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VPower Group International Holdings Limited

偉能集團國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1608)

DISCLOSEABLE TRANSACTION

IN RELATION TO THE EXERCISE OF OPTION TO CONVERT OUTSTANDING LOAN INTO 51% EQUITY INTEREST IN AN OPERATOR OF A 80MW HFO-FRIED DISTRIBUTED POWER GENERATION PROJECT IN PERU AND RELATED TRANSACTIONS

On 2 February 2018 (Lima, Peru time), VGH exercised the Option; and in accordance with the terms and conditions of the Convertible Loan Documents, the Group entered into the Shareholders' Agreement with AUA, FK Generators and the Project Company.

The Group and Telemenía have formed the O&M Joint Venture to provide operation and maintenance services to the Project Company.

Information on the Project Company and the Project is set out in this announcement and the announcement of the Company published on 17 May 2017.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of AUA, FK Generators, Telemenía, the Project Company and their respective ultimate beneficial owners is a third party independent of and not connected with the Company or its connected persons except as disclosed in this announcement.

As one of the applicable percentage ratios for the Transactions under the Listing Rules is more than 5% and less than 25%, the Transactions constitute a discloseable transaction for the Company under Rule 14.06 of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 17 May 2017 in which the Company discloses that on 16 May 2017, VGH, an indirect wholly-owned subsidiary of the Company, entered into a convertible facility agreement with the Project Company pursuant to which VGH advanced the Loan to the Project Company. Under the Convertible Loan Documents, VGH has the right to convert the Loan into at least 51% of the equity interest in the Project Company within the loan period.

EXERCISE OF THE OPTION

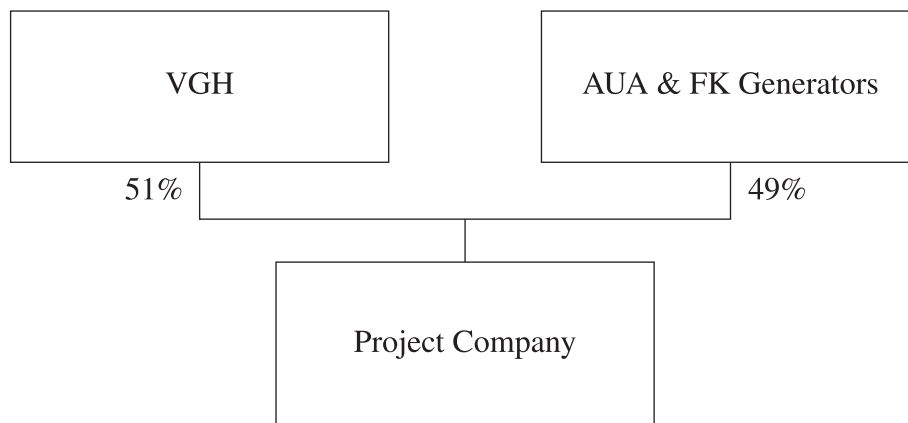
Option Exercise

On 2 February 2018 (Lima, Peru time), VGH exercised the Option to subscribe for 51% of the ordinary voting shares in the capital of the Project Company at the exercise consideration of USD4,600,000 (equivalent to HK\$35,880,000) which will be satisfied by way of set-off against the same amount of outstanding Loan in accordance with the terms of the Convertible Loan Documents.

Pursuant to the Convertible Loan Documents, VGH entered into the Shareholders' Agreement with AUA, FK Generators and the Project Company upon exercise of the Option on 2 February 2018.

Immediately before the Option Exercise, the entire equity interest of the Project Company was owned by AUA and FK Generators collectively.

The shareholding structure of the Project Company immediately after the Option Exercise is set out below:



To the best of the Directors' knowledge, each of AUA and FK Generators is ultimately controlled by the Kurz family.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Project Company and its ultimate beneficial owners is a third party independent of, and not connected with the Company or its connected persons save as disclosed below:

1. The Group has had a long-standing customer relationship with FK Generators in the SI business and has sold over 600MW of power generation systems to FK Generators.
2. Each of VPower Telemenia (Brazil) and VPTM Iquitos is a 51% owned subsidiary of the Company. They are newly formed companies and are insignificant subsidiaries of the Company under the Listing Rules. Telemenia is a shareholder with 49% interest in each of VPower Telemenia (Brazil) and VPTM Iquitos.

Fund raising exercise of the Project Company and partial prepayment of the Loan

On 2 February 2018, the Project Company completed issuance to institutional investors in the United States of America 19-year unlisted secured senior notes with the principal amount of USD106,500,000 (equivalent to HK\$830,700,000) (the "**Senior Notes**") to fund, among other things, the repayment of existing bank and other loans, the working capital requirements of the Project and payment of USD16,928,279 (equivalent to HK\$132,040,576.2) to VGH as partial prepayment of the outstanding principal of the Loan of USD16,868,390 (equivalent to HK\$131,573,442) and settlement of accrued interest of USD59,889 (equivalent to HK\$467,134.2) (the "**Prepayment**"). The Senior Notes are non-recourse and secured by a first priority security interest in the assets of the Project Company and the entire equity interests in the Project Company held by VGH, AUA and FK Generators. The Senior Notes are rated BBB- by Fitch.

