

China Hydroelectric Corp  
Form 20-F  
April 18, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 20-F**

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(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM** **TO**

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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DATE OF EVENT REQUIRING THIS SHELL COMPANY REPORT . . . . .

Commission file number: 001-34609

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**CHINA HYDROELECTRIC CORPORATION**

(Exact name of Registrant as specified in its charter)

**Not applicable**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**2105A, Ping an International Financial Center, No. 3 South Xinyuan Street**

**Chaoyang District, Beijing**

**People's Republic of China 100027**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing three Ordinary Shares, par value \$0.001 per share	New York Stock Exchange
Ordinary Shares, par value \$0.001 per share	New York Stock Exchange*
Warrants each to purchase three Ordinary Shares	New York Stock Exchange

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\*Not for trading, but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act. **None**

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## Table of Contents

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

162,057,167 ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

If this report is an annual or transaction report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

Other ☐

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International Financial Reporting Standards as issued  
by the International Accounting Standards Board o

If ☐ Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

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Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>INTRODUCTION</u>	1
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	2
<u>PART I.</u>	4
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	4
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	4
<u>ITEM 3. KEY INFORMATION</u>	4
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	31
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	67
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	67
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	97
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	105
<u>ITEM 8. FINANCIAL INFORMATION</u>	106
<u>ITEM 9. THE OFFER AND LISTING</u>	108
<u>ITEM 10. ADDITIONAL INFORMATION</u>	111
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	117
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	118
<u>PART II.</u>	
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	119
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	119
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	119
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	120
<u>ITEM 16B. CODE OF ETHICS</u>	120
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	120
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	120
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	120
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	120
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	121
<u>ITEM 16H. MINE SAFETY DISCLOSURE</u>	
<u>PART III.</u>	122
<u>ITEM 17. FINANCIAL STATEMENTS</u>	122
<u>ITEM 18. FINANCIAL STATEMENTS</u>	122
<u>ITEM 19. EXHIBITS</u>	122
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1
EX- 4.118	
EX- 8.1	
EX- 12.1	
EX- 12.2	
EX- 13.1	
EX- 13.2	
EX- 15.1	
EX- 15.2	

Table of Contents

**INTRODUCTION**

This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, the asset and liability accounts have been translated from Renminbi to U.S. dollars using the middle rates promulgated by People's Bank of China at the balance sheet dates, and income and expense items have been translated using the average of the middle rates promulgated by People's Bank of China during the applicable period. We make no representation that the Renminbi amounts referred to in this annual report could have been or could be converted into U.S. dollars at any particular rate or at all. See Item 3 A. Selected Consolidated and Other Financial and Operating Data Exchange Rate Information .

Unless the context otherwise requires, references in this annual report to:

- years are to calendar years and, where the context requires, our fiscal year;
- our hydroelectric power projects are to the power projects and, where the context requires, the operating companies which owns the projects;
- we, us, our company, our, CHC and China Hydroelectric are to China Hydroelectric Corporation and its subsidiaries. For SEC reporting purposes, China Hydroelectric Corporation is the successor company to our predecessor company, Binglangjiang. Certain financial and operating data presented in this annual report reflect the results of operations of Binglangjiang from April 25, 2007, the date we acquired Binglangjiang;
- Binglangjiang are to Yunnan Huabang Electric Power Development Co. Ltd., which for SEC reporting purposes is our predecessor company. Binglangjiang's financial and operating data presented in this annual report are solely those of Binglangjiang, and do not reflect the results of operations of our company or our other subsidiaries;
- shares or ordinary shares are to our ordinary shares, par value \$0.001 per share;
- ADSs are to our American depositary shares, each of which represents three ordinary shares, and ADRs refers to the American depositary receipts that evidence our ADSs;
- China or PRC to the People's Republic of China, excluding, for the purposes of this annual report only, Taiwan, Hong Kong and Macau;

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- RMB or Renminbi to the legal currency of China and US\$ , U.S. dollars or \$ refers to the legal currency of the United States;
- effective tariff are to gross revenues, which are revenues not netted for VAT or other applicable business surcharges, if any, recorded in the relevant period, divided by the quantity of electricity sold in such period;
- effective utilization rate are to the quantity of electricity sold in the relevant period expressed as a percentage of installed capacity for electricity generation in such period;
- Yuanping are to the Yuanping Hydroelectric power project, which is located in Pingnan County, Ningde City, Fujian province; and
- Yuheng are to the Yuheng Hydroelectric power project, which is located in Pingnan County, Ningde City, Fujian province.

Table of Contents

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This annual report contains forward-looking statements that relate to our current expectations and views of future events. These forward-looking statements are contained principally in the items entitled Information on the Company, Risk Factors, Operating and Financial Review and Prospects, Financial Information and Quantitative and Qualitative Disclosures About Market Risk. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under Risk Factors, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, potential, continue, is/are likely to or other similar expressions. These forward-looking statements include, among other things, statements relating to:

- our business strategies and plan of operations;
- our ability to acquire productive hydroelectric companies and assets;
- our capital expenditure and funding plans;
- our operations and business prospects;
- our dividend policy;
- estimates of production of and tariffs applicable to our hydroelectric power projects;
- projects under development, construction and planning;
- the regulatory environment for the power industry in general and the level of policy support for renewable energy; and



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- future developments in the PRC hydropower industry.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual outcomes may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in **Risk Factors** and the following:

