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新特能源

XINTE ENERGY CO., LTD.

新特能源股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 1799)

SUPPLEMENTAL ANNOUNCEMENT

SETTLEMENT OF LITIGATION INVOLVING A SUBSIDIARY; AND DISCLOSEABLE TRANSACTION ENTERING INTO THE CREDITOR'S RIGHTS TRANSFER ARRANGEMENT

Reference is made to the announcement of Xinte Energy Co., Ltd. (the “**Company**”) dated 4 December 2020 (the “**Announcement**”) in relation to the settlement of litigation involving a subsidiary and the discloseable transaction in relation to entering into the Creditor's Rights Transfer Arrangement. The Company would like to provide further information in relation to the arrangements thereunder. Terms used herein shall have the same meanings as defined in the Announcement unless otherwise stated.

ROLES OF EACH PARTY UPON COMPLETION OF THE SETTLEMENT ARRANGEMENT AND THE CREDITOR'S RIGHTS TRANSFER ARRANGEMENT

As at the date of this announcement, Xuyi High Drive remains to own the Project, and it shall continue to be responsible for the construction of the Project and repayment of the lease principal and interests to Xinjiang New Energy pursuant to the Finance Lease Agreement and Creditor's Rights Transfer Arrangement.

As advised by the Company's PRC legal advisers, the Finance Lease Agreement remains valid, and Huaxia Financial Leasing remains to be the lessor under the Finance Lease Agreement and owns the major equipment, components and materials after the Project's completion until the lease provided under the Finance Lease Agreement is fully repaid. The finance lease term under the Finance Lease Agreement is 14 years (i.e. from May 2017 to May 2031) and the lease interest rate is 6.37% per annum. Only the right to receive repayments which Huaxia Financial Leasing was entitled to under the Finance Lease Agreement has been transferred to Xinjiang New Energy, and Xinjiang New Energy is entitled to obtain the repayments for the remaining lease principal and outstanding and subsequent lease interests from Xuyi High Drive according to the Finance Lease Agreement.

LATEST PROGRESS OF THE PROJECT AND EXPECTED TIMELINE FOR COMPLETION

Due to the change in management personnel and internal management issues, Xuyi High Drive failed to complete the relevant procedures to change the class of the land utilization (the “**Procedure**”) for the portion of the land where the Project’s planned capacity shall be installed, hence the Project failed to satisfy construction condition and construction of the Project was temporarily suspended in 2019, and re-commenced in August 2020 after Xuyi High Drive entered into discussions with relevant parties to resolve the lawsuit.

The original total planned installed capacity of the Project was 100MW, and 80MW of the Project’s planned capacity (“**80MW Portion**”) is expected to be connected to the grid by 31 December 2020. As at the date of this announcement, the 80MW Portion is approximately 95% completed, among which 8MW has been connected to the grid, 72MW is preparing to be grid-connected. Subject to the follow-up procedures and benefit analysis, the recommencement work of the remaining 20MW of the Project’s planned capacity will be determined in due course.

Furthermore, as at the date of this announcement, the relevant application materials of the Procedure has been approved by Huai’an Natural Resources and Planning Bureau, and is submitting to Department of Natural Resources of Jiangsu Province for approval and then further to the Ministry of Natural Resources of the PRC for filing. The Procedure is expected to be completed by March 2021.

RISK ANALYSIS OF THE CREDITOR’S RIGHTS TRANSFER ARRANGEMENT

Xinjiang New Energy is facing the following potential risks which will affect the Group’s ability to recover the creditor’s rights under the Finance Lease Agreement:

1. The Procedure may not be approved by local authorities and they might request the Project to be dismantled after it is connected to the grid, and there is a risk for the loss of all of the Group’s input, except turbines, towers and certain equipment that can be removed and used for other projects.

The Group is actively assisting Xuyi High Drive to facilitate the completion of the Procedure, and the risk of the failure to obtain the regulatory approval for the Procedure is low.

