Funding

Cash Flow and Cash

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

We actively manage 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 owned vessels – which we believe is appropriate over all stages of the shipping cycle.

The information in this section is presented before the adjustments required by HKFRS 16 "Leases".

Key Developments in 1H 2020

- Our operating cash inflow inclusive of all long and short term charter-hire payments was US$77.5 million, as compared with US$72.2 million in the first half of 2019 and US$173.9 million in the full year 2019.
- In June 2020 we closed a new US$30.1 million bilateral 7-year reducing revolving credit facility secured against 3 unmortgaged vessels at an interest cost of LIBOR plus 1.60%.
- Our borrowings increased by US$153.7 million in the period after we drew down US$212.7 million net under our committed loan facilities while making net repayments of US$59.0 million of secured borrowings and revolving facilities.
- During the period we incurred capital expenditure of US$90.6 million in cash, of which:
  (a) we paid US$38.4 million for one secondhand Handysize and two secondhand Supramaxes which were delivered into our fleet in the first half of 2020; and
  (b) we paid US$52.2 million for dry dockings and the installation of ballast water treatment systems and scrubbers.
- In addition to the above cash payments for ships, we issued new shares at HK$1.8 per share equivalent to a total of US$11.9 million to the ship sellers for two of the vessels that we committed to purchase in September 2019 and that delivered in the period.

As at 30 June 2020:

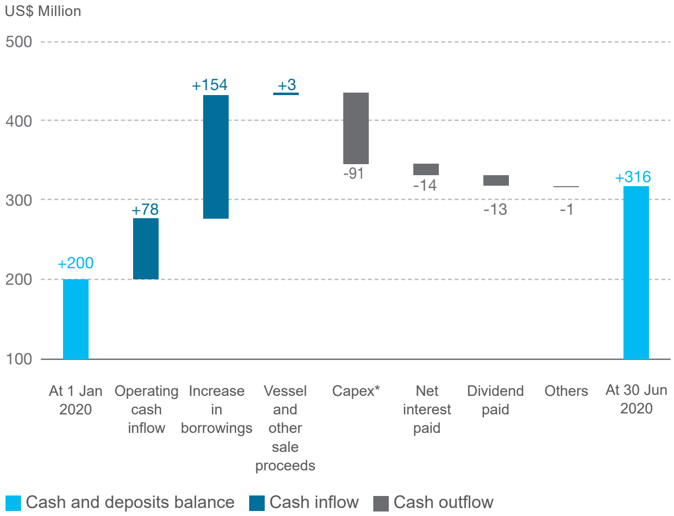
- the Group's cash and deposits were US$316.0 million and we had a 41% net gearing ratio.
- our available committed banking facilities were fully drawn.
- we have three unmortgaged vessels.
- we have finalised an additional US$33.5 million in committed borrowings secured against two additional unmortgaged vessels which is expected to be available to draw upon within the third quarter of 2020.

We invest our cash 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 and Singapore.

The Group's cash and deposits at 30 June 2020 comprised US$312.5 million in United States Dollars and US$3.5 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 working capital needs and any vessel purchase commitments.

During the first half of 2020, we achieved a 1.6% return on the Group's cash.

Cash Inflow and Outflow in 1H 2020



* excluding Capex of US$11.9 million funded by equity

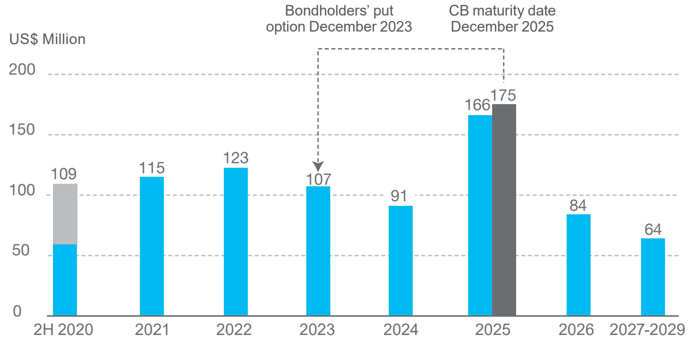
Cash and Deposits

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

US$ Million	30 Jun 2020	31 Dec 2019	Change
Cash and deposits	**316.0**	200.2	+58%
Available undrawn committed facilities	**–**	182.6	-100%
Total available liquidity	**316.0**	382.8	-17%
Current portion of long-term borrowings	**(165.2)**	(127.0)	
Long-term borrowings	**(855.6)**	(736.1)	
Total borrowings	**(1,020.8)**	(863.1)	-18%
Net borrowings	**(704.8)**	(662.9)	-6%
Net borrowings to shareholders' equity	**67%**	52%	
Net borrowings to Net Book Value of owned vessels KPI	**41%**	35%	