- supply and demand changes in the electric power markets;
- changes in electricity tariffs in the regions in which we operate;
- our production and transmission capabilities;
- availability of sufficient and reliable transmission resources;
- our relationship with, and other conditions affecting, the power grids we service;
- risks inherent to hydroelectric power production, in particular hydrological conditions, as well as changes in geologic conditions and equipment failure;
- weather conditions or catastrophic weather-related damage;
- competition, in particular increased supply of power generated by renewable energy resources available to the power grids we service;
- our plans and objectives for future operations and expansion or consolidation;
- the effectiveness of our cost-control measures;
- inflationary trends and interest rate changes;

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- the effects of changes in currency exchange rates;
- environmental laws, including those directly affecting our operations, and those affecting our customers' demand for electricity;
- changes in political, economic, legal and social conditions in China, including the PRC government's specific policies with respect to investment in the hydroelectric and power industries, economic growth, inflation, foreign exchange and the availability of credit; and
- our liquidity and financial condition.

Table of Contents

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we reference in this annual report and have filed as exhibits to this annual report, completely and with the understanding that our actual future results or performance may be materially different from what we expect.

Table of Contents

**PART I.**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

The following tables present our selected historical consolidated financial information. Our selected consolidated statements of comprehensive income data for the years ended December 31, 2010, 2011 and 2012 and the selected consolidated balance sheet data as of December 31, 2011 and 2012 have been derived from our audited consolidated financial statements and the related notes included elsewhere in this annual report, which have been audited by Ernst & Young Hua Ming LLP, an independent registered public accounting firm. Our selected consolidated statements of comprehensive income data for the years ended December 31, 2008 and 2009 and selected consolidated balance sheet data as of December 31, 2008, 2009 and 2010 were derived from our audited consolidated financial statements, which are not included in this annual report. Our audited consolidated financial statements is prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

You should read this information together with Item 5. Operating and Financial Review and Prospects and the consolidated and other financial statements and the related notes of our company.

Table of Contents

	Our Company For the Year Ended December 31, 2009 2010 2011 2012 (US\$ in thousands, except share and per share data)				
2008	2009	2010	2011	2012	
<b>Consolidated Statements of Comprehensive Income Data:</b>					
<b>Continuing operations:</b>					
Revenues	14,394	31,977	58,158	54,597	85,388
Cost of revenues	(5,695)	(15,330)	(22,653)	(31,314)	(35,795)
Gross profit	8,699	16,647	35,505	23,283	49,593
Operating expenses:					
General and administrative expenses	(6,722)	(8,931)	(19,166)	(28,896)	(20,348)
Impairment loss on long-lived assets				(11,590)	
Impairment loss on goodwill				(11,388)	
Operating income(loss)	1,977	7,716	16,339	(28,591)	29,245
Interest income	1,340	501	798	101	84
Interest expense	(5,266)	(11,780)	(13,855)	(24,757)	(28,070)
Change in fair value of derivative financial liabilities and warrant liabilities	420	(13,793)	365	951	(399)
Exchange (loss) gain	(1,067)	(23)	(855)	(851)	28
Share of losses in an equity investee	(503)	(70)			
Other income (loss), net	127	(205)	166	(334)	507
(Loss) income before income tax expense	(2,972)	(17,654)	2,958	(53,481)	1,395
Income tax expense	(405)	(1,271)	(3,208)	(1,527)	(6,451)
Net loss from continuing operations	(3,377)	(18,925)	(250)	(55,008)	(5,056)
Net (loss) income net of income tax (expense) benefit from discontinued operations	(651)	(503)	4,235	(282)	3,907
Net (loss) income for the year	(4,028)	(19,428)	3,985	(55,290)	(1,149)
Less:					
Net loss (income) attributable to noncontrolling interests	41	32	(243)	9,901	(94)
Net income (loss) attributable to China Hydroelectric Corporation shareholders	(3,987)	(19,396)	3,742	(45,389)	(1,243)
-Continuing operations	(3,336)	(18,893)	(493)	(45,107)	(5,150)
-Discontinuing operations	(651)	(503)	4,235	(282)	3,907
Other comprehensive income (loss), net of income tax expense					
Foreign currency translation adjustments	8,676	246	11,857	20,394	(1,413)
Defined benefit pension plans				(33)	33
Other comprehensive income (loss)	8,676	246	11,857	20,361	(1,380)
Comprehensive income (loss)	4,648	(19,182)	15,842	(34,929)	(2,529)
Less: Comprehensive (income) loss attributable to noncontrolling interests	41	32	(243)	9,586	(85)
Comprehensive income (loss) attributable to China Hydroelectric Corporation shareholders	4,689	(19,150)	15,599	(25,343)	(2,614)

