JAPAN EQUITY FUND INC
Form N-PX
July 31, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM N-PX

ANNUAL REPORT OF PROXY VOTING RECORD OF REGISTERED MANAGEMENT

INVESTMENT COMPANY

Investment Company Act file number: 811-06142

THE JAPAN EQUITY FUND, INC.

(Exact name of registrant as specified in charter)

c/o Daiwa Securities Trust Company

One Evertrust Plaza

Jersey City, New Jersey 07302-3051

(Address of principal executive offices) (Zip code)

John J. O Keefe

The Japan Equity Fund, Inc.

c/o Daiwa Securities Trust Company

One Evertrust Plaza

Jersey City, New Jersey 07302-3051

(Name and address of agent for service)

With copy to:

Leonard B. Mackey, Jr., Esq.

Clifford Chance US LLP

31 West 52nd Street

New York, New York 10019

Registrant s telephone number, including area code: **(201) 915-3054**

Date of fiscal year end: **October 31**

Date of reporting period: **June 30, 2007**

Item 1. Proxy Voting Record for The Japan Equity Fund for the year ending June 30, 2007

QUICK CODE	ISIN CODE	SECURITY DESCRIPTION	MEETING DATE	AGENDA NUMBER	PROPOSAL	MANAGEMENT REC.	VOTE CAST	MANNER CAST	SPONSOR
8326	JP3804000002	THE BANK OF FUKUOKA, LTD.	12/27/2006	1	ESTABLISHMENT OF A JOINT HOLDING COMPANY BY STOCK TRANSFER	For	Yes	For	Management
				2	AMENDMENT OF THE ARTICLES OF INCORPORATION	For	Yes	For	Management
				3	ELECTION OF 1 DIRECTOR - T.YOSHIKAI	For	Yes	For	Management
1808	JP3768600003	HASEKO CORP.	6/28/2007	1	ELECTION OF 7 DIRECTORS - T.OHNISHI, N.TSUJI, I.OHGURI, H.KAWANO A.HASEGAWA, S.MURATSUKA, Y.IMANAKA	For	Yes	For	Management
				2	ELECTION OF 2 CORPORATE AUDITORS - J.TANAKA, T.KOJIMA	For	Yes	For	Management
				3	ELECTION OF THE AUTHORIZED INDEPENDENT AUDITOR	For	Yes	For	Management
1911	JP3409800004	SUMITOMO FORESTRY CO., LTD.	6/22/2007	1	APPROPRIATION OF SURPLUS	For	Yes	Against	Management
				2	PAYMENT OF DIRECTORS BONUSES	For	Yes	For	Management
				3	AMENDMENT OF THE ARTICLES OF INCORPORATION	For	Yes	For	Management
				4	ELECTION OF 1 CORPORATE AUDITOR - S.SASAKI	For	Yes	For	Management
4217	JP3785000005	HITACHI CHEMICAL CO., LTD.	6/19/2007	1	ELECTION OF 7 DIRECTORS - Y.NAGASE, T.URANO, K.TAKEDA, T.ODASHIRO, H.NAKAJIMA, E.SHOYAMA, J.KAWAKAMI	For	Yes	Against	Management
4502	JP3463000004	TAKEDA PHARMACEUTICAL CO., LTD	6/28/2007	1	APPROPRIATION OF SURPLUS	For	Yes	For	Management
				2	AMENDMENT OF THE ARTICLES OF INCORPORATION	For	Yes	For	Management
				3	ELECTION OF 4 DIRECTORS - K.TAKEDA, Y.HASEGAWA,	For	Yes	For	Management

					H.SHINHA, Y.YAMANAKA				
				4	ELECTION OF 1 SUBSTITUTE CORPORATE AUDITOR - T.YOSHIDA	For	Yes	For	Management
				5	ELECTION OF THE AUTHORIZED INDEPENDENT AUDITOR	For	Yes	For	Management
				6	PAYMENT OF DIRECTORS AND AUDITORS BONUSES	For	Yes	For	Management
				7	RETIREMENT ALLOWANCES TO THE RETIRING DIRECTORS AND AUDITORS	For	Yes	For	Management
6503	JP3902400005	MITSUBISHI ELECTRIC CORP.	6/28/2007	1	ELECTION OF 12 DIRECTORS - T.NOMAKUCHI, S.SHIMOKURA, Y.SATO, M.SAITO, A.SUGIYAMA, K.SAWAMOTO, F.SHIMANA, H.MURAYAMA, S.YANAI, O.SHIGETA, M.SASAKI, S.MIKI	For	Yes	Against	Management