2. If the 80MW Portion is not connected to the grid by 31 December 2020, the feed-in electricity price may be adjusted from RMB0.610 per kWh to RMB0.391 per kWh which will affect the Project's revenue from the generation of electricity (the "Revenue") and affect Xuyi High Drive's ability to repay the lease principal and interests.

If the Revenue decreases, the expected time to recover the creditor's rights that Xinjiang New Energy is entitled to will be extended. Nevertheless, the Company is of the view that Xinjiang New Energy can still recover the creditor's rights during the 20-year operation period of the Project despite decrease in the Revenue. Besides, Xinjiang New Energy has obtained the pledge of the right to collect the creditor's rights from Xuyi High Drive, which provides assurance to Xinjiang New Energy to recover the consideration paid for the transfer of creditor's rights.

3. As at the date of this announcement, Xuyi High Drive's equity was restrained by CNNC Financial Leasing Co., Ltd.* (中核建融資租賃股份有限公司, "CNNC") due to a dispute between CNNC and Jiangsu High Drive New Energy Co., Ltd.* (江蘇高傳新能源有限公司, Xuyi High Drive's shareholder), which may lead to the failure of the recovery of creditor's rights.

As Xinjiang New Energy is entitled to the related security rights for the creditor's rights transferred according to the Creditor's Rights Transfer Arrangement, it has priority to be compensated through enforcing the related security rights, which reduces the risk of its failure to collect its creditor's rights due to the restraints on Xuyi High Drive's equity imposed by CNNC.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CREDITOR'S RIGHTS TRANSFER ARRANGEMENT AND SETTLEMENT ARRANGEMENT

In addition to the reasons and benefits stated in the Announcement, having considered the Group's potential maximum liability under the trial and the ability to recover creditor's rights, the Directors are of the view that it would be in the interest of the Company and its shareholders to enter into the Settlement Arrangement and Creditor's Rights Transfer Arrangement as further explained below.

1. Additional costs including liquidated damages and judgment interest will increase if the trial is prolonged

Taking into account the principal amount of the lawsuit and the prima facie breach of the Transfer Agreement by Xinjiang New Energy as it failed to deliver the equipment to Huaxia Financial Leasing on time, it would be in the interest of the Company and its shareholders as a whole to settle the Dispute instead of defending it, as that would prevent the Group from incurring additional costs including corresponding outstanding lease interest, liquidated damages, preservation costs and litigation costs, which will increase as the trial process progresses.

The Directors are of the view that, having considered that the chance of obtaining a favourable judgment is remote, the Company will be able to confine the Group's maximum liability exposure in relation to the lawsuit with Huaxia Financial Leasing by accepting the settlement.

2. The Company will be able to recover the creditor's rights through the Revenue

Under the Creditor's Rights Transfer Arrangement, Xinjiang New Energy is entitled to receive approximately RMB80 million annually, representing the principal amount and interest repayment under the finance lease (the "**Lease Repayment**") from Xuyi High Drive as stipulated under the Finance Lease Agreement.

Xuyi High Drive can use the Revenue for Lease Repayment after the 80MW Portion is completed. If Xuyi High Drive fails to make the Lease Repayment, Xinjiang New Energy will be able to recover the amount through judicial means by enforcing the relevant security rights obtained under the Creditor's Rights Transfer Arrangement and receive the Revenue. Assuming the 80MW Portion is completed by 31 December 2020, the annual Revenue is expected to be approximately RMB100 million. Alternatively, if the 80MW Portion is completed after 31 December 2020, subject to future changes of government subsidy policies, the annual Revenue is expected to be approximately RMB70 million.

In both scenarios, the Revenue during the Project's 20-year operation period will be able to cover the remaining lease principal amount and the outstanding and subsequent lease interest. Therefore, whether the remaining 20MW planned capacity of the Project will be constructed does not affect Xinjiang New Energy's ability to recover the Lease Repayment under the Creditor's Rights Transfer Arrangement.