Table of Contents

	Our company				
	For the Year Ended December 31,				
	2008	2009	2010	2011	2012
	(US\$ in thousands, except share and per share data)				
Consolidated Statements of Comprehensive Income Data:					
Less:					
Cumulative dividends on Series A convertible redeemable preferred shares	(14,680)	(19,836)	(1,989)		
Cumulative dividends on Series B convertible redeemable preferred shares	(5,531)	(14,412)	(1,412)		
Cumulative dividends on Series C convertible redeemable preferred shares		(356)	(162)		
Beneficial conversion feature on Series A convertible redeemable preferred shares			(6,990)		
Beneficial conversion feature on Series B convertible redeemable preferred shares			(5,040)		
Beneficial conversion feature on Series C convertible redeemable preferred shares			(222)		
Changes in redemption value of Series A convertible redeemable preferred shares	(10,569)				
Changes in redemption value of Series B convertible redeemable preferred shares	(4,134)				
Changes in redemption value of Series C convertible redeemable preferred shares		(1,872)			
Loss attributable to ordinary shareholders	(38,901)	(55,872)	(12,073)	(45,389)	(1,243)
Net loss attributable to ordinary shareholders per share	(2.50)	(3.59)	(0.08)	(0.29)	(0.01)
From continuing operations	(2.46)	(3.56)	(0.11)	(0.29)	(0.03)
From discontinuing operations	(0.04)	(0.03)	0.03	(0.00)	0.02
Weighted average ordinary shares used in basic and diluted net loss attributable to China Hydroelectric Corporation shareholders per share computation	15,554,416	15,541,666	143,253,450	156,505,076	161,989,097
Net loss attributable to ordinary shareholders per ADS			(0.25)	(0.87)	(0.02)
From continuing operations	N/A	N/A	(0.34)	(0.86)	(0.09)
From discontinuing operations	N/A	N/A	0.09	(0.01)	0.07
Weighted average ordinary shares used in basic and diluted net loss attributable to ordinary shareholders per ADS computation			47,751,150	52,168,358	53,996,366
Other Financial Data:					
EBITDA attributable to China Hydroelectric Corporation shareholders, as adjusted(1)	6,474	22,782	42,788	31,490	58,491

(1) See Item 5. Operating and Financial Review and Prospects Results of Operations of our Company EBITDA from continuing operations, as adjusted for a reconciliation of this non-GAAP number.

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Table of Contents

	2008	2009	Our Company As of December 31, 2010 (US\$ in thousands)	2011	2012
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	38,693	31,618	33,457	8,391	7,967
Restricted cash					5,171
Accounts receivable, net	3,137	8,434	4,359	4,246	5,772
Notes receivable					1,877
Deferred tax assets	1,166	489	1,260	1,799	1,659
Amounts due from related parties, net	13		5,950		86
Amounts due from an equity investee	4,534				
Prepayments and other current assets	9,437	4,582	8,221	2,999	14,150
Assets classified as held-for-sale				21,693	
Total current assets	56,980	45,123	53,247	39,128	36,682
Investment in an equity investee	4,295				
Deferred IPO initial public offering costs	6,032	12,774			
Property, plant and equipment, net	334,512	384,493	583,686	580,964	548,511
Land use rights, net	30,678	38,707	48,944	50,666	48,640
Intangible assets, net	3,666	4,513	6,249	5,788	4,660
Goodwill	96,533	107,824	136,635	135,651	112,481
Deferred tax assets			986	1,767	1,329
Other non-current assets	872	399	709	951	2,013
Total non-current assets	476,588	548,710	777,209	775,787	717,634
Total assets	533,568	593,833	830,456	814,915	754,316
Liabilities classified as held-for-sale				11,920	
Total current liabilities	77,285	101,467	163,720	177,855	117,706
Long term loan	138,133	172,469	224,297	215,382	212,970
Deferred tax liabilities	13,415	18,599	25,350	26,563	24,345
Other non-current liabilities	568	104	106	237	6,780
Convertible redeemable preferred shares	299,236	353,840			
Total China Hydroelectric Corporation shareholders' equity (deficit)	4,181	(53,435)	405,887	394,400	391,952
Noncontrolling interests	750	789	11,096	478	563
Total liabilities and shareholders' equity	533,568	593,833	830,456	814,915	754,316

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## Table of Contents

	Our Company As of and For the Period Ended December 31				
	2008	2009	2010	2011	2012
<b>Selected Operation Data(1)</b>					
Installed Capacity(2) (MW)	225.0	330.60	502.8	517.8	517.8
Electricity Sold(3) (kWh)	279,235,728	722,521,642	1,263,659,795	1,262,311,479	1,767,978,032
Effective tariff(4) (RMB/kWh)	0.36	0.30	0.34	0.30	0.33

(1) For our company, operating data given are for our period of ownership of the hydroelectric power projects during the years indicated, excluding Yuanping and Yuheng, which are discontinued operation as of all years indicated.

(2) Our aggregate installed capacity information presented includes, as of December 31, 2008, the installed capacity of Shapulong, Banzhu, and Wangkeng, as of December 31, 2009, the installed capacity of Wangkeng, as of December 31, 2010, the installed capacity of Wangkeng, Jinlong, Jintang and Jinwei, although as of such respective dates, our equity interest in Shapulong, Banzhu, Wangkeng, Jinlong, Jintang and Jinwei were 50.0%, 90.0%, 90.0%, 55.0%, 74.0% and 74.0% respectively. We acquired the remaining 10.0% interest in Banzhu in March 2009, the remaining 50.0% interest in Shapulong in August 2009 and the remaining 10.0% interest in Wangkeng in January 2011. Our aggregate installed capacity for the year ended December 31, 2008, 2009, 2010, 2011 and 2012, respectively, reflects installed capacity by our operating projects, excluding Yuanping and Yuheng, which are discontinued operation as of all years indicated.

