

**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, 2006  
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 1932  
Date of event requiring this shell company report  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
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 offices)

**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.

40,377,250 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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

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. (Check one):

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

**SEASPAN CORPORATION**  
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## 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 “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” “projects,” “forecasts,” “will,” “may,” “potential,” “should” 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;
- potential liability from future litigation; 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 November 3, 2006.

*Forward-looking statements in this Annual Report are necessary 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 otherwise specify, when used in this prospectus, the terms “Seaspan,” the “Company,” “we,” “our” and “us” refer to Seaspan Corporation and, for periods before our initial public offering, our 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 containerhips, which are also commonly referred to as vessels. Our 9600 TEU class vessels, 8500 TEU class vessels, 5100 TEU class vessels, 4800 TEU class vessels, 4250 TEU class vessels, 3500 TEU class vessels, and 2500 TEU class vessels have an actual capacity of 9580 TEU, 8468 TEU, 5087 TEU, 4809 TEU, 4253 TEU, 3534 TEU, 2546 TEU, respectively.

**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 to August 11, 2005(1)	August 12 to December 31, 2005	Year Ended December 31, 2006
	2002(1)	2003(1)	2004(1)			
<b>Statements of operations data (period ended):</b>						
Revenue	\$ 20,993	\$35,011	\$35,933	\$ 40,157	\$ 34,803	\$ 118,489
Operating expenses:						
Ship operating	4,560	6,577	7,157	7,733	8,252	29,407
Depreciation	5,217	8,587	8,808	9,904	7,186	26,878
General and administrative (2)	131	208	207	218	1,694	4,911
Operating earnings	11,085	19,639	19,761	22,302	17,671	57,293
Other expenses (income):						
Interest expense	7,799	12,193	11,804	14,563	1,699	17,594
Change in fair value of interest rate swaps (3)	14,218	(5,808)	(1,416)	(7,308)	—	908
Interest income	—	—	—	—	(124)	(1,542)
Write-off on debt refinancing	—	—	3,135	—	—	—
Undrawn credit facility fee	—	—	—	—	1,041	2,803
Amortization of deferred financing fees	126	183	222	450	726	1,966
Other	74	(36)	(53)	(17)	—	—
Net earnings (loss)	<u>\$(11,132)</u>	<u>\$13,107</u>	<u>\$ 6,069</u>	<u>\$ 14,614</u>	<u>\$ 14,329</u>	<u>\$ 35,564</u>
Common shares outstanding					35,991,600	47,522,350
<b>Per share data:</b>						
Earnings from commencement of operations, basic and diluted in dollars	N/A	N/A	N/A	N/A	\$ 0.40	\$ 0.94
Cash dividends paid	N/A	N/A	N/A	N/A	\$ 0.23	\$ 1.70

	Years Ended December 31,			January 1 to August 11, 2005(1)	August 12 to December 31, 2005	Year Ended December 31, 2006
	2002(1)	2003(1)	2004(1)			
<b>Statements of cash flows data (period ended):</b>						
Cash flows provided by (used in):						
Operating activities	\$ 9,646	\$ 16,860	\$ 18,540	\$ 19,289	\$ 24,115	\$ 71,363
Investing activities	(26,294)	(236,369)	(8,692)	(20,939)	(826,253)	(605,652)
Financing activities	25,070	212,320	(8,279)	793	817,856	610,798
<b>Selected balance sheet data (at period end):</b>						
Cash and cash equivalents	\$ 9,686	\$ 2,497	\$ 4,066	\$ 3,209	\$ 15,718	\$ 92,227
Current assets	15,433	9,100	13,258	22,316	18,070	96,655
Vessels	221,021	452,141	454,862	466,112	621,163	1,198,782
Fair value of interest rate swaps, asset (3)	—	—	—	—	4,799	10,711
Deferred financing fees	1,562	4,828	8,201	8,548	6,526	7,809
Total assets	238,022	466,069	476,321	496,976	650,558	1,315,272
Current liabilities (excluding current portion of long-term debt)	3,925	4,135	5,481	5,357	4,226	11,167
Current portion of long-term debt (4)	11,984	12,848	19,773	26,203	—	—
Long-term debt (4)	155,359	347,946	376,999	405,495	122,893	563,203
Due to related party	69,440	96,883	64,822	43,393	—	1,320
Fair value of interest rate swaps, liability (3)	25,284	19,476	18,860	11,552	—	15,831
Owner's equity (deficiency)	(28,824)	(15,707)	(9,638)	4,976	—	—
Share capital	—	—	—	—	360	475
Total shareholders' equity	—	—	—	—	523,439	725,071
<b>Other data:</b>						
Number of vessels in operation at period end	5	5	6	10	13	23
TEU capacity at period end	21,265	21,265	29,733	50,960	63,719	108,473
Fleet utilization (5)	99.8%	100.0%	100.0%	99.8%	100.0%	99.0%

- (1) Represents selected financial data for the predecessor for the period prior to our initial public offering.
- (2) 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 ten container ships, 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.
- (3) 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 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 year ended December 31, 2006, 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% to 5.6000% based on expected drawdowns and outstanding debt until at least February 2014. Interest rate swap agreements are recorded on the balance

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sheet at their respective fair values. For the interest rate swap agreements that have been designated as hedging instruments in accordance with the requirements in the accounting literature, the changes in the fair value of these interest rate swap are reported in accumulated other comprehensive income. The fair value will change as 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. Other interest rate swap agreements and derivative instruments that are not designated as hedging instruments are marked to market and are recorded on the balance sheet at fair value. The changes in the fair value of these instruments are recorded in earnings.

- (4) All predecessor long-term debt was settled on the completion of the initial public offering and was not assumed by us.
- (5) 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 available 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.

**B. Capitalization and Indebtedness**

Not applicable.

**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**

*Our charter revenue from the four 4800 TEU secondhand vessels will decrease if APM exercises its options to extend its charters beyond the initial charter period of five years.*

We purchased four 4800 TEU secondhand vessels from A.P. Møller-Mærsk A/S, or APM, in 2006. Simultaneously with the delivery of the four 4800 TEU vessels, we entered into five-year charter agreements for each of these vessels with APM at a daily hire rate of \$23,450. Upon the expiration of the initial five-year time charter term for each of the four 4800 TEU vessels, APM will have two consecutive one-year options to charter each vessel at \$22,400 and \$21,400 per day, respectively, and a final two-year option to charter each vessel at \$20,400 per day. Our Manager will operate the four 4800 TEU vessels purchased from APM for a fixed fee of \$5,750 per day through December 31, 2008. The daily fixed fee thereafter will be subject to renegotiation every three years. If APM exercises its options, our charter revenue from the four 4800 TEU secondhand vessels will decrease during the option years.

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***The age of our 4800 TEU secondhand vessels will result in increased operating costs, 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. Our 4800 TEU secondhand vessels have an average age of approximately 17.5 years as of December 31, 2006. Older vessels are typically more costly to maintain than more recently constructed vessels. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations, including environmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment to these 4800 TEU secondhand vessels and may restrict the type of activities in which these vessels may engage. The increased costs associated with these vessels may prevent us from operating them profitably during the remainder of their useful lives.

***Under the time charters for our 5100 TEU and 4800 TEU vessels, if a vessel is off-hire for more than 60 days, the charterer has a right to terminate the charter agreement for that vessel.***

Each of the four 5100 TEU vessels which we have agreed to purchase are subject to a 12-year time charter with Mitsui O.S.K. Lines, or MOL, commencing upon the delivery of each vessel. Similarly, each of our 4800 TEU vessels is subject to a five-year time charter with APM commencing upon the delivery of each vessel. Pursuant to these time charter agreements, if a vessel is off-hire for more than 60 consecutive days, the charterer has a right to terminate the charter agreement for that vessel. If a time charter is terminated early, 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 revenues from that vessel, but may be required to pay expenses necessary to maintain the vessel in proper operating condition. The loss of a time charter could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends.

***Unless we set aside reserves or are able to borrow funds for vessel replacement at the end of a vessel's useful life our revenue will decline.***

Unless we maintain reserves or are able to borrow funds for vessel replacement, we will be unable to replace the vessels in our fleet upon the expiration of their remaining useful lives. Our cash flows and income are dependent on the revenues earned by the chartering of our vessels to customers. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our results of operations, financial condition and ability to pay dividends will be materially and adversely affected. Additionally, any reserves set aside for vessel replacement would not be available for dividends.

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

With the acquisition of the additional 18 undelivered vessels that we have agreed to purchase, we will almost double the size of our operating fleet since our initial public offering. 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 administrative and management personnel. We cannot guarantee that our Manager will be able to continue to hire suitable employees as we expand our fleet. In the event the shortage of experienced labor continues or worsens or 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 financial and operating systems or to recruit suitable employees as we expand our fleet, our results of operations and customer relationships may be adversely affected.

***Failure to timely comply with the requirements of Section 404(b) of the Sarbanes-Oxley Act could result in a loss of investor confidence in our financial reports and have an adverse affect on the trading price of our common shares.***

The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Beginning with our



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Annual Report for the year ending December 31, 2007, Section 404(b) of the Sarbanes-Oxley Act will require our independent registered public accounting firm to issue reports on management's assessment of our internal control over financial reporting. In addition, our independent registered public accounting firm may not agree with our management's assessment or conclude that our internal control over financial reporting is operating effectively. As a result, investors could lose confidence in our reported financial information, which could have an adverse effect on the trading price of our common shares.

***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;
- 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 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 facilities and in any future credit agreements or debt securities;
- 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 facilities also restrict our

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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 able to continue to refinance our indebtedness or maintain our payment of 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. 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 fleet that we have contracted to purchase 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.***

We have agreed to purchase an additional 18 containerships, incrementally over approximately the next 33 months, at a total purchase price of \$1.1 billion. Our obligation to purchase these additional 18 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 four of the 18 vessels we have agreed to purchase. We have declined to exercise the option on two of the four remaining containerships that we have contracted to purchase. Such common shares would be valued at a net price equal to 95% of our initial public offering price.

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 securities. 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.

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***We cannot assure you that we will be able to borrow amounts under our credit facilities and restrictive covenants in our credit facilities 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 we have drawn \$464.3 million to date of an available \$750.0 million from Tranche A to complete the acquisition of the vessels which we had contracted to purchase at the time of our initial public offering and the 4800 TEU secondhand vessels from APM. Tranche B of \$250.0 million had an original expiration date of December 31, 2006 but was extended to February 28, 2007. Tranche B expired as of February 28, 2007. Further, there are restrictions on the amount that can be advanced to us under the \$1.0 billion 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 \$1.0 billion credit facility has a maturity date of the earlier of (a) the seventh anniversary of the final delivery date of the last of the vessels which we had contracted to purchase at the time of our initial public offering or (b) October 31, 2014.

We have also entered into a \$365.0 million secured revolving credit facility to complete the acquisition of the two 3500 TEU vessels and the eight 2500 TEU vessels. To date, we have drawn \$35.4 million on this facility. The \$365.0 million credit facility has a maturity date of (a) for the 2500 vessels, the earlier of (i) the tenth anniversary of the delivery of the final 2500 TEU vessel or (ii) August 31, 2019, or (b) for the 3500 TEU vessels, the earlier of (i) the tenth anniversary of the delivery of the second 3500 TEU vessel or (ii) July 31, 2017.

We have entered into a credit facility for \$218.4 million to partially finance the construction of the four 5100 TEU vessels that will be built by Hyundai Heavy Industries, Co., Ltd. or HHI. The facility maturity date is earlier of (a) the anniversary date falling twelve years after the scheduled delivery date of the fourth 5100 TEU vessel delivered or (b) December 23, 2021. To date, we have drawn \$63.4 million under this credit facility.

Prior to each drawdown under our credit facilities, we are 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 facilities. We may be required to prepay amounts borrowed under our credit facilities if we, or in certain circumstances, our charterers, experience a change of control.

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

- pay dividends if an event of default has occurred and is continuing under one of our credit facilities 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;
- conduct material transactions with our affiliates except on an arm's-length basis;
- 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 agreements, we will not be able to pay dividends to you, finance our future operations, make acquisitions or pursue business opportunities.

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

We intend to finance our future fleet expansion program with secured indebtedness drawn under our credit facilities or future credit facilities. While we intend to refinance amounts drawn under our credit facilities 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 fleet, among other things, may materially affect our ability to obtain alternative financing. In addition, debt service payments under our credit facilities, future credit facilities, future issuance of debt securities 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 facilities, future credit facilities, future debt securities 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.

***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 the remaining 18 containerships which we have agreed to purchase, we will have substantial indebtedness. 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.

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

Customers for our current operating fleet are China Shipping Container Lines (Asia) Co., Ltd., or CSCL Asia, a subsidiary of China Shipping Container Lines Co., Ltd., or CSCL; and Hapag-Lloyd USA, LLC, or HL USA, a subsidiary of Hapag-Lloyd, AG, or Hapag-Lloyd; and APM. China Shipping (Group) Company, or China

Shipping, accounted for 100% of the predecessor's containership revenue. China Shipping subchartered its vessels to its subsidiary, CSCL. CSCL accounted for 100% of our containership revenue until October 18, 2005, when our first vessel chartered by HL USA was delivered to us. On December 30, 2005, China Shipping novated its 12 time charters to CSCL Asia, a majority-owned subsidiary of CSCL. Currently, HL USA charters seven 4250 TEU vessels from us. For the year ended December 31, 2006, CSCL Asia, HL USA and APM accounted for 73.4%, 24.0% and 2.6% of our containership revenue, respectively. All of our vessels 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 shipbuilding contract with each of Samsung Heavy Industries Co., Ltd., or Samsung, Zhejiang Shipbuilding Co. Ltd., or Zhejiang, Jiangsu Yangzijiang Shipbuilding, or Jiangsu, and HHI (individually, the "Shipbuilder" and collectively, the "Shipbuilders");
- the charterer exercises certain specific limited rights to terminate the charter;
- upon a change of control of our company, if the charterer fails to consent to such change of control; or
- 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.

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.

***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.***

China exports considerably more goods than it imports. 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.

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***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 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.

***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 China Shipping Container Lines (Hong Kong) Co., Limited, or 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 eight 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 shipbuilding contract is governed by English law, if we are required to commence legal proceeding against Jiangsu with respect to the provisions of the shipbuilding 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 recently 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.

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;

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- 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.

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

We are currently under contract to purchase 18 additional containerships. The two 9600 TEU vessels and the two 4250 TEU vessels which we have contracted to purchase are scheduled to be delivered at various times over approximately the next five months. Each of these four vessels is being built at the shipyard in Koje Island, South Korea owned by Samsung. Of the additional 14 containerships that we have contracted to purchase, two are being built at the shipyard in Ningbo, China, owned by Zhejiang, eight will be built at the shipyards in Jiangsu Province, China, owned by Jiangsu and four will be built at the shipyard in Ulsan, South Korea, owned by HHI. 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 any of the Shipbuilders' 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 any of the Shipbuilders;
- a backlog of orders at any of the Shipbuilders;
- 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 any of the Shipbuilders.

In addition, each of the shipbuilding contracts for the four containerships being built by Samsung and for the additional 14 containerships that will be or are being built by Zhejiang, Jiangsu or HHI contains a "force majeure" provision whereby the occurrence of certain events could delay delivery or possibly result in termination of the contract. If delivery of a containership is materially delayed or if a shipbuilding contract is terminated, it could adversely affect our results of operations and financial condition.

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***We are relying on the VesselCos to pay all costs for the two 9600 TEU vessels and the two 4250 TEU vessels that we have contracted to purchase, but have not been delivered. Similarly, we are relying on Conti to pay all costs for the two 3500 TEU containerships, with certain exceptions, that we will not own until after delivery and inspection.***

Upon the completion of our initial public offering on August 12, 2005, we acquired ten containerships and entered into a purchase agreement to acquire an additional 13 containerships as they are completed from certain wholly owned subsidiaries of Seaspan Containers Lines Limited, or SCLL, which we refer to as the VesselCos. Of these additional 13 new containerships, we have taken delivery of nine vessels and expect to take delivery of the remaining four vessels over the next five months. The VesselCos are responsible for all costs relating to the construction and delivery of the two 9600 TEU vessels and the two 4250 TEU vessels that we have contracted to purchase, but have not yet been delivered.

The two 3500 TEU vessels that we will take delivery of over the next four months are being built by Zhejiang pursuant to a shipbuilding contract between affiliates of Conti Holding GmbH & Co. KG, or Conti, and Zhejiang. We have agreed to acquire the two 3500 TEU vessels from affiliates of Conti as each vessel is delivered and passes inspection. These affiliates of Conti are responsible for all payments related to the construction and delivery of the 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. We have entered into a \$218.4 million long-term credit facility to fund the construction of these vessels.

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.

***We will be paying all costs for the four 5100 TEU vessels that are being built for us by HHI and the eight 2500 TEU vessels that are being built for us by Jiangsu.***

For each of the four 5100 TEU vessels that we have agreed to purchase, we are required to make five payment installments, ranging from 5% to 20% of the total contracted purchase price for each vessel, and a sixth installment for the final 50% balance remaining outstanding for each vessel. We have entered into a \$218.4 million long-term credit facility to partially fund the construction of these vessels.

For each of the eight 2500 TEU vessels that we have agreed to purchase, 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. We have entered into a \$365.0 million long-term credit facility to fund the construction of these vessels.

If HHI or 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 HHI, Jiangsu or their refund guarantors, or if the vessel has material defects that entitle MOL or 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 credit facilities without the benefit of revenue generated from those vessels or the funds paid to Jiangsu or HHI to offset our payments. Further, HHI is unable to deliver a vessel, we will have to pay back a portion of the outstanding balance under our credit facility for \$218.4 million. Such an outcome could have a material adverse effect on our business, results of operations and financial condition.

***Zhejiang has limited experience building containerships.***

Zhejiang has only built bulkcarriers, multipurpose ships, tankers and offshore supply vessels. Zhejiang has recently begun building containerships, 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.



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***Due to our lack of diversification, adverse developments in our containership transportation business could reduce our ability to service our debt obligations and 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 there has been a significant downward correction in charter rates and fair market value of vessels from the second half of 2005.***

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 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. In the future, rates may continue to decline. 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.

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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. An over-supply of containership capacity may result in a reduction of charter hire 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.

***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.

***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.

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

There are restrictions on the amount that can be advanced to us under our credit facilities 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 facilities, 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;

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- 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 service our debt obligations and 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.

***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 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.

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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 and results of operations.

***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, U.S. and Canadian authorities have increased container inspection rates. Government investment in non-intrusive container scanning technology has grown and there is interest in electronic monitoring technology, including 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.***

The 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.

***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

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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 HHI 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.

***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 securities. 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 maintain insurance for our fleet against risks commonly insured against by vessel owners and operators. Our insurance includes 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 facilities, 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 directly or indirectly 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

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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.

***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 more costly to maintain than more recently constructed vessels. 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.

***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 8500 TEU vessels are currently enrolled with Lloyd’s Register. Our 4250 TEU vessels that are chartered to CSCL Asia are currently enrolled with Det Norske Veritas, and our 4250 TEU vessels that are chartered to HL USA are currently enrolled with Lloyd’s Register. Our 4800 TEU vessels that are chartered to APM are currently enrolled with Lloyd’s Register. Upon delivery, each of the 9600 TEU, additional 4250 TEU vessels and the 2500 TEU vessels that we have contracted to purchase will be enrolled with Lloyd’s Register and each of the 5100 TEU vessels that we have contracted to purchase will be enrolled with Det Norske Veritas. The two 3500 TEU vessels that we have contracted to purchase are being built in compliance with the rules of Germanischer Lloyd. Upon delivery, however, each of the 3500 TEU vessels will be transferred to Det Norske Veritas. All of the currently operating 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.

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

Pursuant to an omnibus agreement, our Manager, Seaspan International Ltd., or Seaspan International, and Norsk Pacific Steamship Company Limited, generally agreed to, and agreed to cause their controlled affiliates (which does not include us), not to engage in the business of chartering or rechartering containerships 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.

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

Our Manager and its affiliates as well as certain of our officers are 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 to December 31, 2008 that is renewable annually thereafter by mutual consent. Pursuant to this employment agreement, our chief executive officer devotes substantially all of his time to us and our Manager on our business and affairs. Our chief financial officer is employed by us and not by our Manager and devotes 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.

***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 securities, 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 securities. 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 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 also serve as executive officers or directors of our Manager;
- our Manager advises our board of directors about the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional securities 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, do not spend all of their time on matters related to our business; and
- our Manager advises 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



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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.

***Even if our board of directors or our shareholders are dissatisfied with our Manager, there are limited circumstances under which the management agreement can be terminated by us. On the other hand, our Manager has substantial rights to terminate the management agreement and, under certain circumstances could receive very substantial sums in connection with such termination.***

The management agreement has an initial term of 20 years and automatically renews for subsequent five-year terms provided certain conditions are met. Our Manager has the right after five years from our initial public offering to terminate the management agreement on twelve months' notice, although the covenant limiting our Manager's ability to compete with us continues for two years following such termination. Our Manager also has the right to terminate the management agreement after a dispute resolution if we have materially breached the management agreement, in which case none of the covenants would continue to apply to our Manager.

The agreement with our Manager will terminate upon the sale of substantially all our assets to a third party, our liquidation or after any change of control of our company occurs. If the management agreement is terminated as a result of an asset sale, our liquidation or change of control, then our Manager may be paid the fair market value of the incentive shares as determined by an appraisal process. Any such payment could be substantial.

In addition, our rights to terminate the management agreement are limited. Even if we are not satisfied with the Manager's efforts in managing our business, unless our Manager materially breaches the agreement, we may not be able to terminate the management agreement until 15 years into the term. This early termination right requires a two-thirds approval of our independent directors, and if we elect to do so, or if we elect to terminate the management agreement at the end of the 20-year term or a subsequent renewal term, our Manager will continue to receive dividends on the incentive shares for a five-year period from the date of termination.

***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 shares 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.

***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 depends 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 securities 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 disclose information regarding our Manager that has a material impact on us to the extent that we become aware of such information.

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***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 securities.***

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.

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 securities and your ability to realize any potential change of control premium.

***Each vessel in our fleet is built or will be built in accordance with standard designs and uniform in all material respect to all other vessels in its class, thus any defect in one vessel will likely affect all of our other vessels in such class.***

Each vessel in our fleet is built or will be built in accordance with standard designs and uniform in all material respects to all other vessels in its class. As a result, any latent design defect discovered in one of our vessels will likely affect all of our other vessels in that class. 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 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,

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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 service of our debt obligations and 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.

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## Tax Risks

In addition to the following risk factors, you should read “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations” 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 and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both 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 qualified for this statutory tax exemption for the year ended December 31, 2006 (our “2006 Year”) and we will take this position for U.S. federal income tax return reporting purposes. However, there are circumstances, including some that are beyond our control, which 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. Therefore, we can give no assurances regarding our qualification for this tax exemption or that of any of our subsidiaries.

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 such year to a 4% U.S. federal income tax on our gross U.S. source shipping income. 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 non-U.S. 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 for our 2006 Year we were, nor do we expect to become, a PFIC with respect to any taxable year. We derive substantially all of our income from time 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, of our vessels, should not constitute passive assets for purposes of determining whether we are a PFIC in any taxable year.

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***The preferential tax rates applicable to qualified dividend income are temporary, and the enactment of previously proposed legislation could affect whether dividends paid by us constitute qualified dividend income eligible for the preferential rate.***

Certain of our distributions may be treated as qualified dividend income eligible for preferential rates of U.S. federal income tax to U.S. individual shareholders (and certain other U.S. shareholders). In the absence of legislation extending the term for these preferential tax rates, all dividends received by such U.S. taxpayers in tax years beginning on January 1, 2011 or later will be taxed at ordinary graduated tax rates.

In addition, legislation proposed during a preceding legislative session of the U.S. Congress would deny the preferential rate of U.S. 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 with the United States or is created or organized under the laws of a foreign country that 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 entities 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. As of the date hereof, it is not possible to predict with any certainty whether this previously proposed legislation will be reintroduced and 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), or 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

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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.

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. We are an owner of containerships and we charter them pursuant to long-term, fixed-rate time charters to major container liner companies. We currently own and operate a fleet of 23 containerships and have entered into contracts for the purchase of an additional 18 containerships. Customers for our current operating fleet are CSCL Asia, HL USA and APM. Customers for the additional 18 vessels will include MOL, HL USA, CSCL Asia and COSCO Containers Lines Co., Ltd., or COSCON. Our primary objective is to continue to grow our business through accretive acquisitions in order to increase our dividend per share.

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. The charters on the 23 vessels in our operating fleet as of December 31, 2006 have an average remaining term of 8.1 years (weighted by TEU capacity) plus certain options.

We maintain our principal executive offices at Unit 2, 7th Floor, Bupa Centre, 141 Connaught Road West, Hong Kong, China. Our telephone number 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.

We currently own and operate a fleet of 23 containerships and have entered into contracts for the purchase of an additional 18 containerships. The average age of the 23 vessels currently in our fleet is 4.8 years. Please read "Item 4. Information on the Company—D. Property, Plants and Equipment—Our Fleet" for more information.

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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 a subsidiary of CSCL. Seven containerships in our current fleet are under time charters with HL USA, a subsidiary of TUI. Our four 4800 TEU vessels are chartered to APM, the world's largest container shipping company. The 18 containerships that we have contracted to purchase will similarly be chartered on a long-term basis.

Our Manager and certain of its wholly owned subsidiaries provide technical, administrative and strategic services necessary to support our business. 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. In addition to the ship management services provided to us, our Manager also provides assistance with ship design, drawing approval and construction supervision to a number of other vessel owning companies and container liner operators, including its affiliates.

As of December 31, 2006, our Manager and its subsidiaries employed approximately 580 seagoing staff and approximately 50 shore staff. We expect our Manager and its subsidiaries will hire additional employees as we grow. We believe our Manager and its subsidiaries provide its seafarers competitive employment packages and comprehensive benefits and opportunities for career development.

We believe our Manager achieves high standards of technical ship management by pursuing risk reduction, operational reliability, and reduced personnel work time accidents. These standards are achieved through staff competencies, strategic alliances with suppliers and class societies on training, and information links across a nearly homogeneous fleet. Examples of our Manager's methods include the following:

- development of an audited competency standard for seagoing staff;
- standardization of equipment used throughout the fleet, which brings economies of scale, good familiarization by crew and streamlined logistical support;
- implementation of voluntary vessel condition monitoring vetted by class (our Manager was the first in the world to achieve accreditation by Det Norske Veritas on its hull planned maintenance system);
- direct recruitment of officers and ratings through an office in India that has supported the development of a culture of company loyalty and high retention of employees; and
- implementation of a system that rewards staff for avoiding off-hire incidents and for operating without accidents.

Our Manager's personnel have experience in overseeing new vessel construction, vessel conversions and general marine engineering. The core management of our Manager has worked in various companies in the international ship management industry, including China Merchants Group, Neptune Orient Lines, Teekay Shipping, Safmarine Container Lines and Columbia Ship Management. Our Manager's staff has skills in all aspects of ship management, including design and operations and marine engineering, among others. A number of senior officers also have sea-going experience, having served aboard vessels at a senior rank. Our crews are directly selected by our Manager and hired by its crew management affiliate, Seaspans Crew Management Ltd. In all training programs, our Manager places an emphasis on safety, and regularly trains its crew members and other employees in order to ensure that our high standards can continuously be met. Shore-based personnel and crew members are trained to be prepared for, and are ready to respond to, emergencies related to life, property or the environment.

Our Manager is required to perform its services in a commercially reasonable manner and cannot engage in fraud, willful misconduct or act in a reckless or grossly negligent manner in performing its duties. Our Manager

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is responsible for and will indemnify us for damages resulting from its obligations or liabilities under the management agreement, breaches of the agreement, fraud, willful misconduct, recklessness or gross negligence of our Manager or certain agents (other than the crew) or affiliates of our Manager in the performance of our Manager's duties.

Our Manager has agreed not to dispose of those wholly owned subsidiaries that provide services to us pursuant to 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:

- *Stability of cash flows through long-term, fixed-rate time charters and fixed vessel operating expenses.* Each vessel that we have contracted to purchase is subject to a long-term, fixed-rate time charter. As a result, the revenues 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 and purchased secondhand vessels only when we have concurrently entered into long-term time charters with our customers. In addition, we have fixed the vessel operating expenses for our fleet through December 31, 2008 pursuant to the agreement with our Manager.
- *Built-in growth.* We have significantly grown our fleet since our initial public offering in August 2005. At that time, we had an operating fleet of 10 vessels with another 13 vessels on order. As of December 31, 2006, we had 23 vessels in service and 18 vessels on order. This growth is expected to increase our annual contracted revenue by approximately \$142.1 million when all the vessels are delivered to us and are operating.
- *Diverse, high-quality fleet.* Our current operating fleet of 23 vessels has an average age of 4.8 years as of December 31, 2006. All of these vessels are built to high specifications, of which 19 vessels were designed by our Manager. The other newbuilding vessels we have agreed to purchase meet our exacting standards for design, construction quality and maintenance. Upon delivery of the vessels we have contracted to purchase, the vessels in our fleet will range in size from 2500 TEU to 9600 TEU.
- *Strong customer relationships.* We have long-standing relationships with our initial customers, CSCL Asia and CP Ships Limited, or CP Ships, which was acquired by TUI and amalgamated with its liner subsidiary, Hapag Lloyd in 2006. We believe that we will continue to be a significant provider to CSCL Asia and HL USA, a subsidiary of Hapag Lloyd, as they continue to grow their businesses and outsource capacity to charter owners. Since the completion of our initial public offering, we have expanded our customer base to include COSCON, APM and MOL. We will seek to expand our relationships with our new customers as we believe they will continue to outsource the ownership and operations of their existing and newbuilding vessels. In addition, we have extensive relationships with many other leading container liners, which we believe will lead to future business and enable us to further diversify our customer base.
- *Experienced management.* Both our Chief Executive Officer and Chief Financial Officer have over 25 years of professional experience in the shipping industry. In addition, our Manager's core management team has experience with many companies in the international ship management industry, including China Merchants Group, Neptune Orient Lines, Teekay Shipping, Safmarine Container Lines and Columbia Ship Management. Our Manager's staff has skills in all aspects of ship management, including design, operations and marine engineering, among others. Since our initial public offering, our management has demonstrated a disciplined acquisition approach by significantly increasing the size of the fleet through the purchase of high-quality vessels and concurrently entering into long-term time charters.



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## 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 and diversify our customer relationships.* Since our initial public offering, we have increased our customer base from two to five customers and have expanded our relationships with our original two customers, CSCL Asia and HL USA. We intend to continue to expand our relationships with CSCL Asia, HL USA, COSCON, APM and MOL, 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.
- *Actively acquire newly-built and secondhand vessels.* We have increased, and intend to further increase, the size of our fleet through timely and selective acquisitions of new and secondhand containerships that we believe will be accretive to distributable cash flow per share. We believe that entering into newbuild contracts will provide for the long-term growth of our fleet and continue to reduce the average age of our fleet. In addition, we believe that selectively acquiring high-quality secondhand vessels with long-term charters with leading container liners should provide for near-term growth in our fleet. We intend to continue this strategy to the extent market conditions permit, as we believe that it will enable us to reduce capital costs and enhance returns.
- *Operate under a fixed cost business model.* We have entered into, and expect to continue to enter into, fixed-rate contracts for the daily operations of our vessels with our Manager. Further, we have entered into interest rate swap agreements to fix the interest rate on our current and anticipated borrowings under our credit facilities until at least February 2014. We believe that operating under a fixed cost business model will provide for stability of cash flows and dividend payments. Excluding reserves, general and administrative expenses, and potential extraordinary costs, our operating cost structure will be fixed through at least December 2008.
- *Maintain efficient capital structure.* We intend to pursue a financial strategy that aims to preserve our financial flexibility and achieve the lowest possible capital cost so that we will be able to pursue acquisition and expansion opportunities to take advantage of potential growth opportunities 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.

## 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 fleet is subject to a long-term time charter. Currently, 12 containerships in our fleet are subject to charters with CSCL Asia, a subsidiary of CSCL. Seven containerships are subject to charters

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with HL USA, a subsidiary of Hapag-Lloyd. CP Ships has provided a guarantee of the obligations and liabilities of HL 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. Four vessels are subject to charters with APM.

Each of the 18 vessels that will be delivered to us over the next 33 months is also subject to a long-term time charter. Eight containerships are subject to charters with CSCL Asia, two are subject to charters with China Shipping, which will novate them to CSCL Asia, four are subject to charters with MOL, two are subject to charters with HL USA and the remaining two containerships are subject to charters with COSCON.

#### *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 22 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 eight 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 of the 4800 TEU vessels that are chartered to APM have initial terms of five years, two consecutive one-year options and a final two-year option.

The charter periods for the two 3500 TEU vessels currently under construction that are chartered to COSCON and the four 5100 TEU vessels currently under construction that are chartered to MOL are 12 years. There is no option to extend beyond the initial term.

The initial term of each of the time charters with HL USA is three years. HL 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 HL USA provides written notice to the contrary to us not later than two years prior to the commencement of the respective extension period. If HL 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, HL USA has an option to extend the term for two additional one-year periods.

In the case of our charters with HL USA, while the initial term is only three years, we consider these charters to be long-term charters. Given that HL 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 HL 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.

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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 have the VesselCos.

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 HL 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 HL USA, which will be assigned to us on completion of our purchase of the vessel owned by each such VesselCo, HL 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.

The hire rate under the time charters with APM is payable monthly in advance at the applicable fixed daily rate.

The hire rate under the time charters with MOL is payable monthly advance at the applicable fixed daily rate, however for the last half month of the charter, the approximate amount of the hire rate is to be paid day by day as it become due unless a bank guarantee is made by the charterers.

#### *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 and capital expenses, which include normally scheduled 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, agency fees and commissions.

#### *Off-hire*

Under all forms of our 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;
- 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.

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Under our time charters with HL 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 a 365 day period, COSCON may cancel the time charter with respect to that vessel. CSCL Asia does not have similar rights under its charters with us. Under our time charters with MOL and APM, if a vessel is off-hire for more than 60 consecutive days, the charterer has a right to terminate the charter agreement for that vessel.

#### *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 HL 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, HL 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. Pursuant to the time charter agreements with APM and MOL, if a vessel is off-hire for more than 60 consecutive days, the charterer has a right to terminate the charter agreement for that vessel. CSCL Asia does not have similar rights under its charters with us.

#### *Change of Control*

Under our time charters with HL USA, HL USA's prior consent is required to any material change in our ownership or voting control. HL USA cannot unreasonably withhold such consent. None of CSCL Asia, APM, MOL or 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 HL USA, we must first notify HL USA and provide HL USA with an opportunity to purchase the vessel. If HL USA refuses to purchase the vessel or if we are unable to reach an agreement with HL USA within 14 days, we will be free to conclude a sale with another party subject to certain terms.

Our time charters with COSCON and MOL 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 charterer's consent, which cannot be unreasonably withheld.

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There is no similar provision in the time charters with APM relating to the sale of the vessels.

#### *Charterers*

CSCL Asia is a subsidiary of CSCL, which is currently the sixth largest container shipping company in the world with over 396,000 TEU of capacity. Incorporated in China, CSCL is listed on the Hong Kong Stock Exchange with a market capitalization of approximately \$2.3 billion. Currently, CSCL Asia charters 12 of the 23 vessels in our fleet. Each time charter to CSCL Asia has a guarantee provided by CSCL and CSCL Hong Kong to cover the obligations and liabilities of CSCL Asia.

HL 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 Hapag Lloyd. CP Ships was acquired by TUI in 2005 and was later amalgamated into its affiliate, Hapag Lloyd, to create the world's fifth largest container shipping company with a capacity of 457,000 TEU. HL USA currently charters seven vessels in our fleet and will charter an additional two vessels for a total of nine vessels.

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 \$5.3 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.

APM is the largest containership company in the world with over 1,750,000 TEU capacity. APM is listed on the Copenhagen Stock Exchange with a market capitalization of approximately \$48.0 billion. APM currently charters four vessels in our fleet although they have sub-chartered one vessel to Mediterranean Shipping Company, S.A., or MSC, who operates it as the MSC Sweden.

MOL is the 12<sup>th</sup> largest containership company in the world with over 280,000 TEU of capacity. MOL is listed on the Tokyo Stock Exchange with a market capital of approximately \$13.6 billion. MOL will charter a total of four 5100 TEU vessels upon their deliveries in 2009.

#### **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.

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## 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. Capitalized words and expressions used herein and defined in the management agreements shall have the same meaning herein or as therein defined. 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 incorporated herein by reference.*

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.

## 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 support, shoreside support, shipyard supervision, and attending to all other technical matters necessary to run our business (provision of technical services and related costs are paid for by our Manager at its cost and in return for its technical services, our Manager receives 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 the U.S. 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 Commission pursuant to the Securities Exchange Act of 1934 (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

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- *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, providing pre-delivery service for vessels 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 is not 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 our 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 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 \$4,500 per day for each 4250 TEU vessel, \$5,750 per day for each 4800 TEU vessel, \$6,000 per day for each 8500 TEU vessel and \$6,500 per day for each 9600 TEU vessel. The initial fixed fees are expected to be \$4,000 per day for each 2500 TEU vessel, \$4,200 per day for each 3500 TEU vessel and \$4,800 per day for each 5100 TEU vessel. We believe these are fair market fees. The initial fixed fees for the 4250 TEU, 8500 TEU and 9600 TEU vessels are 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 and the 4800 TEU vessels are 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 and the 5100 TEU vessels are 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

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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 strategic services, our Manager's affiliate acquired 100 incentive shares for \$1,000 concurrently with our initial public offering. 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's affiliate 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 that 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 containerhips to others, hereinafter referred to as the "containership business," during the term of the management agreement, except as provided below. "Containerships" includes any ocean-going vessel that is intended primarily to transport containers or is being used primarily to transport containers. In the event that the management agreement is terminated for Manager Cause or Manager Breach or if our Manager elects to 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. The non-competition agreement does 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;



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- 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 1000 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 does 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 is 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, must 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 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 the management agreement and extending for a period of two years, unless such termination is for Manager Cause, Manager Breach or our 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 180 days and 210 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, our Manager cannot terminate the Chief Executive Officer without our prior consent, which cannot be unreasonably withheld.

Mr. Wang has acknowledged in the agreement that by virtue of his employment, he owes fiduciary obligations to us and to SSML. In such case where our interests and those of SSML conflict, Mr. Wang will act

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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 our 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 180 days and 210 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 our 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 claim. 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.

##### *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, but subject to the rules of the particular protection and indemnity insurer.

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.

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## 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.

## Our \$1.0 Billion 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.*

On August 8, 2005, we 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-Thuringen and Fortis Capital Corp. This credit facility will be used in part to fund our acquisition of the vessels that we had contracted to purchase from SCLL at the time of our initial public offering and additional new or used containerships we may decide to acquire. Our credit facility has a maturity date of the earlier of (a) the seventh anniversary of the delivery date of the last of the 23 vessels that we had contracted to purchase from SCLL at the time of our initial public offering and any additional containerships we may finance under this facility or (b) October 31, 2014.

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. Tranche A has been used to fund our acquisition of the vessels that we had contracted to purchase from SCLL at the time of our initial public offering and the 4800 TEU secondhand vessels from APM while Tranche B may 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 that we had contracted to purchase from SCLL at the time of our initial public offering (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 the 23 vessels that we had contracted to purchase from SCLL at the time of our initial public offering. Tranche B had an original expiration date of December 31, 2006 but was extended to February 28, 2007. Tranche B expired as of February 28, 2007. We are in the process of refinancing our \$1.0 billion credit facility.

Our undrawn credit facility fee is 37.5% of the applicable margin on the difference between our total credit facility amount and our principal amounts outstanding under the credit facility. 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, starting five years and three months from the earlier of the date of the delivery of the last vessel that we had contracted to purchase at the time of our initial public offering 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.

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 the vessels that we had contracted to purchase at the time of our initial public offering 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 HL 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 containerships 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.

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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.

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.

#### **Our \$365.0 Million Credit Facility**

*The following summary of the material terms of the Revolving 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 Revolving 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 Revolving Credit Facility listed as an exhibit to this Annual Report.*

On May 19, 2006, we entered into a 10 to 13-year (based on the delivery dates of certain vessels), senior secured, \$365.0 million revolving credit facility with certain lenders.

The facility is split into two separate tranches, Tranche A to fund the acquisition of the two 3500 TEU container vessels and Tranche B to fund the construction of the eight 2500 TEU container vessels. Our obligations under the facility will be secured by first-priority mortgages on our two 3500 TEU container vessels and the eight 2500 TEU container vessels. Also, the facility will be secured by a first-priority assignment of our earnings related to the collateral vessels, including time-charter revenues and any insurance proceeds.

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We may prepay all loans at any time without penalty, other than breakage costs in certain circumstances. Amounts that have been prepaid may be reborrowed. We are required to prepay a portion of the outstanding loans under certain circumstances, including the sale or loss of a vessel if we do not substitute another vessel. Beginning six months from the delivery date of the last vessel securing Tranche A of the facility, but no later than March 31, 2008, the total amounts available for borrowing under Tranche A will be reduced semiannually until the maturity date, at which time the facility will terminate. Beginning six months from the delivery date of the last vessel securing Tranche B of the facility, but no later than April 30, 2010, the total amounts available for borrowing under Tranche B will be reduced semiannually until the maturity date, at which time the facility will terminate.

Indebtedness under the revolving credit facility bears interest at a rate equal to LIBOR + 0.850% until July 31, 2013, for Tranche A, and August 31, 2015, for Tranche B, and LIBOR + 0.925% thereafter. We incur a commitment fee on the unused portion of the revolving credit facility at a rate of 0.30% per annum.

We are subject to other customary conditions precedent before we may borrow under the facility, including that no event of default is ongoing and there having occurred no material adverse effect on our ability to perform our payment obligations under the facility. In addition, the credit facility contains various covenants limiting our ability to:

- allow liens to be placed on the collateral securing the facility;
- enter into mergers with other entities;
- conduct material transactions with our affiliates except on an arm's-length basis; and
- change the flag, class, or management of our vessels.

Our \$365 million credit facility agreement contains certain financial covenants including covenants requiring us to maintain a minimum tangible net worth, maximum leverage and minimum interest coverage and principal and interest coverage ratios.

The credit agreement contains customary definitions of events of default, including nonpayment of principal or interest, breach of covenants or material inaccuracy of representations, default under other material indebtedness, bankruptcy, and change of control.

#### **Our \$218.4 Million Term Loan Facility**

*The following summary of the material terms of the Term Loan Facility does not purport to be complete and is subject to, and qualified in its entirety by reference to, all the provisions of the Term Loan 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 Term Loan Facility listed as an exhibit to this Annual Report*

On October 16, 2006, we entered into a credit facility for \$218.4 million. The proceeds of this facility will be used to partially finance the construction of the four 5100 TEU vessels that will be built by HHI. The credit facility requires payment of interest at a rate per annum, calculated as LIBOR plus 0.6% per annum.

The credit facility requires payments of a commitment fee of 0.3% per annum calculated on the undrawn portion of the facility.

Beginning thirty six months from the delivery date of the last vessel securing the facility, the principal amount borrowed under the facility will be reduced in eighteen semi-annual payments by amounts ranging from 2.7% and 3.3% of the amount borrowed until the maturity date. A final repayment of approximately 45% of the amount borrowed is required upon the final maturity date.

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The facility maturity date is the earlier of (a) the anniversary date falling twelve years after the scheduled delivery date of the fourth 5100 TEU vessel delivered or (b) December 23, 2021.

### **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.

#### *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 is 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 23 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.

OPA 90 had historically limited 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), unless the incident is caused by gross negligence, willful misconduct, or a violation of certain regulations, in which case liability is unlimited. Amendments to OPA 90 signed into law on July 11, 2006, however, increased these limits on the liability of responsible parties for any vessel other than a tank vessel to \$950 per gross ton or \$800,000, whichever is greater.

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;
- 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. The U.S. Coast Guard has indicated that it intends to propose a rule that would increase the required amount of evidence of financial responsibility to reflect the higher limits on liability imposed by the July amendments to OPA 90 as described above.

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



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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 that 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*

The U.S. Environmental Protection Agency (or EPA) had exempted the discharge of ballast water and other substances incidental to the normal operation of vessels in U.S. ports from the Clean Water Act permitting requirements. However, on March 30, 2005, a U.S. District Court ruled that the EPA exceed its authority in crafting an exemption for ballast water. On September 18, 2006, the court issued an order invalidating the exemption in the EPA's regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, and directing the EPA to develop a system for regulating all discharges from vessels by that date. The EPA has indicated that it will appeal this decision. However, if the exemption is ultimately repealed, we would be subject to Clean Water Act permit requirements that could include ballast water treatment obligations that could increase the cost of operating in the United States. For example, this could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost and/or otherwise restrict our vessels from entering waters in the United States that are subject to this ruling.

#### **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.

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### *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. Recent amendments to MBCA clarify existing prohibitions, expand the investigative and enforcement powers of Environment Canada and provide the government with the ability to enforce the statute effectively in Canada's Exclusive Economic Zone.

MBCA prohibits the deposit of any substance that is harmful to migratory birds in any waters or area frequented by migratory birds." Increased Maximum fines range from C\$300,000 to C\$1 million or imprisonment from six months to three years, or both, which penalty provisions extend to the vessel's owner, operator, master and chief engineer. MBCA imposes minimum fines, C\$500,000 for an indictable offence and C\$100,000 for a summary offence, for offences committed by a vessel in excess of 5,000 tons deadweight. An offence can be committed by a "person" or a "vessel".

MBCA extends 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, the duty to take reasonable steps to ensure a vessel's compliance with the prohibition against harmful deposits. A foreign vessel may be detained within Canada's Exclusive Economic Zone with the consent of the attorney general. MBCA grants discretion to the court, 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 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 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.

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Recent amendments to CEPA subject owners of ships and directors and offices of corporations that own ships to a duty of care to ensure that ships comply with CEPA provisions and its regulations concerning disposal at sea and with orders and directions made under CEPA. The amendments also expand the jurisdiction of Canadian courts to include the Exclusive Economic Zone of Canada.

*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.

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## 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.

## C. Organizational Structure

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

## D. Property, Plants and Equipment

### Our Fleet

We currently own and operate a fleet of 23 containerships and have entered into contracts for the purchase of an additional 18 containerships. The average age of our current fleet of 23 vessels is 4.8 years.

In our current fleet, 17 of the vessels have a container capacity of 4250 TEU each. Those vessels are approximately 260.0 meters long, 32.3 meters wide and 19.3 meters deep and have a gross tonnage of 39,941 tons. 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. The remaining four vessels have a container capacity of 4800 TEU each. Those vessels are approximately 294.2 meters long, 32.2 meters wide and 12.0 meters deep. The gross tonnage of each vessel is 52,191 tons.

All of our vessels in operation 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. The classification society for our 8500 TEU vessels and 4800 TEU vessels is Lloyd's. All of the vessels have been certified as being "in class" by their respective classification societies.

The following table summarizes key facts regarding the 23 vessels in operation as of December 31, 2006. Each of the vessels listed below was built by Samsung, except for four 4800 TEU vessels. Three of the 4800 TEU vessels were built in 1989 by Odense-Lindo Shipyard Ltd. and the remaining 4800 TEU vessel was built in 1988 by Odense-Lindo Shipyard Ltd.

Vessel Name	Vessel Size (TEU)	Commencement of Charter	Year Built	Charterer	Length of Time Charter	Daily Charter Rate (in thousands)	Operating Days in 2005 / Available Days 2005	Operating Days in 2006 / Available Days 2006
CSCL Oceania	8500	12/4/04	2004	CSCL Asia	12 years + one 3-year option	\$ 29.5(1)	365/365	365/365
CSCL Africa	8500	1/24/05	2005	CSCL Asia	12 years + one 3-year option	29.5(1)	342/342	365/365
CSCL Hamburg	4250	7/3/01	2001	CSCL Asia	10 years + one 2-year option	18.3(2)	365/365	338/365
CSCL Chiwan	4250	9/20/01	2001	CSCL Asia	10 years + one 2-year option	18.3(2)	365/365	356/365
CSCL Ningbo	4250	6/15/02	2002	CSCL Asia	10 years + one 2-year option	19.9(3)	365/365	363/365
CSCL Dalian	4250	9/4/02	2002	CSCL Asia	10 years + one 2-year option	19.9(3)	365/365	365/365
CSCL Felixstowe	4250	10/15/02	2002	CSCL Asia	10 years + one 2-year option	19.9(3)	365/365	365/365
CSCL Vancouver	4250	2/16/05	2005	CSCL Asia	12 years	17.0	319/319	365/365
CSCL Sydney	4250	4/19/05	2005	CSCL Asia	12 years	17.0	257/257	365/365
CSCL New York	4250	5/26/05	2005	CSCL Asia	12 years	17.0	220/220	365/365
CSCL Melbourne	4250	8/17/05	2005	CSCL Asia	12 years	17.0	137/137	365/365
CSCL Brisbane	4250	9/15/05	2005	CSCL Asia	12 years	17.0	108/108	365/365
New Delhi Express	4250	10/18/05	2005	HL USA	3 years + seven 1-year extensions + two 1-year options(4)	18.0(5)	75/75	341/365
Dubai Express	4250	1/3/06	2006	HL USA	3 years + seven 1-year extensions + two 1-year options(4)	18.0(5)	N/A	363/363
Jakarta Express	4250	2/21/06	2006	HL USA	3 years + seven 1-year extensions + two 1-year options(4)	18.0(5)	N/A	313/313
Saigon Express	4250	4/6/06	2006	HL USA	3 years + seven 1-year extensions + two 1-year options(4)	18.0(5)	N/A	269/269
Lahore Express	4250	7/11/06	2006	HL USA	3 years + seven 1-year extensions + two 1-year options(4)	18.0(5)	N/A	173/173
Rio Grande Express	4250	10/20/06	2006	HL USA	3 years + seven 1-year extensions + two 1-year options(4)	18.0(5)	N/A	73/73
Santos Express	4250	11/13/06	2006	HL USA	3 years + seven 1-year extensions + two 1-year options(4)	18.0(5)	N/A	49/49
MSC Sweden	4800	11/6/06	1989	APM	5 years + two 1-year options + one 2-year option	23.5(6)	N/A	56/56
Mærsk Matane	4800	11/20/06	1988	APM	5 years + two 1-year options + one 2-year option	23.5(6)	N/A	42/42
Mærsk Marystown	4800	12/6/06	1989	APM	5 years + two 1-year options + one 2-year option	23.5(6)	N/A	26/26
Mærsk Moncton	4800	12/22/06	1989	APM	5 years + two 1-year options + one 2-year option	23.5(6)	N/A	10/10

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- (1) CSCL Asia has an initial charter of twelve years with a charter rate of \$29,500 per day for the first six years, \$29,800 per day for the second six years, and \$30,000 per day during the option period.
  - (2) CSCL Asia has an initial charter of ten years with a charter rate of \$18,000 per day for the first five years, \$18,300 per day for the second five years, and \$19,000 per day for the final two-year option.
  - (3) CSCL Asia has an initial charter of ten years with a charter rate of \$19,933 per day for the first five years, \$19,733 per day for the second five years, and \$20,500 per day for the final two-year option.
  - (4) For these charters, the initial term is three years that automatically extends for up to an additional seven years in successive one-year extensions, unless HL USA 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.
  - (5) HL USA has an initial charter of three years that automatically extends for up to an additional seven years with a charter rate of \$18,000 per day, and \$18,500 per day for the final two one-year options.
  - (6) APM has a initial charter for five years at \$23,450, two consecutive one-year options to charter the vessel at \$22,400 and \$21,400 per day respectively and a final two-year option to charter the vessel at \$20,400 per day. In addition, we will pay an affiliate of APM a 0.5% commission on all hire payments for each of the APM charters.

#### **New Vessel Contracts**

In addition to the four remaining containerships that we contracted to purchase at the time of our initial public offering, we have contracted to purchase 14 additional containerships that are currently under construction. These consist of four 5100 TEU vessels, two 3500 TEU vessels and eight 2500 TEU vessels. We expect to take delivery of these 14 containerships over the next 33 months.

We have agreed to acquire four 5100 TEU vessels from HHI as each vessel is delivered and passes inspection. These four vessels will be built by HHI at its shipyard in Ulsan, South Korea. The contractual purchase price is \$77.4 million per vessel. Each 5100 TEU vessel is subject to a twelve-year time charter with MOL.

We have agreed to acquire the two 3500 TEU vessels from affiliates of Conti as each vessel is delivered and passes inspection. The contractual purchase price is approximately \$46.5 million per vessel. The two 3500 TEU vessels are being built by Zhejiang at its shipyard in Ningbo, China. Each 3500 TEU vessel is subject to a twelve-year time charter with COSCON.

We have also agreed to acquire eight 2500 TEU vessels from Jiangsu as each vessel is delivered and passes inspection. The contractual purchase price is \$41.3 million per vessel. These eight vessels will be built by Jiangsu at its shipyards in Jiangsu Province, China. Each 2500 TEU vessel is subject to a twelve-year time charter with CSCL Asia.

The 18 newbuilding containerships that we have contracted to purchase are currently under construction and consist of the following vessels:

Vessel	Vessel Size (TEU)	Length of Time Charter(1)	Charterer	Contractual Delivery Date	Daily Charter Rate (in thousands)	Shipbuilder
CSCL Zeebrugge	9600	12 years	China Shipping(2)	5/31/07	\$ 34.0(3)	Samsung
CSCL Long Beach	9600	12 years	China Shipping(2)	8/31/07	34.0(3)	Samsung
HHI Hull No. 1970	5100	12 years	MOL	4/20/09	28.9	HHI
HHI Hull No. 1971	5100	12 years	MOL	8/5/09	28.9	HHI
HHI Hull No. 1972	5100	12 years	MOL	11/20/09	28.9	HHI
HHI Hull No. 1973	5100	12 years	MOL	12/23/09	28.9	HHI
Rio de Janeiro Express	4250	3 years + seven 1-year extensions + two 1-year options(4)	HL USA	4/14/07	18.0(5)	Samsung
Manila Express	4250	3 years + seven 1-year extensions + two 1-year options(4)	HL USA	6/14/07	18.0(5)	Samsung
Zhejiang Shipbuilding Hull No. 125	3500	12 years	COSCON	2/28/07	19.0	Zhejiang
Zhejiang Shipbuilding Hull No. 126	3500	12 years	COSCON	7/31/07	19.0	Zhejiang
Jiangsu Shipbuilding Hull YZJ 2005-696C	2500	12 years	CSCL Asia	8/30/08	16.8(6)	Jiangsu
Jiangsu Shipbuilding Hull YZJ 2006-716C	2500	12 years	CSCL Asia	11/30/08	16.8(6)	Jiangsu
Jiangsu Shipbuilding Hull YZJ 2006-717C	2500	12 years	CSCL Asia	1/30/09	16.8(6)	Jiangsu
Jiangsu Shipbuilding Hull YZJ 2006-718C	2500	12 years	CSCL Asia	2/28/09	16.8(6)	Jiangsu
Jiangsu Shipbuilding Hull YZJ 2006-719C	2500	12 years	CSCL Asia	5/10/09	16.8(6)	Jiangsu
Jiangsu Shipbuilding Hull YZJ 2006-720C	2500	12 years	CSCL Asia	6/10/09	16.8(6)	Jiangsu
Jiangsu Shipbuilding Hull YZJ 2006-721C	2500	12 years	CSCL Asia	7/10/09	16.8(6)	Jiangsu
Jiangsu Shipbuilding Hull YZJ 2006-722C	2500	12 years	CSCL Asia	8/10/09	16.8(6)	Jiangsu

- (1) Each charter begins upon delivery of the vessel.
- (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.
- (3) China Shipping has an initial daily charter rate of \$34,000 per day, increasing to \$34,500 per day after six years.
- (4) For these charters, the initial term is three years that automatically extends for up to an additional seven years in successive one-year extensions, unless HL USA 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.
- (5) HL USA has an initial charter of three years that automatically extends for up to an additional seven years with a charter rate of \$18,000 per day, and \$18,500 per day for the final two one-year options.
- (6) CSCL Asia has an initial daily charter rate of \$16,750 per day, increasing to \$16,900 after six years.

The following chart details the number of vessels in our fleet based on size as we take contractual delivery:

Vessel Size	As of December 31, 2006	Forecasted		
		Year Ending December 31,		
		2007	2008	2009
9600 TEU Class	—	2	2	2
8500 TEU Class	2	2	2	2
5100 TEU Class	—	—	—	4
4800 TEU Class	4	4	4	4
4250 TEU Class	17	19	19	19
3500 TEU Class	—	2	2	2
2500 TEU Class	—	—	2	8
<b>Operating Vessels</b>	<b>23</b>	<b>29</b>	<b>31</b>	<b>41</b>
<b>Capacity (TEU) (1)</b>	<b>108,473</b>	<b>143,207</b>	<b>148,299</b>	<b>183,923</b>

- (1) Our 9600 TEU vessels, 8500 TEU vessels, 5100 TEU vessels, 4800 TEU vessels, 4250 TEU vessels, 3500 TEU vessels and 2500 TEU vessels have an actual capacity of 9580 TEU, 8468 TEU, 5087 TEU, 4809 TEU, 4253 TEU, 3534 TEU and 2546 TEU, respectively.

#### Four Remaining Containerships That We Have Contracted to Purchase at Our Initial Public Offering

Over approximately the next five months, we expect to acquire the remaining four containerships from VesselCos for an aggregate purchase price of approximately \$345.7 million, as each of the containerships is delivered and passes inspection. These are the two 9600 TEU vessels and the two 4250 TEU vessels. Each of the remaining four containerships is being built by Samsung at its shipyard at Koje Island, South Korea, pursuant to a shipbuilding contract with a VesselCo.

We have the option to issue up to \$100.0 million of common shares as part of the purchase price for the remaining four containerships that we have contracted to purchase at the time of our initial public offering. We must give 30 days' 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. We have declined to exercise the option on two of the four remaining containerships that we have contracted to purchase from the VesselCos.

### 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 year ended December 31, 2005 included in this Annual Report as well as in management's discussion and analysis below include the predecessor's 223 day operating period ended August 11, 2005 and 142 days of our operations from August 12, 2005, the date of completion of our initial public offering.*



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## Overview

We are Seaspan Corporation, a Marshall Islands corporation that was incorporated on May 3, 2005. 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 continue to grow our business through accretive acquisitions in order to increase our dividend per share.

We currently own and operate a fleet of 23 containerships and have entered into contracts for the purchase of an additional 18 containerships. The average age of the 23 vessels currently in our fleet is 4.8 years. 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. CSCL Asia, a British Virgin Islands company, is a subsidiary of CSCL. CSCL is the sixth largest container shipping company in the world and is listed on the Hong Kong Stock Exchange. CSCL has a market capitalization of approximately \$2.3 billion. CSCL Asia primarily operates in the China trade routes, which in the past few years have experienced significant growth. Seven containerships in our fleet are under time charters with HL USA, a subsidiary of Hapag Lloyd. Our four 4800 TEU vessels are chartered to APM, the world’s largest container shipping company. The 18 containerships that we have contracted to purchase will similarly be chartered on a long-term basis.

### 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 initial public offering 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.

#### *Intangible Assets*

For certain vessels where the Company provides lubricants for the operation of such vessels, the Company has a contractual right to have the vessel returned with the same level and complement of lubricants. This contractual right is recorded as an intangible asset at the historical fair value of the lubricants at the time of delivery. Intangible assets are tested for impairment annually or more frequently due to events or changes in circumstances that indicate the asset might be impaired. An impairment loss is recognized when the carrying amount of the intangible asset exceeds its fair value.

#### *Derivative Instruments*

Our hedging policies permit the use of various derivative financial instruments to manage interest rate risk. Interest rate swap and swaption agreements have been entered into to reduce our 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. We recognize the interest rate swap and swaption agreements on the balance sheet at their fair value.

To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be formally designated as a hedge at the inception of the hedging relationship. We consider a hedge to be highly effective if the change in fair value of the derivative hedging instrument is within 80% to 125% of the opposite change in the fair value of the hedged item attributable to the hedged risk. For interest rate swap agreements that are formally designated as cash flow hedges, the changes in the fair value of these interest rate swaps are recorded in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of the hedges are recognized in earnings as they occur. Actual cash receipts and/or payments and related accruals on derivatives related to hedges are recorded as adjustments to the interest income or interest expense associated with the hedged item. During the life of the hedge, we formally assess whether each derivative designated as a hedging instrument continues to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, we will discontinue hedge accounting prospectively.

Other interest rate swap agreements and derivative instruments that are not designated as hedging instruments are marked to market and are recorded on the balance sheet at fair value. The changes in the fair value of these instruments are recorded in earnings.

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We do not hedge foreign currency translation of assets or liabilities or foreign currency transactions or use financial instruments for trading or other speculative purposes.

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 earnings.

#### *Recent Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board (“FASB”) issued FSP AUG AIR-1, “Accounting for Planned Major Maintenance Activities”, which provides guidance on the accounting for planned major maintenance activities. We are currently using Accrue-in-advance method of accounting to account for dry-dock activities. We will adopt the deferral method of accounting for major maintenance activities whereby actual costs incurred are deferred and amortized on a straight line basis over the period until the next scheduled major maintenance. FSP AUG AIR-1 is required to be applied to the first fiscal year beginning after December 15, 2006. The impact of the adoption of FSP AUG AIR-1 is not yet determinable.

Staff Accounting Bulletin (SAB) No. 108, “Considering the Effects of a Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements.” SAB 108 addresses how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. The effects of prior year uncorrected errors include the potential accumulation of improper amounts that may result in a material misstatement on the balance sheet or the reversal of prior period errors in the current period that result in a material misstatement of the current period income statement amounts. Adjustments to current or prior period financial statements would be required in the event that after application of various approaches for assessing materiality of a misstatement in current period financial statements and consideration of all relevant quantitative and qualitative factors, a misstatement is determined to be material. SAB 108 is applicable to all financial statements issued by the Corporation after November 15, 2006. The impact of SAB 108 is not material for the year ended December 31, 2006.

#### *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 containerhips 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 containership 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.

#### Year Ended December 31, 2006 Compared with Year Ended December 31, 2005

The following discussion of our financial condition and results of operations is for the years ended December 31, 2006 and 2005. The year ended December 31, 2005 includes the predecessor's 223 day operating period ended August 11, 2005 and 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 years ended December 31, 2005 and 2006.

	Year Ended December 31, 2005(1)	Year Ended December 31, 2006
<b>Statement of operations data (in thousands of dollars, except where otherwise stated):</b>		
Revenue	\$ 74,960	\$ 118,489
Operating expenses:		
Ship operating	15,985	29,407
Depreciation	17,090	26,878
General and administrative	1,912	4,911
Operating earnings	39,973	57,293
Other expenses (income):		
Interest expense	16,262	17,594
Interest income	(141)	(1,542)
Undrawn credit facility fee	1,041	2,803
Amortization of deferred financing fees	1,176	1,966
Change in fair value of financial instruments	(7,308)	908
Net earnings	<u>\$ 28,943</u>	<u>\$ 35,564</u>
Common shares outstanding	35,991,600	47,522,350

	Year Ended December 31, 2005(1)	Year Ended December 31, 2006
<b>Per share data:</b>		
Earnings from commencement of operations, basic and diluted in dollars	\$ 0.40	\$ 0.94
Cash dividends paid	\$ 0.23	\$ 1.70
<b>Statement of cash flows data:</b>		
Cash flows provided by (used in):		
Operating activities	\$ 43,404	\$ 71,363
Investing activities	(847,192)	(605,652)
Financing activities	818,649	610,798
Net increase in cash and cash equivalents	<u>\$ 14,861</u>	<u>\$ 76,509</u>
<b>Selected balance sheet data:</b>		
Cash and cash equivalents	\$ 15,718	\$ 92,227
Vessels	621,163	1,198,782
Fair value of financial instruments	4,799	10,711
Other assets	8,878	13,552
Total assets	<u>\$ 650,558</u>	<u>\$ 1,315,272</u>
Other liabilities	4,226	11,167
Fair value of financial instruments	—	15,831
Long-term debt	122,893	563,203
Shareholders' equity	<u>523,439</u>	<u>725,071</u>
Total liabilities and shareholders' equity	<u>\$ 650,558</u>	<u>\$ 1,315,272</u>
<b>Other data:</b>		
Number of vessels in operation at period end	13	23
Average age of fleet in years at period end	1.9	4.8
TEU capacity at period end	63,719	108,473
Average remaining initial term on outstanding charters	9.2	8.1
Fleet utilization	100%	99.0%

(1) Includes the predecessor's 223 day operating period ended August 11, 2005.

We began the year with 13 vessels in operations that contributed 4,683 operating days for 2006 compared with 3,648 operating days in 2005. During the year, we took delivery of ten vessels consisting of six 4250 TEU vessels and four second hand 4800 TEU vessels. These additional deliveries contributed 1,374 operating days.

#### *Revenue*

Revenue for the period was based on contracted daily rates for each vessel. Charter revenue increased by 58.1%, or \$43.5 million, to \$118.5 million for the year ended December 31, 2006, from \$75.0 million for the year ended December 31, 2005. During the year ended December 31, 2005, ten vessels were delivered contributing \$25.4 million in revenue and 1,374 operating days. Our vessel utilization was 99.0% in 2006 which is comparable to our 2005 utilization of 100%.

#### *Ship Operating Expenses*

Ship operating costs increased by 84.0%, or \$13.4 million, to \$29.4 million for the year ended December 31, 2006, from \$16.0 million for the year ended December 31, 2005. The increase over the prior year is due to an increase in the number of ownership days from 3,648 in 2005 to 6,119 in 2006.

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 ships 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. Certain extraordinary costs, however, are not covered by our contracted daily rate. At December 31, 2006, we had 23 vessels in operations which include the additional ten vessels delivered during the year.

#### *Depreciation*

Depreciation increased by 57.3%, or \$9.8 million, to \$26.9 million for the year ended December 31, 2006, from \$17.1 million for the year ended December 31, 2005. The increase was primarily due to a full year of amortization for the 2005 deliveries and the impact of the 2006 vessel deliveries.

#### *General and Administrative Expenses*

General and administrative expenses increased by 157.6%, or \$3.0 million, to \$4.9 million for the year ended December 31, 2006, from \$1.9 million for the year ended December 31, 2005 due to additional 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*

Interest expense increased by 8.2%, or \$1.3 million, to \$17.6 million for the year ended December 31, 2006, from \$16.3 million for the year ended December 31, 2005.

The increase was due to additional draw downs on our \$1.0 billion credit facility to fund the 2006 deliveries. We have entered into interest rate swap agreements to reduce our exposure to market rate risks from changing interest rates on our LIBOR based payments on our facilities. The interest expense received or paid on these interest rate swaps are netted with or added to interest expense on our credit facilities.

The interest on our \$365.0 million revolving credit facility and \$218.4 million credit facility were capitalized to the eight 2500 TEU vessels and four 5100 TEU vessels under construction.

#### *Undrawn Credit Facility Fee*

During the year ended December 31, 2006, we incurred \$2.8 million in undrawn credit facility fees compared with \$1.0 million for the year ended December 31, 2005, an increase of 169.3%. The commitment fee for our \$1.0 billion credit facility is 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 commitment fee on our \$365.0 million revolving credit facility and \$218.4 million credit facility is 0.3% per annum on the undrawn facility amount. The commitment fees are expensed as incurred.

#### *Interest Income*

During the year ended December 31, 2006, we earned interest income of \$1.5 million compared with \$0.1 million for the year ended December 31, 2005 through investing excess cash balances in highly liquid securities with terms to maturity of three months or less.

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### *Amortization of Deferred Financing Fees*

Amortization of deferred financing fees relating to our credit increased by 67.2%, or \$0.8 million, to \$2.0 million for the year ended December 31, 2006, from \$1.2 million for the year ended December 31, 2005. The increase was due to fees and other direct costs incurred for entering into our \$365.0 million revolving credit facility and \$218.4 million term loan facility. Financing fees are deferred and amortized over the terms of the individual credit facilities using the interest yield basis. The amortization of the deferred financing fees on the \$1.0 billion credit facility is expensed as incurred while the amortization of the deferred financing fees on the \$365.0 million revolving credit facility and \$218.4 million term loan facility are being capitalized to the vessels under construction.

### *Change in Fair Value of Financial Instruments*

The change in fair value of financial instruments is \$0.9 million loss for the year ended December 31, 2006 compared to \$7.3 million income for the year ended December 31, 2005. Certain of our interest rate swaps are accounted for as hedging instruments in accordance with the requirements in accounting literature. As a result, the effective changes in the fair value of our interest rate swap agreements that qualify for hedge accounting are excluded from earnings until settled. The change in fair value of financial instruments represents the ineffective portion of our interest rate swap agreements that are accounted for as hedging instruments and the change in fair value of the financial instruments that do not qualify for hedge accounting. 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 for the periods ended August 11, 2005 and December 31, 2004.

### **Year Ended December 31, 2005 Compared with Year Ended December 31, 2004**

The following discussion of our financial condition and results of operations is for the years ended December 31, 2005 and 2004. The year ended December 31, 2005 includes the predecessor's 223 day operating period ended August 11, 2005 and 142 days of operations beginning on August 12, 2005, the date of completion of our initial public offering. The year ended December 31, 2004 reflects the operations of the predecessor. 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 years ended December 31, 2004 and 2005.

	Year Ended December 31, 2004	Year Ended December 31, 2005(1)
<b>Statement of operations data (in thousands of dollars, except where otherwise stated):</b>		
Revenue	\$ 35,933	\$ 74,960
Operating expenses:		
Ship operating	7,157	15,985
Depreciation	8,808	17,090
General and administrative	207	1,912
Operating earnings	19,761	39,973
Other expenses (income):		
Interest expense	11,804	16,262
Interest income	(53)	(141)
Undrawn credit facility fee	—	1,041
Amortization of deferred financing fees	222	1,176
Change in fair value of financial instruments	(1,416)	(7,308)
Write-off on debt refinancing	3,135	—
Net earnings	<u>\$ 6,069</u>	<u>\$ 28,943</u>
Common shares outstanding	—	35,991,600
<b>Per share data:</b>		
Earnings from commencement of operations, basic and diluted in dollars	N/A	\$ 0.40
Cash dividends paid	N/A	\$ 0.23
<b>Statement of cash flows data:</b>		
Cash flows provided by (used in):		
Operating activities	\$ 18,540	\$ 43,404
Investing activities	(8,692)	(847,192)
Financing activities	(8,279)	818,649
Net increase in cash and cash equivalents	<u>\$ 1,569</u>	<u>\$ 14,861</u>
<b>Selected balance sheet data:</b>		
Cash and cash equivalents	\$ 4,066	\$ 15,718
Vessels	454,862	621,163
Fair value of financial instruments	—	4,799
Other assets	17,393	8,878
Total assets	<u>\$ 476,321</u>	<u>\$ 650,558</u>
Other liabilities	108,960	4,226
Long-term debt	376,999	122,893
Shareholders' equity (owner's deficiency)	(9,638)	523,439
Total liabilities and shareholders' equity	<u>\$ 476,321</u>	<u>\$ 650,558</u>
<b>Other data:</b>		
Number of vessels in operation at period end	6	13
Average age of fleet in years at period end	2.3	1.9
TEU capacity at period end	29,733	63,719
Average remaining initial term on outstanding charters	8.0	9.2
Fleet utilization	100%	100%

(1) Includes the predecessor's 223 day operating period ended August 11, 2005.



The predecessor operated five 4250 TEU vessels during the year ended December 31, 2004 and took delivery of its first 8500 TEU vessel in December 2004. During the year ended December 31, 2005, the predecessor operated these six vessels and took delivery of one 8500 TEU vessel in January 2005 and three 4250 TEU vessels prior to the IPO on August 12, 2005. Subsequent to the IPO, we acquired three additional 4250 TEU vessels for a total of 13 vessels in operation as at December 31, 2005.

#### *Revenue*

Charter revenue increased by 108.6%, or \$39.0 million, to \$75.0 million for the year ended December 31, 2005, from \$35.9 million for the year ended December 31, 2004. The increase was due to the increase in the predecessor's fleet and the number of operating days from 1,857 in 2004 to 3,648 in 2005.

#### *Ship Operating Expenses*

Ship operating costs increased by 123.3%, or \$8.8 million, to \$16.0 million for the year ended December 31, 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 by 94.0%, or \$8.3 million, to \$17.1 million for the year ended December 31, 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 increased by 823.7%, or \$1.7 million, to \$1.9 million for the year ended December 31, 2005, from \$0.2 million for the year ended December 31, 2004. This increase was due to additional legal, accounting, treasury, securities regulatory compliance, executive salaries, board of directors fees and other costs incurred as a result of being a publicly traded company.

#### *Interest Expense and Change in Fair Value of Financial Instruments*

Interest expense for the predecessor increased by 37.8%, or \$4.5 million, to \$16.3 million for the year ended December 31, 2005, from \$11.8 million for the year ended December 31, 2004. This increase was 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 for 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.

#### *Amortization of Deferred Financing Fees and Write Off on Debt Refinancing*

Amortization of deferred financing fees for the predecessor increased by 429.7%, or \$1.0 million, to \$1.2 million for the year ended December 31, 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.

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## **B. Liquidity and Capital Resources**

### *Liquidity and Cash Needs*

At December 31, 2006, our cash totaled \$92.2 million. At December 31, 2006, we have drawn \$464.3 million of an available \$750.0 million from Tranche A of our credit facility to fund the delivery of our operating vessels and the 4800 TEU secondhand vessels from APM. No amounts have been drawn to date from Tranche B of our credit facility, of which \$250.0 million was available to fund the acquisition of any additional new or used containerships. Tranche B had an original expiration date of December 31, 2006 but was extended to February 28, 2007. Tranche B expired as of February 28, 2007. We are in the process of refinancing our \$1.0 billion credit facility.

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 that we had contracted to purchase from SCLL at the time of our initial public offering (but not before the acquisition date of the vessel to which the loan relates), and in any event, no later than December 31, 2007. Any commitment undrawn by the expiration date will be canceled. 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 (a) the seventh anniversary of the final delivery date of the last of the 23 vessels that we had contracted to purchase from SCLL at the time of our initial public offering or (b) October 31, 2014. For more information, please read "Our Credit Facility."

On May 19, 2006, we entered into a 10 to 13-year (based on the delivery dates of certain vessels), senior secured, \$365.0 million revolving credit facility with certain lenders. The facility is split into two separate tranches, Tranche A to fund the acquisition of the two 3500 TEU container vessels and Tranche B to fund the construction of the eight 2500 TEU container vessels. Our obligations under the facility will be secured by first-priority mortgages on our two 3500 TEU container vessels and the eight 2500 TEU container vessels. Also, the facility will be secured by a first-priority assignment of our earnings related to the collateral vessels, including time-charter revenues and any insurance proceeds.

During the year ended December 31, 2006, we drew \$35.4 million of the \$283.0 million available in Tranche B to fund the construction of the 2500 TEU vessels. No amounts to date have been drawn from the Tranche A of our revolving credit facility. For more information, please read "Our Revolving Credit Facility."

On October 16, 2006, we entered into a credit facility for \$218.4 million. The proceeds of this facility will be used to partially finance the construction of the four 5100 TEU vessels that will be built by HHI. The credit facility requires payments of a commitment fee of 0.3% per annum calculated on the undrawn portion of the facility. The facility maturity date is the earlier of (a) the anniversary date falling twelve years after the scheduled delivery date of the fourth 5100 TEU vessel delivered or (b) December 23, 2021.

During the year ended December 31, 2006, we drew \$63.4 million to fund the construction of the four 5100 TEU vessels.

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 on our common and subordinated shares while reinvesting a portion of our operating cash flow in our business. We estimate that throughout the period of the delivery of the vessels we have contracted to purchase, we will pay aggregate dividends approximately equal to our operating cash flow surplus. As we complete the acquisition of the vessels we have contracted to purchase 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. There can be no assurance that we will be successful in meeting our goal.

In the event our future liquidity needs are greater than currently anticipated, 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 remaining cost to complete the acquisition of the 18 additional containerships that we have contracted to purchase is estimated to be approximately \$1.0 billion, which we expect to fund primarily from our credit facilities and from the sale of additional common shares. Our obligation to purchase the vessels we have contracted to purchase is not conditional upon our ability to obtain financing for such purchase.

SCLL and certain VesselCos have agreed to our right to issue common shares in payment of up to \$100.0 million of the purchase price for the last four of the vessels we have contracted to purchase from SCLL at the time of our initial public offering. We must give 30 days' notice to exercise this option. Those 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 vessels that we had contracted to purchase from SCLL at the time of our initial public offering. We have declined to exercise the option on two of the four remaining containerships that we have contracted to purchase from the VesselCos.

All of the vessels that are currently chartered and that we will acquire are chartered to charterers under long-term time charters, and these charterers' payments to us are and 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 or HL USA 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 by \$28.0 million, to \$71.4 million for the year ended December 31, 2006, from \$43.4 million for the year ended December 31, 2005. The increase was primarily attributable to the delivery in of the ten additional vessels in 2006. Cash flow from operating activities for the year ended December 31, 2006 reflects net eaming from operations of \$35.6 million, non-cash items of \$30.9 million and changes in non cash operating working capital of \$4.9 million.

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Net cash from operating activities for the year ended December 31, 2005 reflects net earnings of \$28.9 million, non cash items of \$11.0 million and changes in non-cash operating working capital of \$3.5 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 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 by \$241.5 million, to \$605.7 million for the year ended December 31, 2006, from \$847.2 million for the year ended December 31, 2005. Cash flow for investing activities for the year ended December 31, 2006 consisted solely of net cash payments for vessel deliveries, vessel construction costs, and acquisition of intangible assets.

On completion of our initial public offering, we purchased ten 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 New Delhi Express for \$56.9 million. Prior to the IPO, the predecessor's cash flow from investing activities consisted solely of net cash payments for vessel construction.

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 decreased by \$207.8 million, to \$610.8 million for the year ended December 31, 2006, from \$818.6 million for the year ended December 31, 2005. During the year ended December 31, 2006, we completed our public equity offering of 11,500,000 common shares including the additional 1,150,000 common shares issued pursuant to the underwriters' exercise of their over-allotment option, for net proceeds of \$235.1 million. We incurred \$12.1 million in costs in connection with our public equity offering. During the year, we borrowed \$440.3 million from our credit facilities to fund the purchase of certain of our delivered vessels and to fund the installment payments and construction costs of the vessels under construction. We also incurred \$3.4 million in financing fees and paid cash dividends of \$61.2 million.

During the year ended December 31, 2005, we completed our initial public offering, issuing 35,715,100 common shares for net proceeds of \$710.5 million. On September 13, 2005, our underwriters exercised their over-allotment option and we issued an additional 276,500 common shares for net 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 year, we borrowed \$122.9 million from our credit facility to fund the purchase of the CSCL Melbourne, CSCL Brisbane and the New Delhi Express. Prior to the IPO, the predecessor's cash flow from financing activities included a reduction of 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 part of \$21.4 million.

Historically, the financing for vessels occurred at the time the predecessor entered into shipbuilding 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 year ended December 31, 2006, 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.

#### *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 \$0.1 million in extraordinary drydocking costs related to repairs to the rudder horn. We expect that the CSCL Chiwan will also incur approximately \$0.1 million for similar repairs. The repairs which are expected to be performed in the first quarter of 2007 may take up to 10 days, resulting in off-hire of up to \$0.2 million in addition to the repair cost of \$0.1 million.

During the year, the New Delhi Express, one of our 4250 TEU vessels on charter to HL USA, went aground for approximately two hours at the entrance to Newark Bay, New Jersey, during heavy fog. Subsequent to the grounding, the vessel discharged all her containers and eventually moved, under her own power, to a local drydock for permanent repairs. The vessel sustained damage to her bottom plating on her starboard side. The cost of repairs and other pollution avoidance measures amounted to approximately \$1.9 million, of which \$1.7 million is covered by insurance and \$0.2 million is the insurance deductible. The vessel was placed off-hire for 24 days by HL USA, who deducted approximately \$0.5 million from hire payments. Of this \$0.5 million, \$0.4 million relates to loss of charter hire revenue and \$0.1 million to bunker costs. To date, we have incurred a total loss of \$0.7 million relating to the \$0.5 million loss of hire and \$0.2 million insurance deductible.

Our Manager has included the cost of routine drydocking within the technical services fee we pay pursuant to the management agreement. During 2007, three of our 4250 TEU vessels and three of our 4800 TEU vessels are scheduled for their 5-year survey for a total of six routine drydocks.

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;
- 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 fleet when the vessels come off charter (this will depend on various factors, including: our existing charters are not expected to expire for approximately 5-12 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 until at least February 2014; 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 year ended December 31, 2006, we paid cash dividends of \$61.2 million, or \$1.70 per share. During the year 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. Trend Information**

In the containership charter market, there was significant upward movement in time charter rates in the period between the start of 2002 and the middle of 2005. Demand for containership capacity driven by increases in global container trade underpinned upward market movements, and the market recovered from the falls seen in 2001 to levels beyond previous market highs. Midway through 2005, containership charter rates began to fall, as a result of increased capacity and falling freight rates, before stabilizing at the end of 2006.

The charter owner containership sector is also subject to the development of containership newbuilding prices, which reflect the cost of the acquisition of new containerships by owners from the shipyards. Since early 2003 newbuilding prices have risen substantially. The total newbuilding price for a theoretical 2750 TEU containership increased from \$29.5 million at the start of 2003 to \$51.0 million at the start of January 2007. Over the same period, for a theoretical 4600 TEU containership the newbuilding price rose from \$45.0 million to \$73.0 million, while the newbuilding price for a theoretical 6200 TEU containership increased from \$60.0 million to \$101.0 million. Economies of scale in containership building mean that the cost per TEU involved in building larger containerships is smaller than for ships with smaller TEU capacity.

### E. Off-Balance Sheet Arrangements

At December 31, 2006, we do not have any off balance-sheet arrangements.

### F. Contractual Obligations

On a pro forma basis our long-term undiscounted contractual obligations as of December 31, 2006, including amounts payable under our credit facilities and interest rate swaps, consists of the following:

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 years (in thousands)	3-5 years	More Than 5 Years
Long-term debt obligations	\$ 563,203	\$ —	\$ —	\$ 3,103	\$ 560,100
Purchase obligations for additional vessels	980,013	500,463	479,550	—	—
Fixed payments to the Manager for technical and administrative services under our management agreement(1)	1,291,832	46,986	115,218	141,107	988,521
Total	<u>\$ 2,835,048</u>	<u>\$ 547,449</u>	<u>\$ 594,768</u>	<u>\$ 144,210</u>	<u>\$ 1,548,621</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, 2006 and fees for the vessels that we have contracted to purchase 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 and that vessels continue to be in operation throughout this period. The amounts presented above do not include reimbursements that may become payable to our Manager for administrative or strategic services provided.

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

Our directors and executive officers as of the date of this annual report and their ages as of December 31, 2006 are listed below:

Name	Age	Position
Kyle Washington	36	Chairman of the Board of Directors
Gery Wang	44	Chief Executive Officer and Director
Kevin M. Kennedy	47	Chief Financial Officer and Secretary
David Korbin	65	Director
Peter Lorange	63	Director
Peter S. Shaerf	52	Director
Milton K. Wong	67	Director
Barry R. Pearl	57	Director

**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 Seaspans 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.

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**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 was appointed as Assistant Secretary effective March 1, 2007. 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 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. 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, StreamServe Inc., Preferred Global Health, Zaruma Resources Inc., Copenhagen Business School and Terra Global Ltd. 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 2002, 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



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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, The Laurier Institution 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 has been a director of Alcan, Inc. since 2003. He was appointed Chancellor Emeritus of Simon Fraser 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.

**Barry R. Pearl.** Barry R. Pearl was appointed as a Director in October 2006. Mr. Pearl is President of WesPac Energy Group, a private developer and operator of petroleum infrastructure facilities, and serves as a Director of Kayne Anderson Energy Development Company and Targa Resources Partners, L.P. Mr. Pearl served as President, Chief Executive Officer and Director of TEPPCO Partners, L.P. from May 2002 through 2005 and as President and Chief Operating Officer from February 2001 until his appointment as Chief Executive Officer. Mr. Pearl began his career with Champlin Petroleum Company in 1974, and served in a variety of staff financial and analysis positions until his appointment as Vice President and General Manager of Calnev Pipeline in 1982. Mr. Pearl joined Southern Pacific Pipelines in 1984 and served as Vice President, Operations, Senior Vice President, Business Development and Planning, and Senior Vice President and Chief Financial Officer. From 1998 through 2000, Mr. Pearl was Vice President and Chief Financial Officer of Maverick Tube Corporation. Mr. Pearl has been involved in a number of petroleum industry organizations, including service as Chairman of the Association of Oil Pipelines from 2004 through 2005. He received a Bachelor of Arts degree in Mathematics from Indiana University, and was awarded a Masters of Arts degree in Operations Research from Yale University and a Master of Business Administration degree from the University of Denver.

#### **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 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	44	Director of our Manager and Director, President and Chief Executive Officer of Seaspan Ship Management Ltd.
Graham Porter	36	Managing Director, Deputy Chairman and Director of our Manager
Sai W. Chu	40	Chief Financial Officer of Seaspan Ship Management Ltd.
Peter Curtis	48	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

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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 Management Ltd., 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 Ltd. 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.

#### **Recent Equity Incentive Awards**

In October 2006, our board of directors, in accordance with our stock incentive plan, approved a grant to our Chief Executive Officer, Gerry Wang, of 99,500 phantom share units, subject to vesting over a three year period beginning January 1, 2007. In addition, our board of directors, in accordance with our stock incentive plan, approved a grant to our Chief Financial Officer, Kevin Kennedy, of 14,500 restricted shares, subject to vesting over a three year period beginning January 1, 2007 and a grant to Barry Pearl, a member of our board of directors, of 1,250 restricted shares that vested on December 31, 2006.

#### **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. On October 22, 2006, our board of directors, in accordance with our equity incentive plan, approved a grant to the Chief Executive Officer, Gerry Wang, of 99,500 phantom share units, subject to vesting over a three year period beginning January 1, 2007. In addition, our board of directors, in accordance with the our equity incentive plan, approved a grant to the Chief Financial Officer, Kevin Kennedy, of 14,500 restricted shares, subject to vesting over a three year period beginning January 1, 2007 and a grant to Barry Pearl, a member of our board of directors, of 1,250 restricted shares that vested on December 31, 2006.

During the year ended December 31, 2006 and 2005, we paid to our directors and executive officers (seven persons) aggregate cash compensation of \$1.0 million and \$0.4 million, respectively. 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 consists of seven members. The Board 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 Gerry Wang, Peter Lorange and Barry Pearl have terms expiring in 2007 and have been nominated by the Board of Directors for re-election at the 2007 Annual Meeting of Shareholders. Directors Peter S. Shaerf and Milton K. Wong have terms expiring in 2008. Directors Kyle Washington, and David Korbin have terms expiring in 2009.

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 Seaspan, either directly or as a partner, shareholder or officer of an organization that has a relationship with Seaspan, and is independent within the meaning of Seaspan's 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 Committee and Compensation Committee. The membership of these committees during 2006 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 Seaspan's website at [www.seaspancorp.com](http://www.seaspancorp.com). During 2006, the Board held ten meetings, the Audit Committee held five meetings and the Compensation Committee held three meetings. Each director, with the exception of Peter Lorange who attended six Board meetings, attended at least 75% of the Board meetings (held during the period for which such person has been a director) during the last fiscal year. Each director attended at least 75% of the total number of committee meetings on which such person served (held during the periods for which such person served) during the last fiscal year.

Our Audit Committee is composed entirely of directors who satisfy applicable NYSE and SEC audit committee independence standards. Until October 2006, our Audit Committee included David Korbin, Peter Lorange and Milton Wong. On October 10, 2006, Barry Pearl replaced Peter Lorange as a member of our Audit Committee. 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.

