEL within Five (5) days from the tendered date without any specific and valid ground therefor under this Contract.

2. Effect of BUYER's Default on or before Delivery of VESSEL:

- (a) Should the BUYER make default in payment of any instalment of the Contract Price before delivery of the VESSEL, the BUYER shall pay the instalment(s) in default plus accrued interest thereon at the rate of six percent (6%) per annum computed from the due date for payment of such instalment to the date when the SELLER receives the payment, and, for the purpose of Clause 1 of ARTICLE VII hereof the Delivery Date of the VESSEL shall be automatically extended by the period of continuance of such default by the BUYER.
- (b) If any BUYER's Default continues for a period of Twenty One (21) days, the SELLER may, at its option, rescind this Contract by giving notice to such effect to the BUYER by telex or facsimile confirmed in writing.

Upon receipt by the BUYER of such notice of rescission, this Contract shall be forthwith rescinded and terminated. In the event of such rescission of this Contract, the SELLER shall, subject to Clause 3 below, be entitled to retain any instalment or instalments already paid by the BUYER to the SELLER on account of this Contract and the BUYER's Supplies, if any.

3. Disposal of VESSEL:

- (a) In the event that this Contract is rescinded by the SELLER under the provisions of Clause 2(b) of this ARTICLE XI, the SELLER may, at its sole discretion, either complete the VESSEL and sell the same, or sell the VESSEL in its incomplete state, free of any right or claim of the BUYER. Such sale of the VESSEL by the SELLER shall be either by public auction or private contract at the SELLER's sole discretion and on such terms and conditions as the SELLER shall deem fit, provided that the SELLER shall use reasonable endeavors to obtain the best price obtainable. The SELLER shall send to the BUYER invitation to participate in any tender for the sale of the VESSEL. Such invitation shall be sent by telex or facsimile at least fifteen (15) days in advance before the closing date of the tender.
- (b) In the event of such sale of the VESSEL in its completed state, the proceeds of the sale received by the SELLER shall be applied firstly to payment of all expenses attending such sale and then to payment of all unpaid instalment(s) of the Contract Price and interest on such instalment(s) at the rate of six percent (6%) per annum from the respective due date thereof to the date of application.
- (c) In the event of sale of the VESSEL in its incomplete state, the proceeds of sale received by the SELLER shall be applied firstly to all expenses attending such sale and otherwise incurred by the SELLER as a result of the BUYER's default as provided hereinbefore, and then to payment of all costs of construction of the VESSEL less BUYER's Supplies as defined in ARTICLE XVI hereof and less the instalments so retained by the SELLER and compensation to the SELLER for a reasonable loss of profit - if any - due to the rescission of this Contract.
- (d) In either of the above events of sale, if the proceeds of sale exceed the total amounts to which such proceeds are to be applied as aforesaid, the SELLER shall promptly pay the excess to the BUYER without interest provided, however, that the amount of each payment to the BUYER shall in no event exceed the total amount of instalments already paid by the BUYER and the cost of the BUYER's supplies, if any.
- (e) If the proceeds of sale are insufficient to pay such total amounts payable as aforesaid, the BUYER shall promptly pay the deficiency to the SELLER upon request.

(end of Article)

ARTICLE XII - ARBITRATION

1. Decisions by the Classification Society:

If any dispute arises between the parties hereto in regard to the design and/or construction of the VESSEL, its machinery and equipment, and/or in respect of the materials and/or workmanship thereof and/or thereon, and/or in respect of interpretation of this Contract or the Specifications, the parties may by mutual agreement refer the dispute to the Classification Society headquarters or to such other expert as may be mutually agreed between the parties hereto, and in such case the decision of the principal surveyor or such expert, as the case may be, shall be final, conclusive and binding upon the parties hereto.

2. Proceedings of Arbitration:

In the event that the parties hereto do not agree to settle a dispute according to Clause 1 of this ARTICLE XII and/or in the event of any other dispute of any kind whatsoever between the parties and relating to, arising out of or in connection with, this Contract or its rescission or any stipulation herein, such dispute shall be submitted to and settled by arbitration in London, England in accordance with Arbitration Act 1996 c.23 (UK) as amended, and the arbitration shall be conducted in accordance with the London Maritime Arbitrators Association (LMAA) Terms current at the time when the arbitration proceedings are commenced (except as expressly provided herein). The SELLER and the BUYER shall each independently appoint one arbitrator to arbitrate the matter, and the SELLER and the BUYER shall together appoint a third arbitrator. In the event that the BUYER and SELLER cannot agree on the appointment of the third arbitrator within twenty (20) days of the appointment of the second arbitrator, the two appointed arbitrators shall be responsible for appointing the third arbitrator.

If the two arbitrators are unable to agree upon a third arbitrator within twenty (20) days, either of the said two arbitrators may apply to the President for the time being of the London Maritime Arbitrators Association to appoint the third arbitrator, and the three arbitrators shall constitute the board of arbitration.

Such arbitration shall be in accordance with and subject to the provisions of the relevant English Arbitration Act for the time being in force at the time of the action. Either party may demand arbitration of any such dispute by giving notice to the other party.

Any demand for arbitration by either of the parties hereto shall state the name of the arbitrator appointed by such party and shall also state specifically the question or questions as to which such party is demanding arbitration. Within twenty (20) days after receipt of notice of such demand for arbitration, the other party shall in turn appoint a second arbitrator and give notice in writing of such appointment to the party demanding arbitration. If a party fails to appoint an arbitrator as aforementioned within twenty (20) days following receipt of notice of demand for arbitration by the other party, the party failing to appoint an arbitrator shall be deemed to have accepted and appointed, as its own arbitrator, the arbitrator appointed by the party demanding arbitration and the arbitration shall proceed before this sole arbitrator who alone in all such events shall constitute the Arbitration Board.

The award of the sole arbitrator and/or of the majority of the three arbitrators, as the case may be, shall be final and binding on both parties. If the majority of the three arbitrators is not obtained, then the decision of the third arbitrator shall be final and binding upon the parties hereto.

3. Notice of Award:

The award shall immediately be given to the BUYER and the SELLER by telex or facsimile confirmed in writing.

4. Expenses:

The Arbitration Board shall determine which party shall bear the expenses of the arbitration or the portion of such expenses which each party shall bear.

5. Entry in Court:

In case of failure by either party to respect the award of the arbitration, judgment upon the award may be entered in any court having jurisdiction thereof.

6. Alteration of Delivery Date:

In the event of reference to arbitration of any dispute arising out of matters occurring prior to delivery of the VESSEL, the SELLER shall not be entitled to extend the Delivery Date as defined in ARTICLE VII hereof and the BUYER shall not be entitled to postpone its acceptance of the VESSEL on the Delivery Date or on such newly planned time of delivery of the VESSEL as declared by the SELLER. However, if the construction of the VESSEL is affected by any arbitration or court proceeding, the SELLER shall then be permitted to extend the Delivery Date as defined in ARTICLE VII and the decision or the award shall include a finding as to what extent the SELLER shall be permitted to extend the Delivery Date.

(end of Article)

ARTICLE XIII - ASSIGNMENT - SUCCESSOR AND ASSIGNS

This Contract with the exception of the right to make demand under the Refund Guarantee may, with the prior approval of the SELLER, which the SELLER shall not unreasonably withhold, be assigned and transferred by the BUYER to and title be taken by another company. In the event of any assignment pursuant to the terms of this Contract, the assignee, its successors and assigns shall succeed to all of the rights and obligations of the BUYER hereunder. However, the BUYER shall remain responsible for performance by the assignee, its successors, and assigns of all the BUYER's obligations, liabilities and responsibilities under this Contract. It is understood that any expenses or charges incurred by the transfer of this Contract shall be for the account of the BUYER.

Notwithstanding the above, the BUYER has the right to assign this Contract with the exception of the right to make demand under the Refund Guarantee to a bank or syndicate of banks or financial institution or any commercial corporation assisting in the finance of the VESSEL prior to delivery of the VESSEL provided that the BUYER has given the SELLER a notice of assignment in form and content acceptable to the SELLER and the BUYER, acting reasonably. The SELLER shall, at the BUYER's request, acknowledge and consent to such assignment by signing an acknowledgement and consent acceptable to the SELLER and the BUYER, acting reasonably.

The SELLER shall have the right to assign this Contract at any time after the Effective Date hereof, provided that prior written agreement is obtained from the BUYER, provided always that SELLER shall remain responsible for the due and punctual performance of this Contract by the Assignee.

(end of Article)

ARTICLE XIV - TAXES AND DUTIES

1. Taxes and Duties Incurred in China:

The SELLER shall bear and pay all taxes, duties, stamps and fees incurred in China in connection with execution and/or performance of its obligations under this Contract.

The BUYER shall bear and pay all taxes, duties, stamps and fees incurred in China in connection with execution and/or performance of its obligations under this Contract, including any taxes and duties imposed in China upon the BUYER's Supplies.

2. Taxes and Duties Incurred outside China:

The BUYER shall bear and pay all taxes, duties, stamps and fees incurred outside China in connection with execution and/or performance of its obligations under this Contract.

The SELLER shall bear and pay all taxes, duties, stamps and fees incurred outside China in connection with execution and/or performance of its obligations under this Contract, including taxes and duties imposed upon these items to be procured by the SELLER for the construction of the VESSEL.

(end of Article)

ARTICLE XV - PATENTS, TRADEMARKS, COPYRIGHTS, ETC.

1. Patents, Trademarks and Copyrights:

Machinery and equipment of the VESSEL may bear the patent number, trademarks or trade names of the manufacturers. The SELLER shall defend and hold harmless the BUYER from patent liability or claims for or on account of any patents, copyrights or design or for infringement thereof of any nature and kind, including costs and expenses for, or on account of any patented or patentable invention made or used in the performance of this Contract and also including costs and expenses of litigation, if any, in connection therewith.

Nothing contained herein shall be construed as transferring any patent or trademark rights or copyrights in equipment covered by this Contract, and all such rights are hereby expressly reserved to the true and lawful owners thereof.

The SELLER's warranty hereunder does not extend to the BUYER's Supplies.

The SELLER's obligation under this ARTICLE XV shall not be terminated by the passage of any period of time.

2. General Plans, Specifications and Working Drawings:

The SELLER retains copyright with respect to the Specifications, and plans and working drawings, technical descriptions, calculations, test results and other data, information and documents concerning the design and construction of the VESSEL and the BUYER undertakes therefore not to disclose the same or divulge any information contained therein to any third parties, without the prior written consent of the SELLER, except where it is necessary for usual operation, repair and maintenance of the VESSEL and its financing.

(end of Article)

ARTICLE XVI - BUYER'S SUPPLIES

1. Responsibility of BUYER:

- (a) The BUYER shall, at its own risk, cost and expense, supply and deliver to the SELLER all of the items to be furnished by the BUYER as specified in the Specifications (herein called the **"BUYER's Supplies"**) at a warehouse or other storage facility of the Shipyard in the proper condition ready for installation in or on the VESSEL, in accordance with the time schedule designated and advised to the BUYER by the SELLER.
- (b) In order to facilitate installation by the SELLER of the BUYER's Supplies in or on the VESSEL, the BUYER shall furnish the SELLER with necessary specifications, plans, drawings, instruction books, manuals, test reports and certificates required by the rules and regulations of the Specifications. If so requested by the SELLER, the BUYER shall, without any charge to the SELLER, cause the representatives of the manufacturers of the BUYER's Supplies to assist the SELLER in installation thereof in or on the VESSEL and/or to carry out installation thereof by themselves or to make necessary adjustments at the Shipyard.
- (c) Any and all of the BUYER's Supplies shall be subject to the SELLER's reasonable right of rejection, as and if they are found to be unsuitable or in improper condition for installation. However, if so requested by the BUYER, the SELLER may repair or adjust the BUYER's Supplies without prejudice to the SELLER's other rights hereunder and without being responsible for any consequences arising therefrom.
- (d) Should the BUYER fail to deliver any of the BUYER's Supplies within the time designated by one (1) month prior notice to the BUYER by the SELLER, the Delivery Date shall be extended for a period which actually caused the delay in the delivery of the VESSEL.
- (e) If delay in delivery of any of the BUYER's Supplies exceeds twenty (20) days, then the SELLER shall be entitled to proceed with construction of the VESSEL without installation thereof in or on the VESSEL as hereinabove provided, and the BUYER shall accept and take delivery of the VESSEL so constructed, unless such delay is caused by any of the events referred to in ARTICLE VIII in which case the provision of Clause 1(d) of this ARTICLE XVI shall apply.
- (f) The SELLER shall not be liable under ARTICLE IX for any defects in the BUYER's Supplies (if any) but the SELLER shall be liable under ARTICLE IX for any Defect(s) in respect of installation of the BUYER's Supplies and their adaptation to the VESSEL.

2. Responsibility of SELLER:

The SELLER shall be responsible for storing, safekeeping and handling with reasonable care of the BUYER's Supplies after delivery thereof at the Shipyard, and shall, at its own cost and expense, install them in or on the VESSEL, unless otherwise provided herein or agreed by the parties hereto, provided, always, that the SELLER shall not be responsible for quality, efficiency and/or performance of any of the BUYER's Supplies.

However, if any BUYER's Supplies are lost or damaged after acceptance by the SELLER without rejection while in the custody of the SELLER, the SELLER shall be responsible for such loss or damage and shall either replace the items or reimburse the BUYER accordingly. The SELLER shall further be responsible for wrongful or negligent installation of the BUYER's Supplies in the course of their installation by the SELLER.

(end of Article)

ARTICLE XVII - INSURANCE

1. Extent of Insurance Coverage:

From the time of keel laying until delivery of the VESSEL, the SELLER shall, at its own cost and expense, insure the VESSEL and all machinery and equipment, appurtenances and outfits delivered to the Shipyard or other building facility utilized by the SELLER, including the BUYER's Supplies when at a warehouse or other storage facility of the SELLER or built into or installed in or upon the VESSEL, against all risks under the Builder's Risks Insurance Clause on terms and conditions not less than the current British Institute Time Clauses and British War Clauses Builder's Risks, with first class insurance company or underwriters in China recognized in the international insurance market. The amount of such insurance coverage shall not be less than the aggregate amount of all instalments paid by the BUYER to the SELLER. The policy referred to hereinabove shall be taken out in the name of the SELLER and all losses under such policy shall be payable to the SELLER.

2. Application of the Recovered Amounts:

In the event that the VESSEL shall be damaged from any cause at any time before delivery of the VESSEL, and in the further event that such damage shall not constitute an actual or constructive total loss of the VESSEL, the amount received from insurance in respect of the VESSEL shall be applied by the SELLER in repair of such damage, satisfactory to the Classification Society requirements and in conformity with the terms of this Contract and the Specifications, and the BUYER shall accept the VESSEL under this Contract if completed in accordance with this Contract and the Specifications and so certified by the Classification Surveyor.

Should the VESSEL from any cause become an actual or constructive total loss:

- (a) the SELLER and the BUYER may mutually agree to build another VESSEL in place of the VESSEL so lost or reconstruct the VESSEL's damage and proceed in accordance with the terms of this Contract, in which case the amount received from insurance in respect of the VESSEL shall be applied to the construction of a new VESSEL or reconstruction of the VESSEL, provided the parties hereto shall have first agreed thereto in writing and to such reasonable extension of delivery time as may be necessary for the completion of such construction or reconstruction.

If the parties fail to reach agreement pursuant to Clause 2(a) above within forty-five (45) days after the VESSEL is determined to be an actual or constructive total loss, the provisions of Clause 2(b) shall apply.

- (b) The SELLER shall refund promptly to the BUYER the full amount of all sums paid by the BUYER to the SELLER as instalments in advance of delivery of the VESSEL together with interest thereon at the rate of six percent (6%) per annum, and promptly deliver to the BUYER all BUYER's Supplies (or the insurance proceeds paid with respect thereto), in which case this Contract shall be deemed to be automatically rescinded and all rights, duties, liabilities and obligations of each of the parties to the other shall forthwith cease and terminate.

If the SELLER fails to refund within fifteen (15) Banking Days, the full amount of all sums required to be paid by the SELLER to the BUYER in accordance with this Clause (b), the BUYER shall be entitled to rescind this Contract.

Payment of refunds pursuant to this Clause shall be effected by telegraphic transfer to the account and bank specified by the BUYER free of bank charges, remittance fees, taxes and any other applicable withholdings.

3. Termination of SELLER's Obligation to Insure:

The SELLER shall be under no obligation to insure the VESSEL hereunder after her delivery to, and her acceptance by, the BUYER.

(end of Article)

ARTICLE XVIII - NOTICES

1. Address:

Any and all notices, invoices, requests, demands, instructions, advices, and communications (collectively “**Notices**”) in connection with this Contract shall be addressed as follows:

To the BUYER:

For the commercial:

Seaspan Corporation
Room 503
5/F, Lucky Commercial Center
103 Des Voeux Road West
Hong Kong, China
Facsimile: (852) 2540-1689
Attention: Gerry Wang, Director

For the technical:

Seaspan Ship Management Ltd.
2600 – 200 Granville Street
Vancouver, British Columbia
V6C 1S4
Canada
Facsimile: 1-604-638-2595
Attention: Peter Curtis / Peter Jackson

To the SELLER:

Jiangsu Yangzijiang Shipbuilding Co., Ltd.
Emeizui, Huangshan Jiangyin City
Jiangsu Province, PRC
Facsimile: 0086-510-86856631
Attention: Wang Dong / Shen Qiang

Guangdong Machinery Imp. & Exp. Co., Ltd.
726 Dong Feng Road East, Guangzhou
Guangdon Province, PRC
Facsimile: 0086-20-87301829
Attention: Chen Hui / Liu Zhi Ke

2. Language:

All Notices shall be written in the English language.