QUICK CODE	ISIN CODE	SECURITY DESCRIPTION	MEETING DATE	AGENDA NUMBER	PROPOSAL	MANAGEMENT REC.	VOTE CAST	MANNER CAST	SPONSOR
6702	JP3818000006	FUJITSU LTD.	6/22/2007	1	REDUCTION OF CAPITAL SURPLUS RESERVES	For	Yes	For	Management
				2	ELECTION OF 10 DIRECTORS - N.AKIKURA, H.KUROKAWA, M.OGURA, T.ONO, C.ITO, M.MAZUKA, H.OURA, I.NONAKA, H.ITO, H.OKADA	For	Yes	For	Management
				3	ELECTION OF 2 CORPORATE AUDITORS - T.ISHIHARA, A.KATO	For	Yes	For	Management
				4	RETIREMENT ALLOWANCES TO THE RETIRING DIRECTORS AND AUDITORS, AND PROVISIONAL PAYMENT OF THE RETIREMENT ALLOWANCES ASSOCIATED WITH ABOLITION OF RETIREMENT ALLOWANCE SCHEME	For	Yes	Against	Management
6727	JP3993400005	WACOM CO., LTD.	6/21/2007	1	AMENDMENT OF THE ARTICLES OF INCORPORATION	For	Yes	For	Management
				2	ELECTION OF 6 DIRECTORS - M.YAMADA, S.KOMIYAMA, W.HASEGAWA, S.YAMAMOTO, T.OKI, Y.FUJISHIMA	For	Yes	For	Management
				3	ELECTION OF 1 SUBSTITUTE CORPORATE AUDITOR - F.YAGAWA	For	Yes	For	Management
				4	ELECTION OF THE AUTHORIZED INDEPENDENT AUDITOR	For	Yes	For	Management
				5	DELEGATION OF THE AUTHORITY TO THE BOARD OF DIRECTORS TO DISTRIBUTE SHINKABU YOYAKU-KEN (RIGHT TO ACQUIRE NEW ISSUE) FOR ANTI-TAKEOVER MEASURES	For	Yes	For	Management
7259	JP3102000001	AISIN SEIKI CO., LTD.	6/21/2007	1		For	Yes	For	Management

		APPROPRIATION OF SURPLUS					
	2	AMENDMENT OF THE ARTICLES OF INCORPORATION	For	Yes	Against	Management
	3	ELECTION OF 15 DIRECTORS - K.TOYODA, Y.YAMAUCHI, F.FUJIMORI, T.KAWATA, N.OKU, M.HORIBA, S.NAKAMURA, S.ITAKURA, T.UCHIMOTO, M.SUO, S.YAMAMURA, T.NAKURA, J.NISHIMURA, T.TANIGUCHI, T.ISIKAWA	For	Yes	Against	Management
	4	ELECTION OF 2 CORPORATE AUDITORS - T.GONDA, M.HAYASHI	For	Yes	For	Management
	5	ELECTION OF THE AUTHORIZED INDEPENDENT AUDITOR	For	Yes	For	Management
	6	PAYMENT OF DIRECTORS AND AUDITORS BONUSES	For	Yes	For	Management