In 2006, our Compensation Committee included Peter Lorange, Peter S. Shaerf and Milton K. Wong. Effective January 1, 2007, Barry Pearl was added as a member of our Compensation Committee. 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.

#### E. Share Ownership

The following table sets forth information regarding beneficial ownership, as of March 12, 2007, of Seaspan common and subordinated shares by:

- each of our directors;
- each of our named executive officers; and
- all current Seaspan directors and executive officers as a group.

Name of Beneficial Owner	Common Shares	Percentage of Common Shares	Subordinated Shares	Percentage of Subordinated Shares	Percentage of Total Common and Subordinated Shares
Kyle Washington (1)	—	—	1,786,250	25.0%	3.8%
Gerry Wang (2)	33,167	*	1,191,071	16.7%	2.5%
Kevin M. Kennedy	17,500	*	—	—	*
David Korbin	7,500	*	—	—	*
Peter Lorange	7,500	*	—	—	*
Peter S. Shaerf	7,500	*	—	—	*
Milton K. Wong	27,500	*	—	—	*
Barry Pearl	5,000	*	—	—	*
All executive officers, directors and director nominees as a group (8 persons)	105,667	0.3%	2,977,321	41.7%	6.3%

(1) The number of subordinated shares shown for Mr. Washington include those shares beneficially owned by The Kyle R. Washington Trust II.

(2) The number of subordinated shares shown for Mr. Wang include those shares beneficially owned by 0731455 B.C. Ltd.

\* Less than 1%.

## 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
The Kyle R. Washington Trust II (1)	—	—	1,786,250	25.0%	3.8%
The Kevin Lee Washington Trust II (2)	—	—	1,786,250	25.0%	3.8%
Tiger Container Shipping Company Limited (3)	—	—	2,381,429	33.3%	5.0%
Neuberger & Berman L.P. (4)	5,720,449	14.2%	—	—	12.0%
0731455 B.C. Ltd. (5)	—	—	1,191,071	16.7%	2.5%

- (1) This information is based on the Schedule 13D filed with the SEC on March 20, 2006.
- (2) This information is based on the Schedule 13D filed with the SEC on August 12, 2005.
- (3) Tiger Container Shipping Company Limited, a Cayman Islands company, is owned by Graham Porter, a managing director and director of our Manager. This information is based on the Schedule 13D filed with the SEC on August 12, 2005.
- (4) Includes sole voting power as to 4,840,683 shares and shared dispositive power 5,720,449 shares. This information is based on the Schedule 13G/A filed with the SEC on February 13, 2007.
- (5) 0731455 B.C. Ltd., a British Columbia company, is owned by Gerry Wang, our chief executive officer and a member of our board of directors.

The major shareholders in our common shares have the same voting rights as other shareholders in our common shares.

As of December 31, 2006, 34,625 of our common shares were held by 27 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 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, or Securities Act, and applicable state securities laws, any

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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.

#### **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—Four Remaining Containerships That We Have Contracted to Purchase at Our Initial Public Offering.”

#### **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.

### **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.

#### **Dividend Policy**

Our board of directors has adopted a dividend policy to pay a regular quarterly dividend on our common and subordinated shares while reinvesting a portion of our operating cash flow in our business. Since our initial public offering, we have paid quarterly dividends of \$0.425 per share on our common and subordinated shares until the third quarter of 2006. In January 2007, we declared our quarterly dividend of \$0.44625 per share, representing a 5% increase from our previous quarterly dividend, on our common and subordinated shares effective for the fourth quarter 2006 paid on February 13, 2007 to all shareholders of record on January 29, 2007. 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 currently 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 continue to take delivery of the vessels that we have contracted to purchase, we expect that our operating cash flow will 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, create reserves for vessel replacement costs, 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. Once we have reasonable assurance that we are retaining adequate funds from operations to maintain our capital base over the long-term, and if we make additional accretive acquisitions, our goal is to increase our quarterly dividend. We cannot provide you with any assurances that our dividend will be increased or that we will even be able to maintain our current dividend.

As compensation for providing strategic services, our Manager received 100 incentive shares concurrently with our initial public offering. The purpose of the incentive shares is to incentivize our 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.

There are a number of factors that could affect our dividends in the future. As a result of these factors, you may not receive dividends in the intended amounts or at all. These factors include, but are not limited to, the following:

- we may not have enough cash to pay dividends due to changes in our operating cash flow, capital expenditure requirements, working capital requirements and other cash needs;
- our ability to pay dividends is dependent upon the charter rates on new vessels and those obtained upon the expiration of our existing charters;
- while the dividend policy adopted by our board of directors contemplates the distribution of a substantial portion of our cash available to pay dividends, our board of directors could modify or revoke this policy at any time;
- even if our dividend policy is not modified or revoked, the actual amount of dividends distributed under the policy and the decision to make any distribution will remain at all times entirely at the discretion of our board of directors;
- the amount of dividends that we may distribute is limited by restrictions under our senior secured credit facilities, and future indebtedness could contain covenants that are even more restrictive. In addition, our credit facility requires us to comply with various financial covenants, and prohibits the payment of 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;
- the amount of any cash reserves established by our board of directors;
- the amount of dividends that we may distribute is subject to restrictions under Marshall Islands law; and

- our shareholders have no contractual or other legal right to dividends, and we are not otherwise required to pay dividends.

Please read “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 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 fleet that we have contracted to purchase 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.

	High	Low
August 9, 2005 to December 31, 2005	\$21.51	\$ 17.20
January 1, 2006 to December 31, 2006	23.50	19.51
August 9, 2005 to September 30, 2005	\$21.51	\$ 18.60
Fourth quarter 2005	20.49	17.20
First quarter 2006	21.81	19.51
Second quarter 2006	22.40	19.70
Third quarter 2006	22.97	19.90
Fourth quarter 2006	23.50	21.07
July 2006	\$21.00	\$ 19.90
August 2006	22.75	20.27
September 2006	22.97	21.50
October 2006	22.75	21.46
November 2006	22.20	21.07
December 2006	23.50	22.12

## 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 40,377,250 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 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)(5) prospectus (File No. 333-137051), filed with the SEC on November 3, 2006 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 is 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.

(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.

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(e) Management Agreement between Seaspan Corporation, Seaspan Management Services Limited, Seaspan Advisory Services Limited, Seaspan Ship Management Ltd. and Seaspan Crew Management Ltd., previously filed as Exhibit 10.2 to Amendment No. 1 to Form F-1 (File No. 333-126762), filed with the SEC on August 2, 2005, and is hereby incorporated by reference into this Annual Report.

(f) 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 is hereby incorporated by reference into this Annual Report.

(g) Underwriting Agreement among Seaspan Corporation, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wachovia Capital Markets, LLC, Dahlman Rose & Company, LLC, DnB NOR Markets, Inc. and Fortis Securities LLC, dated as of November 2, 2006, previously filed as Exhibit 1.1 to Form 6-K (File No. 1-32591) filed with the SEC on November 6, 2006 and is incorporated by reference into this Annual Report.

#### **D. Exchange Controls**

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**

##### **United States Federal Income Tax Considerations**

The following discussion is based upon the provisions of the Code as in effect on the date of this Annual Report, existing final and temporary U.S. Treasury department regulations promulgated thereunder (“Treasury Regulations”), and current administrative rulings, pronouncements and judicial decisions, all of which are subject to change, possibly with retroactive effect. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

In addition, the following discussion is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations applicable to us. Nor does this discussion comment on all aspects of U.S. federal income taxation which may be important to certain holders of our shares in light of their particular circumstances, such as holders subject to special tax rules (*e.g.*, financial institutions, regulated investment companies, real estate investment trusts, insurance companies, traders in securities that have elected the mark-to-market method of accounting for their securities, persons liable for alternative minimum tax, broker-dealers, tax-exempt organizations, partnerships or other pass-through entities and their investors, or former citizens or long-term residents of the United States), persons that will hold our shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, or persons that have a functional currency other than the U.S. dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. If a partnership or other entity taxed as a pass-through entity holds our 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 shares, you should consult your tax advisor to determine the appropriate tax treatment to you of the partnership’s ownership of our shares.

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## 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 profits 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*

During our 2006 Year we did not have, and we do not expect to acquire, 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 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 ("U.S. Effectively Connected Income").

If we earn 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, however, is inapplicable to U.S. Effectively Connected Income.

Unless the Section 883 Exemption applies, a 30% branch profits tax imposed under Section 884 of the Code also would apply to any U.S. Effectively Connected Income earned by us, 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").

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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: (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.

Regarding the second requirement for the Section 883 Exemption, we do not believe that we met the 50% Ownership Test or the CFC Test with respect to our 2006 Year and we do not expect to meet those tests in future years. The analysis of our ability to meet the Publicly Traded Test follows.

#### *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. During our 2006 Year, our common shares were, and we expect that they will continue to be, “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 (the “Listing Threshold”) and certain trading volume requirements are met or deemed met as described below. We believe our common shares listed on the New York Stock Exchange represented more than 50% of our outstanding stock by voting power and value during our 2006 Year. Therefore, we believe that we satisfied the Listing Threshold for our 2006 Year.

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 satisfied these trading frequency and volume tests for our 2006 Year and expect to continue to do so in the future.

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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 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 should be treated as a single or two separate classes of stock for purposes of applying the 5% Override Rule. For our 2006 Year, 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 Test 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 an individual 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.

##### *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 and 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 2010) 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. In the absence of legislation extending the term of the preferential tax rates for qualified dividend income, all dividends received by a taxpayer in tax years beginning January 1, 2011 or later will be taxed at rates applicable to ordinary income.

In addition, under legislation proposed in a prior legislative session of the U.S. Congress, 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 tax rates imposed on qualified dividend income 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 this previously proposed legislation will be reintroduced and 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 common share. 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 are treated as a PFIC.

#### *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 controlled foreign corporation (“CFC”). CFC Shareholders are treated as receiving current distributions of their shares 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*

Subject to the discussion of PFICs, below, 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.

#### *Consequences of Possible PFIC Classification*

Special and adverse U.S. federal income tax rules apply to a U.S. Holder that owns an interest in a non-U.S. entity taxed as a corporation and classified as a PFIC for U.S. federal income tax purposes. In general, we will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such holder held our common

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shares, either (i) at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business), or (ii) at least 50% of the average value of the assets held by us during such taxable year is attributable to assets that produce passive income or are held for the production of passive income.

For purposes of determining whether we are a PFIC, we are treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiaries in which we own at least 25% of the value of the subsidiary's stock. Income earned, or deemed earned, by us in connection with the performance of services does not constitute passive income. By contrast, rental income earned by us does generally constitute passive income unless we are treated under specific rules as deriving our rental income in the active conduct of a trade or business.

While there are legal uncertainties involved in this determination, based on the composition of our assets, the source of our income, and the nature of our chartering activities and other operations, we do not believe that we are, nor do we expect to become, a PFIC. This determination is based principally on the position that at least a majority, if not all, of 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. 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.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year during which a U.S. Holder owns shares, that U.S. Holder generally will be subject to special rules (regardless of whether we continue thereafter to be a PFIC). Such a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election (a "QEF Election") to treat us as a "Qualified Electing Fund." As an alternative to making a QEF Election, a U.S. Holder should be able to make a "Mark-to-Market" election with respect to our common shares, as discussed below.

#### *Taxation of U.S. Holders Making a Timely QEF Election*

If a U.S. Holder makes a timely QEF Election, which U.S. Holder we refer to as an "Electing Holder," the Electing Holder must report each year for U.S. federal income tax purposes his pro rata share of our ordinary earnings and our net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. The Electing Holder's adjusted tax basis in the common shares will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the common shares and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common shares. A U.S. Holder would make a QEF Election with respect to any year that we are a PFIC by filing one copy of IRS Form 8621 with his U.S. federal income tax return and a second copy in accordance with the instructions to such form.

#### *Taxation of U.S. Holders Making a "Mark-to-Market" Election*

Alternatively, if we were to be treated as a PFIC for any taxable year and, as we anticipate, our common shares were treated as "marketable stock," a U.S. Holder would be allowed to make a "mark-to-market" election

with respect to our common shares, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common shares at the end of the taxable year over such holder's adjusted tax basis in the common shares. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common shares over the fair market value thereof at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in his common shares would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our common units would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common shares would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder.

#### *Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election*

Finally, if we were to be treated as a PFIC with respect to a U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election (a "Non-Electing Holder"), such U.S. Holder would be subject to special rules with respect to (1) any excess distribution (*i.e.*, the portion of any distributions received by the Non-Electing Holder on our common shares in a taxable year in excess of 125 percent of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common shares), and (2) any gain realized on the sale, exchange or other disposition of our common shares. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common shares;
- the amount allocated to the current taxable year and any taxable year prior to the year we were first treated as a PFIC with respect to the Non-Electing Holder would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

If we are a PFIC and a Non-Electing Holder who is an individual dies while owning our shares, such holder's successor generally would not receive a step-up in tax basis with respect to such shares.

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

A beneficial owner of our common shares (other than a partnership or other entity or arrangement treated as a partnership or pass-through entity) that is not a U.S. Holder 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 an income tax treaty 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



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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 and meet certain other requirements.

### **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 shares 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**

The following discussion is the opinion of Dennis J. Reeder, Reeder & Simpson, P.C., our counsel as to matters of the laws of the Republic of the Marshall Islands, and the current laws of the Republic of the Marshall Islands applicable to persons who do not reside in, maintain offices in or engage in business in the Republic of the Marshall Islands.

Because we do not, and we do not expect that we will, conduct business or operations in the Republic of the Marshall Islands, and because all documentation related to this offering will be executed outside of 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, 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.

Each prospective shareholder is urged to consult his tax counsel or other advisor with regard to the legal and tax consequences, under the laws of pertinent jurisdictions, including the Marshall Islands, of his investment in us. Further, it is the responsibility of each shareholder to file all state, local and non-U.S., as well as U.S. federal tax returns that may be required of him.

### **Canadian Federal Income Tax Consequences**

The following discussion is the opinion of Bull, Housser & Tupper LLP, our counsel as to certain matters of Canadian law, as to the material Canadian federal income tax consequences under the Income Tax Act (Canada)

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(the Canada Tax Act), as of the date of this prospectus, that we believe are relevant to holders of common shares acquired in this offering who are, at all relevant times, for the purposes of the Canada Tax Act and the Canada-United States Tax Convention 1980 (the Canada-U.S. Treaty) resident only in the United States and who deal at arm's length with us (U.S. Resident Holders).

Subject to the assumptions below, under the Canada Tax Act, 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. This opinion 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. For a further discussion, separate from this opinion, of the tax consequences of us becoming a resident in Canada, please read "Risk Factors—Tax Risks."

Each prospective shareholder is urged to consult his tax counsel or other advisor with regard to the legal and tax consequences, under the laws of pertinent jurisdictions, including Canada, of his investment in us. Further, it is the responsibility of each shareholder to file all state, local and non-U.S., as well as U.S. federal tax returns that may be required of him.

**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](http://www.sec.gov) or from the SEC public reference room at 100 F Street, N.E., Room 1580, 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, 2006, our floating-rate borrowings totaled \$563.2 million, of which we had entered into interest rate swap agreements to fix the rates on a notional principal of \$628.6 million. These interest rate swaps have a fair value of \$10.7 million in our favor and \$15.8 million in the counterparty's favor.

The tables below provide information about our financial instruments at December 31, 2006 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 agreements. The information in this table is based upon our credit facilities.

	Principal Repayment Dates					
	2007	2008	2009	2010	2011	Thereafter
	(dollars in thousands)					
Credit Facility:						
Bearing interest at variable interest rates	—	—	—	1,502	1,601	\$ 560,100

- (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.

Pursuant to the credit facility agreements, at December 31, 2006 we entered into interest rate swap agreements to fix LIBOR at per annum interest rates on notional loan balances as follows:

	Fixed LIBOR	Notional Amount as at December 31, 2006	Maximum Notional Amount <sup>(1)</sup>	Effective Date	Ending Date
		(dollars in thousands)			
Interest rate swap	4.6325%	\$ 432,671	\$ 663,399	September 15, 2005	July 16, 2012
Interest rate swap	5.2000%	96,000	96,000	December 18, 2006	October 2, 2015
Interest rate swap	5.2500%	62,680	200,000	September 29, 2006	June 23, 2010
Interest rate swap	5.3150%	18,784	106,800	August 15, 2006	August 28, 2009
Interest rate swap	5.2600%	18,500	106,800	July 3, 2006	February 26, 2021 <sup>(2)</sup>
Interest rate swap	5.5150%	—	59,700	February 28, 2007	July 31, 2012
Interest rate swap	5.1750%	—	663,399	July 16, 2012	July 15, 2016
Interest rate swap	5.4975%	—	59,700	July 31, 2012	July 31, 2019
Interest rate swap	5.5950%	—	106,800	August 29, 2009	August 28, 2020
Interest rate swap	5.6000%	—	200,000	June 23, 2010	December 23, 2021

- (1) Over the term of the interest rate swaps, the notional amounts increase and decrease. These amounts represent the peak notional during the term of the swap.
- (2) We have entered into a swaption agreement with a bank (Swaption Counterparty) whereby the Swaption Counterparty has the option to require us to enter into an interest rate swap to pay LIBOR and receive a fixed rate of 5.26%. This is a European option and is open for a two hour period on February 26, 2014 after which it expires. The notional amount of the underlying swap is \$106,800,000 with an effective date of February 28, 2014 and an expiration of February 26, 2021. If the Swaption Counterparty exercises the swaption, the underlying swap effectively offsets our 5.26% pay fixed LIBOR swap from February 28, 2014 to February 26, 2021.

For the interest rate swap agreements that have been designated as hedging instruments in accordance with the requirements in the accounting literature, the changes in the fair value of these interest rate swap are reported in accumulated other comprehensive income. The fair value will change as 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. Other interest rate swap agreements and derivative instruments that are not designated as hedging instruments are marked to market and are recorded on the balance sheet at fair value. The changes in the fair value of these instruments are recorded in earnings.

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.

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## 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, 2006.

During 2006, we have retained an expert advisor in connection with our financial reporting of hedging transactions in accordance with FAS 133. There was no other 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.

#### Management's Report on Internal Control over Financial Reporting

Management of Seaspan Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes the following:

- maintaining financial reports that provide accurate and reliable financial reporting to reflect the transactions of the Company;
- providing reasonable assurance that transactions are appropriately authorized and recorded to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Company are being made in accordance with authorization of management and directors of the Company; and
- providing reasonable assurance regarding the safeguarding of assets.

Internal control over financial reporting includes the controls themselves, monitoring and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operating effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management concluded that its internal control over financial reporting was effective as of December 31, 2006.

**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](http://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 and 2006 was KPMG LLP, Chartered Accountants.

**Fees Incurred by Seaspan for KPMG LLP's Services**

In 2005 and 2006, the fees rendered by the auditors were as follows:

	2005	2006
Audit Fees	\$ 645,000	\$ 394,000
Audit-Related Fees	8,000	32,000
Tax Fees	18,000	45,000
All Other Fees	—	—
	<u>\$ 671,000</u>	<u>\$ 471,000</u>

**Audit Fees**

Audit fees for 2006 include fees related to our public offering of our common shares completed in November 2006 in addition to our annual audit, quarterly reviews and accounting consultation. Audit fees for 2005 include fees related to our initial public offering completed in August 2005.

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**Audit-Related Fees**

Audit-related fees for 2006 are for Sarbanes-Oxley Act of 2002 compliance consultation. Audit-related fees for 2005 are primarily for accounting advice.

**Tax Fees**

Tax fees for 2006 and 2005 are primarily for tax consultation services.

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 and 2006.

**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.

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**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>
<b>SEASPAN CORPORATION (PREDECESSOR)</b>	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-1
<a href="#">Balance Sheets as of December 31, 2004 and August 11, 2005</a>	F-2
<a href="#">Predecessor Combined Statement of Operations and Owners' Equity (Deficiency) for the year ended December 31, 2004 and 223 Day Period Ended August 11, 2005</a>	F-3
<a href="#">Predecessor Combined Statement of Cash Flows for the year ended December 31, 2004 and 223 Day Period Ended August 11, 2005</a>	F-4
<a href="#">Notes to the Financial Statements</a>	F-5
<b>SEASPAN CORPORATION</b>	
<a href="#">Management's Statement of Responsibilities</a>	F-18
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-19
<a href="#">Balance Sheets as of December 31, 2005 and 2006</a>	F-20
<a href="#">Statements of Operations for the Period from Date of Incorporation on May 3, 2005 to December 31, 2005 and the Year Ended December 31, 2006</a>	F-21
<a href="#">Statements of Shareholders' Equity for the Period from Date of Incorporation on May 3, 2005 to December 31, 2005 and the Year Ended December 31, 2006</a>	F-22
<a href="#">Statements of Cash Flows for the Period from Date of Incorporation on May 3, 2005 to December 31, 2005 and the Year Ended December 31, 2006</a>	F-23
<a href="#">Notes to the Financial Statements</a>	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.

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**Item 19. Exhibits**

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

<u>Exhibit Number</u>	<u>Description</u>
1.1	Amended and Restated Articles of Incorporation of Seaspan Corporation (incorporated herein by reference to Exhibit 3.1 to the Company's Amendment No. 2 to Form F-1 (File No. 333-126762), filed with the SEC on August 4, 2005)
1.2	Bylaws of Seaspan Corporation (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form F-1 (File No. 333-126762), filed with the SEC on July 21, 2005)
2.1	Specimen of Share Certificate of Seaspan Corporation (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form F-1 (File No. 333-126762), filed with the SEC on July 21, 2005)
2.2	Registration Rights Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Amendment No. 2 to Form F-1 (File No. 333-126762), filed with the SEC on August 4, 2005)
4.1	Form of Underwriting Agreement (incorporated herein by reference to Exhibit 1.1 to the Company's Form 6-K (File No. 1-32591), filed with the SEC on November 6, 2006)
4.2	Seaspan Corporation Stock Incentive Plan (incorporated herein by reference to Exhibit 4.2 to the Company's Form 20-F (File No. 1-32591), filed with the SEC on March 17, 2006)
4.3	Management Agreement between Seaspan Corporation, Seaspan Management Services Limited, Seaspan Advisory Services Limited, Seaspan Ship Management Ltd. and Seaspan Crew Management Ltd. (incorporated herein by reference to Exhibit 10.2 to the Company's Amendment No. 1 to Form F-1 (File No. 333-126762), filed with the SEC on August 2, 2005)
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. (incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form F-1 (File No. 333-126762), filed with the SEC on July 21, 2005)
4.5	Employment Agreement between Gerry Wang and Seaspan Ship Management Ltd. (incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-1 (File No. 333-126762), filed with the SEC on July 21, 2005)
4.6	Employment Agreement between Graham Porter and Seaspan Advisory Services Limited (incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form F-1 (File No. 333-126762), filed with the SEC on July 21, 2005)
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 (incorporated herein by reference to Exhibit 10.5 to the Company's Amendment No. 1 to Form F-1 (File No. 333-126762), filed with the SEC on August 2, 2005)
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 (incorporated herein by reference to Exhibit 10.6 to the Company's Amendment No. 2 to Form F-1 (File No. 333-126762), filed with the SEC on August 4, 2005)
4.9	Form of Shareholders Rights Agreement (incorporated herein by reference to Exhibit 10.7 to the Company's Amendment No. 2 to Form F-1 (File No. 333-126762), filed with the SEC on August 4, 2005)
4.10	Asset Purchase Agreement by and among Seaspan Corporation and the VesselCos (incorporated herein by reference to Exhibit 10.9 to the Company's Amendment No. 1 to Form F-1 (File No. 333-126762), filed with the SEC on August 2, 2005)



Exhibit Number	Description
4.11	Form of Indemnification Agreement between Seaspan Corporation and each of Kyle Washington, Gerry Wang and Kevin M. Kennedy (incorporated herein by reference to Exhibit 10.10 to the Company's Registration Statement on Form F-1 (File No. 333-126762), filed with the SEC on July 21, 2005)
4.12	Agreement between Seaspan Corporation and Relational Advisors LLC (incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement on Form F-1 (File No. 333-126762), filed with the SEC on July 21, 2005)
4.13	Sale and Purchase Agreement between Conti 51. Container Schiffahrts—GmbH & Co. KG Nr. 1 and Seaspan Corporation, dated February 10, 2006 (incorporated herein by reference to Exhibit 4.13 to the Company's Form 20-F (File No. 1-32591), filed with the SEC on March 17, 2006)
4.14	Sale and Purchase Agreement between Conti 52. Container Schiffahrts—GmbH & Co. KG Nr. 1 and Seaspan Corporation, dated February 10, 2006 (incorporated herein by reference to Exhibit 4.14 to the Company's Form 20-F (File No. 1-32591), filed with the SEC on March 17, 2006)
4.15	Shipbuilding Contract between Seaspan Corporation, Jiangsu Yangzijiang Shipbuilding Co., Ltd. and Guangdong Machinery Imp. & Exp. Co. Ltd., for Hull No. YZJ2005-696C, dated February 28, 2006 (incorporated herein by reference to Exhibit 4.15 to the Company's Form 20-F (File No. 1-32591), filed with the SEC on March 17, 2006)
4.16	Shipbuilding Contract between Seaspan Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. for Hull No. YZJ2006-716C, dated February 28, 2006 (incorporated herein by reference to Exhibit 4.16 to the Company's Form 20-F (File No. 1-32591), filed with the SEC on March 17, 2006)
4.17	Shipbuilding 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 (incorporated herein by reference to Exhibit 4.17 to the Company's Form 20-F (File No. 1-32591), filed with the SEC on March 17, 2006)
4.18	Shipbuilding Contract between Seaspan Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. for Hull No. YZJ2006-718C, dated February 28, 2006 (incorporated herein by reference to Exhibit 4.18 to the Company's Form 20-F (File No. 1-32591), filed with the SEC on March 17, 2006)
4.19	Credit Facility Agreement providing for a Senior Secured Reducing Revolving Credit Facility between Seaspan Corporation and Arranged by DnB Nor Bank, ASA, Credit Suisse and Fortis Capital Corp., as Mandated Lead Arrangers with DnB Nor Bank ASA as Sole Bookrunner, Administrative Agent and Security Agent and with Landesbank Hessen-Thuringen as documentation agent (incorporated herein by reference to the Company's Form 6-K (File No. 1-32591), filed with the SEC on June 12, 2006)
4.20	Credit Facility Agreement between Seaspan Corporation and Arranged by Sumitomo Mitsui Banking Corporation with Sumitomo Mitsui Banking Corporation Europe Limited as Security Trustee and Sumitomo Mitsui Banking Corporation, Brussels Branch as Facility Agent (incorporated herein by reference to the Company's Form 6-K (File No. 1-32591), filed with the SEC on October 23, 2006)
4.21	Form of Securities Indenture (incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form F-3 (File No. 333-137051), filed with the SEC on September 1, 2006)
4.22*	Shipbuilding Contract between Seaspan Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. and Guangdong Machinery Imp. & Exp. Co., Ltd. for Hull No. Y2J 2006-719C, dated July 4, 2006
4.23*	Shipbuilding Contract between Seaspan Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. and Guangdong Machinery Imp. & Exp. Co., Ltd. for Hull No. Y2J 2006-720C, dated July 4, 2006
4.24*	Shipbuilding Contract between Seaspan Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. and Guangdong Machinery Imp. & Exp. Co., Ltd. for Hull No. Y2J 2006-721C, dated July 4, 2006

<b>Exhibit Number</b>	<b>Description</b>
4.25*	Shipbuilding Contract between Seaspan Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. and Guangdong Machinery Imp. & Exp. Co., Ltd. for Hull No. Y2J 2006-722C, dated July 4, 2006
4.26*	Shipbuilding Contract between Seaspan Corporation and Hyundai Heavy Industries Co., Ltd for Hull No. 1970, dated August 8, 2006
4.27*	Shipbuilding Contract between Seaspan Corporation and Hyundai Heavy Industries Co., Ltd for Hull No. 1971, dated August 8, 2006
4.28*	Shipbuilding Contract between Seaspan Corporation and Hyundai Heavy Industries Co., Ltd for Hull No. 1972, dated August 8, 2006
4.29*	Shipbuilding Contract between Seaspan Corporation and Hyundai Heavy Industries Co., Ltd for Hull No. 1973, dated August 8, 2006
4.30*	Memorandum of Agreement between Seaspan Corporation and A.P. Møller-Mærsk A/S for M.V. Mathilde Mærsk, dated October 11, 2006
4.31*	Memorandum of Agreement between Seaspan Corporation and A.P. Møller-Mærsk A/S for M.V. Margrethe Mærsk, dated October 11, 2006
4.32*	Memorandum of Agreement between Seaspan Corporation and A.P. Møller-Mærsk A/S for M.V. Maren Mærsk, dated October 11, 2006
4.33*	Memorandum of Agreement between Seaspan Corporation and A.P. Møller-Mærsk A/S for M.V. Mette Mærsk, dated October 11, 2006
8.1	Subsidiaries of Seaspan Corporation (incorporated herein by reference to Exhibit 21.1 to the Company's Registration Statement on Form F-1 (File No. 333-126762), filed with the SEC on July 21, 2005)
11.1	Code of Ethics (incorporated herein by reference to Exhibit 11.1 to the Company's Form 20-F (File No. 1-32591), filed with the SEC on March 17, 2006)
11.2	Compensation Committee Annual Report (incorporated herein by reference to the Company's Form 6-K (File No. 1-32591), filed with the SEC on March 15, 2007)
11.3	Audit Committee Annual Report (incorporated herein by reference to the Company's Form 6-K (File No. 1-32591), filed with the SEC on March 15, 2007)
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

\* Filed herewith.



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**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 the year 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 the year ended December 31, 2004 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

February 22, 2006

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

	December 31, 2004	August 11, 2005
<b>Assets</b>		
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
	<u>13,258</u>	<u>22,316</u>
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>
<b>Liabilities and Owner's Equity (Deficiency)</b>		
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
	<u>90,076</u>	<u>74,953</u>
Long-term debt (note 7)	376,999	405,495
Fair value of interest rate swaps	18,860	11,552
Other long-term liabilities	24	—
	<u>485,959</u>	<u>492,000</u>
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.

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

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

See accompanying notes to predecessor combined financial statements.

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

	Year ended December 31, 2004	223 day period ended August 11, 2005
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 6,069	\$ 14,614
Items not involving cash:		
Depreciation	8,808	9,904
Amortization of deferred financing fees	222	450
Change in fair value of interest rate swaps	(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))	921	1,629
Cash from operating activities	<u>18,540</u>	<u>19,289</u>
Investing activities:		
Vessels	(7,475)	(20,939)
Due from related parties	(1,217)	—
Other	—	—
Cash used in investing activities	<u>(8,692)</u>	<u>(20,939)</u>
Financing activities:		
Change in restricted cash	611	(11,515)
Issuance of long-term debt	300,318	45,267
Repayment of long-term debt	(269,629)	(11,215)
Due to related party	—	(21,429)
Repayment of due to related party	(32,061)	571
Financing fees incurred	(7,054)	(862)
Other long-term liabilities	(464)	(24)
Cash from (used in) financing activities	<u>(8,279)</u>	<u>793</u>
Increase (decrease) in cash and cash equivalents	1,569	(857)
Cash and cash equivalents, beginning of period	2,497	4,066
Cash and cash equivalents, end of period	<u>\$ 4,066</u>	<u>\$ 3,209</u>

Supplementary information (note 9(c))

See accompanying notes to predecessor combined financial statements.

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**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

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**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 entities and the Vessels included in these predecessor combined financial statements:

<u>Vessel Group / Company Name</u>	<u>Vessel name</u>	<u>Commencement of charter</u>	<u>Size (TEUs)</u>
<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 operations and cash flows of the legal entities comprising the Company as discussed in note 1. Owner's



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**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

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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 comparison of current and anticipated operating cash flows, assessment of future operations and other

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**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

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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.

(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

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**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
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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 Seaspans 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, Seaspans Ship Management Limited ("SSML") provided management supervision, insurance arrangements, accounting and treasury, and provisioning services in the amount of \$90,000 (2004—\$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) and Seaspans Crew Management Limited provided crew management services, in the amount of \$113,000 (2004—\$113,000). 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 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) of supplier rebates that are receivable from construction suppliers. Builder rebates, based on fleet volume discounts, are for the account of SCLL.

**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

**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
	\$478,784	\$ 23,922	\$454,862

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	\$ 8,201	\$ 8,548

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.

**SEASPAN CORPORATION**Notes to Predecessor Combined Financial Statements—(Continued)  
(Tabular amounts expressed in thousands of United States dollars)Year ended December 31, 2004  
223 day period ended August 11, 2005**7. Long-term debt:**

	December 31, 2004	August 11, 2005
<b>Bank term loans:</b>		
CSG I Vessel Companies	\$ 165,000	\$ 158,815
CSG II Vessel Companies	130,000	126,000
CSG III Vessel Companies	96,772	102,383
<b>Junior loans:</b>		
CSG I Vessel Companies	—	12,500
CSG II Vessel Companies	5,000	20,000
CSG III Vessel Companies	—	12,000
	<u>396,772</u>	<u>431,698</u>
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>

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**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

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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) 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.

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**SEASPAN CORPORATION**Notes to Predecessor Combined Financial Statements—(Continued)  
(Tabular amounts expressed in thousands of United States dollars)Year ended December 31, 2004  
223 day period ended August 11, 2005

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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).

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**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

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(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 Vessel launch date and assignments of the ship building contracts and the Refundment Guarantees



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**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

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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.

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**SEASPAN CORPORATION**Notes to Predecessor Combined Financial Statements—(Continued)  
(Tabular amounts expressed in thousands of United States dollars)Year ended December 31, 2004  
223 day period ended August 11, 2005

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**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, 2004	August 11, 2005
Interest costs incurred	\$ 17,286	\$ 15,715
Less: interest capitalized	(5,482)	(1,152)
Interest expense	<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, 2004	August 11, 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, 2004	August 11, 2005
Cash provided by (used in):		
Accounts receivable	\$ (31)	\$ 2,528
Inventories	49	(440)
Prepaid expenses	(149)	(335)
Accounts payable and accrued liabilities	1,297	(779)
Deferred revenue	(245)	655
	<u>\$ 921</u>	<u>\$ 1,629</u>

**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

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

	December 31, 2004	August 11, 2005
Interest paid, excluding interest capitalized	\$ 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	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.

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**SEASPAN CORPORATION**

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

Year ended December 31, 2004  
223 day period ended August 11, 2005

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(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:

<u>Vessel companies</u>	<u>Notional amount</u>	<u>Fixed LIBOR</u>	<u>Ending date</u>
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.

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**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.

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/S/ GERRY WANG  
Gerry Wang  
*Chief Executive Officer*

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/S/ KEVIN M. KENNEDY  
Kevin M. Kennedy  
*Chief Financial Officer*

February 22, 2007

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Seaspan Corporation

We have audited the accompanying balance sheets of Seaspan Corporation as of December 31, 2006 and 2005 and the related statements of earnings, shareholders' equity and cash flows for the year ended December 31, 2006 and for the 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 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 provides a reasonable basis for our 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, 2006 and 2005 and the results of its operations and its cash flows for the year ended December 31, 2006 and for the fiscal period from date of incorporation on May 3, 2005 to December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

February 22, 2007, except for note 13(c), which is as of March 13, 2007

**SEASPAN CORPORATION**

## Balance Sheets

(Expressed in thousands of United States dollars)

December 31, 2006 and 2005

	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 92,227	\$ 15,718
Accounts receivable	641	—
Prepaid expenses	3,787	2,352
	96,655	18,070
Vessels (note 5)	1,198,782	621,163
Deferred financing fees (note 6)	7,809	6,526
Intangible assets	1,315	—
Fair value of financial instruments	10,711	4,799
	<u>\$ 1,315,272</u>	<u>\$ 650,558</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 10(a))	\$ 5,607	\$ 1,467
Deferred revenue	5,560	2,759
	11,167	4,226
Long-term debt (note 7)	563,203	122,893
Fair value of financial instruments	15,831	—
Shareholders' equity:		
Share capital (note 8)		
Class A common shares; \$0.01 par value; 200,000,000 shares authorized; 40,377,250 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	475	360
Additional paid in capital	748,410	512,229
Retained earnings (deficit)	(19,602)	6,051
Accumulated other comprehensive income (loss)	(4,212)	4,799
	<u>725,071</u>	<u>523,439</u>
	<u>\$ 1,315,272</u>	<u>\$ 650,558</u>

Commitments and contingent obligations (note 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.

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**SEASPAN CORPORATION**

## Statements of Earnings

(Expressed in thousands of United States dollars, except per share amount)

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	Year ended December 31, 2006	Period from date of incorporation on May 3, 2005 to December 31, 2005
Revenue	\$ 118,489	\$ 34,803
Operating expenses:		
Ship operating (note 4(a))	29,407	8,252
Depreciation	26,878	7,186
General and administrative	4,911	1,694
	<u>61,196</u>	<u>17,132</u>
Operating earnings	57,293	17,671
Other expenses (income):		
Interest expense	17,594	1,699
Interest income	(1,542)	(124)
Undrawn credit facility fee	2,803	1,041
Amortization of deferred financing fees (note 6)	1,966	726
Change in fair value of financial instruments	908	—
	<u>21,729</u>	<u>3,342</u>
Net earnings	<u>\$ 35,564</u>	<u>\$ 14,329</u>
Weighted-average shares used in computation of basic and diluted earnings per share	37,692	35,992
Earnings per share, basic and diluted	<u>\$ 0.94</u>	<u>\$ 0.40</u>

See accompanying notes to financial statements.



**SEASPAN CORPORATION**

## Statements of Shareholders' Equity

(Expressed in thousands of United States dollars, except number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

	Number of common shares			Common shares	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity	Total comprehensive income
	Class A	Class B	Class C						
Class A common shares issued on initial public offering	28,570,000	—	—	\$ 286	\$ 599,684	\$ —	\$ —	\$ 599,970	
Class B common shares issued on initial public offering	—	7,145,000	—	71	149,974	—	—	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 overallotment option	276,500	—	—	3	5,804	—	—	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 financial instruments	—	—	—	—	—	—	4,799	4,799	4,799
									<u>\$ 19,128</u>
Dividends on common shares	—	—	—	—	—	(8,278)	—	(8,278)	
Balance, December 31, 2005	28,846,500	7,145,000	100	360	512,229	6,051	4,799	523,439	
Class A common shares issued on secondary offering (note 8)	11,500,000	—	—	115	247,135	—	—	247,250	
Fees and expenses in connection with issuance of common shares	—	—	—	—	(12,136)	—	—	(12,136)	
Share-based compensation expenses (note 9):									
Restricted Class A common shares issued vested at December 31, 2006	16,250	—	—	—	331	—	—	331	
Restricted Class A common shares	14,500	—	—	—	108	—	—	108	
Phantom share units	—	—	—	—	743	—	—	743	
Net earnings	—	—	—	—	—	35,564	—	35,564	\$ 35,564
Other comprehensive net income:									
Change in fair value of financial instruments	—	—	—	—	—	—	(9,011)	(9,011)	(9,011)
									<u>\$ 26,553</u>
Dividends on common shares	—	—	—	—	—	(61,217)	—	(61,217)	
Balance, December 31, 2006	<u>40,377,250</u>	<u>7,145,000</u>	<u>100</u>	<u>\$ 475</u>	<u>\$ 748,410</u>	<u>\$(19,602)</u>	<u>\$ (4,212)</u>	<u>\$ 725,071</u>	

See accompanying notes to financial statements.

**SEASPAN CORPORATION**

## Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Year ended December 31, 2006	Period from date of incorporation on May 3, 2005 to December 31, 2005
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 35,564	\$ 14,329
Items not involving cash:		
Depreciation	26,878	7,186
Share-based compensation (note 9)	1,182	—
Amortization of deferred financing fees (note 6)	1,966	726
Change in fair value of financial instruments	908	—
Changes in non-cash operating working capital:		
Prepaid expenses and accounts receivable	(2,076)	(2,352)
Accounts payable and accrued liabilities	4,140	1,467
Deferred revenue	2,801	2,759
Cash from operating activities	<u>71,363</u>	<u>24,115</u>
Financing activities:		
Common shares issued, net of share issue costs (note 8)	235,114	710,493
Draws on credit facilities (note 7)	440,310	122,893
Financing fees incurred (note 6)	(3,409)	(7,252)
Dividends on common shares	(61,217)	(8,278)
Cash from financing activities	<u>610,798</u>	<u>817,856</u>
Investing activities:		
Expenditures for vessels	(502,363)	(162,237)
Deposits on vessels	(101,974)	—
Vessels acquired at completion of initial public offering (note 2)	—	(664,016)
Intangible assets	(1,315)	—
Cash used in investing activities	<u>(605,652)</u>	<u>(826,253)</u>
Increase in cash and cash equivalents	76,509	15,718
Cash and cash equivalents, beginning of period	15,718	—
Cash and cash equivalents, end of period	<u>\$ 92,227</u>	<u>\$ 15,718</u>

Supplementary information (note 10(b))

See accompanying notes to financial statements.

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**SEASPAN CORPORATION**

## Notes to Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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**1. General:**

Seaspan Corporation (the Company) was incorporated on May 3, 2005 in the Marshall Islands. These financial statements are for year ended December 31, 2006 and for the period from the date of incorporation on May 3, 2005 to December 31, 2005, includes 142 days of operations from the date of the initial public offering (IPO) on August 12, 2005.

The Company was formed for the purpose of acquiring 10 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 (the Asset Purchase Agreement) to acquire 13 additional containerships 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 was scheduled to occur between 2005—2007 (all 23 containerships collectively referred to as the Contracted Fleet). Subsequent to the completion of the IPO, the Company has also entered into agreements to acquire other containerships. The primary activity of the Company is the ownership and operation of the containerships which are engaged in the deep-sea container transportation business.

**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 Seaspan Advisory Services Limited, a wholly-owned subsidiary of Seaspan 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>

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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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**3. Summary of significant accounting policies:****(a) Basis of presentation:**

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States and have been consistently applied in the preparation of the financial statements.

**(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.

**(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.

Vessels purchased pursuant to the Asset Purchase Agreement are recorded at their cost to the Company, reflecting the predetermined purchase price in the agreement.

Vessels acquired in the secondhand market are recorded at their cost to the Company which consists of the purchase price, acquisition and delivery costs.

Deposits, installment payments, interests, financing costs, construction design, supervision costs, and other pre-delivery costs incurred during the construction period for vessels under construction are recorded as vessel deposits.

Depreciation is provided on a straight-line basis over the estimated useful life of each vessel, which is approximately 30 years.

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) Intangible assets:**

For certain vessels where the Company provides lubricants for the operation of such vessels, the Company has a contractual right to have the vessel returned with the same level and complement of

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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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lubricants. This contractual right is recorded as an intangible asset at the historical fair value of the lubricants at the time of delivery. Intangible assets are tested for impairment annually or more frequently due to events or changes in circumstances that indicate the asset might be impaired. An impairment loss is recognized when the carrying amount of the intangible asset exceeds its fair value.

(f) 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.

(g) 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.

(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) Derivative financial instruments:

The Company's hedging policies permit the use of various derivative financial instruments to manage interest rate risk. Interest rate swap and swaption 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 and swaption agreements on the balance sheet at their fair value.

To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be formally designated as a hedge at the inception of the hedging relationship. The Company considers a hedge to be highly effective if the change in fair value of the derivative hedging instrument is within 80% to 125% of the opposite change in the fair value of the hedged item attributable to the hedged risk. For interest rate swap agreements that are formally designated as cash flow hedges, the changes in the fair value of these interest rate swaps are recorded in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of the hedges are recognized in earnings as they occur. Actual cash receipts and/or payments and related accruals on derivatives related to hedges are recorded as adjustments to the interest income or interest expense associated with the hedged item. During the life

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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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of the hedge, the Company formally assesses whether each derivative designated as a hedging instrument continues to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, the Company will discontinue hedge accounting prospectively.

(j) Share-based compensation:

Share-based compensation awards are accounted for using the fair value method of accounting in accordance with FAS No. 123 (R), *Share-Based Payment*. Share based awards may include options, restricted shares, phantom shares and other share-based awards. The fair value of the share-based awards is based on the market value of the Company's common shares at the grant date. Compensation costs for share-based awards are recognized over the requisite service period.

(k) Earnings per share:

In accordance with SFAS No. 128, *Earnings Per Share*, basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period excluding non-vested stock. Diluted earnings per common share include the dilutive effect of stock options and non-vested stock awards granted using the treasury stock method.

(l) 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.

(m) Comparative figures:

Certain of the figures presented have been reclassified for comparative purposes to conform to the financial statement presentation adopted for the current year.

(n) Recent accounting pronouncements:

In September 2006, the Financial Accounting Standards Board ("FASB") issued FSP AUG AIR-1, "Accounting for Planned Major Maintenance Activities", which provides guidance on the accounting for planned major maintenance activities. The Company is currently using Accrue-in-advance method of accounting to account for dry-dock activities. The Company will adopt the deferral method of accounting for major maintenance activities whereby actual costs incurred are deferred and amortized on a straight line basis over the period until the next scheduled major maintenance. FSP AUG AIR-1 is required to be applied to the first fiscal year beginning after December 15, 2006. The impact of the adoption of FSP AUG AIR-1 is not yet determinable.

Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of a Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements." SAB 108 addresses how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. The effects of prior year uncorrected errors include the potential

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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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accumulation of improper amounts that may result in a material misstatement on the balance sheet or the reversal of prior period errors in the current period that result in a material misstatement of the current period income statement amounts. Adjustments to current or prior period financial statements would be required in the event that after application of various approaches for assessing materiality of a misstatement in current period financial statements and consideration of all relevant quantitative and qualitative factors, a misstatement is determined to be material. SAB 108 is applicable to all financial statements issued by the Corporation after November 15, 2006.

**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 15.0% voting interest in the Company as at December 31, 2006.

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, \$5,750 per day for each 4800 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 year ended December 31, 2006, the Manager provided technical services at a cost of \$28,811,500 (2005—\$8,251,000) to the Company. For the New Delhi Express Grounding dry dock repair, the manager provided supervision services in the amount of \$27,800 (2005—nil) during the year ended December 31, 2006. These supervision fees are not covered under the fixed technical services fee.
- 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 year ended December 31, 2006, the Manager provided fixed fee administrative and strategic services at a cost of \$72,000, and the Company reimbursed expenses incurred by the Manager in the amount of \$836,064 (2005—\$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 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, 2006, the incentive shares do not have rights to incremental dividends.

**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

## (b) Due to related parties:

As at December 31, 2006, \$1,116,374 (December 31, 2005—\$534,582) is due to related parties for reimbursement of administrative and strategic services expenses, supervision services and acquisition costs paid on the Company's behalf. As at December 31, 2006, \$203,758 (December 31, 2005—nil) is due to the Manager for amounts collected from or deducted by charterers by the Company on the Manager's behalf. These amounts are to be repaid in the ordinary course of business.

**5. Vessels:**

December 31, 2006	Cost	Accumulated depreciation	Net book value
Vessels	\$ 1,130,712	\$ 34,064	\$ 1,096,648
Deposits on vessels	102,134	—	102,134
	<u>\$ 1,232,846</u>	<u>\$ 34,064</u>	<u>\$ 1,198,782</u>

December 31, 2005	Cost	Accumulated depreciation	Net book value
Vessels	\$ 628,349	\$ 7,186	\$ 621,163

During the year, the Company capitalized interest costs of \$2,411,000 (December 31, 2005—nil) as deposits on vessels.

**6. Deferred financing fees:**

December 31, 2006	\$1 billion credit facility		\$365 million revolving credit facility		\$218.4 million credit facility	Total
	Tranche A	Tranche B	Tranche A	Tranche B		
Deferred financing fees as at January 1, 2006	\$ 5,217	\$ 1,309	\$ —	\$ —	\$ —	\$ 6,526
Cost incurred	332	—	439	1,516	1,122	3,409
Amortization capitalized	—	—	(41)	(100)	(19)	(160)
Amortization expensed	(657)	(1,309)	—	—	—	(1,966)
Deferred financing fees as at December 31, 2006	<u>\$ 4,892</u>	<u>\$ —</u>	<u>\$ 398</u>	<u>\$ 1,416</u>	<u>\$ 1,103</u>	<u>\$ 7,809</u>
December 31, 2005						
Deferred financing fees beginning of fiscal period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Cost incurred	5,453	1,799	—	—	—	7,252
Amortization expensed	(236)	(490)	—	—	—	(726)
Deferred financing fees as at December 31, 2005	<u>\$ 5,217</u>	<u>\$ 1,309</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,526</u>



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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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**7. Long-term debt:**

	December 31, 2006	December 31, 2005
\$1.0 billion credit facility	\$ 464,347	\$ 122,893
\$365.0 million revolving credit facility	35,420	—
\$218.4 million credit facility	63,436	—
Long-term debt	<u>\$ 563,203</u>	<u>\$ 122,893</u>

## (a) \$1.0 billion credit facility:

During the fiscal period ended December 31, 2005, the Company entered into a \$1.0 billion secured loan facility agreement with certain lenders. This credit facility is being used in part to fund the acquisition of the fleet from the VesselCos 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.

Tranche A is being used to fund our acquisition of the Contracted Fleet and the 4800 TEU secondhand vessels while Tranche B may 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. Tranche B had an original expiration date of December 31, 2006 but was extended to February 28, 2007. Tranche B expired as of February 28, 2007. Any commitment undrawn by the expiry date 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.

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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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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 the Company's time charters and earnings related to the collateral vessels;
- 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.

(b) \$365.0 million revolving credit facility:

On May 19, 2006, the Company entered into a \$365.0 million senior secured revolving credit facility agreement (Revolving Credit Facility) with certain lenders.

The total Revolving Credit Facility amount of \$365.0 million is divided into two Tranches: Tranche A, in the maximum amount of \$82.0 million and Tranche B, in the maximum amount of \$283.0 million. Tranche A will be used to fund the Company's purchase of the 3500 TEU vessels under construction from affiliates of Conti Holdings GmbH & Co. KG that are being built by Zhejiang Shipbuilding Co. Ltd. and Tranche B is being used to partially fund the purchase of our eight 2500 TEU vessels being constructed by Jiangsu Yangzijiang Shipbuilding in China. Both Tranche A and Tranche B will be divided into several advances.

The Revolving Credit Facility requires payment of interest at a rate per annum, calculated as LIBOR plus 0.850% per annum for the first six years after the delivery date of the last delivered vessel in each Tranche and LIBOR plus 0.925% per annum thereafter. The Company has entered into hedging arrangements to manage the interest rate exposure from the floating rate under the facility.

The Revolving Credit Facility requires payments of a commitment fee of 0.3% per annum on the average undrawn facility amount.

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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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Beginning six months from the delivery date of the last vessel securing Tranche A of the facility, but no later than March 31, 2008, the principal amount borrowed under the tranche will be reduced semiannually by amounts ranging from 2.2% to 3.5% of the amount borrowed until the maturity date, at which time the tranche will terminate. A final payment of approximately 47% of the amount borrowed is required upon termination of the tranche. Beginning six months from the delivery date of the last vessel securing Tranche B of the facility, but no later than April 30, 2010, the principal amount borrowed under the tranche will be reduced semiannually by amounts ranging from 2.1% to 3.3% of the amounts borrowed until the maturity date, at which time the tranche will terminate. A final payment of approximately 49% of the amount borrowed is required upon termination of the tranche.

Tranche A of the facility has a maturity date of the tenth anniversary of the delivery date of the last of the vessel or July 31, 2017, whichever is earlier. Tranche B of the facility has a maturity date of the tenth anniversary of the delivery date of the last of the vessel or August 31, 2019, whichever is earlier.

The Revolving Credit Facility is secured by the following, among others:

- A first priority mortgage on the collateral vessels funded by the Revolving Credit Facility;
- An assignment of the Company's time charters and earnings related to the collateral vessels;
- An assignment of the insurance on each of the vessels that are subject to a mortgage;
- An assignment of the Company's shipbuilding contracts; and
- A pledge of our retention accounts.

The credit facility contains certain financial covenants including covenants requiring the Company to maintain a minimum tangible net worth, and interest and principal coverage ratios.

(c) \$218.4 million credit facility:

On October 16, 2006, the Company entered into a credit facility for \$218.4 million. The proceeds of this facility is being used to partially finance the construction of the four 5100 TEU vessels that will be built by Hyundai Heavy Industries Co., Ltd. in South Korea. The credit facility requires payment of interest at a rate per annum, calculated as LIBOR plus 0.6% per annum.

The credit facility requires payments of a commitment fees of 0.3% per annum calculated on the undrawn portion of the facility.

Beginning thirty six months from the delivery of the date of the last vessel securing the facility, the principal amount borrowed under the facility will be reduced in eighteen semi-annual payments by amounts ranging from 2.7% and 3.3% of the amount borrowed until the maturity date. A final repayment of approximately 45% of the amount borrowed is required upon the final maturity date.

The facility maturity date is the anniversary date falling twelve years after the scheduled delivery date of the fourth 5100 TEU vessel delivered or December 23, 2021, whichever is earlier.

The credit facility is secured by the following, among others:

- A first priority mortgage on the collateral vessels funded by the credit facility;
- An assignment of the Company's time charters and earnings related to the collateral vessels;

**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

- An assignment of the insurance on each of the vessels that are subject to a mortgage;
- An assignment of the Company's shipbuilding contracts; and
- A pledge of our retention accounts.

The credit facility contains certain financial covenants including covenants requiring the Company to maintain a minimum tangible net worth, and interest and principal coverage ratios.

## (d) Minimum repayments:

As at December 31, 2006, minimum repayments for the balances outstanding with respect to each credit facility are as follows:

	\$1 billion credit facility		\$365 million revolving credit facility		\$218.4 million credit facility	Total
	Tranche A	Tranche B	Tranche A	Tranche B		
2007	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2008	—	—	—	—	—	—
2009	—	—	—	—	—	—
2010	—	—	—	1,502	—	1,502
2011	—	—	—	1,601	—	1,601
Thereafter	464,347	—	—	32,317	63,436	560,100
	<u>\$464,347</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 35,420</u>	<u>\$ 63,436</u>	<u>\$ 563,203</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.

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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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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>

On November 8, 2006, the Company completed a secondary offering and issued 11,500,000 common shares at \$21.50 per share. The net proceeds of \$235,114,000 from this offering will be used to fund a portion of the purchase price of the undelivered vessels that the Company has contacted to purchase and for working capital and other general corporate purposes.

**9. Share-based compensation:**

In December 2005, the Company's board of directors adopted the Seaspan Corporation Stock Incentive Plan (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 the Company's board of directors. A total of 1,000,000 shares of common stock were reserved for issuance under the Plan, which is administered by the Company's board of directors. The Plan expires 10 years from the date of its adoption.

Under the plan, the Company issued the following share-based awards during the year:

- (a) 16,250 restricted Class A common shares to its independent directors as compensation for services for 2006. These shares vested on December 31, 2006.
- (b) 14,500 restricted Class A common shares to the Chief Financial Officer as compensation for services. These shares vest over 26 months with one third of the award vesting on each of January 1, 2007, January 1, 2008, and January 1, 2009.
- (c) 99,500 phantom share units to the Chief Executive Officer as compensation for services. These units vest over 26 months with one third of the award vesting on each of January 1, 2007, January 1, 2008, and January 1, 2009. On January 1, 2007, 33,167 common shares were issued in exchange for the cancellation of the 33,167 vested phantom share units.

**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

Share based awards are summarized as follows:

	Restricted shares		Phantom share units	
	Number of shares	W.A. grant date FV	Number of shares	W.A. grant date FV
December 31, 2005	—	\$ —	—	\$ —
Granted	30,750	21.32	99,500	22.40
Vested	16,250	20.35	—	—
December 31, 2006	<u>14,500</u>	<u>\$ 22.40</u>	<u>99,500</u>	<u>\$ 22.40</u>

The above shared-based awards are recognized as compensation costs over the requisite service period in the income statement based on the fair value of the award on the date of grant. During 2006, the Company recognized a total of \$1,182,000 (2005—nil) share-based compensation expenses. As at December 31, 2006, there was \$1,702,000 of total unrecognized compensation costs relating to the outstanding share based awards, which is expected to be recognized over a weighted average period of two years.

**10. Other information:**

- (a) Accounts payable and accrued liabilities:

The principal components of accounts payable and accrued liabilities are:

	December 31, 2006	December 31, 2005
Due to related parties (note 4(b))	\$ 1,320	\$ 535
Accrued interest	2,165	297
Other accrued liabilities	2,122	635
	<u>\$ 5,607</u>	<u>\$ 1,467</u>

- (b) Supplementary information to the statement of cash flows consists of:

	December 31, 2006	December 31, 2005
Interest paid	\$ 18,021	\$ 1,390
Interest received	1,500	—
Undrawn credit facility fee paid	2,320	1,034
Non-cash transactions:		
Fair value of interest rate swap	3,738	—
Fair value of interest rate swaption	3,738	—
Accrued and capitalized interest costs on vessels under construction, including amortization of deferred financing fees	972	—
Excess of purchase price over carrying value of the Initial Fleet	—	197,904

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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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**11. Commitments and contingent obligations:**

- (a) As at December 31, 2006, the Company has outstanding commitments for the purchase of additional vessels and installment payments for vessels under construction, as follows:

2007	\$ 500,463
2008	150,050
2009	<u>329,500</u>
	<u>\$ 980,013</u>

- (b) As at December 31, 2006, 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), HL Ships USA, LLC ("HL USA"), a subsidiary of TUI AG, and A.P. Møller-Mærskk A/S ("APM") 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.

For vessels under construction, the Company is committed under charter party agreements with COSCO Container Lines Co., Ltd., ("COSCON"), CSCL Asia and Mitsui O.S.K. Lines ("MOL") to supply the vessels on a full-time basis for a fixed daily charter rate, once vessel construction is completed.

As at December 31, 2006, based on 100% utilization, the minimum future revenues to be received on committed time charter party agreements are approximately:

2007	\$ 194,383
2008	221,992
2009	267,798
2010	309,272
2011	301,028
Thereafter	<u>1,705,356</u>
	<u>\$ 2,999,829</u>

- (c) 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. The fixed payments to the Manager for technical and administrative services for the remainder of the current management agreement are as follows:

2007	\$46,956
2008	<u>52,631</u>
	<u>\$99,617</u>

**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

**12. Financial instruments:**

## (a) Concentration of credit risk:

CSCL Asia, HL USA and APM are the Company's only customers as at December 31, 2006. As at December 31, 2006, customers accounting for our total revenues are:

	December 31, 2006	December 31, 2005
CSCL Asia	\$ 86,938	\$ 33,471
HL USA	28,436	1,332
APM	3,115	—
	<u>\$ 118,489</u>	<u>\$ 34,803</u>

## (b) Fair value:

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities 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 financial instruments is recognized on the balance sheet.

## (c) Interest rate risk management agreements:

The Company uses derivative financial instruments, consisting of interest rate swap agreements and an interest rate swaption, to manage its exposure to adverse movements in interest rates.

Pursuant to the credit facility agreements, at December 31, 2006 the Company has entered into interest rate swap agreements to fix LIBOR at per annum interest rates on notional loan balances as follows:

	Fixed LIBOR	Notional amount as at December 31 2006	Maximum notional amount (1)	Effective date	Ending date
Interest rate swap	4.6325%	\$ 432,671	\$ 663,399	September 15, 2005	July 16, 2012
Interest rate swap	5.2000%	96,000	96,000	December 18, 2006	October 2, 2015
Interest rate swap	5.2500%	62,680	200,000	September 29, 2006	June 23, 2010
Interest rate swap	5.3150%	18,784	106,800	August 15, 2006	August 28, 2009
Interest rate swap	5.2600%	18,500	106,800	July 3, 2006	February 26, 2021(2)
Interest rate swap	5.5150%	—	59,700	February 28, 2007	July 31, 2012
Interest rate swap	5.1750%	—	663,399	July 16, 2012	July 15, 2016
Interest rate swap	5.4975%	—	59,700	July 31, 2012	July 31, 2019
Interest rate swap	5.5950%	—	106,800	August 29, 2009	August 28, 2020
Interest rate swap	5.6000%	—	200,000	June 23, 2010	December 23, 2021

(1) Over the term of the interest rate swaps, the notional amounts increase and decrease. These amounts represent the peak notional during the term of the swap.

(2) The Company has entered into a swaption agreement with a bank (Swaption Counterparty) whereby the Swaption Counterparty has the option to require the Company to enter into an interest rate swap to pay LIBOR and receive a fixed rate of 5.26%. This is a European option and is open for a two hour period on February 26, 2014 after which it expires. The notional amount of the underlying swap is \$106,800,000 with an effective date of February 28, 2014 and an expiration of February 26, 2021. If the Swaption Counterparty exercises the swaption, the underlying swap effectively offsets the Company's 5.26% pay fixed LIBOR swap from February 28, 2014 to February 26, 2021.



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**SEASPAN CORPORATION**

Notes to Financial Statements—(Continued)

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares)

Year ended December 31, 2006

Period from date of incorporation on May 3, 2005 to December 31, 2005

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**13. Subsequent events:**

- (a) On January 1, 2007, the Company issued 3,750 shares to each independent director for a total of 18,750 shares as compensation for services for 2007. These shares will be recorded at their fair value on the date of issuance, and will be recorded as expense on a straight-line basis as the services are provided.
- (b) On January 23, 2007, the Company declared a cash dividend of \$0.44625 per share, representing a total cash distribution of \$21,230,000. The cash dividend was paid on February 13, 2007, to all shareholders to record on January 29, 2007.
- (c) On March 13, 2007, the Company drew \$12,375,000 under its \$365.0 million Revolving Credit Facility to fund the installment payments for three of the 2500 TEU vessels.

SHIP BUILDING CONTRACT  
(Contract Number: 06CA44S1981020)

**FOR**  
**CONSTRUCTION OF ONE 2500 TEU CONTAINER VESSEL**  
**(HULL No. YZJ2006-719C)**

Between

SEASPAN CORPORATION

as Buyer

and

JIANGSU YANGZIJANG SHIPBUILDING CO., LTD. and  
GUANGDONG MACHINERY IMP. & EXP. CO., LTD.

collectively as Seller

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THIS CONTRACT, made and entered into on this 4<sup>th</sup> day of July, 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 Unit 2, 7<sup>th</sup> Floor, Bupa Centre, 141 Connaught Road West, Hong Kong F4 00000, 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.

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**ARTICLE I—DESCRIPTION AND CLASS**

**1. Description:**

The VESSEL shall be a Single Screw Cellular Container VESSEL having the Builder's Hull No. YZJ2006-719C 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		16.40m
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.

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- (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 February 28, 2006 (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 February 28, 2006, together with all mandatory rules and regulations with amendment, which have already been ratified up to February 28, 2006, 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.



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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)

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**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.

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#### **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 having 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 the BUYER’s bank to make an irrevocable cash deposit in an account in the name of the 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 to 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.

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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 precondition 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 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> instalments together with interest thereon as set out in ARTICLE X herein. This form of Refundment Guarantee would remain a precondition to the payment by the BUYER of the first instalment.

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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)

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### 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.

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**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.



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- (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.

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**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)

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**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.

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**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.

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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.

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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 the 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.

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**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)

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## 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.



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(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)

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## 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.

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**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.

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- (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)

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## 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 May 10, 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.

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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.

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**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)

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**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.



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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)

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## 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**”).

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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 1 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

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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

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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)

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**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.

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**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.



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**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)

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## 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.

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**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)

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## 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.

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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)

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**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)

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**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)

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**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)



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## 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.

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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)

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## 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.

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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)

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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  
Unit 2  
7<sup>th</sup> Floor, Bupa Centre  
141 Connaught Road West  
Hong Kong F4 00000, 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

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.

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**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)

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**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 August 3, 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)

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## 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.



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**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.

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**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:

/s/ GERRY WANG

Name: GERRY WANG  
Title: CEO

SELLER

JIANGSU YANGZIJANG SHIPBUILDING CO., LTD.  
Signature:

/s/ Ren Yuan Lin

Name: Ren Yuan Lin  
Title: Chairman of board

and:

GUANGDONG MACHINERY IMP. & EXP. CO., LTD.  
Signature:

/s/ Zhu Ming Yi

Name: Zhu Ming Yi  
Title: Director

**EXHIBIT "A" : IRREVOCABLE LETTER OF GUARANTEE NO.**

Date: [            ], 2006

To: SEASPAN CORPORATION  
Add.: Unit 2  
7<sup>th</sup> Floor, Bupa Centre  
141 Connaught Road West  
Hong Kong F4 00000, China

From: [            ]  
Add.: [            ]

WHEREAS Guangdong Machinery Imp. & Exp. Co. Ltd. and Jiangsu Yangzijiang Shipbuilding Co., Ltd. (hereinafter collectively called the SELLER) and SEASPAN CORPORATION (hereinafter called the BUYER) concluded on 4<sup>th</sup> July, 2006 a contract with number 06CA44S1981020 for the construction of 1 (one) 2500TEU Container Vessel (hereinafter called the "Vessel") to be designated as Hull No. YZJ2006-719C (hereinafter called the Contract).

At the application of [            ] and in consideration of the readiness of the BUYER to pay the SELLER the installment before delivery of the Vessel under the Contract, we, [            ] having our registered office at [            ] The People's Republic of China (hereinafter called the SELLER's Bank), hereby issue this irrevocable Letter of Guarantee (hereinafter called the Guarantee) in favor of the BUYER to irrevocably and unconditionally guarantee, as a primary obligor and not as a surety, the repayment to the BUYER by the SELLER of the [            ] installment under the Contract prior to the delivery of the Vessel, in an aggregate amount up to but not exceeding [            ] United States Dollars only (USD), representing the [            ] installment of the Contract Price of the Vessel, if and when the same becomes repayable to you from the SELLER in accordance with the terms of the Contract.

If the SELLER fails to make such repayment within twenty (20) days after the BUYER's demand to the SELLER, we hereby irrevocably and unconditionally guarantee, as a primary obligor and not as a surety, to pay the BUYER upon our receipt of the BUYER's first written demand for the above-mentioned amount together with interest thereon at the rate of six per cent (6%) per annum in United States Dollars applicable from the date of receipt by the SELLER of the installment to the date of remittance by telegraphic transfer of such refund by us to the BUYER if the cancellation of the Contract is exercised by the BUYER in accordance with any other provision of the Contract.

In the event that we receive written notification from the BUYER or the SELLER, confirmed by the Arbitrators appointed for this purpose, advising of any dispute between the BUYER and the SELLER as to whether the SELLER shall be liable to repay the installment made by the BUYER and, consequently, whether the BUYER shall have the right to demand payment from us (hereinafter called "Repayment Dispute") and that such dispute has been referred to Arbitration in accordance with Article XII of the Contract, we shall be entitled to withhold and defer payment to the BUYER under this guarantee until an award has been made under such Arbitration. Therefore, we shall not be obligated to make any payment to the BUYER unless the arbitration award orders the SELLER to make repayment and any right of appeal available to the SELLER under the laws of England is waived or is not exercised by the SELLER in the time period provided for under English law.

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If a sum is adjudged to be due to the BUYER by the SELLER pursuant to an award made under Arbitration, we will refund to the BUYER to the extent the arbitration award thus orders but not exceeding the aggregate amount of this guarantee plus the interest described above, upon receipt of your written demand for payment, provided your demand for payment is accompanied by a copy of the arbitration award. Nevertheless, the refund shall not exceed the amount actually received by SELLER with interest calculated as prescribed above, applicable from the date of receipt by Seller of the [ ] installment to the date of remittance by telegraphic transfer of such refund.

The payment of the amount guaranteed hereunder shall be made by us in United States Dollars without any setoff or counterclaim and without any other deduction and withholding of whatsoever nature, including but not limited to bank charges, remittance fees, taxes or other applicable withholdings.

This letter of guarantee shall be construed as a continuing and unconditional guarantee of payment and without regard to the validity or unenforceability of any other agreement or instrument and without regard to defence, set-off or counterclaim or any other circumstance whatsoever which might constitute and equitable or legal discharge of our obligation hereunder. No action or failure to act on the BUYER's part shall relieve us of any of our obligations hereunder.

Any claim or demand hereunder shall be in writing, signed by a director of the BUYER or an attorney-in-fact and may be served on us either by hand or by post (if sent by post to. the People's Republic of China or such other address as we may notify to you in writing) with confirmation in writing by, or by authenticated SWIFT via (SWIFT CODE:).

This Guarantee shall become effective from the time of the actual receipt by the SELLER of the [ ] installment of [ ] United States Dollars (USD[ ]) from the BUYER in SELLER's account (No. [ ]) in [ ].

All rights, title and interest under this guarantee in favor of the BUYER may be assigned to its bank, financial institution or a commercial corporation for payment except the demand right under this letter of guarantee which shall remain with yourselves and before which notice of assignment from the BUYER in the form attached hereto must be received by us. If so requested, we will provide the BUYER with a written acknowledgment of such assignment.

This Guarantee shall remain in force until the Vessel is delivered to and accepted by the BUYER, or refund has been made by the SELLER or by us for the full amount of the installment to which this Guarantee relates, or on the date which is 180 days after the Delivery Date, whichever occurs earlier. After which you are expected to return the Guarantee to us by registered airmail for cancellation.

However, in the event of a Repayment Dispute between the BUYER and the SELLER as mentioned above, the validity of this Guarantee shall then be automatically extended until the date falling on the sixty (60th) calendar day after arbitration award is rendered.

Our obligations under this letter of guarantee shall not be discharged or impaired by any amendment(s) and/or supplements to the Contract. This letter of guarantee shall continue to be effective or reinstated, as the case may be, if at any time, payment of any of payments guaranteed hereunder is rescinded or must otherwise be returned by the BUYER upon the insolvency, bankruptcy or reorganization of the SELLER or otherwise, all as though any such payment had not been made.

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This Letter of Guarantee is governed by the Laws of England and we hereby submit to the exclusive jurisdiction of the English Courts.

We herewith confirm that we are permitted by the laws of the People's Republic of China to issue guarantees with this wording and especially to designate English law as the applicable law and London as the jurisdiction. With regard to the rules, regulations and requirements of foreign exchange by the State Administration of Foreign Exchange, i.e. registration or similar directives, we confirm that we have the necessary authorization to transfer funds out of the People's Republic of China in the currency or currencies required hereunder and that this Guarantee is valid and enforceable in the People's Republic of China or elsewhere. Equally we confirm that we have taken all other steps apart from those with regard to the State Administration of Foreign Exchange as may be required to ensure that we may transfer funds out of the People's Republic of China in the currency required hereunder and that this Guarantee is valid and enforceable in the People's Republic of China or elsewhere.

The BUYER will return this Letter of Guarantee to us without any request or demand from us upon its expiry. Nevertheless, this Letter of Guarantee shall have expired as aforesaid, whether you return the same to us or not.

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Authorized Signatory for the SELLER's bank

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ATTACHMENT

Date: \_\_\_\_\_

TO: SELLER'S BANK

FROM: SEASPAN CORPORATION

We refer to the irrevocable letter of the guarantee no. \_\_\_\_\_ dated \_\_\_\_\_ (the "LOG") issued by you to us whereby you have in the manner therein appearing guaranteed to pay to us the sum of [ ] United States Dollars only (USD[ ]) which Guangdong Machinery Imp. & Exp. Co. Ltd. and Jiangsu Yangzijiang Shipbuilding Co., Ltd. (hereinafter collectively called the 'Seller') may become liable to repay us under a shipbuilding contract dated the 4th of July, 2006 made between ourselves and the Seller whereby the Seller has agreed to construct for us and we have agreed to purchase one 2500teu container vessel having Hull No. YZJ2006-719C subject to and upon the terms and conditions therein contained.

Now we hereby give you notice that:

1. By an assignment dated [ ] (the "Assignment") made between ourselves and [ ] (the 'Bank'), we have assigned to the Bank all our right, title, interest and benefits in and under the LOG (with the exception of the right for making demand for payment which shall remain with ourselves) if and when all money or any part thereof shall become payable by you to us under the LOG and we are in default of our obligations under a credit facility agreement with the Bank;
2. We have irrevocably appointed the Bank as our attorney with full power to receive the proceeds to be described in our demand, which will be presented for payment by us in accordance with the terms of the LOG, in the event that the security granted by the Assignment has become enforceable;
3. Upon notice from the Facility Agent that the security granted by the Assignment has become enforceable, you are hereby irrevocably authorized and instructed and demanded by us to pay to the Bank all sums or any part thereof which you may become due to us under the LOG; and
4. The authority and instructions herein contained cannot be revoked or varied by us without the consent of the Bank.

For and on behalf of Seaspan Corporation

\_\_\_\_\_  
Authorized Signatory

We acknowledge receipt of this notice of assignment of the letter of refund guarantee and hereby agree to provide the Bank with a written acknowledgment of the assignment if so requested by the Buyer.

\_\_\_\_\_  
Authorized Signatory of Seller's Bank

SHIP BUILDING CONTRACT  
(Contract Number: CMEC2006C4195)  
**FOR**  
**CONSTRUCTION OF ONE 2500 TEU CONTAINER VESSEL**  
**(HULL No. YZJ2006-720C)**  
Between  
SEASPAN CORPORATION  
as Buyer  
and  
JIANGSU YANGZIJANG SHIPBUILDING CO., LTD.  
as Seller

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THIS CONTRACT, made and entered into on this 4<sup>th</sup> day of July, 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 Unit 2, 7<sup>th</sup> Floor, Bupa Centre, 141 Connaught Road West, Hong Kong F4 00000, China (hereinafter referred to as the “**BUYER**”), of the one part;

and

Jiangsu Yangzijiang Shipbuilding Co., Ltd., 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.

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**ARTICLE I—DESCRIPTION AND CLASS**

**1. Description:**

The VESSEL shall be a Single Screw Cellular Container VESSEL having the SELLER's Hull No. YZJ2006-720C 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		16.40m
Designed draught, moulded		10.10 m
Scantling draught, moulded		11.50 m
Main Engine		MAN B&W 6K80MC-C (with alpha lubricator)
MCRxRPM.		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.

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- (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 February 28, 2006 (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 February 28, 2006, together with all mandatory rules and regulations with amendment, which have already been ratified up to February 28, 2006, 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.

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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 SELLER 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)

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## 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.

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#### **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 having 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 the SELLER 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 the SELLER 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 the SELLER 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 the BUYER's bank to make an irrevocable cash deposit in an account in the name of the 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 to 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.

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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 precondition 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 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> instalments together with interest thereon as set out in ARTICLE X herein. This form of Refundment Guarantee would remain a precondition to the payment by the BUYER of the first instalment.

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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)

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### 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.

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**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.

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- (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.

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**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)

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**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.



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**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.

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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.

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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 the 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.

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**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)

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## 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.

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(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)

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## 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.

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**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.



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- (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)

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## 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 June 10, 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.

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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.

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**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)

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**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.

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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)

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## 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**”).

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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 1 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



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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

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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)

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**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 SELLER, general assignment by the SELLER for the benefit of creditors, any composition by the SELLER with its creditors, appointment of a receiver, trustee or liquidator for the SELLER of all or any substantial part of its assets, application or consent by the SELLER for or to appointment of the same, winding up by the SELLER, adjudication of the SELLER as bankrupt or insolvent, filing by the SELLER 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 SELLER (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 SELLER.

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**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.

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**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)

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## 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.

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**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)



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## 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.

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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)

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**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)

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**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)

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**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)

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## 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.

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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)

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## 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.



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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)

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**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  
Unit 2  
7<sup>th</sup> Floor, Bupa Centre  
141 Connaught Road West  
Hong Kong F4 00000, 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.

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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)

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**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 August 3, 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)

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## 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.

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**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.

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**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:

/s/ GERRY WANG

Name: GERRY WANG

Title: CEO

SELLER

JIANGSU YANGZIJANG SHIPBUILDING CO., LTD.

Signature:

/s/ Ren Yuan Lin

Name: Ren Yuan Lin

Title: 4/7 - 2006

Title: Chairman of board

**EXHIBIT "A" : IRREVOCABLE LETTER OF GUARANTEE NO.**

Date: [            ], 2006

To: SEASPAN CORPORATION  
Add.: Unit 2  
7<sup>th</sup> Floor, Bupa Centre  
141 Connaught Road West  
Hong Kong F4 00000, China

From: [            ]  
Add.: [            ]

WHEREAS Jiangsu Yangzijiang Shipbuilding Co., Ltd. (hereinafter called the SELLER) and SEASPAN CORPORATION (hereinafter called the BUYER) concluded on 4<sup>th</sup> July, 2006 a contract with number CMEC2006C4195 for the construction of 1 (one) 2500TEU Container Vessel (hereinafter called the "Vessel") to be designated as Hull No. YZJ2006-720C (hereinafter called the Contract).

At the application of [            ] and in consideration of the readiness of the BUYER to pay the SELLER the installment before delivery of the Vessel under the Contract, we, [            ], having our registered office at [            ] The People's Republic of China (hereinafter called the SELLER's Bank), hereby issue this irrevocable Letter of Guarantee (hereinafter called the Guarantee) in favor of the BUYER to irrevocably and unconditionally guarantee, as a primary obligor and not as a surety, the repayment to the BUYER by the SELLER of the [            ] installment under the Contract prior to the delivery of the Vessel, in an aggregate amount up to but not exceeding [            ] United States Dollars only (USD [            ], representing the [            ] installment of the Contract Price of the Vessel, if and when the same becomes repayable to you from the SELLER in accordance with the terms of the Contract.

If the SELLER fails to make such repayment within twenty (20) days after the BUYER's demand to the SELLER, we hereby irrevocably and unconditionally guarantee, as a primary obligor and not as a surety, to pay the BUYER upon our receipt of the BUYER's first written demand for the above-mentioned amount together with interest thereon at the rate of six per cent (6%) per annum in United States Dollars applicable from the date of receipt by the SELLER of the installment to the date of remittance by telegraphic transfer of such refund by us to the BUYER if the cancellation of the Contract is exercised by the BUYER in accordance with any other provision of the Contract.

In the event that we receive written notification from the BUYER or the SELLER, confirmed by the Arbitrators appointed for this purpose, advising of any dispute between the BUYER and the SELLER as to whether the SELLER shall be liable to repay the installment made by the BUYER and, consequently, whether the BUYER shall have the right to demand payment from us (hereinafter called "Repayment Dispute") and that such dispute has been referred to Arbitration in accordance with Article XII of the Contract, we shall be entitled to withhold and defer payment to the BUYER under this guarantee until an award has been made under such Arbitration. Therefore, we shall not be obligated to make any payment to the BUYER unless the arbitration award orders the SELLER to make repayment and any right of appeal available to the SELLER under the laws of England is waived or is not exercised by the SELLER in the time period provided for under English law.



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If a sum is adjudged to be due to the BUYER by the SELLER pursuant to an award made under Arbitration, we will refund to the BUYER to the extent the arbitration award thus orders but not exceeding the aggregate amount of this guarantee plus the interest described above, upon receipt of your written demand for payment, provided your demand for payment is accompanied by a copy of the arbitration award. Nevertheless, the refund shall not exceed the amount actually received by SELLER with interest calculated as prescribed above, applicable from the date of receipt by Seller of the [ ] installment to the date of remittance by telegraphic transfer of such refund.

The payment of the amount guaranteed hereunder shall be made by us in United States Dollars without any setoff or counterclaim and without any other deduction and withholding of whatsoever nature, including but not limited to bank charges, remittance fees, taxes or other applicable withholdings.

This letter of guarantee shall be construed as a continuing and unconditional guarantee of payment and without regard to the validity or unenforceability of any other agreement or instrument and without regard to defence, set-off or counterclaim or any other circumstance whatsoever which might constitute and equitable or legal discharge of our obligation hereunder. No action or failure to act on the BUYER's part shall relieve us of any of our obligations hereunder.

Any claim or demand hereunder shall be in writing, signed by a director of the BUYER or an attorney-in-fact and may be served on us either by hand or by post (if sent by post to the People's Republic of China or such other address as we may notify to you in writing) with confirmation in writing by, or by authenticated SWIFT via (SWIFT CODE:).

This Guarantee shall become effective from the time of the actual receipt by the SELLER of the [ ] installment of [ ] United States Dollars (USD[ ]) from the BUYER in SELLER's account (No. [ ]) in [ ].

All rights, title and interest under this guarantee in favor of the BUYER may be assigned to its bank, financial institution or a commercial corporation for payment except the demand right under this letter of guarantee which shall remain with yourselves and before which notice of assignment from the BUYER in the form attached hereto must be received by us. If so requested, we will provide the BUYER with a written acknowledgment of such assignment.

This Guarantee shall remain in force until the Vessel is delivered to and accepted by the BUYER, or refund has been made by the SELLER or by us for the full amount of the installment to which this Guarantee relates, or on the date which is 180 days after the Delivery Date, whichever occurs earlier. After which you are expected to return the Guarantee to us by registered airmail for cancellation.

However, in the event of a Repayment Dispute between the BUYER and the SELLER as mentioned above, the validity of this Guarantee shall then be automatically extended until the date falling on the sixty (60th) calendar day after arbitration award is rendered.

Our obligations under this letter of guarantee shall not be discharged or impaired by any amendment(s) and/or supplements to the Contract. This letter of guarantee shall continue to be effective or reinstated, as the case may be, if at any time, payment of any of payments guaranteed hereunder is rescinded or must otherwise be returned by the BUYER upon the insolvency, bankruptcy or reorganization of the SELLER or otherwise, all as though any such payment had not been made.

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This Letter of Guarantee is governed by the Laws of England and we hereby submit to the exclusive jurisdiction of the English Courts.

We herewith confirm that we are permitted by the laws of the People's Republic of China to issue guarantees with this wording and especially to designate English law as the applicable law and London as the jurisdiction. With regard to the rules, regulations and requirements of foreign exchange by the State Administration of Foreign Exchange, i.e. registration or similar directives, we confirm that we have the necessary authorization to transfer funds out of the People's Republic of China in the currency or currencies required hereunder and that this Guarantee is valid and enforceable in the People's Republic of China or elsewhere. Equally we confirm that we have taken all other steps apart from those with regard to the State Administration of Foreign Exchange as may be required to ensure that we may transfer funds out of the People's Republic of China in the currency required hereunder and that this Guarantee is valid and enforceable in the People's Republic of China or elsewhere.

The BUYER will return this Letter of Guarantee to us without any request or demand from us upon its expiry. Nevertheless, this Letter of Guarantee shall have expired as aforesaid, whether you return the same to us or not.

---

Authorized Signatory for the SELLER's bank

ATTACHMENT

Date: \_\_\_\_\_

TO: SELLER'S BANK

FROM: SEASPAN CORPORATION

We refer to the irrevocable letter of the guarantee no. \_\_\_\_\_ dated \_\_\_\_\_ (the "LOG") issued by you to us whereby you have in the manner therein appearing guaranteed to pay to us the sum of [ \_\_\_\_\_ ] United States Dollars only (USD [ \_\_\_\_\_ ]) which Jiangsu Yangzijiang Shipbuilding Co., Ltd. (hereinafter called the 'Seller') may become liable to repay us under a shipbuilding contract dated the 4th of July, 2006 made between ourselves and the Seller whereby the Seller has agreed to construct for us and we have agreed to purchase one 2500teu container vessel having Hull No. YZJ2006-720C subject to and upon the terms and conditions therein contained.

Now we hereby give you notice that:

1. By an assignment dated [ \_\_\_\_\_ ] (the "Assignment") made between ourselves and [ \_\_\_\_\_ ] (the 'Bank'), we have assigned to the Bank all our right, title, interest and benefits in and under the LOG (with the exception of the right for making demand for payment which shall remain with ourselves) if and when all money or any part thereof shall become payable by you to us under the LOG and we are in default of our obligations under a credit facility agreement with the Bank;
2. We have irrevocably appointed the Bank as our attorney with full power to receive the proceeds to be described in our demand, which will be presented for payment by us in accordance with the terms of the LOG, in the event that the security granted by the Assignment has become enforceable;
3. Upon notice from the Facility Agent that the security granted by the Assignment has become enforceable, you are hereby irrevocably authorized and instructed and demanded by us to pay to the Bank all sums or any part thereof which you may become due to us under the LOG; and
4. The authority and instructions herein contained cannot be revoked or varied by us without the consent of the Bank.

For and on behalf of Seaspans Corporation

\_\_\_\_\_  
Authorized Signatory

We acknowledge receipt of this notice of assignment of the letter of refund guarantee and hereby agree to provide the Bank with a written acknowledgment of the assignment if so requested by the Buyer.

\_\_\_\_\_  
Authorized Signatory of Seller's Bank

SHIP BUILDING CONTRACT  
(Contract Number: 06CA44S1981021)

**FOR**  
**CONSTRUCTION OF ONE 2500 TEU CONTAINER VESSEL**  
**(HULL No. YZJ2006-721C)**

Between

SEASPAN CORPORATION

as Buyer

and

JIANGSU YANGZIJANG SHIPBUILDING CO., LTD. and  
GUANGDONG MACHINERY IMP. & EXP. CO., LTD.

collectively as Seller

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THIS CONTRACT, made and entered into on this 4<sup>th</sup> day of July, 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 Unit 2, 7<sup>th</sup> Floor, Bupa Centre, 141 Connaught Road West, Hong Kong F4 00000, 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, 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.



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**ARTICLE I—DESCRIPTION AND CLASS**

**1. Description:**

The VESSEL shall be a Single Screw Cellular Container VESSEL having the Builder's Hull No. YZJ2006-721C 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 104RPM
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 -	1562 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.

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- (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 February 28, 2006 (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 February 28, 2006, together with all mandatory rules and regulations with amendment, which have already been ratified up to February 28, 2006, 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.

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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)

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## 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.

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#### 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 having 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 the BUYER’s bank to make an irrevocable cash deposit in an account in the name of the 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 to 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.

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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 precondition 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 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> instalments together with interest thereon as set out in ARTICLE X herein. This form of Refundment Guarantee would remain a precondition to the payment by the BUYER of the first instalment.

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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)



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### 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.

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**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.

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- (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.

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**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)

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**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.

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### **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.

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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.

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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 the 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.



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**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)

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## 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.

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- (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)

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## 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.

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#### 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.

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- (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)

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## 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 July 10, 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.

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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.



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**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)

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## 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.

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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)

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## 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**”).

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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 1 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

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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

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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)



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**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.

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**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.

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**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)

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## 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.

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### 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)

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## 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.

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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)

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**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)



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**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)

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**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)

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**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.

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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)

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## 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.

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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)

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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  
Unit 2  
7<sup>th</sup> Floor, Bupa Centre  
141 Connaught Road West  
Hong Kong F4 00000, 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

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.

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**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)



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**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 August 3, 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)

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## 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.

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**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.

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**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:

/s/ GERRY WANG

Name: GERRY WANG

Title: CEO

SELLER

JIANGSU YANGZIJANG  
SHIPBUILDING CO., LTD.

Signature:

/s/ Ren Yuan Lin

Name: Ren Yuan Lin

Title: Chairman of board

and:

GUANGDONG MACHINERY IMP.  
& EXP. CO., LTD.  
Signature:

/s/ Zhu Ming Yi

Name: Zhu Ming Yi

Title: Director

**EXHIBIT "A" : IRREVOCABLE LETTER OF GUARANTEE NO.**

Date: [\_\_\_\_\_] ,2006

To: SEASPAN CORPORATION  
Add.: Unit 2  
7<sup>th</sup> Floor, Bupa Centre  
141 Connaught Road West  
Hong Kong F4 00000, China

From: [\_\_\_\_\_]   
Add.: [\_\_\_\_\_]

WHEREAS Guangdong Machinery Imp. & Exp. Co. Ltd. and Jiangsu Yangzijiang Shipbuilding Co., Ltd. (hereinafter collectively called the SELLER) and SEASPAN CORPORATION (hereinafter called the BUYER) concluded on 4<sup>th</sup> July, 2006 a contract with number 06CA44S1981021 for the construction of 1 (one) 2500TEU Container Vessel (hereinafter called the "Vessel") to be designated as Hull No. YZJ2006-721C (hereinafter called the Contract).