3. Effective Date of Notice:

Any Notice shall become effective from the date when such Notice is received by the BUYER or by the SELLER except as otherwise described in the Contract.

Notices shall be deemed to be received by the addressee when delivered (in case of personal delivery), within 7 (seven) days of dispatch (if sent by registered airmail postage prepaid) and when dispatched (in case of telex or fax) as proven by answer back call sign or transmission report. Any such Notice received on a non-working day or after business hours in the place of receipt shall be deemed to be received on the next following working day in such place.

4. Change of Address:

Each of the parties hereto shall be entitled to give the other party notice, in writing, of any change in any of the addresses relating to the party giving such notice and Clause 1 of this ARTICLE XVIII shall be deemed modified by and in accordance with every such notice of change.

(end of Article)

ARTICLE XIX - EFFECTIVE DATE OF CONTRACT

This Contract shall become effective on the date of fulfillment or waiver by the BUYER of all the following conditions (the “**Effective Date**”):

- (a) Due signing of this Contract and the Specifications; and
- (b) Approval of this Contract by the board of directors of the BUYER.

If, due to any reason whatsoever, any of the above conditions fails to be fulfilled by March 30, 2006, then this Contract shall be made forthwith null and void, having no effect whatsoever. No party shall be liable to the other for any loss or damage (if any).

(end of Article)

ARTICLE XX - INTERPRETATION

1. Laws Applicable:

The parties hereto agree that the validity and interpretation of this Contract and of each Article and part thereof shall be governed by and be construed and interpreted in accordance with the laws of England.

2. Joint and Several Liability:

For the purpose of this Contract, the Builder and Trading House are agents for each other in relation to the BUYER so that any notice, message, payment or consent duly given to or by any of them shall be deemed to have been duly given also to or by the other whenever applicable, and that they are jointly and severally liable under this Contract in relation to the BUYER.

3. Entire Agreement:

This Contract contains the entire agreement and understanding between the parties hereto and supersedes all prior negotiations, representations, undertakings and agreement on any subject matter of this Contract.

This Contract and the subject matter thereof shall not be subject to any general Terms and Conditions of the SELLER or any other terms and conditions normally or at any time put forward by the SELLER with reference to any order from or work undertaken by the SELLER and all such General Terms and Conditions and other terms and conditions are hereby explicitly and expressly excluded from this Contract, shall form no part thereof and shall have no force and effect.

4. Amendments and Supplements:

Any supplement, memorandum of understanding or amendment, whatsoever form it may be relating to this Contract, to be made and signed among parties hereof after signing this Contract, shall be predominant over the respective corresponding Article and/or Clause of this Contract, unless otherwise expressly stipulated.

5. Banking Day:

A Banking Day under this Contract is defined as a day on which the banks are open in China, Hong Kong and New York.

6. No Set Off, Deduction or Counter-claim:

All moneys refundable or payable to the BUYER under or pursuant to this Contract shall be paid to the BUYER without set-off or deduction or counter-claim and all moneys payable to the SELLER pursuant to this Contract shall be paid to the SELLER without set off or deduction or counter-claim.

7. Deemed Benefit for Servants, etc.:

Any exemptions from liability and any undertaking to hold harmless which have been stipulated in this Contract to the benefit of either of the parties hereto shall be deemed to have been stipulated also to the benefit of the servants, sub-contractors, vendors and suppliers of such party and of the servants of the said sub-contractors, vendors and suppliers.

8. Responsibility:

Notwithstanding any other term of this Contract or the Specifications, the SELLER shall be fully responsible for the due, proper, accurate, diligent and punctual designing, building, equipping, launching, outfitting and completing of the VESSEL and for the quality of the materials employed and work done and for the delivery in due time of the VESSEL to the BUYER as herein provided, and the BUYER shall have and bear no responsibility whatsoever in respect thereof or in connection therewith as stipulated in the Contract and the Specifications.

9. Time of the Essence:

Time shall be of the essence hereof.

10. Headings:

The descriptive headings of Articles and Clauses herein are for the convenience of reference only and are not to be used in construing or interpreting this Contract.

IN WITNESS WHEREOF, the parties hereto have caused this Contract to be duly executed on the day and year first above written.

BUYER

SEASPAN CORPORATION

Signature:

GERRY WANG

Name: Gerry Wang

Title: Chief Executive Officer

SELLER

JIANGSU YANGZIJANG SHIPBUILDING CO., LTD.

Signature:

YUANLIN REU

Name: Yuanlin Reu

Title: President & General Manager

and:

GUANGDONG MACHINERY IMP.

& EXP. CO., LTD.

Signature:

MING YI ZHU

Name: Ming Yi Zhu

Title: Chairman & President

SHIP BUILDING CONTRACT
(Contract Number: 2006YZJ024CA)
FOR
CONSTRUCTION OF ONE 2500 TEU CONTAINER VESSEL
(HULL No. YZJ2006-718C)
Between
SEASPAN CORPORATION
as Buyer
and
JIANGSU YANGZIJIAN SHIPBUILDING CO., LTD.
as Seller

TABLE OF CONTENTS

ARTICLE I - DESCRIPTION AND CLASS	2
1. Description:	2
2. Principal Dimensions and Characteristics:	2
3. Classification, Rules and Regulations:	3
4. Registration:	4
5. Contract Specifications and Approved Drawings:	4
6. Subcontracting and New Shipyard:	4
ARTICLE II - CONTRACT PRICE AND TERMS OF PAYMENT	5
1. Contract Price:	5
2. Adjustment of Contract Price:	5
3. Currency:	5
4. Terms of Payment:	6
(a) First Instalment:	6
(b) Second Instalment:	6
(c) Third Instalment:	6
(d) Fourth Instalment:	6
(e) Fifth Instalment:	6
(f) Sixth Instalment (the “ Delivery Instalment ”):	7
5. Method of Payment:	7
6. Expenses:	8
7. Advance Payment:	8
8. Refundment Guarantee:	8
ARTICLE III - ADJUSTMENT OF CONTRACT PRICE	10
1. Delivery:	10
2. Speed:	11
3. Fuel Consumption:	11
4. Deadweight:	11
5. Container capacity:	12
6. Reductions to be Independent of Each Other:	12
7. Application of Adjustment:	13
8. Effect of Rescission:	13
ARTICLE IV - APPROVAL OF PLANS AND DRAWINGS AND INSPECTION DURING CONSTRUCTION	14
1. Approval of Plans and Drawings:	14
2. Appointment of BUYER’s Representatives:	14
3. Inspection by BUYER’s Representatives:	15
4. Rights of the Representatives:	15
5. Facilities:	17
6. Liability for the Representatives:	17
7. Salaries and Costs:	17
8. SELLER’s Obligation:	17
9. Replacement of the Representatives:	18
10. Responsibility of BUYER:	18
11. Information to Representatives:	18
ARTICLE V - MODIFICATIONS, CHANGES AND EXTRAS	19
1. How Effected:	19
2. Changes in Rules of Classification Society, Regulations, etc.:	19
3. Substitution of Materials:	20

ARTICLE VI - TRIALS AND ACCEPTANCE	21
1. Notice:	21
2. Weather Condition:	21
3. How Conducted:	21
4. Method of Acceptance or Rejection:	22
5. Effect of Acceptance:	23
6. Disposition of Surplus Consumable Stores:	23
ARTICLE VII - DELIVERY	24
1. Time and Place:	24
2. When and How Effected:	24
3. Documents to be delivered to BUYER:	24
4. Tender of VESSEL:	25
5. Title and Risk:	25
6. Removal of VESSEL:	26
7. Notices:	26
ARTICLE VIII - DELAYS AND EXTENSION OF TIME FOR DELIVERY (FORCE MAJEURE)	27
1. Causes of Delay (Force Majeure):	27
2. Notice of Delay:	27
3. Definition of Permissible Delay:	28
4. Right to Rescind for Excessive Delay:	28
ARTICLE IX - WARRANTY OF QUALITY	29
1. Guarantee:	29
2. Guarantee from Manufacturers and Suppliers:	29
3. Notice of Defects:	29
4. Extent of SELLER's Obligation:	29
5. Remedy of Defects:	30
6. Guarantee Period:	31
7. Application to Defects Remedied:	32
8. SELLER to Remain Liable:	32
9. Guarantee Engineer:	32
ARTICLE X - SELLER's DEFAULT - RESCISSION BY BUYER	34
1. SELLER's Default:	34
2. Effect of SELLER's Default:	35
3. Notice:	35
4. Refundment by SELLER:	35
5. Discharge of Obligations:	36
ARTICLE XI - DEFAULT BY THE BUYER	37
1. Definition of BUYER's Default:	37
2. Effect of BUYER's Default on or before Delivery of VESSEL:	37
3. Disposal of VESSEL:	38
ARTICLE XII - ARBITRATION	39
1. Decisions by the Classification Society:	39
2. Proceedings of Arbitration:	39
3. Notice of Award:	40
4. Expenses:	40
5. Entry in Court:	40
6. Alteration of Delivery Date:	40
ARTICLE XIII - ASSIGNMENT - SUCCESSOR AND ASSIGNS	41

ARTICLE XIV - TAXES AND DUTIES	42
1. Taxes and Duties Incurred in China:	42
2. Taxes and Duties Incurred outside China:	42
ARTICLE XV - PATENTS, TRADEMARKS, COPYRIGHTS, ETC.	43
1. Patents, Trademarks and Copyrights:	43
2. General Plans, Specifications and Working Drawings:	43
ARTICLE XVI - BUYER'S SUPPLIES	44
1. Responsibility of BUYER:	44
2. Responsibility of SELLER:	44
ARTICLE XVII - INSURANCE	46
1. Extent of Insurance Coverage:	46
2. Application of the Recovered Amounts:	46
3. Termination of SELLER's Obligation to Insure:	47
ARTICLE XVIII - NOTICES	48
1. Address:	48
2. Language:	48
3. Effective Date of Notice:	48
4. Change of Address:	49
ARTICLE XIX - EFFECTIVE DATE OF CONTRACT	50
ARTICLE XX - INTERPRETATION	51
1. Laws Applicable:	51
2. Entire Agreement:	51
3. Amendments and Supplements:	51
4. Banking Day:	51
5. No Set Off, Deduction or Counter-claim:	51
6. Deemed Benefit for Servants, etc.:	52
7. Responsibility:	52
8. Time of the Essence:	52
9. Headings:	53

THIS CONTRACT, made and entered into on this 28th day of February, 2006, by and between:

Seaspan Corporation, a corporation incorporated and existing under the laws of the Republic of the Marshall Islands, having a place of business at Room 503, 5/F, Lucky Commercial Center, 103 Des Voeux Road West, Hong Kong, China (hereinafter referred to as the “**BUYER**”), of the one part;

and

Jiangsu Yangzijiang Shipbuilding Co., Ltd. (the “**Builder**”), a company organized and existing under the laws of China with a registered office at Emeizui Huangshan, Jiangyin City, Jiangsu Province, 214431, The People’s Republic of China (hereinafter referred to as the “**SELLER**”), of the other part.

WITNESSETH:

In consideration of the mutual covenants herein contained, the SELLER agrees to design, build, launch, equip and complete in accordance with first class shipbuilding practice in China, this Contract, the Specifications, the Approved Drawings and the Classification Society Rules, in all respects, one (1) Ocean Going Single Screw diesel engine driven fully Cellular Container Vessel as described herein and in the Specifications referred to herein (hereinafter called the “**VESSEL**” which term shall, where it appears, include its design, drawings, plans machinery, engines, equipment, fittings, outfitings, appurtenances, furniture, materials, parts, spares, articles and things whatsoever specified or required by the Specifications and/or otherwise under this Contract), at the SELLER’s shipyard located in Emeizui Huangshan, Jiangyin City, Jiangsu Province, People’s Republic of China (hereinafter called the “**Shipyard**”) and to deliver and sell the same to the BUYER free and clear of all liens, charges, mortgages and encumbrances, and the BUYER hereby agrees to purchase and accept delivery of the VESSEL from the SELLER and to pay for the same upon the terms and conditions hereinafter set forth.

ARTICLE I - DESCRIPTION AND CLASS

1. Description:

The VESSEL shall be a Single Screw Cellular Container VESSEL having the Builder's Hull No.YZJ2006-718C and shall be designed, constructed, equipped, inspected, tested, ready for sea and suitable in all respects for its intended use, in accordance with the provisions of this Contract, the Specifications, the Approved Drawings and the Classification Society Rules (each as hereinafter defined). The Approved Drawings and the Classification Society Rules shall constitute an integral part hereof. A reference hereafter in this Contract to Specifications shall be deemed to include the Approved Drawings and the Classification Society Rules. The SELLER undertakes that the quality of the design, construction, testing and trials of the VESSEL and the quality of the VESSEL and of her workmanship shall be in accordance with the first class shipbuilding practice in China.

2. Principal Dimensions and Characteristics:

- (a) The SELLER guarantees that the VESSEL will have the following:

Length, overall	app. 208.50 m
Length, between perpendiculars	196.50 m
Breadth, moulded	29.80 m
Depth, moulded	16.40 m
Designed draught, moulded	10.10 m
Scantling draught, moulded	11.50 m
Main Engine	MAN B&W 6K80MC-C (with alpha lubricator)
MCR x RPM	21660 KW at 104 RPM
CSR (90% MCR)	19494 KW at 100.4 RPM

- (b) The SELLER guarantees that the VESSEL shall have the following capacity of ISO standard 20' x 8' x 8' 6" Containers (the "**Guaranteed Container Capacity**"), compliant with IMO visibility requirements, namely:

Nominal capacity

Under deck -	984 TEU
On deck -	<u>1562</u> TEU (in 8 tiers)
Total -	2546 TEU

Homogenous capacity (14 ton per TEU): 1900 TEU

- (c) The SELLER guarantees that the VESSEL shall have a deadweight of not less than 33,800 metric tons on scantling draught as calculated in accordance with the provisions of the Specifications (hereinafter called the "**Guaranteed Deadweight**"). The actual deadweight of the VESSEL expressed in tonnes of 1,000 kilograms shall be determined in the presence of the Representatives of the BUYER, the Classification Society and the SELLER on the basis of the actual measurement of the lightweight of the completed

VESSEL, and thereafter a certificate of deadweight shall be issued by the SELLER. The cost, if any, shall be for the account of the SELLER.

- (d) The SELLER guarantees that the speed of the VESSEL, based on calculations from sea trial as stipulated and on the conditions prescribed in the Specifications, shall be twenty two (22) knots, at design draught of 10.10 metres and at CSR (90% MCR) of main engine (hereinafter called the **"Guaranteed Speed"**).
- (e) The SELLER guarantees that fuel consumption for the main engine, the figure of which shall be calculated by applying I.S.O. reference condition to the result obtained at the shop trial, shall not exceed 171 g/KWh at a normal continuous output as stipulated and on the conditions prescribed in the Specifications (hereinafter called the **"Guaranteed Fuel Consumption"**).

The details of the aforementioned particulars as well as the definitions and method of measurements and calculations are as indicated in the Specifications.

3. Classification, Rules and Regulations:

The VESSEL shall be designed, constructed, equipped, inspected, tested and completed in accordance with the rules and regulations of and under special survey of Lloyds Register of Shipping (hereinafter called the **"Classification Society"**), the editions and amendments in force as of the date of this Contract (the **"Classification Society Rules"**, and wherever the term "Classification Society Rules" is used in this Contract, it means the rules of the Classification Society as stipulated in the Contract and the Specifications).

The VESSEL shall be distinguished in the register by the symbol of ✱100A1 Containership *IWS, LI, ShipRight (SDA, CM) ✱LMC, UMS NAV1, SCM, with descriptive notes "ShipRight BWMP(F). Pt. Ht." Details of Class notation shall be in accordance with the Specifications.

Decisions of the Classification Society as to compliance or non-compliance with the classification rules and regulations shall be final and binding upon both parties hereto, except where this Contract provides for Arbitration.

The VESSEL shall comply with rules, regulations, recommendations and requirements of the authorities as described and listed in the Specifications in force as of the date of the Contract signing, together with all mandatory rules and regulations with amendment, which have already been ratified up to the contract signing date and to come into effect prior to the scheduled delivery date of the VESSEL.

The SELLER shall arrange with the Classification Society for the assignment by the Classification Society of a representative (hereinafter referred to as the **"Classification Surveyor"**) to the VESSEL during all stages of construction. All materials, workmanship and major plans used in the construction of the VESSEL shall be subject to inspection and test by the Classification Society in accordance with the rules and regulations of the Classification Society. All fees and charges in connection with or incidental to the classification of the VESSEL, to all certificates required under this Contract and the Specifications, and to compliance with the above specified rules, regulations and requirements, shall be for the account of the SELLER.

No omission of the Classification Society and/or Classification Surveyor shall, in any way, diminish or impair the obligations and liabilities of the SELLER under the terms of this Contract.