(3) Electricity sold and effective tariff information for the year ended December 31, 2008 does not reflect electricity sold by Shapulong and Yuanping. Our 50.0% equity interest in Shapulong accounted for using the equity method of accounting and our proportional share of Shapulong's net loss is included as a share of losses in equity investee, in our consolidated statement of comprehensive income for the year ended December 31, 2008. In the year ended December 31, 2008, Shapulong sold 42,308,157kWh. We acquired the remaining 50.0% equity interest in Shapulong in August 2009. Although Yuanping commenced operations in March 2007, and has transmitted electricity to the power grid controlled by Fujian Ningde Electric Power Bureau, that transmission was made without a fixed or pre-determined tariff per kWh until late June 2009. Therefore, cash received in exchange for the transmission of electricity to the power grid before late June 2009 was recorded as customer deposits. Accordingly, no revenues were recorded by Yuanping in the year ended December 31, 2008. However, related cost of revenue was not deferred, and was charged to expenses as incurred. All of the customer deposits received from the date of our acquisition of Yuanping after the per kWh tariff became fixed or determinable. In August 2009, the Ningde Pricing Bureau, the regional pricing bureau in Fujian province, approved a unit price per kWh of RMB0.29, inclusive of value-added tax, or VAT, for electricity transmitted by Yuanping to the power grid controlled and owned by the provincial grid company prior to July 8, 2009. The unit price per kWh of RMB0.29 will continue to be in effect until the regional pricing bureau approves a new unit price per kWh. In the year ended December 31, 2008, Yuanping transmitted 28,292,478 kWh of electricity. We entered into an Equity Purchase and Sale Agreement to sell Yuanping in December 2011, and an equity transfer agreement to sell Yuheng in October 2012. Electricity sold for the year ended December 31, 2008, 2009, 2010, 2011 and 2012 reflects electricity sold by all our operating projects, excluding Yuanping and Yuheng, which are discontinued operation as of all years indicated.

(4) See Exhibit 15.1 to this Annual Report on Form 20-F for the details of the calculation of effective tariff. Effective tariff for the year ended December 31, 2008, 2009, 2010, 2011 and 2012, respectively, reflects contributions from all our projects excluding Yuanping and Yuheng, which are discontinued operations as of all years indicated.



Table of Contents**Exchange Rate Information**

Our financial statements and other financial data included in this annual report are presented in U.S. dollars. Our business and operations are primarily conducted in China through our PRC subsidiaries. The functional currency of our PRC subsidiaries is RMB and their revenues and expenses are denominated in that currency. Unless otherwise noted, the asset and liability accounts have been translated from RMB to U.S. dollars using middle rates published by the People's Bank of China, or the PBOC, at the balance sheet dates, and income and expense items have been translated using the average of the middle rates published by the PBOC during the applicable period. We make no representation that any RMB or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in our shareholders' equity. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 18, 2013, the noon middle rate was RMB6.2416 to \$1.00.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated.

Period	Period End	Middle Rate		
		Average	Low	High
		(RMB per \$1.00)		
2008	6.8346	7.0696	6.8009	7.2805
2009	6.8282	6.8314	6.8201	6.8397
2010	6.6227	6.7255	6.6227	6.8284
2011	6.3009	6.4618	6.3009	6.6349
2012	6.2855	6.2932	6.2670	6.3495
Most recent six months:				
October 2012	6.3002	6.3006	6.3002	6.3499
November 2012	6.2892	6.2951	6.2852	6.3082
December 2012	6.2855	6.2932	6.2855	6.2949
January 2013	6.2795	6.2825	6.2691	6.2851
February 2013	6.2779	6.2817	6.2779	6.2898
March 2013	6.2689	6.2772	6.2689	6.2822
April 2013 (through April 18, 2013)	6.2416	6.2636	6.2342	6.2674

Source: People's Bank of China

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

#### **D. Risk Factors**

*Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, prospects, financial condition or results of operations could be materially and adversely affected.*

##### **Risks Relating to our Company and the PRC Hydroelectric Power Industry**

*Our liquidity position poses risk to our operations.*

As of December 31, 2012, we had a working capital deficiency of approximately \$81.0 million. Due to our working capital deficiency, our independent registered public accountant has stated in its report dated April 18, 2013 with respect to our financial statements as of and for the year ended December 31, 2012 that these circumstances raise substantial doubt about our ability to continue as a going concern. We are currently seeking to raise funds through various means as described below. Our ability to continue as a going concern is dependent upon obtaining the necessary financing to meet our current and future liquidity needs.

Management has been closely monitoring our costs and intends to restrict such costs to those expenses that are essential to our operations. Management has been actively pursuing various means of securing additional financing. However, we cannot make any assurances that our cost reduction efforts will be effective or that any additional financing will be completed on a timely basis, on acceptable terms or at all. In the event that we fail to raise funds sufficient to meet our liquidity needs, we may be forced to substantially curtail our operations or otherwise take measures that would materially and adversely affect our business, results of operations and business prospects.

Table of Contents

Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. Should the going concern assumption not be appropriate and we are not able to realize our assets and settle our liabilities, commitments and contingencies in the normal course of operations, adjustments would be required to our consolidated financial statements to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

***We have a limited operating history which provides limited reference for you to evaluate our ability to achieve our business objectives.***

We were formed in July 2006 as a Cayman Islands exempted company with limited liability without any operating business. We currently have a total of twenty-five operating hydroelectric power projects from continuing operations. Our financial condition, results of operations and our future success will, to a significant extent, depend on our ability to continue to acquire, retain and, develop hydroelectric power projects throughout China and to achieve significant economies of scale. Our company has a limited operating history and is subject to the risks and uncertainties associated with early stage companies. Accordingly, you will have a limited basis on which to evaluate our ability to achieve our business objectives. We cannot assure you that more acquisitions can be consummated on terms favorable to us or at all, or that if we achieve those acquisitions we will be able to operate our expanded business profitably. Due to restrictions on bank lending imposed by the PRC government in 2011, we have been experiencing difficulty in obtaining financing from our principal banks, and, as part of our effort to seek funding from other sources, we entered an Equity Purchase and Sale Agreement to sell the Yuanping hydroelectric power project in December 2011 and the disposal date was March 2, 2012, which was the date we lost effective control over Yuanping, and the sale transaction was completed on the same date. We entered into a Share Transfer Agreement to sell the Yuheng hydroelectric power project in October 2012, the disposal date was October 31, 2012, which was the date we lost effective control over Yuheng. The sale transaction is expected to complete in April 2013. Although we generally intend to minimize sales of our operating assets, we may need to sell additional hydroelectric power projects in the future. If we fail to achieve our business objectives, then we may not be able to realize our expected revenue growth, maintain our existing revenue levels or operate at a profit. Even if we do realize our business objectives, our business may not be profitable in the future.

