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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)

VOLUNTARY ANNOUNCEMENT

PARTICIPATION IN 80MW HFO-FIRED DPG PROJECT IN PERU

I. Introduction

Reference is made to the voluntary announcements of VPower Group International Holdings Limited (the “**Company**” and together with its subsidiaries (the “**Group**”)) dated 22 December 2016 and 14 March 2017 regarding the letter of intent and updates in relation to the possible participation in the 80 megawatt (“**MW**”) heavy fuel oil (“**HFO**”)-fired distributed power generation (“**DPG**”) project of F.K. Generators and Equipment Ltd. (“**F.K.**”) in Peru (the “**Project**”).

II. Participation in and details of the Project

The board of directors of the Company (the “**Board**”) is pleased to inform the shareholders of the Company that, on 16 May 2017, VPower Group Holdings Limited (“**VGH**”), an indirect wholly-owned subsidiary of the Company, has entered into a US\$30 million 3-year convertible loan agreement with the Project company guaranteed by F.K. and secured by key Project assets (the “**Transaction**”). Under the terms of the option deed associated with the loan, VGH has the right to convert to at least 51% of the equity interest in the Project company. VGH has the right to exercise this option right within the loan period.

The Project, which will be running on seven units of medium speed HFO power generation system (“**PGS**”), is located approximately 18 kilometres north of city of Iquitos, the capital city of Peru’s Maynas Province and Loreto Region Region (the “**City**”) and adjacent to the Amazon River. Upon commercial operation, the Project shall supply power to the City and act as its dispatching center until the City is connected to the national grid. A 600 kilometres power transmission line (held by another concessionaire) is planned to be built to connect the City to the national grid. Upon the City is connected to the national grid, the Project will remain as a cold reserve for the national system.

The Project is under a 20-year concession period that is granted by the Peruvian Ministry of Energy and Mines, and guaranteed by the state of Peru. Before the national grid is connected to the City, the Project will derive its revenue according to a power purchase agreement (“the **PPA**”) with Electro Oriente, a state-owned local utility company. Upon the national grid is connected to the City, the Project will derive its revenue from making the plant available to the National Interconnected System by way of capacity income. Such capacity income covers both the generation period under the PPA and the cold reserve period and provides an appropriate return to the 20-year concession with an estimated capacity availability revenue of approximately US\$350 million (before any operation and maintenance services revenue and pass-through fuel revenue).

The Project receives its fuel from a nearby refinery of PetroPeru, ensuring the supply of fuel from a reliable source. The fuel is supplied on a pass-through basis which protects the Project against any fuel price risk.

The Project will serve to improve electricity distribution capacity, reduce pollution arising from the old generation plant located inside the City and mitigate the City’s recurring problem with power outages.

Peru has been given a BBB+ credit rating by Standard & Poor and also enjoys the World Bank’s distance to frontier score of 70.25, making it an attractive new market for the Group’s Invest, Build and Operate (“**IBO**”) business. The Group currently estimates that the Project is expected to be in commercial operation in the fourth quarter of 2017.

III. Information on F.K.

F.K. is an Israeli-based power solutions provider with operations in Israel and South America. The Group has had a long standing system integration (“**SI**”) customer relationship with F.K. and has sold over 600MW of PGSs to F.K. over the years, making it one of the Group’s top five SI customers.

Save as the above, to the best of the knowledge, information and belief of the directors of the Company, having made all reasonable enquiries, F.K. and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited).

IV. Reasons for and benefits of entering into the Transaction

The Group believes the Transaction will have the following benefits:

- 1) **Diversification on fuel source** - the Project runs on cost effective HFO;
- 2) **Leverage on existing SI customer network to enter into new IBO markets** - this successful partnership with F.K. in the IBO business demonstrates the potential future business partnerships and strategic opportunities the Group can develop with its SI customers;

- 3) **Expedite the penetration into new markets for IBO business** - the Project speeds up the Group's IBO business penetration into attractive potential new markets in South America; and
- 4) **Diversification on the contract's length for IBO business** - the introduction of a longer term concession of a 20-year Project provides more stable revenue to the Group.

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

Hong Kong, 17 May 2017

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.