4. Registration:

The VESSEL, at the time of her delivery and acceptance, shall be designed and constructed to qualify for registration at the port of registry by the BUYER under the Hong Kong flag. The costs of registration of the VESSEL in Hong Kong are for the BUYER's expense. The SELLER shall obtain and deliver to the BUYER at delivery and acceptance the Certificates required pursuant to the Specifications.

5. Contract Specifications and Approved Drawings:

(a) Definition

In this Contract, "**Specifications**" means the full specifications with reference no. M2004M-4034-01A, General Arrangement Drawing reference no. Q84.4197.100.002, Midship Section reference no. Q84.4197.110.001 and Makers List reference no. M2004M-4034-02A signed by each of the parties for identification and constituting an integral part hereof. In this contract "**Approved Drawings**" means the drawings and plans approved by the BUYER pursuant to ARTICLE IV, Clause 1. Subject to provisions of Sub-clause (b) hereunder, the Specifications and the Approved Drawings are intended to complement this Contract as well as one another and everything contained in the Specifications and/or the Approved Drawings shall have full force and effect as if incorporated within the body of this Contract.

The parties acknowledge that the design and configuration of the VESSEL is based on the design and configuration for Hull No. YZJ2004-680C, subject to the Specifications, the drawings approved pursuant to ARTICLE IV and this Contract.

(b) Precedence

Should there be any inconsistency or discrepancy between this Contract and the Specifications or between this Contract and the Approved Drawings, this Contract shall prevail. Should there be any inconsistency or discrepancy between the Specifications and the Approved Drawings, the Specifications shall prevail.

6. Subcontracting and New Shipyard:

The SELLER may, with prior written notice to and consent from the BUYER, subcontract construction of the blocks of the VESSEL, except the major hull structure parts, to experienced subcontractors within Jiangsu Province area, but delivery and final assembly into the VESSEL of any such work subcontracted shall be at the yard of the SELLER. The BUYER acknowledges that the Builder is affiliated with the shipyard located at Jingjiang, Jiangsu Province (the "**New Shipyard**") and the SELLER may use the New Shipyard for construction of the VESSEL. The SELLER shall always remain fully responsible for the performance of this Contract with regard to the work done or materials supplied or used by such Subcontractors or the New Shipyard in accordance with this Contract. The subcontractors and the New Shipyard shall perform up to the same standard as the SELLER for such work performed by them.

(end of Article)

ARTICLE II - CONTRACT PRICE AND TERMS OF PAYMENT

1. Contract Price:

The agreed purchase price of the VESSEL is forty-one million two hundred and fifty thousand United States Dollars (US\$41,250,000), net receivable by the SELLER (hereinafter called the “**Contract Price**”).

The Contract Price shall be subject to upward or downward adjustment, if any, as herein after set forth in this Contract. The Contract Price includes payment for services in the design, inspection, tests, trials, survey and classification of the VESSEL which shall be rendered by the Classification Society and all costs and expenses for supplying all drawings and plans (except those to be furnished by the BUYER in respect of the BUYER's Supplies) and designs, machinery, engines, equipment, fittings, outfittings, appurtenances, furniture, materials, parts, spares, articles and things whatsoever and specified or required by the Specifications and/or otherwise under this Contract for the VESSEL and all other items and acts necessary for the due and punctual performance of the SELLER's obligations under or pursuant to this Contract.

The Contract Price does not include the cost of items to be supplied by the BUYER as stipulated in Clause 1 of ARTICLE XVI of this Contract.

2. Adjustment of Contract Price:

Any increase or decrease of the Contract Price due to adjustments made in accordance with the provisions of this Contract shall be adjusted by way of addition to or subtraction from the Delivery Instalment of the Contract Price upon delivery of the VESSEL in the manner as hereinafter provided.

No later than five (5) Banking Days prior to the scheduled date for the acceptance of delivery of the VESSEL, the parties hereto shall conclude an agreement on all adjustments of the Contract Price, if any. If the parties cannot agree on the adjustments specified in ARTICLE III, delivery of the VESSEL shall take place as provided herein and:

- (a) the adjustments to which the parties have agreed will be made to the Delivery Instalment; and
- (b) the adjustments or portion thereof that have not yet been agreed shall be determined by arbitration pursuant to ARTICLE XII herein.

Notwithstanding the foregoing, adjustment in connection with the delay in delivery of the VESSEL shall be made on delivery to the Delivery Instalment.

3. Currency:

Any and all payments which are due under this Contract or to be refunded under the terms thereof shall be made in United States Dollars.

4. Terms of Payment:

Subject to ARTICLE II, Clause 8, the Contract Price shall be due and payable by the BUYER to the SELLER in five instalments as follows:

(a) First Instalment:

The first instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid by the BUYER within five (5) Banking Days of the Effective Date (as defined by ARTICLE XIX).

(b) Second Instalment:

The second instalment amounting to US\$4,125,000 representing ten (10%) of the Contract Price shall be due and payable and shall be paid on the first Banking Day that is twelve (12) months after the date of this Contract.

(c) Third Instalment:

The third instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of the notice of cutting of the first steel plate of the VESSEL in the SELLER's workshop has occurred .

The SELLER shall give a fax or letter notice to the BUYER stating that the first steel plate has been cut in its workshop and demand for payment of this instalment. Such notice shall include a Builder's certificate of steel cutting, which shall be endorsed by the Classification Surveyor.

(d) Fourth Instalment:

The fourth instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of notice of keel-laying of the first section of the VESSEL.

The SELLER shall give a fax or letter notice to the BUYER stating that the first section has been carried out and demand for payment of this instalment. Such notice shall include a Builder's certificate of keel-laying, which shall be endorsed by the Classification Surveyor.

(e) Fifth Instalment:

The fifth instalment amounting to US\$4,125,000 representing ten percent (10%) of the Contract Price shall be due and payable and shall be paid within seven (7) Banking Days of receipt of notice of launching of the VESSEL.

The SELLER shall give a fax or letter notice to the BUYER stating that the launching has been carried out and demand for payment of this instalment. Such notice shall include a Builder's certificate of launching which shall be endorsed by the surveyor of the Classification Society.

(f) Sixth Instalment (the “**Delivery Instalment**”):

The sixth instalment amounting to US\$20,625,000 representing fifty percent (50%) of the Contract Price, plus any increase or minus any decrease due to adjustment of the Contract Price under the provisions of this Contract shall be due and payable and shall be paid simultaneously with the delivery to and acceptance of the VESSEL by the BUYER and upon the signing of the Protocol of Delivery and Acceptance by both parties.

5. Method of Payment:

All the pre-delivery payments and the payment due on delivery in settlement of the Contract Price as provided for in Clause 4 of this ARTICLE II shall be made in United States Dollars on or before the due date thereof by telegraphic transfer as follows:

(a) Payment of the instalments prior to the Delivery Instalment

Payment of the first, second, third, fourth and fifth instalments shall be made by remitting the respective amounts, at the BUYER’s own cost and expense, to the receiving bank nominated by the SELLER and advised to the BUYER not less than ten (10) days prior to the date of the relevant instalment, for credit to the account of the SELLER with SELLER’S Bank, or through other receiving bank to be nominated by the SELLER from time to time, and such nomination shall be notified to the BUYER at least ten (10) days prior to the due date for payment (herein referred to as the “**SELLER’S Bank**”).

(b) Payment of the Delivery Instalment

The BUYER shall, at least three (3) business days prior to the actual date of delivery of the VESSEL, request BUYER’s bank to make an irrevocable cash deposit in an account in the name of BUYER’s bank with the SELLER’s Bank, the People’s Republic of China, for a period of fifteen (15) days and covering the amount of this instalment (as adjusted in accordance with the provisions of this Contract), with an irrevocable instruction that the said amount shall be released to the SELLER against presentation by the SELLER to the said SELLER’s Bank of a copy of the Protocol of Delivery and Acceptance signed by the BUYER’s authorized representative and the SELLER. Interest, if any, accrued from such deposit, shall be for the benefit of the BUYER.

If the SELLER has not presented the said original of the Protocol of Delivery and Acceptance duly signed by the SELLER and BUYER to the SELLER’s Bank on or before the expiry of the aforesaid fifteen (15) day deposit period, the BUYER shall have the right to withdraw the said deposit plus accrued interest upon the expiry of such fifteen (15) day period. However, if a new delivery date is agreed between the BUYER and the SELLER, the BUYER shall make the cash deposit in accordance with the same terms and conditions as set out above.

The SELLER’s Bank will be Bank of China Ltd. (Guangdong Branch), Bank of China Ltd. (Jiangyin Branch), the Export-Import Bank of China or such other bank to which the SELLER and BUYER may agree.

For the avoidance of doubt any interest earned on the cash deposit before delivery and acceptance of the VESSEL shall belong to the BUYER and the BUYER shall be entitled to instruct the Bank accordingly.

If or when the SELLER advises the BUYER of a revised scheduled delivery date in accordance with this Contract, the BUYER shall redeposit the Delivery Instalment in the same manner as stated above at least one business day prior to such revised scheduled delivery date or if not possible upon notice.

Simultaneously with each of such payments, the BUYER shall advise the SELLER of the details of such payments by telex, fax or cable.

If any of the above payment dates is not a Banking Day then the payment(s) so due on such non-Banking Day shall be understood to be payable on the next Banking Day after the date on which payment should have been made in accordance with this Clause 5.

In the event of default in the payment of any instalment in Clause (a) or (b) of this Clause 5, the BUYER shall pay default interest, charges and expenses in accordance with Clause 2 (a) of ARTICLE XI hereof.

6. Expenses:

All charges, expenses and bank charges outside of China for remitting payments and any taxes, duties, expenses and fees outside of China connected with such payment shall be for the account of the BUYER. All charges, expenses and bank charges and any taxes, duties, expenses and fees arising inside China for remitting payment shall be for the account of SELLER.

7. Advance Payment:

The payment of the Contract Price by way of the instalments set out in Clause 4 of this ARTICLE II shall be in the nature of advance(s) and shall be subject to refund to the BUYER in accordance with the provisions of this Contract.

8. Refundment Guarantee:

As security for the refund of instalments paid by the BUYER to the SELLER prior to delivery of the VESSEL, including interest thereon as set out in ARTICLE X herein, the SELLER will provide the BUYER with an Irrevocable Letter of Refundment Guarantee (the “**Refundment Guarantee**”) in favour of the BUYER issued by the SELLER’S Bank (hereinafter called the “**Refundment Guarantor**”) for each instalment of the Contract Price. Each Refundment Guarantee will cover the amount of the relevant instalment, together with interest thereon as set out in ARTICLE X herein, and the receipt of the Refundment Guarantee by the BUYER is a pre-condition to payment by the BUYER of the relevant instalment.

Alternatively, the SELLER may provide the BUYER with one Refundment Guarantee issued by the Refundment Guarantor that covers the aggregate amount of 1st, 2nd, 3rd, 4th and 5th instalments together with interest thereon as set out in ARTICLE X herein. This form of Refundment Guarantee would remain a pre-condition to the payment by the BUYER of the first instalment.

The Refund Guarantee or Guarantees, as the case may be, will become effective upon receipt of the relevant instalment to which the Refund Guarantee relates by the SELLER and must remain in effect until the earlier of: (1) the VESSEL is delivered to and accepted by the BUYER; (2) a refund of the full amount covered by the Refund Guarantee has been made by the SELLER or the Refund Guarantor; and (3) 180 days after the Delivery Date. The BUYER will not be required to make any further instalment to the SELLER if at any time a Refund Guarantee or Guarantees which was in effect ceases to be in effect.

The Refundment Guarantee or Guarantees, as the case may be, shall be substantially in the form of Exhibit "A" attached hereto. If the condition in Article XIX (b) is satisfied, the SELLER will have sixty (60) days from the condition satisfaction date to provide to the BUYER a Refundment Guarantee with respect to the first instalment substantially in the form attached as Exhibit "A" hereto and approved by the Refund Guarantor and the BUYER'S bank. Prior to delivery to the BUYER, the Refundment Guarantee or Guarantees, as the case may be, must be registered with or approved by (only if registration or approval is required) the relevant government agencies pursuant to any legislation in the People's Republic of China applicable to the provision of such instruments, including The State Administration of Foreign Exchange.

However, in the event of any dispute between the SELLER and the BUYER with regard to the SELLER's obligation to repay the instalment or instalments paid by the BUYER and to the BUYER's right to demand payment from the Refundment Guarantor, under its guarantee, and such dispute is submitted either by the SELLER or by the BUYER for arbitration in accordance with ARTICLE XII hereof, the Refundment Guarantor shall withhold and defer payment until the arbitration award between the SELLER and the BUYER is published. The Refundment Guarantor shall not be obliged to make any payment unless the arbitration award orders the SELLER to make repayment. If the SELLER fails to honour the award within 10 days of notice, then the Refundment Guarantor shall make payment to the BUYER under the Refundment Guarantee.

All expenses in issuing and maintaining the Refundment Guarantee or Refundment Guarantees, as the case may be, by the Refund Guarantor shall be borne by the SELLER.

(end of Article)

ARTICLE III - ADJUSTMENT OF CONTRACT PRICE

The Contract Price shall be subject to adjustment, as hereinafter set forth, in the event of any of the following contingencies (it being agreed and understood by both parties that any reduction of the Contract Price under this ARTICLE III is by way of liquidated damages and not by way of penalty).

1. Delivery:

- (a) No adjustment shall be made and the Contract Price shall remain unchanged for the first thirty (30) days of delay in delivery of the VESSEL beyond the Delivery Date as defined in ARTICLE VII hereof (ending as of 11:59 p.m. in China of the 30th day of delay).
- (b) If the delivery of the VESSEL is delayed by more than thirty (30) days after the Delivery Date, then, in such event, beginning at twelve o'clock midnight in China of the 30th day after the Delivery Date, the Contract Price shall be reduced by deduction therefrom as follows: from the 31st day to 60th day - US\$15,000 per day and from the 61st day to the 150th day - US\$23,500 per day. In any event (including the event that the BUYER consents to take the VESSEL at the later delivery date after the expiration of one hundred and fifty (150) days delay of delivery as described in Clause 1(c) of this ARTICLE III or in Clause 4 of ARTICLE VIII) the total reduction in the Contract Price shall not exceed the amount due to cover the delay of 120 days after the first 30 days hereinabove referred to for the delay in delivery of the VESSEL at the rate of reduction as specified above.
- (c) However, if the delay in delivery of the VESSEL should continue for a period of one hundred and fifty days from the Delivery Date, then in such event, and after such period has expired, the BUYER may, at its option, rescind this Contract in accordance with the provisions of ARTICLE X hereof and reject the VESSEL.

The SELLER may, at any time after the expiration of the aforementioned one hundred and fifty days of delay in delivery, if the BUYER has not served notice of rescission as provided in ARTICLE X hereof, demand in writing that the BUYER shall make an election, in which case the BUYER shall within twenty (20) days after such demand is received by it notify the SELLER of its intention either to rescind this Contract or to consent to the acceptance of the VESSEL at an agreed future date. If the BUYER shall not make an election within twenty (20) days as provided herein above, the BUYER shall be deemed to have accepted such extension of the delivery date to the future delivery date indicated by the SELLER and it being understood by the parties hereto that if the VESSEL is not delivered by such future date, the BUYER shall have the same right of rescission upon the same terms and conditions as herein above provided.

- (d) For the purpose of this ARTICLE III, the delivery of the VESSEL shall be deemed not to be delayed and the Contract Price shall not be reduced when and if the Delivery Date of the VESSEL is extended by reason of causes and provisions of ARTICLE IV Clause 4(i)(2), ARTICLE V, ARTICLE VI, ARTICLE XI, ARTICLE XII, ARTICLE XVI and ARTICLE XVII or by reason of Permissible Delay as defined in ARTICLE VIII.

2. Speed:

- (a) The Contract Price shall not be affected or changed by reason of the actual trial speed (as determined according to the Specifications) being less than the Guaranteed Speed, if such deficiency is not more than 0.15 of one (1) knot below the Guaranteed Speed.
- (b) However, commencing with and including a deficiency of more than 0.15 of one (1) knot in actual speed below the Guaranteed Speed, the Contract Price shall be reduced by USD50,000 for each successive whole 0.10 of a knot and pro-rata for any fraction thereof in excess of a deficiency of 0.15 of a knot.
- (c) If the deficiency in the actual trial speed upon final sea trial is more than 0.55 of a knot below the Guaranteed Speed of the VESSEL, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof, or may accept the VESSEL at a reduction in the Contract Price as above provided that the total reduction does not exceed two hundred thousand United States Dollars (US\$200,000) being the maximum.

3. Fuel Consumption:

- (a) The Contract Price shall not be affected or changed in case the actual fuel consumption, as determined by the engine manufacturer's shop trial (171 g/KWh) as specified in the Specifications, is not more than tolerance margin of five percent (5%) in excess of the Guaranteed Fuel Consumption.
- (b) However, in the event that the actual fuel consumption at the shop trial is in excess of five percent (5%) of the Guaranteed Fuel Consumption, the Contract Price shall be reduced by the sum of seventy thousand United States Dollars (US\$70,000) for each full one percent (1%) increase in fuel consumption and pro rata for any fraction of one percent (1%) of the Guaranteed Fuel Consumption in excess of the said five percent (5%) up to maximum of eight percent (8%) over the Guaranteed Fuel Consumption.
- (c) If the fuel consumption of the main engine exceeds the Guaranteed Fuel Consumption by more than eight percent (8%), then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof, or may accept the VESSEL at a reduction in the Contract Price as above provided for eight percent (8%) only, that is, at a total reduction of two hundred and ten thousand United States Dollars (US\$210,000) being the maximum.