If the Settlement Arrangement was not entered into, even though Xinjiang New Energy may subsequently offset its losses through claiming it from Xuyi High Drive if it loses the lawsuit with Huaxia Financial Leasing at the Court, Xuyi High Drive's lack of ability to perform its obligations may result in significant losses for Xinjiang New Energy. By settling the Dispute through accepting the transfer of creditor's rights from Huaxia Financial Leasing, the amount of consideration paid thereunder is less than the expected amount of equipment payment and corresponding outstanding lease interest, liquidated damages, preservation costs and legal costs which might be refunded by Xinjiang New Energy according to the potential judgment by the Court.

Besides, Xinjiang New Energy currently possesses the related security rights under the Finance Lease Agreement, which provides assurance to the Company for the recovery of creditor's rights and thus is in the Company's interest.

REASONS FOR ENTERING INTO THE TRANSFER AGREEMENT WITH HUAXIA FINANCIAL LEASING

Recently, it is common to raise funds for new energy projects through finance lease. For new energy projects under construction, where the lessor purchases the equipment together with its ownership, and the ownership of such equipment will be passed to the lessee after all rent payments for using such equipment are settled. The lessor and the lessee should sign a finance lease agreement, which stipulates that the lessor shall pay the consideration for the purchase of equipment, and the lessee shall use the equipment and pay the rent. If the lessee has signed a general construction contract before the finance lease agreement, the lessor shall sign a transfer agreement of rights and obligations with the lessee and the general contractor to transfer part of the rights and obligations under the general construction contract to the lessor.

The Transfer Agreement entered into between Xinjiang New Energy and Huaxia Financial Leasing was based on such arrangement as the Project was under construction and a general construction contract was entered into before the Finance Lease Agreement has entered into.

1. In January 2017, Xinjiang New Energy entered into the Construction Agreement with Xuyi High Drive stipulating that Xinjiang New Energy, as the general contractor, shall undertake the general construction and procurement of equipment, components and materials needed for the Project. Xuyi High Drive shall be responsible for making all payments thereunder.
2. In May 2017, Xuyi High Drive entered into the Finance Lease Agreement with Huaxia Financial Leasing stipulating that Huaxia Financial Leasing shall be responsible for the payment obligation of the major equipment, components and materials under the Construction Agreement.
3. Meanwhile, according to the Transfer Agreement entered into between Xuyi High Drive, Huaxia Financial Leasing and Xinjiang New Energy on the same day as the Finance Lease Agreement, Huaxia Financial Leasing undertook the payment obligation for the procurement of the major equipment, components and materials for the Project and will obtain their ownership after its completion; whilst Xinjiang New Energy shall deliver the major equipment, components and materials required to Huaxia Financial Leasing in accordance with the Construction Agreement.

Therefore, the entering into of the Transfer Agreement by Xinjiang New Energy conforms to the industry's common practice, and the terms thereunder are fair and reasonable and in the Company's interest.

INFORMATION ABOUT XUYI HIGH DRIVE

Based on publicly available records and to the best knowledge of the Directors having made all reasonable enquiries, the ultimate beneficial owner of Xuyi High Drive is Mr. Shao Jian*(邵堅). As at the date of this announcement, Xuyi High Drive has a registered capital of RMB160 million and is principally engaged in wind power generation, the sales of wind power equipment, electrical and electronic control equipment.

Xuyi High Drive and its ultimate beneficial owner are, to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, third parties independent of the Company and its connected persons.

By order of the Board
Xinte Energy Co., Ltd.
Zhang Jianxin
Chairman

Xinjiang, the PRC
28 December 2020

As of the date of this announcement, the Board of the Company consists of Mr. Zhang Jianxin, Mr. Yin Bo and Mr. Xia Jinjing as executive directors; Mr. Zhang Xin, Ms. Guo Junxiang and Mr. Qin Xiaodong as non-executive directors; Mr. Qin Haiyan, Mr. Yang Deren and Mr. Wong, Yui Keung Marcellus as independent non-executive directors.

* *for identification purpose only*