Funding

Cash Flow and Cash

The Group's four main sources of funds are operating cash flows, secured loans, convertible bonds and equity. The major factors influencing future cash balances are operating cash flows, the purchase of dry bulk vessels, sale of assets, and drawdown and repayment of borrowings.

As part of the ordinary activities of the Group, the Treasury function actively manages the cash and borrowings of the Group to ensure sufficient funds are available to meet our Group's commitments and an appropriate level of liquidity is maintained during different stages of the shipping cycle.

Over the long term, we aim to maintain a consolidated net gearing of no greater than 50% – defined as the ratio of net borrowings to net book value of property, plant and equipment – which we believe is appropriate over all stages of the shipping cycle.

Current Position and Outlook

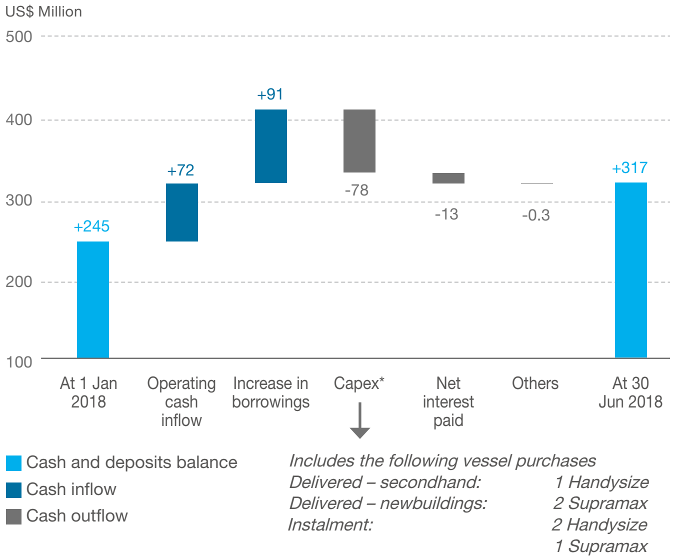
In the first half of 2018:

- Our operating cash inflow further improved to US$72 million, as compared with US$48 million in the first half of 2017 and US$125 million in the full year 2017 on the back of better dry bulk market conditions.
- In June 2018 we closed a new US$325 million syndicated 7-year reducing revolving credit facility secured against 41 previously mortgaged vessels and 9 unmortgaged vessels at an interest cost of LIBOR plus 1.5%. The facility refinanced 6 existing committed loan facilities and raised an additional US$136 million in available funding. Upon closing, the facility was fully drawn.
- Including the effects of the refinancing, our borrowings increased by US$91 million in the period after we drew down net US$145 million under our new committed loan facilities while making net repayments of US$54 million of secured borrowings and revolving facilities.
  - During the period we had capital expenditure of US$78 million, of which:
    - (a) we paid US$21 million cash for a resale Supramax newbuilding in January;
    - (b) we purchased a secondhand Handysize for a cash payment of US$12 million in April;
    - (c) we committed in May to purchase one secondhand Supramax, one secondhand Handysize, one resale Supramax newbuilding and one resale Handysize newbuilding for a total consideration of US$88 million which was funded by way of i) the issue of new shares to the ship sellers equivalent to US$44 million, and ii) a cash payment of US$44 million of which US$30 million was paid in first half of 2018 and the balance US$14 million is due to be paid in the second half of 2018; and
    - (d) we paid US$15 million for dry docking and other costs.

As at 30 June 2018:

- The Group's cash and deposits were US$317 million reflecting a 36% net gearing ratio.
- Our unmortgaged vessels comprise six dry bulk vessels (including the three vessels to be delivered in the second half of 2018 and early 2019) with an aggregate market value of approximately US$120 million.
- Our committed banking facilities were fully drawn.

Sources and Uses of Group Cash in 1H 2018



* excluding Capex of US$8 million funded by equity

Cash and Deposits

The split of current and long-term cash, deposits and borrowings is analysed as follows:

US$ Million	30 June 2018	31 December 2017	Change
Cash and deposits	**317.1**	244.7	+30%
Current portion of long-term borrowings	(98.1)	(104.1)	
Non-current portion of long-term borrowings	(876.1)	(776.9)	
Total borrowings	**(974.2)**	(881.0)	-11%
Net borrowings	(657.1)	(636.3)	-3%
Net borrowings to shareholders' equity	55%	55%	
Net borrowings to net book value of property, plant and equipment KPI	36%	35%	
Net working capital	234.2	136.8	71%

Treasury is permitted to invest in a range of cash and investment products subject to limits specified in the Group Treasury Manual. These include overnight and term deposits, money market funds, liquidity funds, certificates of deposit and structured notes.

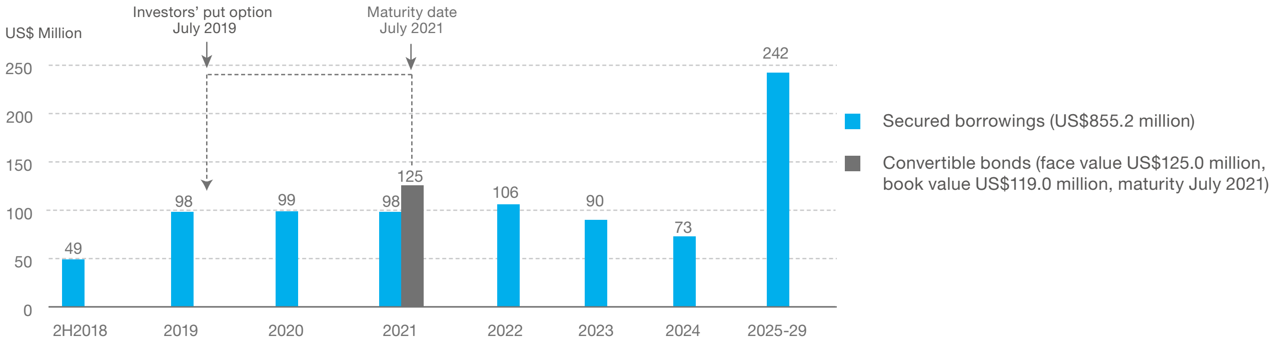
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

