

Featured Investment: China Hydroelectric Corporation

Pre-IPO investment in a fast-growing small hydropower developer in China

In October 2009, Aqua Resources Fund Limited ("Aqua") announced its fourth investment, of US\$20 million, in convertible preferred shares of China Hydroelectric Corporation ("CHC") and a commitment to invest a further US\$10 million in common shares should the company undertake an initial public offering ("IPO"), as expected, next year.

CHC, Aqua's first investment in the hydropower sector, is a fast-growing consolidator and operator of small hydropower plants in China, led by an international management team. The company was formed in 2006 with the goal of becoming China's largest independent small hydroelectric power producer. Aqua's investment, via participation in CHC's third placement of convertible preferred shares, will pave the way for CHC to continue expansion of its plant portfolio leading up to its target IPO date.

Aqua's investment marks the third round of convertible preferred shares issued by CHC, following a combined \$259m of financing from institutional investors such as Bank of America / Merrill Lynch, China Environment Fund and Swiss Re prior to Aqua's investment. The proceeds from Aqua's investment will be used to finance CHC's current pipeline of 7-8 acquisitions with a total installed capacity of 121MW following the proposed IPO in 2010.

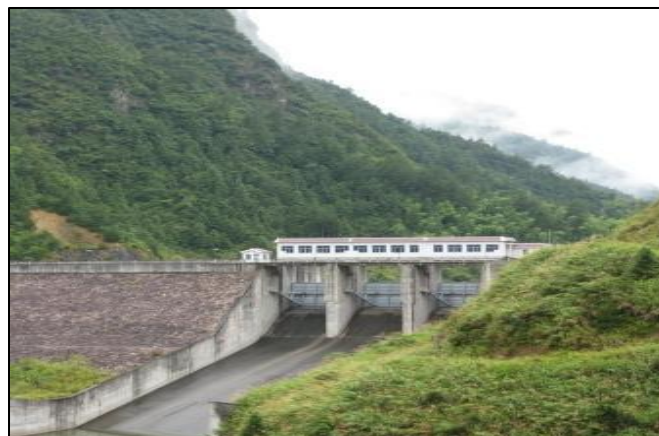
High-growth hydro market

Like the rest of China, electricity demand is growing exponentially, at 15% per year. As the largest source of renewable energy, both in China and in the world, hydropower is instrumental to China fulfilling its pledge to increase the renewable market's share of energy production to 15% by 2020. Given its priority status, the industry also enjoys substantial government support; recent laws and regulations expressly encourage foreign investment for hydropower



Wuliting Plant, Zhejiang Province
Capacity: 42MW

construction and operation. Significant capacity for investment remains: according to a 2005 survey of 3,886 rivers in China, total installed hydropower capacity represented only 24% of the approximately 541GW of technologically exploitable resources available ⁽¹⁾. Combined with the fragmented nature of the small hydropower sector in China, an internationally funded expert acquirer and operator such as CHC can realise meaningful shareholder value through consolidation and efficient operation of quality target assets.



Yingchuan Plant, Zhejiang Province
Capacity: 40MW

Small is beautiful

Unlike some other renewable energy technologies, hydropower is a mature, proven technology with a more predictable load factor when compared to wind or solar power. Wind power facilities have shorter useful lives and require significant maintenance in comparison with hydropower plants, and solar power has a higher cost per megawatt for initial installation, is constrained by raw material supply and has a shorter useful life span, and is primarily used for small scale projects in China ⁽²⁾.

"Small hydropower" is generally defined as plants with an installed capacity of 50MW or less. With 128GW of economically viable hydropower resources, China is particularly rich in small hydropower resources, yet only 35% of these resources have existing installed hydropower facilities ⁽³⁾.

Small hydropower plants also enjoy key advantages over larger plants: lower social and environmental impact, more environmentally friendly, the ability to make use of water resources that would not support larger plants, shorter local authority approval processes and more geographically remote locations with lower populations.