***Our business is dependent upon hydrological conditions, which may from time to time result in conditions that are unfavorable to our business operations.***

Our hydroelectric power generating prospects are dependent upon hydrological conditions prevailing from time to time in the broad geographic regions in which our existing and future hydroelectric power projects are located. There can be no assurance that the water flows at our existing and future sites will be consistent with our expectations, or that climatic and environmental conditions will not change significantly from the prevailing conditions at the time our projections were made. Water flows vary each year, and depend on factors such as rainfall, snowfall, rate of snowmelt and seasonal changes. Based on decades of hydrology recordkeeping by government and other organizations for the provinces where we have projects situated, as well as engineering studies prepared during the project design phase, we believe that over time, while annual precipitation levels will typically be above or below average, such variations will mostly likely average out. However, our existing and future hydroelectric power projects may be subject to substantial variations in climatic and hydrological conditions which may reduce water flow and thus our ability to generate electricity. While we have selected and will continue to select our hydroelectric power projects for acquisition in part on the basis of their projected outputs, the actual water flow required to produce those outputs may not exist or be sustained. For example, overall utilization at our hydroelectric power projects in 2012 was significantly higher than the overall utilization in 2011 due to significantly higher levels of precipitation, which has significantly affected our results of operations in 2012. If hydrological conditions result in droughts or other conditions that negatively affect our existing or proposed hydroelectric generation business, our results of operations may be materially and adversely affected.

Table of Contents

***We have encountered and may continue to encounter difficulties in pursuing our acquisition strategy and have sold and may continue to sell operating assets, which would result in us being dependent upon our current or remaining portfolio of hydroelectric power projects and having limited revenue growth potential.***

Our ability to implement our acquisition strategy depends on a number of factors, in particular, our ability to maintain our current portfolio of hydroelectric power projects, identify suitable acquisition targets, reach agreements with sellers for acceptable consideration and on commercially reasonable terms and secure financing necessary for completing future acquisitions. There is no guarantee that we have the ability to pursue acquisition opportunities we identify in the future or the ability to maintain our current portfolio of power projects. In 2012, we did not acquire any additional hydroelectric power projects, nor do we currently anticipate any major asset purchase in at least the short term. Due to restrictions on bank lending imposed by the PRC government, we did not proceed with two acquisitions as planned in 2011 and entered into agreements to sell Yuanping hydroelectric power project in December 2011 and Yuheng hydroelectric power project in October 2012, respectively, to help meet our liquidity needs. The disposal date of Yuanping was March 2, 2012, which was the date we lost effective control over Yuanping. The sale transaction was completed on the same date. The disposal date of Yuheng was October 31, 2012, which was the date we lost effective control over Yuheng. The sale transaction is expected to complete in April, 2013. We cannot assure you that we will not need to sell additional operating assets. In addition, if we decide to make additional acquisitions in the future, we believe identifying and acquiring projects on reasonable terms may be more difficult as domestic and international competitors seek to acquire small hydroelectric power projects in China. Furthermore, depending on factors such as the national monetary policy and the credit market environment in China, in the event that we are in a position to pursue acquisitions in the future, we may not be able to secure financing for additional acquisitions.

If we need to sell additional operating assets or we are unable to acquire suitable hydroelectric power projects in China, we will continue to remain dependent upon our existing or remaining hydroelectric power projects. This may:

- result in our dependence upon the performance of our existing operating plants;
- result in our dependence upon electricity sales in the existing geographical areas;
- subject us to increased risks associated with drought or other natural disasters in the existing geographical areas we operate; and
- limit our ability to grow our revenues and to obtain the benefits of scale that we anticipate.

We may need additional funding to accomplish our growth strategy and to meet our operational needs and may be unable to raise capital or borrow money on terms favorable to us or at all, which could increase our financing costs, dilute the ownership interests our existing shareholders, affect our business operations or force us to delay, reduce or abandon our growth strategy.

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Despite the sales of the Yuanping and Yuheng Hydroelectric power projects, our long-term growth strategy remains to acquire and develop additional hydroelectric power projects in China and expand those projects with potential for expansion. To successfully implement this growth strategy, we will need to raise additional funds. In addition, we may need to raise additional funds to meet our liquidity and other operational needs. Our ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- the availability of credit from banks or other lenders;
- investor confidence in us; and
- the continued performance of our hydroelectric power projects.

We cannot predict if our operations will generate sufficient annual cash flows to fund our capital investment requirements. If and when that does not occur, we will be required to finance our cash needs through public or private equity offerings, bank loans or other debt financing, or otherwise. We intend to increase our levels of debt financing to optimize our capital structure. There can be no assurance that international or domestic financing for future power plant acquisitions, development and expansion of existing hydroelectric power projects will be available on terms favorable to us or at all, which could force us to delay, reduce or abandon our growth strategy, increase our financing costs, or both.