4. Deadweight:

- (a) In the event that there is a deficiency in the actual deadweight of the VESSEL (33800 MT) determined as provided in the Specifications, the Contract Price shall not be decreased if such deficiency is two hundred (200) metric tons or less below the guaranteed deadweight described in the Specification.
- (b) In the event that the actual deadweight of the VESSEL as determined in accordance with the Specifications is less than the Guaranteed Deadweight, the Contract Price shall be

reduced by the sum of two thousand United States Dollars (US\$2,000) for each full metric ton of such deficiency being more than two hundred (200) metric tons.

- (c) In the event of such deficiency in the actual deadweight of the VESSEL being eight hundred (800) metric tons or more, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or accept the VESSEL at a reduction in the Contract Price as above provided for eight hundred (800) metric tons only, that is, at a total reduction of one million two hundred thousand United States Dollars (US\$1,200,000).

5. Container capacity:

- (a) In the event that the actual nominal container capacity of the VESSEL as determined in accordance with the Specifications is less than the Guaranteed Container Capacity of 2546 TEU by more than forty-six (46) TEUs, the Contract Price shall be reduced by the sum of thirty thousand United States Dollars (US\$30,000) for each container TEU of deficiency in excess of forty-six (46) TEUs.
- (b) In the event of the foregoing deficiency is fifty-five (55) TEU containers or more, the BUYER may, at its option reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or may accept the VESSEL at a total reduction in the Contract Price as above provided of two hundred and seventy thousand United States Dollars (US\$270,000).
- (c) Notwithstanding anything contained herein, the homogenous intake of containers of 14 ton TEU will not be below 1900.
- (d) In the event that the actual homogenous intake of containers of 14 ton TEU is less than 1900, the Contract Price shall be reduced by the sum of:
(1) twenty-one thousand five hundred United States Dollars (US\$21,500) for each TEU of such deficiency up to and including twenty (20) TEUs; and
(2) thirty-five thousand United States Dollars (US\$35,000) for each TEU of such deficiency from and including twenty-one (21) TEU up to and including twenty-five TEU.
- (e) In the event of such deficiency in the actual homogenous intake of containers being twenty-six (26) TEU or more, then the BUYER may, at its option, reject the VESSEL and rescind this Contract in accordance with the provisions of ARTICLE X hereof or may accept the VESSEL at a total reduction in the Contract Price as above provided of six hundred and five thousand United States Dollars (US\$605,000).

6. Reductions to be Independent of Each Other:

Reductions permitted herein are independent of each other and in the event of there being contingencies which necessitate the application of two or more Clauses, there shall be separate reductions in the Contract Price in respect of each contingency.

7. Application of Adjustment:

Unless the parties agree otherwise, the total reduction in the Contract price shall be deducted from the Delivery Instalment of the Contract Price in accordance with ARTICLE II, Clause 4.

8. Effect of Rescission:

It is expressly understood and agreed by the parties hereto that in any case as stated herein, if the BUYER rescinds this Contract pursuant to any provision under this ARTICLE III, the BUYER, save its rights and remedies set out in ARTICLE X hereof, shall not be entitled to any liquidated damages or compensation whether described above or otherwise.

(end of Article)

ARTICLE IV - APPROVAL OF PLANS AND DRAWINGS AND INSPECTION DURING CONSTRUCTION

1. Approval of Plans and Drawings:

- (a) The SELLER shall submit to the BUYER three (3) copies of the plans and drawings to be submitted thereto for its approval at its address as set forth in ARTICLE XVIII hereof. For those plans and drawings that have been approved as of the date of the Contract by the BUYER of Hull No. YZJ2004-680C and are unaffected by Specifications herein, the SELLER shall submit such plans and drawings to the BUYER within 45 days of date of the Contract. The BUYER shall have ninety (90) days thereafter to submit comments and return one plan or drawing, as the case may be, to the SELLER.

For all other plans and drawings, to be approved hereunder, the BUYER shall, within twenty-one (21) days after receipt thereof, return to the SELLER one (1) copy of such plans and drawings with the BUYER's approval or comments written thereon, if any, within the terms of the Specifications and the Contract. The SELLER must respond to the comments of the BUYER within twenty-one (21) days. Any alterations to the Specifications resulting from such comments shall be dealt with in accordance with ARTICLE V, Clause 1. If any modifications and or changes are made to the plans which have been reviewed or approved by the BUYER, the SELLER shall submit such plans either partially or totally to the BUYER for reapproval in accordance with this Clause. A list of the plans and drawings to be so submitted to the BUYER shall be mutually agreed upon between the parties hereto and such plans and drawings shall then constitute "**Approved Drawings**".

- (b) In the event that the BUYER shall fail to return the plans and drawings to the SELLER by fax or otherwise within the time limit as hereinabove provided, such plans and drawings shall be deemed to have been automatically approved without any comment.
- (c) No act or omission of the BUYER in reviewing or approving the plans and/or drawings shall, in any way, diminish or impair the obligations and liabilities of the SELLER under the terms of this Contract.

2. Appointment of BUYER's Representatives:

The BUYER may send to and maintain at the Shipyard, at the BUYER's own cost and expense, one or more Representatives who shall be duly authorized in writing by the BUYER (herein called the "**Representatives**") to supervise the construction by the SELLER of the VESSEL and to act on behalf of the BUYER in connection with the modifications of the Specifications, approval of the plans and drawings, attendance to the tests, inspections and trials relating to the VESSEL, and any other matters for which he is specifically authorized by the BUYER. The Representatives may appoint assistant(s) to attend at the Shipyard for the purposes as aforesaid.

Upon appointment of the Representatives, the BUYER shall notify the SELLER in writing of the name and the scope of authority of the Representatives. Before the commencement of any item of work under this Contract, the SELLER shall, whenever reasonably required, exhibit,

furnish to, and within the limits of the Representative's authority, secure the approval from the Representatives of any plans and drawings prepared in connection therewith.

3. Inspection by BUYER's Representatives:

The necessary inspections and testing of the VESSEL shall be carried out by the Classification Society, other regulatory bodies and an inspection team of the BUYER, including the Representatives, throughout the entire period of construction, in order to ensure that the construction of the VESSEL is duly performed in accordance with this Contract and the Specifications.

4. Rights of the Representatives:

- (a) The Representatives shall, at all times during the construction until delivery and acceptance of the VESSEL, have the reasonable right to inspect the VESSEL and all work in progress, materials utilized and quality of work in connection with the construction thereof wherever such work is being done within the Shipyard's premises or wherever such materials and equipment are stored, for the purpose of determining that the VESSEL is being constructed in accordance with the terms of this Contract and the Specifications.
- (b) The Representatives shall have the unrestricted right to visit the VESSEL and all work in progress. The Representatives shall also have the reasonable right to visit, with the SELLER'S attendance or introduction as necessary, all property and premises utilized in connection with the construction of the VESSEL, wherever and whenever such premises is being utilized or such property is stored.
- (c) The construction of the VESSEL shall be subjected, throughout the entire period of construction, to quality control by a quality control department of the SELLER. The necessary tests and inspection by the Classification Society and other regulatory bodies concerned shall also be carried out and recorded and all results of quality control and tests and inspections shall be communicated in the form documented, or in the absence of documentation, orally, to the Representatives.
- (d) The Representatives may attend during construction of the VESSEL, tests and inspection of the VESSEL, its machinery and equipment. The SELLER shall give the Representatives at least one (1) week advance notice for tests and inspections within the Shipyard stating approximate particulars of any tests or inspections which may be attended by the Representatives provided that in exceptional circumstances the manner in which such notice is given may be modified by mutual agreement. Notice of tests and inspections to be conducted shall also be given to the Representatives latest up to 5:00 p.m. of the day prior to the day on which any tests or inspections shall occur.

For test or inspections outside the Shipyard, including manufacturer's shop tests, sufficient advance notice to allow for the Representatives to arrange transportation shall be given. This advance notice should not be less than seven (7) days for tests or inspections that require air travel for attendance.

Inspection schedule must be reasonable at all times in order to allow the BUYER's Representatives to carry out their duties properly and inspections must be spread over a reasonable time, but to follow building schedule at the same rate. In principle, inspections will not take place on Saturdays, Sundays and Holidays, unless mutually agreed upon and necessary in order to meet the SELLER'S schedule.

Failure of the Representatives to be present at the tests and inspections after due notice shall be deemed to be a waiver of the BUYER's right to be present. In such case the BUYER shall be obliged to accept the result of such test on the basis of the SELLER'S certificate, signed by the Classification Society, that the said result is conforming to the provisions of this Contract and the Specifications.

- (e) The Representatives shall notify the SELLER promptly, in writing, if, in his opinion, the VESSEL is not being constructed in accordance with this Contract or the Specifications. The BUYER may at its election send a copy of such notification to the Classification Society.
- (f) No act or omission of the Representatives or his assistants shall, in any way, diminish or impair the liability of the SELLER under this Contract and/or the Specifications.
- (g) The Representatives shall advise and consult the SELLER on all matters pertaining to the construction of the VESSEL, as may be required by the SELLER, or as he may deem necessary.
- (h) The inspection thus exercised on behalf of the BUYER shall not alter or diminish the responsibility of the SELLER to construct the VESSEL in accordance with the Contract and the Specifications.
- (i) In the event that the Representatives advise the SELLER that they have discovered and believe the VESSEL is not being constructed in accordance with this Contract or the Specifications, and the SELLER shall not agree with the views of the Representatives in such respect, as provided in Clause (e) of this ARTICLE III, either the BUYER or the SELLER shall seek a decision of the Classification Society in accordance with Clause 1 of ARTICLE XII of this Contract. The Classification Society shall determine whether or not a non-conformity with the provisions of this Contract or the Specifications exists.
 - (1) If the Classification Society enters a determination in favour of the BUYER, then in such case the SELLER shall make the necessary alterations or changes, or if such alterations or changes cannot be made in time to meet the construction schedule for the VESSEL and the BUYER so agrees, which shall not be unreasonably withheld, but without prejudice to BUYER's other rights under this Contract, the Contract Price shall be fairly and reasonably reduced (as agreed between the Parties hereto and failing which by Arbitration as hereinafter provided) in lieu of such alterations and changes.
 - (2) If the Classification Society enters a determination in favour of the SELLER, then the time for delivery of the VESSEL shall be extended for the period of delay in construction, if any, occasioned by such proceedings, and the BUYER shall compensate the SELLER for the proven loss and damages incurred by the SELLER as a result of the dispute herein referred to.

The SELLER undertakes to inform the Classification Society in writing within thirty (30) days of the date of this Contract that the SELLER has no objection to the BUYER making an arrangement with the Classification Society for receiving copies of any technical correspondence exchanged between the SELLER and the Classification Society in the course of design, testing, approval, inspection, survey, supervision, certification and construction of the VESSEL.

5. Facilities:

The SELLER shall, at no cost to the BUYER, furnish suitably lighted and air conditioned office space for a team of approximately twelve (12) Representatives all along, including desks, chairs, tables, changing room, toilet and shower space, office furniture, drawing table, filing cabinets, telephone circuit and use of other communications equipment such as telephone, facsimile, email/internet and such other reasonable facilities as may be required. International and domestic telecommunication service shall be paid by the BUYER at the normal rate of charges of the Chinese telecommunication company.

6. Liability for the Representatives:

As between SELLER and BUYER, the Representatives and their assistants shall at all times be deemed as the employees of BUYER. SELLER shall not be under any liability whatsoever to BUYER, or the Representatives and their assistants for personal injuries, including death, suffered during the time when they were aboard the VESSEL or within the premises of the SELLER or its subcontractors, to such Representatives and their assistants unless such personal injuries, including death, were caused by gross negligence or willful misconduct of SELLER or its employees, agents or subcontractors or by employees or agents of such subcontractors. Nor shall SELLER be under any liability whatsoever to BUYER for damage to, or loss or destruction of, property of the Representatives and their assistants unless such damage, loss or destruction was caused by gross negligence or willful misconduct of SELLER or its employees, agents or subcontractors or by employees or agents of such subcontractors.

7. Salaries and Costs:

All salaries and other costs of the Representatives shall be for BUYER's account.

8. SELLER's Obligation:

Nothing under this ARTICLE IV shall change or reduce the SELLER's sole responsibility and obligation to design, build and deliver the VESSEL in a condition fully in accordance with the Contract and its attachments. All respective rights of the BUYER on delivery of the VESSEL remain fully valid and unprejudiced by this ARTICLE IV.

9. Replacement of the Representatives:

The SELLER has the right to request the BUYER in writing to replace any Representative who is deemed by the SELLER, acting reasonably, unsuitable and unsatisfactory for the proper progress of the VESSEL'S construction together with reasons. The BUYER shall investigate the situation at the Shipyard, if necessary, and if such SELLER's request is justified, the BUYER should effect the replacement as soon as conveniently arrangeable.

10. Responsibility of BUYER:

The Representatives and their assistant(s) shall observe the work rules and regulations prevailing at the SELLER's and its subcontractors' and suppliers' premises.

11. Information to Representatives:

The SELLER shall reasonably promptly provide all required information to the Representatives and their assistant(s) and shall secure that its subcontractors and suppliers shall reasonably promptly provide all such information as he or they may reasonably request in connection with the construction of the VESSEL.

(end of Article)

ARTICLE V - MODIFICATIONS, CHANGES AND EXTRAS

1. How Effected:

Any modifications and/or changes in the Specifications under which the VESSEL is to be constructed shall be made by written agreement of the parties hereto provided, however, that any modifications and/or changes will not adversely affect the SELLER's planning or programme in relation to the SELLER's other commitments and if the BUYER and SELLER shall agree to adjustment of the Contract Price, time for delivery of the VESSEL and other terms and conditions of this Contract as hereinafter provided. The SELLER hereby agrees to exert its best efforts to accommodate such reasonable request by the BUYER so that the said changes and/or modifications may be made at a reasonable cost and within the shortest period of time which is reasonably possible. Any such agreement for modifications and/or changes shall include an agreement as to the increase or decrease, if any, in the Contract Price of the VESSEL and if necessary which instalment is to reflect the increase or decrease of the Contract Price together with an agreement as to any extension or reduction in the time of delivery, or any other alterations in this Contract, or the Specifications or the Approved Drawings occasioned by such modifications and/or changes.

If after the exertion of such best efforts by the SELLER in response to the BUYER's reasonable request, the parties fail to conclude the above-mentioned agreement, then the SELLER shall have no obligation to comply with the BUYER'S request.

The aforementioned agreement to modify and/or change the Specifications and/or Approved Drawings may be effected by an exchange of letters signed by the authorized Representatives of the parties hereto, or telex or facsimile confirmed in writing, manifesting such agreement. Such letters and confirmed telex and facsimile exchanged by the parties hereto pursuant to the foregoing shall constitute an amendment of the Specifications, and such letters and telex and facsimile shall be incorporated into this Contract and made a part hereof.

The SELLER may make minor changes to the Specifications, if found necessary for introduction of improved production methods or otherwise, provided that the SELLER shall first obtain the BUYER's written approval which shall not be unreasonably withheld.

2. Changes in Rules of Classification Society, Regulations, etc.:

In the event that, after the date of signing this Contract, any requirements as to class, or as to rules and regulations to which the construction of the VESSEL is required to conform are altered or changed by the Classification Society or the other regulatory bodies authorized to make such alterations or changes, the following provisions shall apply:

- (a) If such alterations or changes are compulsory for the VESSEL, either of the parties hereto, upon receipt of such information from the Classification Society or such other regulatory bodies, shall promptly transmit the same to the other in writing, and the SELLER shall thereupon incorporate such alterations or changes into the construction of the VESSEL, provided that the BUYER shall first agree to reasonable adjustments required by the SELLER in the Contract Price, the Delivery Date and other terms and

conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes.

- (b) If such alterations or changes are not compulsory for the VESSEL, but the BUYER desires to incorporate such alterations or changes into the construction of the VESSEL, then the BUYER shall notify the SELLER of such intention. The SELLER shall accept such alterations or changes, provided that such alterations or changes will not, in the judgment of the SELLER, adversely affect the SELLER's planning or program in relation to the SELLER's other commitments, and provided, further, that the BUYER shall first agree to reasonable adjustments required by the SELLER in the Contract Price, the Delivery Date and other terms and conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes. Agreements as to such alterations or changes under this Clause 2(b) shall be made in the same manner as provided in Clause 1 of this ARTICLE V for modifications or changes to the Specifications. If after the exertion of such best efforts by the SELLER in response to the BUYER's reasonable request, the parties fail to conclude the above-mentioned agreement, then the SELLER shall have no obligation to comply with the BUYER's request.

3. Substitution of Materials:

In the event that any of the materials and equipment more specifically described in the definition of VESSEL and required by the Specifications or otherwise under this Contract for the construction of the VESSEL can not be procured in time to effect delivery of the VESSEL, or are in short supply to maintain the delivery date of the VESSEL, the SELLER may, provided the BUYER so agrees in writing, supply other materials and equipment of the available and equal or better quality, meeting the requirements of the Classification Society and of the rules, regulations, requirements and recommendations with which the construction of the VESSEL must comply. Any agreement as to such substitution of materials and equipment shall be effected in the manner as provided in Clause 1 of this ARTICLE V, and shall, likewise, be in accordance with the terms and conditions of this Contract affected by such substitution.