Source:

- 1) National Development and Reform Commission and the China Hydropower Engineering Consulting Group Co.'s 2005 report
- 2) Frost & Sullivan
- 3) Director General of the International Network on Small Hydropower

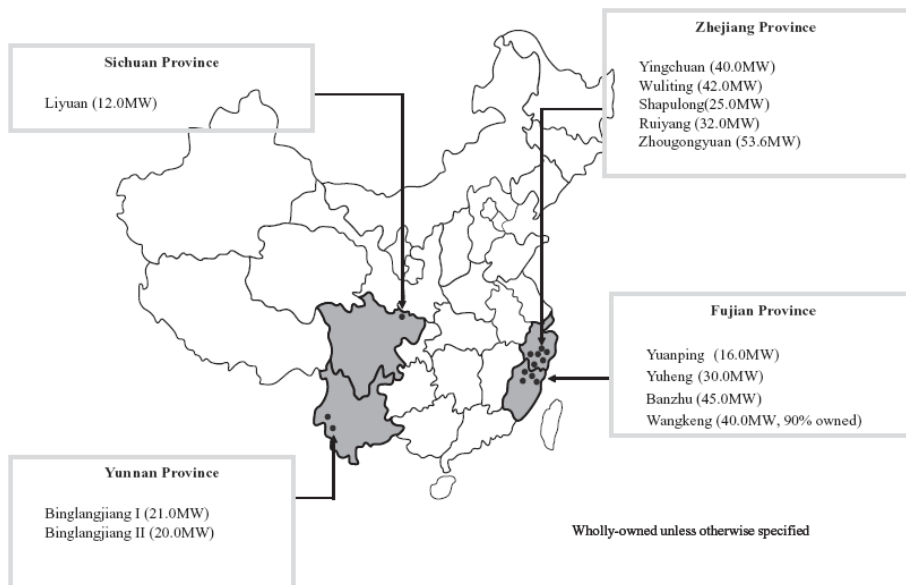
Direct exposure to one of the world's largest hydropower markets

Strong company fundamentals

The lower capital investment needed per plant has also allowed CHC to assemble a diverse portfolio of 11 plants located in the provinces of Zhejiang, Fujian, Sichuan and Yunnan. CHC's hydropower plants in operation and under construction are located on a geographically diverse collection of waterways, each of which has historically documented hydrological resources. As hydropower production is significantly impacted by weather, geographic diversification is critical in hedging the business from the effects of unfavourable weather patterns in any one region. Geographic diversification also mitigates the potential risks associated with earthquakes, floods and other natural disasters.

CHC's ownership of multiple hydropower plants on the same waterway also serves to enhance its operational efficiencies. The clustering of projects allows better load balancing among CHC's plants through distribution of waterflows, and thus power generation, to plants with excess capacity and optimal tariffs. Clustering also lowers the operational costs, as one regional management, engineering and operations team can operate multiple plants. The location of CHC's existing plants in densely populated regions of China with buoyant industrial activity further elevates demand for their energy output and enhances their market position.

CHC's Current Portfolio of Hydroelectric Plants in China



Sellers of hydropower plants in China prefer a purchaser with industry expertise, ready financing and the ability to execute acquisitions quickly. CHC has demonstrated these strengths by identifying, reviewing, negotiating and executing the acquisition of eleven plants with 377MW capacity in 24 months. These plants have been acquired from government-owned sellers, who face pressure to privatise their assets, and from poorly capitalised private operators who lack access to financing. CHC's industry experts (who are leading experts in the field with longstanding relationships and a good recognition amongst hydropower plants operators and regulators) and its track record in the hydropower market in China mean that CHC is now recognised as a well-funded, knowledgeable, and dependable purchaser in the market. This has enabled CHC to source quality targets ahead of other potential buyers, with asset owners now approaching CHC to offer their assets for sale.

Note: * Binglangjiang Phase I & II are considered one project

<p>About FourWinds Capital Management (Aqua's investment manager)</p> <p>FourWinds is a specialist in global commodities and natural resources with products investing across energy, metals, agriculture, timber, water, waste, and alternative energy.</p> <p>FourWinds Capital Management (UK) Ltd. 105 Wigmore Street, London W1U 1QY United Kingdom Tel: + 44 20 7518 7970</p> <p>FourWinds Capital Management (HK) Ltd. Level 8, Two Exchange Square 8 Connaught Place, Central, Hong Kong Tel: + 852 2297 2475</p> <p>Website: www.FourWindsCM.com Email: info@fourwindscm.com</p>	<p>Fundamentals of Aqua Resources Fund</p> <p>Listing date: 24th July 2008</p> <p>Ordinary shares outstanding: 72,464,340</p> <p>Latest adjusted NAV (30 September 2009): EUR 0.9421</p> <p>Number of investments/continents: 4 / 3</p> <p>Total invested: EUR 32.33 million (47.9% of portfolio)</p> <p>Total committed: EUR 40.35 million (59% of portfolio)</p>
<p>About the Fund</p> <p>Aqua Resources Fund Limited is an LSE-listed investment fund (H2O) managed by FourWinds Capital Management, investing in the full value chain of global water. The strategy combines direct investments in projects, companies, and infrastructure across water-related business areas. www.AquaResourcesFund.com</p>	

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