At the application of [\_\_\_\_\_] and in consideration of the readiness of the BUYER to pay the SELLER the installment before delivery of the Vessel under the Contract, we, [\_\_\_\_\_] having our registered office at [\_\_\_\_\_] The People's Republic of China (hereinafter called the SELLER's Bank), hereby issue this irrevocable Letter of Guarantee (hereinafter called the Guarantee) in favor of the BUYER to irrevocably and unconditionally guarantee, as a primary obligor and not as a surety, the repayment to the BUYER by the SELLER of the [\_\_\_\_\_] installment under the Contract prior to the delivery of the Vessel, in an aggregate amount up to but not exceeding [\_\_\_\_\_] United States Dollars only (USD), representing the [\_\_\_\_\_] installment of the Contract Price of the Vessel, if and when the same becomes repayable to you from the SELLER in accordance with the terms of the Contract.

If the SELLER fails to make such repayment within twenty (20) days after the BUYER's demand to the SELLER, we hereby irrevocably and unconditionally guarantee, as a primary obligor and not as a surety, to pay the BUYER upon our receipt of the BUYER's first written demand for the above-mentioned amount together with interest thereon at the rate of six per cent (6%) per annum in United States Dollars applicable from the date of receipt by the SELLER of the installment to the date of remittance by telegraphic transfer of such refund by us to the BUYER if the cancellation of the Contract is exercised by the BUYER in accordance with any other provision of the Contract.

In the event that we receive written notification from the BUYER or the SELLER, confirmed by the Arbitrators appointed for this purpose, advising of any dispute between the BUYER and the SELLER as to whether the SELLER shall be liable to repay the installment made by the BUYER and, consequently, whether the BUYER shall have the right to demand payment from us (hereinafter called "Repayment Dispute") and that such dispute has been referred to Arbitration in accordance with Article XII of the Contract, we shall be entitled to withhold and defer payment to the BUYER under this guarantee until an award has been made under such Arbitration. Therefore, we shall not be obligated to make any payment to the BUYER unless the arbitration award orders the SELLER to make repayment and any right of appeal available to the SELLER under the laws of England is waived or is not exercised by the SELLER in the time period provided for under English law.

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If a sum is adjudged to be due to the BUYER by the SELLER pursuant to an award made under Arbitration, we will refund to the BUYER to the extent the arbitration award thus orders but not exceeding the aggregate amount of this guarantee plus the interest described above, upon receipt of your written demand for payment, provided your demand for payment is accompanied by a copy of the arbitration award. Nevertheless, the refund shall not exceed the amount actually received by SELLER with interest calculated as prescribed above, applicable from the date of receipt by Seller of the [\_\_\_\_\_] installment to the date of remittance by telegraphic transfer of such refund.

The payment of the amount guaranteed hereunder shall be made by us in United States Dollars without any setoff or counterclaim and without any other deduction and withholding of whatsoever nature, including but not limited to bank charges, remittance fees, taxes or other applicable withholdings.

This letter of guarantee shall be construed as a continuing and unconditional guarantee of payment and without regard to the validity or unenforceability of any other agreement or instrument and without regard to defence, set-off or counterclaim or any other circumstance whatsoever which might constitute and equitable or legal discharge of our obligation hereunder. No action or failure to act on the BUYER's part shall relieve us of any of our obligations hereunder.

Any claim or demand hereunder shall be in writing, signed by a director of the BUYER or an attorney-in-fact and may be served on us either by hand or by post (if sent by post to the People's Republic of China or such other address as we may notify to you in writing) with confirmation in writing by, or by authenticated SWIFT via (SWIFT CODE:).

This Guarantee shall become effective from the time of the actual receipt by the SELLER of the [\_\_\_\_\_] installment of [\_\_\_\_\_] United States Dollars (USD[\_\_\_\_\_] from the BUYER in SELLER's account (No. [\_\_\_\_\_] in [\_\_\_\_\_].

All rights, title and interest under this guarantee in favor of the BUYER may be assigned to its bank, financial institution or a commercial corporation for payment except the demand right under this letter of guarantee which shall remain with yourselves and before which notice of assignment from the BUYER in the form attached hereto must be received by us. If so requested, we will provide the BUYER with a written acknowledgment of such assignment.

This Guarantee shall remain in force until the Vessel is delivered to and accepted by the BUYER, or refund has been made by the SELLER or by us for the full amount of the installment to which this Guarantee relates, or on the date which is 180 days after the Delivery Date, whichever occurs earlier. After which you are expected to return the Guarantee to us by registered airmail for cancellation.

However, in the event of a Repayment Dispute between the BUYER and the SELLER as mentioned above, the validity of this Guarantee shall then be automatically extended until the date falling on the sixty (60th) calendar day after arbitration award is rendered.

Our obligations under this letter of guarantee shall not be discharged or impaired by any amendment(s) and/or supplements to the Contract. This letter of guarantee shall continue to be effective or reinstated, as the case may be, if at any time, payment of any of payments guaranteed hereunder is rescinded or must otherwise be returned by the BUYER upon the insolvency, bankruptcy or reorganization of the SELLER or otherwise, all as though any such payment had not been made.

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This Letter of Guarantee is governed by the Laws of England and we hereby submit to the exclusive jurisdiction of the English Courts.

We herewith confirm that we are permitted by the laws of the People's Republic of China to issue guarantees with this wording and especially to designate English law as the applicable law and London as the jurisdiction. With regard to the rules, regulations and requirements of foreign exchange by the State Administration of Foreign Exchange, i.e. registration or similar directives, we confirm that we have the necessary authorization to transfer funds out of the People's Republic of China in the currency or currencies required hereunder and that this Guarantee is valid and enforceable in the People's Republic of China or elsewhere. Equally we confirm that we have taken all other steps apart from those with regard to the State Administration of Foreign Exchange as may be required to ensure that we may transfer funds out of the People's Republic of China in the currency required hereunder and that this Guarantee is valid and enforceable in the People's Republic of China or elsewhere.

The BUYER will return this Letter of Guarantee to us without any request or demand from us upon its expiry. Nevertheless, this Letter of Guarantee shall have expired as aforesaid, whether you return the same to us or not.

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Authorized Signatory for the SELLER's bank

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ATTACHMENT

Date: \_\_\_\_\_

TO: SELLER'S BANK

FROM: SEASPAN CORPORATION

We refer to the irrevocable letter of the guarantee no. \_\_\_\_\_ dated \_\_\_\_\_ (the "LOG") issued by you to us whereby you have in the manner therein appearing guaranteed to pay to us the sum of [\_\_\_\_\_] United States Dollars only (USD[\_\_\_\_\_] which Guangdong Machinery Imp. & Exp. Co. Ltd. and Jiangsu Yangzijiang Shipbuilding Co., Ltd. (hereinafter collectively called the "Seller") may become liable to repay us under a shipbuilding contract dated the 4th of July, 2006 made between ourselves and the Seller whereby the Seller has agreed to construct for us and we have agreed to purchase one 2500teu container vessel having Hull No. YZJ2006-721C subject to and upon the terms and conditions therein contained.

Now we hereby give you notice that:

1. By an assignment dated [\_\_\_\_\_] (the "Assignment") made between ourselves and [\_\_\_\_\_] (the "Bank"), we have assigned to the Bank all our right, title, interest and benefits in and under the LOG (with the exception of the right for making demand for payment which shall remain with ourselves) if and when all money or any part thereof shall become payable by you to us under the LOG and we are in default of our obligations under a credit facility agreement with the Bank;
2. We have irrevocably appointed the Bank as our attorney with full power to receive the proceeds to be described in our demand, which will be presented for payment by us in accordance with the terms of the LOG, in the event that the security granted by the Assignment has become enforceable;
3. Upon notice from the Facility Agent that the security granted by the Assignment has become enforceable, you are hereby irrevocably authorized and instructed and demanded by us to pay to the Bank all sums or any part thereof which you may become due to us under the LOG; and
4. The authority and instructions herein contained cannot be revoked or varied by us without the consent of the Bank.

For and on behalf of Seaspans Corporation

\_\_\_\_\_  
Authorized Signatory

We acknowledge receipt of this notice of assignment of the letter of refund guarantee and hereby agree to provide the Bank with a written acknowledgment of the assignment if so requested by the Buyer.

\_\_\_\_\_  
Authorized Signatory of Seller's Bank



SHIP BUILDING CONTRACT  
(Contract Number: CMEC2006C4196)  
**FOR**  
**CONSTRUCTION OF ONE 2500 TEU CONTAINER VESSEL**  
**(HULL No. YZJ2006-722C)**  
Between  
SEASPAN CORPORATION  
as Buyer  
and  
JIANGSU YANGZIJANG SHIPBUILDING CO., LTD.  
as Seller

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THIS CONTRACT, made and entered into on this 4<sup>th</sup> day of July, 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 Unit 2, 7<sup>th</sup> Floor, Bupa Centre, 141 Connaught Road West, Hong Kong F4 00000, China (hereinafter referred to as the “**BUYER**”), of the one part;

and

Jiangsu Yangzijiang Shipbuilding Co., Ltd., 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.

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**ARTICLE I — DESCRIPTION AND CLASS**

**1. Description:**

The VESSEL shall be a Single Screw Cellular Container VESSEL having the SELLER's Hull No. YZJ2006-722C 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		21660KW at 104RPM
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 TED
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.

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- (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 February 28, 2006 (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 February 28, 2006, together with all mandatory rules and regulations with amendment, which have already been ratified up to February 28, 2006, 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.

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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 SELLER 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)



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## 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.

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#### **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 having 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 the SELLER 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 the SELLER 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 the SELLER 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 the BUYER’s bank to make an irrevocable cash deposit in an account in the name of the 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 to 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.

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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 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> 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.

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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)

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### 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.

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**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.

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- (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.



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**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)

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**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.

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**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.

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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.

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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 the 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.

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**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)

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## 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 20 conditions of this Contract and the Specifications occasioned by or resulting from such alterations or changes.

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(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)



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## 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.

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**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.

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- (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)

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## 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 10, 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.

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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.

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**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)

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**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.

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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)



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## 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**”).

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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 1 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

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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 32 purpose to remedying such defect(s), which accumulated extension period shall not exceed twelve (12) months.

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- (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

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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)

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**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 SELLER, general assignment by the SELLER for the benefit of creditors, any composition by the SELLER with its creditors, appointment of a receiver, trustee or liquidator for the SELLER of all or any substantial part of its assets, application or consent by the SELLER for or to appointment of the same, winding up by the SELLER, adjudication of the SELLER as bankrupt or insolvent, filing by the SELLER 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 SELLER (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 SELLER.

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**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.

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**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)



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## 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.

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**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)

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## 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.

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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)

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**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)

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**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)

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**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)

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## 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.



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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)

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## 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.

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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)

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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  
Unit 2  
7<sup>th</sup> Floor, Bupa Centre  
141 Connaught Road West  
Hong Kong F4 00000, China  
Facsimile: (852)2540-1689  
Attention: Gerry Wang, Director

For the technical:

Seaspan Ship Management Ltd.  
2600 — 200 Granville Street  
Vancouver, British Columbia  
V6C1S4  
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.

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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)

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**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 August 3, 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)

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## 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.

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**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.



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**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 YANGZIJANG SHIPBUILDING CO., LTD.

Signature:

Signature:

/s/ GERRY WANG

/s/ Ren Yuan Lin

Name: GERRY WANG

Name: Ren Yuan Lin

Title: CEO

Title: 4/7-2006

Title: Chairman of board

**EXHIBIT "A" : IRREVOCABLE LETTER OF GUARANTEE NO.**

Date: [ ],2006

To: SEASPAN CORPORATION  
Add.: Unit 2  
7<sup>th</sup> Floor, Bupa Centre  
141 Connaught Road West  
Hong Kong F4 00000, China

From: [ ]  
Add.: [ ]

WHEREAS Jiangsu Yangzijiang Shipbuilding Co., Ltd. (hereinafter called the SELLER) and SEASPAN CORPORATION (hereinafter called the BUYER) concluded on 4<sup>th</sup> July, 2006 a contract with number CMEC2006C4196 for the construction of 1 (one) 2500TEU Container Vessel (hereinafter called the "Vessel") to be designated as Hull No. YZJ2006-722C (hereinafter called the Contract).

At the application of [ ] and in consideration of the readiness of the BUYER to pay the SELLER the installment before delivery of the Vessel under the Contract, we, [ ], having our registered office at [ ] The People's Republic of China (hereinafter called the SELLER's Bank), hereby issue this irrevocable Letter of Guarantee (hereinafter called the Guarantee) in favor of the BUYER to irrevocably and unconditionally guarantee, as a primary obligor and not as a surety, the repayment to the BUYER by the SELLER of the [ ] installment under the Contract prior to the delivery of the Vessel, in an aggregate amount up to but not exceeding [ ] United States Dollars only (USD [ ]), representing the [ ] installment of the Contract Price of the Vessel, if and when the same becomes repayable to you from the SELLER in accordance with the terms of the Contract.

If the SELLER fails to make such repayment within twenty (20) days after the BUYER's demand to the SELLER, we hereby irrevocably and unconditionally guarantee, as a primary obligor and not as a surety, to pay the BUYER upon our receipt of the BUYER's first written demand for the above-mentioned amount together with interest thereon at the rate of six per cent (6%) per annum in United States Dollars applicable from the date of receipt by the SELLER of the installment to the date of remittance by telegraphic transfer of such refund by us to the BUYER if the cancellation of the Contract is exercised by the BUYER in accordance with any other provision of the Contract.

In the event that we receive written notification from the BUYER or the SELLER, confirmed by the Arbitrators appointed for this purpose, advising of any dispute between the BUYER and the SELLER as to whether the SELLER shall be liable to repay the installment made by the BUYER and, consequently, whether the BUYER shall have the right to demand payment from us (hereinafter called "Repayment Dispute") and that such dispute has been referred to Arbitration in accordance with Article XII of the Contract, we shall be entitled to withhold and defer payment to the BUYER under this guarantee until an award has been made under such Arbitration. Therefore, we shall not be obligated to make any payment to the BUYER unless the arbitration award orders the SELLER to make repayment and any right of appeal available to the SELLER under the laws of England is waived or is not exercised by the SELLER in the time period provided for under English law.

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If a sum is adjudged to be due to the BUYER by the SELLER pursuant to an award made under Arbitration, we will refund to the BUYER to the extent the arbitration award thus orders but not exceeding the aggregate amount of this guarantee plus the interest described above, upon receipt of your written demand for payment, provided your demand for payment is accompanied by a copy of the arbitration award. Nevertheless, the refund shall not exceed the amount actually received by SELLER with interest calculated as prescribed above, applicable from the date of receipt by Seller of the [\_\_\_\_\_] installment to the date of remittance by telegraphic transfer of such refund.

The payment of the amount guaranteed hereunder shall be made by us in United States Dollars without any setoff or counterclaim and without any other deduction and withholding of whatsoever nature, including but not limited to bank charges, remittance fees, taxes or other applicable withholdings.

This letter of guarantee shall be construed as a continuing and unconditional guarantee of payment and without regard to the validity or unenforceability of any other agreement or instrument and without regard to defence, set-off or counterclaim or any other circumstance whatsoever which might constitute and equitable or legal discharge of our obligation hereunder. No action or failure to act on the BUYER's part shall relieve us of any of our obligations hereunder.

Any claim or demand hereunder shall be in writing, signed by a director of the BUYER or an attorney-in-fact and may be served on us either by hand or by post (if sent by post to the People's Republic of China or such other address as we may notify to you in writing) with confirmation in writing by, or by authenticated SWIFT via (SWIFT CODE:).

This Guarantee shall become effective from the time of the actual receipt by the SELLER of the [\_\_\_\_\_] installment of [\_\_\_\_\_] United States Dollars (USD[\_\_\_\_\_] from the BUYER in SELLER's account (No. [\_\_\_\_\_] in [\_\_\_\_\_].

All rights, title and interest under this guarantee in favor of the BUYER may be assigned to its bank, financial institution or a commercial corporation for payment except the demand right under this letter of guarantee which shall remain with yourselves and before which notice of assignment from the BUYER in the form attached hereto must be received by us. If so requested, we will provide the BUYER with a written acknowledgment of such assignment.

This Guarantee shall remain in force until the Vessel is delivered to and accepted by the BUYER, or refund has been made by the SELLER or by us for the full amount of the installment to which this Guarantee relates, or on the date which is 180 days after the Delivery Date, whichever occurs earlier. After which you are expected to return the Guarantee to us by registered airmail for cancellation.

However, in the event of a Repayment Dispute between the BUYER and the SELLER as mentioned above, the validity of this Guarantee shall then be automatically extended until the date falling on the sixty (60th) calendar day after arbitration award is rendered.

Our obligations under this letter of guarantee shall not be discharged or impaired by any amendment(s) and/or supplements to the Contract. This letter of guarantee shall continue to be effective or reinstated, as the case may be, if at any time, payment of any of payments guaranteed hereunder is rescinded or must otherwise be returned by the BUYER upon the insolvency, bankruptcy or reorganization of the SELLER or otherwise, all as though any such payment had not been made.

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This Letter of Guarantee is governed by the Laws of England and we hereby submit to the exclusive jurisdiction of the English Courts.

We herewith confirm that we are permitted by the laws of the People's Republic of China to issue guarantees with this wording and especially to designate English law as the applicable law and London as the jurisdiction. With regard to the rules, regulations and requirements of foreign exchange by the State Administration of Foreign Exchange, i.e. registration or similar directives, we confirm that we have the necessary authorization to transfer funds out of the People's Republic of China in the currency or currencies required hereunder and that this Guarantee is valid and enforceable in the People's Republic of China or elsewhere. Equally we confirm that we have taken all other steps apart from those with regard to the State Administration of Foreign Exchange as may be required to ensure that we may transfer funds out of the People's Republic of China in the currency required hereunder and that this Guarantee is valid and enforceable in the People's Republic of China or elsewhere.

The BUYER will return this Letter of Guarantee to us without any request or demand from us upon its expiry. Nevertheless, this Letter of Guarantee shall have expired as aforesaid, whether you return the same to us or not.

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Authorized Signatory for the SELLER's bank

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ATTACHMENT

Date: \_\_\_\_\_

TO: SELLER'S BANK

**FROM: SEASpan CORPORATION**

We refer to the irrevocable letter of the guarantee no. \_\_\_\_\_ dated \_\_\_\_\_ (the "LOG") issued by you to us whereby you have in the manner therein appearing guaranteed to pay to us the sum of [\_\_\_\_\_] United States Dollars only (USD[\_\_\_\_\_] which Jiangsu Yangzijiang Shipbuilding Co., Ltd. (hereinafter called the 'Seller') may become liable to repay us under a shipbuilding contract dated the 4th of July, 2006 made between ourselves and the Seller whereby the Seller has agreed to construct for us and we have agreed to purchase one 2500teu container vessel having Hull No. YZJ2006-722C subject to and upon the terms and conditions therein contained.

Now we hereby give you notice that:

1. By an assignment dated [\_\_\_\_\_] (the "Assignment") made between ourselves and [\_\_\_\_\_] (the 'Bank'), we have assigned to the Bank all our right, title, interest and benefits in and under the LOG (with the exception of the right for making demand for payment which shall remain with ourselves) if and when all money or any part thereof shall become payable by you to us under the LOG and we are in default of our obligations under a credit facility agreement with the Bank;
2. We have irrevocably appointed the Bank as our attorney with full power to receive the proceeds to be described in our demand, which will be presented for payment by us in accordance with the terms of the LOG, in the event that the security granted by the Assignment has become enforceable;
3. Upon notice from the Facility Agent that the security granted by the Assignment has become enforceable, you are hereby irrevocably authorized and instructed and demanded by us to pay to the Bank all sums or any part thereof which you may become due to us under the LOG; and
4. The authority and instructions herein contained cannot be revoked or varied by us without the consent of the Bank.

For and on behalf of Seaspan Corporation

\_\_\_\_\_  
Authorized Signatory

We acknowledge receipt of this notice of assignment of the letter of refund guarantee and hereby agree to provide the Bank with a written acknowledgment of the assignment if so requested by the Buyer.

\_\_\_\_\_  
Authorized Signatory of Seller's Bank

SHIPBUILDING CONTRACT

FOR

THE CONSTRUCTION OF

ONE (1) 5,100 TEU CLASS CONTAINER CARRIER

HULL NO. 1970

BETWEEN

SEASPAN CORPORATION

(AS BUYER)

AND

HYUNDAI HEAVY INDUSTRIES CO., LTD.

(AS BUILDER)

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SCHEDULES

EXHIBIT "A" REFUND GUARANTEE

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**SHIPBUILDING CONTRACT**

THIS CONTRACT, made on this 8<sup>th</sup> day of August, 2006 by and between Seaspan Corporation, a corporation incorporated and existing under the laws of the Marshall Islands with its principal office at Unit 2, 7<sup>th</sup> Floor Bupa Centre, 141 Connaught Road West Hong Kong F4 0000, China (hereinafter called the "BUYER"), the party of the first part and HYUNDAI HEAVY INDUSTRIES CO., LTD., a company organized and existing under the laws of the Republic of Korea, having its principal office at 1, Cheonha-Dong, Dong-Ku, Ulsan, Korea (hereinafter called the "BUILDER"), the party of the second part,

**WITNESSETH:**

In consideration of the mutual covenants contained herein, the BUILDER agrees to design, build, launch, equip and complete one (1) 5,100 TEU Class Container Carrier as described in Article I hereof (hereinafter called the "VESSEL") at the BUILDER'S yards in Korea (hereinafter called the "SHIPYARD") and to deliver and sell the VESSEL to the BUYER, and the BUYER agrees to accept delivery of and purchase from the BUILDER the VESSEL, according to the terms and conditions hereinafter set forth :

(End of Preamble)



**ARTICLE I : DESCRIPTION AND CLASS**

**1. DESCRIPTION**

The VESSEL shall be a 5,100 TEU Class Container Carrier having the BUILDER's Hull No. 1970 and shall be designed, constructed, equipped, inspected, tested and ready for sea and suitable in all respects for its intended use for carrying dry cargo containers in accordance with the provisions of this CONTRACT, and the full specifications reference No. CNSS5100-FS-P1 dated July 21, 2006 (hereinafter called the "FULL SPECIFICATIONS"), General Arrangement Drawing reference DWG. No. 1G-7000-201 dated July 21, 2006 (hereinafter called the "PLAN") and Maker's List reference No. CNSS5100-ML-P1 dated July 21, 2006 (hereinafter collectively called the "SPECIFICATIONS") signed by each of the parties for identification and constituting an integral part hereof. The Approved Drawings and the Classification Society Rules as required by the SPECIFICATIONS 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 BUILDER 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 shipbuilding practice at major shipyards in Korea and the warranty provided in Article IX. 1 shall be effective to this standard.

The FULL SPECIFICATIONS and the PLAN are intended to explain each other and anything shown on the PLAN and not stipulated in the FULL SPECIFICATIONS or anything stipulated in the FULL SPECIFICATIONS and not shown on the PLAN shall be deemed and considered as if included in both. Should there be any inconsistencies or contradictions between the FULL SPECIFICATIONS and the PLAN, the FULL SPECIFICATIONS shall prevail. Should there be any inconsistencies or contradictions between this CONTRACT and the SPECIFICATIONS, this CONTRACT shall prevail.

**2. BASIC DIMENSIONS AND PRINCIPAL PARTICULARS OF THE VESSEL**

(a) The basic dimensions and principal particulars of the VESSEL shall be :

Length, overall	max.	294.13 M
Length, between perpendiculars		283.2 M
Breadth, moulded		32.2 M

Depth to Upper Deck, moulded	22.1 M
Design draft, moulded, in seawater of specific gravity of 1.025	12 M
Scantling draft, moulded, in seawater of specific gravity of 1.025	13.65 M
Deadweight (guaranteed by the BUILDER) on the above moulded scantling draft of 13.65 M	67,000 M/T
Normal container capacity (TEU's: 8 1/2' high)	
Total	5,087 TEU
- in holds	2,261 TEU
- on deck	2,826 TEU
Container capacity (guaranteed by the BUILDER) under consideration of IMO visibility line at scantling draught with even keel	5,087 TEU
Main propulsion engine	Hyundai-Wartsila 8RTA96C
	MCR : 45,760 kW x 102 RPM
	NCR : 41,184 kW x 98.5 RPM
Trial speed (guaranteed by the BUILDER) at 12 meters design draft at the condition of clean bottom and in calm and deep sea with main engine developing a NCR of 41,184 kW with fifteen per cent (15%) sea margin	24.7 KNOTS
Specific Fuel consumption (guaranteed by the BUILDER) of the main engine applying I.S.O. reference conditions to the result of official shop test at a MCR of 45,760 kW using marine diesel oil having lower calorific value of 42,700 kJ per Kg.	171 gr/kW.HR

The details of the above particulars as well as the definitions and method of measurements and calculations are as indicated in the SPECIFICATIONS.

- (b) The dimensions may be slightly modified by the BUILDER, who also reserves the right to make changes to the SPECIFICATIONS if found necessary to suit the local conditions and facilities of the SHIPYARD, the availability of materials and equipment, the introduction of improved production methods or otherwise, all of which are subject to the approval of the BUYER which the BUYER shall not withhold unreasonably.

---

**3. CLASSIFICATION. RULES AND REGULATIONS**

- (a) The VESSEL shall be designed, constructed, equipped, inspected, tested and completed in accordance with the rules and regulations (the edition and amendments thereto being in force and effect as of the date of this CONTRACT, together with all mandatory rules and regulations and amendments thereto, which have already been ratified up to the date of this CONTRACT and to come into force prior to the date of keel laying of the VESSEL) of and under survey of Det Norske Veritas (hereinafter called the "CLASSIFICATION SOCIETY") and shall be distinguished in the register by the symbol of +1A1, Container Carrier, NAUTICUS(Newbuilding), E0, NAUT-OC, BIS, TMON, CLEAN, BWM-E(s). Details of Class notation shall be in accordance with the SPECIFICATIONS.

The VESSEL shall comply with rules, regulations, recommendations and requirements of the Authorities in force as of the date of the CONTRACT signing as described and listed in the SPECIFICATIONS, together with all mandatory rules and regulations with amendments, which have already been ratified up to the date of this CONTRACT and to come into effect prior to the date of keel laying of the VESSEL.

- (b) The BUILDER shall arrange with the CLASSIFICATION SOCIETY for the assignment by the CLASSIFICATION SOCIETY representative(s) (the "Classification Surveyor") to the VESSEL during construction. All fees and charges incidental to classification of the VESSEL in compliance with the above specified rules, regulations and requirements of this CONTRACT shall be for the account of the BUILDER.
- (c) The decision of the CLASSIFICATION SOCIETY as to whether the VESSEL complies with the regulations of the CLASSIFICATION SOCIETY shall be final and binding upon the BUILDER and the BUYER, except where this CONTRACT provides for arbitration.

All materials, workmanship and major plans used in the construction of the VESSEL which will comply with the rules and regulations of the CLASSIFICATION SOCIETY shall be subject to inspection and test by the CLASSIFICATION SOCIETY.

Subject to decisions made by the CLASSIFICATION SOCIETY pursuant to Article XIII. 1, no act or omission of the CLASSIFICATION SOCIETY and/or Classification Surveyor shall, in any way, diminish or impair the obligations and liabilities of the BUILDER under the terms of this CONTRACT.

---

4. **SUBCONTRACTING**

The BUILDER may, at its sole discretion and responsibility, and upon written notice to the BUYER in case of sub-contracting of material nature, subcontract any portion but not the whole, of the construction work of the VESSEL outside the SHIPYARD, but in any event, major hull structure parts will be assembled by the BUILDER provided, however, that the BUILDER shall remain responsible for the performance of this CONTRACT with regard to any work done or materials supplied or used by such subcontractors in accordance with this CONTRACT. Subcontractors for the items of material nature shall apply same standard as the BUILDER.

5. **NATIONALITY OF THE VESSEL**

The VESSEL shall be registered by the BUYER at its own cost and expense under the laws of Hong Kong with its home port of Hong Kong at the time of its delivery and acceptance hereunder.

(End of Article)

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**ARTICLE II : CONTRACT PRICE**

The contract price of the VESSEL delivered to the BUYER at the SHIPYARD shall be United States Dollars Seventy Seven Million Three Hundred Fifty Thousand (US\$77,350,000) (hereinafter called the "CONTRACT PRICE"). The CONTRACT PRICE is fixed and shall be paid plus any increases or less any decreases due to adjustment or modifications, if any, as set forth in this CONTRACT. The above CONTRACT PRICE shall include payment for services in the inspection, tests, survey and classification of the VESSEL which will be rendered by the CLASSIFICATION SOCIETY and shall not include the cost of the BUYER'S SUPPLIES as stipulated in Article XII.

The CONTRACT PRICE also includes 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, outfitings, appurtenances, furniture, materials, parts, spares, articles and things as required by the SPECIFICATIONS and/or otherwise under this CONTRACT for the VESSEL, and all other items and acts necessary for the performance of BUILDER's obligations under or pursuant to this CONTRACT.

(End of Article)

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**ARTICLE III : ADJUSTMENT OF THE CONTRACT PRICE**

The CONTRACT PRICE of the VESSEL shall be adjusted as hereinafter set forth in the event of the following contingencies. It is hereby understood by both parties that any adjustment of the CONTRACT PRICE as provided for in this Article is by way of liquidated damages and not by way of penalty.

**1. DELAYED DELIVERY**

- (a) No adjustment shall be made and the CONTRACT PRICE shall remain unchanged for the first thirty (30) days of the delay in delivery of the VESSEL (ending as of 12 o'clock midnight Korean Standard Time on the thirtieth (30<sup>th</sup>) day of delay) beyond the Delivery Date calculated as provided in Article VII.1. hereof.
- (b) If delivery of the VESSEL is delayed more than thirty (30) days beyond the date upon which the delivery is due from the BUILDER under the terms of this CONTRACT, then, beginning at midnight of the thirtieth (30<sup>th</sup>) day after such due date, the CONTRACT PRICE of the VESSEL shall be reduced by U.S. Dollars twenty five thousand (US\$ 25,000) for each full day of delay.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the delay of one hundred and fifty (150) days after thirty (30) days of the delay in delivery of the VESSEL at the rate of deduction as specified hereinabove.

- (c) But, if the delay in delivery of the VESSEL continues for a period of more than one hundred and eighty (180) days beyond the date upon which the delivery is due from the BUILDER under the terms of this CONTRACT then, in such event, and after such period has expired, the BUYER may, at its option, rescind and cancel this CONTRACT by serving upon the BUILDER a notice of cancellation by facsimile to be confirmed by a registered letter via airmail directed to the BUILDER at the address given in this CONTRACT. Such cancellation shall be effective as of the date the notice thereof is received by the BUILDER. If the BUYER has not served the notice of cancellation after the aforementioned one hundred and eighty (180) days delay in delivery, the BUILDER may demand the BUYER to make an election in accordance with Article VIII.3. hereof.

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- (d) For the purpose of this Article, the delivery of the VESSEL shall be deemed to be delayed when and if the VESSEL, after taking into full account extension of the Delivery Date or permissible delays as provided in Article V, VI, VIII, XI or elsewhere in this CONTRACT, is delivered beyond the date upon which delivery would then be due under the terms of this CONTRACT.

**2. INSUFFICIENT SPEED**

- (a) The CONTRACT PRICE of the VESSEL shall not be affected or changed, if the actual speed, as determined by trial runs more fully described in Article VI hereof, is less than the speed required under the terms of this CONTRACT and the SPECIFICATIONS provided such deficiency in actual speed is not more than three-tenths ( $\frac{3}{10}$ ) of a knot below the guaranteed speed.
- (b) However, as for the deficiency of more than three-tenths ( $\frac{3}{10}$ ) of a knot in actual speed below the speed guaranteed under this CONTRACT, the CONTRACT PRICE shall be reduced by U.S. Dollars one hundred thousand (U.S.\$ 100,000) for each full one-tenth ( $\frac{1}{10}$ ) of a knot in excess of the said three-tenths ( $\frac{3}{10}$ ) of a knot of deficiency in speed (fractions of less than one-tenth ( $\frac{1}{10}$ ) of a knot shall be regarded as a full one-tenth ( $\frac{1}{10}$ ) of a knot). However, unless the parties agree otherwise, the total amount of reduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of eight-tenths ( $\frac{8}{10}$ ) of a knot below the guaranteed speed at the rate of reduction as specified above.
- (c) If the deficiency in actual speed of the VESSEL is more than eight-tenths ( $\frac{8}{10}$ ) of a knot below the speed guaranteed under this CONTRACT, then the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections as provided in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for eight-tenths ( $\frac{8}{10}$ ) of a knot of deficiency only.

**3. EXCESSIVE FUEL CONSUMPTION**

- (a) The CONTRACT PRICE shall not be affected or changed by reason of the fuel consumption of the VESSEL's main engine, as determined by the engine manufacturer's shop trial as per the SPECIFICATIONS being more than the guaranteed fuel consumption of the VESSEL's main engine, if such excess is not more than five per cent (5%) over the guaranteed fuel consumption.

- (b) However, as for the excess of more than five per cent (5%) in the actual fuel consumption over the guaranteed fuel consumption of the VESSEL's main engine, the CONTRACT PRICE shall be reduced by U.S. Dollars one hundred thousand (US\$ 100,000) for each full one per cent (1%) increase in fuel consumption in excess of the said five per cent (5%) increase in fuel consumption (fractions of less than one per cent (1%) shall be regarded as a full one per cent (1%)). However, unless the parties agree otherwise, the total amount of reduction from the CONTRACT PRICE shall not exceed the amount due to cover the excess of eight per cent (8%) over the guaranteed fuel consumption of the VESSEL's main engine at the rate of reduction as specified above.
- (c) If such actual fuel consumption exceeds the guaranteed fuel consumption of the VESSEL's main engine by more than eight per cent (8%), the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections as specified in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for the eight per cent (8%) increase only.

**4. DEADWEIGHT BELOW CONTRACT REQUIREMENTS**

- (a) The CONTRACT PRICE of the VESSEL shall not be affected or changed, if actual deadweight, determined as provided in this CONTRACT and the SPECIFICATIONS, is below the deadweight of 67,000 metric tons on the moulded scantling draft of 13.65 metres required by this CONTRACT and the SPECIFICATIONS by an amount of 660 metric tons or less. However, should the deficiency in the actual deadweight of the VESSEL be more than 660 metric tons below the said required deadweight, then the CONTRACT PRICE of the VESSEL shall be reduced for each full one (1) metric ton (fractions of less than one (1) metric ton shall be disregarded) of decreased deadweight in excess of 660 metric tons by the sum of U.S. Dollars nineteen hundred (US\$ 1,900) per metric ton.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of 1,300 metric tons below the said guaranteed deadweight hereinabove.

- (b) If the deficiency in the deadweight of the VESSEL is more than 1,300 metric tons below the said guaranteed deadweight, then the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections without the BUYER's prior



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consent as specified in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for 1,300 metric tons of deficiency only.

**5. INSUFFICIENT CONTAINER CAPACITY**

- (a) The CONTRACT PRICE shall not be affected or changed by reason of deficiency in the number of containers if such deficiency is up to 30 TEU containers below the guaranteed container capacity of 5,087 TEU in accordance with IMO visibility requirement at Scantling Draft of 13.65 meters with even keel.
- (b) However, in the event that the deficiency in the guaranteed container capacity, is in excess of 30 TEU containers, then the CONTRACT PRICE shall be reduced by United States Dollars forty thousand (US\$ 40,000) for each TEU container in excess of the first allowable 30 TEU containers of such deficient number of containers.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of 80 TEU containers below the guaranteed container capacity hereinabove.

- (c) If the deficiency in the guaranteed container capacity is 80 TEU containers or more, then the BUYER, at its option, may reject the VESSEL and rescind and cancel this CONTRACT in accordance with the provisions of this Article or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for 80 TEU containers of deficiency only.

**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 paragraphs, there shall be separate reductions in the CONTRACT PRICE in respect of each contingency.

**7. EFFECT OF CANCELLATION**

It is expressly understood and agreed by the parties hereto that in any case, if the BUYER cancels this CONTRACT under this Article, the BUYER shall not be entitled to any liquidated damages.

(End of Article)

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**ARTICLE IV : INSPECTION AND APPROVAL**

**1. APPOINTMENT OF BUYER'S REPRESENTATIVE**

The BUYER shall timely despatch to and maintain at the SHIPYARD, at its own cost, expense and risk, one or more representatives (hereinafter called the "BUYER'S REPRESENTATIVE"), who shall be duly accredited in writing by the BUYER to supervise adequately the construction by the BUILDER of the VESSEL, her equipment and all accessories. Before the commencement of any item of work under this CONTRACT, the BUILDER shall, whenever reasonably required, previously exhibit, furnish to, and within the limits of the BUYER'S REPRESENTATIVE's authority, secure the approval from the BUYER'S REPRESENTATIVE of any and all plans and drawings prepared in connection therewith. Upon appointment of the BUYER'S REPRESENTATIVE, the BUYER shall notify the BUILDER in writing of the name and the scope of the authority of the BUYER'S REPRESENTATIVE.

**2. AUTHORITY OF THE BUYER'S REPRESENTATIVE**

Such BUYER'S REPRESENTATIVE shall, at all times, subject to any safety requirements, during the construction until delivery of the VESSEL, have the right to inspect the VESSEL, her equipment and all accessories, and work in progress, or materials utilized in connection with the construction of the VESSEL, wherever such work is being done or such materials are stored, for the purpose of determining that the VESSEL, her equipment and accessories are being constructed in accordance with the terms of this CONTRACT and/or the SPECIFICATIONS.

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 BUYER'S 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.

The BUILDER will endeavor to arrange for the inspection by the BUYER'S REPRESENTATIVE during working hours of the BUILDER. However, such inspection may be arranged beyond the BUILDER's normal working hours, including weekend and/or holiday if this is considered necessary by the BUILDER in order to meet the BUILDER's construction schedule, on the condition that the BUILDER will inform the BUYER'S REPRESENTATIVE at least two (2) days in advance of such inspection.

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The construction of the VESSEL shall be subjected, throughout the entire period of construction, to quality control by a quality control department of the BUILDER. 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 as far as practicable, or in the absence of documentation, orally, to the BUYER'S REPRESENTATIVE.

The BUYER'S REPRESENTATIVE may attend during construction of the VESSEL, tests and inspection of the VESSEL, its machinery and equipment. The BUILDER shall make reasonable efforts to give the BUYER'S REPRESENTATIVE an advance notice for tests and inspections within the SHIPYARD stating particulars of any tests or inspections which may be attended by the BUYER'S REPRESENTATIVE 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 BUYER'S REPRESENTATIVE latest up to 5:00 p.m. of the day prior to the day on which any tests or inspections shall occur except for the painting inspection.

For test or inspections outside the SHIPYARD, including manufacturer's shop tests, sufficient advance notice to allow for the BUYER'S REPRESENTATIVE to arrange transportation shall be given. This advance notice should not be less than two (2) days except for tests or inspections within Korea that require air travel for attendance in which case advance notice should not be less than four (4) days. And the inspection outside Korea requires seven (7) days advance notice, or twenty one (21) days advance notice if an entry VISA is required for the BUYER'S REPRESENTATIVE.

Inspection schedule must be reasonable in order to allow the BUYER'S REPRESENTATIVE to carry out their duties properly.

The BUYER'S REPRESENTATIVE shall, within the limits of the authority conferred upon him by the BUYER, make decisions or give advice to the BUILDER on behalf of the BUYER promptly on all problems arising out of, or in connection with, the construction of the VESSEL and generally act in a reasonable manner with a view to cooperating to the utmost with the BUILDER in the construction process of the VESSEL.

The decision, approval or advice of the BUYER'S REPRESENTATIVE shall be deemed to have been given by the BUYER. No act or omission of the BUYER'S REPRESENTATIVE or his assistants shall, in any way, diminish the liability of the BUILDER under Article IX

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(WARRANTY OF QUALITY). The BUYER'S REPRESENTATIVE shall notify the BUILDER promptly in writing of his discovery of any construction or materials, which he believes do not or will not conform to the requirements of the CONTRACT and the SPECIFICATIONS and likewise advise and consult with the BUILDER on all matters pertaining to the construction of the VESSEL, as may be required by the BUILDER, or as he may deem necessary.

However, if the BUYER'S REPRESENTATIVE fails to submit to the BUILDER without delay any such demand concerning alterations or changes with respect to the construction, arrangement or outfit of the VESSEL, which the BUYER'S REPRESENTATIVE has examined, inspected or attended at the test thereof under this CONTRACT or the SPECIFICATIONS, the BUYER'S REPRESENTATIVE shall be deemed to have approved the same and shall be precluded from making any demand for alterations, changes, or complaints with respect thereto at a later date.

The BUILDER shall comply with any such demand which is not contradictory to this CONTRACT and the SPECIFICATIONS, provided that any and all such demands by the BUYER'S REPRESENTATIVE with regard to construction, arrangement and outfit of the VESSEL shall be submitted in writing to the authorised representative of the BUILDER. The BUILDER shall notify the BUYER'S REPRESENTATIVE of the names of the persons who are from time to time authorised by the BUILDER for this purpose.

It is agreed upon between the BUYER and the BUILDER that the modifications, alterations or changes and other measures necessary to comply with such demand may be effected at a convenient time and place at the BUILDER's reasonable discretion in view of the construction schedule of the VESSEL.

In the event that the BUYER'S REPRESENTATIVE shall advise the BUILDER that he has discovered or believes the construction or materials do not or will not conform to the requirements of this CONTRACT and the SPECIFICATIONS, and the BUILDER shall not agree with the views of the BUYER'S REPRESENTATIVE in such respect, either the BUYER or the BUILDER may, with the agreement of the other party, seek an opinion of the CLASSIFICATION SOCIETY or failing such agreement, request an arbitration in accordance with the provisions of Article XIII hereof. The CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, shall determine whether or not a nonconformity with the provisions of this CONTRACT or the SPECIFICATIONS exists. If the CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, enters a determination in favour of the BUYER, then in such case the BUILDER shall make the

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necessary alterations or changes, or if such alterations or changes cannot be made in time to meet the construction schedule for the VESSEL, the BUILDER shall make fair and reasonable adjustment of the CONTRACT PRICE in lieu of such alterations and changes. If the CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, enters a determination in favour of the BUILDER, 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 BUILDER for the proven loss and damages incurred by the BUILDER as a result of the dispute herein referred to.

**3. APPROVAL OF DRAWINGS**

- (a) The BUILDER shall submit to the BUYER three (3) copies of each of the plans and drawings to be submitted to the BUYER for its approval at its address as set forth in Article XIX hereof. The BUYER shall, within twenty one (21) days after receipt thereof return to the BUILDER one (1) copy of such plans and drawings with the approval or comments, if any, of the BUYER. A list of the plans and drawings to be so submitted to the BUYER shall be mutually agreed upon between the parties hereto.
- (b) When and if the BUYER'S REPRESENTATIVE shall have been sent by the BUYER to the SHIPYARD in accordance with Paragraph 1 of this Article, the BUILDER may submit the remainder, if any, of the plans and drawings in the agreed list, to the BUYER'S REPRESENTATIVE for his approval, unless otherwise agreed upon between the parties hereto.
- The BUYER'S REPRESENTATIVE shall, within fourteen (14) days after receipt thereof, return to the BUILDER one (1) copy of such plans and drawings with his approval or comments written thereon, if any. Approval by the BUYER'S REPRESENTATIVE of the plans and drawings duly submitted to him shall be deemed to be the approval by the BUYER for all purposes of this CONTRACT.
- (c) In the event that the BUYER or the BUYER'S REPRESENTATIVE shall fail to return the plans and drawings to the BUILDER within the time limit as hereinabove provided, such plans and drawings shall be deemed to have been automatically approved without any comment. In the event the plans and drawings submitted by the BUILDER to the BUYER or the BUYER'S REPRESENTATIVE in accordance with this Article do not meet with the BUYER's or the BUYER'S REPRESENTATIVE's approval, the matter may be submitted by either party hereto for determination pursuant to Article

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XIII hereof. If the BUYER's comments on the plans and drawings that are returned to the BUILDER by the BUYER within the said time limit are not clearly specified or detailed, the BUILDER shall be entitled to place its own interpretation on such comments in implementing them.

The BUILDER agrees that the BUYER is permitted to make an arrangement with the CLASSIFICATION SOCIETY for receiving copies of any technical correspondence regarding the construction of the VESSEL.

**4. SALARIES AND EXPENSES**

All salaries and expenses of the BUYER'S REPRESENTATIVE or any other person or persons employed by the BUYER hereunder shall be for the BUYER's account.

**5. RESPONSIBILITY OF THE BUILDER**

- (a) The BUILDER shall, at no cost to the BUYER, furnish suitably lighted, and air conditioned office space, for a team of not less than six (6) BUYER'S REPRESENTATIVES all along, including changing room, toilet and shower space, office furniture, drawing table and filing cabinets. Separate telephone lines and facsimile receiver to be provided in BUYER'S REPRESENTATIVE office and communication service shall be paid by the BUYER at normal rate of charges of Korean telecommunication company. However, the changing room, toilet and shower space shall be supplied as public facilities.

During the last forty five (45) days of the period of construction of the VESSEL, office space shall be provided to accommodate the VESSEL's senior officers as far as practicable in the BUYER'S REPRESENTATIVE's office space.

With an ample prior notice by the BUYER, the BUILDER shall arrange for the BUYER'S REPRESENTATIVE suitable and convenient living quarters as near as possible to the SHIPYARD and shall provide for the purpose thereof apartments/houses fully furnished and equipped in Western style with minimum two (2) bedrooms and one (1) living room for each BUYER'S REPRESENTATIVE, all at the BUYER's expenses.

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The BUILDER, its employees, agents and subcontractors, during its working hours until delivery of the VESSEL, shall arrange for the BUYER'S REPRESENTATIVE to have free and ready access to the VESSEL, her equipment and accessories, and to any other place (except the areas controlled for the purpose of national security) where work is being done, or materials are being processed or stored in connection with the construction of the VESSEL including the premises of sub-contractors.

The BUYER'S REPRESENTATIVE or his assistants or employees shall observe the work rules, regulations and the guidances prevailing at the BUILDER's and its sub-contractor's premises. The BUILDER shall promptly provide to the BUYER'S REPRESENTATIVE and/or his assistants, and shall ensure that its sub-contractors shall promptly provide, all such information as he or they may reasonably request in connection with the construction of the VESSEL and her engines, equipment and machinery.

- (b) The BUYER'S REPRESENTATIVE and his assistants shall at all times remain the employees of the BUYER. The BUILDER shall not be liable to the BUYER or the BUYER'S REPRESENTATIVE or to his assistants or to the BUYER's employees or agents for personal injuries, including death, during the time they, or any of them, are on the VESSEL, or within the premises of either the BUILDER or its sub-contractors, or are otherwise engaged in and about the construction of the VESSEL, unless, however, such personal injuries, including death, are caused by the negligence or willful misconduct of the BUILDER, its sub-contractors, or its or their employees or agents. The BUILDER shall not be liable to the BUYER for damages to, or destruction of property of the BUYER or of the BUYER'S REPRESENTATIVE or his assistants or the BUYER's employees or agents, unless such damages, loss or destruction is caused by the negligence or willful misconduct of the BUILDER, its sub-contractors, or its or their employees or agents.

**6. RESPONSIBILITY OF THE BUYER**

The BUYER shall undertake and assure that the BUYER'S REPRESENTATIVE and his assistants shall carry out their duties hereunder in accordance with the normal shipbuilding practice and in such a way as to avoid any unnecessary increase in building cost, delay in the construction of the VESSEL, and/or any disturbance in the construction schedule of the BUILDER.

The BUILDER has the right to request the BUYER to replace any of the BUYER'S

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REPRESENTATIVE and/or his assistants who are deemed unsuitable and unsatisfactory for the proper progress of the VESSEL's construction. The BUYER shall investigate the situation by sending its representative(s) to the SHIPYARD and if the BUYER considers that such BUILDER's request is justified, the BUYER shall effect the replacement as soon as conveniently arrangeable.

(End of Article)



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**ARTICLE V : MODIFICATIONS, CHANGES AND EXTRAS**

**1. HOW EFFECTED**

Modifications or changes to the SPECIFICATIONS under which the VESSEL is to be constructed may be made at any time hereafter by written agreement of the parties hereto. Any modification or change requested by the BUYER which does not affect the SPECIFICATIONS to a fundamental extent shall be agreed to by the BUILDER if the BUYER agrees to adjustment of the CONTRACT PRICE, deadweight and/or cubic capacity, speed requirements, the Delivery Date and other terms and conditions of this CONTRACT reasonably required as a result of such modification or change. The BUILDER has the right to continue construction of the VESSEL on the basis of the SPECIFICATIONS until the BUYER has agreed to such adjustments. The BUILDER shall be entitled to refuse to make any alteration, change or modification to the SPECIFICATIONS requested by the BUYER if the BUYER does not agree to the aforesaid adjustments within fourteen (14) days of the BUILDER'S notification of the same to the BUYER or if, in the BUILDER's judgement, the compliance with such request of the BUYER would cause an unreasonable disruption of the normal working schedule of the SHIPYARD.

The BUILDER, however, agrees to exert its reasonable efforts to accommodate such reasonable request by the BUYER so that the said change and modification shall be made at a reasonable cost and within the shortest period of time reasonably possible. The aforementioned agreement to modify and change the SPECIFICATIONS may be effected by exchange of letters or facsimiles manifesting the agreement.

The letters and facsimiles exchanged by the parties pursuant to the foregoing shall constitute an amendment to this CONTRACT and the SPECIFICATIONS under which the VESSEL shall be built. Upon consummation of such an agreement to modify and change the SPECIFICATIONS, the BUILDER shall alter the construction of the VESSEL in accordance therewith including any addition to, or deduction from, the work to be performed in connection with such construction.

**2. SUBSTITUTION OF MATERIAL**

If any materials, machinery or equipment required for the construction of the VESSEL by

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the SPECIFICATIONS or otherwise under this CONTRACT cannot be procured in time to meet the BUILDER's construction schedule for the VESSEL, or are in short supply, or are unreasonably high in price compared with the prevailing international market price for similar products, the BUILDER may supply, subject to the BUYER's prior approval, other materials, machinery or equipment of equal quality and effect capable of meeting the requirements of the CLASSIFICATION SOCIETY and the rules, regulations and requirements with which the construction of the VESSEL must comply.

**3. CHANGES IN RULES AND REGULATIONS**

If the specified rules and regulations with which the construction of the VESSEL is required to comply are altered or changed by the CLASSIFICATION SOCIETY or bodies authorised to make such alterations or changes, either the BUYER or the BUILDER, upon receipt of due notice thereof, shall forthwith give notice thereof to the other party in writing. Thereupon, within ten (10) days, or such longer period as is commercially reasonable in the circumstances by the agreement of the parties acting reasonably after receiving the notice on the adjustment due to such alterations or changes from the BUILDER, the BUYER shall advise the BUILDER of its decision as to the alterations and changes to be made on the VESSEL. The BUILDER shall not be obliged to comply with such alterations and/or changes if the BUYER fails to notify the BUILDER of its decision within the time limit stated above.

The BUILDER shall comply promptly with the said request of the BUYER, provided that the BUILDER and the BUYER shall first agree to reasonable adjustment on:

- (a) any increase or decrease in the CONTRACT PRICE of the VESSEL that is occasioned by such compliance;
- (b) any extension or advancement in the Delivery Date of the VESSEL that is occasioned by such compliance;
- (c) any increase or decrease in the deadweight and/or cubic capacity of the VESSEL, if such compliance results in any increase or reduction in the deadweight and/or cubic capacity;
- (d) the speed requirements if such compliance results in any increase or reduction in the speed; and

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- (e) any other alterations in the terms of this CONTRACT or of the SPECIFICATIONS or both, if such compliance makes such alterations of the terms necessary.

Any delay in the construction of the VESSEL caused by the BUYER's delay in making a decision or agreement as above shall constitute a permissible delay under this CONTRACT. Such agreement by the BUYER shall be effected in the same manner as provided above for modification and change of the SPECIFICATIONS.

(End of Article)

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**ARTICLE VI : TRIALS AND COMPLETION**

**1. NOTICE**

The BUILDER shall notify the BUYER in writing or by facsimile at least twenty one (21) days in advance of the time and place of the trial run of the VESSEL. Such notice shall specify the place from which the VESSEL will commence her trial run and approximate date upon which the trial run is expected to take place. Such date shall be further confirmed by the BUILDER six (6) days in advance of the trial run in writing or by facsimile.

The BUYER'S REPRESENTATIVE, who is to witness the performance of the VESSEL during such trial run, shall be present at such place on the date specified in such notice. Should the BUYER'S REPRESENTATIVE fail to be present after the BUILDER's due notice to the BUYER as provided above, the BUILDER shall be entitled to conduct such trial run with the presence of the representative(s) of the CLASSIFICATION SOCIETY only without the BUYER'S REPRESENTATIVE being present. In such case, the BUYER shall be obliged to accept the VESSEL on the basis of a certificate issued by the BUILDER and the CLASSIFICATION SOCIETY that the VESSEL, after the trial run, subject to alterations and corrections, if necessary, has been found to conform with the SPECIFICATIONS and this CONTRACT and is satisfactory in all respects, provided the BUILDER first makes such corrections and alterations promptly.

**2. WEATHER CONDITION**

In the event of unfavourable weather on the date specified for the trial run, the trial run shall take place on the first available day that weather conditions permit. The parties hereto recognize that the weather conditions in Korean waters, in which the trial run is to take place, are such that great changes in weather may arise momentarily and without warning and therefore, it is agreed that if, during the trial run, the weather should become so unfavourable that the trial run cannot be continued, then the trial run shall be discontinued and postponed until the first favourable day next following, unless the BUYER shall assent to the acceptance of the VESSEL by notification in writing on the basis of such trial run so far made prior to such change in weather conditions. Any delay of the trial run caused by such unfavourable weather conditions shall also operate to extend the Delivery Date of the VESSEL for the period of delay occasioned by such unfavourable weather conditions.

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**3. HOW CONDUCTED**

All expenses in connection with the trials of the VESSEL are to be for the account of the BUILDER, which, during the trials, is to provide at its own expense the necessary crew to comply with conditions of safe navigation. The trials shall be conducted in the manner prescribed in this CONTRACT and the SPECIFICATIONS, and shall prove fulfillment of the performance requirements for the trials as set forth in the SPECIFICATIONS.

The BUILDER, at its cost and expense, shall be entitled to conduct preliminary sea trials, during which the propulsion plant and/or its appurtenance shall be adjusted according to the BUILDER's judgment. The BUILDER may repeat any trial whatsoever as it deems reasonably necessary.

**4. CONSUMABLE STORES**

The BUILDER shall load the VESSEL with the required quantity of fuel oil, lubricating oil and greases, fresh water, and other stores necessary to conduct the trials as set forth in the FULL SPECIFICATIONS. The necessary ballast (fuel oil, fresh water and such other ballast as may be required) to bring the VESSEL to the trial load draft, as specified in the FULL SPECIFICATIONS, shall be supplied and paid for by the BUILDER whilst lubricating oil and greases shall be supplied and paid for by the BUYER within the time advised by the BUILDER for the conduct of sea trials as well as for use before the delivery of the VESSEL to the BUYER. The fuel oil as well as lubricating oil and greases shall be in accordance with the specifications of the main engine and other machinery and the BUYER shall decide and advise the BUILDER of the supplier's name for lubricating oil and greases before the work-commencement of the VESSEL, provided that the supplier shall be acceptable to the BUILDER and/or the makers of all the machinery.

Any fuel oil, fresh water or other consumable stores furnished and paid for by the BUILDER for trial runs remaining on board the VESSEL, at the time of acceptance of the VESSEL by the BUYER, shall be bought by the BUYER from the BUILDER at the BUILDER'S purchase price for such supply in Korea and payment by the BUYER thereof shall be made at the time of delivery of the VESSEL. The BUILDER shall pay the BUYER at the time of delivery of the VESSEL for the consumed quantity of any lubricating oil and greases which were furnished and paid for by the BUYER at the BUYER's purchase price thereof. The consumed quantity of lubricating oils and greases shall be calculated on the basis of the difference between the remaining amount, including the same remaining in the main engine, other machinery and their pipes, stern tube and the like, and the supplied amount.

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5. **ACCEPTANCE OR REJECTION**

- (a) If, during any sea trial, any breakdown occurs entailing interruption or irregular performance which can be repaired on board, the trial shall be continued after such repairs and be valid in all respects.
- (b) However, if, during or after the trial run, it becomes apparent that the VESSEL or any part of her equipment requires alterations or corrections which but for this provision would or might entitle the BUYER to cancel this CONTRACT, the BUILDER shall notify the BUYER promptly in writing or by facsimile to such effect and shall simultaneously advise the BUYER of the estimated additional time required for the necessary alterations or corrections to be made.
- (c) Upon completion of the trial run, the BUILDER shall give the BUYER a notice by facsimile or in writing of completion of the trial run and provide the BUYER with all records of tests and trials as soon as available, as and if the BUILDER considers that the results of the trial run prove conformity of the VESSEL to this CONTRACT and SPECIFICATIONS.

The BUYER shall, within three (3) working days after receipt of aforementioned records of tests and trials from the BUILDER, notify the BUILDER in writing or by facsimile confirmed in writing of its acceptance or rejection of the VESSEL'S conformity to this CONTRACT and the SPECIFICATIONS.

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 BUILDER agrees with the BUYER's notice of non-conformity, then the BUILDER shall promptly take the necessary steps to correct such non-conformity and notify the BUYER promptly in writing or by facsimile advising the BUYER of the estimated additional time required for the necessary alterations to correct material 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 BUILDER, the CLASSIFICATION

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SOCIETY and the BUYER'S REPRESENTATIVE. The BUILDER shall notify the BUYER of the time and place of any new trial run no less than three (3) working days beforehand, unless otherwise mutually agreed to. All provisions of the trial run shall apply to such new trial run.

- (d) However, the BUYER shall not be entitled to reject the VESSEL by reason of any minor or insubstantial items judged from the point of view of standard shipbuilding and shipping practice as not being in conformity with the SPECIFICATIONS. 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 BUILDER'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.

**6. EFFECT OF ACCEPTANCE**

The BUYER's written or facsimiled notification of acceptance delivered to the BUILDER as above provided, shall be final and binding insofar as conformity of the VESSEL with the SPECIFICATIONS is concerned and shall preclude the BUYER from refusing formal delivery of the VESSEL as hereinafter provided, if the BUILDER complies with all conditions of delivery, as herein set forth and provided that, in the case of qualified acceptance, any matters which were mentioned in the notice of the qualified acceptance by the BUYER as requiring correction have been corrected to the satisfaction of the BUYER.

If the BUYER fails to notify the BUILDER of its acceptance or rejection of the VESSEL as hereinabove provided, the BUYER shall be deemed to have accepted the VESSEL. Nothing contained in this Article shall preclude the BUILDER from exercising any and all rights which the BUILDER has under this CONTRACT if the BUILDER disagrees with the BUYER's rejection of the VESSEL or any reasons given for such rejection, including arbitration provided in Article XIII hereof. Any dispute between the BUILDER 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 XIII hereof.

(End of Article)

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**ARTICLE VII : DELIVERY**

**1. TIME AND PLACE**

The VESSEL, duly completed in accordance with this CONTRACT, shall be delivered by the BUILDER to the BUYER at the SHIPYARD, safely afloat on or before April 20, 2009 (hereinafter called the "DELIVERY DATE") after completion of satisfactory tests, trials and acceptance by the BUYER in accordance with the terms of Article VI, except that, in the event of delays in delivery of the VESSEL by the BUILDER due to causes which under the terms of this CONTRACT permit extensions of the time for delivery of the VESSEL, the aforementioned DELIVERY DATE shall be extended accordingly.

An earlier DELIVERY DATE more than twenty-one (21) days is subject to the BUYER's prior written consent.

**2. WHEN AND HOW EFFECTED**

Provided that the BUYER shall with delivery of the VESSEL release to the BUILDER the sixth instalment as set forth in Article X.2. hereof and the BUYER and the BUILDER shall have fulfilled all of their obligations provided for in this CONTRACT, delivery of the VESSEL shall be forthwith effected upon acceptance thereof by the BUYER, by the concurrent delivery by each of the parties hereto to the other of a PROTOCOL OF DELIVERY AND ACCEPTANCE acknowledging delivery of the VESSEL by the BUILDER and acceptance thereof by the BUYER, which PROTOCOL shall be prepared in duplicate and signed by each of the parties hereto.

**3. DOCUMENTS TO BE DELIVERED TO THE BUYER**

Concurrently with delivery and acceptance of the VESSEL, the BUILDER shall deliver to the BUYER the following duly authenticated documents in English, which shall accompany the aforementioned PROTOCOL OF DELIVERY AND ACCEPTANCE:

- (a) PROTOCOL OF TRIALS of the VESSEL made pursuant to this CONTRACT and the SPECIFICATIONS,



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- (b) PROTOCOL OF INVENTORY of the equipment of the VESSEL, including spare parts, all as specified in the SPECIFICATIONS,
  - (c) PROTOCOL OF STORES OF CONSUMABLE NATURE, such as all fuel oil and fresh water remaining in tanks and items listed in Article VI.4 if its cost is charged to the BUYER under Article VI.4 hereof,
  - (d) DRAWINGS AND PLANS pertaining to the VESSEL as stipulated in the FULL SPECIFICATIONS, which shall be furnished to the BUYER at no additional cost, and DRAWINGS AND PLANS in triplicate pertaining to the VESSEL, including List of Finished Plans and As Built Specs and the trim and stability booklet, technical descriptions, test results and other data, information and documents in the possession of the BUILDER concerning the design and construction of the VESSEL which shall be forwarded to the BUYER at no additional cost as stipulated in the SPECIFICATIONS.
  - (e) ALL CERTIFICATES required to be furnished upon delivery of the VESSEL pursuant to this CONTRACT, the SPECIFICATIONS and the customary shipbuilding practice, including
    - (i) Classification Certificate
    - (ii) Safety Construction Certificate
    - (iii) Safety Equipment Certificate
    - (iv) Safety Radio Certificate
    - (v) International Loadline Certificate
    - (vi) International Tonnage Certificate
    - (vii) BUILDER's Certificate
    - (viii) De-ratting Exemption Certificate

However, it is agreed by the parties that if the Classification Certificate 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 BUILDER shall furnish the BUYER with formal certificates as promptly as possible after such formal certificates have been issued but in any event before the expiry of the provisional certificates.

All certificates to be delivered to the BUYER hereunder shall be valid in every respect, unless the recommendation or notation has been approved by the BUYER, in its sole discretion, in writing, in which case the BUILDER shall remain responsible for as promptly as possible removing such recommendation or notation.

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- (f) DECLARATION OF WARRANTY of the BUILDER that the VESSEL is delivered to the BUYER free and clear of any liens, 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 Korean Governmental authorities, or by the prefecture or country of the port of delivery, as well as of all liabilities of the BUILDER to its sub-contractors, suppliers, employees and crews, and of all liabilities arising from the operation of the VESSEL in trial runs, or otherwise, prior to delivery except as otherwise provided under this CONTRACT.

In case the BUILDER fails to deliver the VESSEL free and clear of all liens, charges, mortgages and encumbrances on the date the BUILDER offers or tenders the VESSEL for delivery, the BUYER is not obliged to take delivery of the VESSEL. If the BUYER accepts delivery of the VESSEL with such liens, charges, mortgages and encumbrances, the BUYER shall be entitled to any rights, powers, and remedies in this CONTRACT and/or law, at equity or otherwise to recover any damages caused by such liens, charges, mortgages and encumbrances.

- (g) COMMERCIAL INVOICE

- (h) BILL OF SALE

If required by the BUYER, the BUILDER shall arrange for the notarization and legalization in Korea by a consulate of the VESSEL's country of registration of any of the listed documents/certificates which may be required to be notarized/legalized for the purposes of the BUYER's registration.

**4. TENDER OF THE VESSEL**

If the BUYER fails to take delivery of the VESSEL, after completion thereof, according to this CONTRACT and the SPECIFICATIONS, the BUILDER shall have the right to tender delivery of the VESSEL after compliance with its obligations as provided above.

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**5. TITLE AND RISK**

Title and risk of loss of the VESSEL shall pass to the BUYER upon delivery of the VESSEL and acceptance by the BUYER being effected as stated above and the BUILDER shall be free of all responsibility or liability whatsoever related with this CONTRACT except for the warranty of quality contained in Article IX, the obligation to correct and/or remedy, as provided in Article VI.5.(d) or Article VII.3.(e), if any, and the obligations in Article XVI (which survive for the period of the relevant patent), it being expressly understood that, until such delivery and acceptance is effected, the VESSEL and equipment thereof are at the entire risk of the BUILDER including but not confined to, risks of war, insurrection and seizure by Governments or Authorities, whether Korean or foreign, and whether at war or at peace. The title to the BUYER'S SUPPLIES as provided in Article XII shall remain with the BUYER and the BUILDER's responsibility for such BUYER'S SUPPLIES shall be as described in Article XII.2.

**6. REMOVAL OF THE VESSEL**

The BUYER shall take possession of the VESSEL immediately upon delivery thereof and shall remove the VESSEL from the SHIPYARD within three (3) days after delivery thereof is effected. Port dues and other charges levied by the Korean Government Authorities after delivery of the VESSEL and any other costs related to the removal of the VESSEL shall be borne by the BUYER.

**7. NOTICES**

Prior to the delivery of the VESSEL, the BUILDER shall give notice to the BUYER with the following schedule:

90 DAYS PRIOR TO DELIVERY - 30 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)

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**ARTICLE VIII : DELAYS AND EXTENSIONS OF TIME (INCLUDING FORCE MAJEURE)**

**1. CAUSES OF DELAY**

If, at any time after signing this CONTRACT, either the construction or delivery of the VESSEL or any performance required hereunder as a prerequisite to the delivery thereof is delayed by any of the following events; namely war, acts of state or government, blockade, revolution, insurrections, mobilization, civil commotion, riots, strikes, sabotage, lockouts, Acts of God or the public enemy, plague or other epidemics, quarantines, shortage or prolonged failure of electric current, freight embargoes, or defects in major forgings or castings which could not have been detected by the BUILDER using reasonable care, or delays or defects in the BUYER'S SUPPLIES as stipulated in Article XII, if any, or shortage of materials, machinery or equipment or inability to obtain delivery or delays in delivery of materials, machinery or equipment, provided that at the time of ordering the same could reasonably be expected by the BUILDER to be delivered in time, or defects in materials, machinery or equipment which could not have been detected by the BUILDER using reasonable care or earthquakes, tidal waves, typhoons, hurricanes, prolonged or unusually severe weather conditions or destruction of the premises or works of the BUILDER or its sub-contractors, or of the VESSEL, or any part thereof, by fire, landslides, flood, lightning, explosion, or delays in the BUILDER'S other commitments resulting from any such causes as described in this Article which in turn delay the construction of the VESSEL or the BUILDER'S performance under the CONTRACT, or delays caused by the CLASSIFICATION SOCIETY or the BUYER'S faulty action or omission, or other causes beyond the reasonable control of the BUILDER, or its sub-contractors, as the case may be, provided all the foregoing events were not existing and known to the BUILDER 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 BUILDER 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 BUILDER in respect of labor relations or his relevant sub-contractors, as the case may be; and provided further that any of the above events directly affect the construction schedule of the VESSEL, then, in the event of delays due to the happening of any of the aforementioned contingencies, the DELIVERY DATE of the VESSEL under this CONTRACT shall be extended for a period of time which shall not exceed the total accumulated time of all such delays.

Upon occurrence of the foregoing events, the BUILDER shall take immediate steps to overcome and mitigate the delay and to recover lost time, if any.

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**2. NOTICE OF DELAYS**

As soon as practicably possible after commencement of any delay, and in any event within fourteen (14) days, on account of which the BUILDER claims that it is entitled under this CONTRACT to an extension of the DELIVERY DATE of the VESSEL, excluding delays due to arbitration, the BUILDER shall advise the BUYER in writing or by facsimile of the date such delay commenced, the reasons thereof and, if possible, its estimated duration of the probable delay in the delivery of the VESSEL, and shall supply the BUYER if reasonably available with evidence to justify the delay claimed. Within one (1) week after such delay ends, the BUILDER shall likewise advise the BUYER in writing or by facsimile of the date that such delay ended, and also, shall specify the period of time by which the BUILDER claims the DELIVERY DATE should be extended by reason of such delay.

Failure of the BUILDER to notify the BUYER of its claim for extension of the DELIVERY DATE within the applicable time shall result in a waiver of the BUILDER's claim. Failure of the BUYER to object to the BUILDER's notification of any claim for extension of the date for delivery of the VESSEL within fourteen (14) days after receipt by the BUYER of such notification shall be deemed to be a waiver by the BUYER of its right to object to such extension.

**3. RIGHT TO CANCEL FOR EXCESSIVE DELAY**

If the total accumulated time of all permissible and non-permissible delays, excluding delays due to (i) arbitration under Article XIII, (ii) the BUYER's defaults under Article XI, (iii) modifications and changes under Article V or (iv) delays or defects in the BUYER'S SUPPLIES as stipulated in Article XII, aggregates two hundred and ten (210) days or more, then, the BUYER may, at any time thereafter, cancel this CONTRACT by giving a written notice of cancellation to the BUILDER. Such cancellation shall be effective as of the date the notice thereof is received by the BUILDER.

If the BUYER has not served the notice of cancellation as provided in the above or Article III.1. hereof, the BUILDER may, at any time after expiration of the accumulated time of the delay in delivery, either two hundred and ten (210) days in case of the delay in this Paragraph or one hundred and eighty (180) days in case of the delay in Article III.1, notify the BUYER of the future date upon which the BUILDER estimates the VESSEL will be ready for delivery and demand in writing or by facsimile that the BUYER make an election either to cancel this CONTRACT or to consent to the delivery of the VESSEL at such

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future date, in which case the BUYER shall, within fourteen (14) days after receipt of such demand, make and notify the BUILDER of such election. If the BUYER elects to consent to the delivery of the VESSEL at such future date (or other future date as the parties may agree):

- (a) Such future date shall become the contractual delivery date for the purposes of this CONTRACT and shall be subject to extension by reason of permissible delays as herein provided, and
- (b) If the VESSEL is not delivered by such revised contractual delivery date (as extended by reason of permissible delays), the BUYER shall have the same right of cancellation upon the same terms as provided in the above and Article III. 1.

If the BUYER shall not make an election within fourteen (14) days as provided hereinabove, the BUYER shall be deemed to have accepted such extension of the DELIVERY DATE to the future delivery date indicated by the BUILDER.

**4. DEFINITION OF PERMISSIBLE DELAYS**

Delays on account of the foregoing Paragraph 1 of this Article and any other Paragraph of this CONTRACT which expressly permits an extension of the DELIVERY DATE shall be understood to be permissible delays, and are to be distinguished from non-permissible unauthorized delays on account of which the CONTRACT PRICE of the VESSEL is subject to adjustment as provided in Article III hereof.

(End of Article)

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**ARTICLE IX : WARRANTY OF QUALITY**

**1. GUARANTEE OF MATERIAL AND WORKMANSHIP**

- (a) The BUILDER, for the period of twelve (12) months from the date of delivery of the VESSEL to the BUYER (the "Guarantee Period"), guarantees the VESSEL in her entirety and all parts and equipment thereof, including but without prejudice to the generality of the foregoing, the VESSEL's design and all materials and parts manufactured, installed, furnished and/or incorporated by the BUILDER under this CONTRACT against all defects which are due to omissions, non-conformities, defective materials or equipment, faulty design and/or performance, construction miscalculations, and/or poor workmanship (collectively, the "Defects").

The BUILDER will be responsible for all machinery or parts of machinery and all constructions which are supplied by sub-contractors and will guarantee the above mentioned for the Guarantee Period on the basis as laid down in this Article.

- (b) The BUILDER shall pass to the BUYER information about any claims that the BUILDER may have against subcontractors for Defect(s) in deliveries to the VESSEL, without in any way diminishing the BUILDER's guarantee as aforesaid.
- (c) If the normal guarantee period stipulated by manufacturers or suppliers of any components of machinery, materials, equipment, appurtenances or outfit furnished to the BUILDER and embodied in the VESSEL exceeds the Guarantee Period, the benefits of such extended guarantee rights shall be made available to the BUYER by the BUILDER without any additional cost to the BUYER.

**2. NOTICE OF DEFECTS**

The BUYER or its duly authorized representative will notify the BUILDER in writing or by facsimile promptly after discovery of any Defects for which a claim is to be made under this guarantee.

The BUYER's written notice shall include full particulars as to the nature of the Defects and the extent of the damage caused thereby, but excluding consequential damage as hereinafter provided. The BUILDER will be under no obligation with respect to this

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guarantee in respect of any claim for Defects discovered prior to the expiry date of the guarantee, unless notice of such Defects is received by the BUILDER before the expiry date. However, facsimiled advice received by the BUILDER within seven (7) days after such expiry date that a claim is forthcoming will be sufficient compliance with the requirement as to time, provided that such facsimiled advice shall include at least a brief description of the Defects, including the identity of the equipment, extent of damage, name and number of any replacement part and description of any remedial work required, and that full particulars as practicable as possible are given to the BUILDER not later than twenty one (21) days after the expiry date.

**3. REMEDY OF DEFECTS**

- (a) The BUILDER shall remedy, at its expense, any Defects against which the VESSEL is guaranteed under this Article, by making all necessary repairs or replacements at the SHIPYARD or elsewhere as provided for in subparagraph (b) below. If the cause of the Defect(s) is not known or if the Defect(s) is of a recurring nature, the BUILDER shall, at its expense, explore the reasons for such Defect(s) and take all necessary steps and measures to remedy the same in such a way as to eliminate the reoccurrence thereof.

In the event of any Defect(s) guaranteed under this Article, the VESSEL shall be taken at the BUYER's cost and responsibility to the place selected, ready in all respects for such repairs or replacements and in any event, the BUILDER shall not be responsible for towage, dockage, wharfage, port charges and anything else incurred by the BUYER in getting and keeping the VESSEL ready for such repair or replacement.

The BUILDER and the BUYER agree that Defects to underwater parts of the VESSEL 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, however, the BUILDER shall not be liable for any worsening of the Defects after the expiry date of the Guarantee Period, unless mutually agreed by the parties.

- (b) However, if it is impractical (which shall include, but not be limited to, an emergency) to bring the VESSEL to the SHIPYARD, the BUYER may cause the necessary repairs or replacements to be made elsewhere which is deemed by the BUYER with the consent of the BUILDER, which shall not be unreasonably withheld, to be suitable for the purpose, provided that, in such event, the BUILDER may forward or supply replacement parts or materials under the terms described in subparagraph (c) below, unless the



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forwarding or supplying thereof under the terms described in subparagraph (c) below would impair or delay the operation or working schedule of the VESSEL. In the event the BUYER proposes to cause the necessary repairs or replacements to be made to the VESSEL at any shipyard or works other than the SHIPYARD, the BUYER shall first (but in all events as soon as reasonably possible) give the BUILDER notice in writing or by facsimile of the time and place such repairs will be made, and if the VESSEL is not thereby delayed, or her operation or working schedule is not thereby impaired, the BUILDER shall have the right, at its own cost and expense, to verify by its own representative(s) the nature and extent of the Defect(s) complained of.

The BUILDER shall, in such case, promptly advise the BUYER by facsimile, after such examination has been completed, of its acceptance or rejection of the Defect(s) as one(s) covered by the guarantee herein provided. Upon the BUILDER's acceptance of the Defect(s) as justifying remedy under this Article, or upon award of an arbitration so determining, the BUILDER shall compensate the BUYER an amount equal to the reasonable cost of making the same repairs or replacements at major ship repair facilities in Singapore.

- (c) In the event that it is necessary for the BUILDER to forward a replacement for a defective part under this guarantee, replacement parts shall be shipped to the BUYER, and the BUILDER shall bear and pay all C.I.F. costs of the replacement(s) until they arrive on board the VESSEL.
- (d) The BUILDER reserves the option to retrieve, at the BUILDER's cost, any of the replaced equipment/parts in the event Defects are remedied in accordance with the provisions in this Article.
- (e) Any dispute under this Article shall be referred to arbitration in accordance with the provisions of Article XIII hereof.

**4. EXTENT OF THE BUILDER'S LIABILITY**

- (a) After delivery of the VESSEL the responsibility of the BUILDER in respect of and/or in connection with the VESSEL and/or this CONTRACT shall be limited to the extent expressly provided in this Article. Except as expressly provided in this Article, in no circumstances and on no ground whatsoever shall the BUILDER have any responsibility or liability whatsoever or howsoever arising in respect of or in

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connection with the VESSEL or this CONTRACT after the delivery of the VESSEL. Further, but without in any way limiting the generality of the foregoing, the BUILDER shall have no liability or responsibility whatsoever or howsoever arising for or in connection with any consequential or special losses, damages or expenses (including but not limited to loss of time, loss of profit or earnings or demurrage directly or indirectly caused) in relation to or in connection with this CONTRACT or the VESSEL.

- (b) The BUILDER shall be under no obligation with respect to Defects in respect of which the BUILDER has not received notice in accordance with Paragraph 2 of this Article by the expiry of the Guarantee Period.
- (c) The BUILDER shall under no circumstances be liable for Defects in the VESSEL or any part of equipment thereof caused by normal wear and tear, overloading, improper loading or stowage by the BUYER, fire unrelated to Defects, accidents at sea or elsewhere, or by incompetence, mismanagement, negligence or wilful neglect by the BUYER or any alteration or addition to the VESSEL on the part of the BUYER, its employees or agents or any other person on or doing work on the VESSEL, including the VESSEL's officers, crew and passengers, unless approved by the BUILDER. Likewise, the BUILDER shall not be liable for Defects due to repairs carried out by any person other than the BUILDER or which have not been carried out in accordance with the procedure set out in Paragraph 3 (b) of this Article, unless approved by the BUILDER.
- (d) The BUILDER shall not be obliged to repair and shall not be liable for damage to the VESSEL or any part of the equipment thereof which, after delivery of the VESSEL, is caused other than by Defects of the nature specified in this Article. The guarantees contained as hereinabove in this Article replace and exclude any other liability, guarantee, warranty and/or condition imposed or implied by statute, common law, custom, contract (including this CONTRACT) or otherwise on the part of the BUILDER by reason of the construction and sale of the VESSEL for and to the BUYER or for any other reason whatsoever.

**5. EXTENSIONS TO THE GUARANTEE PERIOD**

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 is 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 results from any Defect(s) covered by the BUILDER's guarantee under this Article, then the Guarantee Period shall be extended by such period(s) of time lost in remedying the Defect(s) for which the BUILDER is responsible according to this CONTRACT or in awaiting part(s) required for the purpose of remedying such Defect(s), however, in any event, the total guarantee period shall not extend to twenty-four (24) months from the DELIVERY DATE of the VESSEL;

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- (b) The Guarantee Period shall further, in relation to any qualified acceptance of the BUYER pursuant to Article VI and where the BUYER has agreed that the matters which are the subject of the qualified acceptance may be remedied after delivery, be extended up to the expiration of twelve (12) calendar months following the time when the matters which were mentioned in the notice of the qualified acceptance are made good by the BUILDER after the delivery of the VESSEL to the BUYER as herein provided.

(End of Article)

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**ARTICLE X : PAYMENT**

**1. CURRENCY**

All payments under this CONTRACT shall be made in United States Dollars.

**2. TERMS OF PAYMENT**

The payments of the CONTRACT PRICE shall be made as follows :

(a) First Instalment

Twenty per cent (20%) of the CONTRACT PRICE amounting to U.S.Dollars Fifteen Million Four Hundred Seventy Thousand (US\$15,470,000) shall be paid within three (3) business days after the date hereof.

Under this CONTRACT, in counting the business days, only Saturdays and Sundays are excepted. When a due date falls on a day when banks are not open for business in New York, N.Y., U.S.A. and London, England, such due date shall fall due upon the first business day next following.

(b) Second Instalment

Five per cent (5%) of the CONTRACT PRICE amounting to U.S.Dollars Three Million Eight Hundred Sixty Seven Thousand Five Hundred (US\$3,867,500) shall be paid within twelve (12) months from the date of signing this CONTRACT.

(c) Third Instalment

Five per cent (5%) of the CONTRACT PRICE amounting to U.S.Dollars Three Million Eight Hundred Sixty Seven Thousand Five Hundred (US\$3,867,500) shall be paid within eighteen (18) months from the date of signing this CONTRACT.

(d) Fourth Instalment

Ten per cent (10%) of the CONTRACT PRICE amounting to U.S.Dollars Seven Million

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Seven Hundred Thirty Five Thousand (US\$7,735,000) shall be paid within three (3) business days of receipt by the BUYER of a facsimiled advice from the BUILDER that steel cutting has commenced

(e) Fifth Instalment

Ten per cent (10%) of the CONTRACT PRICE amounting to U.S.Dollars Seven Million Seven Hundred Thirty Five Thousand (US\$7,735,000) shall be paid within three (3) business days of receipt by the BUYER of a facsimiled advice from the BUILDER that the first block of the keel has been laid.

(f) Sixth Instalment

Fifty per cent (50%) of the CONTRACT PRICE amounting to U.S.Dollars Thirty Eight Million Six Hundred Seventy Five Thousand (US\$38,675,000) plus or minus any increase or decrease due to modifications and/or adjustment, if any, arising prior to delivery of the VESSEL of the CONTRACT PRICE under Articles III and V of this CONTRACT shall be paid to the BUILDER with the delivery of the VESSEL. (The date stipulated for payment of each of the six instalments mentioned above is hereinafter in this Article and in Article XI referred to as the "DUE DATE" of that instalment).

It is understood and agreed upon by the BUILDER and the BUYER that all payments under the provisions of this Article shall not be delayed or withheld by the BUYER due to any dispute or disagreement of whatever nature arising between the BUILDER and the BUYER. Should there be any dispute in this connection, the matter shall be dealt with in accordance with the provisions of arbitration in Article XIII hereof. Expenses for remitting payments and any other expenses connected with such payments shall be for the account of the BUYER.

**3. DEMAND FOR PAYMENT**

At least fourteen (14) days prior to the date of each event provided in Paragraph 2 of this Article on which any payment shall fall due hereunder, with the exception of the payment of the first and second instalments, the BUILDER shall notify the BUYER by facsimile of the date such payment shall become due.

The BUYER shall immediately acknowledge receipt of such notification by facsimile to the BUILDER, and make payment as set forth in this Article. If the BUILDER fails to receive

the BUYER's said acknowledgement within three (3) days after sending the aforementioned notification, the BUILDER shall promptly facsimile to the BUYER a second notification of similar import. The BUYER shall immediately acknowledge by facsimile receipt of the foregoing second notification regardless of whether or not the first notification was acknowledged as aforesaid.

**4. METHOD OF PAYMENT**

(a) All the pre-delivery payments and the payment due on delivery in settlement of the CONTRACT PRICE as provided for in Paragraph 2 of this Article shall be made in U.S. Dollars on or before the DUE DATE thereof by telegraphic transfer as follows ;

(i) The payment of the first, second, third, fourth and fifth instalments shall be made to the account (Account No.: 04-009-010) of Korea Exchange Bank, Seoul, Korea (hereinafter called the "KEB") with Deutsche Bank Trust Company Americas, 60 Wall Street Mail Stop NYC 60-1310, New York, N.Y. 10005, U.S.A (hereinafter called the "DBTC") for further credit to the account (Account No.: 117-JCD-700002) of Hyundai Heavy Industries Co., Ltd. with KEB or the account of the BUILDER with any other bank in favour of the BUILDER, as designated and notified by the BUILDER at least three (3) business days prior to the DUE DATE.

(ii) Payment of the Sixth Instalment

The BUYER shall, at least three (3) business days prior to the actual date of delivery of the VESSEL, request the BUYER's bank to make an irrevocable deposit in an account in the name of the BUYER'S bank with KEB or any other bank designated by the BUILDER and acceptable to the BUYER's bank for a period of fifteen (15) days and covering the amount of the sixth instalment (as adjusted in accordance with the provisions of this CONTRACT), with an irrevocable instruction that the said amount shall be released to the BUILDER against presentation by the BUILDER to KEB or such other bank of a copy of the Protocol of Delivery and Acceptance signed by the BUYER's authorized representative and the BUILDER. Interest, if any, accrued from such deposit shall be for the benefit of the BUYER.

If the BUILDER has not presented the said original of the Protocol of Delivery and Acceptance duly signed by the BUILDER and the BUYER to the KEB or such other bank on or before the expiry of the aforesaid fifteen (15) day

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deposit period, then 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 to between the BUYER and the BUILDER, then the BUYER shall make the cash deposit in accordance with the same terms and conditions as set out above.

- (b) Simultaneously with each of such payments, the BUYER shall advise the BUILDER of the details of the payments by facsimile and at the same time, the BUYER shall cause the BUYER'S remitting Bank to advise the KEB or any other bank of the details of such payments by authenticated bank cable or telex.

**5. REFUND BY THE BUILDER**

The payments made by the BUYER to the BUILDER prior to delivery of the VESSEL shall constitute advances to the BUILDER. If the VESSEL is rejected by the BUYER in accordance with the terms of this CONTRACT, or except in the case of rescission or cancellation of this CONTRACT by the BUILDER under the provisions of Article XI hereof, if the BUYER terminates, cancels or rescinds this CONTRACT pursuant to any of the provisions of this CONTRACT specifically permitting the BUYER to do so, the BUILDER shall forthwith refund to the BUYER, in U.S. Dollars, the full amount of all sums paid by the BUYER to the BUILDER in advance of delivery on account of the VESSEL together with interest thereon as herein provided.

The transfer and other bank charges of such refund shall be for the BUILDER's account. The interest rate of the refund, as above provided, shall be seven per cent (7%) per annum from the date following the date of receipt by the BUILDER of the pre-delivery instalment(s) to the date of remittance by telegraphic transfer of such refund, provided, however, that if and to the extent the cancellation of this CONTRACT by the BUYER is based upon delays due to a force majeure event or other causes beyond the control of the BUILDER as provided for in Article VIII hereof, then in such event, the interest rate of refund shall be reduced for the relevant force majeure period to six per cent (6%) per annum.

It is hereby understood by both parties that payment of any interest provided herein is by way of liquidated damages due to cancellation of this CONTRACT and not by way of compensation for use of money.

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If, pursuant to this CONTRACT, the BUILDER is required to refund to the BUYER the instalments paid by the BUYER to the BUILDER as provided in this Paragraph, the BUILDER shall return to the BUYER all of the BUYER'S SUPPLIES as stipulated in Article XII which were not incorporated into the VESSEL and pay to the BUYER an amount equal to the cost to the BUYER of those supplies incorporated into the VESSEL.

Any and all refunds or payments due to the BUYER under this CONTRACT shall be effected by telegraphic transfer to the account specified by the BUYER free of bank charge, remittance fees, taxes and other applicable withholdings incurred and levied in Korea.

**6. TOTAL LOSS**

If there is a total loss or a constructive total loss of the VESSEL prior to delivery thereof, the BUILDER shall proceed according to the mutual agreement of the parties hereto either:

- (a) to build another vessel in place of the VESSEL so lost and deliver it under this CONTRACT to the BUYER, provided that the parties hereto shall have agreed in writing to a reasonable cost and time for the construction of such vessel in place of the lost VESSEL; or
- (b) to refund to the BUYER the full amount of the total sums paid by the BUYER to the BUILDER under the provisions of Paragraph 2 of this Article together with interest thereon at the rate of seven per cent (7%) per annum from the date following the date of receipt by the BUILDER of such pre-delivery instalment(s) to the date of payment by the BUILDER to the BUYER of the refund.

If the parties hereto fail to reach such agreement within two (2) months after the VESSEL is determined to be a total loss or constructive total loss, the provisions of (b) hereinabove shall be applied.

**7. DISCHARGE OF OBLIGATIONS**

Upon refund by the BUILDER to the BUYER as provided in the foregoing Paragraphs 5 and 6 all of the obligations, duties and liabilities of each of the parties hereto to the other shall be discharged.