QUICK CODE	ISIN CODE	SECURITY DESCRIPTION	MEETING DATE	AGENDA NUMBER	PROPOSAL	MANAGEMENT REC.	VOTE CAST	MANNER CAST	SPONSOR
				7	FREE DISTRIBUTION OF SHINKABU YOYAKU-KEN (RIGHT TO ACQUIRE NEW ISSUE) TO DIRECTORS, MANAGING DIRECTORS OF THE COMPANY, AND DIRECTORS OF SUBSIDIARIES	For	Yes	For	Management
				8	RETIREMENT ALLOWANCES TO THE RETIRING DIRECTORS AND AUDITORS	For	Yes	For	Management
7267	JP3854600008	HONDA MOTOR CO., LTD.	6/22/2007	1	DIVIDEND OF SURPLUS	For	Yes	For	Management
				2	AMENDMENT OF THE ARTICLES OF INCORPORATION	For	Yes	For	Management
				3	ELECTION OF 20 DIRECTORS - T.FUKUI, S.AOKI, M.HARADA, A.HYOGO, S.TOSHIDA, K.HIRASHIMA, K.KONDO, M.YOSHIMI, T.ONDA, A.TAKANO, S.TAKAGI, T.IWAMURA, T.OHYAMA, S.KISHI, K.HOHGEN, H.YOSHINO, F.IKE, T.ITO, M.KATO, S.MINEKAWA	For	Yes	For	Management
				4	ELECTION OF 2 CORPORATE AUDITORS - K.HIGUCHI, Y.MATSUDA	For	Yes	For	Management
				5	PAYMENT OF DIRECTORS AND AUDITORS BONUSES	For	Yes	For	Management
				6	RETIREMENT ALLOWANCES TO THE RETIRING DIRECTORS AND AUDITORS	For	Yes	Against	Management
8281	JP3428800001	XEBIO CO., LTD.	6/28/2007	1	APPROPRIATION OF SURPLUS	For	Yes	Against	Management
				2	ELECTION OF 5 DIRECTORS - T.MOROHASHI, T.FUJISAWA, H.OHTAKI, K.TERAGUCHI,	For	Yes	For	Management

					M.TANISHIRO				
				3	ELECTION OF 2 CORPORATE AUDITORS - K.YOSHIDA, M.KOYANO	For	Yes	For	Management
				4	RETIREMENT ALLOWANCES TO THE RETIRING DIRECTORS AND AUDITORS	For	Yes	For	Management
				5	PAYMENT OF DIRECTORS AND AUDITORS BONUSES	For	Yes	For	Management
8752	JP3888200007	MITSUI SUMITOMO INSURANCE CO., LTD.	6/27/2007	1	APPROPRIATION OF SURPLUS	For	Yes	For	Management

See accompanying notes to interim unaudited consolidated financial statements

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements

(Expressed in thousands of U.S. dollars)

1. General

On August 14, 2008, Global Ship Lease, Inc. (the Company or GSL) merged indirectly with Marathon Acquisition Corp. (Marathon), a company then listed on The American Stock Exchange. Following the merger, the Company became listed on the New York Stock Exchange on August 15, 2008.

2. Nature of Operations and Basis of Preparation

(a) Nature of Operations

The Global Ship Lease group owns and charters out containerships. As of June 30, 2016, the group owned 18 vessels; 15 were time chartered to CMA CGM and three to Orient Overseas Container Lines with remaining charter periods ranging from 1.50 to 9.50 years.

The following table provides information about the 18 vessels owned as at June 30, 2016:

Vessel Name	Capacity in TEUs (1)	Year Built	Purchase Date by GSL	Charterer	Charter Remaining Duration (years) (2)	Daily Charter Rate
CMA CGM Matisse	2,262	1999	December 2007	CMA CGM	3.50	$ 15.300
CMA CGM Utrillo	2,262	1999	December 2007	CMA CGM	3.50	$ 15.300
Delmas Keta	2,207	2003	December 2007	CMA CGM	1.50	$ 18.465
Julie Delmas	2,207	2002	December 2007	CMA CGM	1.50	$ 18.465
Kumasi	2,207	2002	December 2007	CMA CGM	1.50	$ 18.465
Marie Delmas	2,207	2002	December 2007	CMA CGM	1.50	$ 18.465
CMA CGM La Tour	2,272	2001	December 2007	CMA CGM	3.50	$ 15.300
CMA CGM Manet	2,272	2001	December 2007	CMA CGM	3.50	$ 15.300
CMA CGM Alcazar	5,089	2007	January 2008	CMA CGM	4.50	$ 33.750
CMA CGM Château d lf	5,089	2007	January 2008	CMA CGM	4.50	$ 33.750
CMA CGM Thalassa	11,040	2008	December 2008	CMA CGM	9.50	$ 47.200
CMA CGM Jamaica	4,298	2006	December 2008	CMA CGM	6.50	$ 25.350
CMA CGM Sambhar	4,045	2006	December 2008	CMA CGM	6.50	$ 25.350
CMA CGM America	4,045	2006	December 2008	CMA CGM	6.50	$ 25.350
CMA CGM Berlioz	6,621	2001	August 2009	CMA CGM	5.25	$ 34.000
OOCL Tianjin	8,063	2005	October 2014	OOCL	1.50	$ 34.500
OOCL Qingdao	8,063	2004	March 2015	OOCL	1.75	$ 34.500
OOCL Ningbo	8,063	2004	September 2015	OOCL	2.25	$ 34.500

