XIN YUAN ENTERPRISES GROUP LIMITED
信源企業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1748)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Xin Yuan Enterprises Group Limited (the "**Company**") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively as the "**Group**") for the six months ended 30 June 2019 ("**Period Under Review**"), together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2019

	Notes	**Six months ended 30 June** **2019** ***US$'000*** **(unaudited)**	2018 *US$'000* (unaudited)
Revenue	*4*	**24,581**	20,641
Cost of sales		**(17,520)**	(12,999)
Gross profit		**7,061**	7,642
Other income		**1,226**	713
Administrative expenses		**(1,080)**	(1,551)
Other operating expenses		**(612)**	–
Exchange (losses)/gains, net		**(124)**	392
Profit from operations		**6,471**	7,196
Finance costs		**(3,218)**	(2,391)
Profit before tax		**3,253**	4,805
Income tax expense	*5*	**–**	–
Profit for the period	*6*	**3,253**	4,805
Earnings per share	*8*		
Basic (cents per share)		**0.81**	1.60
Diluted (cents per share)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Profit for the period	**3,253**	4,805
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(15)**	8
Other comprehensive income for the period, net of tax	**(15)**	8
Total comprehensive income for the period	**3,238**	4,813

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 30 June 2019

	Note	**30 June 2019** *US$'000* **(unaudited)**	31 December 2018 *US$'000* (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**68,221**	184,190
Right-of-use-assets		**111,930**	–
Total non-current assets		**180,151**	184,190
Current assets			
Derivative financial instruments		**–**	119
Inventories		**1,326**	949
Contract assets		**18**	–
Trade receivables	*9*	**3,544**	1,952
Other receivables, deposits and prepayments		**2,314**	4,199
Pledged bank deposits		**1,362**	1,345
Bank and cash balances		**15,949**	18,260
Total current assets		**24,513**	26,824
TOTAL ASSETS		**204,664**	211,014
EQUITY AND LIABILITIES			
Share capital		**4,000**	4,000
Reserves		**98,342**	95,104
Total equity		**102,342**	99,104

	Note	**30 June 2019** *US$'000* **(unaudited)**	31 December 2018 *US$'000* (audited)
LIABILITIES			
Non-current liabilities			
Bank loans		**28,542**	32,101
Finance lease payables		**–**	56,760
Lease liabilities		**51,086**	–
Total non-current liabilities		**79,628**	88,861
Current liabilities			
Derivative financial instruments		**264**	167
Contract liabilities		**441**	869
Lease liabilities		**11,627**	–
Bank loans		**7,357**	7,330
Finance lease payables		**–**	11,561
Trade payables	*10*	**1,156**	1,473
Other payables and accruals		**1,849**	1,649
Total current liabilities		**22,694**	23,049
TOTAL EQUITY AND LIABILITIES		**204,664**	211,014

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These condensed consolidated financial statements should be read in conjunction with the 2018 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2018 except as stated below.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has initially adopted HKFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's condensed consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

Lessor accounting under HKFRS 16 is substantially unchanged under HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained profits at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) As a lessee

The Group leases many assets, including vessels and office properties.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The recognised right-of-use assets relate to the following asset:

	Balance as at	
	30 June 2019	1 January 2019
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Vessels	**111,767**	114,787
Office properties	**163**	199
Total right-of-use assets	**111,930**	114,986

Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Transition

Previously, the Group classified office properties leases as operating leases under HKAS 17. The leases typically run for a period ranging from 1 year to 4 years.

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments (if any).

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

— Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items of vessels. These leases were classified as finance leases under HKAS 17. For these finance leases, the carrying amount of the right-of-use assets and the lease liabilities at 1 January 2019 were determined at the carrying amount of the lease assets and lease liabilities under HKAS 17 immediately before that date.

(c) As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under HKAS 17. However, when the Group is an intermediate lessor, the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor.

(d) *Impacts of financial statements*

Impact on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained profits. The change in accounting policy affected the following items on the condensed consolidated statement of financial position as at 1 January 2019 is summarised below.