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**8. REFUND GUARANTEE**

The BUILDER shall send a copy of the Refund Guarantee by facsimile before payment of the 1<sup>st</sup> installment by the BUYER, and deliver to the BUYER by hard copy, or by SWIFT through the BUYER's bank, acceptable to the BUILDER, an assignable letter of guarantee issued by Calyon, Seoul Branch for the refund of the pre-delivery instalments plus interest as aforesaid to the BUYER under or pursuant to Paragraph 5 above in the form annexed hereto as Exhibit "A". All expenses in issuing and maintaining the letter of guarantee described in this Paragraph shall be borne by the BUILDER. In case of SWIFT, the BUYER shall advise the BUILDER of the details of the BUYER's bank including the SWIFT address upon execution of this CONTRACT.

(End of Article)

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**ARTICLE XI : BUYER'S DEFAULT / BUILDER'S DEFAULT**

**1. BUYER'S DEFAULT**

**(a) DEFINITION OF THE BUYER'S DEFAULT**

The BUYER shall be deemed to be in default under this CONTRACT in the following cases :

- (i) If the first, second, third, fourth or fifth instalment is not paid to the BUILDER within respective DUE DATE of such instalments as required by Article X; or
- (ii) If the sixth instalment is not deposited in accordance with Article X.4.(a)(ii) hereof or if the said sixth instalment deposit is not released to the BUILDER against presentation by the BUILDER of a duplicate original copy of the PROTOCOL OF DELIVERY AND ACCEPTANCE; or
- (iii) If the BUYER fails to take delivery of the VESSEL when the VESSEL is duly tendered for delivery by the BUILDER under the provisions of Article VII hereof; or
- (iv) If an order or an effective resolution shall be passed for winding up of the BUYER (except for the purpose of reorganization, merger or amalgamation).

**(b) EFFECT OF THE BUYER'S DEFAULT ON OR BEFORE THE DELIVERY OF THE VESSEL**

If the BUYER shall be in default as provided in Paragraph 1.(a) above of its obligations under this CONTRACT, then;

- (i) The DELIVERY DATE of the VESSEL shall be extended automatically for the actual period of such default and the BUILDER shall not be obliged to pay any liquidated damages for the delay in delivery of the VESSEL caused thereby.
- (ii) The BUYER shall pay to the BUILDER interest at the rate of seven per cent (7%) per annum in respect of the instalment(s) in default from the respective DUE DATE to the date of actual receipt by the BUILDER of the full amount of such instalment(s).

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- (iii) if the BUYER is in default in payment of any of the instalment(s) due and payable prior to or simultaneously with the delivery of the VESSEL, the BUILDER shall, in writing or by facsimile, notify the BUYER to that effect, and the BUYER shall, upon receipt of such notification, forthwith acknowledge in writing or by facsimile to the BUILDER that such notification has been received.
  - (iv) If any of the BUYER's default continues for a period of ten (10) days after the BUILDER's notification to the BUYER of such default, the BUILDER may, at its option, rescind this CONTRACT by serving upon the BUYER a written notice or a facsimile notice of rescission confirmed in writing.
  - (v) In the event of such cancellation by the BUILDER of this CONTRACT due to the BUYER's default as provided for in Paragraph 1.(a) above, the BUILDER shall be entitled to retain and apply the instalments already paid by the BUYER to the recovery of the BUILDER's loss and damage including, but not being limited to, reasonable estimated profit due to the BUYER's default and the cancellation of this CONTRACT and at the same time the BUILDER shall have the full right and power either to complete or not to complete the VESSEL which is the sole property of the BUILDER as it deems fit, and to sell the VESSEL at a public or private sale on such terms and conditions as the BUILDER thinks fit acting reasonably. The BUILDER will invite the BUYER to participate in any public tender at least fourteen (14) days in advance.

The proceeds received by the BUILDER from any sale shall be applied in addition to the instalment(s) retained by the BUILDER as mentioned hereinabove as follows : -

First, in payment of all reasonable costs and expenses of the sale of the VESSEL, including interest thereon at seven per cent (7%) per annum from the respective date of payment of such costs and expenses aforesaid to the date of sale on account of the BUYER's default.

Second, if the VESSEL has been completed, in or towards satisfaction of the unpaid balance of the CONTRACT PRICE, to which shall be added the cost of all additional work and extras agreed by the BUYER including interest thereon at seven per cent (7%) per annum from the respective DUE DATE of the instalment in default to the date of sale, or if the VESSEL has not been completed, in or towards satisfaction of the unpaid amount of the cost incurred by the BUILDER prior to the date of sale on account of construction of the VESSEL, including work, labour, materials and reasonably estimated profit

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which the BUILDER would have been entitled to receive if the VESSEL had been completed and delivered plus interest thereon at seven per cent (7%) per annum from the respective DUE DATE of the instalment in default to the date of sale.

Third, the balance of the proceeds of sale, if any, shall belong to the BUYER, and shall forthwith be paid over to the BUYER by the BUILDER. In the event of the proceeds from the sale together with instalment(s) retained by the BUILDER being insufficient to pay the BUILDER the total amount required as above, the BUYER shall be liable for the deficiency and shall pay the same to the BUILDER upon its demand.

**2. BUILDER'S DEFAULT**

**(a) DEFINITION OF THE BUILDER'S DEFAULT**

The BUYER may declare the BUILDER in default and rescind this CONTRACT, all as stipulated in this CONTRACT and the SPECIFICATIONS, in any of the following cases:

- (i) the court declares bankruptcy proceedings against the BUILDER under the Bankruptcy Act of Korea; or
- (ii) there are insolvency proceedings which prevent the BUILDER from building and completing the VESSEL.

**(b) EFFECT OF THE BUILDER'S DEFAULT**

If the BUILDER shall be in default as provided for in Paragraph 2.(a) of this Article hereinabove, the BUYER shall, in writing or by facsimile, notify the BUILDER to that effect, and may, at its option, rescind this CONTRACT in accordance with the provisions of this Article.

The BUYER shall, in writing or by facsimile, notify the BUILDER to that effect, and the BUILDER shall, upon receipt of such notification, forthwith acknowledge in writing or by facsimile to the BUYER that such notification has been received.

If any of the BUILDER's default continues for a period of ten (10) days after the BUYER's

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notification to the BUILDER of such default, the BUYER may, at its option, rescind this CONTRACT by serving upon the BUILDER a written notice or a facsimile notice of rescission confirmed in writing.

(c) **NOTICE OF THE BUILDER'S DEFAULT**

In the event the BUYER exercises 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 BUILDER in writing or by fax confirmed in writing, and such rescission shall be effective as of the date notice thereof is received by the BUILDER.

(d) **REFUNDMENT BY THE BUILDER**

In the event the BUILDER receives the notice stipulated in Paragraph 2.(c) of this Article, the BUILDER shall promptly refund to the BUYER the full amount of all sums paid by the BUYER to the BUILDER in accordance with Article X.

(e) **DISCHARGE OF OBLIGATIONS**

Upon such refund by the BUILDER to the BUYER, and upon compliance with the provisions of Paragraph 2.(d) of this Article, 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)

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**ARTICLE XII : BUYER'S SUPPLIES**

**1. RESPONSIBILITY OF THE BUYER**

The BUYER shall, at its cost and expense, supply all the BUYER'S SUPPLIES as specified in Paragraph 0.15 of the FULL SPECIFICATIONS (hereinafter called the "BUYER'S SUPPLIES"), to the BUILDER at the SHIPYARD in proper condition ready for installation and in accordance with the time schedule to be furnished to the BUYER by the BUILDER to meet the building schedule of the VESSEL.

In order to facilitate the installation of the BUYER'S SUPPLIES by the BUILDER, the BUYER shall furnish the BUILDER with the necessary plans, instruction books, test report and all test certificates required by the BUILDER and shall cause the representative(s) of the makers of the BUYER'S SUPPLIES to give the BUILDER any advice, instructions or assistance which the BUILDER may reasonably require in the installation or adjustment thereof at the SHIPYARD, all without cost or expense to the BUILDER.

The BUYER shall be liable for any expense incurred by the BUILDER for repair of the BUYER'S SUPPLIES due to defective design or materials, poor workmanship or performance or due to damage in transit and the DELIVERY DATE of the VESSEL shall be extended for the period of such repair if such repair shall affect the delivery of the VESSEL.

Commissioning into good order of the BUYER'S SUPPLIES during and after installation on board shall be made at the BUYER's expense by the representative of respective maker or the person designated by the BUYER in accordance with the BUILDER's building schedule.

Should the BUYER fail to deliver to the BUILDER the BUYER'S SUPPLIES and the necessary document or advice for such supplies within the time specified by the BUILDER, the DELIVERY DATE of the VESSEL shall automatically be extended for the period of such delay if such delay in delivery shall affect the delivery of the VESSEL. In such event, the BUYER shall pay to the BUILDER all losses and damages sustained by the BUILDER due to such delay in the delivery of the BUYER'S SUPPLIES and such payment shall be made upon delivery of the VESSEL, provided, however, that the BUILDER shall have :

- (a) furnished the BUYER with the time schedule referred to above, two (2) months prior to installation of the BUYER'S SUPPLIES and

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(b) given the BUYER written notice of any delay in delivery of the BUYER'S SUPPLIES and the necessary document or advice for such supplies as soon as the delay occurs which might give rise to a claim by the BUILDER under this Paragraph.

Furthermore, if the delay in delivery of the BUYER'S SUPPLIES and the necessary document or advice for such supplies should exceed twenty (20) days from the date specified by the BUILDER, the BUILDER shall be entitled to proceed with construction of the VESSEL without installation of such items (regardless of their nature or importance to the BUYER or the VESSEL) in or on the VESSEL without prejudice to the BUILDER's right hereinabove provided, and the BUYER shall accept the VESSEL so completed.

**2. RESPONSIBILITY OF THE BUILDER**

The BUILDER shall be responsible for storing, safekeeping and handling the BUYER'S SUPPLIES which the BUILDER is required to install on board the VESSEL under Paragraph 0.15 of the FULL SPECIFICATIONS after delivery of such supplies to the SHIPYARD, and shall install such supplies on board the VESSEL at the BUILDER's expense unless otherwise specified in the SPECIFICATIONS.

However, the BUILDER shall not be responsible for the quality, performance or efficiency of any equipment included in the BUYER'S SUPPLIES and is under no obligation with respect to the guarantee of such equipment against any defects caused by poor quality, performance or efficiency of the BUYER'S SUPPLIES but the BUILDER shall be liable under Article IX for any defect(s) in respect of installation of the BUYER'S SUPPLIES to the VESSEL. If any of the BUYER'S SUPPLIES is lost or damaged while in the custody of the BUILDER, the BUILDER shall, if the loss or damage is due to wilful default or negligence on its part, be responsible for such loss or damage.

(End of Article)

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**ARTICLE XIII : 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.

In the event that the parties hereto do not agree to settle a dispute according to the provision hereinabove, the following clauses shall apply.

**2. APPOINTMENT OF THE ARBITRATOR**

If any dispute or difference shall arise between the parties hereto concerning any matter or thing herein contained, or the operation or construction thereof, or any matter or thing in any way connected with this CONTRACT or the rights, duties or liabilities of either party under or in connection with this CONTRACT, then, in every such case, the dispute or difference shall be referred to arbitration in London, England by a sole arbitrator. The arbitrator shall be appointed by agreement within fourteen (14) days of the first written notification of either party to the other of its intention to arbitrate such dispute or difference, or in default of such agreement, upon the application of either of the parties, by the President for the time being of the London Maritime Arbitrators Association ("LMAA") who shall in making any such appointment have due regard to the nature of the dispute and the requirement for an expeditious resolution of the dispute and, in particular, the availability of any arbitrator so appointed for an early hearing date.

**3. LAWS APPLICABLE**

Any arbitration arising hereunder shall be submitted in accordance with and subject to the Arbitration Act 1996 of England or any statutory amendments or re-enactments thereof for



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the time being in force and shall be conducted in accordance with the LMAA terms current at the time when arbitration proceedings are commenced (except as expressly provided herein). The award of the arbitrator shall be final and binding upon parties hereto.

**4. PROCEEDINGS**

In the event of any dispute or difference being referred to arbitration, the parties hereby acknowledge that time is of the essence in obtaining an award from the arbitrator on such dispute or difference and the parties hereby agree that the arbitration shall be conducted according to the following timetable:

- (a) The claimant in the arbitration to serve points of claim within twenty one (21) days of the appointment of the arbitrator.
- (b) The respondent in the arbitration to serve points of defence and points of counterclaim, if any, within twenty one (21) days thereafter.
- (c) The claimant to serve points of reply and defence to counterclaim, if any, within fourteen (14) days thereafter and the hearing of the arbitration to commence within twelve (12) weeks of the appointment of the arbitrator.

**5. ALTERATION OF DELIVERY OF THE VESSEL**

In the event of the arbitration of any dispute or difference the award by the arbitrator shall include a finding as to whether or not the contractual delivery date of the VESSEL should, as a result of such dispute, be in any way altered thereby.

**6. NOTICE OF AWARD**

The award shall immediately be given to the BUYER and the BUILDER in writing or by facsimile confirmed in writing.

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7. **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.

8. **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.

(End of Article)

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**ARTICLE XIV : SUCCESSORS AND ASSIGNS**

The BUILDER agrees that, prior to delivery of the VESSEL, this CONTRACT may, with the prior written approval of the BUILDER, which the BUILDER shall not unreasonably withhold, be transferred by the BUYER to and the title thereof may 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 the rights and obligations of the BUYER under this CONTRACT. 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 due to 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 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 BUILDER a notice of assignment in form and content acceptable to the BUILDER acting reasonably. The BUILDER shall, at the BUYER's request, acknowledge and consent to such assignment by signing an acknowledgement and consent acceptable to the BUILDER acting reasonably.

The BUILDER 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, and provided always that BUILDER shall remain responsible for the due performance of this CONTRACT by the assignee.

(End of Article)

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**ARTICLE XV : TAXES AND DUTIES**

**1. TAXES**

Unless otherwise expressly provided for in this CONTRACT, all taxes, fees and duties including stamp duties, if any, incurred in or levied by any country except Korea in connection with its performance under this CONTRACT shall be borne by the BUYER except for taxes, fees and duties imposed on those items to be procured by the BUILDER for construction of the VESSEL and all taxes, fees and duties, including stamps duties, if any, incurred and levied by Korea in connection with its performance under this CONTRACT shall be borne by the BUILDER.

**2. DUTIES**

The BUILDER shall hold the BUYER harmless from any payment of duty imposed in Korea upon materials or supplies which, under the terms of this CONTRACT, or amendments thereto, may be supplied by the BUYER from abroad for the construction of the VESSEL.

The BUILDER shall likewise hold the BUYER harmless from any payment of duty imposed in Korea in connection with materials or supplies for operation of the VESSEL, including running stores, provisions and supplies necessary to stock the VESSEL for its operation. This indemnity does not, however, extend to any items purchased by the BUYER for use in connection with the VESSEL which are not absolutely required for the construction or operation of the VESSEL.

(End of Article)

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**ARTICLE XVI : PATENTS, TRADEMARKS AND COPYRIGHTS**

**1. PATENTS, TRADEMARKS AND COPYRIGHTS**

Machinery and equipment of the VESSEL, whether made or furnished by the BUILDER under this CONTRACT, may bear the patent numbers, trademarks, or trade names of the manufacturers. The BUILDER shall defend and save harmless the BUYER from all liabilities or claims for or on account of the use of any patents, copyrights or design of any nature or kind, or for the infringement thereof including any unpatented invention made or used in the performance of this CONTRACT and also for any costs and expenses of litigation, if any in connection therewith. No such liability or responsibility shall be with the BUILDER with regard to components and/or equipment and/or design supplied by the BUYER.

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.

**2. RIGHTS TO THE FULL SPECIFICATIONS, PLANS, ETC.**

The BUILDER retains all rights with respect to the SPECIFICATIONS, 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 shall not disclose the same or divulge any information contained therein to any third parties, including but not limited to any other shipbuilders, without the prior written consent of the BUILDER, excepting where it is necessary for usual operation, repair and maintenance of the VESSEL. In case the BUYER is in breach of its obligation under this Article, the BUILDER shall be entitled to any rights, powers and remedies in this CONTRACT and/or at law, at equity or otherwise to recover any damages caused by the breach of the BUYER.

(End of Article)

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**ARTICLE XVII : INSURANCE**

From the time of launching of the VESSEL until the same is completed, delivered to and accepted by the BUYER, the BUILDER shall, at its own cost and expense, keep the VESSEL and all machinery, materials, equipment, appurtenances and outfit, delivered to the SHIPYARD for the VESSEL or built into, or installed in or upon the VESSEL, including the BUYER'S SUPPLIES, fully insured with first-class Korean insurance companies under coverage corresponding to the Institute of London Underwriters for BUILDER's Risks Clauses.

Such insurance coverage shall, up to the date of delivery of the VESSEL, be the aggregate amount of the instalments paid by the BUYER to the BUILDER plus the value of the BUYER'S SUPPLIES in the custody of the BUILDER.

The BUILDER's obligation to insure the VESSEL hereunder shall cease and terminate forthwith upon delivery thereof and acceptance by the BUYER.

(End of Article)

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**ARTICLE XVIII : INTERPRETATION AND GOVERNING LAW**

This CONTRACT has been prepared in English and shall be executed in duplicate and in such number of additional copies as may be required by either party respectively. 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 with, the laws of England.

(End of Article)

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**ARTICLE XIX : NOTICE**

Any and all notices, requests, demands, instructions, advices and communications in connection with this CONTRACT shall be written in English, sent by registered air mail or facsimile and shall be deemed to be given when first received whether by registered mail or facsimile. They shall be addressed as follows, unless and until otherwise advised : -

To the BUILDER:        Hyundai Heavy Industries Co., Ltd.  
                                 1, Cheonha-Dong, Dong-Ku, Ulsan Korea  
                                 Attn: Project Management Department  
                                 Facsimile: (82) (52) 230-3448, 230-3425

To the BUYER:         Commercial  
                                 Seaspans Corporation  
                                 Unit 2, 7<sup>th</sup> Floor Bupa Center  
                                 141 Connaught Road West, Hong Kong F4 0000 China  
                                 Attn: Gerry Wang  
                                 Facsimile No.: 852-2540-1689

Technical  
                                 Seaspans Ship Management Ltd.  
                                 2600 – 200 Granville Street  
                                 Vancouver, B.C. V6C 1S4 Canada  
                                 Attn: Peter Curtis / Peter Jackson  
                                 Facsimile No.: 1-604-638-2595

The said notices shall become effective upon receipt of the letter or facsimile communication by the receiver thereof. Where a notice by facsimile is concerned which is required to be confirmed by letter, then, unless the CONTRACT or the relevant Article thereof otherwise requires, the notice shall become effective upon receipt of the facsimile.

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 facsimile) 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.

(End of Article)



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**ARTICLE XX : EFFECTIVENESS OF THIS CONTRACT**

This CONTRACT shall become effective upon signing by the parties hereto.

(End of Article)

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**ARTICLE XXI : EXCLUSIVENESS**

This CONTRACT shall constitute the only and entire agreement between the parties hereto, and unless otherwise expressly provided for in this CONTRACT, all other agreements on any subject matter of this CONTRACT, oral or written, made and entered into between the parties prior to the execution of this CONTRACT shall be null and void.

This CONTRACT may be supplemented or amended in writing by the parties and any supplement or amendment, whatsoever form it may be relating to this CONTRACT, to be made and signed among parties hereof concurrently with or after the signing this CONTRACT, shall govern in respect of the corresponding Article or Clause, as the case may be, of this CONTRACT, unless otherwise expressly stipulated in supplement or amendment.

(End of Article)

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IN WITNESS WHEREOF, the parties hereto have caused this CONTRACT to be duly executed on the date and year first above written.

**BUYER**

For and on behalf of  
SEASPAN CORPORATION

By: /s/ GERRY WANG  
Name: GERRY WANG  
Title: CHIEF EXECUTIVE OFFICER  
WITNESS:

**BUILDER**

For and on behalf of  
HYUNDAI HEAVY INDUSTRIES CO., LTD.

By: /s/ D.Y. HAN  
Name: D.Y. HAN  
Title: SENIOR EXECUTIVE V.P.  
WITNESS:

**EXHIBIT "A"**

OUR LETTER OF REFUNDMENT GUARANTEE NO. \_\_\_\_\_

Date : \_\_\_\_\_, 2006

Gentlemen:

We, \_\_\_\_\_ (hereinafter called the "Bank"), hereby issue our irrevocable letter of refundment guarantee number \_\_\_\_\_ (the "Letter") in favour of SEASPAN CORPORATION (hereinafter called the "BUYER"), a company organized and existing under the laws of the Marshall Islands, for account of Hyundai Heavy Industries Co., Ltd., Ulsan, Korea (hereinafter called the "BUILDER") in consideration of the BUYER making advance payments to the BUILDER under the shipbuilding contract dated \_\_\_\_\_, 2006 (hereinafter called the "CONTRACT") made by and between the BUYER and the BUILDER for the design, construction, and sale of one (1) \_\_\_\_\_ having the BUILDER's Hull No. \_\_\_\_ (hereinafter called the "VESSEL").

Whereas in Article X of the CONTRACT, the BUYER is required to make \_\_\_\_ (\_\_) advance payments of the CONTRACT price in the following amounts: First Instalment amounting to \_\_\_\_\_ United States Dollars, Second Instalment amounting to \_\_\_\_\_ United States Dollars, Third Instalment amounting to \_\_\_\_\_ United States Dollars, Fourth Instalment amounting to \_\_\_\_\_ United States Dollars, Fifth Instalment amounting to \_\_\_\_\_ United States Dollars.

If, in connection with or under the terms of the CONTRACT, the BUYER shall become entitled to a refundment of the advance payment(s) made to the BUILDER prior to the delivery of the VESSEL, we hereby irrevocably and unconditionally guarantee as a primary obligor and not as a surety that we shall pay to the BUYER on demand the sum of **[insert first instalment]** United States Dollars (in U.S. Dollars only), together with interest thereon at the rate of \_\_\_\_ percent (\_\_) per annum from the date following the date of receipt by the BUILDER of any advance payment to the date of remittance by telegraphic transfer of such refundment.

The amount of this Letter shall automatically increase upon the BUILDER's receipt of the respective instalment, not more than \_\_\_\_\_ (\_\_\_\_) times, each time by the amount of the respective instalment plus interest thereon as provided in the CONTRACT, but in any eventuality, the amount of this guarantee shall not exceed the total sum of \_\_\_\_\_ United States Dollars (in U.S. Dollars only) plus interest thereon at the rate of \_\_\_\_ percent (\_\_) per annum from the date following the date of the BUILDER's receipt of each instalment to the date of remittance by telegraphic transfer of the refundment. However, in the event of cancellation of the CONTRACT being based on delays due to force majeure or other causes beyond the control of the BUILDER, the interest rate of the refundment shall be reduced to \_\_\_\_ percent (\_\_) per annum as provided in Article X.5 of the CONTRACT.

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The payment by the undersigned under this Letter (subject to the third and fourth paragraph hereof) shall be made upon simple receipt by us of written demand from the BUYER, including a signed statement certifying that the BUYER's demand for refundment has been made in conformity with Article X of the CONTRACT and the BUILDER has failed to make the refundment. Refundments shall be made to the BUYER by telegraphic transfer in freely transferable United States Dollars free of bank charges, remittance fees, taxes, and other applicable withholdings.

It is hereby understood that payment of any interest provided herein is by way of liquidated damages due to cancellation of the CONTRACT and not by way of compensation for use of the money.

Notwithstanding the provisions hereinabove, in the event that within thirty (30) days from the date of the BUYER's claim of refundment to the BUILDER referred to above, we receive notification from the BUYER or the BUILDER that is accompanied by written confirmation of the arbitrator(s) appointed for this purpose stating to the effect that the BUYER's claim to cancel the CONTRACT or the BUYER's claim for refundment thereunder has been disputed and referred to arbitration in accordance with the provisions of the CONTRACT, the period of validity of this guarantee shall be extended until Forty-Five (45) days after the award has been rendered in the arbitration, and we shall under this guarantee, refund to the BUYER the sum adjudged to be due to the BUYER by the BUILDER pursuant to the award made under such arbitration immediately upon receipt from the BUYER of a simple demand for the sums so adjudged accompanied by a copy of the arbitration award.

We hereby agree that this Letter shall be construed as a continuing and unconditional guarantee of payment without regard to the validity or enforceability of any other agreement or instrument and without regard to defence, set-off, or counterclaim or any other circumstance whatsoever which might constitute an equitable or legal discharge of our obligations hereunder. No action or failure to act on the BUYER's part shall relieve us of any of our obligations hereunder.

This Letter shall become null and void upon receipt by the BUYER of the full sum guaranteed hereby or upon acceptance by the BUYER of the delivery of the VESSEL in accordance with the terms of the CONTRACT as evidenced by the Protocol of Delivery and Acceptance duly signed by the BUILDER and the BUYER and, in either case, the BUYER shall return this Letter to us or shall arrange with their bank to confirm to us by SWIFT (our SWIFT address : \_\_\_\_\_) that this Letter is null and void.

This Letter is assignable to the BUYER's financier, whether it is a bank, financial institution, or a commercial corporation, by giving written notice to us.

This Letter is valid from the date of this Letter until such time as the VESSEL is delivered by the BUILDER to and accepted by the BUYER in accordance with the provisions of the CONTRACT. This Letter shall continue to be effective or reinstated, as the case may be, if at any time, payment of any of the payments guaranteed hereunder is rescinded or must otherwise be returned by the BUYER upon the insolvency, bankruptcy, or reorganization of the BUILDER or otherwise, all as though any such payment had not been made.

All demands and notices in connection with this Letter shall be validly given if sent to us by post, fax, or telex to our office as follows:

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Address:

Tel:

Fax:

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This guarantee shall be governed by and construed in accordance with the laws of England, and the undersigned hereby submits to the exclusive jurisdiction of the courts of England.

Very truly yours,

For and on behalf of

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title :

SHIPBUILDING CONTRACT

FOR

THE CONSTRUCTION OF

ONE (1) 5,100 TEU CLASS CONTAINER CARRIER

HULL NO. 1971

BETWEEN

SEASPAN CORPORATION

(AS BUYER)

AND

HYUNDAI HEAVY INDUSTRIES CO., LTD.

(AS BUILDER)

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SCHEDULES

EXHIBIT "A" REFUND GUARANTEE



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**SHIPBUILDING CONTRACT**

THIS CONTRACT, made on this 8<sup>th</sup> day of August, 2006 by and between Seaspan Corporation, a corporation incorporated and existing under the laws of the Marshall Islands with its principal office at Unit 2, 7<sup>th</sup> Floor Bupa Centre, 141 Connaught Road West Hong Kong F4 0000, China (hereinafter called the "BUYER"), the party of the first part and HYUNDAI HEAVY INDUSTRIES CO., LTD., a company organized and existing under the laws of the Republic of Korea, having its principal office at 1, Cheonha-Dong, Dong-Ku, Ulsan, Korea (hereinafter called the "BUILDER"), the party of the second part,

**WITNESSETH:**

In consideration of the mutual covenants contained herein, the BUILDER agrees to design, build, launch, equip and complete one (1) 5,100 TEU Class Container Carrier as described in Article I hereof (hereinafter called the "VESSEL") at the BUILDER's yards in Korea (hereinafter called the "SHIPYARD") and to deliver and sell the VESSEL to the BUYER, and the BUYER agrees to accept delivery of and purchase from the BUILDER the VESSEL, according to the terms and conditions hereinafter set forth :

(End of Preamble)

**ARTICLE I : DESCRIPTION AND CLASS**

**1. DESCRIPTION**

The VESSEL shall be a 5,100 TEU Class Container Carrier having the BUILDER's Hull No. 1971 and shall be designed, constructed, equipped, inspected, tested and ready for sea and suitable in all respects for its intended use for carrying dry cargo containers in accordance with the provisions of this CONTRACT, and the full specifications reference No. CNSS5100-FS-P1 dated July 21, 2006 (hereinafter called the "FULL SPECIFICATIONS"), General Arrangement Drawing reference DWG. No. 1G-7000-201 dated July 21, 2006 (hereinafter called the "PLAN") and Maker's List reference No. CNSS5100-ML-P1 dated July 21, 2006 (hereinafter collectively called the "SPECIFICATIONS") signed by each of the parties for identification and constituting an integral part hereof. The Approved Drawings and the Classification Society Rules as required by the SPECIFICATIONS 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 BUILDER 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 shipbuilding practice at major shipyards in Korea and the warranty provided in Article IX. 1 shall be effective to this standard.

The FULL SPECIFICATIONS and the PLAN are intended to explain each other and anything shown on the PLAN and not stipulated in the FULL SPECIFICATIONS or anything stipulated in the FULL SPECIFICATIONS and not shown on the PLAN shall be deemed and considered as if included in both. Should there be any inconsistencies or contradictions between the FULL SPECIFICATIONS and the PLAN, the FULL SPECIFICATIONS shall prevail. Should there be any inconsistencies or contradictions between this CONTRACT and the SPECIFICATIONS, this CONTRACT shall prevail.

**2. BASIC DIMENSIONS AND PRINCIPAL PARTICULARS OF THE VESSEL**

(a) The basic dimensions and principal particulars of the VESSEL shall be :

Length, overall	max.	294.13 M
Length, between perpendiculars		283.2 M
Breadth, moulded		32.2 M

Depth to Upper Deck, moulded	22.1M
Design draft, moulded, in seawater of specific gravity of 1.025	12 M
Scantling draft, moulded, in seawater of specific gravity of 1.025	13.65 M
Deadweight (guaranteed by the BUILDER) on the above moulded scantling draft of 13.65 M	67,000 M/T
Normal container capacity (TEU's: 8 1/2' high)	
Total	5,087 TEU
- in holds	2,261 TEU
- on deck	2,826 TEU
Container capacity (guaranteed by the BUILDER) under consideration of IMO visibility line at scantling draught with even keel	5,087 TEU
Main propulsion engine	Hyundai-Wartsila 8RTA96C MCR : 45,760 kWx 102 RPM NCR: 41,184 kWx 98.5 RPM
Trial speed(guaranteed by the BUILDER) at 12 meters design draft at the condition of clean bottom and in calm and deep sea with main engine developing a NCR of 41,184 kW with fifteen per cent (15%) sea margin	24.7 KNOTS
Specific Fuel consumption (guaranteed by the BUILDER) of the main engine applying I.S.O. reference conditions to the result of official shop test at a MCR of 45,760 kW using marine diesel oil having lower calorific value of 42,700 kJ per Kg.	171 gr/kW.HR

The details of the above particulars as well as the definitions and method of measurements and calculations are as indicated in the SPECIFICATIONS.

- (b) The dimensions may be slightly modified by the BUILDER, who also reserves the right to make changes to the SPECIFICATIONS if found necessary to suit the local conditions and facilities of the SHIPYARD, the availability of materials and equipment, the introduction of improved production methods or otherwise, all of which are subject to the approval of the BUYER which the BUYER shall not withhold unreasonably.

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**3. CLASSIFICATION, RULES AND REGULATIONS**

- (a) The VESSEL shall be designed, constructed, equipped, inspected, tested and completed in accordance with the rules and regulations (the edition and amendments thereto being in force and effect as of the date of this CONTRACT, together with all mandatory rules and regulations and amendments thereto, which have already been ratified up to the date of this CONTRACT and to come into force prior to the date of keel laying of the VESSEL) of and under survey of Det Norske Veritas (hereinafter called the "CLASSIFICATION SOCIETY") and shall be distinguished in the register by the symbol of +1A1, Container Carrier, NAUTICUS(Newbuilding), E0, NAUT-OC, BIS,TMON, CLEAN, BWM-E(s). Details of Class notation shall be in accordance with the SPECIFICATIONS.

The VESSEL shall comply with rules, regulations, recommendations and requirements of the Authorities in force as of the date of the CONTRACT signing as described and listed in the SPECIFICATIONS, together with all mandatory rules and regulations with amendments, which have already been ratified up to the date of this CONTRACT and to come into effect prior to the date of keel laying of the VESSEL.

- (b) The BUILDER shall arrange with the CLASSIFICATION SOCIETY for the assignment by the CLASSIFICATION SOCIETY representative(s) (the "Classification Surveyor") to the VESSEL during construction. All fees and charges incidental to classification of the VESSEL in compliance with the above specified rules, regulations and requirements of this CONTRACT shall be for the account of the BUILDER.
- (c) The decision of the CLASSIFICATION SOCIETY as to whether the VESSEL complies with the regulations of the CLASSIFICATION SOCIETY shall be final and binding upon the BUILDER and the BUYER, except where this CONTRACT provides for arbitration.

All materials, workmanship and major plans used in the construction of the VESSEL which will comply with the rules and regulations of the CLASSIFICATION SOCIETY shall be subject to inspection and test by the CLASSIFICATION SOCIETY.

Subject to decisions made by the CLASSIFICATION SOCIETY pursuant to Article XIII. 1, no act or omission of the CLASSIFICATION SOCIETY and/or Classification Surveyor shall, in any way, diminish or impair the obligations and liabilities of the BUILDER under the terms of this CONTRACT.

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4. **SUBCONTRACTING**

The BUILDER may, at its sole discretion and responsibility, and upon written notice to the BUYER in case of sub-contracting of material nature, subcontract any portion but not the whole, of the construction work of the VESSEL outside the SHIPYARD, but in any event, major hull structure parts will be assembled by the BUILDER provided, however, that the BUILDER shall remain responsible for the performance of this CONTRACT with regard to any work done or materials supplied or used by such subcontractors in accordance with this CONTRACT. Subcontractors for the items of material nature shall apply same standard as the BUILDER.

5. **NATIONALITY OF THE VESSEL**

The VESSEL shall be registered by the BUYER at its own cost and expense under the laws of Hong Kong with its home port of Hong Kong at the time of its delivery and acceptance hereunder.

(End of Article)

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**ARTICLE II : CONTRACT PRICE**

The contract price of the VESSEL delivered to the BUYER at the SHIPYARD shall be United States Dollars Seventy Seven Million Three Hundred Fifty Thousand (US\$77,350,000) (hereinafter called the "CONTRACT PRICE"). The CONTRACT PRICE is fixed and shall be paid plus any increases or less any decreases due to adjustment or modifications, if any, as set forth in this CONTRACT. The above CONTRACT PRICE shall include payment for services in the inspection, tests, survey and classification of the VESSEL which will be rendered by the CLASSIFICATION SOCIETY and shall not include the cost of the BUYER's SUPPLIES as stipulated in Article XII.

The CONTRACT PRICE also includes 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, outfitings, appurtenances, furniture, materials, parts, spares, articles and things as required by the SPECIFICATIONS and/or otherwise under this CONTRACT for the VESSEL, and all other items and acts necessary for the performance of BUILDER's obligations under or pursuant to this CONTRACT.

(End of Article)

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### **ARTICLE III : ADJUSTMENT OF THE CONTRACT PRICE**

The CONTRACT PRICE of the VESSEL shall be adjusted as hereinafter set forth in the event of the following contingencies. It is hereby understood by both parties that any adjustment of the CONTRACT PRICE as provided for in this Article is by way of liquidated damages and not by way of penalty.

#### **1. DELAYED DELIVERY**

- (a) No adjustment shall be made and the CONTRACT PRICE shall remain unchanged for the first thirty (30) days of the delay in delivery of the VESSEL (ending as of 12 o'clock midnight Korean Standard Time on the thirtieth (30th) day of delay) beyond the Delivery Date calculated as provided in Article VII.1. hereof.
- (b) If delivery of the VESSEL is delayed more than thirty (30) days beyond the date upon which the delivery is due from the BUILDER under the terms of this CONTRACT, then, beginning at midnight of the thirtieth (30th) day after such due date, the CONTRACT PRICE of the VESSEL shall be reduced by U.S. Dollars twenty five thousand (US\$ 25,000) for each full day of delay.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the delay of one hundred and fifty (150) days after thirty (30) days of the delay in delivery of the VESSEL at the rate of deduction as specified hereinabove.

- (c) But, if the delay in delivery of the VESSEL continues for a period of more than one hundred and eighty (180) days beyond the date upon which the delivery is due from the BUILDER under the terms of this CONTRACT then, in such event, and after such period has expired, the BUYER may, at its option, rescind and cancel this CONTRACT by serving upon the BUILDER a notice of cancellation by facsimile to be confirmed by a registered letter via airmail directed to the BUILDER at the address given in this CONTRACT. Such cancellation shall be effective as of the date the notice thereof is received by the BUILDER. If the BUYER has not served the notice of cancellation after the aforementioned one hundred and eighty (180) days delay in delivery, the BUILDER may demand the BUYER to make an election in accordance with Article VIII.3. hereof.

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- (d) For the purpose of this Article, the delivery of the VESSEL shall be deemed to be delayed when and if the VESSEL, after taking into full account extension of the Delivery Date or permissible delays as provided in Article V, VI, VIII, XI or elsewhere in this CONTRACT, is delivered beyond the date upon which delivery would then be due under the terms of this CONTRACT.

**2. INSUFFICIENT SPEED**

- (a) The CONTRACT PRICE of the VESSEL shall not be affected or changed, if the actual speed, as determined by trial runs more fully described in Article VI hereof, is less than the speed required under the terms of this CONTRACT and the SPECIFICATIONS provided such deficiency in actual speed is not more than three-tenths (3/10) of a knot below the guaranteed speed.
- (b) However, as for the deficiency of more than three-tenths (3/10) of a knot in actual speed below the speed guaranteed under this CONTRACT, the CONTRACT PRICE shall be reduced by U.S. Dollars one hundred thousand (U.S.\$ 100,000) for each full one-tenth (1/10) of a knot in excess of the said three-tenths (3/10) of a knot of deficiency in speed (fractions of less than one-tenth (1/10) of a knot shall be regarded as a full one-tenth (1/10) of a knot). However, unless the parties agree otherwise, the total amount of reduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of eight-tenths (8/10) of a knot below the guaranteed speed at the rate of reduction as specified above.
- (c) If the deficiency in actual speed of the VESSEL is more than eight-tenths (8/10) of a knot below the speed guaranteed under this CONTRACT, then the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections as provided in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for eight-tenths (8/10) of a knot of deficiency only.

**3. EXCESSIVE FUEL CONSUMPTION**

- (a) The CONTRACT PRICE shall not be affected or changed by reason of the fuel consumption of the VESSEL's main engine, as determined by the engine manufacturer's shop trial as per the SPECIFICATIONS being more than the guaranteed fuel consumption of the VESSEL's main engine, if such excess is not more than five per cent (5%) over the guaranteed fuel consumption.



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- (b) However, as for the excess of more than five per cent (5%) in the actual fuel consumption over the guaranteed fuel consumption of the VESSEL's main engine, the CONTRACT PRICE shall be reduced by U.S. Dollars one hundred thousand (US\$100,000) for each full one per cent (1%) increase in fuel consumption in excess of the said five per cent (5%) increase in fuel consumption (fractions of less than one per cent (1%) shall be regarded as a full one per cent (1%)). However, unless the parties agree otherwise, the total amount of reduction from the CONTRACT PRICE shall not exceed the amount due to cover the excess of eight per cent (8%) over the guaranteed fuel consumption of the VESSEL's main engine at the rate of reduction as specified above.
  - (c) If such actual fuel consumption exceeds the guaranteed fuel consumption of the VESSEL's main engine by more than eight per cent (8%), the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections as specified in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for the eight per cent (8%) increase only.

**4. DEADWEIGHT BELOW CONTRACT REQUIREMENTS**

- (a) The CONTRACT PRICE of the VESSEL shall not be affected or changed, if actual deadweight, determined as provided in this CONTRACT and the SPECIFICATIONS, is below the deadweight of 67,000 metric tons on the moulded scantling draft of 13.65 metres required by this CONTRACT and the SPECIFICATIONS by an amount of 660 metric tons or less. However, should the deficiency in the actual deadweight of the VESSEL be more than 660 metric tons below the said required deadweight, then the CONTRACT PRICE of the VESSEL shall be reduced for each full one (1) metric ton (fractions of less than one (1) metric ton shall be disregarded) of decreased deadweight in excess of 660 metric tons by the sum of U.S. Dollars nineteen hundred (US\$ 1,900) per metric ton.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of 1,300 metric tons below the said guaranteed deadweight hereinabove.

- (b) If the deficiency in the deadweight of the VESSEL is more than 1,300 metric tons below the said guaranteed deadweight, then the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections without the BUYER's prior

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consent as specified in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for 1,300 metric tons of deficiency only.

**5. INSUFFICIENT CONTAINER CAPACITY**

- (a) The CONTRACT PRICE shall not be affected or changed by reason of deficiency in the number of containers if such deficiency is up to 30 TEU containers below the guaranteed container capacity of 5,087 TED in accordance with IMO visibility requirement at Scantling Draft of 13.65 meters with even keel.
- (b) However, in the event that the deficiency in the guaranteed container capacity, is in excess of 30 TEU containers, then the CONTRACT PRICE shall be reduced by United States Dollars forty thousand (US\$ 40,000) for each TEU container in excess of the first allowable 30 TEU containers of such deficient number of containers.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of 80 TEU containers below the guaranteed container capacity hereinabove.

- (c) If the deficiency in the guaranteed container capacity is 80 TEU containers or more, then the BUYER, at its option, may reject the VESSEL and rescind and cancel this CONTRACT in accordance with the provisions of this Article or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for 80 TEU containers of deficiency only.

**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 paragraphs, there shall be separate reductions in the CONTRACT PRICE in respect of each contingency.

**7. EFFECT OF CANCELLATION**

It is expressly understood and agreed by the parties hereto that in any case, if the BUYER cancels this CONTRACT under this Article, the BUYER shall not be entitled to any liquidated damages.

(End of Article)

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**ARTICLE IV : INSPECTION AND APPROVAL**

**1. APPOINTMENT OF BUYER'S REPRESENTATIVE**

The BUYER shall timely despatch to and maintain at the SHIPYARD, at its own cost, expense and risk, one or more representatives (hereinafter called the "BUYER'S REPRESENTATIVE"), who shall be duly accredited in writing by the BUYER to supervise adequately the construction by the BUILDER of the VESSEL, her equipment and all accessories. Before the commencement of any item of work under this CONTRACT, the BUILDER shall, whenever reasonably required, previously exhibit, furnish to, and within the limits of the BUYER'S REPRESENTATIVE's authority, secure the approval from the BUYER'S REPRESENTATIVE of any and all plans and drawings prepared in connection therewith. Upon appointment of the BUYER'S REPRESENTATIVE, the BUYER shall notify the BUILDER in writing of the name and the scope of the authority of the BUYER'S REPRESENTATIVE.

**2. AUTHORITY OF THE BUYER'S REPRESENTATIVE**

Such BUYER'S REPRESENTATIVE shall, at all times, subject to any safety requirements, during the construction until delivery of the VESSEL, have the right to inspect the VESSEL, her equipment and all accessories, and work in progress, or materials utilized in connection with the construction of the VESSEL, wherever such work is being done or such materials are stored, for the purpose of determining that the VESSEL, her equipment and accessories are being constructed in accordance with the terms of this CONTRACT and/or the SPECIFICATIONS.

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 BUYER'S 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.

The BUILDER will endeavor to arrange for the inspection by the BUYER'S REPRESENTATIVE during working hours of the BUILDER. However, such inspection may be arranged beyond the BUILDER's normal working hours, including weekend and/or holiday if this is considered necessary by the BUILDER in order to meet the BUILDER's construction schedule, on the condition that the BUILDER will inform the BUYER'S REPRESENTATIVE at least two (2) days in advance of such inspection.

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The construction of the VESSEL shall be subjected, throughout the entire period of construction, to quality control by a quality control department of the BUILDER. 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 as far as practicable, or in the absence of documentation, orally, to the BUYER'S REPRESENTATIVE.

The BUYER'S REPRESENTATIVE may attend during construction of the VESSEL, tests and inspection of the VESSEL, its machinery and equipment. The BUILDER shall make reasonable efforts to give the BUYER'S REPRESENTATIVE an advance notice for tests and inspections within the SHIPYARD stating particulars of any tests or inspections which may be attended by the BUYER'S REPRESENTATIVE 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 BUYER'S REPRESENTATIVE latest up to 5:00 p.m. of the day prior to the day on which any tests or inspections shall occur except for the painting inspection.

For test or inspections outside the SHIPYARD, including manufacturer's shop tests, sufficient advance notice to allow for the BUYER'S REPRESENTATIVE to arrange transportation shall be given. This advance notice should not be less than two (2) days except for tests or inspections within Korea that require air travel for attendance in which case advance notice should not be less than four (4) days. And the inspection outside Korea requires seven (7) days advance notice, or twenty one (21) days advance notice if an entry VISA is required for the BUYER'S REPRESENTATIVE.

Inspection schedule must be reasonable in order to allow the BUYER'S REPRESENTATIVE to carry out their duties properly.

The BUYER'S REPRESENTATIVE shall, within the limits of the authority conferred upon him by the BUYER, make decisions or give advice to the BUILDER on behalf of the BUYER promptly on all problems arising out of, or in connection with, the construction of the VESSEL and generally act in a reasonable manner with a view to cooperating to the utmost with the BUILDER in the construction process of the VESSEL.

The decision, approval or advice of the BUYER'S REPRESENTATIVE shall be deemed to have been given by the BUYER. No act or omission of the BUYER'S REPRESENTATIVE or his assistants shall, in any way, diminish the liability of the BUILDER under Article IX

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(WARRANTY OF QUALITY). The BUYER'S REPRESENTATIVE shall notify the BUILDER promptly in writing of his discovery of any construction or materials, which he believes do not or will not conform to the requirements of the CONTRACT and the SPECIFICATIONS and likewise advise and consult with the BUILDER on all matters pertaining to the construction of the VESSEL, as may be required by the BUILDER, or as he may deem necessary.

However, if the BUYER'S REPRESENTATIVE fails to submit to the BUILDER without delay any such demand concerning alterations or changes with respect to the construction, arrangement or outfit of the VESSEL, which the BUYER'S REPRESENTATIVE has examined, inspected or attended at the test thereof under this CONTRACT or the SPECIFICATIONS, the BUYER'S REPRESENTATIVE shall be deemed to have approved the same and shall be precluded from making any demand for alterations, changes, or complaints with respect thereto at a later date.

The BUILDER shall comply with any such demand which is not contradictory to this CONTRACT and the SPECIFICATIONS, provided that any and all such demands by the BUYER'S REPRESENTATIVE with regard to construction, arrangement and outfit of the VESSEL shall be submitted in writing to the authorised representative of the BUILDER. The BUILDER shall notify the BUYER'S REPRESENTATIVE of the names of the persons who are from time to time authorised by the BUILDER for this purpose.

It is agreed upon between the BUYER and the BUILDER that the modifications, alterations or changes and other measures necessary to comply with such demand may be effected at a convenient time and place at the BUILDER's reasonable discretion in view of the construction schedule of the VESSEL.

In the event that the BUYER'S REPRESENTATIVE shall advise the BUILDER that he has discovered or believes the construction or materials do not or will not conform to the requirements of this CONTRACT and the SPECIFICATIONS, and the BUILDER shall not agree with the views of the BUYER'S REPRESENTATIVE in such respect, either the BUYER or the BUILDER may, with the agreement of the other party, seek an opinion of the CLASSIFICATION SOCIETY or failing such agreement, request an arbitration in accordance with the provisions of Article XIII hereof. The CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, shall determine whether or not a nonconformity with the provisions of this CONTRACT or the SPECIFICATIONS exists. If the CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, enters a determination in favour of the BUYER, then in such case the BUILDER shall make the

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necessary alterations or changes, or if such alterations or changes cannot be made in time to meet the construction schedule for the VESSEL, the BUILDER shall make fair and reasonable adjustment of the CONTRACT PRICE in lieu of such alterations and changes. If the CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, enters a determination in favour of the BUILDER, 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 BUILDER for the proven loss and damages incurred by the BUILDER as a result of the dispute herein referred to.

**3. APPROVAL OF DRAWINGS**

- (a) The BUILDER shall submit to the BUYER three (3) copies of each of the plans and drawings to be submitted to the BUYER for its approval at its address as set forth in Article XIX hereof. The BUYER shall, within twenty one (21) days after receipt thereof return to the BUILDER one (1) copy of such plans and drawings with the approval or comments, if any, of the BUYER. A list of the plans and drawings to be so submitted to the BUYER shall be mutually agreed upon between the parties hereto.
- (b) When and if the BUYER'S REPRESENTATIVE shall have been sent by the BUYER to the SHIPYARD in accordance with Paragraph 1 of this Article, the BUILDER may submit the remainder, if any, of the plans and drawings in the agreed list, to the BUYER'S REPRESENTATIVE for his approval, unless otherwise agreed upon between the parties hereto.
- The BUYER'S REPRESENTATIVE shall, within fourteen (14) days after receipt thereof, return to the BUILDER one (1) copy of such plans and drawings with his approval or comments written thereon, if any. Approval by the BUYER'S REPRESENTATIVE of the plans and drawings duly submitted to him shall be deemed to be the approval by the BUYER for all purposes of this CONTRACT.
- (c) In the event that the BUYER or the BUYER'S REPRESENTATIVE shall fail to return the plans and drawings to the BUILDER within the time limit as hereinabove provided, such plans and drawings shall be deemed to have been automatically approved without any comment. In the event the plans and drawings submitted by the BUILDER to the BUYER or the BUYER'S REPRESENTATIVE in accordance with this Article do not meet with the BUYER's or the BUYER'S REPRESENTATIVE's approval, the matter may be submitted by either party hereto for determination pursuant to Article

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XIII hereof. If the BUYER's comments on the plans and drawings that are returned to the BUILDER by the BUYER within the said time limit are not clearly specified or detailed, the BUILDER shall be entitled to place its own interpretation on such comments in implementing them.

The BUILDER agrees that the BUYER is permitted to make an arrangement with the CLASSIFICATION SOCIETY for receiving copies of any technical correspondence regarding the construction of the VESSEL.

**4. SALARIES AND EXPENSES**

All salaries and expenses of the BUYER'S REPRESENTATIVE or any other person or persons employed by the BUYER hereunder shall be for the BUYER's account.

**5. RESPONSIBILITY OF THE BUILDER**

- (a) The BUILDER shall, at no cost to the BUYER, furnish suitably lighted, and air conditioned office space, for a team of not less than six (6) BUYER'S REPRESENTATIVES all along, including changing room, toilet and shower space, office furniture, drawing table and filing cabinets. Separate telephone lines and facsimile receiver to be provided in BUYER'S REPRESENTATIVE office and communication service shall be paid by the BUYER at normal rate of charges of Korean telecommunication company. However, the changing room, toilet and shower space shall be supplied as public facilities.

During the last forty five (45) days of the period of construction of the VESSEL, office space shall be provided to accommodate the VESSEL's senior officers as far as practicable in the BUYER'S REPRESENTATIVE's office space.

With an ample prior notice by the BUYER, the BUILDER shall arrange for the BUYER'S REPRESENTATIVE suitable and convenient living quarters as near as possible to the SHIPYARD and shall provide for the purpose thereof apartments/houses fully furnished and equipped in Western style with minimum two (2) bedrooms and one (1) living room for each BUYER'S REPRESENTATIVE, all at the BUYER's expenses.

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The BUILDER, its employees, agents and subcontractors, during its working hours until delivery of the VESSEL, shall arrange for the BUYER'S REPRESENTATIVE to have free and ready access to the VESSEL, her equipment and accessories, and to any other place (except the areas controlled for the purpose of national security) where work is being done, or materials are being processed or stored in connection with the construction of the VESSEL including the premises of sub-contractors.

The BUYER'S REPRESENTATIVE or his assistants or employees shall observe the work rules, regulations and the guidances prevailing at the BUILDER's and its sub-contractor's premises. The BUILDER shall promptly provide to the BUYER'S REPRESENTATIVE and/or his assistants, and shall ensure that its sub-contractors shall promptly provide, all such information as he or they may reasonably request in connection with the construction of the VESSEL and her engines, equipment and machinery.

- (b) The BUYER'S REPRESENTATIVE and his assistants shall at all times remain the employees of the BUYER. The BUILDER shall not be liable to the BUYER or the BUYER'S REPRESENTATIVE or to his assistants or to the BUYER's employees or agents for personal injuries, including death, during the time they, or any of them, are on the VESSEL, or within the premises of either the BUILDER or its sub-contractors, or are otherwise engaged in and about the construction of the VESSEL, unless, however, such personal injuries, including death, are caused by the negligence or willful misconduct of the BUILDER, its sub-contractors, or its or their employees or agents. The BUILDER shall not be liable to the BUYER for damages to, or destruction of property of the BUYER or of the BUYER'S REPRESENTATIVE or his assistants or the BUYER's employees or agents, unless such damages, loss or destruction is caused by the negligence or willful misconduct of the BUILDER, its sub-contractors, or its or their employees or agents.

**6. RESPONSIBILITY OF THE BUYER**

The BUYER shall undertake and assure that the BUYER'S REPRESENTATIVE and his assistants shall carry out their duties hereunder in accordance with the normal shipbuilding practice and in such a way as to avoid any unnecessary increase in building cost, delay in the construction of the VESSEL, and/or any disturbance in the construction schedule of the BUILDER.

The BUILDER has the right to request the BUYER to replace any of the BUYER'S



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REPRESENTATIVE and/or his assistants who are deemed unsuitable and unsatisfactory for the proper progress of the VESSEL's construction. The BUYER shall investigate the situation by sending its representative(s) to the SHIPYARD and if the BUYER considers that such BUILDER's request is justified, the BUYER shall effect the replacement as soon as conveniently arrangeable.

(End of Article)

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**ARTICLE V : MODIFICATIONS, CHANGES AND EXTRAS**

**1. HOW EFFECTED**

Modifications or changes to the SPECIFICATIONS under which the VESSEL is to be constructed may be made at any time hereafter by written agreement of the parties hereto. Any modification or change requested by the BUYER which does not affect the SPECIFICATIONS to a fundamental extent shall be agreed to by the BUILDER if the BUYER agrees to adjustment of the CONTRACT PRICE, deadweight and/or cubic capacity, speed requirements, the Delivery Date and other terms and conditions of this CONTRACT reasonably required as a result of such modification or change. The BUILDER has the right to continue construction of the VESSEL on the basis of the SPECIFICATIONS until the BUYER has agreed to such adjustments. The BUILDER shall be entitled to refuse to make any alteration, change or modification to the SPECIFICATIONS requested by the BUYER if the BUYER does not agree to the aforesaid adjustments within fourteen (14) days of the BUILDER's notification of the same to the BUYER or if, in the BUILDER's judgement, the compliance with such request of the BUYER would cause an unreasonable disruption of the normal working schedule of the SHIPYARD.

The BUILDER, however, agrees to exert its reasonable efforts to accommodate such reasonable request by the BUYER so that the said change and modification shall be made at a reasonable cost and within the shortest period of time reasonably possible. The aforementioned agreement to modify and change the SPECIFICATIONS may be effected by exchange of letters or facsimiles manifesting the agreement.

The letters and facsimiles exchanged by the parties pursuant to the foregoing shall constitute an amendment to this CONTRACT and the SPECIFICATIONS under which the VESSEL shall be built. Upon consummation of such an agreement to modify and change the SPECIFICATIONS, the BUILDER shall alter the construction of the VESSEL in accordance therewith including any addition to, or deduction from, the work to be performed in connection with such construction.

**2. SUBSTITUTION OF MATERIAL**

If any materials, machinery or equipment required for the construction of the VESSEL by

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the SPECIFICATIONS or otherwise under this CONTRACT cannot be procured in time to meet the BUILDER's construction schedule for the VESSEL, or are in short supply, or are unreasonably high in price compared with the prevailing international market price for similar products, the BUILDER may supply, subject to the BUYER's prior approval, other materials, machinery or equipment of equal quality and effect capable of meeting the requirements of the CLASSIFICATION SOCIETY and the rules, regulations and requirements with which the construction of the VESSEL must comply.

**3. CHANGES IN RULES AND REGULATIONS**

If the specified rules and regulations with which the construction of the VESSEL is required to comply are altered or changed by the CLASSIFICATION SOCIETY or bodies authorised to make such alterations or changes, either the BUYER or the BUILDER, upon receipt of due notice thereof, shall forthwith give notice thereof to the other party in writing. Thereupon, within ten (10) days, or such longer period as is commercially reasonable in the circumstances by the agreement of the parties acting reasonably after receiving the notice on the adjustment due to such alterations or changes from the BUILDER, the BUYER shall advise the BUILDER of its decision as to the alterations and changes to be made on the VESSEL. The BUILDER shall not be obliged to comply with such alterations and/or changes if the BUYER fails to notify the BUILDER of its decision within the time limit stated above.

The BUILDER shall comply promptly with the said request of the BUYER, provided that the BUILDER and the BUYER shall first agree to reasonable adjustment on:

- (a) any increase or decrease in the CONTRACT PRICE of the VESSEL that is occasioned by such compliance;
- (b) any extension or advancement in the Delivery Date of the VESSEL that is occasioned by such compliance;
- (c) any increase or decrease in the deadweight and/or cubic capacity of the VESSEL, if such compliance results in any increase or reduction in the deadweight and/or cubic capacity;
- (d) the speed requirements if such compliance results in any increase or reduction in the speed; and

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(e) any other alterations in the terms of this CONTRACT or of the SPECIFICATIONS or both, if such compliance makes such alterations of the terms necessary.

Any delay in the construction of the VESSEL caused by the BUYER's delay in making a decision or agreement as above shall constitute a permissible delay under this CONTRACT. Such agreement by the BUYER shall be effected in the same manner as provided above for modification and change of the SPECIFICATIONS.

(End of Article)

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## **ARTICLE VI : TRIALS AND COMPLETION**

### **1. NOTICE**

The BUILDER shall notify the BUYER in writing or by facsimile at least twenty one (21) days in advance of the time and place of the trial run of the VESSEL. Such notice shall specify the place from which the VESSEL will commence her trial run and approximate date upon which the trial run is expected to take place. Such date shall be further confirmed by the BUILDER six (6) days in advance of the trial run in writing or by facsimile.

The BUYER's REPRESENTATIVE, who is to witness the performance of the VESSEL during such trial run, shall be present at such place on the date specified in such notice. Should the BUYER'S REPRESENTATIVE fail to be present after the BUILDER's due notice to the BUYER as provided above, the BUILDER shall be entitled to conduct such trial run with the presence of the representative(s) of the CLASSIFICATION SOCIETY only without the BUYER'S REPRESENTATIVE being present. In such case, the BUYER shall be obliged to accept the VESSEL on the basis of a certificate issued by the BUILDER and the CLASSIFICATION SOCIETY that the VESSEL, after the trial run, subject to alterations and corrections, if necessary, has been found to conform with the SPECIFICATIONS and this CONTRACT and is satisfactory in all respects, provided the BUILDER first makes such corrections and alterations promptly.

### **2. WEATHER CONDITION**

In the event of unfavourable weather on the date specified for the trial run, the trial run shall take place on the first available day that weather conditions permit. The parties hereto recognise that the weather conditions in Korean waters, in which the trial run is to take place, are such that great changes in weather may arise momentarily and without warning and therefore, it is agreed that if, during the trial run, the weather should become so unfavourable that the trial run cannot be continued, then the trial run shall be discontinued and postponed until the first favourable day next following, unless the BUYER shall assent to the acceptance of the VESSEL by notification in writing on the basis of such trial run so far made prior to such change in weather conditions. Any delay of the trial run caused by such unfavourable weather conditions shall also operate to extend the Delivery Date of the VESSEL for the period of delay occasioned by such unfavourable weather conditions.

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**3. HOW CONDUCTED**

All expenses in connection with the trials of the VESSEL are to be for the account of the BUILDER, which, during the trials, is to provide at its own expense the necessary crew to comply with conditions of safe navigation. The trials shall be conducted in the manner prescribed in this CONTRACT and the SPECIFICATIONS, and shall prove fulfilment of the performance requirements for the trials as set forth in the SPECIFICATIONS.

The BUILDER, at its cost and expense, shall be entitled to conduct preliminary sea trials, during which the propulsion plant and/or its appurtenance shall be adjusted according to the BUILDER's judgement. The BUILDER may repeat any trial whatsoever as it deems reasonably necessary.

**4. CONSUMABLE STORES**

The BUILDER shall load the VESSEL with the required quantity of fuel oil, lubricating oil and greases, fresh water, and other stores necessary to conduct the trials as set forth in the FULL SPECIFICATIONS. The necessary ballast (fuel oil, fresh water and such other ballast as may be required) to bring the VESSEL to the trial load draft, as specified in the FULL SPECIFICATIONS, shall be supplied and paid for by the BUILDER whilst lubricating oil and greases shall be supplied and paid for by the BUYER within the time advised by the BUILDER for the conduct of sea trials as well as for use before the delivery of the VESSEL to the BUYER. The fuel oil as well as lubricating oil and greases shall be in accordance with the specifications of the main engine and other machinery and the BUYER shall decide and advise the BUILDER of the supplier's name for lubricating oil and greases before the work-commencement of the VESSEL, provided that the supplier shall be acceptable to the BUILDER and/or the makers of all the machinery.

Any fuel oil, fresh water or other consumable stores furnished and paid for by the BUILDER for trial runs remaining on board the VESSEL, at the time of acceptance of the VESSEL by the BUYER, shall be bought by the BUYER from the BUILDER at the BUILDER's purchase price for such supply in Korea and payment by the BUYER thereof shall be made at the time of delivery of the VESSEL. The BUILDER shall pay the BUYER at the time of delivery of the VESSEL for the consumed quantity of any lubricating oil and greases which were furnished and paid for by the BUYER at the BUYER's purchase price thereof. The consumed quantity of lubricating oils and greases shall be calculated on the basis of the difference between the remaining amount, including the same remaining in the main engine, other machinery and their pipes, stern tube and the like, and the supplied amount.

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**5. ACCEPTANCE OR REJECTION**

- (a) If, during any sea trial, any breakdown occurs entailing interruption or irregular performance which can be repaired on board, the trial shall be continued after such repairs and be valid in all respects.
- (b) However, if, during or after the trial run, it becomes apparent that the VESSEL or any part of her equipment requires alterations or corrections which but for this provision would or might entitle the BUYER to cancel this CONTRACT, the BUILDER shall notify the BUYER promptly in writing or by facsimile to such effect and shall simultaneously advise the BUYER of the estimated additional time required for the necessary alterations or corrections to be made.
- (c) Upon completion of the trial run, the BUILDER shall give the BUYER a notice by facsimile or in writing of completion of the trial run and provide the BUYER with all records of tests and trials as soon as available, as and if the BUILDER considers that the results of the trial run prove conformity of the VESSEL to this CONTRACT and SPECIFICATIONS.

The BUYER shall, within three (3) working days after receipt of aforementioned records of tests and trials from the BUILDER, notify the BUILDER in writing or by facsimile confirmed in writing of its acceptance or rejection of the VESSEL's conformity to this CONTRACT and the SPECIFICATIONS.

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 BUILDER agrees with the BUYER's notice of non-conformity, then the BUILDER shall promptly take the necessary steps to correct such non-conformity and notify the BUYER promptly in writing or by facsimile advising the BUYER of the estimated additional time required for the necessary alterations to correct material 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 BUILDER, the CLASSIFICATION

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SOCIETY and the BUYER's REPRESENTATIVE. The BUILDER shall notify the BUYER of the time and place of any new trial run no less than three (3) working days beforehand, unless otherwise mutually agreed to. All provisions of the trial run shall apply to such new trial run.

- (d) However, the BUYER shall not be entitled to reject the VESSEL by reason of any minor or insubstantial items judged from the point of view of standard shipbuilding and shipping practice as not being in conformity with the SPECIFICATIONS. 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 BUILDER'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.

**6. EFFECT OF ACCEPTANCE**

The BUYER's written or facsimiled notification of acceptance delivered to the BUILDER as above provided, shall be final and binding insofar as conformity of the VESSEL with the SPECIFICATIONS is concerned and shall preclude the BUYER from refusing formal delivery of the VESSEL as hereinafter provided, if the BUILDER complies with all conditions of delivery, as herein set forth and provided that, in the case of qualified acceptance, any matters which were mentioned in the notice of the qualified acceptance by the BUYER as requiring correction have been corrected to the satisfaction of the BUYER.

If the BUYER fails to notify the BUILDER of its acceptance or rejection of the VESSEL as hereinabove provided, the BUYER shall be deemed to have accepted the VESSEL. Nothing contained in this Article shall preclude the BUILDER from exercising any and all rights which the BUILDER has under this CONTRACT if the BUILDER disagrees with the BUYER's rejection of the VESSEL or any reasons given for such rejection, including arbitration provided in Article XIII hereof. Any dispute between the BUILDER 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 XIII hereof.

(End of Article)



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**ARTICLE VII : DELIVERY**

**1. TIME AND PLACE**

The VESSEL, duly completed in accordance with this CONTRACT, shall be delivered by the BUILDER to the BUYER at the SHIPYARD, safely afloat on or before August 5, 2009 (hereinafter called the "DELIVERY DATE") after completion of satisfactory tests, trials and acceptance by the BUYER in accordance with the terms of Article VI, except that, in the event of delays in delivery of the VESSEL by the BUILDER due to causes which under the terms of this CONTRACT permit extensions of the time for delivery of the VESSEL, the aforementioned DELIVERY DATE shall be extended accordingly.

An earlier DELIVERY DATE more than twenty-one (21) days is subject to the BUYER's prior written consent.

**2. WHEN AND HOW EFFECTED**

Provided that the BUYER shall with delivery of the VESSEL release to the BUILDER the sixth instalment as set forth in Article X.2. hereof and the BUYER and the BUILDER shall have fulfilled all of their obligations provided for in this CONTRACT, delivery of the VESSEL shall be forthwith effected upon acceptance thereof by the BUYER, by the concurrent delivery by each of the parties hereto to the other of a PROTOCOL OF DELIVERY AND ACCEPTANCE acknowledging delivery of the VESSEL by the BUILDER and acceptance thereof by the BUYER, which PROTOCOL shall be prepared in duplicate and signed by each of the parties hereto.

**3. DOCUMENTS TO BE DELIVERED TO THE BUYER**

Concurrently with delivery and acceptance of the VESSEL, the BUILDER shall deliver to the BUYER the following duly authenticated documents in English, which shall accompany the aforementioned PROTOCOL OF DELIVERY AND ACCEPTANCE :

- (a) PROTOCOL OF TRIALS of the VESSEL made pursuant to this CONTRACT and the SPECIFICATIONS,

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- (b) PROTOCOL OF INVENTORY of the equipment of the VESSEL, including spare parts, all as specified in the SPECIFICATIONS,
  - (c) PROTOCOL OF STORES OF CONSUMABLE NATURE, such as all fuel oil and freshwater remaining in tanks and items listed in Article VI.4 if its cost is charged to the BUYER under Article VI.4 hereof,
  - (d) DRAWINGS AND PLANS pertaining to the VESSEL as stipulated in the FULL SPECIFICATIONS, which shall be furnished to the BUYER at no additional cost, and DRAWINGS AND PLANS in triplicate pertaining to the VESSEL, including List of Finished Plans and As Built Specs and the trim and stability booklet, technical descriptions, test results and other data, information and documents in the possession of the BUILDER concerning the design and construction of the VESSEL which shall be forwarded to the BUYER at no additional cost as stipulated in the SPECIFICATIONS.
  - (e) ALL CERTIFICATES required to be furnished upon delivery of the VESSEL pursuant to this CONTRACT, the SPECIFICATIONS and the customary shipbuilding practice, including
    - (i) Classification Certificate
    - (ii) Safety Construction Certificate
    - (iii) Safety Equipment Certificate
    - (iv) Safety Radio Certificate
    - (v) International Loadline Certificate
    - (vi) International Tonnage Certificate
    - (vii) BUILDER's Certificate
    - (viii) De-ratting Exemption Certificate

However, it is agreed by the parties that if the Classification Certificate 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 BUILDER shall furnish the BUYER with formal certificates as promptly as possible after such formal certificates have been issued but in any event before the expiry of the provisional certificates.

All certificates to be delivered to the BUYER hereunder shall be valid in every respect, unless the recommendation or notation has been approved by the BUYER, in its sole discretion, in writing, in which case the BUILDER shall remain responsible for as promptly as possible removing such recommendation or notation.

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- (f) DECLARATION OF WARRANTY of the BUILDER that the VESSEL is delivered to the BUYER free and clear of any liens, 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 Korean Governmental authorities, or by the prefecture or country of the port of delivery, as well as of all liabilities of the BUILDER to its sub-contractors, suppliers, employees and crews, and of all liabilities arising from the operation of the VESSEL in trial runs, or otherwise, prior to delivery except as otherwise provided under this CONTRACT.

In case the BUILDER fails to deliver the VESSEL free and clear of all liens, charges, mortgages and encumbrances on the date the BUILDER offers or tenders the VESSEL for delivery, the BUYER is not obliged to take delivery of the VESSEL. If the BUYER accepts delivery of the VESSEL with such liens, charges, mortgages and encumbrances, the BUYER shall be entitled to any rights, powers, and remedies in this CONTRACT and/or law, at equity or otherwise to recover any damages caused by such liens, charges, mortgages and encumbrances.

- (g) COMMERCIAL INVOICE

- (h) BILL OF SALE

If required by the BUYER, the BUILDER shall arrange for the notarization and legalization in Korea by a consulate of the VESSEL's country of registration of any of the listed documents/certificates which may be required to be notarized/legalized for the purposes of the BUYER's registration.

**4. TENDER OF THE VESSEL**

If the BUYER fails to take delivery of the VESSEL, after completion thereof, according to this CONTRACT and the SPECIFICATIONS, the BUILDER shall have the right to tender delivery of the VESSEL after compliance with its obligations as provided above.

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**5. TITLE AND RISK**

Title and risk of loss of the VESSEL shall pass to the BUYER upon delivery of the VESSEL and acceptance by the BUYER being effected as stated above and the BUILDER shall be free of all responsibility or liability whatsoever related with this CONTRACT except for the warranty of quality contained in Article IX, the obligation to correct and/or remedy, as provided in Article VI.5.(d) or Article VII. 3.(e), if any, and the obligations in Article XVI(which survive for the period of the relevant patent), it being expressly understood that, until such delivery and acceptance is effected, the VESSEL and equipment thereof are at the entire risk of the BUILDER including but not confined to, risks of war, insurrection and seizure by Governments or Authorities, whether Korean or foreign, and whether at war or at peace. The title to the BUYER'S SUPPLIES as provided in Article XII shall remain with the BUYER and the BUILDER's responsibility for such BUYER'S SUPPLIES shall be as described in Article XII.2.

**6. REMOVAL OF THE VESSEL**

The BUYER shall take possession of the VESSEL immediately upon delivery thereof and shall remove the VESSEL from the SHIPYARD within three (3) days after delivery thereof is effected. Port dues and other charges levied by the Korean Government Authorities after delivery of the VESSEL and any other costs related to the removal of the VESSEL shall be borne by the BUYER.

**7. NOTICES**

Prior to the delivery of the VESSEL, the BUILDER shall give notice to the BUYER with the following schedule:

90 DAYS PRIOR TO DELIVERY - 30 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)

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**ARTICLE VIII : DELAYS AND EXTENSIONS OF TIME (INCLUDING FORCE MAJEURE)**

**1. CAUSES OF DELAY**

If, at any time after signing this CONTRACT, either the construction or delivery of the VESSEL or any performance required hereunder as a prerequisite to the delivery thereof is delayed by any of the following events; namely war, acts of state or government, blockade, revolution, insurrections, mobilization, civil commotion, riots, strikes, sabotage, lockouts, Acts of God or the public enemy, plague or other epidemics, quarantines, shortage or prolonged failure of electric current, freight embargoes, or defects in major forgings or castings which could not have been detected by the BUILDER using reasonable care, or delays or defects in the BUYER'S SUPPLIES as stipulated in Article XII, if any, or shortage of materials, machinery or equipment or inability to obtain delivery or delays in delivery of materials, machinery or equipment, provided that at the time of ordering the same could reasonably be expected by the BUILDER to be delivered in time, or defects in materials, machinery or equipment which could not have been detected by the BUILDER using reasonable care or earthquakes, tidal waves, typhoons, hurricanes, prolonged or unusually severe weather conditions or destruction of the premises or works of the BUILDER or its sub-contractors, or of the VESSEL, or any part thereof, by fire, landslides, flood, lightning, explosion, or delays in the BUILDER's other commitments resulting from any such causes as described in this Article which in turn delay the construction of the VESSEL or the BUILDER's performance under the CONTRACT, or delays caused by the CLASSIFICATION SOCIETY or the BUYER's faulty action or omission, or other causes beyond the reasonable control of the BUILDER, or its sub-contractors, as the case may be, provided all the foregoing events were not existing and known to the BUILDER 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 BUILDER 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 BUILDER in respect of labor relations or his relevant sub-contractors, as the case may be; and provided further that any of the above events directly affect the construction schedule of the VESSEL, then, in the event of delays due to the happening of any of the aforementioned contingencies, the DELIVERY DATE of the VESSEL under this CONTRACT shall be extended for a period of time which shall not exceed the total accumulated time of all such delays.

Upon occurrence of the foregoing events, the BUILDER shall take immediate steps to overcome and mitigate the delay and to recover lost time, if any.

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**2. NOTICE OF DELAYS**

As soon as practicably possible after commencement of any delay, and in any event within fourteen (14) days, on account of which the BUILDER claims that it is entitled under this CONTRACT to an extension of the DELIVERY DATE of the VESSEL, excluding delays due to arbitration, the BUILDER shall advise the BUYER in writing or by facsimile of the date such delay commenced, the reasons thereof and, if possible, its estimated duration of the probable delay in the delivery of the VESSEL, and shall supply the BUYER if reasonably available with evidence to justify the delay claimed. Within one (1) week after such delay ends, the BUILDER shall likewise advise the BUYER in writing or by facsimile of the date that such delay ended, and also, shall specify the period of time by which the BUILDER claims the DELIVERY DATE should be extended by reason of such delay.

Failure of the BUILDER to notify the BUYER of its claim for extension of the DELIVERY DATE within the applicable time shall result in a waiver of the BUILDER's claim. Failure of the BUYER to object to the BUILDER's notification of any claim for extension of the date for delivery of the VESSEL within fourteen (14) days after receipt by the BUYER of such notification shall be deemed to be a waiver by the BUYER of its right to object to such extension.

**3. RIGHT TO CANCEL FOR EXCESSIVE DELAY**

If the total accumulated time of all permissible and non-permissible delays, excluding delays due to (i) arbitration under Article XIII, (ii) the BUYER's defaults under Article XI, (iii) modifications and changes under Article V or (iv) delays or defects in the BUYER'S SUPPLIES as stipulated in Article XII, aggregates two hundred and ten (210) days or more, then, the BUYER may, at any time thereafter, cancel this CONTRACT by giving a written notice of cancellation to the BUILDER. Such cancellation shall be effective as of the date the notice thereof is received by the BUILDER.

If the BUYER has not served the notice of cancellation as provided in the above or Article III.1. hereof, the BUILDER may, at any time after expiration of the accumulated time of the delay in delivery, either two hundred and ten (210) days in case of the delay in this Paragraph or one hundred and eighty (180) days in case of the delay in Article III.1, notify the BUYER of the future date upon which the BUILDER estimates the VESSEL will be ready for delivery and demand in writing or by facsimile that the BUYER make an election either to cancel this CONTRACT or to consent to the delivery of the VESSEL at such

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future date, in which case the BUYER shall, within fourteen (14) days after receipt of such demand, make and notify the BUILDER of such election. If the BUYER elects to consent to the delivery of the VESSEL at such future date (or other future date as the parties may agree):

- (a) Such future date shall become the contractual delivery date for the purposes of this CONTRACT and shall be subject to extension by reason of permissible delays as herein provided, and
- (b) If the VESSEL is not delivered by such revised contractual delivery date (as extended by reason of permissible delays), the BUYER shall have the same right of cancellation upon the same terms as provided in the above and Article III. 1.

If the BUYER shall not make an election within fourteen (14) days as provided hereinabove, the BUYER shall be deemed to have accepted such extension of the DELIVERY DATE to the future delivery date indicated by the BUILDER.

**4. DEFINITION OF PERMISSIBLE DELAYS**

Delays on account of the foregoing Paragraph 1 of this Article and any other Paragraph of this CONTRACT which expressly permits an extension of the DELIVERY DATE shall be understood to be permissible delays, and are to be distinguished from non-permissible unauthorised delays on account of which the CONTRACT PRICE of the VESSEL is subject to adjustment as provided in Article III hereof.

(End of Article)

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**ARTICLE IX : WARRANTY OF QUALITY**

**1. GUARANTEE OF MATERIAL AND WORKMANSHIP**

- (a) The BUILDER, for the period of twelve (12) months from the date of delivery of the VESSEL to the BUYER (the "Guarantee Period"), guarantees the VESSEL in her entirety and all parts and equipment thereof, including but without prejudice to the generality of the foregoing, the VESSEL's design and all materials and parts manufactured, installed, furnished and/or incorporated by the BUILDER under this CONTRACT against all defects which are due to omissions, non-conformities, defective materials or equipment, faulty design and/or performance, construction miscalculations, and/or poor workmanship (collectively, the "Defects").

The BUILDER will be responsible for all machinery or parts of machinery and all constructions which are supplied by sub-contractors and will guarantee the above mentioned for the Guarantee Period on the basis as laid down in this Article.

- (b) The BUILDER shall pass to the BUYER information about any claims that the BUILDER may have against subcontractors for Defect(s) in deliveries to the VESSEL, without in anyway diminishing the BUILDER's guarantee as aforesaid.
- (c) If the normal guarantee period stipulated by manufacturers or suppliers of any components of machinery, materials, equipment, appurtenances or outfit furnished to the BUILDER and embodied in the VESSEL exceeds the Guarantee Period, the benefits of such extended guarantee rights shall be made available to the BUYER by the BUILDER without any additional cost to the BUYER.

**2. NOTICE OF DEFECTS**

The BUYER or its duly authorized representative will notify the BUILDER in writing or by facsimile promptly after discovery of any Defects for which a claim is to be made under this guarantee.

The BUYER's written notice shall include full particulars as to the nature of the Defects and the extent of the damage caused thereby, but excluding consequential damage as hereinafter provided. The BUILDER will be under no obligation with respect to this



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guarantee in respect of any claim for Defects discovered prior to the expiry date of the guarantee, unless notice of such Defects is received by the BUILDER before the expiry date. However, facsimiled advice received by the BUILDER within seven (7) days after such expiry date that a claim is forthcoming will be sufficient compliance with the requirement as to time, provided that such facsimiled advice shall include at least a brief description of the Defects, including the identity of the equipment, extent of damage, name and number of any replacement part and description of any remedial work required, and that full particulars as practicable as possible are given to the BUILDER not later than twenty one (21) days after the expiry date.

**3. REMEDY OF DEFECTS**

- (a) The BUILDER shall remedy, at its expense, any Defects against which the VESSEL is guaranteed under this Article, by making all necessary repairs or replacements at the SHIPYARD or elsewhere as provided for in subparagraph (b) below. If the cause of the Defect(s) is not known or if the Defect(s) is of a recurring nature, the BUILDER shall, at its expense, explore the reasons for such Defect(s) and take all necessary steps and measures to remedy the same in such a way as to eliminate the reoccurrence thereof.

In the event of any Defect(s) guaranteed under this Article, the VESSEL shall be taken at the BUYER's cost and responsibility to the place selected, ready in all respects for such repairs or replacements and in any event, the BUILDER shall not be responsible for towage, dockage, wharfage, port charges and anything else incurred by the BUYER in getting and keeping the VESSEL ready for such repair or replacement.

The BUILDER and the BUYER agree that Defects to underwater parts of the VESSEL 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, however, the BUILDER shall not be liable for any worsening of the Defects after the expiry date of the Guarantee Period, unless mutually agreed by the parties.

- (b) However, if it is impractical (which shall include, but not be limited to, an emergency) to bring the VESSEL to the SHIPYARD, the BUYER may cause the necessary repairs or replacements to be made elsewhere which is deemed by the BUYER with the consent of the BUILDER, which shall not be unreasonably withheld, to be suitable for the purpose, provided that, in such event, the BUILDER may forward or supply replacement parts or materials under the terms described in subparagraph (c) below, unless the

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forwarding or supplying thereof under the terms described in subparagraph (c) below would impair or delay the operation or working schedule of the VESSEL. In the event the BUYER proposes to cause the necessary repairs or replacements to be made to the VESSEL at any shipyard or works other than the SHIPYARD, the BUYER shall first (but in all events as soon as reasonably possible) give the BUILDER notice in writing or by facsimile of the time and place such repairs will be made, and if the VESSEL is not thereby delayed, or her operation or working schedule is not thereby impaired, the BUILDER shall have the right, at its own cost and expense, to verify by its own representative(s) the nature and extent of the Defect(s) complained of.

The BUILDER shall, in such case, promptly advise the BUYER by facsimile, after such examination has been completed, of its acceptance or rejection of the Defect(s) as one(s) covered by the guarantee herein provided. Upon the BUILDER's acceptance of the Defect(s) as justifying remedy under this Article, or upon award of an arbitration so determining, the BUILDER shall compensate the BUYER an amount equal to the reasonable cost of making the same repairs or replacements at major ship repair facilities in Singapore.

- (c) In the event that it is necessary for the BUILDER to forward a replacement for a defective part under this guarantee, replacement parts shall be shipped to the BUYER, and the BUILDER shall bear and pay all C.I.F. costs of the replacement(s) until they arrive on board the VESSEL.
- (d) The BUILDER reserves the option to retrieve, at the BUILDER's cost, any of the replaced equipment/parts in the event Defects are remedied in accordance with the provisions in this Article.
- (e) Any dispute under this Article shall be referred to arbitration in accordance with the provisions of Article XIII hereof.

**4. EXTENT OF THE BUILDER'S LIABILITY**

- (a) After delivery of the VESSEL the responsibility of the BUILDER in respect of and/or in connection with the VESSEL and/or this CONTRACT shall be limited to the extent expressly provided in this Article. Except as expressly provided in this Article, in no circumstances and on no ground whatsoever shall the BUILDER have any responsibility or liability whatsoever or howsoever arising in respect of or in

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connection with the VESSEL or this CONTRACT after the delivery of the VESSEL. Further, but without in any way limiting the generality of the foregoing, the BUILDER shall have no liability or responsibility whatsoever or howsoever arising for or in connection with any consequential or special losses, damages or expenses (including but not limited to loss of time, loss of profit or earnings or demurrage directly or indirectly caused) in relation to or in connection with this CONTRACT or the VESSEL.

- (b) The BUILDER shall be under no obligation with respect to Defects in respect of which the BUILDER has not received notice in accordance with Paragraph 2 of this Article by the expiry of the Guarantee Period.
- (c) The BUILDER shall under no circumstances be liable for Defects in the VESSEL or any part of equipment thereof caused by normal wear and tear, overloading, improper loading or stowage by the BUYER, fire unrelated to Defects, accidents at sea or elsewhere, or by incompetence, mismanagement, negligence or wilful neglect by the BUYER or any alteration or addition to the VESSEL on the part of the BUYER, its employees or agents or any other person on or doing work on the VESSEL, including the VESSEL's officers, crew and passengers, unless approved by the BUILDER. Likewise, the BUILDER shall not be liable for Defects due to repairs carried out by any person other than the BUILDER or which have not been carried out in accordance with the procedure set out in Paragraph 3 (b) of this Article, unless approved by the BUILDER.
- (d) The BUILDER shall not be obliged to repair and shall not be liable for damage to the VESSEL or any part of the equipment thereof which, after delivery of the VESSEL, is caused other than by Defects of the nature specified in this Article. The guarantees contained as hereinabove in this Article replace and exclude any other liability, guarantee, warranty and/or condition imposed or implied by statute, common law, custom, contract (including this CONTRACT) or otherwise on the part of the BUILDER by reason of the construction and sale of the VESSEL for and to the BUYER or for any other reason whatsoever.

**5. EXTENSIONS TO THE GUARANTEE PERIOD**

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 is 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 results from any Defect(s) covered by the BUILDER's guarantee under this Article, then the Guarantee Period shall be extended by such period(s) of time lost in remedying theDefect(s) for which the BUILDER is responsible according to this CONTRACT or in awaiting part(s) required for the purpose of remedying such Defect(s), however, in any event, the total guarantee period shall not extend to twenty-four (24) months from the DELIVERY DATE of the VESSEL;

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- (b) The Guarantee Period shall further, in relation to any qualified acceptance of the BUYER pursuant to Article VI and where the BUYER has agreed that the matters which are the subject of the qualified acceptance may be remedied after delivery, be extended up to the expiration of twelve (12) calendar months following the time when the matters which were mentioned in the notice of the qualified acceptance are made good by the BUILDER after the delivery of the VESSEL to the BUYER as herein provided.

(End of Article)

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**ARTICLE X : PAYMENT**

**1. CURRENCY**

All payments under this CONTRACT shall be made in United States Dollars.

**2. TERMS OF PAYMENT**

The payments of the CONTRACT PRICE shall be made as follows :

(a) First Instalment

Twenty per cent (20%) of the CONTRACT PRICE amounting to U.S. Dollars Fifteen Million Four Hundred Seventy Thousand (US\$15,470,000) shall be paid within three (3) business days after the date hereof.

Under this CONTRACT, in counting the business days, only Saturdays and Sundays are excepted. When a due date falls on a day when banks are not open for business in New York, N.Y., U.S.A. and London, England, such due date shall fall due upon the first business day next following.

(b) Second Instalment

Five per cent (5%) of the CONTRACT PRICE amounting to U.S. Dollars Three Million Eight Hundred Sixty Seven Thousand Five Hundred (US\$3,867,500) shall be paid within twelve (12) months from the date of signing this CONTRACT.

(c) Third Instalment

Five per cent (5%) of the CONTRACT PRICE amounting to U.S. Dollars Three Million Eight Hundred Sixty Seven Thousand Five Hundred (US\$3,867,500) shall be paid within eighteen (18) months from the date of signing this CONTRACT.

(d) Fourth Instalment

Ten per cent (10%) of the CONTRACT PRICE amounting to U.S. Dollars Seven Million

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Seven Hundred Thirty Five Thousand (US\$7,735,000) shall be paid within three (3) business days of receipt by the BUYER of a facsimiled advice from the BUILDER that steel cutting has commenced.

(e) Fifth Instalment

Ten per cent (10%) of the CONTRACT PRICE amounting to U.S.Dollars Seven Million Seven Hundred Thirty Five Thousand (US\$7,735,000) shall be paid within three (3) business days of receipt by the BUYER of a facsimiled advice from the BUILDER that the first block of the keel has been laid.

(f) Sixth Instalment

Fifty per cent (50%) of the CONTRACT PRICE amounting to U.S. Dollars Thirty Eight Million Six Hundred Seventy Five Thousand (US\$38,675,000) plus or minus any increase or decrease due to modifications and/or adjustment, if any, arising prior to delivery of the VESSEL of the CONTRACT PRICE under Articles III and V of this CONTRACT shall be paid to the BUILDER with the delivery of the VESSEL. (The date stipulated for payment of each of the six instalments mentioned above is hereinafter in this Article and in Article XI referred to as the "DUE DATE" of that instalment).

It is understood and agreed upon by the BUILDER and the BUYER that all payments under the provisions of this Article shall not be delayed or withheld by the BUYER due to any dispute or disagreement of whatever nature arising between the BUILDER and the BUYER. Should there be any dispute in this connection, the matter shall be dealt with in accordance with the provisions of arbitration in Article XIII hereof. Expenses for remitting payments and any other expenses connected with such payments shall be for the account of the BUYER.

**3. DEMAND FOR PAYMENT**

At least fourteen (14) days prior to the date of each event provided in Paragraph 2 of this Article on which any payment shall fall due hereunder, with the exception of the payment of the first and second instalments, the BUILDER shall notify the BUYER by facsimile of the date such payment shall become due.