(1) *Twenty-foot Equivalent Units.*
(2) *Plus or minus 90 days, other than (i) OOCL Tianjin which is between October 28, 2017 and January 28, 2018, (ii) OOCL Qingdao which is between March 11, 2018 and June 11, 2018, and (iii) OOCL Ningbo which is between September 17, 2018 and December 17, 2018, all at charterer s option.*

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars)

2. Nature of Operations and Basis of Preparation (continued)

(b) Basis of Preparation
Counterparty risk

Most of the Company s revenues are derived from charters to CMA CGM. The Company is consequently highly dependent on the performance by CMA CGM of its obligations under these charters. The container shipping industry is volatile and has been experiencing a sustained cyclical downturn. Many container shipping companies have reported losses.

If CMA CGM ceases doing business or fails to perform its obligations under the charters, the Company s business, financial position and results of operations would be materially adversely affected as it is probable that, even if the Company was able to find replacement charters, such replacement charters would be at significantly lower daily rates and shorter durations. If such events occur, there would be significant uncertainty about the Company s ability to continue as a going concern.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, nor to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

3. Accounting Policies and Disclosure

The accompanying financial information is unaudited and reflects all adjustments, consisting solely of normal recurring adjustments, which, in the opinion of management, are necessary for a fair statement of financial position and results of operations for the interim periods presented. The financial information does not include all disclosures required under United States Generally Accepted Accounting Principles (US GAAP) for annual financial statements. These interim unaudited consolidated financial statements should be read in conjunction with the Company s financial statements as of December 31, 2015 filed with the Securities and Exchange Commission on April 15, 2016 in the Company s Annual Report on Form 20-F.

Impairment Testing

Due to continuing poor industry conditions, impairment tests on a vessel by vessel basis were performed as at December 31, 2015. No impairment was recognised as, based on the assumptions made, the expected undiscounted future cash flows exceeded the vessels carrying amounts.

The assumptions used involve a considerable degree of estimation. Actual conditions may differ significantly from the assumptions and thus actual cash flows may be significantly different to those expected with a material effect on the recoverability of each vessel s carrying amount. The most significant assumptions made for the determination of expected cash flows are (i) charter rates on expiry of existing charters, which are based on a reversion to the historical mean for each category of vessel, adjusted to reflect current and expected market conditions (ii) off-hire days, which are based on actual off-hire statistics for the Company s fleet (iii) operating costs, based on current levels escalated over time based on long term trends (iv) dry docking frequency, duration and cost and (v) estimated useful life which is assessed as a total of 30 years. In the case of an indication of impairment, the results of a recoverability test would also be sensitive to the discount rate applied.

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars)

3. Accounting Policies and Disclosure (continued)

Recently issued accounting standards

In April 2016, FASB issued an accounting standards update in respect of Compensation Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting. The amendments are intended to simplify various aspects of the accounting for employee share-based payments including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments are effective for annual periods beginning after December 15, 2016, although early application is permitted. The Company is currently assessing the impact of adopting this update on its financial statements.

Management do not believe that any other recently issued, but not yet effective accounting pronouncements, if currently adopted, would have a material impact on the interim unaudited consolidated financial statements of the Company.

4. Vessels in Operation, less Accumulated Depreciation

	June 30, 2016	December 31, 2015
Cost	$ 1,093,990	$ 1,095,245
Accumulated Depreciation	(266,738)	(248,306)
Drydock in progress	699	
Net book value	**$ 827,951**	$ 846,939

Both Ville d Aquarius and Ville d Orion were redelivered at the end of their charters during the fourth quarter of 2015 and the sales of the vessels were agreed and completed in November 2015 and December 2015, respectively.