(end of Article)

ARTICLE VI - TRIALS AND ACCEPTANCE

1. Notice:

The sea trial shall start when the VESSEL is ready for the sea trial according to the Specifications.

The SELLER shall give the BUYER at least twenty-one (21) days estimated prior notice and Five (5) days confirming prior notice by facsimile confirmed in writing of the time and place of any trial run of the VESSEL, and the BUYER shall promptly acknowledge receipt of such notice. The BUYER shall have its Representatives on board the VESSEL to witness such trial run.

Should such Representatives fail to be present after the SELLER's due notice to the BUYER as provided above, then in such event, the BUYER shall be deemed to have waived its right to have its Representatives on board the VESSEL during the trial run and the SELLER shall be entitled to conduct such trial run with the presence of the Classification Surveyor only without the Representatives of the BUYER being present and in such case the BUYER shall be obligated to accept the VESSEL on the basis of a certificate of the Classification Society and certificate of the SELLER stating that the VESSEL, upon trial run, is found to conform to this Contract and Specifications.

2. Weather Condition:

The trial run shall be carried out under the weather condition which is deemed favorable enough in the reasonable judgment of the SELLER. In the event of unfavourable weather on the date specified for the trial run, the same shall take place on the first available day thereafter that the weather condition permits. It is agreed that, if during the speed trial of the VESSEL, the weather is unfavourable (i.e. sea state of 3 and wind state of Beaufort 3 or worse) that orderly conduct of the speed trial can no longer be continued, the speed trial shall be discontinued and postponed until the first favorable day next following, unless the BUYER shall assent in writing to acceptance of the VESSEL on the basis of the speed trial already made before such discontinuance has occurred.

Any delay of the trial run caused by such unfavourable weather condition shall operate to postpone the Delivery Date by the period of the delay involved and such delay shall be deemed as Permissible Delay in the delivery of the VESSEL.

3. How Conducted:

- (a) The VESSEL shall run the official sea trial in the manner as specified in the Specifications and shall prove fulfillment of the performance requirements for the trial run as set forth in the Specification.
- (b) All expenses in connection with the trial run (including bunkers, diesel oil, lubricating oil and greases) including proper insurance are to be for account of the SELLER and the

SELLER shall provide, at its own expense, the necessary crew to comply with conditions of safe navigation.

4. Method of Acceptance or Rejection:

- (a) Upon completion of the trial run, the SELLER shall give the BUYER a notice by telex or facsimile confirmed in writing of completion of the trial run and promptly provide the BUYER with all protocols and records of tests and trials, as and if the SELLER considers that the results of the trial run prove conformity of the VESSEL to this Contract and Specifications.

The BUYER shall, within six (6) working days after receipt of the aforementioned records of tests and trials from the SELLER, notify the SELLER by telex or facsimile confirmed in writing of its acceptance or rejection of the VESSEL's conformity to this Contract and the Specifications.

- (b) Should the records of tests and trials indicate that the VESSEL does not conform to the requirements of this Contract or the Specifications and if the SELLER agrees with the BUYER's notice of non-conformity, then the SELLER shall promptly take the necessary steps to correct such non-conformity and notify the BUYER promptly in writing or by telex or facsimile confirmed in writing advising the BUYER of the estimated additional time required for the necessary alterations to correct such non-conformity.

Upon completion of correction of such non-conformity, new trial run or runs as necessary will be made to prove conformity of the VESSEL to this Contract and Specifications if so found necessary by the SELLER, the Classification Society and the Representatives. The SELLER shall notify the BUYER of the time and place of any new trial run no less than five (5) working days beforehand, unless otherwise mutually agreed to. All provisions of the trial run shall apply to such new trial run.

Notwithstanding the aforesaid, the BUYER may accept the VESSEL qualifying its acceptance by reservations regarding works or parts which have not been completed or properly installed prior to such acceptance. In the event that BUYER makes such qualified acceptance the parties will reach an agreement in writing, prior to the delivery of the VESSEL, as to how and when to remedy the items being the subject of the qualified acceptance, at the SELLER's cost and expense, either before or after the delivery, as quickly as possible, without delaying the date of delivery and without causing the BUYER inconvenience in the operation of the VESSEL.

- (c) In the event that the SELLER fails to correct any non-conformity of which it has been given notice by the BUYER, which non-conformity has been confirmed by the Classification Society, the BUYER shall indicate what aspect of the VESSEL does not conform to this Contract and/or the Specifications and the SELLER shall promptly correct those non-conformities.
- (d) In the event that the BUYER fails to give notice to the SELLER by fax and/or telex confirmed in writing of the VESSEL within the period as provided in the above Sub-clause (a) or (b), the BUYER shall be deemed to have accepted the VESSEL.

-
- (e) Any dispute between the SELLER and the BUYER as to the conformity or non-conformity of the VESSEL to the requirements of this Contract and/or the Specifications shall be submitted for final decision in accordance with ARTICLE XII hereof.

5. Effect of Acceptance:

Acceptance of the VESSEL as above provided shall be final and binding in so far as conformity of the VESSEL to this Contract and Specifications is concerned and shall preclude the BUYER from refusing formal delivery of the VESSEL as hereinafter provided, if the SELLER complies with all other requirements for delivery as provided in ARTICLE VII hereof. However, the BUYER's acceptance, of the VESSEL shall not affect the BUYER's right under ARTICLE IX hereof and/or under law.

6. Disposition of Surplus Consumable Stores:

- (a) Any fuel oil, lubricating oil and greases furnished and paid for by the SELLER for trial runs remaining on the VESSEL, at the time of acceptance of the VESSEL by the BUYER, shall be bought by the BUYER from the SELLER at the SELLER's net purchase price for such supply in China and the payment by the BUYER thereof shall be made at the time of delivery of the VESSEL.
- (b) If any of the consumables under (a) above are furnished by the BUYER, SELLER shall pay at time of delivery for quantities consumed until delivery at BUYER'S net purchase price.

(end of Article)

ARTICLE VII - DELIVERY

1. Time and Place:

The VESSEL, duly completed in accordance with this Contract and the Specifications, shall be delivered by the SELLER to the BUYER at the SELLER's wharf at the Shipyard safely afloat on or before February 28, 2009 (hereinafter called the "**Delivery Date**") after completion of satisfactory tests and trials and acceptance in accordance with ARTICLE VI hereof, except that, in the event of delays in the construction of the VESSEL or any performance required under this Contract due to causes which under the terms of this Contract permit postponement of the date for delivery, the aforementioned Delivery Date of the VESSEL shall be postponed accordingly.

Earlier Delivery Date is subject to BUYER's prior written consent, such consent not to be unreasonably withheld.

2. When and How Effected:

Provided that the SELLER and the BUYER shall have fulfilled all of their obligations stipulated under this Contract, the delivery of the VESSEL shall be effected forthwith upon acceptance thereof by the BUYER, by concurrent delivery by each of the parties hereto to the other of the PROTOCOL OF DELIVERY AND ACCEPTANCE, acknowledging delivery of the VESSEL by the SELLER and acceptance thereof by the BUYER, which Protocol of Delivery and Acceptance shall be prepared in quadruplicate and signed by each of the parties hereto with additional copies as required by the BUYER or the SELLER.

3. Documents to be delivered to BUYER:

Acceptance of the VESSEL by the BUYER shall be conditional upon receipt by the BUYER from the SELLER of the following duly authenticated documents (all in the English language), which shall accompany the aforementioned PROTOCOL OF DELIVERY AND ACCEPTANCE:

- (a) PROTOCOL OF TRIALS of the VESSEL made pursuant to the Specifications.
- (b) PROTOCOL OF INVENTORY of the equipment of the VESSEL, including spare parts and the like, as specified in the Specifications.
- (c) PROTOCOL OF STORES OF CONSUMABLE NATURE covering items referred to under Clause 6 of ARTICLE VI hereof.
- (d) ALL CERTIFICATES required to be furnished upon delivery of the VESSEL pursuant to this Contract and the Specifications and for the customary shipbuilding practice.

It is agreed that if, through no fault on the part of the SELLER, the Classifications certificates and/or other certificates are not available at the time of delivery of the VESSEL, provisional certificates valid for at least five (5) months shall be accepted by the BUYER, provided that the SELLER shall furnish the BUYER with the formal certificates as

promptly as possible after such certificates have been issued, but in any event timely before the expiry of the provisional certificates.

All certificates to be delivered to the BUYER hereunder pursuant hereto shall be issued by the relevant authorities or Classification Society and shall be clean and valid in every respect and without any recommendation or notation.

- (e) DECLARATION OF WARRANTY of the SELLER that the VESSEL is delivered to the BUYER free and clear of any liens, charges, claims, mortgages, or other encumbrances upon the BUYER's title thereto, and in particular that the VESSEL is absolutely free of all burdens in the nature of imposts, taxes or charges imposed by the Chinese governmental authorities whether national or local as well as of all liabilities of the SELLER to its subcontractors, suppliers, employees and crew(s), and of all the liabilities arising from the operation of the VESSEL in trial runs, or otherwise, prior to delivery.
- (f) DRAWINGS AND PLANS in quadruplicate pertaining to the VESSEL, including lists of Finished Plans and As Built Space and the trim and stability booklet technical descriptions, test results and other data, information or documents in the possession of the SELLER concerning the design and constructions of the VESSEL which shall be forwarded to the BUYER at no additional cost as stipulated in the Specification.
- (g) COMMERCIAL INVOICE
- (h) BILL OF SALE
- (i) BUILDER's CERTIFICATE. If required by the BUYER, the SELLER shall arrange for the notarization of the BUILDER's CERTIFICATE by the local authorized notary public institution in China, or for the BUILDER's CERTIFICATE to be otherwise authenticated as required by the Hong Kong Shipping Registry.

4. Tender of VESSEL:

If the BUYER fails to take delivery of the VESSEL after completion thereof according to this Contract and Specifications without any justifiable reason, the SELLER shall have the right to tender delivery of the VESSEL after fulfillment of all SELLER's obligations as provided herein.

5. Title and Risk:

Title to and risk of loss of or damage to the VESSEL shall pass to the BUYER only upon the delivery and acceptance thereof having been completed as stated above; it being expressly understood that, until such delivery is effected, title to and risk of loss of or damage to the VESSEL and her equipment and risk of items and materials supplied by the BUYER or its suppliers shall be with the SELLER.

Notwithstanding the provisions of this ARTICLE VII, the title to the material and equipment supplied by the BUYER shall remain with the BUYER.

6. Removal of VESSEL:

The BUYER shall take possession of the VESSEL immediately upon delivery and acceptance thereof and shall remove the VESSEL from the premises of the Shipyard within ten (10) days after delivery and acceptance thereof is effected.

If the BUYER shall not remove the VESSEL from the premises of the Shipyard within the aforesaid ten (10) days, in such event, the BUYER shall pay to the SELLER the reasonable mooring charges of the VESSEL.

7. Notices:

Prior to the delivery of the VESSEL, the SELLER shall give notice to the BUYER with the following schedule:

90 DAYS PRIOR TO DELIVERY - 15 DAYS ESTIMATED DELIVERY DATE;
60 DAYS PRIOR TO DELIVERY - 10 DAYS ESTIMATED DELIVERY DATE;
30 DAYS PRIOR TO DELIVERY - 7 DAYS ESTIMATED DELIVERY DATE;
15 DAYS PRIOR TO DELIVERY - 1 DAY DEFINITE DELIVERY DATE

(end of Article)

ARTICLE VIII - DELAYS AND EXTENSION OF TIME FOR DELIVERY (FORCE MAJEURE)

1. Causes of Delay (Force Majeure):

If at any time before the actual delivery, the construction of the VESSEL, any performance required as a prerequisite of delivery of the VESSEL or actual delivery of the VESSEL is delayed due to acts of princes or rulers; compulsory requirements of government authorities; war, blockade, revolution, insurrections, mobilization, civil war or commotion; vandalism; sabotages, strikes in the shipbuilding industry in China, riots, strikes, lockouts or other labor disturbances; acts of a public enemy, plague or other epidemic, quarantines; flood, typhoon, hurricanes, earthquakes; tidal waves; landslides; fires, explosions; embargoes; import restrictions; prolonged failure of electric current; delays caused by the Classification Society or other bodies whose documents are required; destruction of the Shipyard; other causes or accidents beyond the reasonable control of the SELLER; provided all the foregoing events were not existing and known to the SELLER at the date of this Contract or the effect of which could not have been avoided or reduced by the exercise of due diligence by the SELLER or his relevant subcontractors, as the case may be, and provided further that the events and/or delays were not caused or contributed by the negligence or misconduct of the SELLER and provided further that any of the above events directly affect the construction schedule of the VESSEL; then and in any such case, the date of delivery shall be postponed for a period of one day for every one day actually lost by any of the aforesaid events, subject nevertheless to the BUYER's right of cancellation under this ARTICLE VIII and subject to all relevant provisions of this Contract which authorize and permit extension of the time of delivery of the VESSEL.

The SELLER shall take immediate steps to overcome and mitigate the delay and to recover time lost, if any. Delays resulting from contingencies occurring simultaneously shall count as one delay only.

Any cause of delay for which the SELLER claims that it is entitled to a postponement of the Delivery Date under this Contract resulting from the SELLER's subcontractors shall be subject to any of the aforementioned contingencies being applicable to the subcontractors.

2. Notice of Delay:

As soon as possible after and in any event within seven (7) days after the date of the commencement of any cause of delay, on account of which the SELLER claims that it is entitled under this Contract to a postponement of the Delivery Date excluding days due to arbitration, the SELLER shall notify the BUYER in writing or by telex or facsimile confirmed in writing of the date when such cause of delay commenced and the reasons thereof, and the estimated duration of the probable delay in delivery of the VESSEL, and shall provide the BUYER, if available, evidence to justify the delay claimed. Likewise, within seven (7) days after the date of ending of such cause of delay, the SELLER shall notify the BUYER in writing or by telex or facsimile confirmed in writing of the date when such cause of delay ended.

In any event the SELLER shall also notify the BUYER of the period of time by which the SELLER claims the Delivery Date should be postponed by reason of such cause of delay within the same seven (7) day period as aforesaid. Failure of the SELLER to notify the BUYER of its

claim for postponement of the Delivery Date within a period of seven (7) days from the date of cessation of the event causing the delay shall be deemed a waiver of its claim.

Failure of the BUYER to object to the SELLER's claim for postponement of the Delivery Date within Fourteen (14) days after receipt by the BUYER of such notice of claim shall be deemed to be a waiver by the BUYER of its right to object to such postponement of the Delivery Date.

The burden of proof shall always be on the SELLER to establish the facts entitling it to rely on this Clause and that due notices were given and that it has taken all reasonable steps to avoid or mitigate the delay.

3. Definition of Permissible Delay:

Delays on account of such causes as specified in Clause 1 of this ARTICLE VIII and in ARTICLE IV, Clause 4(i)(2)), ARTICLE V, ARTICLE VI, ARTICLE XI, ARTICLE XII, ARTICLE XVII and ARTICLE XVI shall be understood to be Permissible Delays and are to be distinguished from unauthorized delays on account of which the Contract Price is subject to adjustment and/or the Contract is subject to rescission as provided for respectively in Article III and Article X hereof.

4. Right to Rescind for Excessive Delay:

If the total accumulated time of all delays on account of the causes specified in Clause 1 of this ARTICLE VIII and unauthorized delays as described in the Clause 1 of ARTICLE III aggregate to 180 days or more, in any circumstances, then, in such event, the BUYER may rescind this Contract by delivering or faxing to the SELLER notice of cancellation which shall be confirmed in writing and in accordance with the provisions of ARTICLE X hereof.

The SELLER may, at any time after the accumulated time of the aforementioned delays justifying the rescission by the BUYER, demand in writing that the BUYER shall make an election, in which case the BUYER shall, within twenty one (21) days after such demand is received by the BUYER, either notify the SELLER of its intention to rescind this Contract, or consent to a postponement of the Delivery Date to an agreed specific future date. If the BUYER elects to consent to the postponement of the Delivery Date at such agreed specific future date, then such date shall become the contractual delivery date, for the purpose of this Contract and if the VESSEL is not delivered by such revised delivery date, the BUYER shall have the same right of rescission upon the same terms as herein provided.

(end of Article)

ARTICLE IX - WARRANTY OF QUALITY

1. Guarantee:

The SELLER guarantees the VESSEL in her entirety and each and every part thereof and in particular but without prejudice to the generality of the foregoing, her design, drawing, plans, the hull and all machinery, engines, engine room auxiliaries, equipment, fittings, outfittings, appurtenances, furniture, parts, spares, paint and materials manufactured, furnished, installed or incorporated in the VESSEL by the SELLER and/or its subcontractors under this Contract against all defects, omissions, shortages and non-conformity, defective or unsuitable materials or equipment, faulty design and/or performance or poor workmanship or negligence, (hereinafter collectively referred to as “**Defect(s)**”), whether or not such Defect(s) affect seaworthiness or class within the Guarantee Period as hereinafter defined.

The SELLER shall pass to the BUYER information about any claims that the SELLER may have against subcontractors for Defect(s) in deliveries to the VESSEL, without in any way, diminishing the SELLER’s guarantee as aforesaid.