Additional funding from debt financings, if available at all, may make it more difficult for us to operate our business because we would need to make principal and interest payments on the indebtedness and may be obligated to abide by restrictive covenants contained in the debt financing agreements, which may, among other things, limit our ability to make business and operational decisions and pay dividends.

Furthermore, raising capital through public or private sales of equity or securities convertible in equity to finance acquisitions or expansion or meet our liquidity and other business needs could cause earnings or ownership dilution to your shareholding interests in our company. We cannot assure you that we will not pursue sale of our ADSs or ordinary shares or securities convertible into our ordinary shares that would be highly dilutive to our existing shareholders.

Table of Contents

***We cannot assure you that we can obtain bank loans on terms acceptable to us or at all.***

In 2011, the PRC government, as part of its effort to reduce inflation, implemented a monetary policy that severely limited the amounts that banks could lend. As a result, we experienced difficulty in borrowing from our principal banks, although we were able to meet our liquidity needs at the end of 2011 through negotiations to extend the term of certain current obligations, several smaller loans with one-year terms, an exercise of warrants by a stockholder and the sale of the Yuanping hydroelectric power project. In 2012, the bank lending market in China has improved. While our ability to borrow remains somewhat challenging, we have been able to secure a total of \$121.8 million through borrowings from banks and non-financial institutions in 2012. The sale of the Yuheng hydroelectric power project also helped us to meet our liquidity needs at the end of 2012. Although there are signs that the PRC government might further loosen its monetary policy in 2013, we cannot assure you that we can obtain bank financing on terms acceptable to us or at all in the future or that we will be able to meet our liquidity needs through bank loans whether it is due to changes in the PRC's monetary policy or otherwise.

***The operation of our hydroelectric power projects and customer demand for our power may be vulnerable to disruptions caused by natural and man-made disasters, which may materially and adversely affect our results of operations.***

Our hydroelectric power projects could be required to cease operating in the event of a drought, and to cease operating or even be damaged in the event of a flood. Water supply to our hydroelectric power projects and the projects themselves are vulnerable to natural disasters including, but not limited to, earthquakes, storms, tornadoes and floods, as well as disasters caused by human actions such as terrorist attacks, military conflicts and other deliberate or inadvertent actions which may affect the availability of water supplies or water flow to our hydroelectric power projects. For example, a severe snowstorm in Zhejiang province in 2008 interrupted the transmission system in the area and contributed to the decrease in the effective utilization rate of Shapulong that year. In 2008, a major earthquake also struck Sichuan province, causing great loss of life and property and disruption to the local economy. The earthquake in 2008 caused damage to the tailwater concrete apron and the spillway gates of our Liyuan hydroelectric power project and the repair of such damage cost RMB11.7 million (\$1.7 million) and was completed in March 2010. Our hydroelectric power projects located in Yunnan province, Sichuan province and Fujian province are all in areas of relatively high seismic risk as compared to other areas of China. Such disasters are unpredictable and can significantly damage our access to water supply and power plant equipment as well as the property of our consumers. Under such circumstances, market demand for power in general may be significantly and adversely affected, reducing the need for the electricity we produce, and we may be unable to continue operation of our plants or to produce the level of electricity we expect. The insurance coverage we maintain may not be adequate to compensate us for all damages and economic losses which may arise in connection with these disasters. Such disruption to our operations could materially and adversely affect our results of operations.

***Greenfield projects and projects under construction present substantial development, construction, start-up and partnership risks, which could materially and adversely affect our results of operations, financial condition and growth prospects.***

Greenfield projects and projects under construction, present substantial development risk. The development and construction of hydroelectric power projects is time-consuming and complex and requires significant capital investment. In connection with the development and construction of hydroelectric power projects, we will seek to obtain government permits and approvals, land purchase or leasing agreements, equipment procurement and construction contracts, operation and maintenance agreements, and sufficient equity capital and debt financing. Factors that may impair our ability to develop and construct hydroelectric power projects include:

- inability to obtain financing on satisfactory terms or obtain any financing at all;

- delays in obtaining various regulatory approvals, licenses or permits from different governmental authorities at different levels, including permission for the construction and operation of the hydroelectric power project itself, the environmental permits and permits to use the relevant land;
- shortages or increases in the cost of equipment, materials or labor;
- adverse weather conditions, which may delay the completion of hydroelectric power projects or substations, or natural disasters, accidents or other unforeseen events;
- unforeseen engineering, design, environmental or geological problems;
- opposition of local interests;
- strikes and labor disputes; and
- adverse changes in the PRC regulatory environment.

Table of Contents

Any of these factors may cause delays in completion of hydroelectric power projects and may increase the cost of contemplated projects. If we are unable to complete the projects contemplated, the costs incurred in connection with such projects may not be recoverable. Even if we complete these projects, as a result of project delays, cost overruns, changes in market circumstances or other reasons, we may not be able to achieve the intended economic benefits or demonstrate the commercial viability of these projects, which may materially and adversely affect our results of operations, financial condition and growth prospects.

In addition, the commencement of operations at a newly constructed hydroelectric power project involves many risks, including start-up problems, the breakdown or failure of equipment or processes, performance below expected or contracted levels of output or efficiency and problems with the construction of new supporting infrastructure, such as grid transmission equipment. While manufacturers' warranties are generally obtained for limited periods relating to each project and its equipment in varying degrees, and construction contractors may guarantee certain performance levels, subject to the payment of liquidated damages, the proceeds of such warranties or performance guarantees, if any, may not be adequate to cover lost revenues or increased costs and expenses associated with equipment problems during project start-up. We also may develop projects with local development partners, which expose us to risks associated with our partners' failure to retain development rights, obtain permits and approvals required for the development of a project or perform their management, construction or financing obligations. Realization of any of these risks could materially and adversely affect our results of operations, financial condition and growth prospects.