	Increase/ (Decrease) 1 January 2019 *US$'000* (unaudited)
Assets	
Right-of-use assets	114,986
Property, plant and equipment	(114,787)
Total assets	199
Liabilities	
Lease liabilities	68,520
Finance lease payables	(68,321)
Total liabilities	199

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 15%.

	1 January 2019 *US$'000*
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements (audited)	283
Discounted using the incremental borrowing rate at 1 January 2019	238
Add: Finance lease liabilities recognised as at 31 December 2018	68,321
Less: Recognition exemption for leases of low-value assets	(7)
Less: Recognition exemption for leases with less than 12 months of leases term at transition	(32)
Lease liabilities recognised as at 1 January 2019 (unaudited)	68,520
Of which are:	
Current lease liabilities	11,619
Non-current lease liabilities	56,901
	68,520

Impact for the period

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised US$163,000 of right-of-use assets and US$172,000 of lease liabilities as at 30 June 2019.

Also in relation to those leases under HKFRS 16, the Group has recognised depreciation and finance costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised US$37,000 of depreciation charges and US$13,000 of finance costs from these leases.

3. SEGMENT INFORMATION

	Asphalt tanker chartering services	**Asphalt trading**	**Total**
	US$'000	***US$'000***	***US$'000***
	(unaudited)	**(unaudited)**	**(unaudited)**
6 months ended 30 June 2019:			
Revenue from external customers	**22,873**	**1,708**	**24,581**
Segment profit	**4,044**	**106**	**4,150**
As at 30 June 2019:			
Segment assets	**202,464**	**1,708**	**204,172**
Segment liabilities	**(101,562)**	**–**	**(101,562)**

	Asphalt tanker chartering services	Asphalt trading	Total
	US$'000	*US$'000*	*US$'000*
	(unaudited)	(unaudited)	(unaudited)
6 months ended 30 June 2018:			
Revenue from external customers	20,641	–	20,641
Segment profit	6,107	–	6,107
	(audited)	(audited)	(audited)
As at 31 December 2018:			
Segment assets	207,637	–	207,637
Segment liabilities	(111,311)	–	(111,311)

In 2018, the Group has one single reportable segment which was managed as a single strategic business unit that engaged in provision of asphalt tanker chartering services with similar marketing strategy. During the six months ended 30 June 2019, the Group commenced its asphalt trading business.

Reconciliations of segment profit or loss:

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Total profit or loss of reportable segments	**4,150**	6,107
Interest expenses	**(13)**	–
Unallocated corporate income	**–**	81
Unallocated corporate expenses	**(884)**	(1,383)
Consolidated profit for the period	**3,253**	4,805

4. REVENUE

The Group's main operations and revenue streams are those described in the last annual financial statements. During the six months ended 30 June 2019, the Group commenced its asphalt trading business. The Group's revenue is derived from contracts with customers and lease contracts.

In the following table, revenue is disaggregated by service category and timing of revenue recognition.

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Provision of asphalt tanker chartering services		
Time charter	**11,706**	12,020
Voyage charter and contract of affreightment ("CoA")	**11,167**	8,621
	22,873	20,641
Asphalt trading	**1,708**	–
	24,581	20,641

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Timing of revenue recognition		
Revenue from voyage charter and CoA – recognised over time	**11,167**	8,621
Revenue from asphalt trading – recognised at a point in time	**1,708**	–
Revenue from other source – time charter	**11,706**	12,020
	24,581	20,641

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	30 June	31 December
	2019	2018
	US$'000	*US$'000*
	(unaudited)	(audited)
Receivables, which included in "trade receivables"	**2,581**	1,952
Contract assets	**18**	–
Contract liabilities	**(441)**	(869)

Contract assets of the Group consist of unbilled amount resulting from voyage charter and CoA over time. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. Contract liabilities of the Group arise from the advance payments made by the customer or billings invoiced to the customer (whichever is earlier) while underlying services are yet to be provided.

