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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)

DISCLOSEABLE TRANSACTION IN RELATION TO THE SALE AND LEASEBACK FINANCING ARRANGEMENT OF LILSTELLA

THE SALE AND LEASEBACK

The Board hereby announces that on 5 May 2022, the Charterer, an indirect wholly-owned subsidiary of the Company, entered into: (1) the Memorandum of Agreement with the Owner, pursuant to which the Owner agreed to purchase and the Charterer agreed to sell the Vessel subject to the terms and conditions therein; and (2) the Bareboat Charter Agreement with the Owner in relation to the bareboat chartering of the Vessel. Under the Bareboat Charter Agreement, the Charterer leases back the Vessel from the Owner and also has the Purchase Option to purchase the Vessel from the Owner, and if the Purchase Option is not exercised, the Charterer has the Purchase Obligation at the end of the Charter Period to purchase the Vessel from the Owner subject to the conditions contained therein.

LISTING RULES IMPLICATIONS

As one or more applicable percentage ratios (as defined in the Listing Rules) for the Disposal exceed 5% but are less than 25%, the entering into of the Memorandum of Agreement and the Bareboat Charter Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to reporting and the publication of announcement requirement under the Listing Rules but are exempt from the shareholders' approval requirement.

INTRODUCTION

The Board hereby announces that on 5 May 2022, the Charterer, an indirect wholly-owned subsidiary of the Company, entered into: (1) the Memorandum of Agreement with the Owner, pursuant to which the Owner agreed to purchase and the Charterer agreed to sell the Vessel subject to the terms and conditions therein; and (2) the Bareboat Charter Agreement with the Owner in relation to the bareboat chartering of the Vessel. Under the Bareboat Charter Agreement, the Charterer leases back the Vessel and also has the Purchase Option to purchase the Vessel from the Owner, and if the Purchase Option is not exercised, the Charterer has the Purchase Obligation at the end of the Charter Period to purchase the Vessel from the Owner subject to the conditions contained therein.

DETAILS OF THE MEMORANDUM OF AGREEMENT AND THE BAREBOAT CHARTER AGREEMENT

Date

5 May 2022

Parties

- (i) The Charterer (as seller under the Memorandum of Agreement and as charterer under the Bareboat Charter Agreement)
- (ii) The Owner (as purchaser under the Memorandum of Agreement and as owner under the Bareboat Charter Agreement)

Subject Matter

Pursuant to the Memorandum of Agreement, the Charterer agreed to sell, and the Owner agreed to purchase, the Vessel. Pursuant to the Bareboat Charter Agreement, the Charterer agreed to lease back the Vessel from the Owner, immediately after the delivery of the Vessel from the Charterer to the Owner pursuant to the Memorandum of Agreement.

Consideration

Pursuant to the Memorandum of Agreement, the purchase price of the Vessel is US\$13,000,000 (the “**Purchase Price**”) and shall be settled by the Owner through telegraphic transfer, net of the Advance Hire (as defined below) and the Deposit (as defined below) paid by the Charterer under the Bareboat Charter Agreement.

The Purchase Price was determined (i) by reference to the fair value of the Vessel, being US\$15,000,000, based on the valuation of the market value of the Vessel as at 22 April 2022 stated in the Valuation Report (the “**Valuation**”); (ii) by applying the appropriate adjustments to the Valuation by the Company in consideration of various material factors relating to the Vessel, including the then market supply and demand of similar vessels; and (iii) after arm’s length negotiations between the parties on normal commercial terms. The Directors consider that the Purchase Price arrived at in respect of the Vessel is fair and reasonable and in the interests of the Company and its shareholders as a whole.

Charter Period

The Charter Period shall be a period of 72 months commencing from the Actual Delivery Date.

Deposit

The Charterer shall pay a deposit in an amount equal to 1.5% of the Finance Principal (the “**Deposit**”) to the Owner before the Actual Delivery Date pursuant to the Bareboat Charter Agreement.