On October 22, 2009, we entered into a capital injection agreement with Henan Lantian Group to subscribe for a 79.0% equity interest in Henan Wuyue Storage Power Generation Co., Ltd. ( Wuyue ), which owns the right to develop a pumped storage hydropower project of 1,000 megawatts in Henan province. Pursuant to the agreement, we completed the first capital injection of RMB32.5 million (\$4.8 million) on March 23, 2010. In September 2010, we signed a framework agreement with China Guangdong Nuclear Energy Development Co. Ltd. ( Guangdong Nuclear ) for the equity transfer of a controlling interest of Wuyue. Under the framework agreement, subject to the completion of definitive documents, completion of due diligence and receipt of required governmental and other approvals in the PRC, we would transfer a 51.0% equity interest in Wuyue to Guangdong Nuclear, in exchange for which Guangdong Nuclear agreed to fund its proportionate share of the on-going development costs of the project. The framework expired on December 31, 2011, and the project has been largely at a standstill since 2009. We expect the project will continue to be at a standstill and has no intention to make further investments. As a result, we recognized impairment loss of Wuyue's construction in progress for \$11.6 million in 2011. The impairment loss attributable to the company's shareholder is \$5.0 million in 2011. No impairment loss of Wuyue's construction in progress was recognized as of December 31, 2012. See Note 7 to our consolidated financial statements included in this report. There can be no assurance that we will not in the future pursue other greenfield projects that would eventually turn out to be unsuccessful.

***We derive our revenues solely from the sale of hydroelectric power electricity and each of our projects typically has only one customer. Any prolonged disruption to the demand for hydropower or termination of a customer relationship may cause our revenues to decrease significantly.***

We derive revenues solely from the sale of electricity generated by hydroelectric power projects, and most of our power is sold to one of two national power grids. If for any reason the national power grids reduce or eliminate their purchases of hydropower, whether due to the emergence of a cheaper renewable energy source, withdrawal of government policy support for the dispatch of renewable energy or a severe drop in the PRC's demand for power, we may not have alternative customers readily available to us. Without alternative sources of income, our revenues would decrease significantly should a reduction in demand for hydropower or lack of customers continue for a prolonged period.

***Failure to renew the power purchase agreement could result in a reduction or complete loss of revenues from the hydroelectric power project, which would have a materially adverse effect on our revenues, results of operations and net cash used in operating activities.***



Our power purchase agreements with the local grids to which our hydroelectric power projects are connected generally have terms of one to five years. Some of these agreements provide for automatic renewal while others do not. If we should be unable to renegotiate a power purchase agreement with the local grid, it is unlikely we would be able to obtain alternative customers for the power generated by the project, as only one grid is available to each hydroelectric power project and there are no neighboring industrial sites ready to take up the power.

*Assumptions applied to our investment analyses and feasibility studies may not be accurate, and thus our actual return on investments, operational results, and overall growth may be materially and adversely affected.*

In performing investment analysis and feasibility studies for our acquisition and development targets, we consider factors such as: (i) demand for power and growth potential in the province where the hydroelectric power projects is located, (ii) increase in power generation capacity in the locality, (iii) the average tariff of hydroelectric power projects of similar types and capacity, (iv) quality of transmission systems to the local power grids, (v) facilities and technology at the power plant and (vi) ability to retain existing debt financing for the plant or obtain new financing. However, much of the information we rely on in preparing these analyses is provided by the sellers of the plants. With the rapid development of the PRC hydroelectric power industry in recent years, there is some increased risk of plants being built based on inaccurate or incomplete technical data. As a result, the assumptions we use to perform our internal investment analyses and feasibility studies may not be accurate or complete. If any one of our observations or assumptions, or a combination thereof, proves to be inaccurate, then our estimated returns on investments, operational results and our overall growth may be materially adversely affected.

Table of Contents

***The operations of our hydroelectric power projects may be adversely affected by the failure of key equipment, civil structures or transmission systems, which could result in lost revenues, increased maintenance costs and our owing damages to our customers for lost revenues.***

The breakdown of generation equipment or failure of other key equipment or of a civil structure in one or more of our hydroelectric power projects could disrupt the generation of electricity and result in revenues being lower than expected. Further, any breakdown or failure of one or more of our transmission systems could disrupt transmission of electricity by a power plant to the power grid. We have in the past experienced an equipment breakdown at two of our hydroelectric power projects, resulting in temporary suspensions of electricity generation and distribution. Repair of such breakdowns may take one or two days or up to a month, depending on the nature of the problem and availability of spare parts. In addition, if the problem is related to the grid, we will not be able to dispatch our power until the grid carries out the necessary repairs. A portion of the generation facilities that we have acquired, or may acquire in the future, were, or may have been, constructed many years ago. Older generating equipment may require significant capital expenditure to keep it operating efficiently. Such equipment is also likely to require periodic upgrading and improvement. Breakdown or failure of one of our plants also may prevent us from performing under the applicable power sales agreement which, in certain situations, could result in termination of the agreement or incurring liability for liquidated damages. These events may reduce our ability to generate power, resulting in loss of revenues and increased maintenance costs.