Borrowings and Undrawn Committed Facilities

Schedule of Reduction in Borrowings and Undrawn Committed Facilities



We arrange financing by leveraging the Group's balance sheet to optimise the availability of cash resources of the Group. The aggregate borrowings and undrawn committed facilities of the Group at 30 June 2020, including the liability component of the convertible bonds, amounted to US$1,020.8 million (31 December 2019: US$1,045.8 million) and are mainly denominated in United States Dollars.

- US$50.0 million unsecured 364-day revolving credit facility
- Secured borrowings and undrawn committed facilities (US$809.0 million)
- Convertible bonds (face value US$175.0 million, book value US$161.8 million, bondholders' put option December 2023)

Borrowings and Undrawn Committed Facilities – US$859.0 million (31 December 2019: US$885.1 million)

The overall decrease in secured borrowings is mainly due to scheduled loan amortisation, partially offset by the closing of one new revolving credit facility. In the first half of 2020, we drew down all our remaining available committed loan facilities.

The Group monitors the loan-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 2020:

- The Group's secured borrowings were secured by 114 vessels with a total net book value of US$1,652.2 million and by an assignment of earnings and insurances in respect of these vessels.
- The Group was in compliance with all its loan-to-asset value requirements.

P/L impact:

A decrease in interest to US$14.3 million (1H 2019: US$15.9 million) was mainly due to a decrease in average interest rates.

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

Convertible Bonds Liability Component – US$161.8 million (31 December 2019: US$160.7 million)

As at 30 June 2020 there remained the 3.0% p.a. coupon December 2025 convertible bonds with an outstanding principal of US$175.0 million and a prevailing conversion price of HK$2.34 per share.

Currently US$22.2 million of the original convertible bonds proceeds has been used to replenish the cash used as the cash consideration for the purchase of two vessels pursuant to the four-ship acquisition transaction as announced on 17 September 2019, US$27.2 million has been used as the cash consideration for the purchase of the other two vessels of the said transaction and US$16.8 million has been used to purchase a secondhand Supramax delivered to the Group in early 2020. Additionally, it is expected that approximately US$83.2 million will be used for further potential vessel acquisitions and the balance for general corporate purposes including but not limited to vessel operating expenses, vessel charter-hire, the service of the Group's financial obligations, office administrative expenses and vessel and non-vessel equipment expenditures. However, out of caution during the uncertain market conditions due to the Covid-19 pandemic, we paused our spending on growing our owned fleet with larger, high-quality secondhand acquisitions, but we will consider resuming our ship acquisitions as the market recovers and as we find particularly compelling opportunities.

P/L impact:

The US$3.7 million (1H 2019: US$3.3 million) interest expense of the convertible bonds outstanding during the period is calculated at an effective average interest rate of 4.7% (1H 2019: 5.7%).

Finance Costs

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 30 June 2020	Finance costs 1H2020	Finance costs 1H2019	Change
Borrowings (including realised interest rate swap contracts)	3.5%	3.5%	859.0	**14.3**	15.9	+10%
Convertible bonds (Note)	4.7%	3.0%	161.8	**3.7**	3.3	-12%
	KPI 3.7%	3.4%	1,020.8	**18.0**	19.2	+6%
Other finance charges				**0.5**	0.6	
Total finance costs				**18.5**	19.8	+7%
Interest coverage (calculated as EBITDA divided by total finance costs)				KPI **4.3X**	5.1X	

Note: The convertible bonds have a P/L cost of US$3.7 million and a cash cost of US$2.6 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 2020, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$0.5 million of interest rate swap contract expense was realised. As at 30 June 2020, 59% (31 December 2019: 74%) of the Group's long-term borrowings were on fixed interest rates. We currently expect about 58% and 57% of the Group's existing long-term borrowings will be on fixed interest rates as at 31 December 2020 and 2021 respectively, assuming all revolving credit facilities are fully drawn.