The BUYER shall immediately acknowledge receipt of such notification by facsimile to the BUILDER, and make payment as set forth in this Article. If the BUILDER fails to receive

the BUYER's said acknowledgement within three (3) days after sending the aforementioned notification, the BUILDER shall promptly facsimile to the BUYER a second notification of similar import. The BUYER shall immediately acknowledge by facsimile receipt of the foregoing second notification regardless of whether or not the first notification was acknowledged as aforesaid.

**4. METHOD OF PAYMENT**

(a) All the pre-delivery payments and the payment due on delivery in settlement of the CONTRACT PRICE as provided for in Paragraph 2 of this Article shall be made in U.S. Dollars on or before the DUE DATE thereof by telegraphic transfer as follows;

(i) The payment of the first, second, third, fourth and fifth instalments shall be made to the account (Account No.: 04-009-010) of Korea Exchange Bank, Seoul, Korea (hereinafter called the "KEB") with Deutsche Bank Trust Company Americas, 60 Wall Street Mail Stop NYC 60-1310, New York, N.Y. 10005, U.S.A (hereinafter called the "DBTC") for further credit to the account (Account No.: 117-JCD-700002) of Hyundai Heavy Industries Co., Ltd. with KEB or the account of the BUILDER with any other bank in favour of the BUILDER, as designated and notified by the BUILDER at least three (3) business days prior to the DUE DATE.

(ii) Payment of the Sixth Instalment

The BUYER shall, at least three (3) business days prior to the actual date of delivery of the VESSEL, request the BUYER's bank to make an irrevocable deposit in an account in the name of the BUYER's bank with KEB or any other bank designated by the BUILDER and acceptable to the BUYER's bank for a period of fifteen (15) days and covering the amount of the sixth instalment (as adjusted in accordance with the provisions of this CONTRACT), with an irrevocable instruction that the said amount shall be released to the BUILDER against presentation by the BUILDER to KEB or such other bank of a copy of the Protocol of Delivery and Acceptance signed by the BUYER's authorized representative and the BUILDER. Interest, if any, accrued from such deposit shall be for the benefit of the BUYER.

If the BUILDER has not presented the said original of the Protocol of Delivery and Acceptance duly signed by the BUILDER and the BUYER to the KEB or such other bank on or before the expiry of the aforesaid fifteen (15) day

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deposit period, then 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 to between the BUYER and the BUILDER, then the BUYER shall make the cash deposit in accordance with the same terms and conditions as set out above.

- (b) Simultaneously with each of such payments, the BUYER shall advise the BUILDER of the details of the payments by facsimile and at the same time, the BUYER shall cause the BUYER's remitting Bank to advise the KEB or any other bank of the details of such payments by authenticated bank cable or telex.

**5. REFUND BY THE BUILDER**

The payments made by the BUYER to the BUILDER prior to delivery of the VESSEL shall constitute advances to the BUILDER. If the VESSEL is rejected by the BUYER in accordance with the terms of this CONTRACT, or except in the case of rescission or cancellation of this CONTRACT by the BUILDER under the provisions of Article XI hereof, if the BUYER terminates, cancels or rescinds this CONTRACT pursuant to any of the provisions of this CONTRACT specifically permitting the BUYER to do so, the BUILDER shall forthwith refund to the BUYER, in U.S. Dollars, the full amount of all sums paid by the BUYER to the BUILDER in advance of delivery on account of the VESSEL together with interest thereon as herein provided.

The transfer and other bank charges of such refund shall be for the BUILDER's account. The interest rate of the refund, as above provided, shall be seven per cent (7%) per annum from the date following the date of receipt by the BUILDER of the pre-delivery instalment(s) to the date of remittance by telegraphic transfer of such refund, provided, however, that if and to the extent the cancellation of this CONTRACT by the BUYER is based upon delays due to a force majeure event or other causes beyond the control of the BUILDER as provided for in Article VII hereof, then in such event, the interest rate of refund shall be reduced for the relevant force majeure period to six per cent (6%) per annum.

It is hereby understood by both parties that payment of any interest provided herein is by way of liquidated damages due to cancellation of this CONTRACT and not by way of compensation for use of money.



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If, pursuant to this CONTRACT, the BUILDER is required to refund to the BUYER the instalments paid by the BUYER to the BUILDER as provided in this Paragraph, the BUILDER shall return to the BUYER all of the BUYER'S SUPPLIES as stipulated in Article XII which were not incorporated into the VESSEL and pay to the BUYER an amount equal to the cost to the BUYER of those supplies incorporated into the VESSEL.

Any and all refunds or payments due to the BUYER under this CONTRACT shall be effected by telegraphic transfer to the account specified by the BUYER free of bank charge, remittance fees, taxes and other applicable withholdings incurred and levied in Korea.

**6. TOTAL LOSS**

If there is a total loss or a constructive total loss of the VESSEL prior to delivery thereof, the BUILDER shall proceed according to the mutual agreement of the parties hereto either:

- (a) to build another vessel in place of the VESSEL so lost and deliver it under this CONTRACT to the BUYER, provided that the parties hereto shall have agreed in writing to a reasonable cost and time for the construction of such vessel in place of the lost VESSEL; or
- (b) to refund to the BUYER the full amount of the total sums paid by the BUYER to the BUILDER under the provisions of Paragraph 2 of this Article together with interest thereon at the rate of seven per cent (7%) per annum from the date following the date of receipt by the BUILDER of such pre-delivery instalment(s) to the date of payment by the BUILDER to the BUYER of the refund.

If the parties hereto fail to reach such agreement within two (2) months after the VESSEL is determined to be a total loss or constructive total loss, the provisions of (b) hereinabove shall be applied.

**7. DISCHARGE OF OBLIGATIONS**

Upon refund by the BUILDER to the BUYER as provided in the foregoing Paragraphs 5 and 6 all of the obligations, duties and liabilities of each of the parties hereto to the other shall be discharged.

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**8. REFUND GUARANTEE**

The BUILDER shall send a copy of the Refund Guarantee by facsimile before payment of the 1<sup>st</sup> installment by the BUYER, and deliver to the BUYER by hard copy, or by SWIFT through the BUYER's bank, acceptable to the BUILDER, an assignable letter of guarantee issued by Calyon, Seoul Branch for the refund of the pre-delivery instalments plus interest as aforesaid to the BUYER under or pursuant to Paragraph 5 above in the form annexed hereto as Exhibit "A". All expenses in issuing and maintaining the letter of guarantee described in this Paragraph shall be borne by the BUILDER. In case of SWIFT, the BUYER shall advise the BUILDER of the details of the BUYER's bank including the SWIFT address upon execution of this CONTRACT.

(End of Article)

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**ARTICLE XI : BUYER'S DEFAULT/ BUILDER'S DEFAULT**

**1. BUYER'S DEFAULT**

**(a) DEFINITION OF THE BUYER'S DEFAULT**

The BUYER shall be deemed to be in default under this CONTRACT in the following cases :

- (i) If the first, second, third, fourth or fifth instalment is not paid to the BUILDER within respective DUE DATE of such instalments as required by Article X; or
- (ii) If the sixth instalment is not deposited in accordance with Article X.4.(a)(ii) hereof or if the said sixth instalment deposit is not released to the BUILDER against presentation by the BUILDER of a duplicate original copy of the PROTOCOL OF DELIVERY AND ACCEPTANCE; or
- (iii) If the BUYER fails to take delivery of the VESSEL when the VESSEL is duly tendered for delivery by the BUILDER under the provisions of Article VII hereof; or
- (iv) If an order or an effective resolution shall be passed for winding up of the BUYER (except for the purpose of reorganization, merger or amalgamation).

**(b) EFFECT OF THE BUYER'S DEFAULT ON OR BEFORE THE DELIVERY OF THE VESSEL**

If the BUYER shall be in default as provided in Paragraph 1.(a) above of its obligations under this CONTRACT, then;

- (i) The DELIVERY DATE of the VESSEL shall be extended automatically for the actual period of such default and the BUILDER shall not be obliged to pay any liquidated damages for the delay in delivery of the VESSEL caused thereby.
- (ii) The BUYER shall pay to the BUILDER interest at the rate of seven per cent (7%) per annum in respect of the instalment(s) in default from the respective DUE DATE to the date of actual receipt by the BUILDER of the full amount of such instalment(s).

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- (iii) If the BUYER is in default in payment of any of the instalment(s) due and payable prior to or simultaneously with the delivery of the VESSEL, the BUILDER shall, in writing or by facsimile, notify the BUYER to that effect, and the BUYER shall, upon receipt of such notification, forthwith acknowledge in writing or by facsimile to the BUILDER that such notification has been received.
  - (iv) If any of the BUYER's default continues for a period of ten (10) days after the BUILDER's notification to the BUYER of such default, the BUILDER may, at its option, rescind this CONTRACT by serving upon the BUYER a written notice or a facsimile notice of rescission confirmed in writing.
  - (v) In the event of such cancellation by the BUILDER of this CONTRACT due to the BUYER's default as provided for in Paragraph 1.(a) above, the BUILDER shall be entitled to retain and apply the instalments already paid by the BUYER to the recovery of the BUILDER's loss and damage including, but not being limited to, reasonable estimated profit due to the BUYER's default and the cancellation of this CONTRACT and at the same time the BUILDER shall have the full right and power either to complete or not to complete the VESSEL which is the sole property of the BUILDER as it deems fit, and to sell the VESSEL at a public or private sale on such terms and conditions as the BUILDER thinks fit acting reasonably. The BUILDER will invite the BUYER to participate in any public tender at least fourteen (14) days in advance.

The proceeds received by the BUILDER from any sale shall be applied in addition to the instalment(s) retained by the BUILDER as mentioned hereinabove as follows : -

- First, in payment of all reasonable costs and expenses of the sale of the VESSEL, including interest thereon at seven per cent (7%) per annum from the respective date of payment of such costs and expenses aforesaid to the date of sale on account of the BUYER's default.
- Second, if the VESSEL has been completed, in or towards satisfaction of the unpaid balance of the CONTRACT PRICE, to which shall be added the cost of all additional work and extras agreed by the BUYER including interest thereon at seven per cent (7%) per annum from the respective DUE DATE of the instalment in default to the date of sale, or if the VESSEL has not been completed, in or towards satisfaction of the unpaid amount of the cost incurred by the BUILDER prior to the date of sale on account of construction of the VESSEL, including work, labour, materials and reasonably estimated profit

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which the BUILDER would have been entitled to receive if the VESSEL had been completed and delivered plus interest thereon at seven per cent (7%) per annum from the respective DUE DATE of the instalment in default to the date of sale.

Third, the balance of the proceeds of sale, if any, shall belong to the BUYER, and shall forthwith be paid over to the BUYER by the BUILDER. In the event of the proceeds from the sale together with instalment(s) retained by the BUILDER being insufficient to pay the BUILDER the total amount required as above, the BUYER shall be liable for the deficiency and shall pay the same to the BUILDER upon its demand.

**2. BUILDER'S DEFAULT**

**(a) DEFINITION OF THE BUILDER'S DEFAULT**

The BUYER may declare the BUILDER in default and rescind this CONTRACT, all as stipulated in this CONTRACT and the SPECIFICATIONS, in any of the following cases:

- (i) the court declares bankruptcy proceedings against the BUILDER under the Bankruptcy Act of Korea; or
- (ii) there are insolvency proceedings which prevent the BUILDER from building and completing the VESSEL.

**(b) EFFECT OF THE BUILDER'S DEFAULT**

If the BUILDER shall be in default as provided for in Paragraph 2.(a) of this Article hereinabove, the BUYER shall, in writing or by facsimile, notify the BUILDER to that effect, and may, at its option, rescind this CONTRACT in accordance with the provisions of this Article.

The BUYER shall, in writing or by facsimile, notify the BUILDER to that effect, and the BUILDER shall, upon receipt of such notification, forthwith acknowledge in writing or by facsimile to the BUYER that such notification has been received.

If any of the BUILDER's default continues for a period of ten (10) days after the BUYER's

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notification to the BUILDER of such default, the BUYER may, at its option, rescind this CONTRACT by serving upon the BUILDER a written notice or a facsimile notice of rescission confirmed in writing.

(c) **NOTICE OF THE BUILDER'S DEFAULT**

In the event the BUYER exercises 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 BUILDER in writing or by fax confirmed in writing, and such rescission shall be effective as of the date notice thereof is received by the BUILDER.

(d) **REFUNDMENT BY THE BUILDER**

In the event the BUILDER receives the notice stipulated in Paragraph 2.(c) of this Article, the BUILDER shall promptly refund to the BUYER the full amount of all sums paid by the BUYER to the BUILDER in accordance with Article X.

(e) **DISCHARGE OF OBLIGATIONS**

Upon such refund by the BUILDER to the BUYER, and upon compliance with the provisions of Paragraph 2.(d) of this Article, 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)

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**ARTICLE XII : BUYER'S SUPPLIES**

**1. RESPONSIBILITY OF THE BUYER**

The BUYER shall, at its cost and expense, supply all the BUYER'S SUPPLIES as specified in Paragraph 0.15 of the FULL SPECIFICATIONS (hereinafter called the "BUYER'S SUPPLIES"), to the BUILDER at the SHIPYARD in proper condition ready for installation and in accordance with the time schedule to be furnished to the BUYER by the BUILDER to meet the building schedule of the VESSEL.

In order to facilitate the installation of the BUYER'S SUPPLIES by the BUILDER, the BUYER shall furnish the BUILDER with the necessary plans, instruction books, test report and all test certificates required by the BUILDER and shall cause the representative(s) of the makers of the BUYER'S SUPPLIES to give the BUILDER any advice, instructions or assistance which the BUILDER may reasonably require in the installation or adjustment thereof at the SHIPYARD, all without cost or expense to the BUILDER.

The BUYER shall be liable for any expense incurred by the BUILDER for repair of the BUYER'S SUPPLIES due to defective design or materials, poor workmanship or performance or due to damage in transit and the DELIVERY DATE of the VESSEL shall be extended for the period of such repair if such repair shall affect the delivery of the VESSEL.

Commissioning into good order of the BUYER'S SUPPLIES during and after installation on board shall be made at the BUYER's expense by the representative of respective maker or the person designated by the BUYER in accordance with the BUILDER's building schedule.

Should the BUYER fail to deliver to the BUILDER the BUYER'S SUPPLIES and the necessary document or advice for such supplies within the time specified by the BUILDER, the DELIVERY DATE of the VESSEL shall automatically be extended for the period of such delay if such delay in delivery shall affect the delivery of the VESSEL. In such event, the BUYER shall pay to the BUILDER all losses and damages sustained by the BUILDER due to such delay in the delivery of the BUYER'S SUPPLIES and such payment shall be made upon delivery of the VESSEL, provided, however, that the BUILDER shall have :

- (a) furnished the BUYER with the time schedule referred to above, two (2) months prior to installation of the BUYER'S SUPPLIES and

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(b) given the BUYER written notice of any delay in delivery of the BUYER'S SUPPLIES and the necessary document or advice for such supplies as soon as the delay occurs which might give rise to a claim by the BUILDER under this Paragraph.

Furthermore, if the delay in delivery of the BUYER'S SUPPLIES and the necessary document or advice for such supplies should exceed twenty (20) days from the date specified by the BUILDER, the BUILDER shall be entitled to proceed with construction of the VESSEL without installation of such items (regardless of their nature or importance to the BUYER or the VESSEL) in or on the VESSEL without prejudice to the BUILDER's right hereinabove provided, and the BUYER shall accept the VESSEL so completed.

**2. RESPONSIBILITY OF THE BUILDER**

The BUILDER shall be responsible for storing, safekeeping and handling the BUYER'S SUPPLIES which the BUILDER is required to install on board the VESSEL under Paragraph 0.15 of the FULL SPECIFICATIONS after delivery of such supplies to the SHIPYARD, and shall install such supplies on board the VESSEL at the BUILDER's expense unless otherwise specified in the SPECIFICATIONS.

However, the BUILDER shall not be responsible for the quality, performance or efficiency of any equipment included in the BUYER'S SUPPLIES and is under no obligation with respect to the guarantee of such equipment against any defects caused by poor quality, performance or efficiency of the BUYER'S SUPPLIES but the BUILDER shall be liable under Article IX for any defect(s) in respect of installation of the BUYER'S SUPPLIES to the VESSEL. If any of the BUYER'S SUPPLIES is lost or damaged while in the custody of the BUILDER, the BUILDER shall, if the loss or damage is due to wilful default or negligence on its part, be responsible for such loss or damage.

(End of Article)



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**ARTICLE XIII : 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.

In the event that the parties hereto do not agree to settle a dispute according to the provision hereinabove, the following clauses shall apply.

**2. APPOINTMENT OF THE ARBITRATOR**

If any dispute or difference shall arise between the parties hereto concerning any matter or thing herein contained, or the operation or construction thereof, or any matter or thing in any way connected with this CONTRACT or the rights, duties or liabilities of either party under or in connection with this CONTRACT, then, in every such case, the dispute or difference shall be referred to arbitration in London, England by a sole arbitrator. The arbitrator shall be appointed by agreement within fourteen (14) days of the first written notification of either party to the other of its intention to arbitrate such dispute or difference, or in default of such agreement, upon the application of either of the parties, by the President for the time being of the London Maritime Arbitrators Association ("LMAA") who shall in making any such appointment have due regard to the nature of the dispute and the requirement for an expeditious resolution of the dispute and, in particular, the availability of any arbitrator so appointed for an early hearing date.

**3. LAWS APPLICABLE**

Any arbitration arising hereunder shall be submitted in accordance with and subject to the Arbitration Act 1996 of England or any statutory amendments or re-enactments thereof for

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the time being in force and shall be conducted in accordance with the LMAA terms current at the time when arbitration proceedings are commenced (except as expressly provided herein). The award of the arbitrator shall be final and binding upon parties hereto.

**4. PROCEEDINGS**

In the event of any dispute or difference being referred to arbitration, the parties hereby acknowledge that time is of the essence in obtaining an award from the arbitrator on such dispute or difference and the parties hereby agree that the arbitration shall be conducted according to the following timetable:

- (a) The claimant in the arbitration to serve points of claim within twenty one (21) days of the appointment of the arbitrator.
- (b) The respondent in the arbitration to serve points of defence and points of counterclaim, if any, within twenty one (21) days thereafter.
- (c) The claimant to serve points of reply and defence to counterclaim, if any, within fourteen (14) days thereafter and the hearing of the arbitration to commence within twelve (12) weeks of the appointment of the arbitrator.

**5. ALTERATION OF DELIVERY OF THE VESSEL**

In the event of the arbitration of any dispute or difference the award by the arbitrator shall include a finding as to whether or not the contractual delivery date of the VESSEL should, as a result of such dispute, be in any way altered thereby.

**6. NOTICE OF AWARD**

The award shall immediately be given to the BUYER and the BUILDER in writing or by facsimile confirmed in writing.

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7. **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.

8. **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.

(End of Article)

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**ARTICLE XIV : SUCCESSORS AND ASSIGNS**

The BUILDER agrees that, prior to delivery of the VESSEL, this CONTRACT may, with the prior written approval of the BUILDER, which the BUILDER shall not unreasonably withhold, be transferred by the BUYER to and the title thereof may 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 the rights and obligations of the BUYER under this CONTRACT. 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 due to 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 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 BUILDER a notice of assignment in form and content acceptable to the BUILDER acting reasonably. The BUILDER shall, at the BUYER's request, acknowledge and consent to such assignment by signing an acknowledgement and consent acceptable to the BUILDER acting reasonably.

The BUILDER 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, and provided always that BUILDER shall remain responsible for the due performance of this CONTRACT by the assignee.

(End of Article)

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**ARTICLE XV : TAXES AND DUTIES**

**1. TAXES**

Unless otherwise expressly provided for in this CONTRACT, all taxes, fees and duties including stamp duties, if any, incurred in or levied by any country except Korea in connection with its performance under this CONTRACT shall be borne by the BUYER except for taxes, fees and duties imposed on those items to be procured by the BUILDER for construction of the VESSEL and all taxes, fees and duties, including stamps duties, if any, incurred and levied by Korea in connection with its performance under this CONTRACT shall be borne by the BUILDER.

**2. DUTIES**

The BUILDER shall hold the BUYER harmless from any payment of duty imposed in Korea upon materials or supplies which, under the terms of this CONTRACT, or amendments thereto, may be supplied by the BUYER from abroad for the construction of the VESSEL.

The BUILDER shall likewise hold the BUYER harmless from any payment of duty imposed in Korea in connection with materials or supplies for operation of the VESSEL, including running stores, provisions and supplies necessary to stock the VESSEL for its operation. This indemnity does not, however, extend to any items purchased by the BUYER for use in connection with the VESSEL which are not absolutely required for the construction or operation of the VESSEL.

(End of Article)

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**ARTICLE XVI : PATENTS, TRADEMARKS AND COPYRIGHTS**

**1. PATENTS, TRADEMARKS AND COPYRIGHTS**

Machinery and equipment of the VESSEL, whether made or furnished by the BUILDER under this CONTRACT, may bear the patent numbers, trademarks, or trade names of the manufacturers. The BUILDER shall defend and save harmless the BUYER from all liabilities or claims for or on account of the use of any patents, copyrights or design of any nature or kind, or for the infringement thereof including any unpatented invention made or used in the performance of this CONTRACT and also for any costs and expenses of litigation, if any in connection therewith. No such liability or responsibility shall be with the BUILDER with regard to components and/or equipment and/or design supplied by the BUYER.

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.

**2. RIGHTS TO THE FULL SPECIFICATIONS, PLANS, ETC.**

The BUILDER retains all rights with respect to the SPECIFICATIONS, 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 shall not disclose the same or divulge any information contained therein to any third parties, including but not limited to any other shipbuilders, without the prior written consent of the BUILDER, excepting where it is necessary for usual operation, repair and maintenance of the VESSEL. In case the BUYER is in breach of its obligation under this Article, the BUILDER shall be entitled to any rights, powers and remedies in this CONTRACT and/or at law, at equity or otherwise to recover any damages caused by the breach of the BUYER.

(End of Article)

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**ARTICLE XVII : INSURANCE**

From the time of launching of the VESSEL until the same is completed, delivered to and accepted by the BUYER, the BUILDER shall, at its own cost and expense, keep the VESSEL and all machinery, materials, equipment, appurtenances and outfit, delivered to the SHIPYARD for the VESSEL or built into, or installed in or upon the VESSEL, including the BUYER'S SUPPLIES, fully insured with first-class Korean insurance companies under coverage corresponding to the Institute of London Underwriters for BUILDER's Risks Clauses.

Such insurance coverage shall, up to the date of delivery of the VESSEL, be the aggregate amount of the instalments paid by the BUYER to the BUILDER plus the value of the BUYER'S SUPPLIES in the custody of the BUILDER.

The BUILDER's obligation to insure the VESSEL hereunder shall cease and terminate forthwith upon delivery thereof and acceptance by the BUYER.

(End of Article)

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**ARTICLE XVIII : INTERPRETATION AND GOVERNING LAW**

This CONTRACT has been prepared in English and shall be executed in duplicate and in such number of additional copies as may be required by either party respectively. 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 with, the laws of England.

(End of Article)

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**ARTICLE XIX : NOTICE**

Any and all notices, requests, demands, instructions, advices and communications in connection with this CONTRACT shall be written in English, sent by registered air mail or facsimile and shall be deemed to be given when first received whether by registered mail or facsimile. They shall be addressed as follows, unless and until otherwise advised : -

To the BUILDER: Hyundai Heavy Industries Co., Ltd.  
1, Cheonha-Dong, Dong-Ku, Ulsan  
Korea  
Attn: Project Management Department  
Facsimile: (82) (52) 230-3448, 230-3425

To the BUYER: Commercial  
Seaspan Corporation  
Unit 2, 7<sup>th</sup> Floor Bupa Center  
141 Connaught Road West, Hong Kong F4 0000  
China  
Attn: Gerry Wang  
Facsimile No.: 852-2540-1689

Technical  
Seaspan Ship Management Ltd.  
2600 – 200 Granville Street  
Vancouver, B.C. V6C 1S4  
Canada  
Attn: Peter Curtis / Peter Jackson  
Facsimile No.: 1-604-638-2595

The said notices shall become effective upon receipt of the letter or facsimile communication by the receiver thereof. Where a notice by facsimile is concerned which is required to be confirmed by letter, then, unless the CONTRACT or the relevant Article thereof otherwise requires, the notice shall become effective upon receipt of the facsimile.

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 facsimile) 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.

(End of Article)

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**ARTICLE XX : EFFECTIVENESS OF THIS CONTRACT**

This CONTRACT shall become effective upon signing by the parties hereto.

(End of Article)

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**ARTICLE XXI : EXCLUSIVENESS**

This CONTRACT shall constitute the only and entire agreement between the parties hereto, and unless otherwise expressly provided for in this CONTRACT, all other agreements on any subject matter of this CONTRACT, oral or written, made and entered into between the parties prior to the execution of this CONTRACT shall be null and void.

This CONTRACT may be supplemented or amended in writing by the parties and any supplement or amendment, whatsoever form it may be relating to this CONTRACT, to be made and signed among parties hereof concurrently with or after the signing this CONTRACT, shall govern in respect of the corresponding Article or Clause, as the case may be, of this CONTRACT, unless otherwise expressly stipulated in supplement or amendment.

(End of Article)

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IN WITNESS WHEREOF, the parties hereto have caused this CONTRACT to be duly executed on the date and year first above written.

BUYER

For and on behalf of  
SEASPAN  
CORPORATION

By: /s/ GERRY WANG  
Name: GERRY WANG  
Title: CHIEF EXECUTIVE OFFICER  
WITNESS:

BUILDER

For and on behalf of  
HYUNDAI HEAVY  
INDUSTRIES CO., LTD.

By: /s/ D. Y. HAN  
Name: D. Y. HAN  
Title: SENIOR EXECUTIVE V.P.  
WITNESS:

EXHIBIT "A"

OUR LETTER OF REFUNDMENT GUARANTEE NO. \_\_\_\_\_

Date : \_\_\_\_\_, 2006

Gentlemen:

We, \_\_\_\_\_ (hereinafter called the "Bank"), hereby issue our irrevocable letter of refundment guarantee number \_\_\_\_\_ (the "Letter") in favour of SEASPAN CORPORATION (hereinafter called the "BUYER"), a company organized and existing under the laws of the Marshall Islands, for account of Hyundai Heavy Industries Co., Ltd., Ulsan, Korea (hereinafter called the "BUILDER") in consideration of the BUYER making advance payments to the BUILDER under the shipbuilding contract dated \_\_\_\_\_, 2006 (hereinafter called the "CONTRACT") made by and between the BUYER and the BUILDER for the design, construction, and sale of one (1) \_\_\_\_\_ having the BUILDER's Hull No. \_\_\_\_\_ (hereinafter called the "VESSEL").

Whereas in Article X of the CONTRACT, the BUYER is required to make \_\_\_\_ (\_\_) advance payments of the CONTRACT price in the following amounts: First Instalment amounting to \_\_\_\_\_ United States Dollars, Second Instalment amounting to \_\_\_\_\_ United States Dollars, Third Instalment amounting to \_\_\_\_\_ United States Dollars, Fourth Instalment amounting to \_\_\_\_\_ United States Dollars, Fifth Instalment amounting to \_\_\_\_\_ United States Dollars.

If, in connection with or under the terms of the CONTRACT, the BUYER shall become entitled to a refundment of the advance payment(s) made to the BUILDER prior to the delivery of the VESSEL, we hereby irrevocably and unconditionally guarantee as a primary obligor and not as a surety that we shall pay to the BUYER on demand the sum of **[insert first instalment]** United States Dollars (in U.S. Dollars only), together with interest thereon at the rate of \_\_\_\_\_ percent (\_\_\_%) per annum from the date following the date of receipt by the BUILDER of any advance payment to the date of remittance by telegraphic transfer of such refundment.

The amount of this Letter shall automatically increase upon the BUILDER's receipt of the respective instalment, not more than \_\_\_\_ (\_\_) times, each time by the amount of the respective instalment plus interest thereon as provided in the CONTRACT, but in any eventuality, the amount of this guarantee shall not exceed the total sum of United States Dollars (in U.S. Dollars only) plus interest thereon at the rate of \_\_\_\_\_ percent (\_\_\_%) per annum from the date following the date of the BUILDER's receipt of each instalment to the date of remittance by telegraphic transfer of the refundment. However, in the event of cancellation of the CONTRACT being based on delays due to force majeure or other causes beyond the control of the BUILDER, the interest rate of the refundment shall be reduced to \_\_\_\_\_ percent (\_\_\_%) per annum as provided in Article X. 5 of the CONTRACT.

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The payment by the undersigned under this Letter (subject to the third and fourth paragraph hereof) shall be made upon simple receipt by us of written demand from the BUYER, including a signed statement certifying that the BUYER's demand for refundment has been made in conformity with Article X of the CONTRACT and the BUILDER has failed to make the refundment. Refundments shall be made to the BUYER by telegraphic transfer in freely transferable United States Dollars free of bank charges, remittance fees, taxes, and other applicable withholdings.

It is hereby understood that payment of any interest provided herein is by way of liquidated damages due to cancellation of the CONTRACT and not by way of compensation for use of the money.

Notwithstanding the provisions hereinabove, in the event that within thirty (30) days from the date of the BUYER's claim of refundment to the BUILDER referred to above, we receive notification from the BUYER or the BUILDER that is accompanied by written confirmation of the arbitrator(s) appointed for this purpose stating to the effect that the BUYER's claim to cancel the CONTRACT or the BUYER's claim for refundment thereunder has been disputed and referred to arbitration in accordance with the provisions of the CONTRACT, the period of validity of this guarantee shall be extended until Forty-Five (45) days after the award has been rendered in the arbitration, and we shall under this guarantee, refund to the BUYER the sum adjudged to be due to the BUYER by the BUILDER pursuant to the award made under such arbitration immediately upon receipt from the BUYER of a simple demand for the sums so adjudged accompanied by a copy of the arbitration award.

We hereby agree that this Letter shall be construed as a continuing and unconditional guarantee of payment without regard to the validity or enforceability of any other agreement or instrument and without regard to defence, set-off, or counterclaim or any other circumstance whatsoever which might constitute an equitable or legal discharge of our obligations hereunder. No action or failure to act on the BUYER's part shall relieve us of any of our obligations hereunder.

This Letter shall become null and void upon receipt by the BUYER of the full sum guaranteed hereby or upon acceptance by the BUYER of the delivery of the VESSEL in accordance with the terms of the CONTRACT as evidenced by the Protocol of Delivery and Acceptance duly signed by the BUILDER and the BUYER and, in either case, the BUYER shall return this Letter to us or shall arrange with their bank to confirm to us by SWIFT (our SWIFT address : \_\_\_\_\_) that this Letter is null and void.

This Letter is assignable to the BUYER's financier, whether it is a bank, financial institution, or a commercial corporation, by giving written notice to us.

This Letter is valid from the date of this Letter until such time as the VESSEL is delivered by the BUILDER to and accepted by the BUYER in accordance with the provisions of the CONTRACT. This Letter shall continue to be effective or reinstated, as the case may be, if at any time, payment of any of the payments guaranteed hereunder is rescinded or must otherwise be returned by the BUYER upon the insolvency, bankruptcy, or reorganization of the BUILDER or otherwise, all as though any such payment had not been made.

All demands and notices in connection with this Letter shall be validly given if sent to us by post, fax, or telex to our office as follows:

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Address:  
Tel:  
Fax:

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This guarantee shall be governed by and construed in accordance with the laws of England, and the undersigned hereby submits to the exclusive jurisdiction of the courts of England.

Very truly yours,

For and on behalf of

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

SHIPBUILDING CONTRACT  
FOR  
THE CONSTRUCTION OF  
ONE (1) 5,100 TEU CLASS CONTAINER CARRIER  
HULL NO. 1972  
BETWEEN  
SEASPAN CORPORATION  
(AS BUYER)  
AND  
HYUNDAI HEAVY INDUSTRIES CO., LTD.  
(AS BUILDER)



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SCHEDULES

EXHIBIT "A" REFUND GUARANTEE

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**SHIPBUILDING CONTRACT**

THIS CONTRACT, made on this 8<sup>th</sup> day of August, 2006 by and between Seaspan Corporation, a corporation incorporated and existing under the laws of the Marshall Islands with its principal office at Unit 2, 7<sup>th</sup> Floor Bupa Centre, 141 Connaught Road West Hong Kong F4 0000, China (hereinafter called the "BUYER"), the party of the first part and HYUNDAI HEAVY INDUSTRIES CO., LTD., a company organized and existing under the laws of the Republic of Korea, having its principal office at 1, Cheonha-Dong, Dong-Ku, Ulsan, Korea (hereinafter called the "BUILDER"), the party of the second part,

WITNESSETH:

In consideration of the mutual covenants contained herein, the BUILDER agrees to design, build, launch, equip and complete one (1) 5,100 TEU Class Container Carrier as described in Article I hereof (hereinafter called the "VESSEL") at the BUILDER's yards in Korea (hereinafter called the "SHIPYARD") and to deliver and sell the VESSEL to the BUYER, and the BUYER agrees to accept delivery of and purchase from the BUILDER the VESSEL, according to the terms and conditions hereinafter set forth :

(End of Preamble)

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**ARTICLE I : DESCRIPTION AND CLASS**

**1. DESCRIPTION**

The VESSEL shall be a 5,100 TEU Class Container Carrier having the BUILDER's Hull No. 1972 and shall be designed, constructed, equipped, inspected, tested and ready for sea and suitable in all respects for its intended use for carrying dry cargo containers in accordance with the provisions of this CONTRACT, and the full specifications reference No. CNSS5100-FS-P1 dated July 21, 2006 (hereinafter called the "FULL SPECIFICATIONS"), General Arrangement Drawing reference DWG. No. 1G-7000-201 dated July 21, 2006 (hereinafter called the "PLAN") and Maker's List reference No. CNSS5100-ML-P1 dated July 21, 2006 (hereinafter collectively called the "SPECIFICATIONS") signed by each of the parties for identification and constituting an integral part hereof. The Approved Drawings and the Classification Society Rules as required by the SPECIFICATIONS 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 BUILDER 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 shipbuilding practice at major shipyards in Korea and the warranty provided in Article IX. 1 shall be effective to this standard.

The FULL SPECIFICATIONS and the PLAN are intended to explain each other and anything shown on the PLAN and not stipulated in the FULL SPECIFICATIONS or anything stipulated in the FULL SPECIFICATIONS and not shown on the PLAN shall be deemed and considered as if included in both. Should there be any inconsistencies or contradictions between the FULL SPECIFICATIONS and the PLAN, the FULL SPECIFICATIONS shall prevail. Should there be any inconsistencies or contradictions between this CONTRACT and the SPECIFICATIONS, this CONTRACT shall prevail.

**2. BASIC DIMENSIONS AND PRINCIPAL PARTICULARS OF THE VESSEL**

(a) The basic dimensions and principal particulars of the VESSEL shall be :

Length, overall	max.	294.13 M
Length, between perpendiculars		283.2 M
Breadth, moulded		32.2 M

Depth to Upper Deck, moulded	22.1 M
Design draft, moulded, in seawater of specific gravity of 1.025	12 M
Scantling draft, moulded, in seawater of specific gravity of 1.025	13.65 M
Deadweight (guaranteed by the BUILDER) on the above moulded scantling draft of 13.65 M	67,000 M/T
Normal container capacity (TEU's: 8 1/2' high)	
Total	5,087 TEU
- in holds	2,261 TEU
- on deck	2,826 TEU
Container capacity (guaranteed by the BUILDER) under consideration of IMO visibility line at scantling draught with even keel	5,087 TEU
Main propulsion engine	Hyundai-Wartsila 8RTA96C MCR : 45,760 kW x 102 RPM NCR: 41,184 kW x 98.5 RPM
Trial speed(guaranteed by the BUILDER) at 12 meters design draft at the condition of clean bottom and in calm and deep sea with main engine developing a NCR of 41,184 kW with fifteen per cent (15%) sea margin	24.7 KNOTS
Specific Fuel consumption (guaranteed by the BUILDER) of the main engine applying I.S.O. reference conditions to the result of official shop test at a MCR of 45,760 kW using marine diesel oil having lower calorific value of 42,700 kJ per Kg.	171 gr/kW.HR

The details of the above particulars as well as the definitions and method of measurements and calculations are as indicated in the SPECIFICATIONS.

- (b) The dimensions may be slightly modified by the BUILDER, who also reserves the right to make changes to the SPECIFICATIONS if found necessary to suit the local conditions and facilities of the SHIPYARD, the availability of materials and equipment, the introduction of improved production methods or otherwise, all of which are subject to the approval of the BUYER which the BUYER shall not withhold unreasonably.

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**3. CLASSIFICATION, RULES AND REGULATIONS**

- (a) The VESSEL shall be designed, constructed, equipped, inspected, tested and completed in accordance with the rules and regulations (the edition and amendments thereto being in force and effect as of the date of this CONTRACT, together with all mandatory rules and regulations and amendments thereto, which have already been ratified up to the date of this CONTRACT and to come into force prior to the date of keel laying of the VESSEL) of and under survey of Det Norske Veritas (hereinafter called the "CLASSIFICATION SOCIETY") and shall be distinguished in the register by the symbol of +1A1, Container Carrier, NAUTICUS(Newbuilding), EO, NAUT-OC, BIS, TMON, CLEAN, BWM-E(s). Details of Class notation shall be in accordance with the SPECIFICATIONS.

The VESSEL shall comply with rules, regulations, recommendations and requirements of the Authorities in force as of the date of the CONTRACT signing as described and listed in the SPECIFICATIONS, together with all mandatory rules and regulations with amendments, which have already been ratified up to the date of this CONTRACT and to come into effect prior to the date of keel laying of the VESSEL.

- (b) The BUILDER shall arrange with the CLASSIFICATION SOCIETY for the assignment by the CLASSIFICATION SOCIETY representative(s) (the "Classification Surveyor") to the VESSEL during construction. All fees and charges incidental to classification of the VESSEL in compliance with the above specified rules, regulations and requirements of this CONTRACT shall be for the account of the BUILDER.
- (c) The decision of the CLASSIFICATION SOCIETY as to whether the VESSEL complies with the regulations of the CLASSIFICATION SOCIETY shall be final and binding upon the BUILDER and the BUYER, except where this CONTRACT provides for arbitration.

All materials, workmanship and major plans used in the construction of the VESSEL which will comply with the rules and regulations of the CLASSIFICATION SOCIETY shall be subject to inspection and test by the CLASSIFICATION SOCIETY.

Subject to decisions made by the CLASSIFICATION SOCIETY pursuant to Article XIII. 1, no act or omission of the CLASSIFICATION SOCIETY and/or Classification Surveyor shall, in any way, diminish or impair the obligations and liabilities of the BUILDER under the terms of this CONTRACT.

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4. **SUBCONTRACTING**

The BUILDER may, at its sole discretion and responsibility, and upon written notice to the BUYER in case of sub-contracting of material nature, subcontract any portion but not the whole, of the construction work of the VESSEL outside the SHIPYARD, but in any event, major hull structure parts will be assembled by the BUILDER provided, however, that the BUILDER shall remain responsible for the performance of this CONTRACT with regard to any work done or materials supplied or used by such subcontractors in accordance with this CONTRACT. Subcontractors for the items of material nature shall apply same standard as the BUILDER.

5. **NATIONALITY OF THE VESSEL**

The VESSEL shall be registered by the BUYER at its own cost and expense under the laws of Hong Kong with its home port of Hong Kong at the time of its delivery and acceptance hereunder.

(End of Article)

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**ARTICLE II : CONTRACT PRICE**

The contract price of the VESSEL delivered to the BUYER at the SHIPYARD shall be United States Dollars Seventy Seven Million Three Hundred Fifty Thousand (US\$77,350,000) (hereinafter called the "CONTRACT PRICE"). The CONTRACT PRICE is fixed and shall be paid plus any increases or less any decreases due to adjustment or modifications, if any, as set forth in this CONTRACT. The above CONTRACT PRICE shall include payment for services in the inspection, tests, survey and classification of the VESSEL which will be rendered by the CLASSIFICATION SOCIETY and shall not include the cost of the BUYER'S SUPPLIES as stipulated in Article XII.

The CONTRACT PRICE also includes 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, outfitings, appurtenances, furniture, materials, parts, spares, articles and things as required by the SPECIFICATIONS and/or otherwise under this CONTRACT for the VESSEL, and all other items and acts necessary for the performance of BUILDER's obligations under or pursuant to this CONTRACT.

(End of Article)

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**ARTICLE III : ADJUSTMENT OF THE CONTRACT PRICE**

The CONTRACT PRICE of the VESSEL shall be adjusted as hereinafter set forth in the event of the following contingencies. It is hereby understood by both parties that any adjustment of the CONTRACT PRICE as provided for in this Article is by way of liquidated damages and not by way of penalty.

**1. DELAYED DELIVERY**

- (a) No adjustment shall be made and the CONTRACT PRICE shall remain unchanged for the first thirty (30) days of the delay in delivery of the VESSEL (ending as of 12 o'clock midnight Korean Standard Time on the thirtieth (30th) day of delay) beyond the Delivery Date calculated as provided in Article VII.1 hereof.
- (b) If delivery of the VESSEL is delayed more than thirty (30) days beyond the date upon which the delivery is due from the BUILDER under the terms of this CONTRACT, then, beginning at midnight of the thirtieth (30th) day after such due date, the CONTRACT PRICE of the VESSEL shall be reduced by U.S. Dollars twenty five thousand (US\$ 25,000) for each full day of delay.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the delay of one hundred and fifty (150) days after thirty (30) days of the delay in delivery of the VESSEL at the rate of deduction as specified hereinabove.

- (c) But, if the delay in delivery of the VESSEL continues for a period of more than one hundred and eighty (180) days beyond the date upon which the delivery is due from the BUILDER under the terms of this CONTRACT then, in such event, and after such period has expired, the BUYER may, at its option, rescind and cancel this CONTRACT by serving upon the BUILDER a notice of cancellation by facsimile to be confirmed by a registered letter via airmail directed to the BUILDER at the address given in this CONTRACT. Such cancellation shall be effective as of the date the notice thereof is received by the BUILDER. If the BUYER has not served the notice of cancellation after the aforementioned one hundred and eighty (180) days delay in delivery, the BUILDER may demand the BUYER to make an election in accordance with Article VIII.3. hereof.



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- (d) For the purpose of this Article, the delivery of the VESSEL shall be deemed to be delayed when and if the VESSEL, after taking into full account extension of the Delivery Date or permissible delays as provided in Article V, VI, VIII, XI or elsewhere in this CONTRACT, is delivered beyond the date upon which delivery would then be due under the terms of this CONTRACT.

**2. INSUFFICIENT SPEED**

- (a) The CONTRACT PRICE of the VESSEL shall not be affected or changed, if the actual speed, as determined by trial runs more fully described in Article VI hereof, is less than the speed required under the terms of this CONTRACT and the SPECIFICATIONS provided such deficiency in actual speed is not more than three-tenths (3/10) of a knot below the guaranteed speed.
- (b) However, as for the deficiency of more than three-tenths (3/10) of a knot in actual speed below the speed guaranteed under this CONTRACT, the CONTRACT PRICE shall be reduced by U.S. Dollars one hundred thousand (U.S.\$ 100,000) for each full one-tenth (1/10) of a knot in excess of the said three-tenths (3/10) of a knot of deficiency in speed (fractions of less than one-tenth (1/10) of a knot shall be regarded as a full one-tenth (1/10) of a knot). However, unless the parties agree otherwise, the total amount of reduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of eight-tenths (8/10) of a knot below the guaranteed speed at the rate of reduction as specified above.
- (c) If the deficiency in actual speed of the VESSEL is more than eight-tenths (8/10) of a knot below the speed guaranteed under this CONTRACT, then the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections as provided in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for eight-tenths (8/10) of a knot of deficiency only.

**3. EXCESSIVE FUEL CONSUMPTION**

- (a) The CONTRACT PRICE shall not be affected or changed by reason of the fuel consumption of the VESSEL's main engine, as determined by the engine manufacturer's shop trial as per the SPECIFICATIONS being more than the guaranteed fuel consumption of the VESSEL's main engine, if such excess is not more than five per cent (5%) over the guaranteed fuel consumption.

- (b) However, as for the excess of more than five per cent (5%) in the actual fuel consumption over the guaranteed fuel consumption of the VESSEL's main engine, the CONTRACT PRICE shall be reduced by U.S. Dollars one hundred thousand (US\$ 100,000) for each full one per cent (1%) increase in fuel consumption in excess of the said five per cent (5%) increase in fuel consumption (fractions of less than one per cent (1%) shall be regarded as a full one per cent (1%)). However, unless the parties agree otherwise, the total amount of reduction from the CONTRACT PRICE shall not exceed the amount due to cover the excess of eight per cent (8%) over the guaranteed fuel consumption of the VESSEL's main engine at the rate of reduction as specified above.
- (c) If such actual fuel consumption exceeds the guaranteed fuel consumption of the VESSEL's main engine by more than eight per cent (8%), the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections as specified in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for the eight per cent (8%) increase only.

**4. DEADWEIGHT BELOW CONTRACT REQUIREMENTS**

- (a) The CONTRACT PRICE of the VESSEL shall not be affected or changed, if actual deadweight, determined as provided in this CONTRACT and the SPECIFICATIONS, is below the deadweight of 67,000 metric tons on the moulded scantling draft of 13.65 metres required by this CONTRACT and the SPECIFICATIONS by an amount of 660 metric tons or less. However, should the deficiency in the actual deadweight of the VESSEL be more than 660 metric tons below the said required deadweight, then the CONTRACT PRICE of the VESSEL shall be reduced for each full one (1) metric ton (fractions of less than one (1) metric ton shall be disregarded) of decreased deadweight in excess of 660 metric tons by the sum of U.S. Dollars nineteen hundred (US\$ 1,900) per metric ton.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of 1,300 metric tons below the said guaranteed deadweight hereinabove.

- (b) If the deficiency in the deadweight of the VESSEL is more than 1,300 metric tons below the said guaranteed deadweight, then the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections without the BUYER's prior

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consent as specified in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for 1,300 metric tons of deficiency only.

**5. INSUFFICIENT CONTAINER CAPACITY**

- (a) The CONTRACT PRICE shall not be affected or changed by reason of deficiency in the number of containers if such deficiency is up to 30 TEU containers below the guaranteed container capacity of 5,087 TEU in accordance with IMO visibility requirement at Scantling Draft of 13.65 meters with even keel.
- (b) However, in the event that the deficiency in the guaranteed container capacity, is in excess of 30 TEU containers, then the CONTRACT PRICE shall be reduced by United States Dollars forty thousand (US\$ 40,000) for each TEU container in excess of the first allowable 30 TEU containers of such deficient number of containers.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of 80 TEU containers below the guaranteed container capacity hereinabove.

- (c) If the deficiency in the guaranteed container capacity is 80 TEU containers or more, then the BUYER, at its option, may reject the VESSEL and rescind and cancel this CONTRACT in accordance with the provisions of this Article or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for 80 TEU containers of deficiency only.

**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 paragraphs, there shall be separate reductions in the CONTRACT PRICE in respect of each contingency.

**7. EFFECT OF CANCELLATION**

It is expressly understood and agreed by the parties hereto that in any case, if the BUYER cancels this CONTRACT under this Article, the BUYER shall not be entitled to any liquidated damages.

(End of Article)

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**ARTICLE IV : INSPECTION AND APPROVAL**

**1. APPOINTMENT OF BUYER'S REPRESENTATIVE**

The BUYER shall timely despatch to and maintain at the SHIPYARD, at its own cost, expense and risk, one or more representatives (hereinafter called the "BUYER'S REPRESENTATIVE"), who shall be duly accredited in writing by the BUYER to supervise adequately the construction by the BUILDER of the VESSEL, her equipment and all accessories. Before the commencement of any item of work under this CONTRACT, the BUILDER shall, whenever reasonably required, previously exhibit, furnish to, and within the limits of the BUYER'S REPRESENTATIVE'S authority, secure the approval from the BUYER'S REPRESENTATIVE of any and all plans and drawings prepared in connection therewith. Upon appointment of the BUYER'S REPRESENTATIVE, the BUYER shall notify the BUILDER in writing of the name and the scope of the authority of the BUYER'S REPRESENTATIVE.

**2. AUTHORITY OF THE BUYER'S REPRESENTATIVE**

Such BUYER'S REPRESENTATIVE shall, at all times, subject to any safety requirements, during the construction until delivery of the VESSEL, have the right to inspect the VESSEL, her equipment and all accessories, and work in progress, or materials utilized in connection with the construction of the VESSEL, wherever such work is being done or such materials are stored, for the purpose of determining that the VESSEL, her equipment and accessories are being constructed in accordance with the terms of this CONTRACT and/or the SPECIFICATIONS.

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 BUYER'S 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.

The BUILDER will endeavor to arrange for the inspection by the BUYER'S REPRESENTATIVE during working hours of the BUILDER. However, such inspection may be arranged beyond the BUILDER's normal working hours, including weekend and/or holiday if this is considered necessary by the BUILDER in order to meet the BUILDER's construction schedule, on the condition that the BUILDER will inform the BUYER'S REPRESENTATIVE at least two (2) days in advance of such inspection.

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The construction of the VESSEL shall be subjected, throughout the entire period of construction, to quality control by a quality control department of the BUILDER. 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 as far as practicable, or in the absence of documentation, orally, to the BUYER'S REPRESENTATIVE.

The BUYER'S REPRESENTATIVE may attend during construction of the VESSEL, tests and inspection of the VESSEL, its machinery and equipment. The BUILDER shall make reasonable efforts to give the BUYER'S REPRESENTATIVE an advance notice for tests and inspections within the SHIPYARD stating particulars of any tests or inspections which may be attended by the BUYER'S REPRESENTATIVE 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 BUYER'S REPRESENTATIVE latest up to 5:00 p.m. of the day prior to the day on which any tests or inspections shall occur except for the painting inspection.

For test or inspections outside the SHIPYARD, including manufacturer's shop tests, sufficient advance notice to allow for the BUYER'S REPRESENTATIVE to arrange transportation shall be given. This advance notice should not be less than two (2) days except for tests or inspections within Korea that require air travel for attendance in which case advance notice should not be less than four (4) days. And the inspection outside Korea requires seven (7) days advance notice, or twenty one (21) days advance notice if an entry VISA is required for the BUYER'S REPRESENTATIVE.

Inspection schedule must be reasonable in order to allow the BUYER'S REPRESENTATIVE to carry out their duties properly.

The BUYER'S REPRESENTATIVE shall, within the limits of the authority conferred upon him by the BUYER, make decisions or give advice to the BUILDER on behalf of the BUYER promptly on all problems arising out of, or in connection with, the construction of the VESSEL and generally act in a reasonable manner with a view to cooperating to the utmost with the BUILDER in the construction process of the VESSEL.

The decision, approval or advice of the BUYER'S REPRESENTATIVE shall be deemed to have been given by the BUYER. No act or omission of the BUYER'S REPRESENTATIVE or his assistants shall, in any way, diminish the liability of the BUILDER under Article IX

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(WARRANTY OF QUALITY). The BUYER'S REPRESENTATIVE shall notify the BUILDER promptly in writing of his discovery of any construction or materials, which he believes do not or will not conform to the requirements of the CONTRACT and the SPECIFICATIONS and likewise advise and consult with the BUILDER on all matters pertaining to the construction of the VESSEL, as may be required by the BUILDER, or as he may deem necessary.

However, if the BUYER'S REPRESENTATIVE fails to submit to the BUILDER without delay any such demand concerning alterations or changes with respect to the construction, arrangement or outfit of the VESSEL, which the BUYER'S REPRESENTATIVE has examined, inspected or attended at the test thereof under this CONTRACT or the SPECIFICATIONS, the BUYER'S REPRESENTATIVE shall be deemed to have approved the same and shall be precluded from making any demand for alterations, changes, or complaints with respect thereto at a later date.

The BUILDER shall comply with any such demand which is not contradictory to this CONTRACT and the SPECIFICATIONS, provided that any and all such demands by the BUYER'S REPRESENTATIVE with regard to construction, arrangement and outfit of the VESSEL shall be submitted in writing to the authorised representative of the BUILDER. The BUILDER shall notify the BUYER'S REPRESENTATIVE of the names of the persons who are from time to time authorised by the BUILDER for this purpose.

It is agreed upon between the BUYER and the BUILDER that the modifications, alterations or changes and other measures necessary to comply with such demand may be effected at a convenient time and place at the BUILDER'S reasonable discretion in view of the construction schedule of the VESSEL.

In the event that the BUYER'S REPRESENTATIVE shall advise the BUILDER that he has discovered or believes the construction or materials do not or will not conform to the requirements of this CONTRACT and the SPECIFICATIONS, and the BUILDER shall not agree with the views of the BUYER'S REPRESENTATIVE in such respect, either the BUYER or the BUILDER may, with the agreement of the other party, seek an opinion of the CLASSIFICATION SOCIETY or failing such agreement, request an arbitration in accordance with the provisions of Article XIII hereof. The CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, shall determine whether or not a nonconformity with the provisions of this CONTRACT or the SPECIFICATIONS exists. If the CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, enters a determination in favour of the BUYER, then in such case the BUILDER shall make the

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necessary alterations or changes, or if such alterations or changes cannot be made in time to meet the construction schedule for the VESSEL, the BUILDER shall make fair and reasonable adjustment of the CONTRACT PRICE in lieu of such alterations and changes. If the CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, enters a determination in favour of the BUILDER, 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 BUILDER for the proven loss and damages incurred by the BUILDER as a result of the dispute herein referred to.

**3. APPROVAL OF DRAWINGS**

- (a) The BUILDER shall submit to the BUYER three (3) copies of each of the plans and drawings to be submitted to the BUYER for its approval at its address as set forth in Article XIX hereof. The BUYER shall, within twenty one (21) days after receipt thereof return to the BUILDER one (1) copy of such plans and drawings with the approval or comments, if any, of the BUYER. A list of the plans and drawings to be so submitted to the BUYER shall be mutually agreed upon between the parties hereto.
- (b) When and if the BUYER'S REPRESENTATIVE shall have been sent by the BUYER to the SHIPYARD in accordance with Paragraph 1 of this Article, the BUILDER may submit the remainder, if any, of the plans and drawings in the agreed list, to the BUYER'S REPRESENTATIVE for his approval, unless otherwise agreed upon between the parties hereto.
- The BUYER'S REPRESENTATIVE shall, within fourteen (14) days after receipt thereof, return to the BUILDER one (1) copy of such plans and drawings with his approval or comments written thereon, if any. Approval by the BUYER'S REPRESENTATIVE of the plans and drawings duly submitted to him shall be deemed to be the approval by the BUYER for all purposes of this CONTRACT.
- (c) In the event that the BUYER or the BUYER'S REPRESENTATIVE shall fail to return the plans and drawings to the BUILDER within the time limit as hereinabove provided, such plans and drawings shall be deemed to have been automatically approved without any comment. In the event the plans and drawings submitted by the BUILDER to the BUYER or the BUYER'S REPRESENTATIVE in accordance with this Article do not meet with the BUYER'S or the BUYER'S REPRESENTATIVE's approval, the matter may be submitted by either party hereto for determination pursuant to Article

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XIII hereof. If the BUYER's comments on the plans and drawings that are returned to the BUILDER by the BUYER within the said time limit are not clearly specified or detailed, the BUILDER shall be entitled to place its own interpretation on such comments in implementing them.

The BUILDER agrees that the BUYER is permitted to make an arrangement with the CLASSIFICATION SOCIETY for receiving copies of any technical correspondence regarding the construction of the VESSEL.

**4. SALARIES AND EXPENSES**

All salaries and expenses of the BUYER'S REPRESENTATIVE or any other person or persons employed by the BUYER hereunder shall be for the BUYER's account.

**5. RESPONSIBILITY OF THE BUILDER**

- (a) The BUILDER shall, at no cost to the BUYER, furnish suitably lighted, and air conditioned office space, for a team of not less than six (6) BUYER'S REPRESENTATIVES all along, including changing room, toilet and shower space, office furniture, drawing table and filing cabinets. Separate telephone lines and facsimile receiver to be provided in BUYER'S REPRESENTATIVE office and communication service shall be paid by the BUYER at normal rate of charges of Korean telecommunication company. However, the changing room, toilet and shower space shall be supplied as public facilities.

During the last forty five (45) days of the period of construction of the VESSEL, office space shall be provided to accommodate the VESSEL's senior officers as far as practicable in the BUYER'S REPRESENTATIVE's office space.

With an ample prior notice by the BUYER, the BUILDER shall arrange for the BUYER'S REPRESENTATIVE suitable and convenient living quarters as near as possible to the SHIPYARD and shall provide for the purpose thereof apartments/houses fully furnished and equipped in Western style with minimum two (2) bedrooms and one (1) living room for each BUYER'S REPRESENTATIVE, all at the BUYER's expenses.



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The BUILDER, its employees, agents and subcontractors, during its working hours until delivery of the VESSEL, shall arrange for the BUYER'S REPRESENTATIVE to have free and ready access to the VESSEL, her equipment and accessories, and to any other place (except the areas controlled for the purpose of national security) where work is being done, or materials are being processed or stored in connection with the construction of the VESSEL including the premises of sub-contractors.

The BUYER'S REPRESENTATIVE or his assistants or employees shall observe the work rules, regulations and the guidances prevailing at the BUILDER's and its sub-contractor's premises. The BUILDER shall promptly provide to the BUYER'S REPRESENTATIVE and/or his assistants, and shall ensure that its sub-contractors shall promptly provide, all such information as he or they may reasonably request in connection with the construction of the VESSEL and her engines, equipment and machinery.

- (b) The BUYER'S REPRESENTATIVE and his assistants shall at all times remain the employees of the BUYER. The BUILDER shall not be liable to the BUYER or the BUYER'S REPRESENTATIVE or to his assistants or to the BUYER's employees or agents for personal injuries, including death, during the time they, or any of them, are on the VESSEL, or within the premises of either the BUILDER or its sub-contractors, or are otherwise engaged in and about the construction of the VESSEL, unless, however, such personal injuries, including death, are caused by the negligence or willful misconduct of the BUILDER, its sub-contractors, or its or their employees or agents. The BUILDER shall not be liable to the BUYER for damages to, or destruction of property of the BUYER or of the BUYER'S REPRESENTATIVE or his assistants or the BUYER's employees or agents, unless such damages, loss or destruction is caused by the negligence or willful misconduct of the BUILDER, its sub-contractors, or its or their employees or agents.

**6. RESPONSIBILITY OF THE BUYER**

The BUYER shall undertake and assure that the BUYER'S REPRESENTATIVE and his assistants shall carry out their duties hereunder in accordance with the normal shipbuilding practice and in such a way as to avoid any unnecessary increase in building cost, delay in the construction of the VESSEL, and/or any disturbance in the construction schedule of the BUILDER.

The BUILDER has the right to request the BUYER to replace any of the BUYER'S

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REPRESENTATIVE and/or his assistants who are deemed unsuitable and unsatisfactory for the proper progress of the VESSEL's construction. The BUYER shall investigate the situation by sending its representative(s) to the SHIPYARD and if the BUYER considers that such BUILDER's request is justified, the BUYER shall effect the replacement as soon as conveniently arrangeable.

(End of Article)

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**ARTICLE V : MODIFICATIONS, CHANGES AND EXTRAS**

**1. HOW EFFECTED**

Modifications or changes to the SPECIFICATIONS under which the VESSEL is to be constructed may be made at any time hereafter by written agreement of the parties hereto. Any modification or change requested by the BUYER which does not affect the SPECIFICATIONS to a fundamental extent shall be agreed to by the BUILDER if the BUYER agrees to adjustment of the CONTRACT PRICE, deadweight and/or cubic capacity, speed requirements, the Delivery Date and other terms and conditions of this CONTRACT reasonably required as a result of such modification or change. The BUILDER has the right to continue construction of the VESSEL on the basis of the SPECIFICATIONS until the BUYER has agreed to such adjustments. The BUILDER shall be entitled to refuse to make any alteration, change or modification to the SPECIFICATIONS requested by the BUYER if the BUYER does not agree to the aforesaid adjustments within fourteen (14) days of the BUILDER's notification of the same to the BUYER or if, in the BUILDER's judgement, the compliance with such request of the BUYER would cause an unreasonable disruption of the normal working schedule of the SHIPYARD.

The BUILDER, however, agrees to exert its reasonable efforts to accommodate such reasonable request by the BUYER so that the said change and modification shall be made at a reasonable cost and within the shortest period of time reasonably possible. The aforementioned agreement to modify and change the SPECIFICATIONS may be effected by exchange of letters or facsimiles manifesting the agreement.

The letters and facsimiles exchanged by the parties pursuant to the foregoing shall constitute an amendment to this CONTRACT and the SPECIFICATIONS under which the VESSEL shall be built. Upon consummation of such an agreement to modify and change the SPECIFICATIONS, the BUILDER shall alter the construction of the VESSEL in accordance therewith including any addition to, or deduction from, the work to be performed in connection with such construction.

**2. SUBSTITUTION OF MATERIAL**

If any materials, machinery or equipment required for the construction of the VESSEL by

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the SPECIFICATIONS or otherwise under this CONTRACT cannot be procured in time to meet the BUILDER's construction schedule for the VESSEL, or are in short supply, or are unreasonably high in price compared with the prevailing international market price for similar products, the BUILDER may supply, subject to the BUYER's prior approval, other materials, machinery or equipment of equal quality and effect capable of meeting the requirements of the CLASSIFICATION SOCIETY and the rules, regulations and requirements with which the construction of the VESSEL must comply.

**3. CHANGES IN RULES AND REGULATIONS**

If the specified rules and regulations with which the construction of the VESSEL is required to comply are altered or changed by the CLASSIFICATION SOCIETY or bodies authorised to make such alterations or changes, either the BUYER or the BUILDER, upon receipt of due notice thereof, shall forthwith give notice thereof to the other party in writing. Thereupon, within ten (10) days, or such longer period as is commercially reasonable in the circumstances by the agreement of the parties acting reasonably after receiving the notice on the adjustment due to such alterations or changes from the BUILDER, the BUYER shall advise the BUILDER of its decision as to the alterations and changes to be made on the VESSEL. The BUILDER shall not be obliged to comply with such alterations and/or changes if the BUYER fails to notify the BUILDER of its decision within the time limit stated above.

The BUILDER shall comply promptly with the said request of the BUYER, provided that the BUILDER and the BUYER shall first agree to reasonable adjustment on:

- (a) any increase or decrease in the CONTRACT PRICE of the VESSEL that is occasioned by such compliance;
- (b) any extension or advancement in the Delivery Date of the VESSEL that is occasioned by such compliance;
- (c) any increase or decrease in the deadweight and/or cubic capacity of the VESSEL, if such compliance results in any increase or reduction in the deadweight and/or cubic capacity;
- (d) the speed requirements if such compliance results in any increase or reduction in the speed; and

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(e) any other alterations in the terms of this CONTRACT or of the SPECIFICATIONS or both, if such compliance makes such alterations of the terms necessary.

Any delay in the construction of the VESSEL caused by the BUYER's delay in making a decision or agreement as above shall constitute a permissible delay under this CONTRACT. Such agreement by the BUYER shall be effected in the same manner as provided above for modification and change of the SPECIFICATIONS.

(End of Article)

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## ARTICLE VI : TRIALS AND COMPLETION

### **1. NOTICE**

The BUILDER shall notify the BUYER in writing or by facsimile at least twenty one (21) days in advance of the time and place of the trial run of the VESSEL. Such notice shall specify the place from which the VESSEL will commence her trial run and approximate date upon which the trial run is expected to take place. Such date shall be further confirmed by the BUILDER six (6) days in advance of the trial run in writing or by facsimile.

The BUYER'S REPRESENTATIVE, who is to witness the performance of the VESSEL during such trial run, shall be present at such place on the date specified in such notice. Should the BUYER'S REPRESENTATIVE fail to be present after the BUILDER's due notice to the BUYER as provided above, the BUILDER shall be entitled to conduct such trial run with the presence of the representative(s) of the CLASSIFICATION SOCIETY only without the BUYER'S REPRESENTATIVE being present. In such case, the BUYER shall be obliged to accept the VESSEL on the basis of a certificate issued by the BUILDER and the CLASSIFICATION SOCIETY that the VESSEL, after the trial run, subject to alterations and corrections, if necessary, has been found to conform with the SPECIFICATIONS and this CONTRACT and is satisfactory in all respects, provided the BUILDER first makes such corrections and alterations promptly.

### **2. WEATHER CONDITION**

In the event of unfavourable weather on the date specified for the trial run, the trial run shall take place on the first available day that weather conditions permit. The parties hereto recognise that the weather conditions in Korean waters, in which the trial run is to take place, are such that great changes in weather may arise momentarily and without warning and therefore, it is agreed that if, during the trial run, the weather should become so unfavourable that the trial run cannot be continued, then the trial run shall be discontinued and postponed until the first favourable day next following, unless the BUYER shall assent to the acceptance of the VESSEL by notification in writing on the basis of such trial run so far made prior to such change in weather conditions. Any delay of the trial run caused by such unfavourable weather conditions shall also operate to extend the Delivery Date of the VESSEL for the period of delay occasioned by such unfavourable weather conditions.

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**3. HOW CONDUCTED**

All expenses in connection with the trials of the VESSEL are to be for the account of the BUILDER, which, during the trials, is to provide at its own expense the necessary crew to comply with conditions of safe navigation. The trials shall be conducted in the manner prescribed in this CONTRACT and the SPECIFICATIONS, and shall prove fulfilment of the performance requirements for the trials as set forth in the SPECIFICATIONS.

The BUILDER, at its cost and expense, shall be entitled to conduct preliminary sea trials, during which the propulsion plant and/or its appurtenance shall be adjusted according to the BUILDER's judgement. The BUILDER may repeat any trial whatsoever as it deems reasonably necessary.

**4. CONSUMABLE STORES**

The BUILDER shall load the VESSEL with the required quantity of fuel oil, lubricating oil and greases, fresh water, and other stores necessary to conduct the trials as set forth in the FULL SPECIFICATIONS. The necessary ballast (fuel oil, fresh water and such other ballast as may be required) to bring the VESSEL to the trial load draft, as specified in the FULL SPECIFICATIONS, shall be supplied and paid for by the BUILDER whilst lubricating oil and greases shall be supplied and paid for by the BUYER within the time advised by the BUILDER for the conduct of sea trials as well as for use before the delivery of the VESSEL to the BUYER. The fuel oil as well as lubricating oil and greases shall be in accordance with the specifications of the main engine and other machinery and the BUYER shall decide and advise the BUILDER of the supplier's name for lubricating oil and greases before the work-commencement of the VESSEL, provided that the supplier shall be acceptable to the BUILDER and/or the makers of all the machinery.

Any fuel oil, fresh water or other consumable stores furnished and paid for by the BUILDER for trial runs remaining on board the VESSEL, at the time of acceptance of the VESSEL by the BUYER, shall be bought by the BUYER from the BUILDER at the BUILDER's purchase price for such supply in Korea and payment by the BUYER thereof shall be made at the time of delivery of the VESSEL. The BUILDER shall pay the BUYER at the time of delivery of the VESSEL for the consumed quantity of any lubricating oil and greases which were furnished and paid for by the BUYER at the BUYER's purchase price thereof. The consumed quantity of lubricating oils and greases shall be calculated on the basis of the difference between the remaining amount, including the same remaining in the main engine, other machinery and their pipes, stern tube and the like, and the supplied amount.

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**5. ACCEPTANCE OR REJECTION**

- (a) If, during any sea trial, any breakdown occurs entailing interruption or irregular performance which can be repaired on board, the trial shall be continued after such repairs and be valid in all respects.
- (b) However, if, during or after the trial run, it becomes apparent that the VESSEL or any part of her equipment requires alterations or corrections which but for this provision would or might entitle the BUYER to cancel this CONTRACT, the BUILDER shall notify the BUYER promptly in writing or by facsimile to such effect and shall simultaneously advise the BUYER of the estimated additional time required for the necessary alterations or corrections to be made.
- (c) Upon completion of the trial run, the BUILDER shall give the BUYER a notice by facsimile or in writing of completion of the trial run and provide the BUYER with all records of tests and trials as soon as available, as and if the BUILDER considers that the results of the trial run prove conformity of the VESSEL to this CONTRACT and SPECIFICATIONS.

The BUYER shall, within three (3) working days after receipt of aforementioned records of tests and trials from the BUILDER, notify the BUILDER in writing or by facsimile confirmed in writing of its acceptance or rejection of the VESSEL's conformity to this CONTRACT and the SPECIFICATIONS.

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 BUILDER agrees with the BUYER's notice of non-conformity, then the BUILDER shall promptly take the necessary steps to correct such non-conformity and notify the BUYER promptly in writing or by facsimile advising the BUYER of the estimated additional time required for the necessary alterations to correct material 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 BUILDER, the CLASSIFICATION



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SOCIETY and the BUYER'S REPRESENTATIVE. The BUILDER shall notify the BUYER of the time and place of any new trial run no less than three (3) working days beforehand, unless otherwise mutually agreed to. All provisions of the trial run shall apply to such new trial run.

- (d) However, the BUYER shall not be entitled to reject the VESSEL by reason of any minor or insubstantial items judged from the point of view of standard shipbuilding and shipping practice as not being in conformity with the SPECIFICATIONS. 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 BUILDER'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.

**6. EFFECT OF ACCEPTANCE**

The BUYER's written or facsimiled notification of acceptance delivered to the BUILDER as above provided, shall be final and binding insofar as conformity of the VESSEL with the SPECIFICATIONS is concerned and shall preclude the BUYER from refusing formal delivery of the VESSEL as hereinafter provided, if the BUILDER complies with all conditions of delivery, as herein set forth and provided that, in the case of qualified acceptance, any matters which were mentioned in the notice of the qualified acceptance by the BUYER as requiring correction have been corrected to the satisfaction of the BUYER.

If the BUYER fails to notify the BUILDER of its acceptance or rejection of the VESSEL as hereinabove provided, the BUYER shall be deemed to have accepted the VESSEL. Nothing contained in this Article shall preclude the BUILDER from exercising any and all rights which the BUILDER has under this CONTRACT if the BUILDER disagrees with the BUYER's rejection of the VESSEL or any reasons given for such rejection, including arbitration provided in Article XIII hereof. Any dispute between the BUILDER 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 XIII hereof.

(End of Article)

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**ARTICLE VII : DELIVERY**

**1. TIME AND PLACE**

The VESSEL, duly completed in accordance with this CONTRACT, shall be delivered by the BUILDER to the BUYER at the SHIPYARD, safely afloat on or before November 20, 2009 (hereinafter called the "DELIVERY DATE") after completion of satisfactory tests, trials and acceptance by the BUYER in accordance with the terms of Article VI, except that, in the event of delays in delivery of the VESSEL by the BUILDER due to causes which under the terms of this CONTRACT permit extensions of the time for delivery of the VESSEL, the aforementioned DELIVERY DATE shall be extended accordingly.

An earlier DELIVERY DATE more than twenty-one (21) days is subject to the BUYER's prior written consent.

**2. WHEN AND HOW EFFECTED**

Provided that the BUYER shall with delivery of the VESSEL release to the BUILDER the sixth instalment as set forth in Article X.2. hereof and the BUYER and the BUILDER shall have fulfilled all of their obligations provided for in this CONTRACT, delivery of the VESSEL shall be forthwith effected upon acceptance thereof by the BUYER, by the concurrent delivery by each of the parties hereto to the other of a PROTOCOL OF DELIVERY AND ACCEPTANCE acknowledging delivery of the VESSEL by the BUILDER and acceptance thereof by the BUYER, which PROTOCOL shall be prepared in duplicate and signed by each of the parties hereto.

**3. DOCUMENTS TO BE DELIVERED TO THE BUYER**

Concurrently with delivery and acceptance of the VESSEL, the BUILDER shall deliver to the BUYER the following duly authenticated documents in English, which shall accompany the aforementioned PROTOCOL OF DELIVERY AND ACCEPTANCE :

- (a) PROTOCOL OF TRIALS of the VESSEL made pursuant to this CONTRACT and the SPECIFICATIONS,

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- (b) PROTOCOL OF INVENTORY of the equipment of the VESSEL, including spare parts, all as specified in the SPECIFICATIONS,
  - (c) PROTOCOL OF STORES OF CONSUMABLE NATURE, such as all fuel oil and fresh water remaining in tanks and items listed in Article VI.4 if its cost is charged to the BUYER under Article VI.4 hereof,
  - (d) DRAWINGS AND PLANS pertaining to the VESSEL as stipulated in the FULL SPECIFICATIONS, which shall be furnished to the BUYER at no additional cost, and DRAWINGS AND PLANS in triplicate pertaining to the VESSEL, including List of Finished Plans and As Built Specs and the trim and stability booklet, technical descriptions, test results and other data, information and documents in the possession of the BUILDER concerning the design and construction of the VESSEL which shall be forwarded to the BUYER at no additional cost as stipulated in the SPECIFICATIONS.
  - (e) ALL CERTIFICATES required to be furnished upon delivery of the VESSEL pursuant to this CONTRACT, the SPECIFICATIONS and the customary shipbuilding practice, including
    - (i) Classification Certificate
    - (ii) Safety Construction Certificate
    - (iii) Safety Equipment Certificate
    - (iv) Safety Radio Certificate
    - (v) International Loadline Certificate
    - (vi) International Tonnage Certificate
    - (vii) BUILDER's Certificate
    - (viii) De-ratting Exemption Certificate

However, it is agreed by the parties that if the Classification Certificate 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 BUILDER shall furnish the BUYER with formal certificates as promptly as possible after such formal certificates have been issued but in any event before the expiry of the provisional certificates.

All certificates to be delivered to the BUYER hereunder shall be valid in every respect, unless the recommendation or notation has been approved by the BUYER, in its sole discretion, in writing, in which case the BUILDER shall remain responsible for as promptly as possible removing such recommendation or notation.

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- (f) DECLARATION OF WARRANTY of the BUILDER that the VESSEL is delivered to the BUYER free and clear of any liens, 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 Korean Governmental authorities, or by the prefecture or country of the port of delivery, as well as of all liabilities of the BUILDER to its sub-contractors, suppliers, employees and crews, and of all liabilities arising from the operation of the VESSEL in trial runs, or otherwise, prior to delivery except as otherwise provided under this CONTRACT.

In case the BUILDER fails to deliver the VESSEL free and clear of all liens, charges, mortgages and encumbrances on the date the BUILDER offers or tenders the VESSEL for delivery, the BUYER is not obliged to take delivery of the VESSEL. If the BUYER accepts delivery of the VESSEL with such liens, charges, mortgages and encumbrances, the BUYER shall be entitled to any rights, powers, and remedies in this CONTRACT and/or law, at equity or otherwise to recover any damages caused by such liens, charges, mortgages and encumbrances.

- (g) COMMERCIAL INVOICE

- (h) BILL OF SALE

If required by the BUYER, the BUILDER shall arrange for the notarization and legalization in Korea by a consulate of the VESSEL's country of registration of any of the listed documents/certificates which may be required to be notarized/legalized for the purposes of the BUYER's registration.

**4. TENDER OF THE VESSEL**

If the BUYER fails to take delivery of the VESSEL, after completion thereof, according to this CONTRACT and the SPECIFICATIONS, the BUILDER shall have the right to tender delivery of the VESSEL after compliance with its obligations as provided above.

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5. **TITLE AND RISK**

Title and risk of loss of the VESSEL shall pass to the BUYER upon delivery of the VESSEL and acceptance by the BUYER being effected as stated above and the BUILDER shall be free of all responsibility or liability whatsoever related with this CONTRACT except for the warranty of quality contained in Article IX, the obligation to correct and/or remedy, as provided in Article VI.5.(d) or Article VII. 3.(e), if any, and the obligations in Article XVI(which survive for the period of the relevant patent), it being expressly understood that, until such delivery and acceptance is effected, the VESSEL and equipment thereof are at the entire risk of the BUILDER including but not confined to, risks of war, insurrection and seizure by Governments or Authorities, whether Korean or foreign, and whether at war or at peace. The title to the BUYER'S SUPPLIES as provided in Article XII shall remain with the BUYER and the BUILDER's responsibility for such BUYER'S SUPPLIES shall be as described in Article XII.2.

6. **REMOVAL OF THE VESSEL**

The BUYER shall take possession of the VESSEL immediately upon delivery thereof and shall remove the VESSEL from the SHIPYARD within three (3) days after delivery thereof is effected. Port dues and other charges levied by the Korean Government Authorities after delivery of the VESSEL and any other costs related to the removal of the VESSEL shall be borne by the BUYER.

7. **NOTICES**

Prior to the delivery of the VESSEL, the BUILDER shall give notice to the BUYER with the following schedule:

90 DAYS PRIOR TO DELIVERY - 30 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)

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**ARTICLE VIII : DELAYS AND EXTENSIONS OF TIME (INCLUDING FORCE MAJEURE)**

**1. CAUSES OF DELAY**

If, at any time after signing this CONTRACT, either the construction or delivery of the VESSEL or any performance required hereunder as a prerequisite to the delivery thereof is delayed by any of the following events; namely war, acts of state or government, blockade, revolution, insurrections, mobilization, civil commotion, riots, strikes, sabotage, lockouts, Acts of God or the public enemy, plague or other epidemics, quarantines, shortage or prolonged failure of electric current, freight embargoes, or defects in major forgings or castings which could not have been detected by the BUILDER using reasonable care, or delays or defects in the BUYER'S SUPPLIES as stipulated in Article X.II, if any, or shortage of materials, machinery or equipment or inability to obtain delivery or delays in delivery of materials, machinery or equipment, provided that at the time of ordering the same could reasonably be expected by the BUILDER to be delivered in time, or defects in materials, machinery or equipment which could not have been detected by the BUILDER using reasonable care or earthquakes, tidal waves, typhoons, hurricanes, prolonged or unusually severe weather conditions or destruction of the premises or works of the BUILDER or its sub-contractors, or of the VESSEL, or any part thereof, by fire, landslides, flood, lightning, explosion, or delays in the BUILDER's other commitments resulting from any such causes as described in this Article which in turn delay the construction of the VESSEL or the BUILDER's performance under the CONTRACT, or delays caused by the CLASSIFICATION SOCIETY or the BUYER's faulty action or omission, or other causes beyond the reasonable control of the BUILDER, or its sub-contractors, as the case may be, provided all the foregoing events were not existing and known to the BUILDER 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 BUILDER 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 BUILDER in respect of labor relations or his relevant sub-contractors, as the case may be; and provided further that any of the above events directly affect the construction schedule of the VESSEL, then, in the event of delays due to the happening of any of the aforementioned contingencies, the DELIVERY DATE of the VESSEL under this CONTRACT shall be extended for a period of time which shall not exceed the total accumulated time of all such delays.

Upon occurrence of the foregoing events, the BUILDER shall take immediate steps to overcome and mitigate the delay and to recover lost time, if any.

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**2. NOTICE OF DELAYS**

As soon as practicably possible after commencement of any delay, and in any event within fourteen (14) days, on account of which the BUILDER claims that it is entitled under this CONTRACT to an extension of the DELIVERY DATE of the VESSEL, excluding delays due to arbitration, the BUILDER shall advise the BUYER in writing or by facsimile of the date such delay commenced, the reasons thereof and, if possible, its estimated duration of the probable delay in the delivery of the VESSEL, and shall supply the BUYER if reasonably available with evidence to justify the delay claimed. Within one (1) week after such delay ends, the BUILDER shall likewise advise the BUYER in writing or by facsimile of the date that such delay ended, and also, shall specify the period of time by which the BUILDER claims the DELIVERY DATE should be extended by reason of such delay.

Failure of the BUILDER to notify the BUYER of its claim for extension of the DELIVERY DATE within the applicable time shall result in a waiver of the BUILDER's claim. Failure of the BUYER to object to the BUILDER's notification of any claim for extension of the date for delivery of the VESSEL within fourteen (14) days after receipt by the BUYER of such notification shall be deemed to be a waiver by the BUYER of its right to object to such extension.

**3. RIGHT TO CANCEL FOR EXCESSIVE DELAY**

If the total accumulated time of all permissible and non-permissible delays, excluding delays due to (i) arbitration under Article XIII, (ii) the BUYER's defaults under Article XI, (iii) modifications and changes under Article V or (iv) delays or defects in the BUYER'S SUPPLIES as stipulated in Article XII, aggregates two hundred and ten (210) days or more, then, the BUYER may, at any time thereafter, cancel this CONTRACT by giving a written notice of cancellation to the BUILDER. Such cancellation shall be effective as of the date the notice thereof is received by the BUILDER.

If the BUYER has not served the notice of cancellation as provided in the above or Article III.1. hereof, the BUILDER may, at any time after expiration of the accumulated time of the delay in delivery, either two hundred and ten (210) days in case of the delay in this Paragraph or one hundred and eighty (180) days in case of the delay in Article III.1, notify the BUYER of the future date upon which the BUILDER estimates the VESSEL will be ready for delivery and demand in writing or by facsimile that the BUYER make an election either to cancel this CONTRACT or to consent to the delivery of the VESSEL at such

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future date, in which case the BUYER shall, within fourteen (14) days after receipt of such demand, make and notify the BUILDER of such election. If the BUYER elects to consent to the delivery of the VESSEL at such future date (or other future date as the parties may agree):

- (a) Such future date shall become the contractual delivery date for the purposes of this CONTRACT and shall be subject to extension by reason of permissible delays as herein provided, and
- (b) If the VESSEL is not delivered by such revised contractual delivery date (as extended by reason of permissible delays), the BUYER shall have the same right of cancellation upon the same terms as provided in the above and Article III. 1.

If the BUYER shall not make an election within fourteen (14) days as provided hereinabove, the BUYER shall be deemed to have accepted such extension of the DELIVERY DATE to the future delivery date indicated by the BUILDER.

**4. DEFINITION OF PERMISSIBLE DELAYS**

Delays on account of the foregoing Paragraph 1 of this Article and any other Paragraph of this CONTRACT which expressly permits an extension of the DELIVERY DATE shall be understood to be permissible delays, and are to be distinguished from non-permissible unauthorised delays on account of which the CONTRACT PRICE of the VESSEL is subject to adjustment as provided in Article III hereof.

(End of Article)



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**ARTICLE IX : WARRANTY OF QUALITY**

**1. GUARANTEE OF MATERIAL AND WORKMANSHIP**

- (a) The BUILDER, for the period of twelve (12) months from the date of delivery of the VESSEL to the BUYER (the "Guarantee Period"), guarantees the VESSEL in her entirety and all parts and equipment thereof, including but without prejudice to the generality of the foregoing, the VESSEL's design and all materials and parts manufactured, installed, furnished and/or incorporated by the BUILDER under this CONTRACT against all defects which are due to omissions, non-conformities, defective materials or equipment, faulty design and/or performance, construction miscalculations, and/or poor workmanship (collectively, the "Defects").

The BUILDER will be responsible for all machinery or parts of machinery and all constructions which are supplied by sub-contractors and will guarantee the above mentioned for the Guarantee Period on the basis as laid down in this Article.

- (b) The BUILDER shall pass to the BUYER information about any claims that the BUILDER may have against subcontractors for Defect(s) in deliveries to the VESSEL, without in any way diminishing the BUILDER's guarantee as aforesaid.
- (c) If the normal guarantee period stipulated by manufacturers or suppliers of any components of machinery, materials, equipment, appurtenances or outfit furnished to the BUILDER and embodied in the VESSEL exceeds the Guarantee Period, the benefits of such extended guarantee rights shall be made available to the BUYER by the BUILDER without any additional cost to the BUYER.

**2. NOTICE OF DEFECTS**

The BUYER or its duly authorized representative will notify the BUILDER in writing or by facsimile promptly after discovery of any Defects for which a claim is to be made under this guarantee.

The BUYER's written notice shall include full particulars as to the nature of the Defects and the extent of the damage caused thereby, but excluding consequential damage as hereinafter provided. The BUILDER will be under no obligation with respect to this

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guarantee in respect of any claim for Defects discovered prior to the expiry date of the guarantee, unless notice of such Defects is received by the BUILDER before the expiry date. However, facsimiled advice received by the BUILDER within seven (7) days after such expiry date that a claim is forthcoming will be sufficient compliance with the requirement as to time, provided that such facsimiled advice shall include at least a brief description of the Defects, including the identity of the equipment, extent of damage, name and number of any replacement part and description of any remedial work required, and that full particulars as practicable as possible are given to the BUILDER not later than twenty one (21) days after the expiry date.

**3. REMEDY OF DEFECTS**

- (a) The BUILDER shall remedy, at its expense, any Defects against which the VESSEL is guaranteed under this Article, by making all necessary repairs or replacements at the SHIPYARD or elsewhere as provided for in subparagraph (b) below. If the cause of the Defect(s) is not known or if the Defect(s) is of a recurring nature, the BUILDER shall, at its expense, explore the reasons for such Defect(s) and take all necessary steps and measures to remedy the same in such a way as to eliminate the reoccurrence thereof.

In the event of any Defect(s) guaranteed under this Article, the VESSEL shall be taken at the BUYER's cost and responsibility to the place selected, ready in all respects for such repairs or replacements and in any event, the BUILDER shall not be responsible for towage, dockage, wharfage, port charges and anything else incurred by the BUYER in getting and keeping the VESSEL ready for such repair or replacement.

The BUILDER and the BUYER agree that Defects to underwater parts of the VESSEL 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, however, the BUILDER shall not be liable for any worsening of the Defects after the expiry date of the Guarantee Period, unless mutually agreed by the parties.

- (b) However, if it is impractical (which shall include, but not be limited to, an emergency) to bring the VESSEL to the SHIPYARD, the BUYER may cause the necessary repairs or replacements to be made elsewhere which is deemed by the BUYER with the consent of the BUILDER, which shall not be unreasonably withheld, to be suitable for the purpose, provided that, in such event, the BUILDER may forward or supply replacement parts or materials under the terms described in subparagraph (c) below, unless the

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forwarding or supplying thereof under the terms described in subparagraph (c) below would impair or delay the operation or working schedule of the VESSEL. In the event the BUYER proposes to cause the necessary repairs or replacements to be made to the VESSEL at any shipyard or works other than the SHIPYARD, the BUYER shall first (but in all events as soon as reasonably possible) give the BUILDER notice in writing or by facsimile of the time and place such repairs will be made, and if the VESSEL is not thereby delayed, or her operation or working schedule is not thereby impaired, the BUILDER shall have the right, at its own cost and expense, to verify by its own representative(s) the nature and extent of the Defect(s) complained of.

The BUILDER shall, in such case, promptly advise the BUYER by facsimile, after such examination has been completed, of its acceptance or rejection of the Defect(s) as one(s) covered by the guarantee herein provided. Upon the BUILDER's acceptance of the Defect(s) as justifying remedy under this Article, or upon award of an arbitration so determining, the BUILDER shall compensate the BUYER an amount equal to the reasonable cost of making the same repairs or replacements at major ship repair facilities in Singapore.

- (c) In the event that it is necessary for the BUILDER to forward a replacement for a defective part under this guarantee, replacement parts shall be shipped to the BUYER, and the BUILDER shall bear and pay all C.I.F. costs of the replacement(s) until they arrive on board the VESSEL.
- (d) The BUILDER reserves the option to retrieve, at the BUILDER's cost, any of the replaced equipment/parts in the event Defects are remedied in accordance with the provisions in this Article.
- (e) Any dispute under this Article shall be referred to arbitration in accordance with the provisions of Article XIII hereof.