The balance of the Loan in the principal amount of USD8,531,610 (equivalent to HK\$66,546,558) after the Option Exercise and the Prepayment has been turned into an interest-bearing shareholder loan for a term of 5 years and is subordinated to the Senior Notes.

SHAREHOLDERS' AGREEMENT

Principal terms of the Shareholders' Agreement are set out below:

Parties

1. VGH
2. AUA
3. FK Generators

Term

The Shareholders' Agreement has no definite term.

Board composition

Shareholders that own no less than 17% of the total shares of the Project Company shall be entitled to board representation. The board of directors of the Project Company shall comprise 5 directors. VGH will be entitled to nominate 3 directors and AUA and FK Generators together will be entitled to nominate 2 directors.

VGH shall have the right to appoint the chairman of the board of directors of the Project Company; and the chairman shall have a casting vote right.

Transfer of shares to a third party

No shareholder may transfer its shares or any interests in such shares of the Project Company to any person except in accordance with the Shareholders' Agreement or with the prior written consent of all the other shareholders. Such transfer is also conditional upon the approval required under any financing documents that the Project Company is subject to.

FORMATION OF THE O&M JOINT VENTURE

In anticipation of the Option Exercise, the Group acquired 51% of the equity interest of VPTM Iquitos from Telemenia at a nominal consideration of PEN510 (equivalent to approximately HK\$1,293) on 1 February 2018 (Lima, Peru time). This joint venture company was set up to carry on the sole business of providing operation and maintenance services to the Project Company for the Project, and which services shall include:

- (a) provision of all operation and maintenance services reasonably necessary to operate the facilities of the Project;
- (b) adoption of measures to ensure the conservation of the environment in the maintenance activities;
- (c) compliance with the environmental, safety and health standards and regulations under the applicable law;
- (d) establishment and maintenance of security measures and programs; and
- (e) maintenance in force of all permits required for the Project.

It is expected that the Group and Telemenia will provide shareholder's loan to VPTM Iquitos pro-rata to their shareholding and the Group's total capital commitments for acquisition of the equity interest in and provision of shareholder's loan to VPTM Iquitos to be no more than USD2,000,000 (equivalent to HK\$15,600,000).

Telemenia is a wholly owned subsidiary of FK Generators. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of VPTM Iquitos and Telemenia and their respective ultimate beneficial owners is a third party independent of, and not connected with the Company or its connected persons save as disclosed under the section headed "Exercise of the Option" of this announcement.

INFORMATION ON THE PARTIES AND THE PROJECT

The Group is principally engaged in SI business, in which the Group designs, integrates and sells gas-fired and diesel-fired engine-based gen-sets and PGSs, utilizing proprietary system designs and integration capabilities of the Group; and IBO business, in which the Group invests in, builds and leases and operates distributed power stations to deliver electricity to the region.

To the best of the Directors' knowledge, each of AUA and FK Generators is ultimately controlled by the Kurz family.

AUA is an investment holding company.

FK Generators is an Israeli-based power solutions provider with operations in Israel and South America.

Telemenia is a wholly owned subsidiary of FK Generators. It is an international engineering, procurement and construction (EPC) contractor and an independent power producer (IPP) with vast experience in the design, construction and commissioning of power generating plants and provision of operation and maintenance services for power generating plants.

The Project Company is a special purpose vehicle established and domiciled in Peru. In 2013, it was awarded the Project under a 20-year concession by the Peruvian Ministry of Energy and Mines. More information on the Project is set out in the announcement of the Company published on 17 May 2017. The Project commenced operation and started revenue generation in October 2017 and, to the best knowledge of the Directors, it currently produces about 70% of the electricity supply in the city of Iquitos.

As the Project was under construction in the last two years, the Project Company incurred losses during such periods. Based on the audited financial statements of the Project Company for the year ended 31 December 2016 prepared in accordance with the International Financial Reporting Standards, the Project Company records net loss before tax of approximately USD1,189,000 (equivalent to approximately HK\$9,275,000) and approximately USD1,556,000 (equivalent to approximately HK\$12,139,000) for the two years ended 31 December 2016 respectively; and net loss after tax of approximately USD170,000 (equivalent to approximately HK\$1,324,000) and approximately USD1,084,000 (equivalent to approximately HK\$8,452,000) for the two years ended 31 December 2016 respectively.

Based on the audited financial statements of the Project Company for the year ended 31 December 2016, the audited net asset value of the Project Company as at 31 December 2016 amounts to approximately USD7,817,000 (equivalent to approximately HK\$60,971,000).

The Project Company will become a 51% owned subsidiary of the Company after the Option Exercise and its profit and loss will be consolidated into the financial statements of the Group.

REASONS FOR THE TRANSACTIONS

The Group and the FK Generators have been exploring the possibilities of forming strategic alliances in the IBO business, and formation of the joint venture with FK Generators to run the Project is the first one which becomes materialised. As the Project is located in Peru which is a new IBO market for the Group and it runs on HFO which is comparatively more cost effective as compared with other fuels, the IBO segment of the Group will also benefit from market and fuel source diversification through the acquisition. The Project has already in commercial operation and it is expected that the Project Company will bring to the Group a long term and stable revenue stream under the 20-year concession.