2. Guarantee from Manufacturers and Suppliers:

In the event that the normal guarantee period stipulated by manufacturers or suppliers or various components of machinery, materials, equipment, paint, appurtenances and outfit furnished to the SELLER and embodied in the VESSEL exceeds the Guarantee Period (as hereinafter defined), the benefits of such extended guarantee rights shall be made available to the BUYER by the SELLER without any additional cost to the BUYER.

Notwithstanding the foregoing, the SELLER shall arrange a guarantee from the paint manufacturer for defects in paint and/or application on under water parts of the VESSEL for an additional 24 calendar months from the date of delivery of the VESSEL to the BUYER.

3. Notice of Defects:

The BUYER or its duly authorized Representatives shall notify the SELLER in writing by delivery or facsimile of any Defect for which claim is made under this guarantee, as promptly as possible after discovery thereof. The BUYER’s written notice shall describe in reasonable detail the nature and extent of the Defect(s).

The SELLER shall have no obligation for any Defect discovered prior to the expiry date of the Guarantee Period unless notice of such Defect is received by the SELLER not later than thirty (30) days after such expiry date. Telex or facsimile advice within the Guarantee Period that a claim is forthcoming will be sufficient compliance with the requirement as to time, provided that full description of such Defect(s) in written form shall be received by the SELLER not later than forty-five 45 days after the Guarantee Period.

4. Extent of SELLER’s Obligation:

The SELLER shall have no obligation for any Defect unless the Defect has arisen within a period of twelve (12) calendar months from the date when the VESSEL was delivered to and accepted by the BUYER (the “**Guarantee Period**”).

The SELLER shall not be obligated to repair or be liable for damages to the VESSEL, or to any part of the equipment thereof, if and to the extent the damages are due to:

- (a) ordinary wear and tear;
- (b) defects other than those specified in Clause (a) above;
- (c) mismanagement, accidents, negligence, or willful misconduct of or caused by the BUYER, its employees or agents including the VESSEL's officers, crew and passengers, or any persons on or doing work on the VESSEL other than the SELLER, its employees, agents or sub-contractors;
- (d) repairs or replacements which were made by those other than the SELLER and/or their sub-contractors, unless those repairs or replacements were approved by the SELLER.

The SELLER shall not, in any circumstances, be liable for any consequential loss or special loss arising from any cause whatsoever including, without limitation, loss of time, loss of profit or earnings or demurrage directly or indirectly from any commitments of the BUYER in connection with the VESSEL.

The guarantee in this ARTICLE IX shall not be altered or varied except by a written instrument signed by the duly authorized representatives of the SELLER and the BUYER.

5. Remedy of Defects:

- (a) The SELLER shall remedy, at its cost and expense, any Defect(s) against which the VESSEL is guaranteed under this ARTICLE IX, by making all necessary repairs or replacements as well as dismantling, removal, reassembling and incidental works at the Shipyard or elsewhere as provided in Clause (b) of this Clause, at the BUYER's convenience.

If the cause of the Defect(s) is not known or if the Defect(s) is of a recurring nature the SELLER shall, at its expense, explore the reason for such Defect(s) and take all necessary steps and measures to remedy same in such a way as to eliminate the reoccurrence thereof.

- (b) However, if, in the BUYER's sole discretion, it is impracticable to bring the VESSEL to the Shipyard, the BUYER may cause the necessary repairs or replacements to be made elsewhere which is deemed suitable by the BUYER for the purpose (including by the VESSEL's crew), provided that, in such event, the SELLER may forward or supply replacement parts or materials to the VESSEL, unless forwarding or supplying to the VESSEL would impair or delay the operation or working schedule of the VESSEL. In the event that the BUYER proposes to cause the necessary repairs or replacements for the VESSEL to be made at any other shipyard or works than the Shipyard, the BUYER shall first, but in all events as soon as possible, give the SELLER notice in writing by telex or facsimile confirmed in writing of the time and place when and where such repairs will be made, and if the VESSEL is not thereby delayed, or her operation or working

schedule is not thereby impaired, the SELLER shall have the right at its own cost and expense to verify by its own representatives the nature, cause and extent of the Defect(s) complained of. It is understood that defects to underwater parts of the VESSEL, which were found and detected during the Guarantee Period, may be made good at the time of the first dry-docking of the VESSEL following the expiration of the Guarantee Period.

The SELLER shall, in such case, promptly advise the BUYER by telex or facsimile confirmed in writing, after such examination has been completed, of its acceptance or rejection of the Defect(s) as ones that are covered by the guarantee herein provided. Upon the SELLER's acceptance of the Defect(s) as justifying remedy under this ARTICLE IX, or upon award of the arbitration so determining, the SELLER shall pay to the BUYER for such repairs or replacements a sum equal to the reasonable cost of making the same repairs or replacements in a first class Chinese shipyard, at the prices prevailing at the time of such repairs or replacements are made. Payment for the work done to remedy the Defect(s) shall be settled regularly during the Guarantee Period and the actual reimbursement for the guarantee shall be made in a lump sum at the expiry of the Guarantee Period for minor items (up to US\$50,000) and promptly by the SELLER after settlement of the same for major items.

- (c) In any case, the VESSEL shall be taken, at the BUYER's cost and responsibility, to the place elected, ready in all respects for such repairs or replacement. In case of breakdown at sea due to Defects, the cost of bringing the VESSEL to a repair yard shall be for SELLER's account.
- (d) Notwithstanding anything contained in Clause 5(a) of this ARTICLE IX, the BUYER shall be entitled to require the SELLER to forward to the VESSEL, wherever it may be, replacement(s) for defective part(s) to which the SELLER's guarantee under this ARTICLE IX applies, and in such case the SELLER shall forward the same by such means as to reach the VESSEL as expeditiously as possible.

In emergency cases when the VESSEL will be prevented from sailing or from completing its voyage, forwarding of replacement(s) as aforesaid will be effected by the SELLER by air cargo. The SELLER shall bear and pay all C.I.F. costs of the replacement(s) until they arrive on board the VESSEL.
- (e) Any dispute under this ARTICLE IX shall be referred to arbitration in accordance with the provisions of ARTICLE XII hereof.

6. Guarantee Period:

Notwithstanding the foregoing, the Guarantee Period shall be extended in, inter alia, the following cases and to the following extent:

- (a) If, during the Guarantee Period, the VESSEL shall not be capable of performing services for periods consisting of at least twenty four (24) hours each and aggregating to eight (8) days or more and such non-capability shall be as a result of any Defect(s) covered by the SELLER's guarantee under Clause 1 of this ARTICLE IX, the Guarantee Period shall be extended by such period(s) of time lost in remedying of the defect(s) for which the SELLER is responsible according to this Contract or in awaiting part(s) required for the

purpose to remedying such defect(s), which accumulated extension period shall not exceed twelve (12) months.

- (b) In relation to reservations made by the BUYER pursuant to Clause 4(b) of ARTICLE VI hereof, the Guarantee Period for the aforesaid reservations shall further be extended up to the expiration of twelve (12) calendar months following the time when such reservations are respectively made good by the SELLER after the delivery of the VESSEL to the BUYER as herein provided.

7. Application to Defects Remedied:

Wherever any Defect(s) covered by the SELLER's Guarantee under this ARTICLE IX has been remedied, in whole or in part, the SELLER's Guarantee under this ARTICLE IX and the provisions of this ARTICLE IX shall apply anew in respect of the part(s) to which such remedying relates and the aforesaid Guarantee Period shall apply in respect thereof, save that the said Guarantee Period shall commence as from the time of such remedying, and shall end not more than twenty-four (24) months from the date of delivery of the VESSEL to the BUYER.

8. SELLER to Remain Liable:

If attempts at remedying any Defect(s) covered by the SELLER's Guarantee under this ARTICLE IX, carried out by or on behalf of the SELLER as aforesaid, are unsuccessful, the SELLER shall remain liable to remedy such Defect(s) until same be satisfactorily remedied. The SELLER shall be liable under its Guarantee under this ARTICLE IX also for damage to any part of the VESSEL occasioned directly by any Defect(s) to which the SELLER's Guarantee under this ARTICLE IX extends in any other part of the VESSEL.

9. Guarantee Engineer:

The SELLER shall at the request of the BUYER appoint an English speaking Guarantee Engineer to serve on the VESSEL as its Representative for a period of three (3) months from the date the VESSEL is delivered. However, if the BUYER and the SELLER shall deem it necessary to keep the Guarantee Engineer on the VESSEL for a longer period, then he shall remain on board the VESSEL after the said three (3) months but not longer than six (6) months from the delivery of the VESSEL.

The BUYER, and its employees shall give such Guarantee Engineer full cooperation in carrying out his duties as the representative of the SELLER on board the VESSEL.

The BUYER shall accord the Guarantee Engineer treatment comparable to the VESSEL's Chief Engineer as far as possible, and shall provide board and lodging at no cost to the SELLER and/or the Guarantee Engineer. The SELLER and the BUYER shall, prior to delivery of the VESSEL, execute a separate agreement regarding the Guarantee Engineer.

While the Guarantee Engineer is on board the VESSEL, the BUYER shall pay to the SELLER the sum of US\$2,500 per month and the expenses of his repatriation to Shanghai, People's Republic of China by air (economy class) upon termination of his service. The expenses of his communication with the SELLER incurred in performing his duties shall be for SELLER's

account and expenses, if any, of his medical and hospital care in the VESSEL's hospital shall be for BUYER's account. Notwithstanding the above, the Guarantee Engineer shall remain at all times an employee of the SELLER.

The BUYER, its successors and/or assigns shall be liable to and indemnify the SELLER for damage or loss arising from personal injury or death of the Guarantee Engineer or from loss or destruction of the property of the Guarantee Engineer if such death, personal injury or property damage is caused by the negligence or willful misconduct of the BUYER, its successors or assigns, employees or agents. The BUYER shall be responsible for risk insurance for the Guarantee Engineer.

(end of Article)

ARTICLE X - SELLER'S DEFAULT - RESCISSION BY BUYER

1. SELLER's Default:

The BUYER shall be entitled, but not bound, to declare the SELLER in default and to rescind this Contract, all as stipulated in this Contract and Specifications, in any of the following cases:

- (a) any breach of or default by the SELLER in any Fundamental Term. "**Fundamental Term**" means any of the following:
 - (i) an event described in a provision of this Contract specifically permitting the BUYER to rescind this Contract including and without restricting the generality of the foregoing, those contained in ARTICLE III (Adjustment of Contract Price) and ARTICLE XVII, Clause 2(b) (Insurance);
 - (ii) failure of SELLER to prosecute the work with such diligence and in such manner as will enable it to deliver VESSEL within the period granted under the terms of this Contract, provided that the BUYER shall have given the SELLER written notice specifying such failure, and the SELLER shall not within ten (10) days of such notice, have taken steps sufficient to remedy or justify the failure.
 - (iii) failure to deliver the VESSEL free and clear of all liens, charges, mortgages and encumbrances at the actual time of delivery and possession;
 - (iv) any other failure, not specifically referred to above, to build in accordance with this Contract or the Specifications, provided that the BUYER shall have given the SELLER written notice specifying such failure, and the SELLER shall not within ten (10) days of such notice, have taken steps sufficient to remedy or justify the failure; or
- (b) Discontinuance of business by the Builder, general assignment by the Builder for the benefit of creditors, any composition by the Builder with its creditors, appointment of a receiver, trustee or liquidator for the Builder of all or any substantial part of its assets, application or consent by the Builder for or to appointment of the same, winding up by the Builder, adjudication of the Builder as bankrupt or insolvent, filing by the Builder of a petition for liquidation, a petition in bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors or seeking to take advantage of any law relating to relief of debtors or admission by the Builder (by answer, default or otherwise) of the material allegations of petition against it in any proceedings for liquidation, bankruptcy, reorganization, arrangement or insolvency or in any proceedings relating to relief of debtors, excluding mergers, consolidations, reorganizations or restructurings that are unrelated to bankruptcy, insolvency or other financial distress of the Builder.

2. Effect of SELLER's Default:

If the SELLER shall be in any default as provided for in Clause 1 of this ARTICLE X hereinabove, the BUYER may, at its option, rescind this Contract in accordance with provisions of this ARTICLE X.

3. Notice:

In the event that the BUYER shall exercise its right of rescission of this Contract under and pursuant to any of the provisions of this Contract specifically permitting the BUYER to do so, then the BUYER shall notify the SELLER in writing or by fax and/or telex confirmed in writing, and such rescission shall be effective as of the date notice thereof is received by the SELLER.

4. Refundment by SELLER:

In case the SELLER receives the notice stipulated in Clause 3 of this ARTICLE X, the SELLER shall promptly refund to the BUYER the full amount of all sums paid by the BUYER to the SELLER on account of the VESSEL together with interest (as set out below) thereon.

If the BUYER's cancellation or rescission of this Contract is disputed by the SELLER by instituting arbitration as aforesaid, then no refund shall be made by the SELLER, and the BUYER shall not be entitled to demand repayment from the Refundment Guarantor under its Refundment Guarantee, until the arbitration award between the BUYER and the SELLER which shall be in favour of the BUYER, declaring the BUYER's cancellation and/or rescission justified, is made and delivered to the SELLER by the arbitration tribunal.

In case of refundment, the SELLER shall pay the BUYER interest at the rate of six percent (6%) per annum on the amount required herein to be refunded to the BUYER, if the cancellation or rescission of the Contract is exercised by the BUYER for the delay of aggregate one hundred and eighty (180) days in accordance with the provision of Clause 3 of ARTICLE VIII or for the events described in ARTICLE III 1(c), 2(c), 3(c), 4(c), 5(b) or 5(e) hereof computed from the respective dates on which such sums were paid by the BUYER to the SELLER to the date of receipt (remittance by wire transfer) of such refund by the BUYER from the SELLER.

If pursuant to the provisions of this Contract the SELLER is required to refund to the BUYER the instalments paid by the BUYER to the SELLER, the SELLER shall return to the BUYER all of the BUYER's supplies not incorporated into the VESSEL and pay to the BUYER an amount equal to the purchased price by the BUYER of those supplies incorporated into the VESSEL, together with interest as aforesaid, in which case title to such supplies incorporated into the VESSEL shall transfer to the SELLER.

Any and all refunds or payments due to the BUYER under this Contract shall be effected by telegraphic transfer to the account and bank specified by the BUYER free of bank charges, remittance fees, taxes and other applicable withholdings.

5. Discharge of Obligations:

Upon such refund by the SELLER to the BUYER, and upon compliance with the provisions of Clause 4 of this ARTICLE X, all obligations, duties and liabilities of each of the parties hereto to the other under this Contract shall be forthwith completely discharged.

(end of Article)

ARTICLE XI - DEFAULT BY THE BUYER

1. Definition of BUYER's Default:

The BUYER shall be deemed to be in default of its performance of obligations under this Contract in the following cases (hereinafter called "**BUYER's Default**");

- (a) If any of the first or second or third or fourth or fifth instalment is not paid by the BUYER to the SELLER as provided in ARTICLE II hereof; or
- (b) If the delivery instalment is not deposited to the SELLER's Bank by the BUYER to the SELLER for the delivery of the VESSEL as provided in ARTICLE II hereof; or
- (c) If the increased amount, if any, in the Contract Price as adjusted pursuant to ARTICLE V due and payable upon delivery of the VESSEL is not paid by the BUYER concurrently with the delivery of the VESSEL as provided in ARTICLE II hereof; or
- (d) If the BUYER, when the VESSEL is duly completed in conformity with the terms of this Contract and the Specifications and is tendered for delivery by the SELLER in accordance with the provisions of this Contract, fails to take delivery of the VESSEL within Five (5) days from the tendered date without any specific and valid ground therefor under this Contract.

2. Effect of BUYER's Default on or before Delivery of VESSEL:

- (a) Should the BUYER make default in payment of any instalment of the Contract Price before delivery of the VESSEL, the BUYER shall pay the instalment(s) in default plus accrued interest thereon at the rate of six percent (6%) per annum computed from the due date for payment of such instalment to the date when the SELLER receives the payment, and, for the purpose of Clause 1 of ARTICLE VII hereof the Delivery Date of the VESSEL shall be automatically extended by the period of continuance of such default by the BUYER.
- (b) If any BUYER's Default continues for a period of Twenty One (21) days, the SELLER may, at its option, rescind this Contract by giving notice to such effect to the BUYER by telex or facsimile confirmed in writing.

Upon receipt by the BUYER of such notice of rescission, this Contract shall be forthwith rescinded and terminated. In the event of such rescission of this Contract, the SELLER shall, subject to Clause 3 below, be entitled to retain any instalment or instalments already paid by the BUYER to the SELLER on account of this Contract and the BUYER's Supplies, if any.