**4. EXTENT OF THE BUILDER'S LIABILITY**

- (a) After delivery of the VESSEL the responsibility of the BUILDER in respect of and/or in connection with the VESSEL and/or this CONTRACT shall be limited to the extent expressly provided in this Article. Except as expressly provided in this Article, in no circumstances and on no ground whatsoever shall the BUILDER have any responsibility or liability whatsoever or howsoever arising in respect of or in

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connection with the VESSEL or this CONTRACT after the delivery of the VESSEL. Further, but without in any way limiting the generality of the foregoing, the BUILDER shall have no liability or responsibility whatsoever or howsoever arising for or in connection with any consequential or special losses, damages or expenses (including but not limited to loss of time, loss of profit or earnings or demurrage directly or indirectly caused) in relation to or in connection with this CONTRACT or the VESSEL.

- (b) The BUILDER shall be under no obligation with respect to Defects in respect of which the BUILDER has not received notice in accordance with Paragraph 2 of this Article by the expiry of the Guarantee Period.
- (c) The BUILDER shall under no circumstances be liable for Defects in the VESSEL or any part of equipment thereof caused by normal wear and tear, overloading, improper loading or stowage by the BUYER, fire unrelated to Defects, accidents at sea or elsewhere, or by incompetence, mismanagement, negligence or wilful neglect by the BUYER or any alteration or addition to the VESSEL on the part of the BUYER, its employees or agents or any other person on or doing work on the VESSEL, including the VESSEL's officers, crew and passengers, unless approved by the BUILDER. Likewise, the BUILDER shall not be liable for Defects due to repairs carried out by any person other than the BUILDER or which have not been carried out in accordance with the procedure set out in Paragraph 3 (b) of this Article, unless approved by the BUILDER.
- (d) The BUILDER shall not be obliged to repair and shall not be liable for damage to the VESSEL or any part of the equipment thereof which, after delivery of the VESSEL, is caused other than by Defects of the nature specified in this Article. The guarantees contained as hereinabove in this Article replace and exclude any other liability, guarantee, warranty and/or condition imposed or implied by statute, common law, custom, contract (including this CONTRACT) or otherwise on the part of the BUILDER by reason of the construction and sale of the VESSEL for and to the BUYER or for any other reason whatsoever.

**5. EXTENSIONS TO THE GUARANTEE PERIOD**

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 is 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 results from any Defect(s) covered by the BUILDER's guarantee under this Article, then the Guarantee Period shall be extended by such period(s) of time lost in remedying the Defect(s) for which the BUILDER is responsible according to this CONTRACT or in awaiting part(s) required for the purpose of remedying such Defect(s), however, in any event, the total guarantee period shall not extend to twenty-four (24) months from the DELIVERY DATE of the VESSEL;

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- (b) The Guarantee Period shall further, in relation to any qualified acceptance of the BUYER pursuant to Article VI and where the BUYER has agreed that the matters which are the subject of the qualified acceptance may be remedied after delivery, be extended up to the expiration of twelve (12) calendar months following the time when the matters which were mentioned in the notice of the qualified acceptance are made good by the BUILDER after the delivery of the VESSEL to the BUYER as herein provided.

(End of Article)

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**ARTICLE X : PAYMENT**

**1. CURRENCY**

All payments under this CONTRACT shall be made in United States Dollars.

**2. TERMS OF PAYMENT**

The payments of the CONTRACT PRICE shall be made as follows :

(a) First Instalment

Twenty per cent (20%) of the CONTRACT PRICE amounting to U.S.Dollars Fifteen Million Four Hundred Seventy Thousand (US\$15,470,000) shall be paid within three (3) business days after the date hereof.

Under this CONTRACT, in counting the business days, only Saturdays and Sundays are excepted. When a due date falls on a day when banks are not open for business in New York, N.Y., U.S.A. and London, England, such due date shall fall due upon the first business day next following.

(b) Second Instalment

Five per cent (5%) of the CONTRACT PRICE amounting to U.S.Dollars Three Million Eight Hundred Sixty Seven Thousand Five Hundred (US\$3,867,500) shall be paid within twelve (12) months from the date of signing this CONTRACT.

(c) Third Instalment

Five per cent (5%) of the CONTRACT PRICE amounting to U.S.Dollars Three Million Eight Hundred Sixty Seven Thousand Five Hundred (US\$3,867,500) shall be paid within eighteen (18) months from the date of signing this CONTRACT.

(d) Fourth Instalment

Ten per cent (10%) of the CONTRACT PRICE amounting to U.S.Dollars Seven Million

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Seven Hundred Thirty Five Thousand (US\$7,735,000) shall be paid within three (3) business days of receipt by the BUYER of a facsimiled advice from the BUILDER that steel cutting has commenced.

(e) Fifth Instalment

Ten per cent (10%) of the CONTRACT PRICE amounting to U.S.Dollars Seven Million Seven Hundred Thirty Five Thousand (US\$7,735,000) shall be paid within three (3) business days of receipt by the BUYER of a facsimiled advice from the BUILDER that the first block of the keel has been laid.

(f) Sixth Instalment

Fifty per cent (50%) of the CONTRACT PRICE amounting to U.S.Dollars Thirty Eight Million Six Hundred Seventy Five Thousand (US\$38,675,000) plus or minus any increase or decrease due to modifications and/or adjustment, if any, arising prior to delivery of the VESSEL of the CONTRACT PRICE under Articles III and V of this CONTRACT shall be paid to the BUILDER with the delivery of the VESSEL. (The date stipulated for payment of each of the six instalments mentioned above is hereinafter in this Article and in Article XI referred to as the "DUE DATE" of that instalment).

It is understood and agreed upon by the BUILDER and the BUYER that all payments under the provisions of this Article shall not be delayed or withheld by the BUYER due to any dispute or disagreement of whatever nature arising between the BUILDER and the BUYER. Should there be any dispute in this connection, the matter shall be dealt with in accordance with the provisions of arbitration in Article XIII hereof. Expenses for remitting payments and any other expenses connected with such payments shall be for the account of the BUYER.

**3. DEMAND FOR PAYMENT**

At least fourteen (14) days prior to the date of each event provided in Paragraph 2 of this Article on which any payment shall fall due hereunder, with the exception of the payment of the first and second instalments, the BUILDER shall notify the BUYER by facsimile of the date such payment shall become due.

The BUYER shall immediately acknowledge receipt of such notification by facsimile to the BUILDER, and make payment as set forth in this Article. If the BUILDER fails to receive

the BUYER's said acknowledgement within three (3) days after sending the aforementioned notification, the BUILDER shall promptly facsimile to the BUYER a second notification of similar import. The BUYER shall immediately acknowledge by facsimile receipt of the foregoing second notification regardless of whether or not the first notification was acknowledged as aforesaid.

#### **4. METHOD OF PAYMENT**

(a) All the pre-delivery payments and the payment due on delivery in settlement of the CONTRACT PRICE as provided for in Paragraph 2 of this Article shall be made in U.S. Dollars on or before the DUE DATE thereof by telegraphic transfer as follows ;

(i) The payment of the first, second, third, fourth and fifth instalments shall be made to the account (Account No.: 04-009-010) of Korea Exchange Bank, Seoul, Korea (hereinafter called the "KEB") with Deutsche Bank Trust Company Americas, 60 Wall Street Mail Stop NYC 60-1310, New York, N.Y. 10005, U.S.A (hereinafter called the "DBTC") for further credit to the account (Account No.: 117-JCD-700002) of Hyundai Heavy Industries Co., Ltd. with KEB or the account of the BUILDER with any other bank in favour of the BUILDER, as designated and notified by the BUILDER at least three (3) business days prior to the DUE DATE.

(ii) Payment of the Sixth Instalment

The BUYER shall, at least three (3) business days prior to the actual date of delivery of the VESSEL, request the BUYER's bank to make an irrevocable deposit in an account in the name of the BUYER'S bank with KEB or any other bank designated by the BUILDER and acceptable to the BUYER's bank for a period of fifteen (15) days and covering the amount of the sixth instalment (as adjusted in accordance with the provisions of this CONTRACT), with an irrevocable instruction that the said amount shall be released to the BUILDER against presentation by the BUILDER to KEB or such other bank of a copy of the Protocol of Delivery and Acceptance signed by the BUYER's authorized representative and the BUILDER. Interest, if any, accrued from such deposit shall be for the benefit of the BUYER.

If the BUILDER has not presented the said original of the Protocol of Delivery and Acceptance duly signed by the BUILDER and the BUYER to the KEB or such other bank on or before the expiry of the aforesaid fifteen (15) day



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deposit period, then 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 to between the BUYER and the BUILDER, then the BUYER shall make the cash deposit in accordance with the same terms and conditions as set out above.

- (b) Simultaneously with each of such payments, the BUYER shall advise the BUILDER of the details of the payments by facsimile and at the same time, the BUYER shall cause the BUYER's remitting Bank to advise the KEB or any other bank of the details of such payments by authenticated bank cable or telex.

**5. REFUND BY THE BUILDER**

The payments made by the BUYER to the BUILDER prior to delivery of the VESSEL shall constitute advances to the BUILDER. If the VESSEL is rejected by the BUYER in accordance with the terms of this CONTRACT, or except in the case of rescission or cancellation of this CONTRACT by the BUILDER under the provisions of Article XI hereof, if the BUYER terminates, cancels or rescinds this CONTRACT pursuant to any of the provisions of this CONTRACT specifically permitting the BUYER to do so, the BUILDER shall forthwith refund to the BUYER, in U.S. Dollars, the full amount of all sums paid by the BUYER to the BUILDER in advance of delivery on account of the VESSEL together with interest thereon as herein provided.

The transfer and other bank charges of such refund shall be for the BUILDER's account. The interest rate of the refund, as above provided, shall be seven per cent (7%) per annum from the date following the date of receipt by the BUILDER of the pre-delivery instalment(s) to the date of remittance by telegraphic transfer of such refund, provided, however, that if and to the extent the cancellation of this CONTRACT by the BUYER is based upon delays due to a force majeure event or other causes beyond the control of the BUILDER as provided for in Article VIII hereof, then in such event, the interest rate of refund shall be reduced for the relevant force majeure period to six per cent (6%) per annum.

It is hereby understood by both parties that payment of any interest provided herein is by way of liquidated damages due to cancellation of this CONTRACT and not by way of compensation for use of money.

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If, pursuant to this CONTRACT, the BUILDER is required to refund to the BUYER the instalments paid by the BUYER to the BUILDER as provided in this Paragraph, the BUILDER shall return to the BUYER all of the BUYER'S SUPPLIES as stipulated in Article XII which were not incorporated into the VESSEL and pay to the BUYER an amount equal to the cost to the BUYER of those supplies incorporated into the VESSEL.

Any and all refunds or payments due to the BUYER under this CONTRACT shall be effected by telegraphic transfer to the account specified by the BUYER free of bank charge, remittance fees, taxes and other applicable withholdings incurred and levied in Korea.

**6. TOTAL LOSS**

If there is a total loss or a constructive total loss of the VESSEL prior to delivery thereof, the BUILDER shall proceed according to the mutual agreement of the parties hereto either:

- (a) to build another vessel in place of the VESSEL so lost and deliver it under this CONTRACT to the BUYER, provided that the parties hereto shall have agreed in writing to a reasonable cost and time for the construction of such vessel in place of the lost VESSEL; or
- (b) to refund to the BUYER the full amount of the total sums paid by the BUYER to the BUILDER under the provisions of Paragraph 2 of this Article together with interest thereon at the rate of seven per cent (7%) per annum from the date following the date of receipt by the BUILDER of such pre-delivery instalment(s) to the date of payment by the BUILDER to the BUYER of the refund.

If the parties hereto fail to reach such agreement within two (2) months after the VESSEL is determined to be a total loss or constructive total loss, the provisions of (b) hereinabove shall be applied.

**7. DISCHARGE OF OBLIGATIONS**

Upon refund by the BUILDER to the BUYER as provided in the foregoing Paragraphs 5 and 6 all of the obligations, duties and liabilities of each of the parties hereto to the other shall be discharged.

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**8. REFUND GUARANTEE**

The BUILDER shall send a copy of the Refund Guarantee by facsimile before payment of the 1<sup>st</sup> installment by the BUYER, and deliver to the BUYER by hard copy, or by SWIFT through the BUYER's bank, acceptable to the BUILDER, an assignable letter of guarantee issued by Calyon, Seoul Branch for the refund of the pre-delivery instalments plus interest as aforesaid to the BUYER under or pursuant to Paragraph 5 above in the form annexed hereto as Exhibit "A". All expenses in issuing and maintaining the letter of guarantee described in this Paragraph shall be borne by the BUILDER. In case of SWIFT, the BUYER shall advise the BUILDER of the details of the BUYER's bank including the SWIFT address upon execution of this CONTRACT.

(End of Article)

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**ARTICLE XI : BUYER'S DEFAULT/ BUILDER'S DEFAULT**

**1. BUYER'S DEFAULT**

**(a) DEFINITION OF THE BUYER'S DEFAULT**

The BUYER shall be deemed to be in default under this CONTRACT in the following cases :

- (i) If the first, second, third, fourth or fifth instalment is not paid to the BUILDER within respective DUE DATE of such instalments as required by Article X; or
- (ii) If the sixth instalment is not deposited in accordance with Article X.4.(a)(ii) hereof or if the said sixth instalment deposit is not released to the BUILDER against presentation by the BUILDER of a duplicate original copy of the PROTOCOL OF DELIVERY AND ACCEPTANCE; or
- (iii) If the BUYER fails to take delivery of the VESSEL when the VESSEL is duly tendered for delivery by the BUILDER under the provisions of Article VII hereof; or
- (iv) If an order or an effective resolution shall be passed for winding up of the BUYER (except for the purpose of reorganization, merger or amalgamation).

**(b) EFFECT OF THE BUYER'S DEFAULT ON OR BEFORE THE DELIVERY OF THE VESSEL**

If the BUYER shall be in default as provided in Paragraph 1.(a) above of its obligations under this CONTRACT, then;

- (i) The DELIVERY DATE of the VESSEL shall be extended automatically for the actual period of such default and the BUILDER shall not be obliged to pay any liquidated damages for the delay in delivery of the VESSEL caused thereby.
- (ii) The BUYER shall pay to the BUILDER interest at the rate of seven per cent (7%) per annum in respect of the instalment(s) in default from the respective DUE DATE to the date of actual receipt by the BUILDER of the full amount of such instalment(s).

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- (iii) If the BUYER is in default in payment of any of the instalment(s) due and payable prior to or simultaneously with the delivery of the VESSEL, the BUILDER shall, in writing or by facsimile, notify the BUYER to that effect, and the BUYER shall, upon receipt of such notification, forthwith acknowledge in writing or by facsimile to the BUILDER that such notification has been received.
  - (iv) If any of the BUYER's default continues for a period of ten (10) days after the BUILDER's notification to the BUYER of such default, the BUILDER may, at its option, rescind this CONTRACT by serving upon the BUYER a written notice or a facsimile notice of rescission confirmed in writing.
  - (v) In the event of such cancellation by the BUILDER of this CONTRACT due to the BUYER's default as provided for in Paragraph 1.(a) above, the BUILDER shall be entitled to retain and apply the instalments already paid by the BUYER to the recovery of the BUILDER's loss and damage including, but not being limited to, reasonable estimated profit due to the BUYER's default and the cancellation of this CONTRACT and at the same time the BUILDER shall have the full right and power either to complete or not to complete the VESSEL which is the sole property of the BUILDER as it deems fit, and to sell the VESSEL at a public or private sale on such terms and conditions as the BUILDER thinks fit acting reasonably. The BUILDER will invite the BUYER to participate in any public tender at least fourteen (14) days in advance.

The proceeds received by the BUILDER from any sale shall be applied in addition to the instalment(s) retained by the BUILDER as mentioned hereinabove as follows : -

- First, in payment of all reasonable costs and expenses of the sale of the VESSEL, including interest thereon at seven per cent (7%) per annum from the respective date of payment of such costs and expenses aforesaid to the date of sale on account of the BUYER's default.
- Second, if the VESSEL has been completed, in or towards satisfaction of the unpaid balance of the CONTRACT PRICE, to which shall be added the cost of all additional work and extras agreed by the BUYER including interest thereon at seven per cent (7%) per annum from the respective DUE DATE of the instalment in default to the date of sale, or if the VESSEL has not been completed, in or towards satisfaction of the unpaid amount of the cost incurred by the BUILDER prior to the date of sale on account of construction of the VESSEL, including work, labour, materials and reasonably estimated profit which the BUILDER would have been entitled to receive if the VESSEL had been completed and delivered plus interest thereon at seven per cent (7%) per annum from the respective DUE DATE of the instalment in default to the date of sale.

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Third, the balance of the proceeds of sale, if any, shall belong to the BUYER, and shall forthwith be paid over to the BUYER by the BUILDER.

In the event of the proceeds from the sale together with instalment(s) retained by the BUILDER being insufficient to pay the BUILDER the total amount required as above, the BUYER shall be liable for the deficiency and shall pay the same to the BUILDER upon its demand.

**2. BUILDER'S DEFAULT**

**(a) DEFINITION OF THE BUILDER'S DEFAULT**

The BUYER may declare the BUILDER in default and rescind this CONTRACT, all as stipulated in this CONTRACT and the SPECIFICATIONS, in any of the following cases:

- (i) the court declares bankruptcy proceedings against the BUILDER under the Bankruptcy Act of Korea; or
- (ii) there are insolvency proceedings which prevent the BUILDER from building and completing the VESSEL.

**(b) EFFECT OF THE BUILDER'S DEFAULT**

If the BUILDER shall be in default as provided for in Paragraph 2.(a) of this Article hereinabove, the BUYER shall, in writing or by facsimile, notify the BUILDER to that effect, and may, at its option, rescind this CONTRACT in accordance with the provisions of this Article.

The BUYER shall, in writing or by facsimile, notify the BUILDER to that effect, and the BUILDER shall, upon receipt of such notification, forthwith acknowledge in writing or by facsimile to the BUYER that such notification has been received.

If any of the BUILDER's default continues for a period of ten (10) days after the BUYER's

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notification to the BUILDER of such default, the BUYER may, at its option, rescind this CONTRACT by serving upon the BUILDER a written notice or a facsimile notice of rescission confirmed in writing.

(c) **NOTICE OF THE BUILDER'S DEFAULT**

In the event the BUYER exercises 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 BUILDER in writing or by fax confirmed in writing, and such rescission shall be effective as of the date notice thereof is received by the BUILDER.

(d) **REFUNDMENT BY THE BUILDER**

In the event the BUILDER receives the notice stipulated in Paragraph 2.(c) of this Article, the BUILDER shall promptly refund to the BUYER the full amount of all sums paid by the BUYER to the BUILDER in accordance with Article X.

(e) **DISCHARGE OF OBLIGATIONS**

Upon such refund by the BUILDER to the BUYER, and upon compliance with the provisions of Paragraph 2.(d) of this Article, 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)

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**ARTICLE XII : BUYER'S SUPPLIES**

**1. RESPONSIBILITY OF THE BUYER**

The BUYER shall, at its cost and expense, supply all the BUYER'S SUPPLIES as specified in Paragraph 0.15 of the FULL SPECIFICATIONS (hereinafter called the "BUYER'S SUPPLIES"), to the BUILDER at the SHIPYARD in proper condition ready for installation and in accordance with the time schedule to be furnished to the BUYER by the BUILDER to meet the building schedule of the VESSEL.

In order to facilitate the installation of the BUYER'S SUPPLIES by the BUILDER, the BUYER shall furnish the BUILDER with the necessary plans, instruction books, test report and all test certificates required by the BUILDER and shall cause the representative(s) of the makers of the BUYER'S SUPPLIES to give the BUILDER any advice, instructions or assistance which the BUILDER may reasonably require in the installation or adjustment thereof at the SHIPYARD, all without cost or expense to the BUILDER.

The BUYER shall be liable for any expense incurred by the BUILDER for repair of the BUYER'S SUPPLIES due to defective design or materials, poor workmanship or performance or due to damage in transit and the DELIVERY DATE of the VESSEL shall be extended for the period of such repair if such repair shall affect the delivery of the VESSEL.

Commissioning into good order of the BUYER'S SUPPLIES during and after installation on board shall be made at the BUYER's expense by the representative of respective maker or the person designated by the BUYER in accordance with the BUILDER's building schedule.

Should the BUYER fail to deliver to the BUILDER the BUYER'S SUPPLIES and the necessary document or advice for such supplies within the time specified by the BUILDER, the DELIVERY DATE of the VESSEL shall automatically be extended for the period of such delay if such delay in delivery shall affect the delivery of the VESSEL. In such event, the BUYER shall pay to the BUILDER all losses and damages sustained by the BUILDER due to such delay in the delivery of the BUYER'S SUPPLIES and such payment shall be made upon delivery of the VESSEL, provided, however, that the BUILDER shall have :

- (a) furnished the BUYER with the time schedule referred to above, two (2) months prior to installation of the BUYER'S SUPPLIES and



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(b) given the BUYER written notice of any delay in delivery of the BUYER'S SUPPLIES and the necessary document or advice for such supplies as soon as the delay occurs which might give rise to a claim by the BUILDER under this Paragraph.

Furthermore, if the delay in delivery of the BUYER'S SUPPLIES and the necessary document or advice for such supplies should exceed twenty (20) days from the date specified by the BUILDER, the BUILDER shall be entitled to proceed with construction of the VESSEL without installation of such items (regardless of their nature or importance to the BUYER or the VESSEL) in or on the VESSEL without prejudice to the BUILDER's right hereinabove provided, and the BUYER shall accept the VESSEL so completed.

**2. RESPONSIBILITY OF THE BUILDER**

The BUILDER shall be responsible for storing, safekeeping and handling the BUYER'S SUPPLIES which the BUILDER is required to install on board the VESSEL under Paragraph 0.15 of the FULL SPECIFICATIONS after delivery of such supplies to the SHIPYARD, and shall install such supplies on board the VESSEL at the BUILDER's expense unless otherwise specified in the SPECIFICATIONS.

However, the BUILDER shall not be responsible for the quality, performance or efficiency of any equipment included in the BUYER'S SUPPLIES and is under no obligation with respect to the guarantee of such equipment against any defects caused by poor quality, performance or efficiency of the BUYER'S SUPPLIES but the BUILDER shall be liable under Article IX for any defect(s) in respect of installation of the BUYER'S SUPPLIES to the VESSEL. If any of the BUYER'S SUPPLIES is lost or damaged while in the custody of the BUILDER, the BUILDER shall, if the loss or damage is due to wilful default or negligence on its part, be responsible for such loss or damage.

(End of Article)

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**ARTICLE XIII : 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.

In the event that the parties hereto do not agree to settle a dispute according to the provision hereinabove, the following clauses shall apply.

**2. APPOINTMENT OF THE ARBITRATOR**

If any dispute or difference shall arise between the parties hereto concerning any matter or thing herein contained, or the operation or construction thereof, or any matter or thing in any way connected with this CONTRACT or the rights, duties or liabilities of either party under or in connection with this CONTRACT, then, in every such case, the dispute or difference shall be referred to arbitration in London, England by a sole arbitrator. The arbitrator shall be appointed by agreement within fourteen (14) days of the first written notification of either party to the other of its intention to arbitrate such dispute or difference, or in default of such agreement, upon the application of either of the parties, by the President for the time being of the London Maritime Arbitrators Association ("LMAA") who shall in making any such appointment have due regard to the nature of the dispute and the requirement for an expeditious resolution of the dispute and, in particular, the availability of any arbitrator so appointed for an early hearing date.

**3. LAWS APPLICABLE**

Any arbitration arising hereunder shall be submitted in accordance with and subject to the Arbitration Act 1996 of England or any statutory amendments or re-enactments thereof for

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the time being in force and shall be conducted in accordance with the LMAA terms current at the time when arbitration proceedings are commenced (except as expressly provided herein). The award of the arbitrator shall be final and binding upon parties hereto.

**4. PROCEEDINGS**

In the event of any dispute or difference being referred to arbitration, the parties hereby acknowledge that time is of the essence in obtaining an award from the arbitrator on such dispute or difference and the parties hereby agree that the arbitration shall be conducted according to the following timetable:

- (a) The claimant in the arbitration to serve points of claim within twenty one (21) days of the appointment of the arbitrator.
- (b) The respondent in the arbitration to serve points of defence and points of counterclaim, if any, within twenty one (21) days thereafter.
- (c) The claimant to serve points of reply and defence to counterclaim, if any, within fourteen (14) days thereafter and the hearing of the arbitration to commence within twelve (12) weeks of the appointment of the arbitrator.

**5. ALTERATION OF DELIVERY OF THE VESSEL**

In the event of the arbitration of any dispute or difference the award by the arbitrator shall include a finding as to whether or not the contractual delivery date of the VESSEL should, as a result of such dispute, be in any way altered thereby.

**6. NOTICE OF AWARD**

The award shall immediately be given to the BUYER and the BUILDER in writing or by facsimile confirmed in writing.

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7. **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.

8. **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.

(End of Article)

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**ARTICLE XIV : SUCCESSORS AND ASSIGNS**

The BUILDER agrees that, prior to delivery of the VESSEL, this CONTRACT may, with the prior written approval of the BUILDER, which the BUILDER shall not unreasonably withhold, be transferred by the BUYER to and the title thereof may 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 the rights and obligations of the BUYER under this CONTRACT. 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 due to 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 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 BUILDER a notice of assignment in form and content acceptable to the BUILDER acting reasonably. The BUILDER shall, at the BUYER's request, acknowledge and consent to such assignment by signing an acknowledgement and consent acceptable to the BUILDER acting reasonably.

The BUILDER 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, and provided always that BUILDER shall remain responsible for the due performance of this CONTRACT by the assignee.

(End of Article)

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**ARTICLE XV : TAXES AND DUTIES**

**1. TAXES**

Unless otherwise expressly provided for in this CONTRACT, all taxes, fees and duties including stamp duties, if any, incurred in or levied by any country except Korea in connection with its performance under this CONTRACT shall be borne by the BUYER except for taxes, fees and duties imposed on those items to be procured by the BUILDER for construction of the VESSEL and all taxes, fees and duties, including stamps duties, if any, incurred and levied by Korea in connection with its performance under this CONTRACT shall be borne by the BUILDER.

**2. DUTIES**

The BUILDER shall hold the BUYER harmless from any payment of duty imposed in Korea upon materials or supplies which, under the terms of this CONTRACT, or amendments thereto, may be supplied by the BUYER from abroad for the construction of the VESSEL.

The BUILDER shall likewise hold the BUYER harmless from any payment of duty imposed in Korea in connection with materials or supplies for operation of the VESSEL, including running stores, provisions and supplies necessary to stock the VESSEL for its operation. This indemnity does not, however, extend to any items purchased by the BUYER for use in connection with the VESSEL which are not absolutely required for the construction or operation of the VESSEL.

(End of Article)

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**ARTICLE XVI : PATENTS, TRADEMARKS AND COPYRIGHTS**

**1. PATENTS, TRADEMARKS AND COPYRIGHTS**

Machinery and equipment of the VESSEL, whether made or furnished by the BUILDER under this CONTRACT, may bear the patent numbers, trademarks, or trade names of the manufacturers. The BUILDER shall defend and save harmless the BUYER from all liabilities or claims for or on account of the use of any patents, copyrights or design of any nature or kind, or for the infringement thereof including any unpatented invention made or used in the performance of this CONTRACT and also for any costs and expenses of litigation, if any in connection therewith. No such liability or responsibility shall be with the BUILDER with regard to components and/or equipment and/or design supplied by the BUYER.

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.

**2. RIGHTS TO THE FULL SPECIFICATIONS, PLANS, ETC.**

The BUILDER retains all rights with respect to the SPECIFICATIONS, 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 shall not disclose the same or divulge any information contained therein to any third parties, including but not limited to any other shipbuilders, without the prior written consent of the BUILDER, excepting where it is necessary for usual operation, repair and maintenance of the VESSEL. In case the BUYER is in breach of its obligation under this Article, the BUILDER shall be entitled to any rights, powers and remedies in this CONTRACT and/or at law, at equity or otherwise to recover any damages caused by the breach of the BUYER.

(End of Article)

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**ARTICLE XVII : INSURANCE**

From the time of launching of the VESSEL until the same is completed, delivered to and accepted by the BUYER, the BUILDER shall, at its own cost and expense, keep the VESSEL and all machinery, materials, equipment, appurtenances and outfit, delivered to the SHIPYARD for the VESSEL or built into, or installed in or upon the VESSEL, including the BUYER'S SUPPLIES, fully insured with first-class Korean insurance companies under coverage corresponding to the Institute of London Underwriters for BUILDER's Risks Clauses.

Such insurance coverage shall, up to the date of delivery of the VESSEL, be the aggregate amount of the instalments paid by the BUYER to the BUILDER plus the value of the BUYER'S SUPPLIES in the custody of the BUILDER.

The BUILDER's obligation to insure the VESSEL hereunder shall cease and terminate forthwith upon delivery thereof and acceptance by the BUYER.

(End of Article)



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**ARTICLE XVIII : INTERPRETATION AND GOVERNING LAW**

This CONTRACT has been prepared in English and shall be executed in duplicate and in such number of additional copies as may be required by either party respectively. 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 with, the laws of England.

(End of Article)

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**ARTICLE XIX : NOTICE**

Any and all notices, requests, demands, instructions, advices and communications in connection with this CONTRACT shall be written in English, sent by registered air mail or facsimile and shall be deemed to be given when first received whether by registered mail or facsimile. They shall be addressed as follows, unless and until otherwise advised : -

To the BUILDER:        Hyundai Heavy Industries Co., Ltd.  
                                 1, Cheonha-Dong, Dong-Ku, Ulsan  
                                 Korea  
                                 Attn: Project Management Department  
                                 Facsimile: (82) (52) 230-3448, 230-3425

To the BUYER:         Commercial  
                                 Seaspans Corporation  
                                 Unit 2, 7<sup>th</sup> Floor Bupa Center  
                                 141 Connaught Road West, Hong Kong F4 0000  
                                 China  
                                 Attn: Gerry Wang  
                                 Facsimile No.: 852-2540-1689

Technical  
                                 Seaspans Ship Management Ltd.  
                                 2600 - 200 Granville Street  
                                 Vancouver, B.C. V6C 1S4  
                                 Canada  
                                 Attn: Peter Curtis / Peter Jackson  
                                 Facsimile No.: 1-604-638-2595

The said notices shall become effective upon receipt of the letter or facsimile communication by the receiver thereof. Where a notice by facsimile is concerned which is required to be confirmed by letter, then, unless the CONTRACT or the relevant Article thereof otherwise requires, the notice shall become effective upon receipt of the facsimile.

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 facsimile) 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.

(End of Article)

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**ARTICLE XX : EFFECTIVENESS OF THIS CONTRACT**

This CONTRACT shall become effective upon signing by the parties hereto.

(End of Article)

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**ARTICLE XXI : EXCLUSIVENESS**

This CONTRACT shall constitute the only and entire agreement between the parties hereto, and unless otherwise expressly provided for in this CONTRACT, all other agreements on any subject matter of this CONTRACT, oral or written, made and entered into between the parties prior to the execution of this CONTRACT shall be null and void.

This CONTRACT may be supplemented or amended in writing by the parties and any supplement or amendment, whatsoever form it may be relating to this CONTRACT, to be made and signed among parties hereof concurrently with or after the signing this CONTRACT, shall govern in respect of the corresponding Article or Clause, as the case may be, of this CONTRACT, unless otherwise expressly stipulated in supplement or amendment.

(End of Article)

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IN WITNESS WHEREOF, the parties hereto have caused this CONTRACT to be duly executed on the date and year first above written.

BUYER

For and on behalf of  
SEASPAN  
CORPORATION

By: /s/ GERRY WANG  
Name: GERRY WANG  
Title: CHIEF EXECUTIVE OFFICER  
WITNESS:

BUILDER

For and on behalf of  
HYUNDAI HEAVY  
INDUSTRIES CO., LTD.

By: /s/ D. Y. HAN  
Name: D. Y. HAN  
Title: SENIOR EXECUTIVE V.P.  
WITNESS:

**EXHIBIT "A"**

OUR LETTER OF REFUNDMENT GUARANTEE NO. \_\_\_\_\_

Date : \_\_\_\_\_, 2006

Gentlemen:

We, \_\_\_\_\_ (hereinafter called the "Bank"), hereby issue our irrevocable letter of refundment guarantee number \_\_\_\_\_ (the "Letter") in favour of SEASPAN CORPORATION (hereinafter called the "BUYER"), a company organized and existing under the laws of the Marshall Islands, for account of Hyundai Heavy Industries Co., Ltd., Ulsan, Korea (hereinafter called the "BUILDER") in consideration of the BUYER making advance payments to the BUILDER under the shipbuilding contract dated \_\_\_\_\_, 2006 (hereinafter called the "CONTRACT") made by and between the BUYER and the BUILDER for the design, construction, and sale of one (1) \_\_\_\_\_ having the BUILDER's Hull No. \_\_\_\_ (hereinafter called the "VESSEL").

Whereas in Article X of the CONTRACT, the BUYER is required to make \_\_\_\_ (\_\_) advance payments of the CONTRACT price in the following amounts: First Instalment amounting to \_\_\_\_\_ United States Dollars, Second Instalment amounting to \_\_\_\_\_ United States Dollars, Third Instalment amounting to \_\_\_\_\_ United States Dollars, Fourth Instalment amounting to \_\_\_\_\_ United States Dollars, Fifth Instalment amounting to \_\_\_\_\_ United States Dollars.

If, in connection with or under the terms of the CONTRACT, the BUYER shall become entitled to a refundment of the advance payment(s) made to the BUILDER prior to the delivery of the VESSEL, we hereby irrevocably and unconditionally guarantee as a primary obligor and not as a surety that we shall pay to the BUYER on demand the sum of **[insert first instalment]** United States Dollars (in U.S. Dollars only), together with interest thereon at the rate of \_\_\_\_ percent (\_\_) per annum from the date following the date of receipt by the BUILDER of any advance payment to the date of remittance by telegraphic transfer of such refundment.

The amount of this Letter shall automatically increase upon the BUILDER's receipt of the respective instalment, not more than \_\_\_\_ ( ) times, each time by the amount of the respective instalment plus interest thereon as provided in the CONTRACT, but in any eventuality, the amount of this guarantee shall not exceed the total sum of \_\_\_\_\_ United States Dollars (in U.S. Dollars only) plus interest thereon at the rate of \_\_\_\_ percent (\_\_) per annum from the date following the date of the BUILDER's receipt of each instalment to the date of remittance by telegraphic transfer of the refundment. However, in the event of cancellation of the CONTRACT being based on delays due to force majeure or other causes beyond the control of the BUILDER, the interest rate of the refundment shall be reduced to \_\_\_\_ percent (\_\_) per annum as provided in Article X.5 of the CONTRACT.

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The payment by the undersigned under this Letter (subject to the third and fourth paragraph hereof) shall be made upon simple receipt by us of written demand from the BUYER, including a signed statement certifying that the BUYER's demand for refundment has been made in conformity with Article X of the CONTRACT and the BUILDER has failed to make the refundment. Refundments shall be made to the BUYER by telegraphic transfer in freely transferable United States Dollars free of bank charges, remittance fees, taxes, and other applicable withholdings.

It is hereby understood that payment of any interest provided herein is by way of liquidated damages due to cancellation of the CONTRACT and not by way of compensation for use of the money.

Notwithstanding the provisions hereinabove, in the event that within thirty (30) days from the date of the BUYER's claim of refundment to the BUILDER referred to above, we receive notification from the BUYER or the BUILDER that is accompanied by written confirmation of the arbitrator(s) appointed for this purpose stating to the effect that the BUYER's claim to cancel the CONTRACT or the BUYER's claim for refundment thereunder has been disputed and referred to arbitration in accordance with the provisions of the CONTRACT, the period of validity of this guarantee shall be extended until Forty-Five (45) days after the award has been rendered in the arbitration, and we shall under this guarantee, refund to the BUYER the sum adjudged to be due to the BUYER by the BUILDER pursuant to the award made under such arbitration immediately upon receipt from the BUYER of a simple demand for the sums so adjudged accompanied by a copy of the arbitration award.

We hereby agree that this Letter shall be construed as a continuing and unconditional guarantee of payment without regard to the validity or enforceability of any other agreement or instrument and without regard to defence, set-off, or counterclaim or any other circumstance whatsoever which might constitute an equitable or legal discharge of our obligations hereunder. No action or failure to act on the BUYER's part shall relieve us of any of our obligations hereunder.

This Letter shall become null and void upon receipt by the BUYER of the full sum guaranteed hereby or upon acceptance by the BUYER of the delivery of the VESSEL in accordance with the terms of the CONTRACT as evidenced by the Protocol of Delivery and Acceptance duly signed by the BUILDER and the BUYER and, in either case, the BUYER shall return this Letter to us or shall arrange with their bank to confirm to us by SWIFT (our SWIFT address : \_\_\_\_\_) that this Letter is null and void.

This Letter is assignable to the BUYER's financier, whether it is a bank, financial institution, or a commercial corporation, by giving written notice to us.

This Letter is valid from the date of this Letter until such time as the VESSEL is delivered by the BUILDER to and accepted by the BUYER in accordance with the provisions of the CONTRACT. This Letter shall continue to be effective or reinstated, as the case may be, if at any time, payment of any of the payments guaranteed hereunder is rescinded or must otherwise be returned by the BUYER upon the insolvency, bankruptcy, or reorganization of the BUILDER or otherwise, all as though any such payment had not been made.

All demands and notices in connection with this Letter shall be validly given if sent to us by post, fax, or telex to our office as follows:

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Address:

Tel:

Fax:

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This guarantee shall be governed by and construed in accordance with the laws of England, and the undersigned hereby submits to the exclusive jurisdiction of the courts of England.

Very truly yours,

For and on behalf of

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:



SHIPBUILDING CONTRACT  
FOR  
THE CONSTRUCTION OF  
ONE (1) 5,100 TEU CLASS CONTAINER CARRIER  
HULL NO. 1973  
BETWEEN  
SEASPAN CORPORATION  
(AS BUYER)  
AND  
HYUNDAI HEAVY INDUSTRIES CO., LTD.  
(AS BUILDER)

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SCHEDULES

EXHIBIT "A" REFUND GUARANTEE

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**SHIPBUILDING CONTRACT**

THIS CONTRACT, made on this 8th day of August, 2006 by and between Seaspan Corporation, a corporation incorporated and existing under the laws of the Marshall Islands with its principal office at Unit 2, 7<sup>th</sup> Floor Bupa Centre, 141 Connaught Road West Hong Kong F4 0000, China (hereinafter called the "BUYER"), the party of the first part and HYUNDAI HEAVY INDUSTRIES CO., LTD., a company organized and existing under the laws of the Republic of Korea, having its principal office at 1, Cheonha-Dong, Dong-Ku, Ulsan, Korea (hereinafter called the "BUILDER"), the party of the second part,

**WITNESSETH:**

In consideration of the mutual covenants contained herein, the BUILDER agrees to design, build, launch, equip and complete one (1) 5,100 TEU Class Container Carrier as described in Article I hereof (hereinafter called the "VESSEL") at the BUILDER's yards in Korea (hereinafter called the "SHIPYARD") and to deliver and sell the VESSEL to the BUYER, and the BUYER agrees to accept delivery of and purchase from the BUILDER the VESSEL, according to the terms and conditions hereinafter set forth :

(End of Preamble)

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**ARTICLE I : DESCRIPTION AND CLASS**

**1. DESCRIPTION**

The VESSEL shall be a 5,100 TEU Class Container Carrier having the BUILDER's Hull No. 1973 and shall be designed, constructed, equipped, inspected, tested and ready for sea and suitable in all respects for its intended use for carrying dry cargo containers in accordance with the provisions of this CONTRACT, and the full specifications reference No. CNSS5100-FS-P1 dated July 21, 2006 (hereinafter called the "FULL SPECIFICATIONS"), General Arrangement Drawing reference DWG. No. 1G-7000-201 dated July 21, 2006 (hereinafter called the "PLAN") and Maker's List reference No. CNSS5100-ML-P1 dated July 21, 2006 (hereinafter collectively called the "SPECIFICATIONS") signed by each of the parties for identification and constituting an integral part hereof. The Approved Drawings and the Classification Society Rules as required by the SPECIFICATIONS 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 BUILDER 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 shipbuilding practice at major shipyards in Korea and the warranty provided in Article IX. 1 shall be effective to this standard.

The FULL SPECIFICATIONS and the PLAN are intended to explain each other and anything shown on the PLAN and not stipulated in the FULL SPECIFICATIONS or anything stipulated in the FULL SPECIFICATIONS and not shown on the PLAN shall be deemed and considered as if included in both. Should there be any inconsistencies or contradictions between the FULL SPECIFICATIONS and the PLAN, the FULL SPECIFICATIONS shall prevail. Should there be any inconsistencies or contradictions between this CONTRACT and the SPECIFICATIONS, this CONTRACT shall prevail.

**2. BASIC DIMENSIONS AND PRINCIPAL PARTICULARS OF THE VESSEL**

(a) The basic dimensions and principal particulars of the VESSEL shall be :

Length, overall	max.	294.13 M
Length, between perpendiculars		283.2 M
Breadth, moulded		32.2 M

Depth to Upper Deck, moulded		22.1 M
Design draft, moulded, in seawater of specific gravity of 1.025		12 M
Scantling draft, moulded, in seawater of specific gravity of 1.025		13.65 M
Deadweight (guaranteed by the BUILDER) on the above moulded scantling draft of 13.65		67,000 M/T
Normal container capacity (TEU's: 8 1/2' high)		
Total		5,087 TEU
- in holds		2,261 TEU
- on deck		2,826 TEU
Container capacity (guaranteed by the BUILDER) under consideration of IMO visibility line at scantling draught with even keel		5,087 TEU
Main propulsion engine		Hyundai-Wartsila 8RTA96C
	MCR :	45,760 kW x 102 RPM
	NCR:	41,184 kW x 98.5 RPM
Trial speed(guaranteed by the BUILDER) at 12 meters design draft at the condition of clean bottom and in calm and deep sea with main engine developing a NCR of 41,184 kW with fifteen per cent (15%) sea margin		24.7 KNOTS
Specific Fuel consumption (guaranteed by the BUILDER) of the main engine applying I.S.O. reference conditions to the result of official shop test at a MCR of 45,760 kW using marine diesel oil having lower calorific value of 42,700 kJ per Kg.		171 gr/kW.HR

The details of the above particulars as well as the definitions and method of measurements and calculations are as indicated in the SPECIFICATIONS.

- (b) The dimensions may be slightly modified by the BUILDER, who also reserves the right to make changes to the SPECIFICATIONS if found necessary to suit the local conditions and facilities of the SHIPYARD, the availability of materials and equipment, the introduction of improved production methods or otherwise, all of which are subject to the approval of the BUYER which the BUYER shall not withhold unreasonably.

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**3. CLASSIFICATION, RULES AND REGULATIONS**

- (a) The VESSEL shall be designed, constructed, equipped, inspected, tested and completed in accordance with the rules and regulations (the edition and amendments thereto being in force and effect as of the date of this CONTRACT, together with all mandatory rules and regulations and amendments thereto, which have already been ratified up to the date of this CONTRACT and to come into force prior to the date of keel laying of the VESSEL) of and under survey of Det Norske Veritas (hereinafter called the "CLASSIFICATION SOCIETY") and shall be distinguished in the register by the symbol of +1A1, Container Carrier, NAUTICUS(Newbuilding), E0, NAUT-OC, BIS, TMON, CLEAN, BWM-E(s). Details of Class notation shall be in accordance with the SPECIFICATIONS.

The VESSEL shall comply with rules, regulations, recommendations and requirements of the Authorities in force as of the date of the CONTRACT signing as described and listed in the SPECIFICATIONS, together with all mandatory rules and regulations with amendments, which have already been ratified up to the date of this CONTRACT and to come into effect prior to the date of keel laying of the VESSEL.

- (b) The BUILDER shall arrange with the CLASSIFICATION SOCIETY for the assignment by the CLASSIFICATION SOCIETY representative(s) (the "Classification Surveyor") to the VESSEL during construction. All fees and charges incidental to classification of the VESSEL in compliance with the above specified rules, regulations and requirements of this CONTRACT shall be for the account of the BUILDER.
- (c) The decision of the CLASSIFICATION SOCIETY as to whether the VESSEL complies with the regulations of the CLASSIFICATION SOCIETY shall be final and binding upon the BUILDER and the BUYER, except where this CONTRACT provides for arbitration.

All materials, workmanship and major plans used in the construction of the VESSEL which will comply with the rules and regulations of the CLASSIFICATION SOCIETY shall be subject to inspection and test by the CLASSIFICATION SOCIETY.

Subject to decisions made by the CLASSIFICATION SOCIETY pursuant to Article XIII.1, no act or omission of the CLASSIFICATION SOCIETY and/or Classification Surveyor shall, in any way, diminish or impair the obligations and liabilities of the BUILDER under the terms of this CONTRACT.

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4. **SUBCONTRACTING**

The BUILDER may, at its sole discretion and responsibility, and upon written notice to the BUYER in case of sub-contracting of material nature, subcontract any portion but not the whole, of the construction work of the VESSEL outside the SHIPYARD, but in any event, major hull structure parts will be assembled by the BUILDER provided, however, that the BUILDER shall remain responsible for the performance of this CONTRACT with regard to any work done or materials supplied or used by such subcontractors in accordance with this CONTRACT. Subcontractors for the items of material nature shall apply same standard as the BUILDER.

5. **NATIONALITY OF THE VESSEL**

The VESSEL shall be registered by the BUYER at its own cost and expense under the laws of Hong Kong with its home port of Hong Kong at the time of its delivery and acceptance hereunder.

(End of Article)

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**ARTICLE II : CONTRACT PRICE**

The contract price of the VESSEL delivered to the BUYER at the SHIPYARD shall be United States Dollars Seventy Seven Million Three Hundred Fifty Thousand (US\$77,350,000) (hereinafter called the "CONTRACT PRICE"). The CONTRACT PRICE is fixed and shall be paid plus any increases or less any decreases due to adjustment or modifications, if any, as set forth in this CONTRACT. The above CONTRACT PRICE shall include payment for services in the inspection, tests, survey and classification of the VESSEL which will be rendered by the CLASSIFICATION SOCIETY and shall not include the cost of the BUYER'S SUPPLIES as stipulated in Article XII.

The CONTRACT PRICE also includes 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, outfitings, appurtenances, furniture, materials, parts, spares, articles and things as required by the SPECIFICATIONS and/or otherwise under this CONTRACT for the VESSEL, and all other items and acts necessary for the performance of BUILDER's obligations under or pursuant to this CONTRACT.

(End of Article)



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**ARTICLE III : ADJUSTMENT OF THE CONTRACT PRICE**

The CONTRACT PRICE of the VESSEL shall be adjusted as hereinafter set forth in the event of the following contingencies. It is hereby understood by both parties that any adjustment of the CONTRACT PRICE as provided for in this Article is by way of liquidated damages and not by way of penalty.

**1. DELAYED DELIVERY**

- (a) No adjustment shall be made and the CONTRACT PRICE shall remain unchanged for the first thirty (30) days of the delay in delivery of the VESSEL (ending as of 12 o'clock midnight Korean Standard Time on the thirtieth (30th) day of delay) beyond the Delivery Date calculated as provided in Article VII.1. hereof.
- (b) If delivery of the VESSEL is delayed more than thirty (30) days beyond the date upon which the delivery is due from the BUILDER under the terms of this CONTRACT, then, beginning at midnight of the thirtieth (30th) day after such due date, the CONTRACT PRICE of the VESSEL shall be reduced by U.S. Dollars twenty five thousand (US\$ 25,000) for each full day of delay.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the delay of one hundred and fifty (150) days after thirty (30) days of the delay in delivery of the VESSEL at the rate of deduction as specified hereinabove.

- (c) But, if the delay in delivery of the VESSEL continues for a period of more than one hundred and eighty (180) days beyond the date upon which the delivery is due from the BUILDER under the terms of this CONTRACT then, in such event, and after such period has expired, the BUYER may, at its option, rescind and cancel this CONTRACT by serving upon the BUILDER a notice of cancellation by facsimile to be confirmed by a registered letter via airmail directed to the BUILDER at the address given in this CONTRACT. Such cancellation shall be effective as of the date the notice thereof is received by the BUILDER. If the BUYER has not served the notice of cancellation after the aforementioned one hundred and eighty (180) days delay in delivery, the BUILDER may demand the BUYER to make an election in accordance with Article VIII.3. hereof.

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- (d) For the purpose of this Article, the delivery of the VESSEL shall be deemed to be delayed when and if the VESSEL, after taking into full account extension of the Delivery Date or permissible delays as provided in Article V, VI, VIII, XI or elsewhere in this CONTRACT, is delivered beyond the date upon which delivery would then be due under the terms of this CONTRACT.

**2. INSUFFICIENT SPEED**

- (a) The CONTRACT PRICE of the VESSEL shall not be affected or changed, if the actual speed, as determined by trial runs more fully described in Article VI hereof, is less than the speed required under the terms of this CONTRACT and the SPECIFICATIONS provided such deficiency in actual speed is not more than three-tenths (3/10) of a knot below the guaranteed speed.
- (b) However, as for the deficiency of more than three-tenths (3/10) of a knot in actual speed below the speed guaranteed under this CONTRACT, the CONTRACT PRICE shall be reduced by U.S. Dollars one hundred thousand (U.S.\$ 100,000) for each full one-tenth (1/10) of a knot in excess of the said three-tenths (3/10) of a knot of deficiency in speed (fractions of less than one-tenth (1/10) of a knot shall be regarded as a full one-tenth (1/10) of a knot). However, unless the parties agree otherwise, the total amount of reduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of eight-tenths (8/10) of a knot below the guaranteed speed at the rate of reduction as specified above.
- (c) If the deficiency in actual speed of the VESSEL is more than eight-tenths (8/10) of a knot below the speed guaranteed under this CONTRACT, then the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections as provided in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for eight-tenths (8/10) of a knot of deficiency only.

**3. EXCESSIVE FUEL CONSUMPTION**

- (a) The CONTRACT PRICE shall not be affected or changed by reason of the fuel consumption of the VESSEL'S main engine, as determined by the engine manufacturer's shop trial as per the SPECIFICATIONS being more than the guaranteed fuel consumption of the VESSEL's main engine, if such excess is not more than five per cent (5%) over the guaranteed fuel consumption.

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- (b) However, as for the excess of more than five per cent (5%) in the actual fuel consumption over the guaranteed fuel consumption of the VESSEL'S main engine, the CONTRACT PRICE shall be reduced by U.S. Dollars one hundred thousand (US\$ 100,000) for each full one per cent (1%) increase in fuel consumption in excess of the said five per cent (5%) increase in fuel consumption (fractions of less than one per cent (1%) shall be regarded as a full one per cent (1%)). However, unless the parties agree otherwise, the total amount of reduction from the CONTRACT PRICE shall not exceed the amount due to cover the excess of eight per cent (8%) over the guaranteed fuel consumption of the VESSEL's main engine at the rate of reduction as specified above.
- (c) If such actual fuel consumption exceeds the guaranteed fuel consumption of the VESSEL's main engine by more than eight per cent (8%), the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections as specified in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for the eight per cent (8%) increase only.

**4. DEADWEIGHT BELOW CONTRACT REQUIREMENTS**

- (a) The CONTRACT PRICE of the VESSEL shall not be affected or changed, if actual deadweight, determined as provided in this CONTRACT and the SPECIFICATIONS, is below the deadweight of 67,000 metric tons on the moulded scantling draft of 13.65 metres required by this CONTRACT and the SPECIFICATIONS by an amount of 660 metric tons or less. However, should the deficiency in the actual deadweight of the VESSEL be more than 660 metric tons below the said required deadweight, then the CONTRACT PRICE of the VESSEL shall be reduced for each full one (1) metric ton (fractions of less than one (1) metric ton shall be disregarded) of decreased deadweight in excess of 660 metric tons by the sum of U.S. Dollars nineteen hundred (US\$ 1,900) per metric ton.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of 1,300 metric tons below the said guaranteed deadweight hereinabove.

- (b) If the deficiency in the deadweight of the VESSEL is more than 1,300 metric tons below the said guaranteed deadweight, then the BUYER, at its option, may, subject to the BUILDER's right to effect alterations or corrections without the BUYER's prior

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consent as specified in Article VI.5. hereof, rescind and cancel this CONTRACT or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for 1,300 metric tons of deficiency only.

**5. INSUFFICIENT CONTAINER CAPACITY**

- (a) The CONTRACT PRICE shall not be affected or changed by reason of deficiency in the number of containers if such deficiency is up to 30 TEU containers below the guaranteed container capacity of 5,087 TEU in accordance with IMO visibility requirement at Scantling Draft of 13.65 meters with even keel.
- (b) However, in the event that the deficiency in the guaranteed container capacity, is in excess of 30 TEU containers, then the CONTRACT PRICE shall be reduced by United States Dollars forty thousand (US\$ 40,000) for each TEU container in excess of the first allowable 30 TEU containers of such deficient number of containers.

However, unless the parties agree otherwise, the total amount of deduction from the CONTRACT PRICE shall not exceed the amount due to cover the deficiency of 80 TEU containers below the guaranteed container capacity hereinabove.

- (c) If the deficiency in the guaranteed container capacity is 80 TEU containers or more, then the BUYER, at its option, may reject the VESSEL and rescind and cancel this CONTRACT in accordance with the provisions of this Article or may accept the VESSEL at a reduction in the CONTRACT PRICE as above provided for 80 TEU containers of deficiency only.

**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 paragraphs, there shall be separate reductions in the CONTRACT PRICE in respect of each contingency.

**7. EFFECT OF CANCELLATION**

It is expressly understood and agreed by the parties hereto that in any case, if the BUYER cancels this CONTRACT under this Article, the BUYER shall not be entitled to any liquidated damages.

(End of Article)

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**ARTICLE IV : INSPECTION AND APPROVAL**

**1. APPOINTMENT OF BUYER'S REPRESENTATIVE**

The BUYER shall timely despatch to and maintain at the SHIPYARD, at its own cost, expense and risk, one or more representatives (hereinafter called the "BUYER'S REPRESENTATIVE"), who shall be duly accredited in writing by the BUYER to supervise adequately the construction by the BUILDER of the VESSEL, her equipment and all accessories. Before the commencement of any item of work under this CONTRACT, the BUILDER shall, whenever reasonably required, previously exhibit, furnish to, and within the limits of the BUYER'S REPRESENTATIVE'S authority, secure the approval from the BUYER'S REPRESENTATIVE of any and all plans and drawings prepared in connection therewith. Upon appointment of the BUYER'S REPRESENTATIVE, the BUYER shall notify the BUILDER in writing of the name and the scope of the authority of the BUYER'S REPRESENTATIVE.

**2. AUTHORITY OF THE BUYER'S REPRESENTATIVE**

Such BUYER'S REPRESENTATIVE shall, at all times, subject to any safety requirements, during the construction until delivery of the VESSEL, have the right to inspect the VESSEL, her equipment and all accessories, and work in progress, or materials utilized in connection with the construction of the VESSEL, wherever such work is being done or such materials are stored, for the purpose of determining that the VESSEL, her equipment and accessories are being constructed in accordance with the terms of this CONTRACT and/or the SPECIFICATIONS.

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 BUYER'S 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.

The BUILDER will endeavor to arrange for the inspection by the BUYER'S REPRESENTATIVE during working hours of the BUILDER. However, such inspection may be arranged beyond the BUILDER's normal working hours, including weekend and/or holiday if this is considered necessary by the BUILDER in order to meet the BUILDER's construction schedule, on the condition that the BUILDER will inform the BUYER'S REPRESENTATIVE at least two (2) days in advance of such inspection.

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The construction of the VESSEL shall be subjected, throughout the entire period of construction, to quality control by a quality control department of the BUILDER. 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 as far as practicable, or in the absence of documentation, orally, to the BUYER'S REPRESENTATIVE.

The BUYER'S REPRESENTATIVE may attend during construction of the VESSEL, tests and inspection of the VESSEL, its machinery and equipment. The BUILDER shall make reasonable efforts to give the BUYER'S REPRESENTATIVE an advance notice for tests and inspections within the SHIPYARD stating particulars of any tests or inspections which may be attended by the BUYER'S REPRESENTATIVE 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 BUYER'S REPRESENTATIVE latest up to 5:00 p.m. of the day prior to the day on which any tests or inspections shall occur except for the painting inspection.

For test or inspections outside the SHIPYARD, including manufacturer's shop tests, sufficient advance notice to allow for the BUYER'S REPRESENTATIVE to arrange transportation shall be given. This advance notice should not be less than two (2) days except for tests or inspections within Korea that require air travel for attendance in which case advance notice should not be less than four (4) days. And the inspection outside Korea requires seven (7) days advance notice, or twenty one (21) days advance notice if an entry VISA is required for the BUYER'S REPRESENTATIVE.

Inspection schedule must be reasonable in order to allow the BUYER'S REPRESENTATIVE to carry out their duties properly.

The BUYER'S REPRESENTATIVE shall, within the limits of the authority conferred upon him by the BUYER, make decisions or give advice to the BUILDER on behalf of the BUYER promptly on all problems arising out of, or in connection with, the construction of the VESSEL and generally act in a reasonable manner with a view to cooperating to the utmost with the BUILDER in the construction process of the VESSEL.

The decision, approval or advice of the BUYER'S REPRESENTATIVE shall be deemed to have been given by the BUYER. No act or omission of the BUYER'S REPRESENTATIVE or his assistants shall, in any way, diminish the liability of the BUILDER under Article IX

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(WARRANTY OF QUALITY). The BUYER'S REPRESENTATIVE shall notify the BUILDER promptly in writing of his discovery of any construction or materials, which he believes do not or will not conform to the requirements of the CONTRACT and the SPECIFICATIONS and likewise advise and consult with the BUILDER on all matters pertaining to the construction of the VESSEL, as may be required by the BUILDER, or as he may deem necessary.

However, if the BUYER'S REPRESENTATIVE fails to submit to the BUILDER without delay any such demand concerning alterations or changes with respect to the construction, arrangement or outfit of the VESSEL, which the BUYER'S REPRESENTATIVE has examined, inspected or attended at the test thereof under this CONTRACT or the SPECIFICATIONS, the BUYER'S REPRESENTATIVE shall be deemed to have approved the same and shall be precluded from making any demand for alterations, changes, or complaints with respect thereto at a later date.

The BUILDER shall comply with any such demand which is not contradictory to this CONTRACT and the SPECIFICATIONS, provided that any and all such demands by the BUYER'S REPRESENTATIVE with regard to construction, arrangement and outfit of the VESSEL shall be submitted in writing to the authorised representative of the BUILDER. The BUILDER shall notify the BUYER'S REPRESENTATIVE of the names of the persons who are from time to time authorised by the BUILDER for this purpose.

It is agreed upon between the BUYER and the BUILDER that the modifications, alterations or changes and other measures necessary to comply with such demand may be effected at a convenient time and place at the BUILDER's reasonable discretion in view of the construction schedule of the VESSEL.

In the event that the BUYER'S REPRESENTATIVE shall advise the BUILDER that he has discovered or believes the construction or materials do not or will not conform to the requirements of this CONTRACT and the SPECIFICATIONS, and the BUILDER shall not agree with the views of the BUYER'S REPRESENTATIVE in such respect, either the BUYER or the BUILDER may, with the agreement of the other party, seek an opinion of the CLASSIFICATION SOCIETY or failing such agreement, request an arbitration in accordance with the provisions of Article XIII hereof. The CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, shall determine whether or not a nonconformity with the provisions of this CONTRACT or the SPECIFICATIONS exists. If the CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, enters a determination in favour of the BUYER, then in such case the BUILDER shall make the

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necessary alterations or changes, or if such alterations or changes cannot be made in time to meet the construction schedule for the VESSEL, the BUILDER shall make fair and reasonable adjustment of the CONTRACT PRICE in lieu of such alterations and changes. If the CLASSIFICATION SOCIETY or the arbitration tribunal, as the case may be, enters a determination in favour of the BUILDER, 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 BUILDER for the proven loss and damages incurred by the BUILDER as a result of the dispute herein referred to.

**3. APPROVAL OF DRAWINGS**

- (a) The BUILDER shall submit to the BUYER three (3) copies of each of the plans and drawings to be submitted to the BUYER for its approval at its address as set forth in Article XIX hereof. The BUYER shall, within twenty one (21) days after receipt thereof return to the BUILDER one (1) copy of such plans and drawings with the approval or comments, if any, of the BUYER. A list of the plans and drawings to be so submitted to the BUYER shall be mutually agreed upon between the parties hereto.
- (b) When and if the BUYER'S REPRESENTATIVE shall have been sent by the BUYER to the SHIPYARD in accordance with Paragraph 1 of this Article, the BUILDER may submit the remainder, if any, of the plans and drawings in the agreed list, to the BUYER'S REPRESENTATIVE for his approval, unless otherwise agreed upon between the parties hereto.

The BUYER'S REPRESENTATIVE shall, within fourteen (14) days after receipt thereof, return to the BUILDER one (1) copy of such plans and drawings with his approval or comments written thereon, if any. Approval by the BUYER'S REPRESENTATIVE of the plans and drawings duly submitted to him shall be deemed to be the approval by the BUYER for all purposes of this CONTRACT.

- (c) In the event that the BUYER or the BUYER'S REPRESENTATIVE shall fail to return the plans and drawings to the BUILDER within the time limit as hereinabove provided, such plans and drawings shall be deemed to have been automatically approved without any comment. In the event the plans and drawings submitted by the BUILDER to the BUYER or the BUYER'S REPRESENTATIVE in accordance with this Article do not meet with the BUYER's or the BUYER'S REPRESENTATIVE's approval, the matter may be submitted by either party hereto for determination pursuant to Article



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XIII hereof. If the BUYER's comments on the plans and drawings that are returned to the BUILDER by the BUYER within the said time limit are not clearly specified or detailed, the BUILDER shall be entitled to place its own interpretation on such comments in implementing them.

The BUILDER agrees that the BUYER is permitted to make an arrangement with the CLASSIFICATION SOCIETY for receiving copies of any technical correspondence regarding the construction of the VESSEL.

**4. SALARIES AND EXPENSES**

All salaries and expenses of the BUYER's REPRESENTATIVE or any other person or persons employed by the BUYER hereunder shall be for the BUYER's account.

**5. RESPONSIBILITY OF THE BUILDER**

- (a) The BUILDER shall, at no cost to the BUYER, furnish suitably lighted, and air conditioned office space, for a team of not less than six (6) BUYER'S REPRESENTATIVES all along, including changing room, toilet and shower space, office furniture, drawing table and filing cabinets. Separate telephone lines and facsimile receiver to be provided in BUYER'S REPRESENTATIVE office and communication service shall be paid by the BUYER at normal rate of charges of Korean telecommunication company. However, the changing room, toilet and shower space shall be supplied as public facilities.

During the last forty five (45) days of the period of construction of the VESSEL, office space shall be provided to accommodate the VESSEL's senior officers as far as practicable in the BUYER'S REPRESENTATIVE's office space.

With an ample prior notice by the BUYER, the BUILDER shall arrange for the BUYER'S REPRESENTATIVE suitable and convenient living quarters as near as possible to the SHIPYARD and shall provide for the purpose thereof apartments/houses fully furnished and equipped in Western style with minimum two (2) bedrooms and one (1) living room for each BUYER'S REPRESENTATIVE, all at the BUYER's expenses.

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The BUILDER, its employees, agents and subcontractors, during its working hours until delivery of the VESSEL, shall arrange for the BUYER'S REPRESENTATIVE to have free and ready access to the VESSEL, her equipment and accessories, and to any other place (except the areas controlled for the purpose of national security) where work is being done, or materials are being processed or stored in connection with the construction of the VESSEL including the premises of sub-contractors.

The BUYER'S REPRESENTATIVE or his assistants or employees shall observe the work rules, regulations and the guidances prevailing at the BUILDER's and its sub-contractor's premises. The BUILDER shall promptly provide to the BUYER'S REPRESENTATIVE and/or his assistants, and shall ensure that its sub-contractors shall promptly provide, all such information as he or they may reasonably request in connection with the construction of the VESSEL and her engines, equipment and machinery.

- (b) The BUYER'S REPRESENTATIVE and his assistants shall at all times remain the employees of the BUYER. The BUILDER shall not be liable to the BUYER or the BUYER'S REPRESENTATIVE or to his assistants or to the BUYER's employees or agents for personal injuries, including death, during the time they, or any of them, are on the VESSEL, or within the premises of either the BUILDER or its sub-contractors, or are otherwise engaged in and about the construction of the VESSEL, unless, however, such personal injuries, including death, are caused by the negligence or willful misconduct of the BUILDER, its sub-contractors, or its or their employees or agents. The BUILDER shall not be liable to the BUYER for damages to, or destruction of property of the BUYER or of the BUYER'S REPRESENTATIVE or his assistants or the BUYER's employees or agents, unless such damages, loss or destruction is caused by the negligence or willful misconduct of the BUILDER, its sub-contractors, or its or their employees or agents.

**6. RESPONSIBILITY OF THE BUYER**

The BUYER shall undertake and assure that the BUYER'S REPRESENTATIVE and his assistants shall carry out their duties hereunder in accordance with the normal shipbuilding practice and in such a way as to avoid any unnecessary increase in building cost, delay in the construction of the VESSEL, and/or any disturbance in the construction schedule of the BUILDER.

The BUILDER has the right to request the BUYER to replace any of the BUYER'S

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REPRESENTATIVE and/or his assistants who are deemed unsuitable and unsatisfactory for the proper progress of the VESSEL's construction. The BUYER shall investigate the situation by sending its representative(s) to the SHIPYARD and if the BUYER considers that such BUILDER's request is justified, the BUYER shall effect the replacement as soon as conveniently arrangeable.

(End of Article)

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**ARTICLE V : MODIFICATIONS, CHANGES AND EXTRAS**

**1. HOW EFFECTED**

Modifications or changes to the SPECIFICATIONS under which the VESSEL is to be constructed may be made at any time hereafter by written agreement of the parties hereto. Any modification or change requested by the BUYER which does not affect the SPECIFICATIONS to a fundamental extent shall be agreed to by the BUILDER if the BUYER agrees to adjustment of the CONTRACT PRICE, deadweight and/or cubic capacity, speed requirements, the Delivery Date and other terms and conditions of this CONTRACT reasonably required as a result of such modification or change. The BUILDER has the right to continue construction of the VESSEL on the basis of the SPECIFICATIONS until the BUYER has agreed to such adjustments. The BUILDER shall be entitled to refuse to make any alteration, change or modification to the SPECIFICATIONS requested by the BUYER if the BUYER does not agree to the aforesaid adjustments within fourteen (14) days of the BUILDER's notification of the same to the BUYER or if, in the BUILDER's judgement, the compliance with such request of the BUYER would cause an unreasonable disruption of the normal working schedule of the SHIPYARD.

The BUILDER, however, agrees to exert its reasonable efforts to accommodate such reasonable request by the BUYER so that the said change and modification shall be made at a reasonable cost and within the shortest period of time reasonably possible. The aforementioned agreement to modify and change the SPECIFICATIONS may be effected by exchange of letters or facsimiles manifesting the agreement.

The letters and facsimiles exchanged by the parties pursuant to the foregoing shall constitute an amendment to this CONTRACT and the SPECIFICATIONS under which the VESSEL shall be built. Upon consummation of such an agreement to modify and change the SPECIFICATIONS, the BUILDER shall alter the construction of the VESSEL in accordance therewith including any addition to, or deduction from, the work to be performed in connection with such construction.

**2. SUBSTITUTION OF MATERIAL**

If any materials, machinery or equipment required for the construction of the VESSEL by

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the SPECIFICATIONS or otherwise under this CONTRACT cannot be procured in time to meet the BUILDER's construction schedule for the VESSEL, or are in short supply, or are unreasonably high in price compared with the prevailing international market price for similar products, the BUILDER may supply, subject to the BUYER's prior approval, other materials, machinery or equipment of equal quality and effect capable of meeting the requirements of the CLASSIFICATION SOCIETY and the rules, regulations and requirements with which the construction of the VESSEL must comply.

**3. CHANGES IN RULES AND REGULATIONS**

If the specified rules and regulations with which the construction of the VESSEL is required to comply are altered or changed by the CLASSIFICATION SOCIETY or bodies authorised to make such alterations or changes, either the BUYER or the BUILDER, upon receipt of due notice thereof, shall forthwith give notice thereof to the other party in writing. Thereupon, within ten (10) days, or such longer period as is commercially reasonable in the circumstances by the agreement of the parties acting reasonably after receiving the notice on the adjustment due to such alterations or changes from the BUILDER, the BUYER shall advise the BUILDER of its decision as to the alterations and changes to be made on the VESSEL. The BUILDER shall not be obliged to comply with such alterations and/or changes if the BUYER fails to notify the BUILDER of its decision within the time limit stated above.

The BUILDER shall comply promptly with the said request of the BUYER, provided that the BUILDER and the BUYER shall first agree to reasonable adjustment on:

- (a) any increase or decrease in the CONTRACT PRICE of the VESSEL that is occasioned by such compliance ;
- (b) any extension or advancement in the Delivery Date of the VESSEL that is occasioned by such compliance ;
- (c) any increase or decrease in the deadweight and/or cubic capacity of the VESSEL, if such compliance results in any increase or reduction in the deadweight and/or cubic capacity ;
- (d) the speed requirements if such compliance results in any increase or reduction in the speed ; and

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(e) any other alterations in the terms of this CONTRACT or of the SPECIFICATIONS or both, if such compliance makes such alterations of the terms necessary.

Any delay in the construction of the VESSEL caused by the BUYER's delay in making a decision or agreement as above shall constitute a permissible delay under this CONTRACT. Such agreement by the BUYER shall be effected in the same manner as provided above for modification and change of the SPECIFICATIONS.

(End of Article)

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**ARTICLE VI : TRIALS AND COMPLETION**

**1. NOTICE**

The BUILDER shall notify the BUYER in writing or by facsimile at least twenty one (21) days in advance of the time and place of the trial run of the VESSEL. Such notice shall specify the place from which the VESSEL will commence her trial run and approximate date upon which the trial run is expected to take place. Such date shall be further confirmed by the BUILDER six (6) days in advance of the trial run in writing or by facsimile.

The BUYER'S REPRESENTATIVE, who is to witness the performance of the VESSEL during such trial run, shall be present at such place on the date specified in such notice. Should the BUYER'S REPRESENTATIVE fail to be present after the BUILDER's due notice to the BUYER as provided above, the BUILDER shall be entitled to conduct such trial run with the presence of the representative(s) of the CLASSIFICATION SOCIETY only without the BUYER'S REPRESENTATIVE being present. In such case, the BUYER shall be obliged to accept the VESSEL on the basis of a certificate issued by the BUILDER and the CLASSIFICATION SOCIETY that the VESSEL, after the trial run, subject to alterations and corrections, if necessary, has been found to conform with the SPECIFICATIONS and this CONTRACT and is satisfactory in all respects, provided the BUILDER first makes such corrections and alterations promptly.

**2. WEATHER CONDITION**

In the event of unfavourable weather on the date specified for the trial run, the trial run shall take place on the first available day that weather conditions permit. The parties hereto recognise that the weather conditions in Korean waters, in which the trial run is to take place, are such that great changes in weather may arise momentarily and without warning and therefore, it is agreed that if, during the trial run, the weather should become so unfavourable that the trial run cannot be continued, then the trial run shall be discontinued and postponed until the first favourable day next following, unless the BUYER shall assent to the acceptance of the VESSEL by notification in writing on the basis of such trial run so far made prior to such change in weather conditions. Any delay of the trial run caused by such unfavourable weather conditions shall also operate to extend the Delivery Date of the VESSEL for the period of delay occasioned by such unfavourable weather conditions.

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**3. HOW CONDUCTED**

All expenses in connection with the trials of the VESSEL are to be for the account of the BUILDER, which, during the trials, is to provide at its own expense the necessary crew to comply with conditions of safe navigation. The trials shall be conducted in the manner prescribed in this CONTRACT and the SPECIFICATIONS, and shall prove fulfilment of the performance requirements for the trials as set forth in the SPECIFICATIONS.

The BUILDER, at its cost and expense, shall be entitled to conduct preliminary sea trials, during which the propulsion plant and/or its appurtenance shall be adjusted according to the BUILDER's judgement. The BUILDER may repeat any trial whatsoever as it deems reasonably necessary.

**4. CONSUMABLE STORES**

The BUILDER shall load the VESSEL with the required quantity of fuel oil, lubricating oil and greases, fresh water, and other stores necessary to conduct the trials as set forth in the FULL SPECIFICATIONS. The necessary ballast (fuel oil, fresh water and such other ballast as may be required) to bring the VESSEL to the trial load draft, as specified in the FULL SPECIFICATIONS, shall be supplied and paid for by the BUILDER whilst lubricating oil and greases shall be supplied and paid for by the BUYER within the time advised by the BUILDER for the conduct of sea trials as well as for use before the delivery of the VESSEL to the BUYER. The fuel oil as well as lubricating oil and greases shall be in accordance with the specifications of the main engine and other machinery and the BUYER shall decide and advise the BUILDER of the supplier's name for lubricating oil and greases before the work-commencement of the VESSEL, provided that the supplier shall be acceptable to the BUILDER and/or the makers of all the machinery.

Any fuel oil, fresh water or other consumable stores furnished and paid for by the BUILDER for trial runs remaining on board the VESSEL, at the time of acceptance of the VESSEL by the BUYER, shall be bought by the BUYER from the BUILDER at the BUILDER's purchase price for such supply in Korea and payment by the BUYER thereof shall be made at the time of delivery of the VESSEL. The BUILDER shall pay the BUYER at the time of delivery of the VESSEL for the consumed quantity of any lubricating oil and greases which were furnished and paid for by the BUYER at the BUYER's purchase price thereof. The consumed quantity of lubricating oils and greases shall be calculated on the basis of the difference between the remaining amount, including the same remaining in the main engine, other machinery and their pipes, stem tube and the like, and the supplied amount.



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**5. ACCEPTANCE OR REJECTION**

- (a) If, during any sea trial, any breakdown occurs entailing interruption or irregular performance which can be repaired on board, the trial shall be continued after such repairs and be valid in all respects.
- (b) However, if, during or after the trial run, it becomes apparent that the VESSEL or any part of her equipment requires alterations or corrections which but for this provision would or might entitle the BUYER to cancel this CONTRACT, the BUILDER shall notify the BUYER promptly in writing or by facsimile to such effect and shall simultaneously advise the BUYER of the estimated additional time required for the necessary alterations or corrections to be made.
- (c) Upon completion of the trial run, the BUILDER shall give the BUYER a notice by facsimile or in writing of completion of the trial run and provide the BUYER with all records of tests and trials as soon as available, as and if the BUILDER considers that the results of the trial run prove conformity of the VESSEL to this CONTRACT and SPECIFICATIONS.

The BUYER shall, within three (3) working days after receipt of aforementioned records of tests and trials from the BUILDER, notify the BUILDER in writing or by facsimile confirmed in writing of its acceptance or rejection of the VESSEL's conformity to this CONTRACT and the SPECIFICATIONS.

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 BUILDER agrees with the BUYER's notice of non-conformity, then the BUILDER shall promptly take the necessary steps to correct such non-conformity and notify the BUYER promptly in writing or by facsimile advising the BUYER of the estimated additional time required for the necessary alterations to correct material 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 BUILDER, the CLASSIFICATION

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SOCIETY and the BUYER'S REPRESENTATIVE. The BUILDER shall notify the BUYER of the time and place of any new trial run no less than three (3) working days beforehand, unless otherwise mutually agreed to. All provisions of the trial run shall apply to such new trial run.

- (d) However, the BUYER shall not be entitled to reject the VESSEL by reason of any minor or insubstantial items judged from the point of view of standard shipbuilding and shipping practice as not being in conformity with the SPECIFICATIONS. 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 BUILDER'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.

**6. EFFECT OF ACCEPTANCE**

The BUYER's written or facsimiled notification of acceptance delivered to the BUILDER as above provided, shall be final and binding insofar as conformity of the VESSEL with the SPECIFICATIONS is concerned and shall preclude the BUYER from refusing formal delivery of the VESSEL as hereinafter provided, if the BUILDER complies with all conditions of delivery, as herein set forth and provided that, in the case of qualified acceptance, any matters which were mentioned in the notice of the qualified acceptance by the BUYER as requiring correction have been corrected to the satisfaction of the BUYER.

If the BUYER fails to notify the BUILDER of its acceptance or rejection of the VESSEL as hereinabove provided, the BUYER shall be deemed to have accepted the VESSEL. Nothing contained in this Article shall preclude the BUILDER from exercising any and all rights which the BUILDER has under this CONTRACT if the BUILDER disagrees with the BUYER's rejection of the VESSEL or any reasons given for such rejection, including arbitration provided in Article XIII hereof. Any dispute between the BUILDER 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 XIII hereof.

(End of Article)

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**ARTICLE VII : DELIVERY**

**1. TIME AND PLACE**

The VESSEL, duly completed in accordance with this CONTRACT, shall be delivered by the BUILDER to the BUYER at the SHIPYARD, safely afloat on or before December 23, 2009 (hereinafter called the "DELIVERY DATE") after completion of satisfactory tests, trials and acceptance by the BUYER in accordance with the terms of Article VI, except that, in the event of delays in delivery of the VESSEL by the BUILDER due to causes which under the terms of this CONTRACT permit extensions of the time for delivery of the VESSEL, the aforementioned DELIVERY DATE shall be extended accordingly.

An earlier DELIVERY DATE more than twenty-one (21) days is subject to the BUYER's prior written consent.

**2. WHEN AND HOW EFFECTED**

Provided that the BUYER shall with delivery of the VESSEL release to the BUILDER the sixth instalment as set forth in Article X.2. hereof and the BUYER and the BUILDER shall have fulfilled all of their obligations provided for in this CONTRACT, delivery of the VESSEL shall be forthwith effected upon acceptance thereof by the BUYER, by the concurrent delivery by each of the parties hereto to the other of a PROTOCOL OF DELIVERY AND ACCEPTANCE acknowledging delivery of the VESSEL by the BUILDER and acceptance thereof by the BUYER, which PROTOCOL shall be prepared in duplicate and signed by each of the parties hereto.

**3. DOCUMENTS TO BE DELIVERED TO THE BUYER**

Concurrently with delivery and acceptance of the VESSEL, the BUILDER shall deliver to the BUYER the following duly authenticated documents in English, which shall accompany the aforementioned PROTOCOL OF DELIVERY AND ACCEPTANCE :

- (a) PROTOCOL OF TRIALS of the VESSEL made pursuant to this CONTRACT and the SPECIFICATIONS,

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- (b) PROTOCOL OF INVENTORY of the equipment of the VESSEL, including spare parts, all as specified in the SPECIFICATIONS,
  - (c) PROTOCOL OF STORES OF CONSUMABLE NATURE, such as all fuel oil and fresh water remaining in tanks and items listed in Article VI.4 if its cost is charged to the BUYER under Article VI.4 hereof,
  - (d) DRAWINGS AND PLANS pertaining to the VESSEL as stipulated in the FULL SPECIFICATIONS, which shall be furnished to the BUYER at no additional cost, and DRAWINGS AND PLANS in triplicate pertaining to the VESSEL, including List of Finished Plans and As Built Specs and the trim and stability booklet, technical descriptions, test results and other data, information and documents in the possession of the BUILDER concerning the design and construction of the VESSEL which shall be forwarded to the BUYER at no additional cost as stipulated in the SPECIFICATIONS.
  - (e) ALL CERTIFICATES required to be furnished upon delivery of the VESSEL pursuant to this CONTRACT, the SPECIFICATIONS and the customary shipbuilding practice, including
    - (i) Classification Certificate
    - (ii) Safety Construction Certificate
    - (iii) Safety Equipment Certificate
    - (iv) Safety Radio Certificate
    - (v) International Loadline Certificate
    - (vi) International Tonnage Certificate
    - (vii) BUILDER's Certificate
    - (viii) De-ratting Exemption Certificate

However, it is agreed by the parties that if the Classification Certificate 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 BUILDER shall furnish the BUYER with formal certificates as promptly as possible after such formal certificates have been issued but in any event before the expiry of the provisional certificates.

All certificates to be delivered to the BUYER hereunder shall be valid in every respect, unless the recommendation or notation has been approved by the BUYER, in its sole discretion, in writing, in which case the BUILDER shall remain responsible for as promptly as possible removing such recommendation or notation.

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- (f) DECLARATION OF WARRANTY of the BUILDER that the VESSEL is delivered to the BUYER free and clear of any liens, 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 Korean Governmental authorities, or by the prefecture or country of the port of delivery, as well as of all liabilities of the BUILDER to its sub-contractors, suppliers, employees and crews, and of all liabilities arising from the operation of the VESSEL in trial runs, or otherwise, prior to delivery except as otherwise provided under this CONTRACT.

In case the BUILDER fails to deliver the VESSEL free and clear of all liens, charges, mortgages and encumbrances on the date the BUILDER offers or tenders the VESSEL for delivery, the BUYER is not obliged to take delivery of the VESSEL. If the BUYER accepts delivery of the VESSEL with such liens, charges, mortgages and encumbrances, the BUYER shall be entitled to any rights, powers, and remedies in this CONTRACT and/or law, at equity or otherwise to recover any damages caused by such liens, charges, mortgages and encumbrances.

- (g) COMMERCIAL INVOICE

- (h) BILL OF SALE

If required by the BUYER, the BUILDER shall arrange for the notarization and legalization in Korea by a consulate of the VESSEL's country of registration of any of the listed documents/certificates which may be required to be notarized/legalized for the purposes of the BUYER's registration.

**4. TENDER OF THE VESSEL**

If the BUYER fails to take delivery of the VESSEL, after completion thereof, according to this CONTRACT and the SPECIFICATIONS, the BUILDER shall have the right to tender delivery of the VESSEL after compliance with its obligations as provided above.

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**5. TITLE AND RISK**

Title and risk of loss of the VESSEL shall pass to the BUYER upon delivery of the VESSEL and acceptance by the BUYER being effected as stated above and the BUILDER shall be free of all responsibility or liability whatsoever related with this CONTRACT except for the warranty of quality contained in Article IX, the obligation to correct and/or remedy, as provided in Article VI.5.(d) or Article VII. 3.(e), if any, and the obligations in Article XVI(which survive for the period of the relevant patent),it being expressly understood that, until such delivery and acceptance is effected, the VESSEL and equipment thereof are at the entire risk of the BUILDER including but not confined to, risks of war, insurrection and seizure by Governments or Authorities, whether Korean or foreign, and whether at war or at peace. The title to the BUYER'S SUPPLIES as provided in Article XII shall remain with the BUYER and the BUILDER's responsibility for such BUYER'S SUPPLIES shall be as described in Article XII.2.

**6. REMOVAL OF THE VESSEL**

The BUYER shall take possession of the VESSEL immediately upon delivery thereof and shall remove the VESSEL from the SHIPYARD within three (3) days after delivery thereof is effected. Port dues and other charges levied by the Korean Government Authorities after delivery of the VESSEL and any other costs related to the removal of the VESSEL shall be borne by the BUYER.

**7. NOTICES**

Prior to the delivery of the VESSEL, the BUILDER shall give notice to the BUYER with the following schedule:

90 DAYS PRIOR TO DELIVERY—30 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)

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**ARTICLE VIII : DELAYS AND EXTENSIONS OF TIME (INCLUDING FORCE MAJEURE)**

**1. CAUSES OF DELAY**

If, at any time after signing this CONTRACT, either the construction or delivery of the VESSEL or any performance required hereunder as a prerequisite to the delivery thereof is delayed by any of the following events; namely war, acts of state or government, blockade, revolution, insurrections, mobilization, civil commotion, riots, strikes, sabotage, lockouts, Acts of God or the public enemy, plague or other epidemics, quarantines, shortage or prolonged failure of electric current, freight embargoes, or defects in major forgings or castings which could not have been detected by the BUILDER using reasonable care, or delays or defects in the BUYER'S SUPPLIES as stipulated in Article XII, if any, or shortage of materials, machinery or equipment or inability to obtain delivery or delays in delivery of materials, machinery or equipment, provided that at the time of ordering the same could reasonably be expected by the BUILDER to be delivered in time, or defects in materials, machinery or equipment which could not have been detected by the BUILDER using reasonable care or earthquakes, tidal waves, typhoons, hurricanes, prolonged or unusually severe weather conditions or destruction of the premises or works of the BUILDER or its sub-contractors, or of the VESSEL, or any part thereof, by fire, landslides, flood, lightning, explosion, or delays in the BUILDER's other commitments resulting from any such causes as described in this Article which in turn delay the construction of the VESSEL or the BUILDER's performance under the CONTRACT, or delays caused by the CLASSIFICATION SOCIETY or the BUYER's faulty action or omission, or other causes beyond the reasonable control of the BUILDER, or its sub-contractors, as the case may be, provided all the foregoing events were not existing and known to the BUILDER 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 BUILDER 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 BUILDER in respect of labor relations or his relevant sub-contractors, as the case may be; and provided further that any of the above events directly affect the construction schedule of the VESSEL, then, in the event of delays due to the happening of any of the aforementioned contingencies, the DELIVERY DATE of the VESSEL under this CONTRACT shall be extended for a period of time which shall not exceed the total accumulated time of all such delays.

Upon occurrence of the foregoing events, the BUILDER shall take immediate steps to overcome and mitigate the delay and to recover lost time, if any.

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**2. NOTICE OF DELAYS**

As soon as practicably possible after commencement of any delay, and in any event within fourteen (14) days, on account of which the BUILDER claims that it is entitled under this CONTRACT to an extension of the DELIVERY DATE of the VESSEL, excluding delays due to arbitration, the BUILDER shall advise the BUYER in writing or by facsimile of the date such delay commenced, the reasons thereof and, if possible, its estimated duration of the probable delay in the delivery of the VESSEL, and shall supply the BUYER if reasonably available with evidence to justify the delay claimed. Within one (1) week after such delay ends, the BUILDER shall likewise advise the BUYER in writing or by facsimile of the date that such delay ended, and also, shall specify the period of time by which the BUILDER claims the DELIVERY DATE should be extended by reason of such delay.

Failure of the BUILDER to notify the BUYER of its claim for extension of the DELIVERY DATE within the applicable time shall result in a waiver of the BUILDER's claim. Failure of the BUYER to object to the BUILDER's notification of any claim for extension of the date for delivery of the VESSEL within fourteen (14) days after receipt by the BUYER of such notification shall be deemed to be a waiver by the BUYER of its right to object to such extension.

**3. RIGHT TO CANCEL FOR EXCESSIVE DELAY**

If the total accumulated time of all permissible and non-permissible delays, excluding delays due to (i) arbitration under Article XIII, (ii) the BUYER's defaults under Article XI, (iii) modifications and changes under Article V or (iv) delays or defects in the BUYER's SUPPLIES as stipulated in Article XII, aggregates two hundred and ten (210) days or more, then, the BUYER may, at any time thereafter, cancel this CONTRACT by giving a written notice of cancellation to the BUILDER. Such cancellation shall be effective as of the date the notice thereof is received by the BUILDER.

If the BUYER has not served the notice of cancellation as provided in the above or Article III.1. hereof, the BUILDER may, at any time after expiration of the accumulated time of the delay in delivery, either two hundred and ten (210) days in case of the delay in this Paragraph or one hundred and eighty (180) days in case of the delay in Article III.1, notify the BUYER of the future date upon which the BUILDER estimates the VESSEL will be ready for delivery and demand in writing or by facsimile that the BUYER make an election either to cancel this CONTRACT or to consent to the delivery of the VESSEL at such



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future date, in which case the BUYER shall, within fourteen (14) days after receipt of such demand, make and notify the BUILDER of such election. If the BUYER elects to consent to the delivery of the VESSEL at such future date (or other future date as the parties may agree):

- (a) Such future date shall become the contractual delivery date for the purposes of this CONTRACT and shall be subject to extension by reason of permissible delays as herein provided, and
- (b) If the VESSEL is not delivered by such revised contractual delivery date (as extended by reason of permissible delays), the BUYER shall have the same right of cancellation upon the same terms as provided in the above and Article III. 1.