The Group entered into the Shareholders' Agreement to govern the management of the Project Company and the relationship between the shareholders of the Project Company in accordance with the terms and conditions of the Convertible Loan Documents.

The Group formed the O&M Joint Venture with Telemenía with a view to exercising better and more effective control over the operation and maintenance of the Project.

In view of the above, the Directors are of the view that the Option Exercise, entry of the Shareholders Agreement and formation of the O&M Joint Venture are on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

GENERAL

As one of the applicable percentage ratios for the Transactions under the Listing Rules is more than 5% and less than 25%, the Transactions constitute a discloseable transaction for the Company under Rule 14.06 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

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| “AUA” | A.U.A. Kurz Ltd., a company incorporated in Israel and its entire equity interest is controlled by the Kurz family; |
| “Board” | the board of Directors; |

“Company”	VPower Group International Holdings Limited, a company incorporated in Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange;
“connected persons”	has the meaning ascribed to it under the Listing Rules;
“Conversion Shares”	29,232,274 ordinary voting shares of the Project Company, representing 51% of its equity interest on a fully diluted basis, issuable to the Group pursuant to the Option Exercise
“Convertible Loan Documents”	the convertible facility agreement and two deed polls all dated 16 May 2017 entered into between, among others, VGH and the Project Company;
“Directors”	the directors of the Company;
“FK Generators”	F.K. Generators and Equipment Ltd., a company incorporated in Israel and its entire equity interest is indirectly controlled by the Kurz family;
“Group”	the Company and its subsidiaries;
“HFO”	heavy fuel oil;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“IBO”	invest, build and operate power stations, a description of a business segment of the Group;
“Listing Rules”	the Rules Governing the Listing of Securities of the Stock Exchange;
“Loan”	the loan in the sum of USD30,000,000 advanced by VGH to the Project Company pursuant to the Convertible Loan Documents;
“MW”	Megawatt, a million watts, a measure of power;
“O&M Joint Venture” or “VPTM Iquitos”	VPTM Iquitos S.A.C., a company incorporated in Peru and is owned as to 51% by the Group and 49% by Telemenía;
“Option”	the option to subscribe for ordinary voting shares of the Project Company and set-off the subscription price against the outstanding Loan in accordance with the terms and conditions of the Convertible Loan Documents;
“Option Exercise”	the exercise of the Option to subscribe for the Conversion Shares at the exercise consideration of USD4,600,000 (equivalent to HK\$35,880,000)

“Peru”	the Republic of Peru;
“PGS”	power generation systems
“PRC”	The People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Project”	the project to design, construction, financing, operation and maintenance of an 80MW HFO-fired distributed power generation project in the city of Iquitos, Peru to increase the energy supply to Iquitos’ isolated system initially and, at a second stage, provide reserve capacity to the national grid under a cold reserve regime;
“Project Company”	Genrent del Peru S.A.C., a special purpose company established and domiciled in Peru, the company awarded the Project under the 20-year concession agreement dated 18 September 2013 by the Government of Peru, acting through the Ministry of Energy and Mines;
“Shareholders”	the holders of the Shares;
“Shareholders’ Agreement”	shareholders’ agreement governing the management of the Project Company and the relationship between its shareholders;
“Shares”	shares of HK\$0.10 each in the capital of the Company;
“SI”	system integration, or the design and integration of gen-sets, ancillary equipment and PGSs, a description of a business segment of the Group;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Telemenia”	Telemenia Ltd., a company incorporated in Israel and is a wholly owned subsidiary of FK Generators;
“Transactions”	the Option Exercise, entry into the Shareholders’ Agreement by VGH and formation of the O&M Joint Venture;
“VGH”	VPower Group Holdings Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company;
“VPower Telemenia (Brazil)”	VPower Telemenia Spe Ltda, a company incorporated in Brazil and is owned as to 51% by the Group and 49% by Telemenia;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“PEN”	Peruvian Nuevo Sol, the lawful currency of Peru; and

“USD”

US dollars, the lawful currency of the United States of America

By Order of the Board
VPower Group International Holdings Limited
Lam Yee Chun
Executive Chairman

Hong Kong, 5 February 2018

This announcement contains translations between USD and Hong Kong dollar amounts at USD1 = HK\$7.8; and between PEN at Hong Kong dollar amounts at PEN1= HK\$2.43. The translations should not be taken as a representation that the USD and PEN could actually be converted into Hong Kong dollars at that rate or at all.

As at the date hereof, the Board comprises Mr. Lam Yee Chun, Mr. Lee Chong Man Jason, Mr. Au-Yeung Tai Hong Rorce and Mr. Lo Siu Yuen as executive directors; Ms. Chan Mei Wan and Mr. Kwok Man Leung as non-executive directors; and Mr. David Tsoi, Mr. Yeung Wai Fai Andrew and Mr. Suen Wai Yu as independent non-executive directors.