The amount of US$869,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2019.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Current tax	**–**	–

During the period, the Group mainly operated in Hong Kong, People's Republic of China ("PRC") and Singapore. However, no provision for Hong Kong Profits Tax, PRC Corporate Income Tax and Singapore Corporate Income Tax was made since the Group had no assessable profit for the period (six months ended 30 June 2018: Nil).

6. PROFIT FOR THE PERIOD

The Group's profit for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Depreciation	**4,478**	3,446
Directors' emoluments	**90**	49
Exchange losses/(gains), net	**124**	(392)
Fair value losses/(gains) on derivate financial instruments	**179**	(456)
Listing expense	**–**	563
Operating lease charges – land and buildings	**43**	87
Staff costs (including directors' emoluments)	**628**	511

7. DIVIDEND

The directors do not recommend the payment of an interim dividend (six months ended 30 June 2018: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Six months ended 30 June	
	2019	2018
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company	**3,253**	4,805
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares *(Note)*	**400,000**	300,000

Note: The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the six months ended 30 June 2018 has been adjusted for the effect of the capitalisation issue on 6 September 2018.

No diluted earnings per share was presented for the six months ended 30 June 2018 and 2019 as there was no potential ordinary share outstanding.

9. TRADE RECEIVABLES

For time charter, the Group generally receives monthly prepayment from customers. For voyage charter, the Group generally receives full payment within five business days after completion of cargo loading. For CoA, the Group generally receives full payment within three business days after completion of cargo discharging. For demurrage claims, the balance is normally paid within 30 days after the finalisation. For asphalt trading, the balance is normally paid within 30 days after the invoice date. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The ageing analysis of trade receivables, based on the date of invoice, is as follows:

	30 June 2019	31 December 2018
	US$'000	*US$'000*
	(unaudited)	(audited)
0 to 30 days	**2,280**	1,504
31 to 60 days	**529**	–
Over 60 days	**735**	448
	3,544	1,952

10. TRADE PAYABLES

The ageing analysis of the trade payables, based on the date of invoice, is as follows:

	30 June 2019	31 December 2018
	US$'000	*US$'000*
	(unaudited)	(audited)
0 to 30 days	**968**	1,473
31 to 60 days	**173**	–
Over 60 days	**15**	–
	1,156	1,473

BUSINESS REVIEW AND OUTLOOK

Our Group principally provides asphalt tanker chartering services under various types of charter agreement comprising: (i) time charters; and (ii) voyage charters and contracts of Affreightment ("**CoAs**"). Currently we operate a fleet of ten vessels with total capacity of 92,000 dwt, in which five vessels are operated under time charters, and the remaining five vessels are operated under voyage charters or CoAs. Furthermore, our Group has been developing new asphalt trading business since the first half of 2019.

We endeavour to provide high quality asphalt tanker chartering services. We have our own team of engineers and we are actively involved in the design of our vessels. Our team works closely with ship design experts, our customers, shipyards, an international classification society and banks or finance lease companies. We formulate customised shipbuilding plan to build new vessel that suits our customers' requirements such as fuel consumption efficiency and carrying capacity. Our Directors believe that by implementing the customisation, we could raise our service standards and competitiveness.

Our major customers include global shipping and logistics groups, global independent energy traders and publicly traded energy companies based in the United States. Our Group has diversified its customer segment and gradually engaged new customers to reduce our reliance over our largest customer. As a result of our Group's efforts to engage new customers, the number of customers increased to fourteen customers for the six months ended 30 June 2019.

With our Group's experienced management team and competitive strengths, our Directors believe that our Group is well-positioned to further develop our presence in the asphalt tanker chartering services market and capture new business opportunities. Our competitive strengths include (i) the fact that our fleet of vessels is relatively new and fit for purpose to meet customers' needs; (ii) stable cash inflow from long-term contract with customers; (iii) establishing stable relationships with our customers and shipyards; and (iv) our focus on high standard of maintenance of our fleet to offer quality and safe asphalt tanker chartering services.