5. Long-Term Debt

	June 30, 2016	December 31, 2015
2019 Notes	$ 420,000	$ 420,000
Less repurchase of Notes (note 5(a))	(31,212)	(350)
Less original issue discount	(6,300)	(6,300)

Amortization of original issue discount	3,175	2,259
2019 Notes (note 5(a))	385,663	415,609
Revolving Credit Facility (note 5(b))	39,200	40,000
Secured Term Loan (note 5(c))	29,225	33,075
Less: Deferred financing costs (note 5(e))	(8,893)	(10,611)
Balance	**445,195**	478,073
Less: Current portion of 2019 Notes (note 5(a))	(18,765)	(26,660)
Less: Current portion of Revolving Credit Facility (note 5(b))		(800)
Less: Current portion of Secured Term Loan (note 5(c))	(7,700)	(7,700)
Non-current portion of Long-Term Debt	**418,730**	442,913

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars)

5. Long-Term Debt (continued)

a) 10.0% First Priority Secured Notes Due 2019

On March 19, 2014 the Company completed the sale of $420,000 of 10.0% First Priority Secured Notes which mature on April 1, 2019. Proceeds after the deduction of the original issue discount, but before expenses, amounted to $413,700.

Interest on the 2019 Notes is payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2014. As at June 30, 2016 the 2019 Notes are secured by first priority ship mortgages on 16 of the Company s 18 vessels (the Mortgaged Vessels) and by assignments of earnings and insurances, a pledge over certain bank accounts, as well as share pledges over each subsidiary owning a Mortgaged Vessel. In addition, the 2019 Notes are fully and unconditionally guaranteed, jointly and severally, by the Company s 18 vessel owning subsidiaries and Global Ship Lease Services Limited.

The original issue discount is being amortised on an effective interest rate basis over the life of the 2019 Notes.

Under the 2019 Notes the Company is required within 120 days following the end of each financial year, in which the Company has at least $1,000 of Excess Cash Flow, to offer to purchase up to a maximum offer amount of $20,000, such amount being the aggregate of 102% of the principal amount plus any accrued and unpaid interest to, but not including, the purchase date. The first such offer, for 2014, in the maximum amount of $20,000, was launched on April 21, 2015. At the close of this offer, $350 was tendered and accepted.

Following the sale of two vessels (see note 4) secured to the 2019 Notes in November and December 2015, the Company was required to offer the net sale proceeds, less a proportion to be used to repay part of the associated revolving credit facility (see note 5(c)), to Noteholders (Collateral Sale Offer) within 90 days of receipt of the sale proceeds. The terms of the Collateral Sale Offer are the same as those of the annual Excess Cash Flow Offer. Consequently, on February 2, 2016, the Company launched a combined Excess Cash Flow Offer for 2015 and the Collateral Sale Offer in an aggregate amount of $28,417 (Maximum Offer Amount), at a purchase price of 102% of the aggregate principal amount plus accrued and unpaid interest up to but not including the date of purchase. At the close of this offer, the Notes tendered exceeded the Maximum Offer Amount and $26,662 were accepted on a pro rata basis.

On May 31, 2016, the Company purchased $4,200 of Notes in the open market. This gave rise to a gain of $452, which is included within Interest Expense in the Consolidated Statements of Income. These Notes were subsequently cancelled.

b) Revolving Credit Facility

On March 19, 2014, and in connection with the 2019 Notes, the Company entered into a $40,000 senior secured revolving credit facility with Citibank N.A. (the Revolving Credit Facility). This facility matures on October 1, 2018.

The interest rate under the facility is USD LIBOR plus a margin of 3.25% and is payable at least quarterly. A commitment fee of 1.30% per annum is due quarterly on undrawn amounts.

The collateral provided to the 2019 Notes also secures on a first priority basis the Revolving Credit Facility. There is a Cash Balance financial covenant which is tested each six months, commencing June 30, 2014. Up to and including December 31, 2015, the Company must have a minimum cash balance of $15,000 on each test date. After this date, the minimum cash balance on each test date increases to $20,000.

Amounts outstanding under this facility can be prepaid without penalty, other than breakage costs in certain circumstances. During the quarter ended March 31, 2015, $40,000 was drawn down under the Revolving Credit Facility to assist with the purchase of OOCL Qingdao on March 11, 2015. Following the sale of two secured vessels (see note 4) in November and December 2015, $800 of the net sale proceeds was applied to reduce amounts outstanding under the facility.

c) Secured Term Loan

On July 29, 2015, the Company entered into a $35,000 secured term loan with DVB Bank SE (the Secured Term Loan). This facility matures five years after drawdown, with early repayment, inter alia, if the 2019 Notes are not refinanced by November 30, 2018, or if the secured vessel ceases to be employed on a charter for a period in excess of 90 days. The interest rate under the loan is USD LIBOR plus a margin of 2.75%, until November 30, 2018 and 3.25% thereafter, and is payable at least quarterly.