3. Disposal of VESSEL:

- (a) In the event that this Contract is rescinded by the SELLER under the provisions of Clause 2(b) of this ARTICLE XI, the SELLER may, at its sole discretion, either complete the VESSEL and sell the same, or sell the VESSEL in its incomplete state, free of any right or claim of the BUYER. Such sale of the VESSEL by the SELLER shall be either by public auction or private contract at the SELLER's sole discretion and on such terms and conditions as the SELLER shall deem fit, provided that the SELLER shall use reasonable endeavors to obtain the best price obtainable. The SELLER shall send to the BUYER invitation to participate in any tender for the sale of the VESSEL. Such invitation shall be sent by telex or facsimile at least fifteen (15) days in advance before the closing date of the tender.
- (b) In the event of such sale of the VESSEL in its completed state, the proceeds of the sale received by the SELLER shall be applied firstly to payment of all expenses attending such sale and then to payment of all unpaid instalment(s) of the Contract Price and interest on such instalment(s) at the rate of six percent (6%) per annum from the respective due date thereof to the date of application.
- (c) In the event of sale of the VESSEL in its incomplete state, the proceeds of sale received by the SELLER shall be applied firstly to all expenses attending such sale and otherwise incurred by the SELLER as a result of the BUYER's default as provided hereinbefore, and then to payment of all costs of construction of the VESSEL less BUYER's Supplies as defined in ARTICLE XVI hereof and less the instalments so retained by the SELLER and compensation to the SELLER for a reasonable loss of profit - if any - due to the rescission of this Contract.
- (d) In either of the above events of sale, if the proceeds of sale exceed the total amounts to which such proceeds are to be applied as aforesaid, the SELLER shall promptly pay the excess to the BUYER without interest provided, however, that the amount of each payment to the BUYER shall in no event exceed the total amount of instalments already paid by the BUYER and the cost of the BUYER's supplies, if any.
- (e) If the proceeds of sale are insufficient to pay such total amounts payable as aforesaid, the BUYER shall promptly pay the deficiency to the SELLER upon request.

(end of Article)

ARTICLE XII - ARBITRATION

1. Decisions by the Classification Society:

If any dispute arises between the parties hereto in regard to the design and/or construction of the VESSEL, its machinery and equipment, and/or in respect of the materials and/or workmanship thereof and/or thereon, and/or in respect of interpretation of this Contract or the Specifications, the parties may by mutual agreement refer the dispute to the Classification Society headquarters or to such other expert as may be mutually agreed between the parties hereto, and in such case the decision of the principal surveyor or such expert, as the case may be, shall be final, conclusive and binding upon the parties hereto.

2. Proceedings of Arbitration:

In the event that the parties hereto do not agree to settle a dispute according to Clause 1 of this ARTICLE XII and/or in the event of any other dispute of any kind whatsoever between the parties and relating to, arising out of or in connection with, this Contract or its rescission or any stipulation herein, such dispute shall be submitted to and settled by arbitration in London, England in accordance with Arbitration Act 1996 c.23 (UK) as amended, and the arbitration shall be conducted in accordance with the London Maritime Arbitrators Association (LMAA) Terms current at the time when the arbitration proceedings are commenced (except as expressly provided herein). The SELLER and the BUYER shall each independently appoint one arbitrator to arbitrate the matter, and the SELLER and the BUYER shall together appoint a third arbitrator. In the event that the BUYER and SELLER cannot agree on the appointment of the third arbitrator within twenty (20) days of the appointment of the second arbitrator, the two appointed arbitrators shall be responsible for appointing the third arbitrator.

If the two arbitrators are unable to agree upon a third arbitrator within twenty (20) days, either of the said two arbitrators may apply to the President for the time being of the London Maritime Arbitrators Association to appoint the third arbitrator, and the three arbitrators shall constitute the board of arbitration.

Such arbitration shall be in accordance with and subject to the provisions of the relevant English Arbitration Act for the time being in force at the time of the action. Either party may demand arbitration of any such dispute by giving notice to the other party.

Any demand for arbitration by either of the parties hereto shall state the name of the arbitrator appointed by such party and shall also state specifically the question or questions as to which such party is demanding arbitration. Within twenty (20) days after receipt of notice of such demand for arbitration, the other party shall in turn appoint a second arbitrator and give notice in writing of such appointment to the party demanding arbitration. If a party fails to appoint an arbitrator as aforementioned within twenty (20) days following receipt of notice of demand for arbitration by the other party, the party failing to appoint an arbitrator shall be deemed to have accepted and appointed, as its own arbitrator, the arbitrator appointed by the party demanding arbitration and the arbitration shall proceed before this sole arbitrator who alone in all such events shall constitute the Arbitration Board.

The award of the sole arbitrator and/or of the majority of the three arbitrators, as the case may be, shall be final and binding on both parties. If the majority of the three arbitrators is not obtained, then the decision of the third arbitrator shall be final and binding upon the parties hereto.

3. Notice of Award:

The award shall immediately be given to the BUYER and the SELLER by telex or facsimile confirmed in writing.

4. Expenses:

The Arbitration Board shall determine which party shall bear the expenses of the arbitration or the portion of such expenses which each party shall bear.

5. Entry in Court:

In case of failure by either party to respect the award of the arbitration, judgment upon the award may be entered in any court having jurisdiction thereof.

6. Alteration of Delivery Date:

In the event of reference to arbitration of any dispute arising out of matters occurring prior to delivery of the VESSEL, the SELLER shall not be entitled to extend the Delivery Date as defined in ARTICLE VII hereof and the BUYER shall not be entitled to postpone its acceptance of the VESSEL on the Delivery Date or on such newly planned time of delivery of the VESSEL as declared by the SELLER. However, if the construction of the VESSEL is affected by any arbitration or court proceeding, the SELLER shall then be permitted to extend the Delivery Date as defined in ARTICLE VII and the decision or the award shall include a finding as to what extent the SELLER shall be permitted to extend the Delivery Date.

(end of Article)

ARTICLE XIII - ASSIGNMENT - SUCCESSOR AND ASSIGNS

This Contract with the exception of the right to make demand under the Refund Guarantee may, with the prior approval of the SELLER, which the SELLER shall not unreasonably withhold, be assigned and transferred by the BUYER to and title be taken by another company. In the event of any assignment pursuant to the terms of this Contract, the assignee, its successors and assigns shall succeed to all of the rights and obligations of the BUYER hereunder. However, the BUYER shall remain responsible for performance by the assignee, its successors, and assigns of all the BUYER's obligations, liabilities and responsibilities under this Contract. It is understood that any expenses or charges incurred by the transfer of this Contract shall be for the account of the BUYER.

Notwithstanding the above, the BUYER has the right to assign this Contract with the exception of the right to make demand under the Refund Guarantee to a bank or syndicate of banks or financial institution or any commercial corporation assisting in the finance of the VESSEL prior to delivery of the VESSEL provided that the BUYER has given the SELLER a notice of assignment in form and content acceptable to the SELLER and the BUYER, acting reasonably. The SELLER shall, at the BUYER's request, acknowledge and consent to such assignment by signing an acknowledgement and consent acceptable to the SELLER and the BUYER, acting reasonably.

The SELLER shall have the right to assign this Contract at any time after the Effective Date hereof, provided that prior written agreement is obtained from the BUYER, provided always that SELLER shall remain responsible for the due and punctual performance of this Contract by the Assignee.

(end of Article)

ARTICLE XIV - TAXES AND DUTIES

1. Taxes and Duties Incurred in China:

The SELLER shall bear and pay all taxes, duties, stamps and fees incurred in China in connection with execution and/or performance of its obligations under this Contract.

The BUYER shall bear and pay all taxes, duties, stamps and fees incurred in China in connection with execution and/or performance of its obligations under this Contract, including any taxes and duties imposed in China upon the BUYER's Supplies.

2. Taxes and Duties Incurred outside China:

The BUYER shall bear and pay all taxes, duties, stamps and fees incurred outside China in connection with execution and/or performance of its obligations under this Contract.

The SELLER shall bear and pay all taxes, duties, stamps and fees incurred outside China in connection with execution and/or performance of its obligations under this Contract, including taxes and duties imposed upon these items to be procured by the SELLER for the construction of the VESSEL.

(end of Article)

ARTICLE XV - PATENTS, TRADEMARKS, COPYRIGHTS, ETC.

1. Patents, Trademarks and Copyrights:

Machinery and equipment of the VESSEL may bear the patent number, trademarks or trade names of the manufacturers. The SELLER shall defend and hold harmless the BUYER from patent liability or claims for or on account of any patents, copyrights or design or for infringement thereof of any nature and kind, including costs and expenses for, or on account of any patented or patentable invention made or used in the performance of this Contract and also including costs and expenses of litigation, if any, in connection therewith.

Nothing contained herein shall be construed as transferring any patent or trademark rights or copyrights in equipment covered by this Contract, and all such rights are hereby expressly reserved to the true and lawful owners thereof.

The SELLER's warranty hereunder does not extend to the BUYER's Supplies.

The SELLER's obligation under this ARTICLE XV shall not be terminated by the passage of any period of time.

2. General Plans, Specifications and Working Drawings:

The SELLER retains copyright with respect to the Specifications, and plans and working drawings, technical descriptions, calculations, test results and other data, information and documents concerning the design and construction of the VESSEL and the BUYER undertakes therefore not to disclose the same or divulge any information contained therein to any third parties, without the prior written consent of the SELLER, except where it is necessary for usual operation, repair and maintenance of the VESSEL and its financing.

(end of Article)

ARTICLE XVI - BUYER'S SUPPLIES

1. Responsibility of BUYER:

- (a) The BUYER shall, at its own risk, cost and expense, supply and deliver to the SELLER all of the items to be furnished by the BUYER as specified in the Specifications (herein called the "**BUYER's Supplies**") at a warehouse or other storage facility of the Shipyard in the proper condition ready for installation in or on the VESSEL, in accordance with the time schedule designated and advised to the BUYER by the SELLER.
- (b) In order to facilitate installation by the SELLER of the BUYER's Supplies in or on the VESSEL, the BUYER shall furnish the SELLER with necessary specifications, plans, drawings, instruction books, manuals, test reports and certificates required by the rules and regulations of the Specifications. If so requested by the SELLER, the BUYER shall, without any charge to the SELLER, cause the representatives of the manufacturers of the BUYER's Supplies to assist the SELLER in installation thereof in or on the VESSEL and/or to carry out installation thereof by themselves or to make necessary adjustments at the Shipyard.
- (c) Any and all of the BUYER's Supplies shall be subject to the SELLER's reasonable right of rejection, as and if they are found to be unsuitable or in improper condition for installation. However, if so requested by the BUYER, the SELLER may repair or adjust the BUYER's Supplies without prejudice to the SELLER's other rights hereunder and without being responsible for any consequences arising therefrom.
- (d) Should the BUYER fail to deliver any of the BUYER's Supplies within the time designated by one (1) month prior notice to the BUYER by the SELLER, the Delivery Date shall be extended for a period which actually caused the delay in the delivery of the VESSEL.
- (e) If delay in delivery of any of the BUYER's Supplies exceeds twenty (20) days, then the SELLER shall be entitled to proceed with construction of the VESSEL without installation thereof in or on the VESSEL as hereinabove provided, and the BUYER shall accept and take delivery of the VESSEL so constructed, unless such delay is caused by any of the events referred to in ARTICLE VIII in which case the provision of Clause 1(d) of this ARTICLE XVI shall apply.
- (f) The SELLER shall not be liable under ARTICLE IX for any defects in the BUYER's Supplies (if any) but the SELLER shall be liable under ARTICLE IX for any Defect(s) in respect of installation of the BUYER's Supplies and their adaptation to the VESSEL.

2. Responsibility of SELLER:

The SELLER shall be responsible for storing, safekeeping and handling with reasonable care of the BUYER's Supplies after delivery thereof at the Shipyard, and shall, at its own cost and expense, install them in or on the VESSEL, unless otherwise provided herein or agreed by the parties hereto, provided, always, that the SELLER shall not be responsible for quality, efficiency and/or performance of any of the BUYER's Supplies.

However, if any BUYER's Supplies are lost or damaged after acceptance by the SELLER without rejection while in the custody of the SELLER, the SELLER shall be responsible for such loss or damage and shall either replace the items or reimburse the BUYER accordingly. The SELLER shall further be responsible for wrongful or negligent installation of the BUYER's Supplies in the course of their installation by the SELLER.

(end of Article)

ARTICLE XVII - INSURANCE

1. Extent of Insurance Coverage:

From the time of keel laying until delivery of the VESSEL, the SELLER shall, at its own cost and expense, insure the VESSEL and all machinery and equipment, appurtenances and outfits delivered to the Shipyard or other building facility utilized by the SELLER, including the BUYER's Supplies when at a warehouse or other storage facility of the SELLER or built into or installed in or upon the VESSEL, against all risks under the Builder's Risks Insurance Clause on terms and conditions not less than the current British Institute Time Clauses and British War Clauses Builder's Risks, with first class insurance company or underwriters in China recognized in the international insurance market. The amount of such insurance coverage shall not be less than the aggregate amount of all instalments paid by the BUYER to the SELLER. The policy referred to hereinabove shall be taken out in the name of the SELLER and all losses under such policy shall be payable to the SELLER.

2. Application of the Recovered Amounts:

In the event that the VESSEL shall be damaged from any cause at any time before delivery of the VESSEL, and in the further event that such damage shall not constitute an actual or constructive total loss of the VESSEL, the amount received from insurance in respect of the VESSEL shall be applied by the SELLER in repair of such damage, satisfactory to the Classification Society requirements and in conformity with the terms of this Contract and the Specifications, and the BUYER shall accept the VESSEL under this Contract if completed in accordance with this Contract and the Specifications and so certified by the Classification Surveyor.

Should the VESSEL from any cause become an actual or constructive total loss:

- (a) the SELLER and the BUYER may mutually agree to build another VESSEL in place of the VESSEL so lost or reconstruct the VESSEL's damage and proceed in accordance with the terms of this Contract, in which case the amount received from insurance in respect of the VESSEL shall be applied to the construction of a new VESSEL or reconstruction of the VESSEL, provided the parties hereto shall have first agreed thereto in writing and to such reasonable extension of delivery time as may be necessary for the completion of such construction or reconstruction.

If the parties fail to reach agreement pursuant to Clause 2(a) above within forty-five (45) days after the VESSEL is determined to be an actual or constructive total loss, the provisions of Clause 2(b) shall apply.

- (b) The SELLER shall refund promptly to the BUYER the full amount of all sums paid by the BUYER to the SELLER as instalments in advance of delivery of the VESSEL together with interest thereon at the rate of six percent (6%) per annum, and promptly deliver to the BUYER all BUYER's Supplies (or the insurance proceeds paid with respect thereto), in which case this Contract shall be deemed to be automatically rescinded and all rights, duties, liabilities and obligations of each of the parties to the other shall forthwith cease and terminate.

If the SELLER fails to refund within fifteen (15) Banking Days, the full amount of all sums required to be paid by the SELLER to the BUYER in accordance with this Clause (b), the BUYER shall be entitled to rescind this Contract.

Payment of refunds pursuant to this Clause shall be effected by telegraphic transfer to the account and bank specified by the BUYER free of bank charges, remittance fees, taxes and any other applicable withholdings.

3. Termination of SELLER's Obligation to Insure:

The SELLER shall be under no obligation to insure the VESSEL hereunder after her delivery to, and her acceptance by, the BUYER.

(end of Article)

ARTICLE XVIII - NOTICES

1. Address:

Any and all notices, invoices, requests, demands, instructions, advices, and communications (collectively “**Notices**”) in connection with this Contract shall be addressed as follows:

To the BUYER:

For the commercial:

Seaspan Corporation
Room 503
5/F, Lucky Commercial Center
103 Des Voeux Road West
Hong Kong, China
Facsimile: (852) 2540-1689
Attention: Gerry Wang, Director

For the technical:

Seaspan Ship Management Ltd.
2600 – 200 Granville Street
Vancouver, British Columbia
V6C 1S4
Canada
Facsimile: 1-604-638-2595
Attention: Peter Curtis / Peter Jackson

To the SELLER:

Jiangsu Yangzijiang Shipbuilding Co., Ltd.
Emeizui, Huangshan Jiangyin City
Jiangsu Province, PRC
Facsimile: 0086-510-86856631
Attention: Wang Dong / Shen Qiang

2. Language:

All Notices shall be written in the English language.

3. Effective Date of Notice:

Any Notice shall become effective from the date when such Notice is received by the BUYER or by the SELLER except as otherwise described in the Contract.

Notices shall be deemed to be received by the addressee when delivered (in case of personal delivery), within 7 (seven) days of dispatch (if sent by registered airmail postage prepaid) and when dispatched (in case of telex or fax) as proven by answer back call sign or transmission report. Any such Notice received on a non-working day or after business hours in the place of receipt shall be deemed to be received on the next following working day in such place.

4. Change of Address:

Each of the parties hereto shall be entitled to give the other party notice, in writing, of any change in any of the addresses relating to the party giving such notice and Clause 1 of this ARTICLE XVIII shall be deemed modified by and in accordance with every such notice of change.

(end of Article)

ARTICLE XIX - EFFECTIVE DATE OF CONTRACT

This Contract shall become effective on the date of fulfillment or waiver by the BUYER of all the following conditions (the “**Effective Date**”):

- (a) Due signing of this Contract and the Specifications; and
- (b) Approval of this Contract by the board of directors of the BUYER.

If, due to any reason whatsoever, any of the above conditions fails to be fulfilled by March 30, 2006, then this Contract shall be made forthwith null and void, having no effect whatsoever. No party shall be liable to the other for any loss or damage (if any).

(end of Article)

ARTICLE XX - INTERPRETATION

1. Laws Applicable:

The parties hereto agree that the validity and interpretation of this Contract and of each Article and part thereof shall be governed by and be construed and interpreted in accordance with the laws of England.

2. Entire Agreement:

This Contract contains the entire agreement and understanding between the parties hereto and supersedes all prior negotiations, representations, undertakings and agreement on any subject matter of this Contract.