After the last new vessel, Lotstella, was delivered in November 2018, we have not engaged any new shipbuilding plan. Our Group originally planned to use 90.2% of the Net Proceeds from the Global Offering of approximately US$14.2 million to purchase two new vessels in 2019 and 2020, but considering that the current market condition has created uncertainties in the global asphalt tanker chartering business, in particular the Sino-U.S. trade war and the sanctions against Iran and Venezuela, we changed in use of proceeds to apply such net proceeds as part of the purchase price of approximately US$16.5 million of a secondhand Capesize vessel instead. We intend to purchase the secondhand Capesize vessel with gross tonnage of 89,726 for providing iron ore and coal charters services from an independent third party. Purchasing secondhand Capesize vessel, we could enter into chartering agreement with customers lock up in profits. Hence, our Group maintains the variety of services types with a balance approach to meet different demands in the market. Other than chartering services, asphalt trading business is also our Group's focus in business development in the foreseeable future. Asphalt is a necessity for infrastructure construction, especially for road construction and maintenance. With the "One Belt One Road" project and the expansion of the global road network, the demand for asphalt has steadily increased. Based on our strong industry network over the years, we have established good cooperative relations with the upstream and downstream of the asphalt industry chain. In the future, we will closely cooperate with major refineries, energy trading companies and end users around the world to explore the international and domestic asphalt markets.

About 90% of all goods in international trade are transported by sea. According to "Review of Maritime Transport 2018" issued by Union Nation Conference on Trade and Development in 2018, total global seaborne volume in 2017 was 10.7 billion tons, representing an increase of over 400 million tons, from that of 10.3 billion tons in 2016. Nearly half of total global seaborne volume was contributed by dry bulk shipments. Since the 2008 economic crisis, the shipping industry has been at a low ebb. According to Reuters, there will be a growth in demand for high-quality iron ore for the Chinese market of an average of 4% to 5% for next three years, coupled with increased supply from Brazil, so that many bulk carrier owners are optimistic about the market. In addition, with the development of ASEAN and India's economy, infrastructure investment has expanded further, and the demand for raw materials such as ore will also increase, which will also give rise to the capacity of dry bulk carriers.

The trade protectionism initiated by the U.S. government has created uncertainties to the global and regional trade. In addition, the U.S. intends to strengthen sanctions against oil export countries such as Iran and Venezuela, which will have an adverse impact on the asphalt industry which is petroleum-based. Although our Directors have faith in the long-term outlook of asphalt tanker chartering industry, our Group remains mindful of the uncertainties ahead brought by the possible outbreak of conflict between the U.S. and Iran or Venezuela.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, our revenue increased to approximately US$24.6 million by approximately US$4.0 million or 19.4% from approximately US$20.6 million for the six months ended 30 June 2018. For the Period Under Review, the increase was mainly due to the number of our vessels increased from nine vessels to ten vessels, and the commencement of new business segment of asphalt trading.

Revenue generated from time charter services slightly decreased by approximately 2.5% from approximately US$12.0 million for the six months ended 30 June 2018 to approximately US$11.7 million for the six months ended 30 June 2019. It was mainly attributable to the daily hire rate dropped by around 7.6% to 13.9% for certain vessels during the six months ended 30 June 2019, though we maintained the similar level of time charter services for the Period Under Review. In addition, a vessel under time charters was off-hired for 20 days for dry docking during the six months ended 30 June 2019.

The increase of approximately US$2.6 million or 30.2% of revenue generated from voyage charter, and CoAs was mainly due to (i) our vessel, Lotstella, was delivered and put into operation for voyage charter and CoAs and commenced to generate revenue in November 2018; and (ii) our vessel, Jastella, was delivered in April 2018 and not in full operation for the six months ended 30 June 2018 but was in full operation for the six months ended 30 June 2019.