The Group's cash and deposits at 30 June 2018 comprised US$307.8 million in United States Dollars and US$9.3 million in other currencies. They are primarily placed in liquid deposits of three months or less and saving accounts. This maintains liquidity to meet the Group's vessel purchase commitments and working capital needs.

During the first half of 2018, Treasury achieved a 2.0% return on the Group's cash.

Borrowings

Schedule of Repayments of Borrowings



The Group's Treasury function arranges financing by leveraging the Group's balance sheet to optimise the availability of cash resources of the Group. The aggregate borrowings of the Group at 30 June 2018, which comprised secured borrowings and the liability component of convertible bonds, amounted to US$974.2 million (31 December 2017: US$881.0 million) and are denominated in United States Dollars.

Secured Borrowings – US$855.2 million (31 December 2017: US$763.3 million)

The overall increase in secured borrowings is mainly due to the drawdowns under our committed loan facilities, partially offset by scheduled loan amortisation.

In the first half of 2018, we drew down all our remaining committed loan facilities.

The Group monitors the loans-to-asset value requirements on its bank borrowings. If the market values of the Group's mortgaged assets fall below the level prescribed by our lenders, the Group may pledge additional cash or offer other additional collateral unless the banks offer waivers for technical breaches.

As at 30 June 2018:

- The Group's secured borrowings were secured by 105 vessels with a total net book value of US$1,732.1 million and an assignment of earnings and insurances in respect of these vessels.
- Our unmortgaged vessels comprised six dry bulk vessels with an aggregate market value of approximately US$120 million.
- The Group was in compliance with all its loans-to-asset value requirements.

P/L impact:

A decrease in interest to US$13.4 million (1H 2017: US$13.9 million) was mainly due to a decrease in average secured borrowings to US$680.7 million (1H 2017: US$798.9 million).

Certain secured borrowings are subject to floating interest rates but the Group manages these exposures by using interest rate swap contracts.

Convertible Bonds – Liability Component is US$119.0 million (31 December 2017: US$117.7 million)

As at 30 June 2018 and 31 December 2017, there remained the 3.25% p.a. coupon July 2021 convertible bonds with an outstanding principal of US$125.0 million and a prevailing conversion price of HK$3.07.

P/L impact:

The US$3.3 million (1H 2017: US$3.2 million) interest expense of the convertible bonds is calculated at an effective interest rate of 5.7% (1H 2017: 5.7%).

Finance Costs

Finance Costs by Nature

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 30 June 2018	Finance costs 1H 2018	Finance costs 1H 2017	(Increase)/ decrease
Secured borrowings (including realised interest rate swap costs)	3.9%	3.9%	855.2	**13.4**	13.9	3%
Convertible bonds (Note)	5.7%	3.3%	119.0	**3.3**	3.2	(2%)
	KPI 4.2%	KPI 3.8%	974.2	**16.7**	17.1	2%
Other finance charges				**0.5**	0.3	
Total finance costs				**17.2**	17.4	1%
Interest coverage (calculated as EBITDA divided by total gross finance costs)				KPI **5.8x**	3.3x	

Note: The convertible bonds have a P/L cost of US$3.3 million and a cash cost of US$2.0 million.

The KPIs on which management focuses to assess the cost of borrowings are average interest rates for different types of borrowings and the Group's interest coverage (see table above).

The Group aims to achieve a balance between floating and fixed interest rates on its long-term borrowings. This is adjusted from time to time, depending on the interest rate cycle, using interest rate swap contracts where appropriate. In the first half of 2018, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$3,000 of interest rate swap contract income was realised. As at 30 June 2018, 56% (31 December 2017: 65%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2018 and 2019, we expect about 65% of the Group's existing long-term borrowings will be on fixed interest rates.

Delivered Vessels

As at 30 June 2018, the Group operated owned dry bulk vessels with a net book value of US$1,815.1 million as follows:

	Number	Average size (dwt tonnes)	Average age (years)	Average net book value (US$ Million)	Total net book value (US$ Million)
Handysize	81	32,600	10.3	14.9	1,203.0
Supramax	26	56,800	6.5	21.9	569.8
Post-Panamax	1	115,500	7.0	42.3	42.3

Latest estimated fair market values published by Clarksons Research are US$16.0 million and US$18.0 million for 5-year old 32,000 dwt Handysize and 56,000 dwt Supramax vessels respectively.

Vessel Capital Commitments

As at 30 June 2018, the Group had vessel commitments of US$50.0 million. These vessels are scheduled to deliver to the Group by January 2019.

As at 30 June 2018, the Group had options to purchase 8 Handysize, 3 Supramax and 1 Post-Panamax vessels at predetermined times and prices during the period of their leases. These options are not expected to be exercised under current market conditions.

US$ Million	Number	2H18	2019	Total
Contracted and authorised commitments				
Handysize	2	36.0	–	36.0
Supramax	1	–	14.0	14.0
	3	36.0	14.0	50.0