Charter Hire

The charter hire, being all and any hire for use of the Vessel payable by the Charterer, for each Hire Period (each, a “**Charter Hire**”) shall be paid on the last day of the relevant Hire Period (each, a “**Hire Payment Date**”), except for the Advance Hire (as defined below), and shall consist of:

- (i) an advance hire: an amount equals to the difference between the Purchase Price and the Finance Principal (the “**Advanced Hire**”) payable on the Actual Delivery Date;
- (ii) a fixed hire: an amount equals to the Finance Principal minus the Balloon to be repaid in full by 24 consecutive quarterly equal instalments (the “**Fixed Hire**”); and
- (iii) a variable hire: an amount calculated by multiplying (a) the Purchase Price as may be reduced by payment of the Advanced Hire, the Fixed Hire and the Balloon immediately prior to the relevant Hire Payment Date; (b) the aggregate of the margin of 3.75% per annum and the Applicable Rate (as defined in the Bareboat Charter Agreement); and (c) a fraction whose denominator is 360 and whose numerator is the number of days elapsed during the relevant Hire Period.

Purchase Option

At any time after and including the 2nd anniversary of the Actual Delivery Date of the Vessel and before the expiry date of the Charter Period and with at least 90 days’ written notice, the Charterer has the option to purchase the Vessel by the payment to the Owner of the relevant outstanding Finance Principal plus other sums due and payable but being unpaid under the Bareboat Charter Agreement plus the prepayment fee at the applicable purchase date subject to the conditions set out in the Bareboat Charter Agreement.

Purchase Obligation

Unless the Charterer has exercised the Purchase Option, the Charterer shall, upon the expiry date of the Charter Period, purchase the Vessel from the Owner in the amount of US\$100 together with all unpaid sums and break cost (if any) subject to the conditions set out in the Bareboat Charter Agreement.

OTHER DOCUMENTS

In connection with the transactions contemplated under the Memorandum of Agreement and the Bareboat Charter Agreement, the following documents (collectively, the “**Other Documents**”), among others, will be entered into on the Actual Delivery Date, except that the Deed of Accession (as defined below) has been entered into on 5 May 2022:

- (i) a deed of assignment executed by the Charterer in favour of Good Trend Shipping Limited, a company incorporated under the laws of Hong Kong (the “**Trustee**”), in relation to certain of the Charterer’s rights and interest in and to, among others, the earnings, insurances, requisition compensation and any sub-charter in respect of the Vessel;
- (ii) a commercial manager’s undertaking executed by Fujian Xinyuanxinlanhai Import and Export Trade Co., Ltd. (福建信源新藍海進出口貿易有限公司), a company incorporated under the laws of the People’s Republic of China, in favour of the Trustee; and
- (iii) a deed of accession (the “**Deed of Accession**”) in respect of the security trust deed dated 2 March 2021 (as set out in the announcement of the Company dated 24 May 2021, under which the Trustee was appointed to hold certain property on trust) executed by, among others, the Owner and the Charterer.

GUARANTEE

The Company, as the parent company of the Charterer, has entered into a guarantee in favour of the Owner on 5 May 2022 (the “**Guarantee**”) in respect of, among others:

- (i) to guarantee the punctual performance by, the Charterer of all of its obligations under the Transaction Documents;
- (ii) to undertake to the Owner that whenever the Charterer does not pay any amount when due under or in connection with any Transaction Document, the Company shall immediately on demand pay that amount as if it were the principal obligor; and
- (iii) to agree with the Owner that if any obligation guaranteed by the Company is or becomes unenforceable, invalid or illegal, the Company will, as an independent and primary obligation, indemnify the Owner immediately on demand against any cost, loss or liability it incurs as a result of the Charterer not paying any amount which would, but for such unenforceability, invalidity or illegality, have been payable by it under any Transaction Document on the date when it would have been due. The amount payable by the Company under this indemnity will not exceed the amount it would have had to pay under the Guarantee if the amount claimed had been recoverable on the basis of a guarantee.

REASONS FOR, AND BENEFITS OF, ENTERING INTO THE TRANSACTION

The entering into of the Memorandum of Agreement and the Bareboat Charter Agreement is a sale and leaseback arrangement with regard to the Vessel, which the Company considers to be beneficial to the Group as the Group could obtain additional working capital while at the same time maintaining appropriate rights over the Vessel, which will also strengthen the cash flow of the Group.

In accordance with the requirements of Hong Kong Financial Reporting Standards, the entering into of the Memorandum of Agreement and the Bareboat Charter Agreement and the transactions contemplated thereunder shall be accounted for as a financing transaction and therefore would not give rise to any gain or loss.