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars)

5. Long-Term Debt (continued)

c) Secured Term Loan (continued)

The Secured Term Loan is secured by a first priority ship mortgage on OOCL Tianjin and by assignment of earnings and insurances for the same vessel.

The Secured Term Loan is repayable in 20 equal quarterly instalments, commencing three months after drawdown. $35,000 was drawn down under the Secured Term Loan on September 10, 2015. The loan agreement requires an additional $1,400 to be repaid over eight equal quarterly instalments to provide a reserve for potential enhancement expenditure on the secured vessel ahead of the expiry of the initial charter to OOCL. These additional instalments reduce the debt balance and can be redrawn to fund the enhancement work, or utilized to permanently reduce the quarterly instalments for the remainder of the term of the loan if no such work is required.

d) Repayment Schedule

Based on scheduled and estimated repayments from July 1, 2016 the long term debt will be reduced in each of the relevant periods as follows:

Year ending June 30,	
2017	$ 26,465
2018	25,940
2019	397,458
2020	7,000
2021	350
Less: amortization of original issue discount	(3,125)
Less: amortization of deferred financing costs	(8,893)
	$ 445,195

e) Deferred financing costs

	June 30,	December 31, 2015

	2016	
Opening balance	$ 10,611	$ 12,913
Expenditure in the period		971
Amortization included within interest expense	(1,718)	(3,273)
Closing balance	**$ 8,893**	$ 10,611

The Company incurred costs during the first half of 2015 in relation to the drawdown of the Revolving Credit Facility (see note 5(b)) amounting to $370 which have been deferred. During the quarter ended September 30, 2015 the Company incurred costs in relation to the drawdown of the Secured Term Loan (see note 5(c)) amounting to $601 which have been deferred.

Deferred financing costs are amortized on an effective interest rate basis over the life of the financings for which they were incurred.

The Company has adopted the accounting standards update issued by FASB in April 2015 Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs . Effective December 31, 2015, debt issuance costs, other than the up-front arrangement fee for the Revolving Credit Facility, related to our recognized debt liabilities are presented as a direct deduction from the carrying amount of that debt. The arrangement fee for the Revolving Credit Facility is presented as Other Long Term Assets.

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars)

6. Related Party Transactions

CMA CGM is presented as a related party as it was, until the merger referred to in note 1, the parent company of Global Ship Lease, Inc. and at June 30, 2016 is a significant shareholder of the Company, owning Class A and Class B common shares representing a 44.43% voting interest in the Company.

Amounts due to and from CMA CGM companies are shown in the Consolidated Balance Sheets. The current account balances at June 30, 2016 and December 31, 2015 relate to amounts payable to or recoverable from CMA CGM group companies. The majority of the Company s charter arrangements are with CMA CGM and one of its subsidiaries provides the Company with ship management services on the majority of its vessels.

Time Charter Agreements

The majority of the Company s time charter arrangements are with CMA CGM. Under these time charters, hire is payable in advance and the daily rate is fixed for the duration of the charter. The charters are for remaining periods as at June 30, 2016 of between 1.50 and 9.50 years (see note 2(a)). Of the $706,401 maximum contracted future charter hire receivable for the fleet set out in note 7, $635,676 relates to the 15 vessels that were chartered to CMA CGM as at June 30, 2016. Revenues generated from charters to CMA CGM are shown separately in the Consolidated Statements of Income.

Ship Management Agreements

At June 30, 2016, the Company outsourced day to day technical management of 13 of its vessels to CMA Ships Limited (CMA Ships), a wholly owned subsidiary of CMA CGM. The Company pays CMA Ships an annual management fee of $123 per vessel (2015: $123) and reimburses costs incurred by CMA Ships on its behalf, mainly being for the provision of crew, lubricating oils and routine maintenance. Such reimbursement is subject to a cap per day per vessel, depending on the vessel. The impact of the cap is determined annually on a vessel by vessel basis for so long as the initial charter remains in place; no claims have been made under the cap agreement. Ship management fees related to CMA Ships are shown separately in the Consolidated Statements of Income.

Except for transactions with CMA CGM companies, the Company did not enter into any other related party transactions.