During the six months ended 30 June 2019, our Group commenced new asphalt trading business, which contributed revenue of approximately US$1.7 million to our Group.

Cost of sales

Our cost of sales increased by approximately US$4.5 million or 34.6% for the six months ended 30 June 2019 as compared to the six months ended 30 June 2018. Such increase was in line with the increase in revenue generated, resulting from the increase in the number of vessels operated, namely Baustella, Jastella and Lotstella which, were delivered in February, April and November 2018, respectively and in full operation for the six months ended 30 June 2019, and the commencement of new asphalt trading business.

The increase of cost of sales was mainly due to the following factors:

(i) our crew expense recorded an increase of approximately US$0.9 million or 20.0%, which was mainly due to the fact that our vessels, Baustella, Jastella and Lotstella, were delivered in February, April and November 2018, respectively and put into full operation for the six months ended 30 June 2019, but not in full operation for the same period last year;

(ii) our depreciation recorded an increase of approximately US$1.0 million or 29.4%, which was mainly due to the fact that our new vessels in 2018, namely Baustella, Jastella and Lotstella, were depreciated for full six-month period for the six months ended 30 June 2019;

(iii) our bunker fees recorded an increase of approximately US$0.9 million or 45.0%, which was mainly due to (a) the full operation for voyage charters and CoAs for the six months ended 30 June 2019 by our vessels, Jastella and Lotstella, which were delivered in April and November 2018, respectively, but which did not operate for the full six-month period for the six months ended 30 June 2018; and (b) the fact that the bunker price for the six months ended 2019 was approximately 8.5% higher as compared to the same period of 2018; and

(iv) the cost for the new asphalt trading business amounted to approximately US$1.6 million.

Gross profit and gross profit margin

Our gross profit decreased from approximately US$7.6 million for the six months ended 30 June 2018 to US$7.0 million for the six months ended 30 June 2019, by approximately US$0.6 million or 7.9%. Such decrease was mainly due to (i) the decline in the gross profit of approximately US$1.3 million from time charters services; but partial offset by (ii) the increase in the gross profit of approximately US$0.6 million or 26.1% generated from voyage charter and CoAs in line with the revenue grew by 30.2% resulting from our vessels, Jastella and Lotstella, were delivered in April and November 2018, respectively and put into full operation for the six months ended 30 June 2019; and (iii) gross profit of approximately US$0.1 million contributed from new asphalt trading business.

However, our gross profit margin dropped from approximately 37.0% for the six months ended 30 June 2018 to approximately 28.7% for six months ended 30 June 2019, was mainly attributable to (i) the drop of profit margin of time charters, and (ii) relatively low profit margin of approximately 6.3% for the revenue from the new asphalt trading business.

Our gross profit generated from time charters services dropped by approximately US$1.3 million or 24.1% for the six months ended 30 June 2019, and its gross profit margin decreased by 9.6% resulting from the drop of daily hire rate by around 7.6% to 13.9% for certain vessels, and the fixed costs such as depreciation were still charged for the 20 days off-hire period.

Our gross profit margin from voyage charters and CoAs slightly dropped by 0.7%, mainly due to the higher bunker price for the six months ended 30 June 2019 than the same period of 2018.

Other income

Our other income increased by approximately US$0.5 million or 71.4% from approximately US$0.7 million for the six months ended 30 June 2018 to approximately US$1.2 million for the six months ended 30 June 2019. Such increase was mainly due to more insurance compensation income of approximately US$0.9 million were received or receivable. However, the fair value gains on derivative financial instruments of approximately US$0.5 million mainly in relation to the interest rate swap contracts was recognised for the six months ended 30 June 2018, but the fair value losses on interest rate swap contracts were recorded in other operating expenses for the six months ended 30 June 2019.

Administrative expenses

Our Group's administrative expenses decreased by approximately US$0.5 million or 31.3% from approximately US$1.6 million for the six months ended 30 June 2018 to approximately US$1.1 million for the six months ended 30 June 2019, mainly due to the non-recurring listing expenses of approximately US$0.6 million was recognised for the six months ended 30 June 2018 but nil for the six months ended 30 June 2019.