This Contract and the subject matter thereof shall not be subject to any general Terms and Conditions of the SELLER or any other terms and conditions normally or at any time put forward by the SELLER with reference to any order from or work undertaken by the SELLER and all such General Terms and Conditions and other terms and conditions are hereby explicitly and expressly excluded from this Contract, shall form no part thereof and shall have no force and effect.

3. Amendments and Supplements:

Any supplement, memorandum of understanding or amendment, whatsoever form it may be relating to this Contract, to be made and signed among parties hereof after signing this Contract, shall be predominant over the respective corresponding Article and/or Clause of this Contract, unless otherwise expressly stipulated.

4. Banking Day:

A Banking Day under this Contract is defined as a day on which the banks are open in China, Hong Kong and New York.

5. No Set Off, Deduction or Counter-claim:

All moneys refundable or payable to the BUYER under or pursuant to this Contract shall be paid to the BUYER without set-off or deduction or counter-claim and all moneys payable to the SELLER pursuant to this Contract shall be paid to the SELLER without set off or deduction or counter-claim.

6. Deemed Benefit for Servants, etc.:

Any exemptions from liability and any undertaking to hold harmless which have been stipulated in this Contract to the benefit of either of the parties hereto shall be deemed to have been stipulated also to the benefit of the servants, sub-contractors, vendors and suppliers of such party and of the servants of the said sub-contractors, vendors and suppliers.

7. Responsibility:

Notwithstanding any other term of this Contract or the Specifications, the SELLER shall be fully responsible for the due, proper, accurate, diligent and punctual designing, building, equipping, launching, outfitting and completing of the VESSEL and for the quality of the materials employed and work done and for the delivery in due time of the VESSEL to the BUYER as herein provided, and the BUYER shall have and bear no responsibility whatsoever in respect thereof or in connection therewith as stipulated in the Contract and the Specifications.

8. Time of the Essence:

Time shall be of the essence hereof.

9. Headings:

The descriptive headings of Articles and Clauses herein are for the convenience of reference only and are not to be used in construing or interpreting this Contract.

IN WITNESS WHEREOF, the parties hereto have caused this Contract to be duly executed on the day and year first above written.

BUYER

SELLER

SEASPAN CORPORATION

JIANGSU YANGZIJIAN SHIPBUILDING CO., LTD.

Signature:

Signature:

GERRY WANG

YUANLIN REU

Name: Gerry Wang

Name: Yuanlin Reu

Title: Chief Executive Officer

Title: President & General Manager

CODE OF BUSINESS CONDUCT AND ETHICS

Conducting business with integrity and in an ethical and legal manner is a primary objective of Seaspan Corporation (“Seaspan” or the “Corporation”). In this regard, the following Code of Business Conduct and Ethics (the “Code”) has been adopted by the Board of Directors of Seaspan. Every employee and director of our Corporation is responsible for understanding and conducting himself or herself in accordance with this Code. If you have any questions about this Code, please contact your supervisor or CFO.

Gerry Wang

Chief Executive Officer

Seaspan Corporation

INTRODUCTION

Seaspan is committed to conducting its business with integrity and in an ethical and legal manner. Seaspan values its good name and its role as a good citizen in each community in which it does business. Seaspan’s reputation for integrity and honesty ultimately depends upon the actions of those who deal with the outside world on Seaspan’s behalf. Every employee and director of Seaspan must be familiar with his or her obligations under this Code and conduct himself or herself accordingly. No employee or director should ever act otherwise. Failure by any employee or director to do so may result in disciplinary action as described under “COMPLIANCE.”

This Code is often phrased in terms of general principles and goals that must be interpreted and applied within the framework of laws, customs, and practices of the jurisdictions in which the Corporation operates, as well as with a full measure of common sense. This Code is supplemented with a number of Corporation policies. Copies of these policies can be obtained from the CFO.

This Code is intended to qualify as a “code of ethics” for the Corporation’s principal executive officer, principal financial officer and principal accounting officer (the “Senior Financial Officers”) as defined in Item 406 of Regulation S-K promulgated by the Securities and Exchange Commission (“SEC”).

STANDARDS OF CONDUCT**Equal Employment Opportunity**

It is the Corporation’s policy to comply with applicable laws regarding discrimination in employment based upon race, religion, age (over 40), national origin, sex, or disability.

Work Environment

The Corporation is committed to providing its employees with a safe and healthful work environment, free from harassment (including sexual, racial or religious harassment), intimidation, or personal behavior not conducive to a productive work climate. All employees are to be treated with respect.

Employee Relations

In order to attract and retain quality employees, we will offer competitive wages and benefits. All employees will receive equitable treatment from the Corporation.

Drugs and Alcohol

The Corporation seeks to provide its employees with a substance-free environment. Employees must report to work free from the presence of prohibited drugs in their system and not under the influence of alcohol. Drug and alcohol use on the job is strictly prohibited. It is the individual's responsibility to abide by the drug and alcohol policy of his or her workplace, including drug or alcohol testing requirements where applicable.

Communication

The Corporation is committed to conducting business in an open and honest manner. All communications, whether internal or external, should be accurate and forthright. The Corporation is committed to providing open communication channels that encourage candid dialogue relative to employee concerns, responsible opinions, and constructive criticism of the Corporation, its supervisors, managers, and/or policies. Such an atmosphere can only be fostered in an environment free from any prospects of retaliation due to the expression of honest opinion. It is never the Corporation's intent to discourage feedback through either intimidation or perceived disinterest.

Outside Employment

Employees of the Corporation are compensated fairly and competitively for full-time work. Employees owe the Corporation their undivided business loyalty. An employee may not be involved in employment outside the Corporation unless, in the opinion of management, it is clear that such employment will not interfere with the employee's safe and effective performance of his or her duties for the Corporation.

Charitable Contributions

Employees and directors are encouraged to support the charitable efforts of the communities in which they live and the Corporation does business. Under no circumstances, however, should an employee or director, either directly or indirectly, be subject to pressure by the Corporation or any employee or director to support, by way of individual contributions or charitable endeavors, any charitable organization. No employee may have his employment or chance of future advancement conditioned in any way on the employee's support of charitable endeavors.

Confidentiality

All employees and directors, both during and after their employment by the Corporation or directorship with the Corporation, must respect the proprietary information and trade secrets of the Corporation and its customers and suppliers and may not disclose any such proprietary information unless the individual or firm owning the information properly authorizes the release or disclosure. New employees and contractors must protect the secrecy of proprietary information of their former employers.

Fair Dealing

Each employee and director should endeavor to deal fairly with the Corporation's customers, suppliers, competitors, and other employees. No employee or director should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

Protection and Proper Use of Corporation Assets

Each employee and director is a steward of the Corporation's assets, and as such, has an obligation to protect and preserve Corporation assets and to seek to ensure their efficient use. Theft, carelessness and waste have a direct and negative impact on the Corporation's profitability. All Corporation assets should be used for legitimate business purposes only.

The misappropriation, conversion to personal use, or theft of Corporation property (including confidential and proprietary data such as patents, trade secrets and other intellectual property, drawings, designs, manufacturing processes and sales and market data) is grounds not only for termination of employment, but for criminal prosecution and other legal action to recover damages for losses sustained, or other legal remedies available either during or after employment or directorship with the Corporation. Theft of property of other employees is also strictly prohibited.

Marketing and Selling

We are committed to selling our products and services honestly and will not pursue any sale that requires us to act unlawfully or in violation of this Code. The Corporation will avoid any conduct or understanding that may illegally restrain trade. Sales of the Corporation's products and services must be free from any inference or perception that favorable treatment was sought, received, or given by way of payments, gifts, favors, entertainment, or other gratuities.

Bribes, kickbacks, and other improper payments shall not be made on behalf of the Corporation in connection with any of its businesses. Amounts paid as tips or gratuities for services will be consistent with local customs and practices. No excessive fees, commissions or other payments will be made, so as to avoid the inference that a bribe or other improper payment is being made.

Under the U.S. Foreign Corrupt Practices Act, it is unlawful for the Corporation to authorize, direct or knowingly allow the payment or the making of a promise to pay anything of value to any foreign official, foreign political party or candidate for political office for the purpose of influencing or inducing such official to use his or her influence or discretion to obtain or retain business or gain favorable treatment for the Corporation. Care must be taken when dealing with foreign customers and vendors to comply with local and foreign laws.

Gift Giving and Receiving

Employees and directors may not accept gifts, gratuities, entertainment or favors from existing or potential customers or vendors, or anyone doing or seeking to do business with the Corporation, if acceptance of such gift, gratuity or the like could have, or could be perceived as having, an influence over the employee's or contractor's decision regarding Corporation business. The receipt of gifts, gratuities and the like which go beyond the common courtesies normally associated with accepted business practice is prohibited. Similarly, the giving of such gifts or gratuities on behalf of the Corporation is prohibited.

Conflicts of Interest

Each employee and director must conduct himself or herself in an honest and ethical manner and avoid any actual or apparent conflict of interest. A conflict of interest occurs when an individual's private interest interferes in any way with the interests of the Corporation as a whole. Situations that may involve a conflict of interest include, but are not limited to having a direct or indirect (including immediate family) substantial economic interest in an entity that transacts business with the Corporation or is in competition with it. A conflict of interest situation can arise when an employee or director takes actions or has interests that may make it difficult to perform his or her Corporation work objectively and effectively. Conflicts of interest situations also arise when an employee or director, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Corporation. Loans to, or guarantees of obligations of, such persons are of special concern.

Business interests that are in any way detrimental to or in conflict with the interests of the Corporation should be avoided. In particular, employees who have responsibility for buying or selling goods or services should avoid having any interest that can influence their independence of judgment with regard to appropriate business decisions.

No employee or director shall on behalf of the Corporation authorize or enter into any transaction or other business arrangement involving an undisclosed conflict of interest. In the case of any proposed transaction or arrangement that may involve a conflict of interest, the employee or director concerned should disclose the conflict of interest to a superior within the Corporation who has no conflict of interest with respect to the transaction or arrangement, and the superior should decide on behalf of the Corporation whether the proposed transaction or arrangement should be authorized. In the event of such authorization for a transaction or arrangement of more than trivial size, a superior of the authorizing person should be informed. For purposes of this requirement, a superior in the case of a director is the full Board of Directors or a committee of the Board of Directors that does not include the director concerned.

Caution must be exercised by all to ensure that personal interests never give the appearance of conflicting with the best interests of the Corporation in any way. This holds true in any of the Corporation's business dealings, whether buying or selling services or commodities as vendor or customer. Any situation that could be, or could be perceived as, constituting a conflict of interest, including any transaction or relationship that reasonably could be expected to give rise to a conflict of interest, must be reported to senior management.

Compliance With Laws

It is the Corporation's policy to comply, and take all reasonable actions to cause compliance, with all applicable laws, rules and regulations of every nation, state or local jurisdiction in which the Corporation conducts business. Every employee and director, no matter what position he or she holds in the Corporation, is responsible for ensuring compliance with applicable laws.

Financial Integrity

Investors, creditors, governmental entities, and the Corporation's management itself rely on the accuracy of the Corporation's accounting records. It is imperative that the accounting records and the reports and statements produced or derived from those records be maintained and presented in accordance both with the laws and regulations of each applicable jurisdiction and with accepted principles of accounting.

Accuracy of Corporation Records

All transactions must be properly authorized and completely and accurately recorded on the Corporation's books and records in accordance with generally accepted accounting practices and established financial policy. No undisclosed or unrecorded fund or asset shall be established for any purpose. No payment shall be approved or made with the intention or understanding that any part of such payment is to be used for a purpose other than that disclosed in the documents supporting the payment. No withdrawal will be made from any disbursement account except by check or other acceptable means customarily used by major banks, and then only by authorized personnel.

Corporate Opportunities

Employees and directors are prohibited from (a) taking for themselves personally opportunities that are discovered through the use of Corporation property, information or position; (b) using Corporation property, information, or position for personal gain; and (c) competing with the Corporation. Employees and directors owe a duty to the Corporation to advance its legitimate interests when the opportunity to do so arises.

Insider Information and Trading

Employees and directors (whether or not citizens of the United States) are prohibited from trading in Corporation stock (the buying or selling of Corporation securities), based on material, non-public information. Information is "material" if it has the potential to affect the price of the Corporation's stock. It is "non-public" if the information has not been released to

the public at large by means of a filing with the SEC or a press release issued through a major wire service. Furthermore, such information cannot be given to a third party for the purpose of trading in Corporation securities (a practice generally referred to as “tipping”). Additionally, employees and directors (whether or not citizens of the United States) who may have obtained material, non-public information regarding other companies (such as our customers, vendors or competitors) in the course of their employment are prohibited from trading in the securities of such companies.

Antitrust Laws

The Corporation is committed to fostering free market competition and preserving the free enterprise system. Employees and directors must never discuss or engage in price fixing or bid rigging, allocation of markets, geographically or by customers, or in the fixing of production or quotas for production. Employees and directors must also never exchange information with competitors regarding prices, market share, cost data or any other data the exchange of which would be considered in violation of anti-trust laws.

Political Contributions and Payments

Employees and directors may not use Corporation funds or assets for contributions of any kind to any political party or committee in the United States or to any candidate for, or holder of, any office of any national, state or local government in the United States except in cases where such use of Corporation funds or assets with respect to certain non-federal political matters is clearly permitted by all applicable laws. In countries other than the United States, the Corporation’s policy shall be determined in accordance with local law and practice, as well as U.S. law.

The Corporation recognizes the need for, and therefore encourages, its employees to contribute their personal funds and their personal time to support candidates of their choice. Good judgment should be exercised to ensure that personal involvement in political activities does not impair an individual’s work effort or adversely affect the Corporation’s standing or image in the community.

Responsibility of Senior Financial Officers With Respect to Public Disclosures

The Corporation’s Senior Financial Officers shall provide, or cause to be provided, full, fair, accurate, timely and understandable disclosure in reports and documents that the Corporation files with, or submits to, the SEC and in the Corporation’s other public communications.

Foreign National And Local Laws And Customs

It is Corporation policy to abide by the national and local laws of the countries in which we operate unless prohibited by U.S. law. When local customs and business or social practices vary from the Code, it is permissible to conform to local customs and practices where necessary for the proper conduct of Corporation business if approved by the Corporation’s senior management.

COMPLIANCE

It is the responsibility of each employee and director to comply with this Code. Failure to comply with this Code and the associated Corporation policies will result in appropriate disciplinary action, including possible termination of employment or directorship with the Corporation, referral for criminal prosecution and reimbursement of the Corporation for any losses or damages resulting from such violation. Compliance with this Code includes the responsibility to report promptly any violation or apparent violation of the provisions of this Code. At least annually, all persons subject to this Code will be surveyed regarding their compliance with this Code and their knowledge regarding the compliance of others with this Code.

WAIVERS

Any waiver of any of the provisions of this Code for any executive officer or director may be made only by the Board of Directors or the Audit Committee thereof. Any such waiver must be promptly disclosed to shareholders in accordance with the applicable rules of any stock exchange on which the Corporation's securities are traded as well as in accordance with the rules and regulations of the SEC.

REPORTING VIOLATIONS

It is the responsibility of each employee and director to report promptly perceived violations of law or this Code. Each employee shall report violations to his or her supervisor or by use of the compliance hotline services described below. For each Senior Financial Officer, if reporting to his or her supervisor or the compliance hotline services is not possible, practicable, or sufficiently prompt, then the Senior Financial Officer shall report directly to the Chairman and at least one other member of the Audit Committee of the Board of Directors. Directors shall report violations by use of the compliance hotline services or by direct report to the Chairman and at least one other member of the Audit Committee of the Board of Directors. It is the responsibility of the Corporation to make any required report of violations of law to the appropriate government authorities.

Compliance hotline:	(604) 638-2624
Website compliance hotline reporting address:	ethics_hotline@seaspancorp.com
Postal compliance reporting address:	David Korbin Director Seaspan Corporation c/o 2600-200 Granville Street Vancouver, BC, Canada V6C 1S4

At the request of the reporting person, reports received through the compliance hotline services will be kept confidential and anonymous.

Any employee or director who, in good faith, reports what he or she believes to be a violation of this Code will not be subject to any disciplinary action or other form of retaliation as a result of making such report. Any act of retaliation should be reported immediately and will be disciplined appropriately.

The act of reporting a violation of this Code should not, however, shield the reporting person from the reasonable consequences flowing from any involvement in improper conduct. A person's liability for his or her own conduct is not affected by the person's disclosure of that conduct. However, in some circumstances, an admission may be a mitigating factor when considering disciplinary or other action.

September 19, 2005

CERTIFICATION

I, Gerry Wang, Chief Executive Officer of the company, certify that:

1. I have reviewed this report on Form 20-F of Seaspan Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: March 17, 2006

By: _____ /s/ GERRY WANG
Gerry Wang
Chief Executive Officer
(Principal Executive Officer)

1. I have reviewed this report on Form 20-F of Seaspan Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

By: /s/ KEVIN M. KENNEDY
Kevin M. Kennedy
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Seaspan Corporation (the “*Company*”) on Form 20-F for the year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “*Form 20-F*”), I Gerry Wang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Form 20-F fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 17, 2006

By: /s/ GERRY WANG
 Gerry Wang
 Chief Executive Officer
 (Principal Executive Officer)

- (1) The Form 20-F fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ KEVIN M. KENNEDY
Kevin M. Kennedy
Chief Financial Officer
(Principal Financial and Accounting Officer)