7. Commitments and Contingencies

Charter Hire Receivable

The Company has entered into time charters for its vessels. The charter hire is fixed for the duration of the charter. The maximum contracted annual future charter hire receivable (not allowing for any offhire and assuming expiry at the mid-point between the earliest and latest possible end dates) for the 18 vessels subject to charters as at June 30, 2016 is as follows:

Year ending June 30,	
2017	169,108
2018	145,415
2019	108,684
2020	92,433
2021	70,677
Thereafter	120,084
	$ 706,401

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars except share data)

8. Share Capital

At June 30, 2016 the Company had two classes of common shares. The rights of holders of Class B common shares are identical to those of holders of Class A common shares, except that the dividend rights of holders of Class B common shares are subordinated to those of holders of Class A common shares. Dividends, when declared, must be paid as follows:

firstly, to all Class A common shares at the applicable rate for the quarter;

secondly, to all Class A common shares until they have received payment for all preceding quarters at the rate of $0.23 per share per quarter;

thirdly, to all Class B common shares at the applicable rate for the quarter;

then, to all Class A and B common shares as if they were a single class.

The Class B common shares remain subordinated until the Company has paid a dividend at least equal to $0.23 per quarter per share on both the Class A and Class B common shares for the immediately preceding four-quarter period. Due to the requirements described above, Class B common shares cannot receive any dividend until all Class A common shares have received dividends representing $0.23 per share per quarter for all preceding quarters. Should the notional arrearages of dividend on the Class A common shares be made up and a dividend at the rate of $0.23 per share be paid for four consecutive quarters, the Class B common shares convert to Class A common shares on a one-for-one basis. Also, each Class B common share will convert into a Class A common share on a change of control of the Company.

A dividend of $0.10 per Class A common share was paid on August 24, 2015 and on November 24, 2015. Prior to these, the last quarter for which a dividend was paid was the fourth quarter 2008 at $0.23 per Class A common share.

Restricted stock units have been granted periodically to the Directors and management, under the Company s 2008 Equity Incentive Plan, as part of their compensation arrangements (see note 9). On August 28, 2015, the Company adopted the 2015 Equity Incentive Plan. The 2008 Equity Incentive Plan was closed. The 2015 Plan permits a maximum issuance of 1,500,000 shares.

On August 20, 2014, the Company issued 1,400,000 depositary shares, each of which represents 1/100th of one share of the Company s 8.75% Series B Cumulative Redeemable Perpetual Preferred Shares (the Series B Preferred Shares). Dividends are payable at 8.75% per annum in arrears on a quarterly basis. At any time after August 20, 2019 (or within 180 days after the occurrence of a fundamental change), the Series B Preferred Shares may be redeemed, at the discretion of the Company, in whole or in part, at a redemption price of $2,500.00 per share (equivalent to $25.00 per depositary share). The net proceeds from the offering were $33,497. These shares are classified as Equity in the

Consolidated Balance Sheets. The dividends payable on the Series B Preferred Shares are presented as a reduction of Retained Earnings in the Consolidated Statements of Equity, when and if declared by the Board of Directors. An initial dividend was declared on September 22, 2014 for the third quarter 2014. Subsequent quarterly dividends have been declared, the last of which was on June 10, 2016 for the second quarter 2016.

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars except share data)

9. Share-Based Compensation

Share based awards since January 1, 2015, are summarized as follows:

	Restricted Stock Units		
	Number of Units	Weighted Average Fair Value on Grant Date	Actual Fair Value on Vesting Date
Unvested as at January 1, 2015	**300,000**	**$ 3.25**	**n/a**
Vested in 2015			
Unvested as at December 31, 2015	**300,000**	**$ 3.25**	**n/a**
Granted March 3, 2016	200,000	$ 1.18	
Unvested as at June 30, 2016	**500,000**	**$ 2.42**	**n/a**

Using the graded vesting method of expensing the restricted stock unit grants, the calculated weighted average fair value of the stock units is recognized as compensation cost in the Consolidated Statements of Income over the vesting period. During the three and six months ended June 30, 2016, the Company recognized a total of $82 (2015: $25) and $115 (2015: $50) share based compensation cost. As at June 30, 2016, there was a total of $142 unrecognized compensation cost relating to the above share based awards (December 31, 2015: $ nil). The remaining cost is expected to be recognized over a period of six months.