Other operating expense

Our Group recorded other operating expenses of approximately US$0.6 million for six months ended 30 June 2019 mainly included the fair value losses on interest rate swap contracts of approximately US$0.2 million and accident related costs of approximately US$0.4 million, and nil for the six months ended 30 June 2018.

Exchange losses/gains, net

Our Group recorded net exchange losses of approximately US$0.1 million for the six months ended 30 June 2019 as compared to net exchange gains of approximately US$0.4 million for the six months ended 30 June 2018, which was principally attributable to the exchange fluctuation of our Group's bank loans denominated in Singapore Dollars ("**SGD**"). Our Group maintained the bank loans denominated in SGD during the Period Under Review, amounting to approximately US$18.5 million as at 30 June 2019 (31 December 2018: US$20.2 million). United States dollars ("**USD**") depreciated against SGD by approximately 0.7% for the six months ended 30 June 2019, resulting exchange losses when conversion of the bank loans denominated in SGD, while USD appreciated against SGD by approximately 1.9% for the six months ended 30 June 2018, resulting exchange gains when conversion of the bank loans denominated in SGD.

Finance costs

Our finance costs increased by approximately US$0.8 million, or 33.3% for the six months ended 30 June 2019 as compared to the six months ended 30 June 2018. The increase was mainly due to rise of interest on lease liabilities by approximately US$1.5 million resulting from the addition of our new vessels, namely Baustella, Jastella and Lotstella, under the finance lease arrangement in 2018.

Income tax expense

No provision for Hong Kong Profits Tax, PRC Corporate Income Tax and Singapore Corporate Income Tax was made since our Group has no assessable profit for the six months ended 30 June 2018 and 2019. It was because no tax position for Hong Kong profits tax, PRC corporate income tax and Singapore corporate income tax of our Group is required.

Profit for the period

Our profit for the period decreased by approximately US$1.5 million, or 31.3% to approximately US$3.3 million for the six months ended 30 June 2019 as compared to approximately US$4.8 million for the six months ended 30 June 2018, while our net profit margin slightly decreased to approximately 13.4% from 23.3% for the respective periods.

Such decrease in our profit for the period was primarily due to the combined effect of (i) the decrease in profits from time charter services by declining the daily hire rate, (ii) fair value losses on interest rate swap contracts and net exchange losses of approximately US$0.2 million and US$0.1 million, respectively, for the six months ended 30 June 2019, (iii) fair value gains on interest rate swap contracts and net exchange gains of approximately US$0.5 million and US$0.4 million, respectively, for the six months ended 30 June 2018, but partially offset (iv) non-recurring listing expenses of approximately US$0.6 million was recognised for the six months ended 30 June 2018 but nil for the six months ended 30 June 2019.

FINANCIAL POSITION

As at 30 June 2019, our Group's total assets amounted to approximately US$204.7 million (31 December 2018: US$211.0 million) with net assets amounting to approximately US$102.3 million (31 December 2018: US$99.1 million). As at 30 June 2019, gearing ratio (total debts divided by the total equity attributable to owners of our Company) of our Group was 0.96, a decrease of 11.9 percentage points as compared to that of 1.09 as at the end of 2018. Net debt to equity ratio (net debt, being our total debts net of bank and cash balances and pledged bank deposits, divided by total equity attributable to owners of our Company) of our Group was 0.79, a decrease of 11.2 percentage points as compared to that of 0.89 as at the end of 2018. Current ratio of our Group was 1.08, a decrease of 6.9 percentage points as compared to that of 1.16 as at the end of 2018.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2019, the liquidity position remained at similar level as compared to the end of 2018. Our Group adopts a balanced approach to cash and financial management to ensure proper risk control and lower the costs of funds, and seek to maintain optimal level of liquidity that can meet our working capital needs while supporting a healthy level of business and our various growth strategies. As at 30 June 2019, the Group's bank loans and lease liabilities (2018: finance lease payables) of approximately US$98.6 million in aggregate decreased by US$9.2 million as compared to 31 December 2018, which was primarily due to repayment of liabilities. Our Group finances our operations and growth primarily through cash generated from operations, bank loans and lease arrangement, as well as the net proceeds from the Global Offering in September 2018.