If the BUYER shall not make an election within fourteen (14) days as provided hereinabove, the BUYER shall be deemed to have accepted such extension of the DELIVERY DATE to the future delivery date indicated by the BUILDER.

**4. DEFINITION OF PERMISSIBLE DELAYS**

Delays on account of the foregoing Paragraph 1 of this Article and any other Paragraph of this CONTRACT which expressly permits an extension of the DELIVERY DATE shall be understood to be permissible delays, and are to be distinguished from non-permissible unauthorised delays on account of which the CONTRACT PRICE of the VESSEL is subject to adjustment as provided in Article III hereof.

(End of Article)

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**ARTICLE IX : WARRANTY OF QUALITY**

**1. GUARANTEE OF MATERIAL AND WORKMANSHIP**

- (a) The BUILDER, for the period of twelve (12) months from the date of delivery of the VESSEL to the BUYER (the "Guarantee Period"), guarantees the VESSEL in her entirety and all parts and equipment thereof, including but without prejudice to the generality of the foregoing, the VESSEL's design and all materials and parts manufactured, installed, furnished and/or incorporated by the BUILDER under this CONTRACT against all defects which are due to omissions, non-conformities, defective materials or equipment, faulty design and/or performance, construction miscalculations, and/or poor workmanship (collectively, the "Defects").

The BUILDER will be responsible for all machinery or parts of machinery and all constructions which are supplied by sub-contractors and will guarantee the above mentioned for the Guarantee Period on the basis as laid down in this Article.

- (b) The BUILDER shall pass to the BUYER information about any claims that the BUILDER may have against subcontractors for Defect(s) in deliveries to the VESSEL, without in any way diminishing the BUILDER's guarantee as aforesaid.
- (c) If the normal guarantee period stipulated by manufacturers or suppliers of any components of machinery, materials, equipment, appurtenances or outfit furnished to the BUILDER and embodied in the VESSEL exceeds the Guarantee Period, the benefits of such extended guarantee rights shall be made available to the BUYER by the BUILDER without any additional cost to the BUYER.

**2. NOTICE OF DEFECTS**

The BUYER or its duly authorized representative will notify the BUILDER in writing or by facsimile promptly after discovery of any Defects for which a claim is to be made under this guarantee.

The BUYER's written notice shall include full particulars as to the nature of the Defects and the extent of the damage caused thereby, but excluding consequential damage as hereinafter provided. The BUILDER will be under no obligation with respect to this

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guarantee in respect of any claim for Defects discovered prior to the expiry date of the guarantee, unless notice of such Defects is received by the BUILDER before the expiry date. However, facsimiled advice received by the BUILDER within seven (7) days after such expiry date that a claim is forthcoming will be sufficient compliance with the requirement as to time, provided that such facsimiled advice shall include at least a brief description of the Defects, including the identity of the equipment, extent of damage, name and number of any replacement part and description of any remedial work required, and that full particulars as practicable as possible are given to the BUILDER not later than twenty one (21) days after the expiry date.

**3. REMEDY OF DEFECTS**

- (a) The BUILDER shall remedy, at its expense, any Defects against which the VESSEL is guaranteed under this Article, by making all necessary repairs or replacements at the SHIPYARD or elsewhere as provided for in subparagraph (b) below. If the cause of the Defect(s) is not known or if the Defect(s) is of a recurring nature, the BUILDER shall, at its expense, explore the reasons for such Defect(s) and take all necessary steps and measures to remedy the same in such a way as to eliminate the reoccurrence thereof.

In the event of any Defect(s) guaranteed under this Article, the VESSEL shall be taken at the BUYER's cost and responsibility to the place selected, ready in all respects for such repairs or replacements and in any event, the BUILDER shall not be responsible for towage, dockage, wharfage, port charges and anything else incurred by the BUYER in getting and keeping the VESSEL ready for such repair or replacement.

The BUILDER and the BUYER agree that Defects to underwater parts of the VESSEL 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, however, the BUILDER shall not be liable for any worsening of the Defects after the expiry date of the Guarantee Period, unless mutually agreed by the parties.

- (b) However, if it is impractical (which shall include, but not be limited to, an emergency) to bring the VESSEL to the SHIPYARD, the BUYER may cause the necessary repairs or replacements to be made elsewhere which is deemed by the BUYER with the consent of the BUILDER, which shall not be unreasonably withheld, to be suitable for the purpose, provided that, in such event, the BUILDER may forward or supply replacement parts or materials under the terms described in subparagraph (c) below, unless the

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forwarding or supplying thereof under the terms described in subparagraph (c) below would impair or delay the operation or working schedule of the VESSEL. In the event the BUYER proposes to cause the necessary repairs or replacements to be made to the VESSEL at any shipyard or works other than the SHIPYARD, the BUYER shall first (but in all events as soon as reasonably possible) give the BUILDER notice in writing or by facsimile of the time and place such repairs will be made, and if the VESSEL is not thereby delayed, or her operation or working schedule is not thereby impaired, the BUILDER shall have the right, at its own cost and expense, to verify by its own representative(s) the nature and extent of the Defect(s) complained of.

The BUILDER shall, in such case, promptly advise the BUYER by facsimile, after such examination has been completed, of its acceptance or rejection of the Defect(s) as one(s) covered by the guarantee herein provided. Upon the BUILDER's acceptance of the Defect(s) as justifying remedy under this Article, or upon award of an arbitration so determining, the BUILDER shall compensate the BUYER an amount equal to the reasonable cost of making the same repairs or replacements at major ship repair facilities in Singapore.

- (c) In the event that it is necessary for the BUILDER to forward a replacement for a defective part under this guarantee, replacement parts shall be shipped to the BUYER, and the BUILDER shall bear and pay all C.I.F. costs of the replacement(s) until they arrive on board the VESSEL.
- (d) The BUILDER reserves the option to retrieve, at the BUILDER's cost, any of the replaced equipment/parts in the event Defects are remedied in accordance with the provisions in this Article.
- (e) Any dispute under this Article shall be referred to arbitration in accordance with the provisions of Article XIII hereof.

**4. EXTENT OF THE BUILDER'S LIABILITY**

- (a) After delivery of the VESSEL the responsibility of the BUILDER in respect of and/or in connection with the VESSEL and/or this CONTRACT shall be limited to the extent expressly provided in this Article. Except as expressly provided in this Article, in no circumstances and on no ground whatsoever shall the BUILDER have any responsibility or liability whatsoever or howsoever arising in respect of or in

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connection with the VESSEL or this CONTRACT after the delivery of the VESSEL. Further, but without in any way limiting the generality of the foregoing, the BUILDER shall have no liability or responsibility whatsoever or howsoever arising for or in connection with any consequential or special losses, damages or expenses (including but not limited to loss of time, loss of profit or earnings or demurrage directly or indirectly caused) in relation to or in connection with this CONTRACT or the VESSEL.

- (b) The BUILDER shall be under no obligation with respect to Defects in respect of which the BUILDER has not received notice in accordance with Paragraph 2 of this Article by the expiry of the Guarantee Period.
- (c) The BUILDER shall under no circumstances be liable for Defects in the VESSEL or any part of equipment thereof caused by normal wear and tear, overloading, improper loading or stowage by the BUYER, fire unrelated to Defects, accidents at sea or elsewhere, or by incompetence, mismanagement, negligence or wilful neglect by the BUYER or any alteration or addition to the VESSEL on the part of the BUYER, its employees or agents or any other person on or doing work on the VESSEL, including the VESSEL's officers, crew and passengers, unless approved by the BUILDER. Likewise, the BUILDER shall not be liable for Defects due to repairs carried out by any person other than the BUILDER or which have not been carried out in accordance with the procedure set out in Paragraph 3 (b) of this Article, unless approved by the BUILDER.
- (d) The BUILDER shall not be obliged to repair and shall not be liable for damage to the VESSEL or any part of the equipment thereof which, after delivery of the VESSEL, is caused other than by Defects of the nature specified in this Article. The guarantees contained as hereinabove in this Article replace and exclude any other liability, guarantee, warranty and/or condition imposed or implied by statute, common law, custom, contract (including this CONTRACT) or otherwise on the part of the BUILDER by reason of the construction and sale of the VESSEL for and to the BUYER or for any other reason whatsoever.

**5. EXTENSIONS TO THE GUARANTEE PERIOD**

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 is 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 results from any Defect(s) covered by the BUILDER's guarantee under this Article, then the Guarantee Period shall be extended by such period(s) of time lost in remedying the Defect(s) for which the BUILDER is responsible according to this CONTRACT or in awaiting part(s) required for the purpose of remedying such Defect(s), however, in any event, the total guarantee period shall not extend to twenty-four (24) months from the DELIVERY DATE of the VESSEL;

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- (b) The Guarantee Period shall further, in relation to any qualified acceptance of the BUYER pursuant to Article VI and where the BUYER has agreed that the matters which are the subject of the qualified acceptance may be remedied after delivery, be extended up to the expiration of twelve (12) calendar months following the time when the matters which were mentioned in the notice of the qualified acceptance are made good by the BUILDER after the delivery of the VESSEL to the BUYER as herein provided.

(End of Article)

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**ARTICLE X : PAYMENT**

**1. CURRENCY**

All payments under this CONTRACT shall be made in United States Dollars.

**2. TERMS OF PAYMENT**

The payments of the CONTRACT PRICE shall be made as follows :

(a) First Instalment

Twenty per cent (20%) of the CONTRACT PRICE amounting to U.S.Dollars Fifteen Million Four Hundred Seventy Thousand (US\$15,470,000) shall be paid within three (3) business days after the date hereof.

Under this CONTRACT, in counting the business days, only Saturdays and Sundays are excepted. When a due date falls on a day when banks are not open for business in New York, N.Y., U.S.A. and London, England, such due date shall fall due upon the first business day next following.

(b) Second Instalment

Five per cent (5%) of the CONTRACT PRICE amounting to U.S.Dollars Three Million Eight Hundred Sixty Seven Thousand Five Hundred (US\$3,867,500) shall be paid within twelve (12) months from the date of signing this CONTRACT.

(c) Third Instalment

Five per cent (5%) of the CONTRACT PRICE amounting to U.S.Dollars Three Million Eight Hundred Sixty Seven Thousand Five Hundred (US\$3,867,500) shall be paid within eighteen (18) months from the date of signing this CONTRACT.

(d) Fourth Instalment

Ten per cent (10%) of the CONTRACT PRICE amounting to U.S.Dollars Seven Million

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Seven Hundred Thirty Five Thousand (US\$7,735,000) shall be paid within three (3) business days of receipt by the BUYER of a facsimiled advice from the BUILDER that steel cutting has commenced

(e) Fifth Instalment

Ten per cent (10%) of the CONTRACT PRICE amounting to U.S.Dollars Seven Million Seven Hundred Thirty Five Thousand (US\$7,735,000) shall be paid within three (3) business days of receipt by the BUYER of a facsimiled advice from the BUILDER that the first block of the keel has been laid.

(f) Sixth Instalment

Fifty per cent (50%) of the CONTRACT PRICE amounting to U.S.Dollars Thirty Eight Million Six Hundred Seventy Five Thousand (US\$38,675,000) plus or minus any increase or decrease due to modifications and/or adjustment, if any, arising prior to delivery of the VESSEL of the CONTRACT PRICE under Articles III and V of this CONTRACT shall be paid to the BUILDER with the delivery of the VESSEL. (The date stipulated for payment of each of the six instalments mentioned above is hereinafter in this Article and in Article XI referred to as the "DUE DATE" of that instalment).

It is understood and agreed upon by the BUILDER and the BUYER that all payments under the provisions of this Article shall not be delayed or withheld by the BUYER due to any dispute or disagreement of whatever nature arising between the BUILDER and the BUYER. Should there be any dispute in this connection, the matter shall be dealt with in accordance with the provisions of arbitration in Article XIII hereof. Expenses for remitting payments and any other expenses connected with such payments shall be for the account of the BUYER.

**3. DEMAND FOR PAYMENT**

At least fourteen (14) days prior to the date of each event provided in Paragraph 2 of this Article on which any payment shall fall due hereunder, with the exception of the payment of the first and second instalments, the BUILDER shall notify the BUYER by facsimile of the date such payment shall become due.

The BUYER shall immediately acknowledge receipt of such notification by facsimile to the BUILDER, and make payment as set forth in this Article. If the BUILDER fails to receive



the BUYER's said acknowledgement within three (3) days after sending the aforementioned notification, the BUILDER shall promptly facsimile to the BUYER a second notification of similar import. The BUYER shall immediately acknowledge by facsimile receipt of the foregoing second notification regardless of whether or not the first notification was acknowledged as aforesaid.

**4. METHOD OF PAYMENT**

(a) All the pre-delivery payments and the payment due on delivery in settlement of the CONTRACT PRICE as provided for in Paragraph 2 of this Article shall be made in U.S. Dollars on or before the DUE DATE thereof by telegraphic transfer as follows;

(i) The payment of the first, second, third, fourth and fifth instalments shall be made to the account (Account No.: 04-009-010) of Korea Exchange Bank, Seoul, Korea (hereinafter called the "KEB") with Deutsche Bank Trust Company Americas, 60 Wall Street Mail Stop NYC 60-1310, New York, N.Y. 10005, U.S.A (hereinafter called the "DBTC") for further credit to the account (Account No.: 117-JCD-700002) of Hyundai Heavy Industries Co., Ltd. with KEB or the account of the BUILDER with any other bank in favour of the BUILDER, as designated and notified by the BUILDER at least three (3) business days prior to the DUE DATE.

(ii) Payment of the Sixth Instalment

The BUYER shall, at least three (3) business days prior to the actual date of delivery of the VESSEL, request the BUYER's bank to make an irrevocable deposit in an account in the name of the BUYER's bank with KEB or any other bank designated by the BUILDER and acceptable to the BUYER's bank for a period of fifteen (15) days and covering the amount of the sixth instalment (as adjusted in accordance with the provisions of this CONTRACT), with an irrevocable instruction that the said amount shall be released to the BUILDER against presentation by the BUILDER to KEB or such other bank of a copy of the Protocol of Delivery and Acceptance signed by the BUYER's authorized representative and the BUILDER. Interest, if any, accrued from such deposit shall be for the benefit of the BUYER.

If the BUILDER has not presented the said original of the Protocol of Delivery and Acceptance duly signed by the BUILDER and the BUYER to the KEB or such other bank on or before the expiry of the aforesaid fifteen (15) day

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deposit period, then 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 to between the BUYER and the BUILDER, then the BUYER shall make the cash deposit in accordance with the same terms and conditions as set out above.

- (b) Simultaneously with each of such payments, the BUYER shall advise the BUILDER of the details of the payments by facsimile and at the same time, the BUYER shall cause the BUYER's remitting Bank to advise the KEB or any other bank of the details of such payments by authenticated bank cable or telex.

**5. REFUND BY THE BUILDER**

The payments made by the BUYER to the BUILDER prior to delivery of the VESSEL shall constitute advances to the BUILDER. If the VESSEL is rejected by the BUYER in accordance with the terms of this CONTRACT, or except in the case of rescission or cancellation of this CONTRACT by the BUILDER under the provisions of Article XI hereof, if the BUYER terminates, cancels or rescinds this CONTRACT pursuant to any of the provisions of this CONTRACT specifically permitting the BUYER to do so, the BUILDER shall forthwith refund to the BUYER, in U.S. Dollars, the full amount of all sums paid by the BUYER to the BUILDER in advance of delivery on account of the VESSEL together with interest thereon as herein provided.

The transfer and other bank charges of such refund shall be for the BUILDER's account. The interest rate of the refund, as above provided, shall be seven per cent (7%) per annum from the date following the date of receipt by the BUILDER of the pre-delivery instalment(s) to the date of remittance by telegraphic transfer of such refund, provided, however, that if and to the extent the cancellation of this CONTRACT by the BUYER is based upon delays due to a force majeure event or other causes beyond the control of the BUILDER as provided for in Article VIII hereof, then in such event, the interest rate of refund shall be reduced for the relevant force majeure period to six per cent (6%) per annum.

It is hereby understood by both parties that payment of any interest provided herein is by way of liquidated damages due to cancellation of this CONTRACT and not by way of compensation for use of money.

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If, pursuant to this CONTRACT, the BUILDER is required to refund to the BUYER the instalments paid by the BUYER to the BUILDER as provided in this Paragraph, the BUILDER shall return to the BUYER all of the BUYER'S SUPPLIES as stipulated in Article XII which were not incorporated into the VESSEL and pay to the BUYER an amount equal to the cost to the BUYER of those supplies incorporated into the VESSEL.

Any and all refunds or payments due to the BUYER under this CONTRACT shall be effected by telegraphic transfer to the account specified by the BUYER free of bank charge, remittance fees, taxes and other applicable withholdings incurred and levied in Korea.

**6. TOTAL LOSS**

If there is a total loss or a constructive total loss of the VESSEL prior to delivery thereof, the BUILDER shall proceed according to the mutual agreement of the parties hereto either:

- (a) to build another vessel in place of the VESSEL so lost and deliver it under this CONTRACT to the BUYER, provided that the parties hereto shall have agreed in writing to a reasonable cost and time for the construction of such vessel in place of the lost VESSEL; or
- (b) to refund to the BUYER the full amount of the total sums paid by the BUYER to the BUILDER under the provisions of Paragraph 2 of this Article together with interest thereon at the rate of seven per cent (7%) per annum from the date following the date of receipt by the BUILDER of such pre-delivery instalment(s) to the date of payment by the BUILDER to the BUYER of the refund.

If the parties hereto fail to reach such agreement within two (2) months after the VESSEL is determined to be a total loss or constructive total loss, the provisions of (b) hereinabove shall be applied.

**7. DISCHARGE OF OBLIGATIONS**

Upon refund by the BUILDER to the BUYER as provided in the foregoing Paragraphs 5 and 6 all of the obligations, duties and liabilities of each of the parties hereto to the other shall be discharged.

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**8. REFUND GUARANTEE**

The BUILDER shall send a copy of the Refund Guarantee by facsimile before payment of the 1<sup>st</sup> installment by the BUYER, and deliver to the BUYER by hard copy, or by SWIFT through the BUYER's bank, acceptable to the BUILDER, an assignable letter of guarantee issued by Calyon, Seoul Branch for the refund of the pre-delivery instalments plus interest as aforesaid to the BUYER under or pursuant to Paragraph 5 above in the form annexed hereto as Exhibit "A". All expenses in issuing and maintaining the letter of guarantee described in this Paragraph shall be borne by the BUILDER. In case of SWIFT, the BUYER shall advise the BUILDER of the details of the BUYER's bank including the SWIFT address upon execution of this CONTRACT.

(End of Article)

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**ARTICLE XI : BUYER'S DEFAULT/ BUILDER'S DEFAULT**

**1. BUYER'S DEFAULT**

**(a) DEFINITION OF THE BUYER'S DEFAULT**

The BUYER shall be deemed to be in default under this CONTRACT in the following cases :

- (i) If the first, second, third, fourth or fifth instalment is not paid to the BUILDER within respective DUE DATE of such instalments as required by Article X; or
- (ii) If the sixth instalment is not deposited in accordance with Article X.4.(a)(ii) hereof or if the said sixth instalment deposit is not released to the BUILDER against presentation by the BUILDER of a duplicate original copy of the PROTOCOL OF DELIVERY AND ACCEPTANCE; or
- (iii) If the BUYER fails to take delivery of the VESSEL when the VESSEL is duly tendered for delivery by the BUILDER under the provisions of Article VII hereof; or
- (iv) If an order or an effective resolution shall be passed for winding up of the BUYER (except for the purpose of reorganization, merger or amalgamation).

**(b) EFFECT OF THE BUYER'S DEFAULT ON OR BEFORE THE DELIVERY OF THE VESSEL**

If the BUYER shall be in default as provided in Paragraph 1.(a) above of its obligations under this CONTRACT, then;

- (i) The DELIVERY DATE of the VESSEL shall be extended automatically for the actual period of such default and the BUILDER shall not be obliged to pay any liquidated damages for the delay in delivery of the VESSEL caused thereby.
- (ii) The BUYER shall pay to the BUILDER interest at the rate of seven per cent (7%) per annum in respect of the instalment(s) in default from the respective DUE DATE to the date of actual receipt by the BUILDER of the full amount of such instalment(s).

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- (iii) If the BUYER is in default in payment of any of the instalment(s) due and payable prior to or simultaneously with the delivery of the VESSEL, the BUILDER shall, in writing or by facsimile, notify the BUYER to that effect, and the BUYER shall, upon receipt of such notification, forthwith acknowledge in writing or by facsimile to the BUILDER that such notification has been received.
  - (iv) If any of the BUYER'S default continues for a period of ten (10) days after the BUILDER'S notification to the BUYER of such default, the BUILDER may, at its option, rescind this CONTRACT by serving upon the BUYER a written notice or a facsimile notice of rescission confirmed in writing.
  - (v) In the event of such cancellation by the BUILDER of this CONTRACT due to the BUYER'S default as provided for in Paragraph 1.(a) above, the BUILDER shall be entitled to retain and apply the instalments already paid by the BUYER to the recovery of the BUILDER'S loss and damage including, but not being limited to, reasonable estimated profit due to the BUYER'S default and the cancellation of this CONTRACT and at the same time the BUILDER shall have the full right and power either to complete or not to complete the VESSEL which is the sole property of the BUILDER as it deems fit, and to sell the VESSEL at a public or private sale on such terms and conditions as the BUILDER thinks fit acting reasonably. The BUILDER will invite the BUYER to participate in any public tender at least fourteen (14) days in advance.

The proceeds received by the BUILDER from any sale shall be applied in addition to the instalment(s) retained by the BUILDER as mentioned hereinabove as follows : -

- First, in payment of all reasonable costs and expenses of the sale of the VESSEL, including interest thereon at seven per cent (7%) per annum from the respective date of payment of such costs and expenses aforesaid to the date of sale on account of the BUYER'S default
- Second, if the VESSEL has been completed, in or towards satisfaction of the unpaid balance of the CONTRACT PRICE, to which shall be added the cost of all additional work and extras agreed by the BUYER including interest thereon at seven per cent (7%) per annum from the respective DUE DATE of the instalment in default to the date of sale, or if the VESSEL has not been completed, in or towards satisfaction of the unpaid amount of the cost incurred by the BUILDER prior to the date of sale on account of construction of the VESSEL, including work, labour, materials and reasonably estimated profit

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which the BUILDER would have been entitled to receive if the VESSEL had been completed and delivered plus interest thereon at seven per cent (7%) per annum from the respective DUE DATE of the instalment in default to the date of sale.

Third, the balance of the proceeds of sale, if any, shall belong to the BUYER, and shall forthwith be paid over to the BUYER by the BUILDER.

In the event of the proceeds from the sale together with instalment(s) retained by the BUILDER being insufficient to pay the BUILDER the total amount required as above, the BUYER shall be liable for the deficiency and shall pay the same to the BUILDER upon its demand.

**2. BUILDER'S DEFAULT**

**(a) DEFINITION OF THE BUILDER'S DEFAULT**

The BUYER may declare the BUILDER in default and rescind this CONTRACT, all as stipulated in this CONTRACT and the SPECIFICATIONS, in any of the following cases:

- (i) the court declares bankruptcy proceedings against the BUILDER under the Bankruptcy Act of Korea; or
- (ii) there are insolvency proceedings which prevent the BUILDER from building and completing the VESSEL.

**(b) EFFECT OF THE BUILDER'S DEFAULT**

If the BUILDER shall be in default as provided for in Paragraph 2.(a) of this Article hereinabove, the BUYER shall, in writing or by facsimile, notify the BUILDER to that effect, and may, at its option, rescind this CONTRACT in accordance with the provisions of this Article.

The BUYER shall, in writing or by facsimile, notify the BUILDER to that effect, and the BUILDER shall, upon receipt of such notification, forthwith acknowledge in writing or by facsimile to the BUYER that such notification has been received.

If any of the BUILDER's default continues for a period of ten (10) days after the BUYER'S

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notification to the BUILDER of such default, the BUYER may, at its option, rescind this CONTRACT by serving upon the BUILDER a written notice or a facsimile notice of rescission confirmed in writing.

(c) **NOTICE OF THE BUILDER'S DEFAULT**

In the event the BUYER exercises 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 BUILDER in writing or by fax confirmed in writing, and such rescission shall be effective as of the date notice thereof is received by the BUILDER.

(d) **REFUNDMENT BY THE BUILDER**

In the event the BUILDER receives the notice stipulated in Paragraph 2.(c) of this Article, the BUILDER shall promptly refund to the BUYER the full amount of all sums paid by the BUYER to the BUILDER in accordance with Article X.

(e) **DISCHARGE OF OBLIGATIONS**

Upon such refund by the BUILDER to the BUYER, and upon compliance with the provisions of Paragraph 2.(d) of this Article, 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)



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**ARTICLE XII : BUYER'S SUPPLIES**

**1. RESPONSIBILITY OF THE BUYER**

The BUYER shall, at its cost and expense, supply all the BUYER'S SUPPLIES as specified in Paragraph 0.15 of the FULL SPECIFICATIONS (hereinafter called the "BUYER'S SUPPLIES"), to the BUILDER at the SHIPYARD in proper condition ready for installation and in accordance with the time schedule to be furnished to the BUYER by the BUILDER to meet the building schedule of the VESSEL.

In order to facilitate the installation of the BUYER'S SUPPLIES by the BUILDER, the BUYER shall furnish the BUILDER with the necessary plans, instruction books, test report and all test certificates required by the BUILDER and shall cause the representative(s) of the makers of the BUYER'S SUPPLIES to give the BUILDER any advice, instructions or assistance which the BUILDER may reasonably require in the installation or adjustment thereof at the SHIPYARD, all without cost or expense to the BUILDER.

The BUYER shall be liable for any expense incurred by the BUILDER for repair of the BUYER'S SUPPLIES due to defective design or materials, poor workmanship or performance or due to damage in transit and the DELIVERY DATE of the VESSEL shall be extended for the period of such repair if such repair shall affect the delivery of the VESSEL.

Commissioning into good order of the BUYER'S SUPPLIES during and after installation on board shall be made at the BUYER's expense by the representative of respective maker or the person designated by the BUYER in accordance with the BUILDER's building schedule.

Should the BUYER fail to deliver to the BUILDER the BUYER'S SUPPLIES and the necessary document or advice for such supplies within the time specified by the BUILDER, the DELIVERY DATE of the VESSEL shall automatically be extended for the period of such delay if such delay in delivery shall affect the delivery of the VESSEL. In such event, the BUYER shall pay to the BUILDER all losses and damages sustained by the BUILDER due to such delay in the delivery of the BUYER'S SUPPLIES and such payment shall be made upon delivery of the VESSEL, provided, however, that the BUILDER shall have :

- (a) furnished the BUYER with the time schedule referred to above, two (2) months prior to installation of the BUYER'S SUPPLIES and

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(b) given the BUYER written notice of any delay in delivery of the BUYER'S SUPPLIES and the necessary document or advice for such supplies as soon as the delay occurs which might give rise to a claim by the BUILDER under this Paragraph.

Furthermore, if the delay in delivery of the BUYER'S SUPPLIES and the necessary document or advice for such supplies should exceed twenty (20) days from the date specified by the BUILDER, the BUILDER shall be entitled to proceed with construction of the VESSEL without installation of such items (regardless of their nature or importance to the BUYER or the VESSEL) in or on the VESSEL without prejudice to the BUILDER'S right hereinabove provided, and the BUYER shall accept the VESSEL so completed.

**2. RESPONSIBILITY OF THE BUILDER**

The BUILDER shall be responsible for storing, safekeeping and handling the BUYER'S SUPPLIES which the BUILDER is required to install on board the VESSEL under Paragraph 0.15 of the FULL SPECIFICATIONS after delivery of such supplies to the SHIPYARD, and shall install such supplies on board the VESSEL at the BUILDER's expense unless otherwise specified in the SPECIFICATIONS.

However, the BUILDER shall not be responsible for the quality, performance or efficiency of any equipment included in the BUYER'S SUPPLIES and is under no obligation with respect to the guarantee of such equipment against any defects caused by poor quality, performance or efficiency of the BUYER'S SUPPLIES but the BUILDER shall be liable under Article IX for any defect(s) in respect of installation of the BUYER'S SUPPLIES to the VESSEL. If any of the BUYER'S SUPPLIES is lost or damaged while in the custody of the BUILDER, the BUILDER shall, if the loss or damage is due to wilful default or negligence on its part, be responsible for such loss or damage.

(End of Article)

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**ARTICLE XIII : 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.

In the event that the parties hereto do not agree to settle a dispute according to the provision hereinabove, the following clauses shall apply.

**2. APPOINTMENT OF THE ARBITRATOR**

If any dispute or difference shall arise between the parties hereto concerning any matter or thing herein contained, or the operation or construction thereof, or any matter or thing in any way connected with this CONTRACT or the rights, duties or liabilities of either party under or in connection with this CONTRACT, then, in every such case, the dispute or difference shall be referred to arbitration in London, England by a sole arbitrator. The arbitrator shall be appointed by agreement within fourteen (14) days of the first written notification of either party to the other of its intention to arbitrate such dispute or difference, or in default of such agreement, upon the application of either of the parties, by the President for the time being of the London Maritime Arbitrators Association ("LMAA") who shall in making any such appointment have due regard to the nature of the dispute and the requirement for an expeditious resolution of the dispute and, in particular, the availability of any arbitrator so appointed for an early hearing date.

**3. LAWS APPLICABLE**

Any arbitration arising hereunder shall be submitted in accordance with and subject to the Arbitration Act 1996 of England or any statutory amendments or re-enactments thereof for

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the time being in force and shall be conducted in accordance with the LMAA terms current at the time when arbitration proceedings are commenced (except as expressly provided herein). The award of the arbitrator shall be final and binding upon parties hereto.

**4. PROCEEDINGS**

In the event of any dispute or difference being referred to arbitration, the parties hereby acknowledge that time is of the essence in obtaining an award from the arbitrator on such dispute or difference and the parties hereby agree that the arbitration shall be conducted according to the following timetable:

- (a) The claimant in the arbitration to serve points of claim within twenty one (21) days of the appointment of the arbitrator.
- (b) The respondent in the arbitration to serve points of defence and points of counterclaim, if any, within twenty one (21) days thereafter.
- (c) The claimant to serve points of reply and defence to counterclaim, if any, within fourteen (14) days thereafter and the hearing of the arbitration to commence within twelve (12) weeks of the appointment of the arbitrator.

**5. ALTERATION OF DELIVERY OF THE VESSEL**

In the event of the arbitration of any dispute or difference the award by the arbitrator shall include a finding as to whether or not the contractual delivery date of the VESSEL should, as a result of such dispute, be in any way altered thereby.

**6. NOTICE OF AWARD**

The award shall immediately be given to the BUYER and the BUILDER in writing or by facsimile confirmed in writing.

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7. **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.

8. **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.

(End of Article)

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**ARTICLE XIV : SUCCESSORS AND ASSIGNS**

The BUILDER agrees that, prior to delivery of the VESSEL, this CONTRACT may, with the prior written approval of the BUILDER, which the BUILDER shall not unreasonably withhold, be transferred by the BUYER to and the title thereof may 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 the rights and obligations of the BUYER under this CONTRACT. 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 due to 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 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 BUILDER a notice of assignment in form and content acceptable to the BUILDER acting reasonably. The BUILDER shall, at the BUYER's request, acknowledge and consent to such assignment by signing an acknowledgement and consent acceptable to the BUILDER acting reasonably.

The BUILDER 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, and provided always that BUILDER shall remain responsible for the due performance of this CONTRACT by the assignee.

(End of Article)

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**ARTICLE XV : TAXES AND DUTIES**

**1. TAXES**

Unless otherwise expressly provided for in this CONTRACT, all taxes, fees and duties including stamp duties, if any, incurred in or levied by any country except Korea in connection with its performance under this CONTRACT shall be borne by the BUYER except for taxes, fees and duties imposed on those items to be procured by the BUILDER for construction of the VESSEL and all taxes, fees and duties, including stamps duties, if any, incurred and levied by Korea in connection with its performance under this CONTRACT shall be borne by the BUILDER.

**2. DUTIES**

The BUILDER shall hold the BUYER harmless from any payment of duty imposed in Korea upon materials or supplies which, under the terms of this CONTRACT, or amendments thereto, may be supplied by the BUYER from abroad for the construction of the VESSEL.

The BUILDER shall likewise hold the BUYER harmless from any payment of duty imposed in Korea in connection with materials or supplies for operation of the VESSEL, including running stores, provisions and supplies necessary to stock the VESSEL for its operation. This indemnity does not, however, extend to any items purchased by the BUYER for use in connection with the VESSEL which are not absolutely required for the construction or operation of the VESSEL.

(End of Article)

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**ARTICLE XVI : PATENTS, TRADEMARKS AND COPYRIGHTS**

**1. PATENTS, TRADEMARKS AND COPYRIGHTS**

Machinery and equipment of the VESSEL, whether made or furnished by the BUILDER under this CONTRACT, may bear the patent numbers, trademarks, or trade names of the manufacturers. The BUILDER shall defend and save harmless the BUYER from all liabilities or claims for or on account of the use of any patents, copyrights or design of any nature or kind, or for the infringement thereof including any unpatented invention made or used in the performance of this CONTRACT and also for any costs and expenses of litigation, if any in connection therewith. No such liability or responsibility shall be with the BUILDER with regard to components and/or equipment and/or design supplied by the BUYER.

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.

**2. RIGHTS TO THE FULL SPECIFICATIONS, PLANS, ETC.**

The BUILDER retains all rights with respect to the SPECIFICATIONS, 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 shall not disclose the same or divulge any information contained therein to any third parties, including but not limited to any other shipbuilders, without the prior written consent of the BUILDER, excepting where it is necessary for usual operation, repair and maintenance of the VESSEL. In case the BUYER is in breach of its obligation under this Article, the BUILDER shall be entitled to any rights, powers and remedies in this CONTRACT and/or at law, at equity or otherwise to recover any damages caused by the breach of the BUYER.

(End of Article)



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**ARTICLE XVII : INSURANCE**

From the time of launching of the VESSEL until the same is completed, delivered to and accepted by the BUYER, the BUILDER shall, at its own cost and expense, keep the VESSEL and all machinery, materials, equipment, appurtenances and outfit, delivered to the SHIPYARD for the VESSEL or built into, or installed in or upon the VESSEL, including the BUYER's SUPPLIES, fully insured with first-class Korean insurance companies under coverage corresponding to the Institute of London Underwriters for BUILDER's Risks Clauses.

Such insurance coverage shall, up to the date of delivery of the VESSEL, be the aggregate amount of the installments paid by the BUYER to the BUILDER plus the value of the BUYER's SUPPLIES in the custody of the BUILDER,

The BUILDER's obligation to insure the VESSEL hereunder shall cease and terminate forthwith upon delivery thereof and acceptance by the BUYER.

(End of Article)

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**ARTICLE XVIII : INTERPRETATION AND GOVERNING LAW**

This CONTRACT has been prepared in English and shall be executed in duplicate and in such number of additional copies as may be required by either party respectively. 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 with, the laws of England.

(End of Article)

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**ARTICLE XIX : NOTICE**

Any and all notices, requests, demands, instructions, advices and communications in connection with this CONTRACT shall be written in English, sent by registered air mail or facsimile and shall be deemed to be given when first received whether by registered mail or facsimile. They shall be addressed as follows, unless and until otherwise advised : -

To the BUILDER: Hyundai Heavy Industries Co., Ltd.  
1, Cheonha-Dong, Dong-Ku, Ulsan  
Korea  
Attn: Project Management Department  
Facsimile: (82) (52) 230-3448, 230-3425

To the BUYER: Commercial  
Seaspan Corporation  
Unit 2, 7<sup>th</sup> Floor Bupa Center  
141 Connaught Road West, Hong Kong F4 0000  
China  
Attn: Gerry Wang  
Facsimile No.: 852-2540-1689

Technical  
Seaspan Ship Management Ltd.  
2600—200 Granville Street  
Vancouver, B.C. V6C 1S4  
Canada  
Attn: Peter Curtis / Peter Jackson  
Facsimile No.: 1-604-638-2595

The said notices shall become effective upon receipt of the letter or facsimile communication by the receiver thereof. Where a notice by facsimile is concerned which is required to be confirmed by letter, then, unless the CONTRACT or the relevant Article thereof otherwise requires, the notice shall become effective upon receipt of the facsimile.

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 facsimile) 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.

(End of Article)

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**ARTICLE XX : EFFECTIVENESS OF THIS CONTRACT**

This CONTRACT shall become effective upon signing by the parties hereto.

(End of Article)

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**ARTICLE XXI : EXCLUSIVENESS**

This CONTRACT shall constitute the only and entire agreement between the parties hereto, and unless otherwise expressly provided for in this CONTRACT, all other agreements on any subject matter of this CONTRACT, oral or written, made and entered into between the parties prior to the execution of this CONTRACT shall be null and void.

This CONTRACT may be supplemented or amended in writing by the parties and any supplement or amendment, whatsoever form it may be relating to this CONTRACT, to be made and signed among parties hereof concurrently with or after the signing this CONTRACT, shall govern in respect of the corresponding Article or Clause, as the case may be, of this CONTRACT, unless otherwise expressly stipulated in supplement or amendment.

(End of Article)

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IN WITNESS WHEREOF, the parties hereto have caused this CONTRACT to be duly executed on the date and year first above written.

BUYER

For and on behalf of  
SEASPAN CORPORATION

By: /s/ GERRY WANG  
Name: GERRY WANG  
Title: CHIEF EXECUTIVE OFFICE  
WITNESS:

BUILDER

For and on behalf of  
HYUNDAI HEAVY INDUSTRIES CO., LTD.

By: /s/ D.Y. HAN  
Name: D.Y. HAN  
Title: SENIOR EXECUTIVE V.P.  
WITNESS:

**EXHIBIT "A"**

OUR LETTER OF REFUNDMENT GUARANTEE NO. \_\_\_\_\_

Date : \_\_\_\_\_, 2006

Gentlemen:

We, \_\_\_\_\_ (hereinafter called the "Bank"), hereby issue our irrevocable letter of refundment guarantee number \_\_\_\_\_ (the "Letter") in favour of SEASPAN CORPORATION (hereinafter called the "BUYER"), a company organized and existing under the laws of the Marshall Islands, for account of Hyundai Heavy Industries Co., Ltd., Ulsan, Korea (hereinafter called the "BUILDER") in consideration of the BUYER making advance payments to the BUILDER under the shipbuilding contract dated \_\_\_\_\_, 2006 (hereinafter called the "CONTRACT") made by and between the BUYER and the BUILDER for the design, construction, and sale of one (1) \_\_\_\_\_ having the BUILDER's Hull No. \_\_\_\_\_ (hereinafter called the "VESSEL").

Whereas in Article X of the CONTRACT, the BUYER is required to make \_\_\_\_\_ (\_\_\_\_) advance payments of the CONTRACT price in the following amounts: First Instalment amounting to \_\_\_\_\_ United States Dollars, Second Instalment amounting to \_\_\_\_\_ United States Dollars, Third Instalment amounting to \_\_\_\_\_ United States Dollars, Fourth Instalment amounting to \_\_\_\_\_ United States Dollars, Fifth Instalment amounting to \_\_\_\_\_ United States Dollars.

if, in connection with or under the terms of the CONTRACT, the BUYER shall become entitled to a refundment of the advance payment(s) made to the BUILDER prior to the delivery of the VESSEL, we hereby irrevocably and unconditionally guarantee as a primary obligor and not as a surety that we shall pay to the BUYER on demand the sum of **[insert first Instalment]** United States Dollars (in U.S. Dollars only), together with interest thereon at the rate of \_\_\_\_\_ percent (\_\_\_\_%) per annum from the date following the date of receipt by the BUILDER of any advance payment to the date of remittance by telegraphic transfer of such refundment.

The amount of this Letter shall automatically increase upon the BUILDER's receipt of the respective Instalment, not more than \_\_\_\_\_ (\_\_\_\_) times, each time by the amount of the respective Instalment plus interest thereon as provided in the CONTRACT, but in any eventuality, the amount of this guarantee shall not exceed the total sum of \_\_\_\_\_ United States Dollars (in U.S. Dollars only) plus interest thereon at the rate of \_\_\_\_\_ percent (\_\_\_\_%) per annum from the date following the date of the BUILDER's receipt of each Instalment to the date of remittance by telegraphic transfer of the refundment. However, in the event of cancellation of the CONTRACT being based on delays due to force majeure or other causes beyond the control of the BUILDER, the interest rate of the refundment shall be reduced to \_\_\_\_\_ percent (\_\_\_\_%) per annum as provided in Article X. 5 of the CONTRACT.

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The payment by the undersigned under this Letter (subject to the third and fourth paragraph hereof) shall be made upon simple receipt by us of written demand from the BUYER, including a signed statement certifying that the BUYER's demand for refundment has been made in conformity with Article X of the CONTRACT and the BUILDER has failed to make the refundment. Refundments shall be made to the BUYER by telegraphic transfer in freely transferable United States Dollars free of bank charges, remittance fees, taxes, and other applicable withholdings.

It is hereby understood that payment of any interest provided herein is by way of liquidated damages due to cancellation of the CONTRACT and not by way of compensation for use of the money.

Notwithstanding the provisions hereinabove, in the event that within thirty (30) days from the date of the BUYER's claim of refundment to the BUILDER referred to above, we receive notification from the BUYER or the BUILDER that is accompanied by written confirmation of the arbitrator(s) appointed for this purpose stating to the effect that the BUYER's claim to cancel the CONTRACT or the BUYER's claim for refundment thereunder has been disputed and referred to arbitration in accordance with the provisions of the CONTRACT, the period of validity of this guarantee shall be extended until Forty-Five (45) days after the award has been rendered in the arbitration, and we shall under this guarantee, refund to the BUYER the sum adjudged to be due to the BUYER by the BUILDER pursuant to the award made under such arbitration immediately upon receipt from the BUYER of a simple demand for the sums so adjudged accompanied by a copy of the arbitration award.

We hereby agree that this Letter shall be construed as a continuing and unconditional guarantee of payment without regard to the validity or enforceability of any other agreement or instrument and without regard to defence, set-off, or counterclaim or any other circumstance whatsoever which might constitute an equitable or legal discharge of our obligations hereunder. No action or failure to act on the BUYER's part shall relieve us of any of our obligations hereunder.

This Letter shall become null and void upon receipt by the BUYER of the full sum guaranteed hereby or upon acceptance by the BUYER of the delivery of the VESSEL in accordance with the terms of the CONTRACT as evidenced by the Protocol of Delivery and Acceptance duly signed by the BUILDER and the BUYER and, in either case, the BUYER shall return this Letter to us or shall arrange with their bank to confirm to us by SWIFT (our SWIFT address : \_\_\_\_\_) that this Letter is null and void.

This Letter is assignable to the BUYER's financier, whether it is a bank, financial institution, or a commercial corporation, by giving written notice to us.

This Letter is valid from the date of this Letter until such time as the VESSEL is delivered by the BUILDER to and accepted by the BUYER in accordance with the provisions of the CONTRACT. This Letter shall continue to be effective or reinstated, as the case may be, if at any time, payment of any of the payments guaranteed hereunder is rescinded or must otherwise be returned by the BUYER upon the insolvency, bankruptcy, or reorganization of the BUILDER or otherwise, all as though any such payment had not been made.

All demands and notices in connection with this Letter shall be validly given if sent to us by post, fax, or telex to our office as follows:

\_\_\_\_\_  
Address:  
Tel:  
Fax:



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This guarantee shall be governed by and construed in accordance with the laws of England, and the undersigned hereby submits to the exclusive jurisdiction of the courts of England.

Very truly yours,

For and on behalf of

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

MEMORANDUM OF AGREEMENT

Norwegian Shipbrokers' Association's Memorandum of Agreement for sale and purchase of ships. Adopted by The Baltic and International Maritime Council (BIMCO) in 1956.

Code-name  
**SALEFORM 1987**

Revised 1966, 1983 and 1986

Dated: *11 October 2006*

*SECOND ORIGINAL OF TWO*

*A.P. Møller - Mærsk A/S  
Esplanaden 50  
1098 Copenhagen K  
Denmark*

hereinafter called the Sellers, have today sold, and

*Seaspan Corporation  
Unit 2, 7th Floor  
Bupa Centre  
141, Connaught Road West  
Hong Kong  
China*

hereinafter called the Buyers, have today bought

*M. V. "MATHILDE MÆRSK", hereinafter called the vessel,*

Classification: *Lloyds Register*

Built: *1989*

Flag: *Danish*

Call sign: *OUUU2*

Register *IMO* number: *8618308*

on the following conditions:

by: *Odense Staalskibsværft A/S*

Place of Registration: *Skagen*

Register-tonnage: *GT 52,191 /NT 25,458*

**1. Price**

Price: *USD 40,000,000 (United States Dollars Forty Million only) net to the Sellers in cash.*

**2. Deposit**

~~As a security for the correct fulfillment of this contract, the Buyers shall pay a deposit of 10% – ten per cent of the Purchase Money within banking days from the date of this agreement. This amount shall be deposited with 10 (ten) percent of the purchase price is to be deposited by the Buyers into a joint interest bearing account no 60434862 in the names of the Buyers and the Sellers at HSBC Bank London, 8 Canada Square, London E14 5HQ, UK within 3 (three) London banking days after this Agreement has been signed on fax by both parties.~~

*Costs for such joint account and closing at HSBC London to be shared equally between the Buyers and the Sellers.*

*Documentary closing to take place at the Sellers' nominated bank.*

~~and held by them in a joint account for the Sellers and the Buyers. Interest, if any, to be credited the Buyers. Any fee charged for holding said deposit shall be borne equally by the Sellers and the Buyers.~~

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### 3. Payment

*The 10 (ten) per cent deposit shall be released and the 90 (ninety) per cent balance of the* The said Purchase Money shall be paid free of bank charges to

*Citibank, N.A., New York Branch, Account Number: 30625992, SWIFT: CITIUS33, Account holder: A.P. Møller - Mærsk A/S* on delivery of the vessel, but not later than three banking days after the vessel is ready for delivery and written or telexed notice thereof has been given to the Buyers by the Sellers.

### 4. Inspections

*The Buyers have physically inspected the vessel in Yokohama, Japan on 11 September 2006 and have accepted the vessel.*

*The Buyers have inspected the vessel's class records with Lloyds Register and have accepted same.*

*This agreement is thus not subject to any further inspections.*

~~The Buyers shall have the right to inspect the vessel's classification records and declare whether same are accepted or not within~~

~~The Sellers shall provide for inspection of the vessel at/in~~

~~The Buyers shall undertake the inspection without undue delay to the vessel. Should the Buyers cause such delay, they shall compensate the Sellers for the losses thereby incurred.~~

~~The Buyers shall inspect the vessel afloat without opening up and without cost to the Sellers. During the inspection, the vessel's log books for engine and deck shall be made available for the Buyers' examination. If the vessel is accepted after such afloat inspection, the purchase shall become definite except for other possible subjects in this contract provided the Sellers receive written or telexed notice from the Buyers within 48 hours after completion of such afloat inspection. Should notice of acceptance of the vessel's classification records and of the vessel not be received by the Sellers as aforesaid, the deposit shall immediately be released, whereafter this contract shall be considered null and void.~~

### 5. Place and time of delivery

The vessel shall be delivered ~~and taken over at/in~~ to / *and taken over by the Buyers safely afloat at a safe berth / anchorage in one safe port in the Sellers' option, Worldwide within INL excluding US ports between 1 November 2006 and 1 February 2007 with 1 February 2007 being the cancelling date in the Buyers' option.*

*If the Sellers anticipate that, notwithstanding the exercise of due diligence by them, the vessel will not be ready for delivery by the cancelling date they may notify the Buyers in writing stating the date when they anticipate that the vessel will be ready for delivery and propose a new cancelling date. Upon receipt of such notification the Buyers shall have the option of either cancelling this Agreement in accordance with Clause 14 (Sellers' default) within 2 business days of the receipt of the notice or of accepting the new date as the new cancelling date. If the Buyers have not declared their option within 2 business days of receipt of the Sellers' notification or if the Buyers accept the new date, the date proposed in the Sellers' notification shall be deemed to be the new cancelling date and shall be substituted for the agreed cancelling date.*

*If this Agreement is maintained with the new cancelling date all other terms and conditions hereof including those contained in this clause shall remain unaltered and in full force and effect. Cancellation or failure to cancel shall be entirely without prejudice to any claim for damages the Buyers may have under Clause 14 (Sellers' default) for the vessel not being ready by the original cancelling date.*

*Should the vessel become an actual, constructive or compromised total loss before delivery or should this Agreement be terminated as above the deposit together with interest earned shall be released immediately to the Buyers whereafter this Agreement shall be null and void.*

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Expected time of delivery:

Date of cancelling (see clause 14): **1 February 2007 in the Buyers' option.**

The Sellers shall keep the Buyers well posted about the vessel's itinerary and estimated time and place of drydocking.

Should the vessel become a total or constructive total loss before delivery the deposit shall immediately be released to the Buyers and the contract thereafter considered null and void.

**The Sellers are to keep the Buyers updated on the vessel's position with regard to the anticipated delivery date/place, and forward to the Buyers 35/30/15/10/8/5/3 and 1 days approximate notice of delivery.**

## 6. Drydocking (See Clause 16)

In connection with the delivery the Sellers shall place the vessel in drydock at the port of delivery for inspection by the Classification Society of the bottom and other underwater parts below the Summer Load Line. If the rudder, propeller, bottom or other underwater parts below the Summer Load Line be found broken, damaged or defective, so as to affect the vessel's clean certificate of class, such defects shall be made good at the Sellers' expense to 1) satisfaction without qualification on such underwater parts. 2)

Whilst the vessel is in drydock, and if required by the Buyers or the representative of the Classification Society, the Sellers shall arrange to have the tail end shaft drawn. Should same be condemned or found defective so as to affect the vessel's clean certificate of class, it shall be renewed or made good at the Sellers' expense to the Classification Society's satisfaction without qualification.

The expenses of drawing and replacing the tail end shaft shall be borne by the Buyers unless the Classification Society requires the tail end shaft to be drawn (whether damaged or not), renewed or made good in which event the Sellers shall pay these expenses.

The expenses in connection with putting the vessel in and taking her out of drydock, including dry dock dues and the Classification Surveyor's fees shall be paid by the Sellers if the rudder, propeller, bottom, other underwater parts below the Summer Load Line or the tail end shaft be found broken, damaged or defective as aforesaid or if the Classification Society requires the tail end shaft to be drawn (whether damaged or not). In all other cases the Buyers shall pay the aforesaid expenses, dues and fees.

During the above mentioned inspections by the Classification Society the Buyers' representative shall have the right to be present in the drydock but without interfering with the Classification Surveyor's decisions.

The Sellers shall bring the vessel to the drydock and from the drydock to the place of delivery at their own expense.

## 7. Spares/bunkers etc.

The Sellers shall deliver the vessel to the Buyers with everything belonging to her on board **including all broached/unbroached stores and provisions. and on shore.** All spare parts, and spare equipment **and lashing gear, including spare tail end shaft(s) and/or spare propeller(s), if any,** belonging to the vessel at the time of inspection, used or unused, ~~whether on board or not~~ shall become the Buyers' property, but spares on order to be excluded, **however, for the Buyers reference, Sellers to disclose spares on order, if any, upon signing this Agreement.** Forwarding charges, if any, shall be for the Buyers' account. The Sellers are not required to replace spare parts including spare tail end shaft(s) and spare propeller(s) which are taken out of spare and used as replacement prior to delivery, but the replaced items shall be the property of the Buyers. ~~The radio installation and navigational equipment shall be included in the sale without extra payment, if same is the property of the Sellers.~~

**The only equipment containing asbestos onboard the vessel are the Railco sterntube bearings.**

**There is no spare tail shaft or spare propeller included in the sale.**

The Sellers have the right to take ashore crockery, plate, cutlery, linen and other articles bearing the Sellers' flag or name, provided they replace same with similar unmarked items. Library, forms, etc., exclusively for use in the Sellers' vessels, shall be excluded without compensation. ~~Captain's, Master's~~ Officers' and Crew's personal belongings including ~~Master's~~ slop chest to be excluded from the sale, as well as the following additional items:

**Excluded items are:**

- *reefer container unit spare parts.*
- *power packs for reefer containers with related plugs, cords and extension cables.*
- *manual for reefer units.*
- *log books for deck/engine, however the Buyers to have the right to take copies of same.*
- *unitor bottles.*
- *all Maersk blue hull paint.*
- *slop chest*
- *welfare equipment*
- *pictures and paintings in the Sellers' option.*
- *documents directly related to present ownership.*
- *documents which have to be returned to the authorities, however Buyers are allowed to make copies of same.*
- *all forms etc. which are related to the present ownership.*
- *the vessel's maintenance system for hull and machinery, the Buyers to receive latest print out.*
- *computer software for pc's either developed by or licensed to the Sellers except loadmaster computer which is included in the sale.*
- *ship's bell, however, the Sellers undertake to replace the same at their cost.*
- *digital cameras and mobile telephones.*
- *Administrative LAN server.*

*EPIRB to be included in the sale, the Buyers will have to amend the signal upon delivery.*

*The Bunkers shall remain the property of the Sellers and the Buyers will not pay for same at the time of delivery, however, bunker quantities to be mutually agreed.*

The Buyers shall take over remaining bunkers,

*The Buyers shall take over remaining unused lubricating oils (broached or unbroached in tanks or drums) paying Oil Majors' list prices in the port of Newark at the time of delivery less 15 (fifteen) pet discount except for the below stated three main lube quantities bulk prices to be agreed as follows:*

*Mobilgard 570: USD 165 /100 ltr*

*Mobilgard 300: USD 145/100 ltr*

*Mobilgard 430/440 : USD 175 /100 ltr*

*If delivery is made in drums a surcharge on USD 32 /100 ltr to be applicable. and unused stores and provisions and pay the current market price at the port and date of delivery of the vessel.*

Payment under this clause shall be made at the same time and place and in the same currency as the Purchase Money: *in accordance with a preliminary invoice from the Sellers to be adjusted against the final invoice.*

## **8. Documentation**

In exchange for payment of the Purchase Money the Sellers *are to provide customary documentation reasonably required by the Buyers for their registration purposes.* shall furnish the Buyers with legal Bill of Sale of the said vessel free from all encumbrances and maritime liens or any other debts whatsoever, duly notarially attested and legalised by the consul to get

vessel the Sellers shall provide for the deletion of the vessel from the Registry of Vessels and deliver a certificate of deletion to the Buyers. The deposit shall be placed at the disposal of the Sellers as well as the balance of the Purchase Money, which shall be paid as agreed together with payment for items mentioned in clause 7 above.

The Sellers shall, at the time of delivery, hand to the Buyers all classification certificates as well as all plans etc. which are onboard the vessel. Other technical documentation which may be in the Sellers' possession shall promptly upon the Buyers' instructions be forwarded to the Buyers. The Sellers may keep the log books, but the Buyers to have the right to take copies of same.

#### **9. Encumbrances**

The Sellers warrant that the vessel, at the time of delivery, is *charter free except any charter the Buyers might have entered into*, free from all encumbrances and maritime liens or any other debts whatsoever *including costs related to Port State Control*. Should any claims which have been incurred prior to the time of delivery be made against the vessel, the Sellers hereby undertake to indemnify the Buyers against all consequences of such claims.

#### **10. Taxes etc.**

Any taxes, fees and expenses connected with the purchase and registration under the Buyers' flag shall be for the Buyers' account, whereas similar charges connected with the closing of the Sellers' register shall be for the Sellers' account.

#### **11. Condition on delivery**

The vessel *is to be delivered with present class maintained, free of conditions except CoC 058, report no BOA0500053, YKA0660048 "Stern thruster tunnel at frame 133IWO E/R shaft tunnel, temporarily reinforced by doubling to be specially examined and dealt with at next drydocking in April 2007", and hull and machinery continuous survey cycles up to date at the time of delivery. The Vessel* with everything belonging to her shall be at the Sellers-risk and expense until she is delivered to the Buyers, but subject to the conditions of this contract, she shall be delivered and - taken over as she is at the time of inspection, ~~fair~~ *normal* wear and tear excepted.

~~However, the vessel shall be delivered with present class free of recommendations. Class certificates and national certificates to be valid on day of delivery for a period of not less than three months.~~ The Sellers shall notify the Classification Society of any matters coming to their knowledge prior to delivery which upon being reported to the Classification Society would lead to the withdrawal of the vessel's class or to the imposition of a recommendation relating to her class.

#### **12. Name/markings**

Upon delivery the Buyers undertake to change the name of the vessel ~~and alter funnel markings,~~ *if so required by the Sellers. Same to be arranged by the Buyers for the Buyers time and expense.*

#### **13. Buyers' default**

Should the deposit not be paid as aforesaid, the Sellers have the right to cancel this contract, and they shall be entitled to claim compensation for their losses and for all expenses incurred together with interest at the rate of ~~12~~ *8%* per annum.

Should the Purchase Money not be paid as aforesaid, the Sellers have the right to cancel this contract, in which case the amount deposited together with interest earned, if any, shall be forfeited to the Sellers. If the deposit does not cover the Sellers' losses, they shall be entitled to claim further compensation for their losses and for all expenses together with interest at the rate of ~~12~~ *8%* per annum.

#### **14. Sellers' default**

If the Sellers fail to execute a legal transfer or to deliver the vessel with everything belonging to her in the manner and within the time specified *herein* ~~in line 38~~, the Buyers shall have the right to cancel this contract in which case the deposit in full shall be returned to the Buyers together with interest at the rate of *12 8%* per annum. The Sellers shall make due compensation for the losses caused to the Buyers by failure to execute a legal transfer or to deliver the vessel in the manner and within the time specified *herein* ~~in line 38~~, if such are due to the proven negligence of the Sellers.

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**15. Arbitration**

If any dispute should arise in connection with the interpretation and fulfilment of this contract, same shall be decided by arbitration in the city of 3) **London governed by English law** and shall be referred to a single Arbitrator to be appointed by the parties hereto. If the parties cannot agree upon the appointment of the single Arbitrator, the dispute shall be settled by three Arbitrators, each party appointing one Arbitrator, the third being appointed by 4) **the London Maritime Arbitrators' Association in London.**

If either of the appointed Arbitrators refuses or is incapable of acting, the party who appointed him, shall appoint a new Arbitrator in his place.

If one of the parties fails to appoint an Arbitrator—either originally or by way of substitution— for two weeks after the other party having appointed his Arbitrator has sent the party making default notice by mail, cable or telex to make the appointment, the party appointing the third Arbitrator shall, after application from the party having appointed his Arbitrator, also appoint an Arbitrator on behalf of the party making default.

The award rendered by the Arbitration Court shall be final and binding upon the parties and may if necessary be enforced by the Court or any other competent authority in the same manner as a judgement in the Court of Justice.

This contract shall be subject to the law of the country agreed as place of arbitration.

**Clauses 16 - 20 both inclusive as attached hereto shall form an integral part of this contract.**

**The Sellers:**  
**A.P. Møller - Mærsk A/S**

**The Buyers:**  
**Seaspan Corporation**

[GRAPHIC APPEARS HERE]

[GRAPHIC APPEARS HERE]

- 1) *The name of the Classification Society to be inserted.*
- 2) *Notes, if any, in the Surveyor's report which are accepted by the Classification Society without qualification are not to be taken into account.*
- 3) *The place of arbitration to be inserted. If this line is not filled in, it is understood that arbitration will take place in London in accordance with English law.*
- 4) *If this line is not filled in it is, understood that the third Arbitrator shall be appointed by the London Maritime Arbitrators' Association in London.*

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## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "MATHILDE MÆRSK"

**Clause 16** No Drydocking / Divers' Inspection

No drydocking, but prior to delivery of the vessel, the Buyers have the right to arrange at their risk and expense an inspection of the vessel's underwater parts by a class approved diver.

If the visibility underwater at the delivery port is considered insufficient by the diver(s) for the inspection to be carried out sufficiently, then the Sellers shall at their expense shift the vessel to waters in/outside port of delivery where water is suitable for the aforesaid underwater inspection to be carried out.

Should any damage be found to the vessel's underwater parts that will impose a condition of the vessel's present class then:

1. In case class imposes a condition but does not require drydocking before next scheduled drydocking, the Sellers shall pay to the Buyers the estimated cost to repair such damage in a way which is acceptable to class which to be the direct cost to repair such damage only, as per average quotation by two reputable independent repair yards in Hong Kong or Japan and one European Yard (incl. Mediterranean) as may be chosen by the Sellers. The amount agreed shall be deducted from the balance of the purchase money at the time of delivery.
2. In case class requires the vessel to be drydocked before next scheduled drydock, the Sellers shall drydock the vessel at their expense prior to delivery of the vessel to the Buyers and repair same to class satisfaction free of conditions / average damage.

The decision of the classification society as to whether underwater damage, if any, will impose any condition of class shall be final and binding on both parties.

In the event the vessel is required to be drydocked, the Sellers have the right to take the vessel from the intended delivery port and proceed directly, in ballast, to a port in the delivery area in Sellers' option for the aforesaid drydocking / repairs to take place. The cancelling date shall be extended per day pro rata for the extra time taken to deliver the vessel due to ballasting / drydocking / repairs to be carried out to class' satisfaction in accordance with this agreement. Any extension of cancelling date not to exceed 7 (seven) weeks more than those agreed. If suitable drydocks in vicinity of the intended delivery port are occupied resulting in unreasonable waiting time the Sellers shall have the option to fix the vessel for the shortest possible loaded voyage positioning the vessel for later drydock availability. It is to be understood that this is purely for positioning for drydocking. Such option only provided damage / class allow intermediate trading of the vessel in such case the cancelling date shall be extended to cover such laden voyage plus subsequent time required for positioning / drydocking / repairs— extensions on cancelling dates to be maximised to 7 (seven) weeks.

The Buyers have the right to attend the vessel at the drydock. The Buyers' right to clean / paint and carry out other works whilst the vessel is in drydock at the Buyers' risk and expense provided not interfering in the Sellers' work and the Buyers' work always subject to the Sellers' superintendent's supervision / directions.

In the event that the Buyers' works are not completed prior to the time the Sellers have completed their required works, then the Sellers have the right to tender notice of readiness whilst the vessel is still in drydock provided they



**Additional Clauses to Memorandum of Agreement dated 11 October 2006****“MATHILDE MÆRSK”**

are in all respects ready to deliver the vessel in accordance with this contract. Should the Buyers' works still not be completed and the vessel is unable to leave drydock due to the Buyers' works within 3 (three) banking days after the Sellers have tendered a valid notice of readiness, then the Buyers shall take delivery and pay for the vessel whilst remaining in drydock. Costs for docking / undocking shall be for the Sellers' account. However, any extra time spent in drydock after valid notice of readiness tendered by the Sellers shall be for the Buyers' account.

**Clause 17**      **Representatives**

Once the MoA has been signed and the 10% (ten) per cent deposit lodged the Buyers to have the right to place on board until delivery 5 (five) persons for familiarisation purposes and without interfering in the vessel's operation.

The Buyers' representatives are to sign the Sellers' indemnity declaration form prior to embarkation. Such familiarisation to include review of planned maintenance and running hours records of machinery, equipment and systems. In any event the Buyers' representatives are to board the vessel approximately 30 (thirty) days prior to the delivery of the vessel

**Clause 18**      **Entire Agreement**

This Agreement constitute the only and entire agreement between the parties and supersede and replace any prior written or oral agreements, representations, statements or understandings between the Buyers and the Sellers relating to it's subject matter.

Each party confirms that it has not entered into this Agreement on the basis of any representation or statement which is not expressly incorporated into this Agreement. Without limiting the generality of the foregoing, neither party shall have any remedy in respect of any untrue representation or statement made to him upon which he may have relied in entering into this Agreement, and a party's only remedy is for breach of contract. However, nothing in this Agreement purports to exclude liability for any fraudulent statement or act.

This Agreement shall not be released, discharged, supplemented, interpreted, amended, varied or modified in any manner except by an addendum in writing signed by a duly authorised representative of each of the parties to this Agreement.

**Clause 19**      **Private & Confidential**

The negotiations and a possible subsequent sale is to be kept strictly private and confidential except as required by applicable securities laws and stock exchange rules. However, should despite the efforts of all parties involved details of the sale become known or reported to the market, neither the Sellers nor the Buyers are to have the right to withdraw from the Agreement or fail to fulfil all their obligations under the agreed contract.

## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "MATHILDE MÆRSK"

## Clause 20

Vessel Description

Gearless container vessel.

TEU intake: 4809 teu

Stowage:

When 20 ft. containers are preferentially loaded with max. numbers and 40 ft. containers are secondarily loaded in the remaining space.

1491 units 20 x 8 x 8 feet 6 inches in holds and 299 units 40 x 8 x 8 feet 6 inches in holds.

1766 units 20 x 8 x 8 feet 6 inches on deck/hatchcovers and 477 units 40 x 8 x 8 feet 6 inches on deck/hatchcovers.

FEU intake:

2322 units 40 x 8 x 8 feet 6 inches and 87 units 20 x 8 x 8 feet 6 inches

Stowage:

When 40 ft. containers are preferentially loaded with max. numbers and 20 ft. containers are secondarily loaded in the remaining space.

1014 units 40 x 8 x 8 feet 6 inches in holds and 71 units 20 x 8 x 8 feet 6 inches in holds

1308 units 40 x 8 x 8 feet 6 inches on deck/hatchcovers and 16 units 20 x 8 x 8 feet 6 inches on deck/hatchcovers.

45 feet intake:

752 units of 45ft. containers can be loaded in bays 6, 10, 14, 18, 22, 26, 30, 34, 38, 42, 46, 54, 58, 62, 66 and 70 in lieu of 752 units of 40 ft. containers.

Maximum 752 45 ft. units on deck, none in holds.

High cube intake (40 x 8 x 9 feet 6 inches) in holds:

850 units 40 x 8 x 9 feet 6 inches.

Reefer container intake:

495 reefer sockets whereof 274 on deck and 221 in holds

Stability:

About 3162 TEUs of 14 metric tons homogeneously laden.  
(Summer draught).

Point loads:

Tanktop—20 feet container: 195.1 tons/each except mid centre in hold 3-17 – 48.8 tons/each

40 feet container: 243,9 tons/each

All Hatches : 81.3/111, 8 mt per 20 feet/40 feet stack.

For 45 ft. containers load not to exceed: 111.8 mt (aftermost bay)

## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "MATHILDE MÆRSK"

Fittings:

40 ft. cells in all holds. Fully fitted with all necessary lashings/fittings to secure a full load of TEUs/FEUs in holds and on deck/hatchcovers.

Main engine: MITSUI MAN B&W 10K90MC - 39400 kW (MCR)

Generators: 3 off MAN B&W - 8L28/32 each 1600 kW

Steam Generator / Power turbine generator: Peter Brotherhood/MAN 3100 kW at 90 % MCR

Aux. Generator: Caterpillar 3512 at 1070 kW

Bow thruster: KAMEWA 2400D/BAS-CP - 20 ton

Stem thruster: KAMEWA 2400D/BAS-CP – 20 ton

Finn Stabilizers : Brown Brothers

Shaft generator: Siemens 3000 kW

Shaft generator plant can either operate in PTO or PTI mode utilizing main engine waste heat for Propulsion.

Bunker Capacity:

MDO total "100%" (Density 0.900): 368.3 m3

FO total "100%" (Density 0.980): 5826.6 m3

Speed/Main engine consumption at design draft 12.2 m.:

About 22.50 knots on about 153.0 metric tons HFO per day plus fuel treatment MDO consumption.

Speed/Main engine consumption at scantling draft 13.5 m.:

About 22.00 knots on about 154.7 metric tons HFO per day plus fuel treatment MDO consumption.

Above speed always subject to: Even keel, clean bottom, and in calm weather not exceeding Beaufort scale 3.

Generator HFO consumptions at sea and in port excluding reefer units:

About 6.0 metric tons per day.

All HFO consumption's for the main engine and the auxiliary engines are based on ISO-F RMK55 of 700 CST at 50 degrees Celsius per 24 hours including normal tank heating.

Vessel being built with LRS class +100a1 container ship, +lmc, ums, nav1, shipright, (sda, fda, cm).

Principal Dimensions:

Length O.A.: 294.12m

Length B.P.: 284.72 m

Breadth, moulded: 32.22 m

Depth, moulded: 21.50 m

Deadweight/draft: Summer DW 60640 mt draft 13.52 m

Distribution of hatches/holds:

Holds/hatches: 1-17

Hatch dimension:

	length/breadth:
No. 1 centre	13.59 m/8.31 m
No. 2 port and stb	13.59 m/5.795 m
No. 2 centre	13.59 m/8.31 m
No. 3 port, stb and centre	13.59 m/8.31 m
No. 4-7 port and stb	13.59 m/10.859 m
No. 4-7 centre	13.59 m/8.31 m
No. 8-10 port and stb	15.006 m/10.859 m
No. 8-10 centre	15.006 m/8.31 m

**Additional Clauses to Memorandum of Agreement dated 11 October 2006**

**“MATHILDE MÆRSK”**

No. 11-17 port and stb	13.59 m/10.859 m
No. 11 -12 and 14-17 centre	13.59 m/8.31 m

Miscellaneous:

Satellite communication

Container loading computer

CO2 fitted in holds

Panama/Suez canal fitted.

TEU/FFE intakes are subject to Panama regulations.

All figures “about” and given in good faith.

This Agreement has been drawn up and executed in 2 (two) originals, 1 (one) of which is to be retained by the Sellers and 1 (one) of which is to be retained by the Buyers.

**ADDENDUM No. 1**  
**TO THE MEMORANDUM OF AGREEMENT**  
**REGARDING M.V. "MATHILDE MÆRSK"**  
**(THE "VESSEL")**  
**BETWEEN**  
**A.P. MØLLER - MÆRSK A/S**  
**(THE "SELLERS")**  
**AND**  
**SEASPAN CORPORATION**  
**(THE "BUYERS")**

**1. CLOSING DOCUMENTS**

With reference to the Memorandum of Agreement dated 11 October 2006 made between the Sellers and the Buyers regarding the sale of "MATHILDE MÆRSK" the following has been agreed:

It is mutually agreed between the Buyers and the Sellers that the following documents shall be exchanged at the time of delivery.

**SELLERS' DOCUMENTATION:**

- A) One original Bill of Sale in English form 10A evidencing the transfer of the vessel from the Sellers to the Buyers free from liens, debts, mortgages or any encumbrances evidencing the transfer of the vessel from the Sellers to the Buyers, duly notarised.
- B) Power of Attorney duly notarised issued by the Sellers authorising their named representative(s) to effect the sale and transfer of the vessel to the Buyers pursuant to the Memorandum of Agreement.
- C) Transcript of Registry from the vessel's registry dated not earlier than 7 Danish working days prior the date of delivery evidencing the ownership of the vessel and that the vessel is free from registered encumbrances.
- D) Confirmation of Class issued by the vessel's Classification Society dated no earlier than 7 Danish working days prior to the date of delivery.
- E) A written letter of undertaking from the Sellers to effect deletion from the vessel's registry forthwith and furnish a Certificate or other official evidence of deletion the Buyers soonest after the delivery latest within 30 days after the vessel has been delivered to the Buyers.

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- F) One original commercial invoice duly signed relating to the purchase and containing the purchase price of the vessel.
  - G) One original invoice duly signed relating to the quantities/prices of remaining lubricating oils on board.
  - H) One original Protocol of Delivery and Acceptance duly signed by the Buyers' and the Sellers' representatives at the place of closing.
  - I) Written confirmation duly signed by the Sellers confirming that to the best of Seller's knowledge the vessel is not blacklisted by any country at time of delivery.
  - J) Letter of undertaking from the Sellers to provide original Continuous Synopsis Record (CSR) deletion document from the Sellers registry within 30 days after the vessel has been taken over by the Buyers.
  - K) Any such documents as may be reasonably required by the competent authorities for the purpose of registering. This to be presented by the Buyers to the Sellers no later than 7 days prior to delivery for the Sellers to confirm if possible.

Draft of the Sellers' documents, where possible, to be presented to the Buyers' minimum 15 (fifteen) days before closing for comments.

**BUYERS' DOCUMENTATION:**

- A) Extract copy of the Buyers' Board resolution duly notarially attested authorising the purchase of the Vessel from the Sellers and execution of the Agreement and empowering a representative(s) to effect the purchase.
- B) Power of Attorney issued by the Buyers duly notarially attested authorising their named representative(s) to effect the purchase of the vessel from the Sellers pursuant to the Agreement.

Draft of the Buyers' documents to be presented to the Sellers minimum 15 (fifteen) days before closing for comments.

All other terms of the Memorandum of Agreement to remain unchanged.

IN WITNESS HEREOF, the parties hereto have caused this addendum to be executed by their respective authorised representatives on 11 October 2006.

For and on behalf of the Sellers:  
**A.P. Møller - Mærsk A/S**

/s/ A.P. MØLLER

For the Buyers:  
**Seaspan Corporation**

/s/ GERRY WANG

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**To:**  
**HSBC Bank plc**  
**Corporate Banking, Transport & Logistics**  
**Level 24, 8 Canada Square**  
**London, E14 5HQ**

Joint Account number 60434862 in respect of Proposed Sale and Purchase of a Vessel.

HSBC Bank plc (the "Bank") is hereby requested to open a Joint Account (the "Account") in the names of A.P. Møller - Mærsk A/S (the "Seller") and Seaspan Corporation (the "Buyer"), the purpose of which is to hold certain funds (the "Deposit") in respect of the proposed sale of the vessel "MATHILDE MÆRSK" (the "Vessel") by the Seller to the Buyer as per Memorandum of Agreement dated 11 October 2006.

It is hereby acknowledged that the Bank agrees to open the Account in United States Dollars, bearing interest at a rate to be determined by the bank and varied from time to time at the Bank's sole discretion, subject to acceptance of each of the Seller and the Buyer to the following Terms and Conditions:

1. The Bank is hereby authorised to:

- a) to honour any orders to withdraw all or any part of the Deposit; and
- b) to act on any instructions with regard to the Deposit and the Account

Provided that such instructions are received by the Bank in writing and signed on behalf of each of the Seller and the Buyer by any one of the person(s) authorised in accordance with the Powers of Attorney to be supplied by the Seller and the Buyer. Such instructions may be jointly signed on one document or signed in counterpart.

2. In the absence of instructions from each of the Seller and the Buyers described in paragraph 1 above or in the event that the Bank receives conflicting or ambiguous instructions from one or both of the Seller and the Buyer, whether before, at the time of or after the closing of the proposed sale and purchase of the Vessel and whether or not the sale and purchase of the vessel has been completed, the Bank will not disburse all or any part of the Deposit unless it is in receipt of evidence satisfactory to it that in doing so it will be complying with the terms of an order of a competent Court.

3. In consideration of the Bank agreeing to open and operate the Account, the standard commission rate is USD 7,000 and will be payable, equally split between the Buyer and the Seller.

i) In the event that the Bank is in receipt of instructions of the type described in Paragraph 2 which require the Bank not to make a disbursement of all or any part of the deposit otherwise than as contemplated in Paragraph 2, the Seller and the Buyer agree to reimburse any reasonable and direct costs incurred by the Bank in connection herewith, including but not limited to legal and other fees and expenses.

The Bank is hereby authorised to deduct any such sums referred to in i) above from the Deposit if not reimbursed to the Bank on demand separately by either or both of the Seller or the Buyer.

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4. The Account will, subject to Paragraph 5, be opened by the Bank upon its receipt of this request, jointly signed on behalf of each of the Seller and the Buyer below or in counterparts.

5. The Bank reserves the right to require such additional evidence as it may in its sole discretion deem necessary to validate the authority of the individuals signing this request on behalf of either the Seller and/or the Buyer.

6. In the performance of its obligations herein contained the Bank shall not be liable for any act taken or omitted by it in good faith and in exercise of its own reasonable judgement.

7. The Account is to be closed when the Deposit balance has become zero as a result of instructions or actions taken in accordance with paragraphs 1,2 or 3.

These authorities and the terms and conditions herein contained shall be governed by and be construed in accordance with English law and the Seller and the Buyer hereby irrevocably submit to the non-exclusive jurisdiction of the English courts.

Yours faithfully,

Signed for and on behalf of

The Sellers:

A.P. Møller - Mærsk A/S

/S/ A.P. MØLLER

The Buyers:

Seaspan Corporation

/S/ GERRY WANG



MEMORANDUM OF AGREEMENT

Norwegian Shipbrokers' Association's Memorandum of Agreement for sale and purchase of ships. Adopted by The Baltic and International Maritime Council (BIMCO) in 1956.

Code-name

**SALEFORM1987**

Revised 1966, 1983 and 1986

Dated: *11 October 2006*

**SECOND ORIGINAL OF TWO**

*A.P. Møller—Mærsk A/S  
Esplanaden 50  
1098 Copenhagen K  
Denmark*

hereinafter called the Sellers, have today sold, and

*Seaspan Corporation  
Unit 2, 7th Floor  
Bupa Centre  
141, Connaught Road West  
Hong Kong  
China*

hereinafter called the Buyers, have today bought

*M. V. "MARGRETHE MÆRSK", hereinafter called the vessel,*

Classification: *Lloyds Register*

Built: *1989*

Flag: *Danish*

Call sign: *OYSN2*

Register *IMO* number: *8613322*

on the following conditions:

by: *Odense Staalskibsværft A/S*

Place of Registration: *Copenhagen*

Register tonnage: *GT 52,191 /NT 25,458*

**1. Price**

Price: *USD 40,000,000 (United States Dollars Forty Million only) net to the Sellers in cash.*

**2. Deposit**

~~As a security for the correct fulfillment of this contract, the Buyers shall pay a deposit of 10% ten per cent of the Purchase Money within banking days from the date of this agreement. This amount shall be deposited with 10 (ten) percent of the purchase price is to be deposited by the Buyers into a joint interest bearing account no 60434838 in the names of the Buyers and the Sellers at HSBC Bank London, 8 Canada Square, London E14 5HQ, UK within 3 (three) London banking days after this Agreement has been signed on fax by both parties.~~

*Costs for such joint account and closing at HSBC London to be shared equally between the Buyers and the Sellers.*

*Documentary closing to take place at the Sellers' nominated bank.*

~~and held by them in a joint account for the Sellers and the Buyers. Interest, if any, to be credited the Buyers. Any fee charged for holding said deposit shall be borne equally by the Sellers and the Buyers.~~

### 3. Payment

*The 10 (ten) per cent deposit shall be released and the 90 (ninety) per cent balance of the* ~~The~~ said Purchase Money shall be paid free of bank charges to Citibank, N.A., New York Branch, Account Number: 30625992, SWIFT: CITIUS33, Account holder: A.P. Møller - Mærsk A/S on delivery of the vessel, but not later than three banking days after the vessel is ready for delivery and written or telexed notice thereof has been given to the Buyers by the Sellers.

### 4. Inspections

*The Buyers have physically inspected the vessel in Miami, USA on 23 August 2006 and have accepted the vessel.*

*The Buyers have inspected the vessel's class records with Lloyds Register and have accepted same.*

*This agreement is thus not subject to any further inspections.*

~~The Buyer shall have the right to inspect the vessel's classification records and declare whether same are accepted or not within~~

~~The Sellers shall provide for inspection of the vessel at/in~~

~~The Buyers shall undertake the inspection without undue delay to the vessel. Should the Buyers cause such delay, they shall compensate the Sellers for the losses thereby incurred.~~

~~The Buyers shall inspect the vessel afloat without opening up and without cost to the Sellers. During the inspection, the vessel's log books for engine and deck shall be made available for the Buyers' examination. If the vessel is accepted after such afloat inspection, the purchase shall become definite except for other possible subjects in this contract provided the Sellers receive written or telexed notice from the Buyers within 48 hours after completion of such afloat inspection. Should notice of acceptance of the vessel's classification records and of the vessel not be received by the Sellers as aforesaid, the deposit shall immediately be released, whereafter this contract shall be considered null and void.~~

### 5. Place and time of delivery

The vessel shall be delivered ~~and taken over at/in~~ *to / and taken over by the Buyers safely afloat at a safe berth /anchorage in one safe port in the Sellers' option, Worldwide within INL excluding US ports between 1 November 2006 and 1 February 2007 with 1 February 2007 being the cancelling date in the Buyers' option.*

*If the Sellers anticipate that, notwithstanding the exercise of due diligence by them, the vessel will not be ready for delivery by the cancelling date they may notify the Buyers in writing stating the date when they anticipate that the vessel will be ready for delivery and propose a new cancelling date. Upon receipt of such notification the Buyers shall have the option of either cancelling this Agreement in accordance with Clause 14 (Sellers' default) within 2 business days of the receipt of the notice or of accepting the new date as the new cancelling date. If the Buyers have not declared their option within 2 business days of receipt of the Sellers' notification or if the Buyers accept the new date, the date proposed in the Sellers' notification shall be deemed to be the new cancelling date and shall be substituted for the agreed cancelling date.*

*If this Agreement is maintained with the new cancelling date all other terms and conditions hereof including those contained in this clause shall remain unaltered and in full force and effect. Cancellation or failure to cancel shall be entirely without prejudice to any claim for damages the Buyers may have under Clause 14 (Sellers' default) for the vessel not being ready by the original cancelling date.*

*Should the vessel become an actual, constructive or compromised total loss before delivery or should this Agreement be terminated as above the deposit together with interest earned shall be released immediately to the Buyers whereafter this Agreement shall be null and void.*

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Expected time of delivery:

Date of cancelling (see clause 14): **1 February 2007 in the Buyers' option.**

The Sellers shall keep the Buyers well posted about the vessel's itinerary and estimated time and place of drydocking.

Should the vessel become a total or constructive total loss before delivery the deposit shall immediately be released to the Buyers and the contract thereafter considered null and void.

**The Sellers are to keep the Buyers updated on the vessel's position with regard to the anticipated delivery date/place, and forward to the Buyers 35/30/15/10/8/5/3 and 1 days approximate notice of delivery.**

## 6. Drydocking (See Clause 16)

~~In connection with the delivery the Sellers shall place the vessel in drydock at the port of delivery for inspection by the Classification Society of the bottom and other underwater parts below the Summer Load Line. If the rudder, propeller, bottom or other underwater parts below the Summer Load Line be found broken, damaged or defective, so as to affect the vessel's clean certificate of class, such defects shall be made good at the Sellers' expense to 1) satisfaction without qualification of such underwater parts. 2)~~

~~Whilst the vessel is in drydock, and if required by the Buyers or the representative of the Classification Society, the Sellers shall arrange to have the tail end shaft drawn. Should same be condemned or found defective so as to affect the vessel's clean certificate of class, it shall be renewed or made good at the Sellers' expense to the Classification Society's satisfaction without qualification.~~

~~The expenses of drawing and replacing the tail end shaft shall be borne by the Buyers unless the Classification Society requires the tail end shaft to be drawn (whether damaged or not), renewed or made good in which event the Sellers shall pay these expenses.~~

~~The expenses in connection with putting the vessel in and taking her out of drydock, including drydock dues and the Classification Surveyor's fees shall be paid by the Sellers if the rudder, propeller, bottom, other underwater parts below the Summer Load Line or the tail end shaft be found broken, damaged or defective as aforesaid or if the Classification Society requires the tail end shaft to be drawn (whether damaged or not). In all other cases the Buyers shall pay the aforesaid expenses, dues and fees.~~

~~During the above mentioned inspections by the Classification Society the Buyers' representative shall have the right to be present in the drydock but without interfering with the Classification Surveyor's decisions.~~

~~The Sellers shall bring the vessel to the drydock and from the drydock to the place of delivery at their own expense.~~

## 7. Spares/bunkers etc.

The Sellers shall deliver the vessel to the Buyers with everything belonging to her on board **including all broached/unbroached stores and provisions, and on shore.** All spare parts, and spare equipment **and lashing gear, including spare tail end shaft(s) and/or spare propeller(s), if any,** belonging to the vessel at the time of inspection, used or unused, ~~whether on board or not~~ shall become the Buyers' property, but spares on order to be excluded; **however, for the Buyers reference, Sellers to disclose spares on order, if any, upon signing this Agreement.** Forwarding charges, if any, shall be for the Buyers' account. The Sellers are not required to replace spare parts ~~including spare tail end shaft(s) and spare propeller(s)~~ which are taken out of spare and used as replacement prior to delivery, but the replaced items shall be the property of the Buyers. ~~The radio installation and navigational equipment shall be included in the sale without extra payment, if same is the property of the Sellers.~~

**The only equipment containing asbestos onboard the vessel are the Railco sterntube bearings.**

**There is no spare tail shaft or spare propeller included in the sale.**

The Sellers have the right to take ashore crockery, plate, cutlery, linen and other articles bearing the Sellers' flag or name, provided they replace same with similar unmarked items. Library, forms, etc., exclusively for use in the Sellers' vessels, shall be excluded without compensation. ~~Captain's, Master's Officers' and Crew's~~ personal belongings including ~~Master's~~ slop chest to be excluded from the sale, as well as the following additional items:

**Excluded items are:**

- reefer container unit spare parts.
- power packs for reefer containers with related plugs, cords and extension cables.
- manual for reefer units.
- log books for deck/engine, however the Buyers to have the right to take copies of same.
- unitor bottles.
- all Mærsk blue hull paint.
- slop chest
- welfare equipment
- pictures and paintings in the Sellers' option.
- documents directly related to present ownership.
- documents which have to be returned to the authorities, however Buyers are allowed to make copies of same.
- all forms etc. which are related to the present ownership.
- the vessel's maintenance system for hull and machinery, the Buyers to receive latest print out.
- computer software for pc's either developed by or licensed to the Sellers except loadmaster computer which is included in the sale.
- ship's bell, however, the Sellers undertake to replace the same at their cost.
- digital cameras and mobile telephones.
- Administrative LAN server.

**EPIRB to be included in the sale, the Buyers will have to amend the signal upon delivery.**

**The Bunkers shall remain the property of the Sellers and the Buyers will not pay for same at the time of delivery, however, bunker quantities to be mutually agreed.**

~~The Buyers shall take over remaining bunkers,~~

**The Buyers shall take over remaining unused lubricating oils (broached or unbroached in tanks or drums) paying Oil Majors' list prices in the port of Newark at the time of delivery less 15 (fifteen) pct discount except for the below stated three main lube quantities bulk prices to be agreed as follows:**

**Mobilgard 570: USD 165 /100 ltr**

**Mobilgard 300 : USD 145 /100 ltr**

**Mobilgard 430/440 : USD 175 /100 ltr**

~~If delivery is made in drums a surcharge on USD 32 /100 ltr to be applicable, and unused stores and provisions and pay the current market price at the port and date of delivery of the vessel.~~

Payment under this clause shall be made at the same time and place and in the same currency as the Purchase Money. **in accordance with a preliminary invoice from the Sellers to be adjusted against the final invoice.**

## **8. Documentation**

In exchange for payment of the Purchase Money the Sellers **are to provide customary documentation reasonably required by the Buyers for their registration purposes.** ~~shall furnish the Buyers with legal Bill of Sale of the said vessel free from all encumbrances and maritime liens or any other debts whatsoever, duly notarially attested and legalised by the consul to get~~

her with a certificate stating that the vessel is free from registered encumbrances. On delivery of the vessel the Sellers shall provide for the deletion of the vessel from the Registry of Vessels and deliver a certificate of deletion to the Buyers. The deposit shall be placed at the disposal of the Sellers as well as the balance of the Purchase Money, which shall be paid as agreed together with payment for items mentioned in clause 7 above.

The Sellers shall, at the time of delivery, hand to the Buyers all classification certificates—as well as all plans etc. which are onboard the vessel. Other technical documentation which may be in the Sellers' possession shall promptly upon the Buyers' instructions be forwarded to the Buyers. The Sellers may keep the log books, but the Buyers to have the right to take copies of same.

#### **9. Encumbrances**

The Sellers warrant that the vessel, at the time of delivery, is *charter free except any charter the Buyers might have entered into*, free from all encumbrances and maritime liens or any other debts whatsoever *including costs relating to Port State Control*. Should any claims which have been incurred prior to the time of delivery be made against the vessel, the Sellers hereby undertake to indemnify the Buyers against all consequences of such claims.