The terms of the Memorandum of Agreement and the Bareboat Charter Agreement were arrived at after arm's length negotiations between the parties with reference to the value of the Vessel and the borrowing cost of the Group. The Directors are therefore of the view that the terms of the Memorandum of Agreement, the Bareboat Charter Agreement and the transactions contemplated thereunder, are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

INFORMATION ON THE COMPANY AND THE PARTIES

The Company and the Charterer

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of asphalt tanker chartering services under various types of charter agreement comprising: (i) time charters; and (ii) voyage charters and contracts of affreightment. The Charterer is also principally engaged in vessel owning and chartering services and is an indirect wholly-owned subsidiary of the Company.

The Owner

The Owner is Bright Lilstella Shipping Ltd, which is indirectly wholly-owned by Avic International Leasing Co., Ltd (中航國際租賃有限公司) (“**Avic Leasing**”). Avic Leasing is principally engaged in, among others, the finance lease business. Avic Leasing is an indirectly non-wholly owned subsidiary of Avic Capital Co., Ltd (中航資本控股股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600705).

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Owner and its ultimate beneficial owner is a third party independent of the Company and connected persons of the Company.

The Vessel

The Vessel is an oil tanker with a gross tonnage of 7,293, built in 2016. As at 31 December 2021, the net asset book value of the Vessel was approximately US\$15,080,000. The net profit attributable to the Vessel for each of the two financial years ended 31 December 2020 and 31 December 2021 are set out below:

	For the year ended 31 December 2020	For the year ended 31 December 2021
	(audited)	(audited)
	<i>US\$'000</i>	<i>US\$'000</i>
Net profit/(loss) before taxation	(206)	(986)
Net profit/(loss) after taxation	(206)	(986)

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DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this announcement:

“Actual Delivery Date”	the date of delivery of the Vessel by the Owner to the Charterer under the Bareboat Charter Agreement
“Balloon”	the amount which does not exceed the lower of (a) US\$2,000,000; or (b) 15% of the market value of the Vessel as provided in the Valuation Report, payable by the Charterer to the Owner on the expiry date of the Charter Period
“Bareboat Charter Agreement”	the bareboat charter agreement dated 5 May 2022 entered between the Charterer (as charterer) and the Owner (as owner) in relation to the bareboat chartering of the Vessel
“Board”	the board of directors of the Company
“Charterer”	Z&L Blue Whale Shipping Limited (藍鯨船務有限公司), a company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company
“Charter Period”	the period of 72 months commencing from the Delivery Date

“Company”	Xin Yuan Enterprises Group Limited (信源企業集團有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 28 June 2016
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of the Vessel by the Charterer to the Owner pursuant to the Memorandum of Agreement
“Finance Principal”	the amount which is the lower of (a) US\$9,750,000; or (b) 75% of the market value of the Vessel as provided in the Valuation Report
“Group”	the Company and its subsidiaries
“Hire Period”	each and every three-month period during the Charter Period with the first Hire Period commenced on the Actual Delivery Date provided that if a Hire Period would otherwise extend beyond the expiration of the Charter Period, then such Hire Period shall terminate on the expiration of the Charter Period
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum of Agreement”	the memorandum of agreement dated 5 May 2022 entered between the Charterer and the Owner in relation to the sale and purchase of the Vessel
“Owner”	Bright Lilstella Shipping Ltd, a company incorporated under the laws of the Republic of Marshall Islands
“Purchase Obligation”	the purchase obligation as set out under the section headed “ <i>Details of the Memorandum of Agreement and the Bareboat Charter Agreement — Purchase Obligation</i> ” in this announcement
“Purchase Option”	the purchase option as set out under the section headed “ <i>Details of the Memorandum of Agreement and the Bareboat Charter Agreement — Purchase Option</i> ” in this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Transaction Documents”	the Memorandum of Agreement, the Bareboat Charter Agreement, the Guarantee, the Other Documents and such other documents as may be designated as agreed by the Owner and the Charterer from time to time
“US\$”	United States dollar(s), the lawful currency of the United States of America
“Valuation Report”	the valuation report dated 22 April 2022 prepared by an independent valuer adopting the market approach in respect of the market value of the Vessel as at 22 April 2022
“Vessel”	Lilstella with IMO No. 9794771
“%”	Per-cent

By order of the Board
XIN YUAN ENTERPRISES GROUP LIMITED
Chen Ming
Chairman

Hong Kong, 5 May 2022

As at the date of this announcement, Mr. Chen Ming, Mr. Chen Jiagan, Mr. Xu Wenjun, Mr. Ding Yuzhao and Mr. Lin Shifeng are the executive Directors, and Mr. Wei Shusong, Mr. Suen Chi Wai and Mr. Xu Jie are the independent non-executive Directors.