As at 30 June 2019, our Group had pledged bank deposits and bank and cash balances of approximately US$17.3 million, a decrease of approximately US$2.3 million as compared to approximately US$19.6 million as at 31 December 2018. Such decrease was mainly due to repayment of bank loans and lease liabilities. Our pledged bank deposits are denominated in USD and most of our bank and cash balances are denominated in USD.

Treasury Policies

The primary objective of our Group's capital management is to maintain its ability to continue as a going concern so that our Group can constantly provide returns for shareholders of our Company (the "**Shareholders**") and benefits for other stakeholders by securing access to financing at reasonable costs. Our Group actively and regularly reviews and manages its capital structure and makes adjustment by taking into consideration the changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

INDEBTEDNESS

As at 30 June 2019, the Group's indebtedness mainly comprised bank loans and lease liabilities (2018: finance lease payables) of approximately US$35.9 million and US$62.7 million, respectively. Our bank loans are denominated in USD and SGD, while our lease liabilities are denominated in USD and Renminbi. All bank loans and most of leases are arranged at floating rates, thus exposing our Group to cash flow interest rate risk. During the six months ended 30 June 2019, our Group used interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

The maturity of bank loans and lease liabilities (2018: finance lease payables) as at 30 June 2019 is as follows:

	Bank loans	**Lease liabilities**
	US$'000	*US$'000*
Within one year	7,357	11,627
More than one year, but not exceeding two years	7,357	11,644
More than two years, but not more than five years	21,113	39,442
More than five years	72	–
	35,899	62,713

Our bank loans were obtained for the sole purpose of construction of our vessels, as at 30 June 2019, such bank loans were secured by:

(i) mortgage over our Group's vessels;

(ii) corporate guarantees provided by our Company and subsidiaries;

(iii) pledged bank deposits and restricted bank balances; and

(iv) charge over shares of our subsidiaries.

As at 30 June 2019, our lease liabilities of approximately US$62.5 million were secured by:

(i) charges over our Group's vessels;

(ii) corporate guarantees provided by our Company and/or subsidiaries;

(iii) restricted bank balances; and

(iv) charge over shares of our subsidiaries.

The remaining lease liabilities of approximately US$0.2 million was in relation to the office properties leases and no collateral was secured.

FOREIGN CURRENCY RISKS

Our Group has a certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are denominated in currencies other than the functional currency of respective Group entities such as SGD and Renminbi. Our Group also has adopted a foreign exchange rate and interest rate risk control policy to manage the foreign exchange risk and interest rate risk. Our Group monitors the foreign currency exposure closely and will consider hedging transactions to mitigate significant foreign currency exposure should the need arise. Our Group has foreign currency forward contracts to hedge the foreign currency risk in respect of bank loans denominated in SGD, but which were fully matured during the six months ended 30 June 2019.

PLEDGE OF ASSETS

At 30 June 2019, the carrying amounts of bank deposits, bank balances restricted from being used and vessels pledged as securities for our Group's bank loans amounted to approximately US$1.4 million, US$1.0 million and US$68.0 million respectively. At 30 June 2019, the carryings amount of vessels as right-of-use assets held by our Group and bank balances restricted from being used under leases arrangement amounted to approximately US$112.0 million and US$1.2 million, respectively.

CAPITAL COMMITMENT

As at 30 June 2019, our Group did not have any material capital commitment.