#### **10. Taxes etc.**

Any taxes, fees and expenses connected with the purchase and registration under the Buyers' flag shall be for the Buyers' account, whereas similar charges connected with the closing of the Sellers' register shall be for the Sellers' account.

#### **11. Condition on delivery**

The vessel *is to be delivered with present class maintained, free of conditions, and hull and machinery continuous survey cycles up to date at the time of delivery. The Vessel* with everything belonging to her shall be at the Sellers'-risk and expense until she is delivered to the Buyers, but subject to the conditions of this contract, she shall be delivered and—taken over as she is at the time of inspection, ~~fair~~ *normal* wear and tear excepted.

~~However, the vessel shall be delivered with present class free of recommendations. Class certificates and national certificates to be valid on day of delivery for a period of not less than three months.~~ The Sellers shall notify the Classification Society of any matters coming to their knowledge prior to delivery which upon being reported to the Classification Society would lead to the withdrawal of the vessel's class or to the imposition of a recommendation relating to her class.

#### **12. Name/markings**

Upon delivery the Buyers undertake to change the name of the vessel ~~and alter funnel markings,~~ *if so required by the Sellers. Same to be arranged by the Buyers for the Buyers time and expense.*

#### **13. Buyers' default**

Should the deposit not be paid as aforesaid, the Sellers have the right to cancel this contract, and they shall be entitled to claim compensation for their losses and for all expenses incurred together with interest at the rate of ~~1-1-2~~ *8%* per annum.

Should the Purchase Money not be paid as aforesaid, the Sellers have the right to cancel this contract, in which case the amount deposited together with interest earned, if any, shall be forfeited to the Sellers. If the deposit does not cover the Sellers' losses, they shall be entitled to claim further compensation for their losses and for all expenses together with interest at the rate of ~~1-2~~ *8%* per annum.

#### **14. Sellers' default**

If the Sellers fail to execute a legal transfer or to deliver the vessel with everything belonging to her in the manner and within the time specified *herein* ~~in line 38~~, the Buyers shall have the right to cancel this contract in which case the deposit in full shall be returned to the Buyers together with interest at the rate of ~~1-2~~ *8%* per annum. The Sellers shall make due compensation for the losses caused to the Buyers by failure to execute a legal transfer or to deliver the vessel in the manner and within the time specified *herein* ~~in line 38~~, if such are due to the proven negligence of the Sellers.

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**15. Arbitration**

If any dispute should arise in connection with the interpretation and fulfillment of this contract, same shall be decided by arbitration in the city of 3) **London governed by English law** and shall be referred to a single Arbitrator to be appointed by the parties hereto. If the parties cannot agree upon the appointment of the single Arbitrator, the dispute shall be settled by three Arbitrators, each party appointing one Arbitrator, the third being appointed by 4) **the London Maritime Arbitrators' Association in London.**

If either of the appointed Arbitrators refuses or is incapable of acting, the party who appointed him, shall appoint a new Arbitrator in his place.

If one of the parties fails to appoint an Arbitrator—either originally or by way of substitution— for two weeks after the other party having appointed his Arbitrator has sent the party making default notice by mail, cable or telex to make the appointment, the party appointing the third Arbitrator shall, after application from the party having appointed his Arbitrator, also appoint an Arbitrator on behalf of the party making default.

The award rendered by the Arbitration Court shall be final and binding upon the parties and may if necessary be enforced by the Court or any other competent authority in the same manner as a judgement in the Court of Justice.

This contract shall be subject to the law of the country agreed as place of arbitration.

***Clauses 16 - 20 both inclusive as attached hereto shall form an integral part of this contract.***

***The Sellers:***

***A.P. Møller - Mærsk A/S***

/S/ A.P. MØLLER

- 1) *The name of the Classification Society to be inserted.*
- 2) *Notes, if any, in the Surveyor's report which are accepted by the Classification Society without qualification are not to be taken into account.*
- 3) *The place of arbitration to be inserted. If this line is not filled in, it is understood that arbitration will take place in London in accordance with English law.*
- 4) *If this line is not filled in it is understood that the third Arbitrator shall be appointed by the London Maritime Arbitrators' Association in London.*

***The Buyers:***

***Seaspan Corporation***

/S/ GERRY WANG

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## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## “MARGRETHE MÆRSK”

**Clause 16** **No Drydocking / Divers' Inspection**

No drydocking, but prior to delivery of the vessel, the Buyers have the right to arrange at their risk and expense an inspection of the vessel's underwater parts by a class approved diver.

If the visibility underwater at the delivery port is considered insufficient by the diver(s) for the inspection to be carried out sufficiently, then the Sellers shall at their expense shift the vessel to waters in/outside port of delivery where water is suitable for the aforesaid underwater inspection to be carried out.

Should any damage be found to the vessel's underwater parts that will impose a condition of the vessel's present class then:

1. In case class imposes a condition but does not require drydocking before next scheduled drydocking, the Sellers shall pay to the Buyers the estimated cost to repair such damage in a way which is acceptable to class which to be the direct cost to repair such damage only, as per average quotation by two reputable independent repair yards in Hong Kong or Japan and one European Yard (incl. Mediterranean) as may be chosen by the Sellers. The amount agreed shall be deducted from the balance of the purchase money at the time of delivery.
2. In case class requires the vessel to be drydocked before next scheduled drydock, the Sellers shall drydock the vessel at their expense prior to delivery of the vessel to the Buyers and repair same to class satisfaction free of conditions / average damage.

The decision of the classification society as to whether underwater damage, if any, will impose any condition of class shall be final and binding on both parties.

In the event the vessel is required to be drydocked, the Sellers have the right to take the vessel from the intended delivery port and proceed directly, in ballast, to a port in the delivery area in Sellers' option for the aforesaid drydocking / repairs to take place. The cancelling date shall be extended per day pro rata for the extra time taken to deliver the vessel due to ballasting / drydocking / repairs to be carried out to class' satisfaction in accordance with this agreement. Any extension of cancelling date not to exceed 7 (seven) weeks more than those agreed. If suitable drydocks in vicinity of the intended delivery port are occupied resulting in unreasonable waiting time the Sellers shall have the option to fix the vessel for the shortest possible loaded voyage positioning the vessel for later drydock availability. It is to be understood that this is purely for positioning for drydocking. Such option only provided damage / class allow intermediate trading of the vessel in such case the cancelling date shall be extended to cover such laden voyage plus subsequent time required for positioning / drydocking / repairs— extensions on cancelling dates to be maximised to 7 (seven) weeks.

The Buyers have the right to attend the vessel at the drydock. The Buyers' right to clean / paint and carry out other works whilst the vessel is in drydock at the Buyers' risk and expense provided not interfering in the Sellers' work and the Buyers' work always subject to the Sellers' superintendent's supervision / directions.

In the event that the Buyers' works are not completed prior to the time the Sellers have completed their required works, then the Sellers have the right to tender notice of readiness whilst the vessel is still in drydock provided they

## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "MARGRETHE MÆRSK"

are in all respects ready to deliver the vessel in accordance with this contract. Should the Buyers' works still not be completed and the vessel is unable to leave drydock due to the Buyers' works within 3 (three) banking days after the Sellers have tendered a valid notice of readiness, then the Buyers shall take delivery and pay for the vessel whilst remaining in drydock. Costs for docking / undocking shall be for the Sellers' account. However, any extra time spent in drydock after valid notice of readiness tendered by the Sellers shall be for the Buyers' account.

**Clause 17**     **Representatives**

Once the MoA has been signed and the 10% (ten) per cent deposit lodged the Buyers to have the right to place on board until delivery 5 (five) persons for familiarisation purposes and without interfering in the vessel's operation.

The Buyers' representatives are to sign the Sellers' indemnity declaration form prior to embarkation. Such familiarisation to include review of planned maintenance and running hours records of machinery, equipment and systems. In any event the Buyers' representatives are to board the vessel approximately 30 (thirty) days prior to the delivery of the vessel.

**Clause 18**     **Entire Agreement**

This Agreement constitute the only and entire agreement between the parties and supersede and replace any prior written or oral agreements, representations, statements or understandings between the Buyers and the Sellers relating to it's subject matter.

Each party confirms that it has not entered into this Agreement on the basis of any representation or statement which is not expressly incorporated into this Agreement. Without limiting the generality of the foregoing, neither party shall have any remedy in respect of any untrue representation or statement made to him upon which he may have relied in entering into this Agreement, and a party's only remedy is for breach of contract. However, nothing in this Agreement purports to exclude liability for any fraudulent statement or act.

This Agreement shall not be released, discharged, supplemented, interpreted, amended, varied or modified in any manner except by an addendum in writing signed by a duly authorised representative of each of the parties to this Agreement.

**Clause 19**     **Private & Confidential**

The negotiations and a possible subsequent sale is to be kept strictly private and confidential except as required by applicable securities laws and stock exchange rules. However, should despite the efforts of all parties involved details of the sale become known or reported to the market, neither the Sellers nor the Buyers are to have the right to withdraw from the Agreement or fail to fulfil all their obligations under the agreed contract.



## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "MARGRETHE MÆRSK"

**Clause 20** Vessel Description

Gearless container vessel.

TEU intake: 4809 teu

Stowage:

When 20 ft. containers are preferentially loaded with max. numbers and 40 ft. containers are secondarily loaded in the remaining space.

1491 units 20 x 8 x 8 feet 6 inches in holds and 299 units 40 x 8 x 8 feet 6 inches in holds.

1766 units 20 x 8 x 8 feet 6 inches on deck/hatchcovers and 477 units 40 x 8 x 8 feet 6 inches on deck/hatchcovers.

FEU intake:

2322 units 40 x 8 x 8 feet 6 inches and 87 units 20 x 8 x 8 feet 6 inches

Stowage:

When 40 ft. containers are preferentially loaded with max. numbers and 20 ft. containers are secondarily loaded in the remaining space.

1014 units 40 x 8 x 8 feet 6 inches in holds and 71 units 20 x 8 x 8 feet 6 inches in holds

1308 units 40 x 8 x 8 feet 6 inches on deck/hatchcovers and 16 units 20 x 8 x 8 feet 6 inches on deck/hatchcovers.

45 feet intake:

752 units of 45 ft. containers can be loaded in bays 6, 10, 14, 18, 22, 26, 30, 34, 38, 42, 46, 54, 58, 62, 66 and 70 in lieu of 752 units of 40 ft. containers.

Maximum 752 45 ft. units on deck, none in holds.

High cube intake (40 x 8 x 9 feet 6 inches) in holds:

850 units 40 x 8 x 9 feet 6 inches.

Reefer container intake:

495 reefer sockets whereof 274 on deck and 221 in holds

Stability:

About 3162 TEUs of 14 metric tons homogeneously laden.  
(Summer draught).

Point loads:

Tanktop—20 feet container: 195.1 tons/each except mid centre in hold 3-17—48.8 tons/each

40 feet container: 243.9 tons/each

All Hatches : 81.3/111, 8 mt per 20 feet/40 feet stack.

For 45 ft. containers load not to exceed: 111.8 mt (aftermost bay)

Fittings:

40 ft. cells in all holds. Fully fitted with all necessary lashings/fittings to secure a full load of TEUs/FEUs in holds and on deck/hatchcovers.

## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "MARGRETHE MÆRSK"

Main engine: MITSUI MAN B&W 10K90MC —39400 kW (MCR)  
 Generators: 3 off MAN B&W —8L28/32 each 1600 kW  
 Steam Generator / Power turbine generator: Peter Brotherhood/MAN 3100  
 kW at 90 % MCR  
 Aux. Generator: Caterpillar 3512 at 1070 kW  
 Bow thruster: KAMEWA 2400D/BAS-CP—20 ton  
 Stern thruster: KAMEWA 2400D/BAS-CP—20 ton  
 Finn Stabilizers : Brown Brothers

Shaft generator: Siemens 3000 kW  
 Shaft generator plant can either operate in PTO or PTI mode utilizing main  
 engine waste heat for  
 Propulsion.

Bunker Capacity:  
 MDO total "100%" (Density 0.900): 368.3 m<sup>3</sup>  
 FO total "100%" (Density 0.980): 5826.6 m<sup>3</sup>

Speed/Main engine consumption at design draft 12.2 m.:  
 About 22.50 knots on about 153.0 metric tons HFO per day plus fuel  
 treatment MDO consumption.

Speed/Main engine consumption at scantling draft 13.5 m.:  
 About 22.00 knots on about 154.7 metric tons HFO per day plus fuel  
 treatment MDO consumption.

Above speed always subject to: Even keel, clean bottom, and in calm  
 weather not exceeding Beaufort scale 3.

Generator HFO consumptions at sea and in port excluding reefer units:  
 About 6.0 metric tons per day.

All HFO consumption's for the main engine and the auxiliary engines are  
 based on ISO-F RMK55 of 700 CST at 50 degrees Celsius per 24 hours  
 including normal tank heating.

Vessel being built with LRS class +100a1 container ship, +lmc, ums, nav1,  
 shipright, (sda, fda, cm).

Principal Dimensions:  
 Length O.A.: 294.12m  
 Length B.P.: 284.72 m  
 Breadth, moulded: 32.22 m  
 Depth, moulded: 21.50 m  
 Deadweight/draft: Summer DW 60640 mt draft 13.52 m

## Distribution of hatches/holds:

Holds/hatches: 1-17

Main engine: MITSUI MAN B&W 10K90MC —39400 kW (MCR)

Hatch Dimension:	length/breadth:
No. 1 centre	13.59 m/8.31 m
No. 2 port and stb	13.59 m/5.795 m
No. 2 centre	13.59 m/8.31 m
No. 3 port, stb and centre	13.59 m/8.31 m
No. 4-7 port and stb	13.59 m/10.859 m
No. 4-7 centre	13.59 m/8.31 m
No. 8-10 port and stb	15.006 m/10.859 m
No. 8-10 centre	15.006 m/8.31 m
No. 11-17 port and stb	13.59 m/10.859 m

No. 11-12 and 14-17 centre	13.59 m/8.31 m
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**Additional Clauses to Memorandum of Agreement dated 11 October 2006**

**“MARGRETHE MÆRSK”**

Miscellaneous:  
Satellite communication  
Container loading computer  
CO2 fitted in holds  
Panama/Suez canal fitted.  
TEU/FFE intakes are subject to Panama regulations.

All figures “about” and given in good faith.

This Agreement has been drawn up and executed in 2 (two) originals, 1 (one) of which is to be retained by the Sellers and 1 (one) of which is to be retained by the Buyers.

**ADDENDUM No. 1**  
**TO THE MEMORANDUM OF AGREEMENT**  
**REGARDING M.V. "MARGRETHE MÆRSK"**  
**(THE "VESSEL")**  
**BETWEEN**  
**A.P. MØLLER—MÆRSK A/S**  
**(THE "SELLERS")**  
**AND**  
**SEASPAN CORPORATION**  
**(THE "BUYERS")**

**1. CLOSING DOCUMENTS**

With reference to the Memorandum of Agreement dated 11 October 2006 made between the Sellers and the Buyers regarding the sale of "MARGRETHE MÆRSK" the following has been agreed:

It is mutually agreed between the Buyers and the Sellers that the following documents shall be exchanged at the time of delivery.

**SELLERS' DOCUMENTATION:**

- A) One original Bill of Sale in English form 10A evidencing the transfer of the vessel from the Sellers to the Buyers free from liens, debts, mortgages or any encumbrances evidencing the transfer of the vessel from the Sellers to the Buyers, duly notarised.
- B) Power of Attorney duly notarised issued by the Sellers authorising their named representative(s) to effect the sale and transfer of the vessel to the Buyers pursuant to the Memorandum of Agreement.
- C) Transcript of Registry from the vessel's registry dated not earlier than 7 Danish working days prior the date of delivery evidencing the ownership of the vessel and that the vessel is free from registered encumbrances.
- D) Confirmation of Class issued by the vessel's Classification Society dated no earlier than 7 Danish working days prior to the date of delivery.
- E) A written letter of undertaking from the Sellers to effect deletion from the vessel's registry forthwith and furnish a Certificate or other official evidence of deletion to the Buyers soonest after the delivery latest within 30 days after the vessel has been delivered to the Buyers.

- 
- F) One original commercial invoice duly signed relating to the purchase and containing the purchase price of the vessel.
  - G) One original invoice duly signed relating to the quantities/prices of remaining lubricating oils on board.
  - H) One original Protocol of Delivery and Acceptance duly signed by the Buyers' and the Sellers' representatives at the place of closing.
  - I) Written confirmation duly signed by the Sellers confirming that to the best of Seller's knowledge the vessel is not blacklisted by any country at time of delivery.
  - J) Letter of undertaking from the Sellers to provide original Continuous Synopsis Record (CSR) deletion document from the Sellers registry within 30 days after the vessel has been taken over by the Buyers.
  - K) Any such documents as may be reasonably required by the competent authorities for the purpose of registering. This to be presented by the Buyers to the Sellers no later than 7 days prior to delivery for the Sellers to confirm if possible.

Draft of the Sellers' documents, where possible, to be presented to the Buyers' minimum 15 (fifteen) days before closing for comments.

**BUYERS' DOCUMENTATION:**

- A) Extract copy of the Buyers' Board resolution duly notarially attested authorising the purchase of the Vessel from the Sellers and execution of the Agreement and empowering a representative(s) to effect the purchase.
- B) Power of Attorney issued by the Buyers duly notarially attested authorising their named representative(s) to effect the purchase of the vessel from the Sellers pursuant to the Agreement.

Draft of the Buyers' documents to be presented to the Sellers minimum 15 (fifteen) days before closing for comments.

All other terms of the Memorandum of Agreement to remain unchanged.

IN WITNESS HEREOF, the parties hereto have caused this addendum to be executed by their respective authorised representatives on 11 October 2006.

For and on behalf of the Sellers:  
**A.P. Møller—Mærsk A/S**

/S/ A.P. MØLLER

For the Buyers:  
**Seaspan Corporation**

/S/ GERRY WANG

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**To:**  
**HSBC Bank plc**  
**Corporate Banking, Transport & Logistics**  
**Level 24, 8 Canada Square**  
**London, E14 5HQ**

Joint Account number 60434838 in respect of Proposed Sale and Purchase of a Vessel.

HSBC Bank plc (the "Bank") is hereby requested to open a Joint Account (the "Account") in the names of A.P. Møller—Mærsk A/S (the "Seller") and Seaspan Corporation (the "Buyer"), the purpose of which is to hold certain funds (the "Deposit") in respect of the proposed sale of the vessel "MARGRETHE MÆRSK" (the "Vessel") by the Seller to the Buyer as per Memorandum of Agreement dated 11 October 2006.

It is hereby acknowledged that the Bank agrees to open the Account in United States Dollars, bearing interest at a rate to be determined by the bank and varied from time to time at the Bank's sole discretion, subject to acceptance of each of the Seller and the Buyer to the following Terms and Conditions:

1. The Bank is hereby authorised to:
  - a) to honour any orders to withdraw all or any part of the Deposit; and
  - b) to act on any instructions with regard to the Deposit and the Account

Provided that such instructions are received by the Bank in writing and signed on behalf of each of the Seller and the Buyer by any one of the person(s) authorised in accordance with the Powers of Attorney to be supplied by the Seller and the Buyer. Such instructions may be jointly signed on one document or signed in counterpart.

2. In the absence of instructions from each of the Seller and the Buyers described in paragraph 1 above or in the event that the Bank receives conflicting or ambiguous instructions from one or both of the Seller and the Buyer, whether before, at the time of or after the closing of the proposed sale and purchase of the Vessel and whether or not the sale and purchase of the vessel has been completed, the Bank will not disburse all or any part of the Deposit unless it is in receipt of evidence satisfactory to it that in doing so it will be complying with the terms of an order of a competent Court.

3. In consideration of the Bank agreeing to open and operate the Account, the standard commission rate is USD 7,000 and will be payable, equally split between the Buyer and the Seller.

- i) In the event that the Bank is in receipt of instructions of the type described in Paragraph 2 which require the Bank not to make a disbursement of all or any part of the deposit otherwise than as contemplated in Paragraph 2, the Seller and the Buyer agree to reimburse any reasonable and direct costs incurred by the Bank in connection herewith, including but not limited to legal and other fees and expenses.

The Bank is hereby authorised to deduct any such sums referred to in i) above from the Deposit if not reimbursed to the Bank on demand separately by either or both of the Seller or the Buyer.

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4. The Account will, subject to Paragraph 5, be opened by the Bank upon its receipt of this request, jointly signed on behalf of each of the Seller and the Buyer below or in counterparts.

5. The Bank reserves the right to require such additional evidence as it may in its sole discretion deem necessary to validate the authority of the individuals signing this request on behalf of either the Seller and/or the Buyer.

6. In the performance of its obligations herein contained the Bank shall not be liable for any act taken or omitted by it in good faith and in exercise of its own reasonable judgement.

7. The Account is to be closed when the Deposit balance has become zero as a result of instructions or actions taken in accordance with paragraphs 1,2 or 3.

These authorities and the terms and conditions herein contained shall be governed by and be construed in accordance with English law and the Seller and the Buyer hereby irrevocably submit to the non-exclusive jurisdiction of the English courts.

Yours faithfully,

Signed for and on behalf of

The Sellers:

A.P. Møller—Mærsk A/S

/S/ A.P. MØLLER

The Buyers:

Seaspan Corporation

/S/ GERRY WANG

MEMORANDUM OF AGREEMENT

Norwegian Shipbrokers' Association's Memorandum of Agreement for sale and purchase of ships. Adopted by The Baltic and International Maritime Council (BIMCO) in 1956.

Code-name  
**SALEFORM 1987**

Revised 1966, 1983 and 1986

Dated: *11 October 2006*

*SECOND ORIGINAL OF TWO*

*A.P. Møller - Mærsk A/S  
Esplanaden 50  
1098 Copenhagen K  
Denmark*

hereinafter called the Sellers, have today sold, and

*Seaspan Corporation  
Unit 2, 7th Floor  
Bupa Centre  
141, Connaught Road West  
Hong Kong  
China*

hereinafter called the Buyers, have today bought

*M. V. "MAREN MÆRSK", hereinafter called the vessel,*

Classification: *Lloyds Register*  
Built: *1989*  
Flag: *Danish*  
Call sign: *OWZU2*  
Register *IMO* number: *8618310*  
on the following conditions:

by: *Odense Staalskibsværft A/S*  
Place of Registration: *Ringkøbing*  
Register tonnage: *GT 52,191 /NT25,458*

**1. Price**

Price: *USD 40,000,000 (United States Dollars Forty Million only) net to the Sellers in cash.*

**2. Deposit**

~~As a security for the correct fulfillment of this contract, the Buyers shall pay a deposit of 10% ten per cent of the Purchase Money within banking days from the date of this agreement. This amount shall be deposited with 10 (ten) percent of the purchase price is to be deposited by the Buyers into a joint interest bearing account no 60434854 in the names of the Buyers and the Sellers at HSBC Bank London, 8 Canada Square, London E14 5HQ, UK within 3 (three) London banking days after this Agreement has been signed on fax by both parties.~~

*Costs for such joint account and closing at HSBC London to be shared equally between the Buyers and the Sellers.*

*Documentary closing to take place at the Sellers' nominated bank.*

~~and held by them in a joint account for the Sellers and the Buyers. Interest, if any, to be credited the Buyers. Any fee charged for holding said deposit shall be borne equally by the Sellers and the Buyers.~~



### 3. Payment

*The 10 (ten) per cent deposit shall be released and the 90 (ninety) per cent balance of the* The said Purchase Money shall be paid free of bank charges to

*Citibank, N.A., New York Branch, Account Number: 30625992, SWIFT: CITIUS33, Account holder: A.P. Møller - Mærsk A/S* on delivery of the vessel, but not later than three banking days after the vessel is ready for delivery and written or telexed notice thereof has been given to the Buyers by the Sellers.

### 4. Inspections

*The Buyers have physically inspected the vessel in Newark, USA on 10 September 2006 and have accepted the vessel.*

*The Buyers have inspected the vessel's class records with Lloyds Register and have accepted same.*

*This agreement is thus not subject to any further inspections.*

~~The Buyers shall have the right to inspect the vessel's classification records and declare whether same are accepted or not within  
The Sellers shall provide for inspection of the vessel at/in~~

~~The Buyers shall undertake the inspection without undue delay to the vessel. Should the Buyers cause such delay, they shall compensate the Sellers for the losses thereby incurred.~~

~~The Buyers shall inspect the vessel afloat without opening up and without cost to the Sellers. During the inspection, the vessel's log books for engine and deck shall be made available for the Buyer's examination. If the vessel is accepted after afloat inspection, the purchase shall become definite except for other possible subjects in this contract provided the Sellers receive written or telexed notice from the Buyers within 48 hours after completion of such afloat inspection. Should notice of acceptance of the vessel's classification records and of the vessel not be received by the Sellers as aforesaid, the deposit shall immediately be released, whereafter this contract shall be considered null and void.~~

### 5. Place and time of delivery

~~The vessel shall be delivered and taken over at/in~~ *to / and taken over by the Buyers safely afloat at a safe berth / anchorage in one safe port in the Sellers' option, Worldwide within INL excluding US ports between 1 November 2006 and 1 February 2007 with 1 February 2007 being the cancelling date in the Buyers' option.*

*If the Sellers anticipate that, notwithstanding the exercise of due diligence by them, the vessel will not be ready for delivery by the cancelling date they may notify the Buyers in writing stating the date when they anticipate that the vessel will be ready for delivery and propose a new cancelling date. Upon receipt of such notification the Buyers shall have the option of either cancelling this Agreement in accordance with Clause 14 (Sellers' default) within 2 business days of the receipt of the notice or of accepting the new date as the new cancelling date. If the Buyers have not declared their option within 2 business days of receipt of the Sellers' notification or if the Buyers accept the new date, the date proposed in the Sellers' notification shall be deemed to be the new cancelling date and shall be substituted for the agreed cancelling date.*

*If this Agreement is maintained with the new cancelling date all other terms and conditions hereof including those contained in this clause shall remain unaltered and in full force and effect. Cancellation or failure to cancel shall be entirely without prejudice to any claim for damages the Buyers may have under Clause 14 (Sellers' default) for the vessel not being ready by the original cancelling date.*

*Should the vessel become an actual, constructive or compromised total loss before delivery or should this Agreement be terminated as above the deposit together with interest earned shall be released immediately to the Buyers whereafter this Agreement shall be null and void.*

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Expected time of delivery:

Date of cancelling (see clause 14): **1 February 2007 in the Buyers' option.**

The Sellers shall keep the Buyers well posted about the vessel's itinerary and estimated time and place of drydocking.

~~Should the vessel become a total or constructive total loss before delivery the deposit shall immediately be released to the Buyers and the contract thereafter considered null and void-~~

**The Sellers are to keep the Buyers updated on the vessel's position with regard to the anticipated delivery date/place, and forward to the Buyers 35/30/15/10/8/5/3 and 1 days approximate notice of delivery.**

## 6. Dry docking (See Clause 16)

~~In connection with the delivery the Sellers shall place the vessel in drydock at the port of delivery for inspection by the Classification Society of the bottom and other underwater parts below the Summer Load Line. If the rudder, propeller, bottom or other underwater parts below the Summer Load Line be found broken, damaged or defective, so as to affect the vessel's clean certificate of class, such defects shall be made good at the Sellers' expense to 1) satisfaction without qualification on such underwater parts. 2)-~~

~~Whilst the vessel is in drydock, and if required by the Buyers or the representative of the Classification Society, the Sellers shall arrange to have the tail end shaft drawn. Should same be condemned or found defective so as to affect the vessel's clean certificate of class, it shall be renewed or made good at the Sellers' expense to the Classification Society's satisfaction without qualification-~~

~~The expenses of drawing and replacing the tail end shaft shall be borne by the Buyers unless the Classification Society requires the tail end shaft to be drawn (whether damaged or not), renewed or made good in which event the Sellers shall pay these expenses.~~

~~The expenses in connection with putting the vessel in and taking her out of drydock, including dry dock dues and the Classification Surveyor's fees shall be paid by the Sellers if the rudder, propeller, bottom, other underwater parts below the Summer Load Line or the tail end shaft be found broken, damaged or defective as aforesaid or if the Classification Society requires the tail end shaft to be drawn (whether damaged or not). In all other cases the Buyers shall pay the aforesaid expenses, dues and fees.~~

~~During the above mentioned inspections by the Classification Society the Buyers' representative shall have the right to be present in the drydock but without interfering with the Classification Surveyor's decisions.~~

~~The Sellers shall bring the vessel to the drydock and from the drydock to the place of delivery at their own expense.~~

## 7. Spares/bunkers etc.

The Sellers shall deliver the vessel to the Buyers with everything belonging to her on board **including all broached/unbroached stores and provisions. and on shore.** All spare parts, ~~and~~ spare equipment **and lashing gear, including spare tail end shaft(s) and/or spare propeller(s), if any,** belonging to the vessel at the time of inspection, used or unused, ~~whether on board or not~~ shall become the Buyers' property, but spares on order to be excluded; **however, for the Buyers reference, Sellers to disclose spares on order, if any, upon signing this Agreement.** Forwarding charges, if any, shall be for the Buyers' account. The Sellers are not required to replace spare parts ~~including spare tail end shaft(s) and spare propeller(s)~~ which are taken out of spare and used as replacement prior to delivery, but the replaced items shall be the property of the Buyers. ~~The radio installation and navigational equipment shall be included in the sale without extra payment, if same is the property of the Sellers.~~

**The only equipment containing asbestos onboard the vessel are the Railco sterntube bearings.**

**There is no spare tail shaft or spare propeller included in the sale.**

The Sellers have the right to take ashore crockery, plate, cutlery, linen and other articles bearing the Sellers' flag or name, provided they replace same with similar unmarked items. Library, forms, etc., exclusively for use in the Sellers' vessels, shall be excluded without compensation. Captain's, **Master's** Officers' and Crew's personal belongings including Master's slop chest to be excluded from the sale, as well as the following additional items:

**Excluded items are:**

- **reefer container unit spare parts.**
- **power packs for reefer containers with related plugs, cords and extension cables.**
- **manual for reefer units.**
- **log books for deck/engine, however the Buyers to have the right to take copies of same.**
- **unitor bottles.**
- **all Maersk blue hull paint.**
- **slop chest**
- **welfare equipment**
- **pictures and paintings in the Sellers' option.**
- **documents directly related to present ownership.**
- **documents which have to be returned to the authorities, however Buyers are allowed to make copies of same.**
- **all forms etc. which are related to the present ownership.**
- **the vessel's maintenance system for hull and machinery, the Buyers to receive latest print out.**
- **computer software for pc's either developed by or licensed to the Sellers except loadmastercomputer which is included in the sale.**
- **ship's bell, however, the Sellers undertake to replace the same at their cost.**
- **digital cameras and mobile telephones.**
- **Administrative LAN server.**

**EPIRB to be included in the sale, the Buyers will have to amend the signal upon delivery.**

**The Bunkers shall remain the property of the Sellers and the Buyers will not pay for same at the time of delivery, however, bunker quantities to be mutually agreed.**

~~The Buyers shall take over remaining bunkers,~~

**The Buyers shall take over remaining unused lubricating oils (broached or unbroached in tanks or drums) paying Oil Majors' list prices in the port of Newark at the time of delivery less 15 (fifteen) per cent discount except for the below stated three main lube quantities bulk prices to be agreed as follows:**

**Mobilgard 570 : USD 165 /100 Itr**

**Mobilgard 300 : USD 145 /100 Itr**

**Mobilgard 430/440 : USD 175 /100 Itr**

~~If delivery is made in drums a surcharge on USD 32 /100 Itr to be applicable. and unused stores and provisions and pay the current market price at the port and date of delivery of the vessel.~~

Payment under this clause shall be made at the same time and place and in the same currency as the Purchase Money **in accordance with a preliminary invoice from the Sellers to be adjusted against the final invoice.**

## **8. Documentation**

In exchange for payment of the Purchase Money the Sellers **are to provide customary documentation reasonably required by the Buyers for their registration purposes.** shall furnish the Buyers with legal Bill of Sale of the said vessel free from all encumbrances and maritime liens or any other debts whatsoever, duly notarially attested and legalised by the consul to get

~~her with a certificate stating that the vessel is free from registered encumbrances. On delivery of the vessel the Sellers shall provide for the deletion of the vessel from the Registry of Vessels and deliver a certificate of deletion to the Buyers. The deposit shall be placed at the disposal of the Sellers as well as the balance of the Purchase Money, which shall be paid as agreed together with payment for items mentioned in clause 7 above.~~

The Sellers shall, at the time of delivery, hand to the Buyers all classification certificates as well as all plans etc. which are onboard the vessel. Other technical documentation which may be in the Sellers' possession shall promptly upon the Buyers' instructions be forwarded to the Buyers. The Sellers may keep the log books, but the Buyers to have the right to take copies of same.

#### **9. Encumbrances**

The Sellers warrant that the vessel, at the time of delivery, is *charter free except any charter the Buyers might have entered into*, free from all encumbrances and maritime liens or any other debts whatsoever, *including costs relating to Port State Control*. Should any claims which have been incurred prior to the time of delivery be made against the vessel, the Sellers hereby undertake to indemnify the Buyers against all consequences of such claims.

#### **10. Taxes etc.**

Any taxes, fees and expenses connected with the purchase and registration under the Buyers' flag shall be for the Buyers' account, whereas similar charges connected with the closing of the Sellers' register shall be for the Sellers' account.

#### **11. Condition on delivery**

The vessel *is to be delivered with present class maintained, free of conditions except CoC 044, report no BOA0500196 "Bottom shell plating indented and distorted related structure IWO No7/No8 Port WBDB tk between frames 322/334 now reinforced by additional stiffeners fitted, to be permanently repaired on next drydocking due in August 2007", and CoC 047 report no BOA0600068, BOA0600113, BOA0600203 "Port side rudder plating found cracked (L=900mm) at 900mm from leading edge and 3760mm from lower end, arrested now by drill stopping, to be re-examined and dealt with at next drydocking due in August 2007" and CoC 046 report no BOA0600066, BOA0600113, BOA0600203 "Crack on bottom shell plating iwo connection to DB floor FR 282 between side girder 14 & BL15 in WB Tk 9-10 port, now arrested by drilled holes and area reinforced by doubling fitted inside, to be examined and dealt with at next drydocking due in August 2007", and hull and machinery continuous survey cycles up to date at the time of delivery. The Vessel* with everything belonging to her shall be at the Sellers'-risk and expense until she is delivered to the Buyers, but subject to the conditions of this contract, she shall be delivered and taken over as she is at the time of inspection, ~~for~~ *normal* wear and tear excepted.

~~However, the vessel shall be delivered with present class free of recommendations. Class certificates and national certificates to be valid on day of delivery for a period of not less than three months.~~ The Sellers shall notify the Classification Society of any matters coming to their knowledge prior to delivery which upon being reported to the Classification Society would lead to the withdrawal of the vessel's class or to the imposition of a recommendation relating to her class.

#### **12. Name/markings**

Upon delivery the Buyers undertake to change the name of the vessel ~~and alter funnel markings,~~ *if so required by the Sellers. Same to be arranged by the Buyers for the Buyers time and expense.*

#### **13. Buyers' default**

Should the deposit not be paid as aforesaid, the Sellers have the right to cancel this contract, and they shall be entitled to claim compensation for their losses and for all expenses incurred together with interest at the rate of ~~12~~ 8% per annum.

Should the Purchase Money not be paid as aforesaid, the Sellers have the right to cancel this contract, in which case the amount deposited together with interest earned, if any, shall be forfeited to the Sellers. If the deposit does not cover the Sellers' losses, they shall be entitled to claim further compensation for their losses and for all expenses together with interest at the rate of 12 8% per annum.

#### 14. Sellers' default

If the Sellers fail to execute a legal transfer or to deliver the vessel with everything belonging to her in the manner and within the time specified *herein in line 38*, the Buyers shall have the right to cancel this contract in which case the deposit in full shall be returned to the Buyers together with interest at the rate of ~~12~~ 8% per annum. The Sellers shall make due compensation for the losses caused to the Buyers by failure to execute a legal transfer or to deliver the vessel in the manner and within the time specified *herein in line 38*, if such are due to the proven negligence of the Sellers.

#### 15. Arbitration

If any dispute should arise in connection with the interpretation and fulfilment of this contract, same shall be decided by arbitration in the city of 3) *London governed by English law* and shall be referred to a single Arbitrator to be appointed by the parties hereto. If the parties cannot agree upon the appointment of the single Arbitrator, the dispute shall be settled by three Arbitrators, each party appointing one Arbitrator, the third being appointed by 4) *the London Maritime Arbitrators' Association in London*.

If either of the appointed Arbitrators refuses or is incapable of acting, the party who appointed him, shall appoint a new Arbitrator in his place.

If one of the parties fails to appoint an Arbitrator—either originally or by way of substitution— for two weeks after the other party having appointed his Arbitrator has sent the party making default notice by mail, cable or telex to make the appointment, the party appointing the third Arbitrator shall, after application from the party having appointed his Arbitrator, also appoint an Arbitrator on behalf of the party making default.

The award rendered by the Arbitration Court shall be final and binding upon the parties and may if necessary be enforced by the Court or any other competent authority in the same manner as a judgement in the Court of Justice.

This contract shall be subject to the law of the country agreed as place of arbitration.

*Clauses 16 - 20 both inclusive as attached hereto shall form an integral part of this contract.*

**The Sellers:**  
*A.P. Møller - Mærsk A/S*

/S/ A.P. MØLLER

1) *The name of the Classification Society to be inserted.*

2) *Notes, if any, in the Surveyor's report which are accepted by the Classification Society without qualification are not to be taken into account.*

3) *The place of arbitration to be inserted. If this line is not filled in, it is understood that arbitration will take place in London in accordance with English law.*

4) *If this line is not filled in it is understood that the third Arbitrator shall be appointed by the London Maritime Arbitrators' Association in London.*

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**The Buyers:**  
*Seaspan Corporation*

/S/ GERRY WANG

## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## “MAREN MÆRSK”

**Clause 16** No Drydocking / Divers' Inspection

No drydocking, but prior to delivery of the vessel, the Buyers have the right to arrange at their risk and expense an inspection of the vessel's underwater parts by a class approved diver.

If the visibility underwater at the delivery port is considered insufficient by the diver(s) for the inspection to be carried out sufficiently, then the Sellers shall at their expense shift the vessel to waters in/outside port of delivery where water is suitable for the aforesaid underwater inspection to be carried out.

Should any damage be found to the vessel's underwater parts that will impose a condition of the vessel's present class then:

1. In case class imposes a condition but does not require drydocking before next scheduled drydocking, the Sellers shall pay to the Buyers the estimated cost to repair such damage in a way which is acceptable to class which to be the direct cost to repair such damage only, as per average quotation by two reputable independent repair yards in HongKong or Japan and one European Yard (incl. Mediterranean) as may be chosen by the Sellers. The amount agreed shall be deducted from the balance of the purchase money at the time of delivery.
2. In case class requires the vessel to be drydocked before next scheduled drydock, the Sellers shall drydock the vessel at their expense prior to delivery of the vessel to the Buyers and repair same to class satisfaction free of conditions / average damage.

The decision of the classification society as to whether underwater damage, if any, will impose any condition of class shall be final and binding on both parties.

In the event the vessel is required to be drydocked, the Sellers have the right to take the vessel from the intended delivery port and proceed directly, in ballast, to a port in the delivery area in Sellers' option for the aforesaid drydocking / repairs to take place. The cancelling date shall be extended per day pro rata for the extra time taken to deliver the vessel due to ballasting / drydocking / repairs to be carried out to class' satisfaction in accordance with this agreement. Any extension of cancelling date not to exceed 7 (seven) weeks more than those agreed. If suitable drydocks in vicinity of the intended delivery port are occupied resulting in unreasonable waiting time the Sellers shall have the option to fix the vessel for the shortest possible loaded voyage positioning the vessel for later drydock availability. It is to be understood that this is purely for positioning for drydocking. Such option only provided damage / class allow intermediate trading of the vessel in such case the cancelling date shall be extended to cover such laden voyage plus subsequent time required for positioning / drydocking / repairs— extensions on cancelling dates to be maximised to 7 (seven) weeks.

The Buyers have the right to attend the vessel at the drydock. The Buyers' right to clean / paint and carry out other works whilst the vessel is in drydock at the Buyers' risk and expense provided not interfering in the Sellers' work and the Buyers' work always subject to the Sellers' superintendent's supervision / directions.

In the event that the Buyers' works are not completed prior to the time the Sellers have completed their required works, then the Sellers have the right to tender notice of readiness whilst the vessel is still in drydock provided they

**Additional Clauses to Memorandum of Agreement dated 11 October 2006****“MAREN MÆRSK”**

are in all respects ready to deliver the vessel in accordance with this contract. Should the Buyers' works still not be completed and the vessel is unable to leave drydock due to the Buyers' works within 3 (three) banking days after the Sellers have tendered a valid notice of readiness, then the Buyers shall take delivery and pay for the vessel whilst remaining in drydock. Costs for docking / undocking shall be for the Sellers' account. However, any extra time spent in drydock after valid notice of readiness tendered by the Sellers shall be for the Buyers' account.

**Clause 17**      **Representatives**

Once the MoA has been signed and the 10% (ten) per cent deposit lodged the Buyers to have the right to place on board until delivery 5 (five) persons for familiarisation purposes and without interfering in the vessel's operation.

The Buyers' representatives are to sign the Sellers' indemnity declaration form prior to embarkation. Such familiarisation to include review of planned maintenance and running hours records of machinery, equipment and systems. In any event the Buyers' representatives are to board the vessel approximately 30 (thirty) days prior to the delivery of the vessel.

**Clause 18**      **Entire Agreement**

This Agreement constitute the only and entire agreement between the parties and supersede and replace any prior written or oral agreements, representations, statements or understandings between the Buyers and the Sellers relating to it's subject matter.

Each party confirms that it has not entered into this Agreement on the basis of any representation or statement which is not expressly incorporated into this Agreement. Without limiting the generality of the foregoing, neither party shall have any remedy in respect of any untrue representation or statement made to him upon which he may have relied in entering into this Agreement, and a party's only remedy is for breach of contract. However, nothing in this Agreement purports to exclude liability for any fraudulent statement or act.

This Agreement shall not be released, discharged, supplemented, interpreted, amended, varied or modified in any manner except by an addendum in writing signed by a duly authorised representative of each of the parties to this Agreement.

**Clause 19**      **Private & Confidential**

The negotiations and a possible subsequent sale is to be kept strictly private and confidential except as required by applicable securities laws and stock exchange rules. However, should despite the efforts of all parties involved details of the sale become known or reported to the market, neither the Sellers nor the Buyers have the right to withdraw from the Agreement or fail to fulfil all their obligations under the agreed contract.

## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "MAREN MÆRSK"

## Clause 20

Vessel Description

Gearless container vessel.

TEU intake: 4809 teu

Stowage:

When 20 ft. containers are preferentially loaded with max. numbers and 40 ft. containers are secondarily loaded in the remaining space.

1491 units 20 x 8 x 8 feet 6 inches in holds and 299 units 40 x 8 x 8 feet 6 inches in holds.

1766 units 20 x 8 x 8 feet 6 inches on deck/hatchcovers and 477 units 40 x 8 x 8 feet 6 inches on deck/hatchcovers.

FEU intake:

2322 units 40 x 8 x 8 feet 6 inches and 87 units 20 x 8 x 8 feet 6 inches

Stowage:

When 40 ft. containers are preferentially loaded with max. numbers and 20 ft. containers are secondarily loaded in the remaining space.

1014 units 40 x 8 x 8 feet 6 inches in holds and 71 units 20 x 8 x 8 feet 6 inches in holds

1308 units 40 x 8 x 8 feet 6 inches on deck/hatchcovers and 16 units 20 x 8 x 8 feet 6 inches on deck/hatchcovers.

45 feet intake:

752 units of 45 ft. containers can be loaded in bays 6,10,14,18, 22, 26, 30, 34, 38, 42, 46, 54, 58, 62, 66 and 70 in lieu of 752 units of 40 ft. containers.

Maximum 752 45 ft. units on deck, none in holds.

High cube intake (40 x 8 x 9 feet 6 inches) in holds:

850 units 40 x 8 x 9 feet 6 inches.

Reefer container intake:

495 reefer sockets whereof 274 on deck and 221 in holds

Stability:

About 3162 TEUs of 14 metric tons homogeneously laden.

(Summer draught).

Point loads:

Tanktop- 20 feet container: 195.1 tons/each except mid centre in hold 3-17 - 48.8 tons/each

40 feet container: 243,9 tons/each

All Hatches : 81.3/111,8 mt per 20 feet/40 feet stack.

For 45 ft. containers load not to exceed: 111.8 mt (aftermost bay)

Fittings:

40 ft. cells in all holds. Fully fitted with all necessary lashings/fittings to secure a full load of TEUs/FEUs in holds and on deck/hatchcovers.

Main engine: MITSUI MAN B&W 10K90MC - 39400 kW (MCR)

Generators: 3 off MAN B&W - 8L28/32 each 1600 kW



## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "MAREN MÆRSK"

Steam Generator / Power turbine generator: Peter Brotherhood/MAN 3100 kW at 90 % MCR

Aux. Generator: Caterpillar 3512 at 1070 kW

Bow thruster: KAMEWA 2400D/BAS-CP—20 ton

Stern thruster: KAMEWA 2400D/BAS-CP—20 ton

Finn Stabilizers : Brown Brothers

Shaft generator: Siemens 3000 kW

Shaft generator plant can either operate in PTO or PTI mode utilizing main engine waste heat for Propulsion.

Bunker Capacity:

MDO total "100%" (Density 0.900): 368.3 m<sup>3</sup>

FO total "100%" (Density 0.980): 5826.6 m<sup>3</sup>

Speed/Main engine consumption at design draft 12.2 m.:

About 22.50 knots on about 153.0 metric tons HFO per day plus fuel treatment MDO consumption.

Speed/Main engine consumption at scantling draft 13.5 m.:

About 22.00 knots on about 154.7 metric tons HFO per day plus fuel treatment MDO consumption.

Above speed always subject to: Even keel, clean bottom, and in calm weather not exceeding Beaufort scale 3.

Generator HFO consumptions at sea and in port excluding reefer units: About 6.0 metric tons per day.

All HFO consumption's for the main engine and the auxiliary engines are based on ISO-F RMK55 of 700 CST at 50 degrees Celsius per 24 hours including normal tank heating.

Vessel being built with LRS class +100a1 container ship, +lmc, urns, navl, shipright, (sda, fda, cm).

Principal Dimensions:

Length O.A.: 294.12m

Length B.P.: 284.72 m

Breadth, moulded: 32.22 m

Depth, moulded: 21.50 m

Deadweight/draft: Summer DW 60640 mt draft 13.52 m

Distribution of hatches/holds:

Holds/hatches: 1-17

Hatch dimension:	length/breadth:
No. 1 centre	13.59 m/8.31 m
No. 2 port and stb	13.59 m/5.795 m
No. 2 centre	13.59 m/8.31 m
No. 3 port, stb and centre	13.59 m/8.31 m
No. 4-7 port and stb	13.59 m/10.859 m
No. 4-7 centre	13.59 m/8.31 m
No. 8-10 port and stb	15.006 m/10.859m
No. 8-10 centre	15.006 m/8.31 m
No. 11 -17 port and stb	13.59 m/10.859 m
No. 11-12 and 14-17 centre	13.59m/8.31 m

**Additional Clauses to Memorandum of Agreement dated 11 October 2006**

**“MAREN MÆRSK”**

Miscellaneous:

Satellite communication  
Container loading computer  
CO2 fitted in holds  
Panama/Suez canal fitted.  
TEU/FFE intakes are subject to Panama regulations.  
  
All figures “about” and given in good faith.

This Agreement has been drawn up and executed in 2 (two) originals, 1 (one) of which is to be retained by the Sellers and 1 (one) of which is to be retained by the Buyers.

**ADDENDUM No. 1**  
**TO THE MEMORANDUM OF AGREEMENT**  
**REGARDING M.V. "MAREN MÆRSK"**  
**(THE "VESSEL")**  
**BETWEEN**  
**A.P. MØLLER - MÆRSK A/S**  
**(THE "SELLERS")**  
**AND**  
**SEASPAN CORPORATION**  
**(THE "BUYERS")**

**1. CLOSING DOCUMENTS**

With reference to the Memorandum of Agreement dated 11 October 2006 made between the Sellers and the Buyers regarding the sale of "MAREN MÆRSK" the following has been agreed:

It is mutually agreed between the Buyers and the Sellers that the following documents shall be exchanged at the time of delivery.

**SELLERS' DOCUMENTATION:**

- A) One original Bill of Sale in English form 10A evidencing the transfer of the vessel from the Sellers to the Buyers free from liens, debts, mortgages or any encumbrances evidencing the transfer of the vessel from the Sellers to the Buyers, duly notarised.
- B) Power of Attorney duly notarised issued by the Sellers authorising their named representative(s) to effect the sale and transfer of the vessel to the Buyers pursuant to the Memorandum of Agreement.
- C) Transcript of Registry from the vessel's registry dated not earlier than 7 Danish working days prior the date of delivery evidencing the ownership of the vessel and that the vessel is free from registered encumbrances.
- D) Confirmation of Class issued by the vessel's Classification Society dated no earlier than 7 Danish working days prior to the date of delivery.
- E) A written letter of undertaking from the Sellers to effect deletion from the vessel's registry forthwith and furnish a Certificate or other official evidence of deletion to the Buyers soonest after the delivery latest within 30 days after the vessel has been delivered to the Buyers.

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- F) One original commercial invoice duly signed relating to the purchase and containing the purchase price of the vessel.
  - G) One original invoice duly signed relating to the quantities/prices of remaining lubricating oils on board.
  - H) One original Protocol of Delivery and Acceptance duly signed by the Buyers' and the Sellers' representatives at the place of closing.
  - I) Written confirmation duly signed by the Sellers confirming that to the best of Seller's knowledge the vessel is not blacklisted by any country at time of delivery.
  - J) Letter of undertaking from the Sellers to provide original Continuous Synopsis Record (CSR) deletion document from the Sellers registry within 30 days after the vessel has been taken over by the Buyers.
  - K) Any such documents as may be reasonably required by the competent authorities for the purpose of registering. This to be presented by the Buyers to the Sellers no later than 7 days prior to delivery for the Sellers to confirm if possible.

Draft of the Sellers' documents, where possible, to be presented to the Buyers' minimum 15 (fifteen) days before closing for comments.

**BUYERS' DOCUMENTATION:**

- A) Extract copy of the Buyers' Board resolution duly notarially attested authorising the purchase of the Vessel from the Sellers and execution of the Agreement and empowering a representative(s) to effect the purchase.
- B) Power of Attorney issued by the Buyers duly notarially attested authorising their named representative(s) to effect the purchase of the vessel from the Sellers pursuant to the Agreement.

Draft of the Buyers' documents to be presented to the Sellers minimum 15 (fifteen) days before closing for comments.

All other terms of the Memorandum of Agreement to remain unchanged.

IN WITNESS HEREOF, the parties hereto have caused this addendum to be executed by their respective authorised representatives on 11 October 2006.

For and on behalf of the Sellers:  
**A.P. Møller - Mærsk A/S**

/s/ A.P. MØLLER

For the Buyers:  
**Seaspan Corporation**

/s/ GERRY WANG

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**To:**  
**HSBC Bank plc**  
**Corporate Banking, Transport & Logistics**  
**Level 24, 8 Canada Square**  
**London, E14 5HQ**

Joint Account number 60434854 in respect of Proposed Sale and Purchase of a Vessel.

HSBC Bank plc (the "Bank") is hereby requested to open a Joint Account (the "Account") in the names of A.P. Møller - Mærsk A/S (the "Seller") and Seaspan Corporation (the "Buyer"), the purpose of which is to hold certain funds (the "Deposit") in respect of the proposed sale of the vessel "MAREN MÆRSK" (the "Vessel") by the Seller to the Buyer as per Memorandum of Agreement dated 11 October 2006.

It is hereby acknowledged that the Bank agrees to open the Account in United States Dollars, bearing interest at a rate to be determined by the bank and varied from time to time at the Bank's sole discretion, subject to acceptance of each of the Seller and the Buyer to the following Terms and Conditions:

1. The Bank is hereby authorised to:

- a) to honour any orders to withdraw all or any part of the Deposit; and
- b) to act on any instructions with regard to the Deposit and the Account

Provided that such instructions are received by the Bank in writing and signed on behalf of each of the Seller and the Buyer by any one of the person(s) authorised in accordance with the Powers of Attorney to be supplied by the Seller and the Buyer. Such instructions may be jointly signed on one document or signed in counterpart.

2. In the absence of instructions from each of the Seller and the Buyers described in paragraph 1 above or in the event that the Bank receives conflicting or ambiguous instructions from one or both of the Seller and the Buyer, whether before, at the time of or after the closing of the proposed sale and purchase of the Vessel and whether or not the sale and purchase of the vessel has been completed, the Bank will not disburse all or any part of the Deposit unless it is in receipt of evidence satisfactory to it that in doing so it will be complying with the terms of an order of a competent Court.

3. In consideration of the Bank agreeing to open and operate the Account, the standard commission rate is USD 7,000 and will be payable, equally split between the Buyer and the Seller.

i) In the event that the Bank is in receipt of instructions of the type described in Paragraph 2 which require the Bank not to make a disbursement of all or any part of the deposit otherwise than as contemplated in Paragraph 2, the Seller and the Buyer agree to reimburse any reasonable and direct costs incurred by the Bank in connection herewith, including but not limited to legal and other fees and expenses.

The Bank is hereby authorised to deduct any such sums referred to in i) above from the Deposit if not reimbursed to the Bank on demand separately by either or both of the Seller or the Buyer.

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4. The Account will, subject to Paragraph 5, be opened by the Bank upon its receipt of this request, jointly signed on behalf of each of the Seller and the Buyer below or in counterparts.

5. The Bank reserves the right to require such additional evidence as it may in its sole discretion deem necessary to validate the authority of the individuals signing this request on behalf of either the Seller and/or the Buyer.

6. In the performance of its obligations herein contained the Bank shall not be liable for any act taken or omitted by it in good faith and in exercise of its own reasonable judgement.

7. The Account is to be closed when the Deposit balance has become zero as a result of instructions or actions taken in accordance with paragraphs 1,2 or 3.

These authorities and the terms and conditions herein contained shall be governed by and be construed in accordance with English law and the Seller and the Buyer hereby irrevocably submit to the non-exclusive jurisdiction of the English courts.

Yours faithfully,

Signed for and on behalf of

The Sellers:

A.P. Møller - Mærsk A/S

/S/ A.P. MØLLER

The Buyers:

Seaspan Corporation

/S/ GERRY WANG

## MEMORANDUM OF AGREEMENT

Norwegian Shipbrokers' Association's Memorandum of Agreement for sale and purchase of ships. Adopted by The Baltic and International Maritime Council (BIMCO) in 1956.  
Code-name  
**SALEFORM 1987**  
Revised 1966, 1983 and 1986

Dated: *11 October 2006*

*SECOND ORIGINAL OF TWO*

*A.P. Møller - Mærsk A/S  
Esplanaden 50  
1098 Copenhagen K  
Denmark*

hereinafter called the Sellers, have today sold, and

*Seaspan Corporation  
Unit 2, 7th Floor  
Bupa Centre  
141, Connaught Road West  
Hong Kong  
China*

hereinafter called the Buyers, have today bought

*M. V. "METTE MÆRSK", hereinafter called the vessel,*

Classification: *Lloyds Register*

Built: *1989*

Flag: *Danish*

Call sign: *OXKT2*

Register *IMO* number: *8618293*

on the following conditions:

by: *Odense Staalskibsværft A/S*

Place of Registration: *Rønne*

Register tonnage: *GT 52,191 / NT 25,458*

### 1. Price

Price: *USD 40,000,000 (United States Dollars Forty Million only) net to the Sellers in cash.*

### 2. Deposit

~~As a security for the correct fulfillment of this contract, the Buyers shall pay a deposit of 10% — ten per cent of the Purchase Money within banking days from the date of this agreement. This amount shall be deposited with~~

*10 (ten) percent of the purchase price is to be deposited by the Buyers into a joint interest bearing account no 60434846 in the names of the Buyers and the Sellers at HSBC Bank London, 8 Canada Square, London E14 5HQ, UK within 3 (three) London banking days after this Agreement has been signed on fax by both parties.*

*Costs for such joint account and closing at HSBC London to be shared equally between the Buyers and the Sellers.*

*Documentary closing to take place at the Sellers' nominated bank.*

~~and held by them in a joint account for the Sellers and the Buyers. Interest, if any, to be credited the Buyers. Any fee charged for holding said deposit shall be borne equally by the Sellers and the Buyers.~~

### 3. Payment

*The 10 (ten) per cent deposit shall be released and the 90 (ninety) per cent balance of the* The said Purchase Money shall be paid free of bank charges to Citibank, N.A., New York Branch, Account Number: 30625992, SWIFT: CITIUS33, Account holder: A.P. Møller - Mærsk A/S on delivery of the vessel, but not later than three banking days after the vessel is ready for delivery and written or telexed notice thereof has been given to the Buyers by the Sellers.

### 4. Inspections

*The Buyers have physically inspected the vessel in Hong Kong on 13 September 2006 and have accepted the vessel.*

*The Buyers have inspected the vessel's class records with Lloyds Register and have accepted same.*

*This agreement is thus not subject to any further inspections.*

~~The Buyers shall have the right to inspect the vessel's classification records and declare whether same are accepted or not within The Sellers shall provide for inspection of the vessel at/in-~~

~~The Buyers shall undertake the inspection without undue delay to the vessel. Should the Buyers cause such delay, they shall compensate the Sellers for the losses thereby incurred.~~

~~The Buyers shall inspect the vessel afloat without opening up and without cost to the Sellers. During the inspection, the vessel's log books for engine and deck shall be made available for the Buyers' examination. If the vessel is accepted after such afloat inspection, the purchase shall become definite except for other possible subjects in this contract provided the Sellers receive written or telexed notice from the Buyers within 48 hours after completion of such afloat inspection. Should notice of acceptance of the vessel's classification records and of the vessel not be received by the Sellers as aforesaid, the deposit shall immediately be released, whereafter this contract shall be considered null and void.~~

### 5. Place and time of delivery

The vessel shall be delivered ~~and taken over at/in to /~~ and taken over by the Buyers safely afloat at a safe berth /anchorage in one safe port in the Sellers' option, Worldwide within INL excluding US ports between 1 November 2006 and 1 February 2007 with 1 February 2007 being the cancelling date in the Buyers' option.

*If the Sellers anticipate that, notwithstanding the exercise of due diligence by them, the vessel will not be ready for delivery by the cancelling date they may notify the Buyers in writing stating the date when they anticipate that the vessel will be ready for delivery and propose a new cancelling date. Upon receipt of such notification the Buyers shall have the option of either cancelling this Agreement in accordance with Clause 14 (Sellers' default) within 2 business days of the receipt of the notice or of accepting the new date as the new cancelling date. If the Buyers have not declared their option within 2 business days of receipt of the Sellers' notification or if the Buyers accept the new date, the date proposed in the Sellers' notification shall be deemed to be the new cancelling date and shall be substituted for the agreed cancelling date.*

*If this Agreement is maintained with the new cancelling date all other terms and conditions hereof including those contained in this clause shall remain unaltered and in full force and effect. Cancellation or failure to cancel shall be entirely without prejudice to any claim for damages the Buyers may have under Clause 14 (Sellers' default) for the vessel not being ready by the original cancelling date.*

*Should the vessel become an actual, constructive or compromised total loss before delivery or should this Agreement be terminated as above the deposit together with interest earned shall be released immediately to the Buyers whereafter this Agreement shall be null and void.*



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Expected time of delivery:

Date of cancelling (see clause 14): **1 February 2007 in the Buyers' option.**

The Sellers shall keep the Buyers well posted about the vessel's itinerary and estimated time and place of drydocking.

Should the vessel become a total or constructive total loss before delivery the deposit shall immediately be released to the Buyers and the contract thereafter considered null and void.

**The Sellers are to keep the Buyers updated on the vessel's position with regard to the anticipated delivery date/place, and forward to the Buyers 35/30/15/10/8/5/3 and 1 days approximate notice of delivery.**

## 6. Drydocking (See Clause 16)

In connection with the delivery the Sellers shall place the vessel in drydock at the port of delivery for inspection by the Classification Society of the bottom and other underwater parts below the Summer Load Line. If the rudder, propeller, bottom or other underwater parts below the Summer Load Line be found broken, damaged or defective, so as to affect the vessel's clean certificate of class, such defects shall be made good at the Sellers' expense to (1) satisfaction without qualification on such underwater parts. 2 )

Whilst the vessel is in drydock, and if required by the Buyers or the representative of the Classification Society, the Sellers shall arrange to have the tail end shaft drawn. Should same be condemned or found defective so as to affect the vessel's clean certificate of class, it shall be renewed or made good at the Sellers' expense to the Classification Society's satisfaction without qualification.

The expenses of drawing and replacing the tail end shaft shall be borne by the Buyers unless the Classification Society requires the tail end shaft to be drawn (whether damaged or not), renewed or made good in which event the Sellers shall pay these expenses.

The expenses in connection with putting the vessel in and taking her out of drydock, including dry dock dues and the Classification Surveyor's fees shall be paid by the Sellers if the rudder, propeller, bottom, other underwater parts below the Summer Load Line or the tail end shaft be found broken, damaged or defective as aforesaid or if the Classification Society requires the tail end shaft to be drawn (whether damaged or not). In all other cases the Buyers shall pay the aforesaid expenses, dues and fees.

During the above mentioned inspections by the Classification Society the Buyers' representative shall have the right to be present in the drydock but without interfering with the Classification Surveyor's decisions.

The Sellers shall bring the vessel to the drydock and from the drydock to the place of delivery at their own expense.

## 7. Spares/bunkers etc.

The Sellers shall deliver the vessel to the Buyers with everything belonging to her on board **including all broached/unbroached stores and provisions, and on shore.** All spare parts, and spare equipment **and lashing gear, including spare tail end shaft(s) and/or spare propeller(s),**

~~if any,~~ belonging to the vessel at the time of inspection, used or unused, ~~whether~~ on board ~~or not~~ shall become the Buyers' property, but spares on order to be excluded, **however, for the Buyers reference, Sellers to disclose spares on order, if any, upon signing this Agreement.** Forwarding charges, if any, shall be for the Buyers' account. The Sellers are not required to replace spare parts including spare tail end shaft(s) and spare propeller(s) which are taken out of spare and used as replacement prior to delivery, but the replaced items shall be the property of the Buyers. ~~The radio installation and navigational equipment shall be included in the sale without extra payment, if same is the property of the Sellers.~~

**The only equipment containing asbestos onboard the vessel are the Railco sterntube bearings.**

**There is no spare tail shaft or spare propeller included in the sale.**

The Sellers have the right to take ashore crockery, plate, cutlery, linen and other articles bearing the Sellers' flag or name, provided they replace same with similar unmarked items. Library, forms, etc., exclusively for use in the Sellers' vessels, shall be excluded without compensation. ~~Captain's, Master's~~ Officers' and Crew's personal belongings including ~~Master's~~ slop chest to be excluded from the sale, as well as the following additional items:

*Excluded items are:*

- *reefer container unit spare parts.*
- *power packs for reefer containers with related plugs, cords and extension cables.*
- *manual for reefer units.*
- *log books for deck/engine, however the Buyers to have the right to take copies of same.*
- *unitor bottles.*
- *all Mærsk blue hull paint.*
- *slop chest*
- *welfare equipment*
- *pictures and paintings in the Sellers' option.*
- *documents directly related to present ownership.*
- *documents which have to be returned to the authorities, however Buyers are allowed to make copies of same.*
- *all forms etc. which are related to the present ownership.*
- *the vessel's maintenance system for hull and machinery, the Buyers to receive latest print out.*
- *computer software for pc's either developed by or licensed to the Sellers except loadmaster computer which is included in the sale.*
- *ship's bell, however, the Sellers undertake to replace the same at their cost.*
- *digital cameras and mobile telephones.*
- *Administrative LAN server.*

*EPIRB to be included in the sale, the Buyers will have to amend the signal upon delivery.*

*The Bunkers shall remain the property of the Sellers and the Buyers will not pay for same at the time of delivery, however, bunker quantities to be mutually agreed.*

~~The Buyers shall take over remaining bunkers,~~

*The Buyers shall take over remaining unused lubricating oils (broached or unbroached in tanks or drums) paying Oil Majors' list prices in the port of Newark at the time of delivery less 15 (fifteen) per cent discount except for the below stated three main lube quantities bulk prices to be agreed as follows:*

*Mobilgard 570 : USD 165/100 ltr*

*Mobilgard 300 : USD 145 /100 ltr*

*Mobilgard 430/440 : USD 175 /100 ltr*

~~*If delivery is made in drums a surcharge on USD 32 /100 ltr to be applicable, and unused stores and provisions and pay the current market price at the port and date of delivery of the vessel.*~~

Payment under this clause shall be made at the same time and place and in the same currency as the Purchase Money *in accordance with a preliminary invoice from the Sellers to be adjusted against the final invoice.*

## **8. Documentation**

In exchange for payment of the Purchase Money the Sellers *are to provide customary documentation reasonably required by the Buyers for their registration purposes* shall furnish the Buyers with legal Bill of Sale of the said vessel free from all encumbrances and maritime liens or any other debts whatsoever, duly notarially attested and legalised by the consul to get

vessel the Sellers shall provide for the deletion of the vessel from the Registry of Vessels and deliver a certificate of deletion to the Buyers. The deposit shall be placed at the disposal of the Sellers as well as the balance of the Purchase Money, which shall be paid as agreed together with payment for items mentioned in clause 7 above.

The Sellers shall, at the time of delivery, hand to the Buyers all classification certificates as well as all plans etc. which are onboard the vessel. Other technical documentation which may be in the Sellers' possession shall promptly upon the Buyers' instructions be forwarded to the Buyers. The Sellers may keep the log books, but the Buyers to have the right to take copies of same.

#### **9. Encumbrances**

The Sellers warrant that the vessel, at the time of delivery, is *charter free except any charter the Buyers might have entered into*, free from all encumbrances and maritime liens or any other debts whatsoever. *including costs related to Port State Control*. Should any claims which have been incurred prior to the time of delivery be made against the vessel, the Sellers hereby undertake to indemnify the Buyers against all consequences of such claims.

#### **10. Taxes etc.**

Any taxes, fees and expenses connected with the purchase and registration under the Buyers' flag shall be for the Buyers' account, whereas similar charges connected with the closing of the Sellers' register shall be for the Sellers' account.

#### **11. Condition on delivery**

The vessel *is to be delivered with present class maintained, free of conditions, and hull and machinery continuous survey cycles up to date at the time of delivery. The Vessel* with everything belonging to her shall be at the Sellers' risk and expense until she is delivered to the Buyers, but subject to the conditions of this contract, she shall be delivered and—taken over as she is at the time of inspection, ~~fair~~ *normal* wear and tear excepted.

~~However, the vessel shall be delivered with present class free of recommendations. Class certificates and national certificates to be valid on day of delivery for a period of not less than three months.~~ The Sellers shall notify the Classification Society of any matters coming to their knowledge prior to delivery which upon being reported to the Classification Society would lead to the withdrawal of the vessel's class or to the imposition of a recommendation relating to her class.

#### **12. Name/markings**

Upon delivery the Buyers undertake to change the name of the vessel ~~and alter funnel markings,~~ *if so required by the Sellers. Same to be arranged by the Buyers for the Buyers time and expense.*

#### **13. Buyers' default**

Should the deposit not be paid as aforesaid, the Sellers have the right to cancel this contract, and they shall be entitled to claim compensation for their losses and for all expenses incurred together with interest at the rate of ~~12~~ *8%* per annum.

Should the Purchase Money not be paid as aforesaid, the Sellers have the right to cancel this contract, in which case the amount deposited together with interest earned, if any, shall be forfeited to the Sellers. If the deposit does not cover the Sellers' losses, they shall be entitled to claim further compensation for their losses and for all expenses together with interest at the rate of ~~12~~ *8%* per annum.

#### **14. Sellers' default**

If the Sellers fail to execute a legal transfer or to deliver the vessel with everything belonging to her in the manner and within the time specified *herein* ~~in line 38~~, the Buyers shall have the right to cancel this contract in which case the deposit in full shall be returned to the Buyers together with interest at the rate of ~~12~~ *8%* per annum. The Sellers shall make due compensation for the losses caused to the Buyers by failure to execute a legal transfer or to deliver the vessel in the manner and within the time specified *herein* ~~in line 38~~, if such are due to the proven negligence of the Sellers.

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## 15. Arbitration

If any dispute should arise in connection with the interpretation and fulfillment of this contract, same shall be decided by arbitration in the city of 3) **London governed by English law** and shall be referred to a single Arbitrator to be appointed by the parties hereto. If the parties cannot agree upon the appointment of the single Arbitrator, the dispute shall be settled by three Arbitrators, each party appointing one Arbitrator, the third being appointed by 4) **the London Maritime Arbitrators' Association in London.**

If either of the appointed Arbitrators refuses or is incapable of acting, the party who appointed him, shall appoint a new Arbitrator in his place.

If one of the parties fails to appoint an Arbitrator—either originally or by way of substitution—for two weeks after the other party having appointed his Arbitrator has sent the party making default notice by mail, cable or telex to make the appointment, the party appointing the third Arbitrator shall, after application from the party having appointed his Arbitrator, also appoint an Arbitrator on behalf of the party making default.

The award rendered by the Arbitration Court shall be final and binding upon the parties and may if necessary be enforced by the Court or any other competent authority in the same manner as a judgement in the Court of Justice.

This contract shall be subject to the law of the country agreed as place of arbitration.

**Clauses 16—20 both inclusive as attached hereto shall form an integral part of this contract.**

**The Sellers:**  
**A.P. Møller – Mærsk A/S**

**The Buyers:**  
**Seaspan Corporation**

/S/ A.P. MØLLER

/S/ GERRY WANG

- 1) *The name of the Classification Society to be inserted.*
- 2) *Notes, if any, in the Surveyor's report which are accepted by the Classification Society without qualification are not to be taken into account.*
- 3) *The place of arbitration to be inserted. If this line is not filled in, it is understood that arbitration will take place in London in accordance with English law.*
- 4) *If this line is not filled in it is understood that the third Arbitrator shall be appointed by the London Maritime Arbitrators' Association in London.*

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## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "METTE MÆRSK"

**Clause 16 No Drydocking / Divers' Inspection**

No drydocking, but prior to delivery of the vessel, the Buyers have the right to arrange at their risk and expense an inspection of the vessel's underwater parts by a class approved diver.

If the visibility underwater at the delivery port is considered insufficient by the diver(s) for the inspection to be carried out sufficiently, then the Sellers shall at their expense shift the vessel to waters in/outside port of delivery where water is suitable for the aforesaid underwater inspection to be carried out.

Should any damage be found to the vessel's underwater parts that will impose a condition of the vessel's present class then:

1. In case class imposes a condition but does not require drydocking before next scheduled drydocking, the Sellers shall pay to the Buyers the estimated cost to repair such damage in a way which is acceptable to class which to be the direct cost to repair such damage only, as per average quotation by two reputable independent repair yards in Hong Kong or Japan and one European Yard (incl. Mediterranean) as may be chosen by the Sellers. The amount agreed shall be deducted from the balance of the purchase money at the time of delivery.
2. In case class requires the vessel to be drydocked before next scheduled drydock, the Sellers shall drydock the vessel at their expense prior to delivery of the vessel to the Buyers and repair same to class satisfaction free of conditions / average damage.

The decision of the classification society as to whether underwater damage, if any, will impose any condition of class shall be final and binding on both parties.

In the event the vessel is required to be drydocked, the Sellers have the right to take the vessel from the intended delivery port and proceed directly, in ballast, to a port in the delivery area in Sellers' option for the aforesaid drydocking / repairs to take place. The cancelling date shall be extended per day pro rata for the extra time taken to deliver the vessel due to ballasting / drydocking / repairs to be carried out to class' satisfaction in accordance with this agreement. Any extension of cancelling date not to exceed 7 (seven) weeks more than those agreed. If suitable drydocks in vicinity of the intended delivery port are occupied resulting in unreasonable waiting time the Sellers shall have the option to fix the vessel for the shortest possible loaded voyage positioning the vessel for later drydock availability. It is to be understood that this is purely for positioning for drydocking. Such option only provided damage / class allow intermediate trading of the vessel in such case the cancelling date shall be extended to cover such laden voyage plus subsequent time required for positioning / drydocking / repairs - extensions on cancelling dates to be maximised to 7 (seven) weeks.

The Buyers have the right to attend the vessel at the drydock. The Buyers' right to clean / paint and carry out other works whilst the vessel is in drydock at the Buyers' risk and expense provided not interfering in the Sellers' work and the Buyers' work always subject to the Sellers' superintendent's supervision / directions.

In the event that the Buyers' works are not completed prior to the time the Sellers have completed their required works, then the Sellers have the right to tender notice of readiness whilst the vessel is still in drydock provided they

**Additional Clauses to Memorandum of Agreement dated 11 October 2006****“METTE MÆRSK”**

are in all respects ready to deliver the vessel in accordance with this contract. Should the Buyers' works still not be completed and the vessel is unable to leave drydock due to the Buyers' works within 3 (three) banking days after the Sellers have tendered a valid notice of readiness, then the Buyers shall take delivery and pay for the vessel whilst remaining in drydock. Costs for docking / undocking shall be for the Sellers' account. However, any extra time spent in drydock after valid notice of readiness tendered by the Sellers shall be for the Buyers' account.

**Clause 17 Representatives**

Once the MoA has been signed and the 10% (ten) per cent deposit lodged the Buyers to have the right to place on board until delivery 5 (five) persons for familiarisation purposes and without interfering in the vessel's operation.

The Buyers' representatives are to sign the Sellers' indemnity declaration form prior to embarkation. Such familiarisation to include review of planned maintenance and running hours records of machinery, equipment and systems. In any event the Buyers' representatives are to board the vessel approximately 30 (thirty) days prior to the delivery of the vessel.

**Clause 18 Entire Agreement**

This Agreement constitute the only and entire agreement between the parties and supersede and replace any prior written or oral agreements, representations, statements or understandings between the Buyers and the Sellers relating to it's subject matter.

Each party confirms that it has not entered into this Agreement on the basis of any representation or statement which is not expressly incorporated into this Agreement. Without limiting the generality of the foregoing, neither party shall have any remedy in respect of any untrue representation or statement made to him upon which he may have relied in entering into this Agreement, and a party's only remedy is for breach of contract. However, nothing in this Agreement purports to exclude liability for any fraudulent statement or act.

This Agreement shall not be released, discharged, supplemented, interpreted, amended, varied or modified in any manner except by an addendum in writing signed by a duly authorised representative of each of the parties to this Agreement.

**Clause 19 Private & Confidential**

The negotiations and a possible subsequent sale is to be kept strictly private and confidential except as required by applicable securities laws and stock exchange rules. However, should despite the efforts of all parties involved details of the sale become known or reported to the market, neither the Sellers nor the Buyers are to have the right to withdraw from the Agreement or fail to fulfil all their obligations under the agreed contract.

## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## “METTE MÆRSK”

**Clause 20** Vessel Description

Gearless container vessel.

TEU intake: 4809 teu

Stowage:

When 20 ft. containers are preferentially loaded with max. numbers and 40 ft. containers are secondarily loaded in the remaining space.

1491 units 20 x 8 x 8 feet 6 inches in holds and  
299 units 40 x 8 x 8 feet 6 inches in holds.

1766 units 20 x 8 x 8 feet 6 inches on deck/hatchcovers and  
477 units 40 x 8 x 8 feet 6 inches on deck/hatchcovers.

FEU intake:

2322 units 40 x 8 x 8 feet 6 inches and  
87 units 20 x 8 x 8 feet 6 inches

Stowage:

When 40 ft. containers are preferentially loaded with max. numbers and 20 ft. containers are secondarily loaded in the remaining space.

1014 units 40 x 8 x 8 feet 6 inches in holds and  
71 units 20 x 8 x 8 feet 6 inches in holds

1308 units 40 x 8 x 8 feet 6 inches on deck/hatchcovers and  
16 units 20 x 8 x 8 feet 6 inches on deck/hatchcovers.

45 feet intake:

752 units of 45 ft. containers can be loaded in bays 6, 10, 14, 18, 22, 26, 30, 34, 38, 42, 46, 54, 58, 62, 66 and 70 in lieu of 752 units of 40 ft. containers.

Maximum 752 45 ft. units on deck, none in holds.

High cube intake (40 x 8 x 9 feet 6 inches) in holds:

850 units 40 x 8 x 9 feet 6 inches.

Reefer container intake:

495 reefer sockets whereof 274 on deck and 221 in holds

Stability:

About 3162 TEUs of 14 metric tons homogeneously laden.  
(Summer draught).

Point loads:

Tanktop—20 feet container: 195.1 tons/each except mid centre in hold  
3-17-48. 8 tons/each  
40 feet container: 243, 9 tons/each  
All Hatches : 81. 3/111, 8 mt per 20 feet/40 feet stack.  
For 45 ft. containers load not to exceed: 111.8 mt (aftermost bay)

Fittings:

40 ft. cells in all holds. Fully fitted with all necessary lashings/fittings to secure a full load of TEUs/FEUs in holds and on deck/hatchcovers.

## Additional Clauses to Memorandum of Agreement dated 11 October 2006

## "METTE MÆRSK"

Main engine: MITSUI MAN B&W 10K90MC - 39400 kW (MCR)  
 Generators: 3 off MAN B&W - 8L28/32 each 1600 kW  
 Steam Generator / Power turbine generator: Peter Brotherhood/MAN 3100  
 kW at 90 % MCR  
 Aux. Generator : Caterpillar 3512 at 1070 kW  
 Bow thruster: KAMEWA 2400D/BAS-CP - 20 ton  
 Stern thruster: KAMEWA 2400D/BAS-CP - 20 ton  
 Finn Stabilizers : Brown Brothers

Shaft generator: Siemens 3000 kW  
 Shaft generator plant can either operate in PTO or PTI mode utilizing main engine waste heat for Propulsion.

Bunker Capacity:  
 MDO total "100%" (Density 0.900): 368.3 m3  
 FO total "100%" (Density 0.980): 5826.6 m3

Speed/Main engine consumption at design draft 12.2 m.:  
 About 22.50 knots on about 153.0 metric tons HFO per day plus fuel treatment MDO consumption.

Speed/Main engine consumption at scantling draft 13.5 m.:  
 About 22.00 knots on about 154.7 metric tons HFO per day plus fuel treatment MDO consumption.

Above speed always subject to: Even keel, clean bottom, and in calm weather not exceeding Beaufort scale 3.

Generator HFO consumptions at sea and in port excluding reefer units:  
 About 6.0 metric tons per day.

All HFO consumption's for the main engine and the auxiliary engines are based on ISO-F RMK55 of 700 CST at 50 degrees Celsius per 24 hours including normal tank heating.

Vessel being built with LRS class +100a1 container ship, +lmc, ums, nav'l, shipright, (sda, fda, cm).

Principal Dimensions:  
 Length O.A.: 294.12m  
 Length B.P.: 284.72 m  
 Breadth, moulded: 32.22 m  
 Depth, moulded: 21.50 m  
 Deadweight/draft: Summer DW 60640 mt draft 13.52 m

## Distribution of hatches/holds:

Holds/hatches: 1-17

Hatch dimension:

No. 1 centre	length/breadth: 13.59 m/8.31 m
No. 2 port and stb	13.59 m/5.795 m
No. 2 centre	13.59 m/8.31 m
No. 3 port, stb and centre	13.59 m/8.31 m
No. 4-7 port and stb	13.59 m/10.859 m
No. 4-7 centre	13.59 m/8.31 m
No. 8-10 port and stb	15.006 m/10.859 m
No. 8-10 centre	15.006 m/8.31 m
No. 11 -17 port and stb	13.59 m/10.859 m
No. 11-12 and 14-17 centre	13.59 m//8.31 m



**Additional Clauses to Memorandum of Agreement dated 11 October 2006**

**"METTE MÆRSK"**

Miscellaneous:

Satellite communication

Container loading computer

CO2 fitted in holds

Panama/Suez canal fitted.

TEU/FFE intakes are subject to Panama regulations.

All figures "about" and given in good faith.

This Agreement has been drawn up and executed in 2 (two) originals, 1 (one) of which is to be retained by the Sellers and 1 (one) of which is to be retained by the Buyers.

**ADDENDUM No. 1**  
**TO THE MEMORANDUM OF AGREEMENT**  
**REGARDING M.V. "METTE MÆRSK"**  
**(THE "VESSEL")**  
**BETWEEN**  
**A.P. MØLLER - MÆRSK A/S**  
**(THE "SELLERS")**  
**AND**  
**SEASPAN CORPORATION**  
**(THE "BUYERS")**

**1. CLOSING DOCUMENTS**

With reference to the Memorandum of Agreement dated 11 October 2006 made between the Sellers and the Buyers regarding the sale of "METTE MÆRSK" the following has been agreed:

It is mutually agreed between the Buyers and the Sellers that the following documents shall be exchanged at the time of delivery.

**SELLERS' DOCUMENTATION:**

- A) One original Bill of Sale in English form IOA evidencing the transfer of the vessel from the Sellers to the Buyers free from liens, debts, mortgages or any encumbrances evidencing the transfer of the vessel from the Sellers to the Buyers, duly notarised.
- B) Power of Attorney duly notarised issued by the Sellers authorising their named representative(s) to effect the sale and transfer of the vessel to the Buyers pursuant to the Memorandum of Agreement.
- C) Transcript of Registry from the vessel's registry dated not earlier than 7 Danish working days prior the date of delivery evidencing the ownership of the vessel and that the vessel is free from registered encumbrances.
- D) Confirmation of Class issued by the vessel's Classification Society dated no earlier than 7 Danish working days prior to the date of delivery.
- E) A written letter of undertaking from the Sellers to effect deletion from the vessel's registry forthwith and furnish a Certificate or other official evidence of deletion to the Buyers soonest after the delivery latest within 30 days after the vessel has been delivered to the Buyers.

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- F) One original commercial invoice duly signed relating to the purchase and containing the purchase price of the vessel.
  - G) One original invoice duly signed relating to the quantities/prices of remaining lubricating oils on board.
  - H) One original Protocol of Delivery and Acceptance duly signed by the Buyers' and the Sellers' representatives at the place of closing.
  - I) Written confirmation duly signed by the Sellers confirming that to the best of Seller's knowledge the vessel is not blacklisted by any country at time of delivery.
  - J) Letter of undertaking from the Sellers to provide original Continuous Synopsis Record (CSR) deletion document from the Sellers registry within 30 days after the vessel has been taken over by the Buyers.
  - K) Any such documents as may be reasonably required by the competent authorities for the purpose of registering. This to be presented by the Buyers to the Sellers no later than 7 days prior to delivery for the Sellers to confirm if possible.

Draft of the Sellers' documents, where possible, to be presented to the Buyers' minimum 15 (fifteen) days before closing for comments.

**BUYERS' DOCUMENTATION:**

- A) Extract copy of the Buyers' Board resolution duly notarially attested authorising the purchase of the Vessel from the Sellers and execution of the Agreement and empowering a representative(s) to effect the purchase.
- B) Power of Attorney issued by the Buyers duly notarially attested authorising their named representative(s) to effect the purchase of the vessel from the Sellers pursuant to the Agreement.

Draft of the Buyers' documents to be presented to the Sellers minimum 15 (fifteen) days before closing for comments.

All other terms of the Memorandum of Agreement to remain unchanged.

IN WITNESS HEREOF, the parties hereto have caused this addendum to be executed by their respective authorised representatives on 11 October 2006.

For and on behalf of the Sellers:  
**A.P. Møller—Mærsk A/S**

For the Buyers:  
**Seaspan Corporation**

/s/ A.P. MØLLER

/s/ GERRY WANG

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**To:**  
**HSBC Bank plc**  
**Corporate Banking, Transport & Logistics**  
**Level 24, 8 Canada Square**  
**London, E14 5HQ**

Joint Account number 60434846 in respect of Proposed Sale and Purchase of a Vessel.

HSBC Bank plc (the "Bank") is hereby requested to open a Joint Account (the "Account") in the names of A.P. Møller—Mærsk A/S (the "Seller") and Seaspan Corporation (the "Buyer"), the purpose of which is to hold certain funds (the "Deposit") in respect of the proposed sale of the vessel "METTE MÆRSK" (the "Vessel") by the Seller to the Buyer as per Memorandum of Agreement dated 11 October 2006.

It is hereby acknowledged that the Bank agrees to open the Account in United States Dollars, bearing interest at a rate to be determined by the bank and varied from time to time at the Bank's sole discretion, subject to acceptance of each of the Seller and the Buyer to the following Terms and Conditions:

1. The Bank is hereby authorised to:

- a) to honour any orders to withdraw all or any part of the Deposit; and
- b) to act on any instructions with regard to the Deposit and the Account

Provided that such instructions are received by the Bank in writing and signed on behalf of each of the Seller and the Buyer by any one of the person(s) authorised in accordance with the Powers of Attorney to be supplied by the Seller and the Buyer. Such instructions may be jointly signed on one document or signed in counterpart.

2. In the absence of instructions from each of the Seller and the Buyers described in paragraph 1 above or in the event that the Bank receives conflicting or ambiguous instructions from one or both of the Seller and the Buyer, whether before, at the time of or after the closing of the proposed sale and purchase of the Vessel and whether or not the sale and purchase of the vessel has been completed, the Bank will not disburse all or any part of the Deposit unless it is in receipt of evidence satisfactory to it that in doing so it will be complying with the terms of an order of a competent Court.

3. In consideration of the Bank agreeing to open and operate the Account, the standard commission rate is USD 7,000 and will be payable, equally split between the Buyer and the Seller.

i) In the event that the Bank is in receipt of instructions of the type described in Paragraph 2 which require the Bank not to make a disbursement of all or any part of the deposit otherwise than as contemplated in Paragraph 2, the Seller and the Buyer agree to reimburse any reasonable and direct costs incurred by the Bank in connection herewith, including but not limited to legal and other fees and expenses.

The Bank is hereby authorised to deduct any such sums referred to in i) above from the Deposit if not reimbursed to the Bank on demand separately by either or both of the Seller or the Buyer.

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4. The Account will, subject to Paragraph 5, be opened by the Bank upon its receipt of this request, jointly signed on behalf of each of the Seller and the Buyer below or in counterparts.

5. The Bank reserves the right to require such additional evidence as it may in its sole discretion deem necessary to validate the authority of the individuals signing this request on behalf of either the Seller and/or the Buyer.

6. In the performance of its obligations herein contained the Bank shall not be liable for any act taken or omitted by it in good faith and in exercise of its own reasonable judgement.

7. The Account is to be closed when the Deposit balance has become zero as a result of instructions or actions taken in accordance with paragraphs 1,2 or 3.

These authorities and the terms and conditions herein contained shall be governed by and be construed in accordance with English law and the Seller and the Buyer hereby irrevocably submit to the non-exclusive jurisdiction of the English courts.

Yours faithfully,

Signed for and on behalf of

The Sellers:

A.P. Møller - Mærsk A/S

/S/ A.P. MØLLER

The Buyers:

Seaspan Corporation

/S/ GERRY WANG

## CERTIFICATION

I, Gerry Wang, Chief Executive Officer of the company, certify that:

1. I have reviewed this report on Form 20-F of Seaspac 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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.
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 15, 2007

By: \_\_\_\_\_ /s/ GERRY WANG  
Gerry Wang  
Chief Executive Officer  
(Principal Executive 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 15, 2007

By: \_\_\_\_\_ /s/ GERRY WANG  
Gerry Wang  
Chief Executive Officer  
(Principal Executive 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 Kevin M. Kennedy, Chief Financial 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 15, 2007

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