Restricted stock units granted to four members of management on September 2, 2011 were to vest over two years; half during September and October 2012 and the remaining half during September and October 2013. In March 2012, these grants were amended and restated to provide that vesting would occur only when the individual leaves employment, for whatever reason, provided that this was after September 30, 2012 in respect of half of the grant and after September 30, 2013 for the other half of the grant. Restricted stock units granted to management on March 13, 2012 are expected to vest when the individual leaves employment, provided that this is after September 30, 2014 and is not as a result of resignation or termination for cause. Restricted stock units granted to management on March 7, 2013 are expected to vest when the individual leaves employment, provided that this is after September 30, 2015 and is not as a result of resignation or termination for cause.

On August 28, 2015, the Company adopted the 2015 Equity Incentive Plan which allows the Board of Directors to grant employees, consultants and directors of the Company and its subsidiaries, options, stock appreciation rights, stock grants, stock units and dividend equivalents on substantially the same terms as the 2008 Plan, which was closed for further awards. The 2015 Plan permits a maximum issuance of 1,500,000 shares.

Under the 2015 Plan, restricted stock units granted to four members of management on March 3, 2016 were divided into two tranches. The first tranche (100,000 restricted stock units)) will vest when the individual leaves employment, provided that this is after December 31, 2016 and is not for cause. The second tranche (100,000 restricted stock units) also vests after December 31, 2016 on the same terms, but, in addition, only if and when the stock price has been at or above $5.00 for 20 consecutive trading days and provided that this has occurred before December 31, 2019. On March 31 and June 30, 2016, 8,529 and 8,534 shares respectively, were issued under the 2015 Plan, representing 20% of directors base fee for the quarters ended March 31 and June 30, 2016.

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars except share data)

10. Earnings per Share

Basic earnings per common share is presented under the two-class method and is computed by dividing the earnings applicable to common stockholders by the weighted average number of common shares outstanding for the period.

Under the two class method, net income available to common stockholders, if any, is first reduced by the amount of dividends declared in respect of common shares for the current period, if any, and the remaining earnings are allocated to common shares and participating securities to the extent that each security can share the earnings assuming all earnings for the period are distributed. The Class B common shareholders dividend rights are subordinated to those of holders of Class A common shares (see note 8). Net income for the relevant period is allocated based on the contractual rights of each class of security and as there was insufficient net income to allow any dividend on the Class B common shares no earnings were allocated to Class B common shares.

Losses are only allocated to participating securities in a period of net loss if, based on the contractual terms, the relevant common shareholders have an obligation to participate in such losses. No such obligation exists for Class B common shareholders and, accordingly, losses would only be allocated to the Class A common shareholders.

At June 30, 2016, there were 500,000 restricted stock units granted and unvested as part of management s equity incentive plan. As of June 30, 2016 only Class A and B common shares are participating securities.

For the three and six months ended June 30, 2016 and June 30, 2015, the diluted weighted average number of shares includes the incremental effect of outstanding stock based incentive awards.

Global Ship Lease, Inc.

Notes to the Interim Unaudited Consolidated Financial Statements (continued)

(Expressed in thousands of U.S. dollars except share data)

10. Earnings per Share (continued)

(In thousands, except share data)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Class A common shares				
Weighted average number of common shares outstanding (B)	47,550,107	47,541,484	47,545,842	47,541,484
Weighted average number of RSUs without service conditions (note 9) (B)	300,000	225,000	300,000	225,000
Dilutive effect of share-based awards	106,852	70,491	42,437	70,302
Common shares and common share equivalents (F)	47,956,959	47,836,975	47,888,279	47,836,786
Class B common shares				
Basic weighted average number of common shares outstanding (D)	7,405,956	7,405,956	7,405,956	7,405,956
Dilutive effect of share-based incentive awards				
Common shares (H)	7,405,956	7,405,956	7,405,956	7,405,956
Basic Earnings per Share				
Net income available to shareholders	$ 6,043	$ 2,876	$ 10,600	$ 2,900
Available to:				
- Class A shareholders for period	$ 6,043	$ 2,876	$ 10,600	$ 2,900
- Class A shareholders for arrears				
- Class B shareholders for period				
- allocate pro-rata between Class A and B				
Net income available for Class A (A)	$ 6,043	$ 2,876	$ 10,600	$ 2,900
Net income available for Class B (C)				
Basic Earnings per share: &n				