CONTINGENT LIABILITIES

As at 30 June 2019, our Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

We value our employees and recognise the importance of a good relationship with our employees. We recruit our employees based on their work experience, education background and qualifications. To maintain and ensure the quality of our employees, we provide our personnel formal and on-the-job training to enhance their technical skills as well as knowledge of industry quality standards and work place safety standards. As at 30 June 2019, our Group had a total of 35 employees of which 29 were in the PRC, 3 were in Hong Kong, and 3 were in Singapore. The remuneration to our employees includes salaries and allowances. Employees are remunerated according to their qualifications, experiences, job nature, performance and with reference to market conditions.

SIGNIFICANT INVESTMENT HELD

Our Group had not held any significant investments during the six months ended 30 June 2019.

MATERIAL ACQUISITIONS OR DISPOSALS

During the six months ended 30 June 2019, there was no material acquisition or disposal by our Group.

EVENTS AFTER THE REPORTING PERIOD

Disposal of Shares by Controlling Shareholder

On 23 July 2019, Centennial Best Limited ("**Centennial**"), being the controlling shareholder of the Company, entered into a share sale and purchase agreement (the "**Agreement**") with Fortune Harvest Materials Hongkong Limited ("**Fortune Harvest**"), being a third party independent of the Group, pursuant to which Centennial agreed to sell 116,000,000 ordinary shares of the Company in aggregate to Fortune Harvest (the "**Disposal**"), representing approximately 29% of the issued share capital of the Company as at 23 July 2019 at a price of HK$1.52 per ordinary share. For details of the Disposal, please refer to the announcement of the Company dated 23 July 2019.

The Disposal was completed on 30 July 2019. Upon completion of the Disposal, the shareholding held by Centennial in the Company decreased from 68.25% to 39.25% of the issued share capital of the Company, and Centennial remained as the controlling shareholder of the Company.

Change in Use of Proceeds

As further disclosed in the section headed "USE OF PROCEEDS FROM THE GLOBAL OFFERING" below, the Company has decided to adjust the intended use of proceeds from the public offering and listing of its shares (the "**Global Offering**"). For details, please refer to the Company's announcement dated 17 July 2019.

OTHER INFORMATION

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2019.

INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board is of the view that the Company has complied with the CG Code during the six months ended 30 June 2019.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the six months ended 30 June 2019.

REVIEW OF THE INTERIM RESULTS

The Company established the Audit Committee with written terms of reference in compliance with the Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee comprises three independent non-executive Directors, Mr. Suen Chi Wai, Mr. Lai Guanrong and Mr. Xu Jie. Mr. Suen Chi Wai is the chairman of the Audit Committee.

The Audit Committee has reviewed the Company's unaudited condensed consolidated interim results for the six months ended 30 June 2019, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The interim results for the six months ended 30 June 2019 is unaudited, but has been reviewed by the auditor of the Company, RSM Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering, after deducting the listing expenses, were approximately HK$123.2 million and were intended to be utilised for the following purposes:

- approximately 90.2% of the Net Proceeds, or approximately HK$111.1 million (equivalent to approximately US$14.2 million), would be used for expanding the Group's fleet by purchasing two new vessels in the next two years in order to cope with its business development, strengthen its brand name and increase its competitiveness in the industry as well as its ability to cater for different needs and requirements of different customers; and

- approximately 9.8% of the Net Proceeds, or approximately HK$12.1 million (equivalent to approximately US$1.5 million), would be used as the Group's working capital.

As at 30 June 2019, the Company has utilised approximately US$1.5 million of the Net Proceeds.

On 17 July 2019, the Company has decided to adjust the intended use of proceeds from the Global Offering. For further details, please refer to the Company's announcement "Change in Use of Proceeds" dated 17 July 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.xysgroup.com). The interim report will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company in due course.

By order of the Board
Xin Yuan Enterprises Group Limited
Ding Xiaoli
Chairman

Hong Kong, 27 August 2019

As at the date of this announcement, Mr. Ding Xiaoli, Mr. Xu Wenjun and Mr. Ding Yuzhao are the executive Directors, and Mr. Lai Guanrong, Mr. Suen Chi Wai and Mr. Xu Jie are the independent non-executive Directors.