***Our power generating operations may be adversely affected by operational risks, which may result in uninsured losses.***

Operating hydroelectric power projects involves many risks and hazards which may be beyond our control and could cause significant business interruptions, personal injuries and property or environmental damage, and could increase power generating costs at affected hydroelectric power projects for an unknown duration. These risks include but are not limited to:

- failure of power transmission systems;
- unexpected maintenance or technical problems;
- human error;
- failure of our mechanical, software or monitoring systems; and
- industrial accidents.

The occurrence of any of these events, and the consequences resulting from them, may not be covered adequately or at all by our insurance policies. We do not currently carry any third-party liability insurance, business interruption insurance or insurance covering environmental

damage arising from accidents on our property or relating to our operations. See [Information on the Company Insurance](#) . Uninsured losses incurred or payments we may be required to make may have a material adverse effect on our results of operations and financial condition.

***Our operations may be interrupted by realization of unexpected risks or difficulties in integrating acquired businesses, which could interrupt our existing business and materially and adversely affect our results of operations.***

Our continued growth and ability to leverage our management expertise depend on the successful implementation of our acquisition strategy. We cannot assure you that any particular acquisition will produce the intended benefits. For instance, if we fail to integrate an acquired project into our operations successfully, or the synergies expected from an integration ultimately fail to materialize, then our existing business operations may be interrupted. We may have as a result expended significant management time, capital and other resources to the transaction, which interrupted our existing business operations.

Risks which may be incurred through acquisitions include, but are not limited to:

- potential construction or engineering problems which may expose us to severe economic loss or legal liabilities and require substantial expenditure from us to remediate;
- unforeseen or hidden liabilities, including exposure to legal proceedings, associated with newly acquired companies;
- failure to generate sufficient revenues to offset the costs and expenses of acquisitions;
- potential impairment losses and amortization expenses relating to goodwill and intangible assets arising from any of such acquisitions, which may materially reduce our net income or result in a net loss; and
- possible contravention of Chinese regulations applicable to such acquisitions.

Table of Contents

Any one or a combination of the above risks could interrupt our existing business and materially adversely affect our results of operations.

***Our growth strategy is dependent upon our ability to manage our growth effectively which, if unsuccessful, could result in a material adverse impact on our financial condition and results of operations.***

Despite the sales of the Yuanping and Yuheng hydroelectric power projects in 2011 and 2012, our business and operations historically have been expanding rapidly. The success of our growth strategy depends in part upon our ability to manage our growth, including, for example, our ability to assimilate management of acquired plants into our own management structure, to hire, train, supervise and manage new employees, to establish and maintain adequate financial control and reporting systems and other systems and processes, and to manage a rapidly growing and much larger operation. We cannot assure you that we will be able to:

- expand our systems and processes effectively or efficiently or in a timely manner;
- allocate our human resources optimally or reduce headcount without experiencing community protest, strike or other social unrest;
- identify and hire qualified employees or retain valued employees;
- incorporate effectively hydroelectric power projects in various stages of development that we may acquire;
- maintain good relationship with power grids; or
- centralize and improve the efficiency of the management and operations of the hydroelectric power projects acquired.

If we fail to effectively manage our growth, then our financial condition and results of operations could be materially adversely affected.

***On-grid tariffs are set based on regulatory guidance, actual supply of electricity to a power grid and regional demand for electricity, and changes in these factors may materially and adversely affect our results of operations.***

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All our electricity sales are to power grids and such sales are subject to on-grid tariffs. Since April 2001, the Chinese government has gradually implemented an on-grid tariff setting mechanism based on the actual costs of power projects as well as the average costs of comparable power projects that were constructed during the same period within the same provincial power grid.

This on-grid tariff setting mechanism was intended to replace the old mechanism for setting on-grid tariffs for planned output. Based on our experience, the determination of such average costs usually takes into consideration such factors as:

- construction costs, which vary according to the installed capacity of the individual power projects;
- operating and administrative expenses;
- maintenance and repair costs of power projects; and
- interest expense on outstanding debts.

Based on the factors listed above, we receive lower tariffs in comparison to thermal power projects because we have (i) minimal fuel costs and (ii) lower operating and capital construction costs. Any future reductions in our tariffs, which is considered unlikely at least in the short term given the existing shortage in electric power generation capacity in China and the desire of the central government to reduce the adverse environmental problems caused by thermal power projects, or inability to obtain higher tariffs, for example, to cover any increased costs we may have to incur, as a result of the on-grid tariff-setting mechanism or a change to such on-grid tariff-setting mechanism may adversely affect our revenues and profits. In some regions we negotiate annually with the local grid operators the on-grid tariff for our power before applying to the government for approval of the tariff, while in other regions the tariff is set by agreement between the power grid and the government.

In addition, the price for electric power sold to end consumers is fixed in China because the sales price of electricity is uniformly formulated by the National Development and Reform Commission. Thus, we must estimate the price at which the National Development and Reform Commission will allow power grids to sell electricity and set our prices so that, from the power grids' perspective, their cost for our electricity is acceptable when considered with the costs of other power producers on the grid. Thus, although our on-grid tariffs are lower than those for thermal power projects, the tariff levels we obtain from local grids may still be impacted by changes in the cost of generating thermal power and actual regional demand for power. In addition, if demand for electricity rises beyond expectations, then we cannot raise our prices accordingly to benefit from the increased demand. If actual sales prices are significantly below our estimates for such sales prices, then our financial condition and results of operations may be materially and adversely affected.

Table of Contents

***If less than all of the electricity we generate is dispatched by the grids, our future revenues will be reduced.***

Our profitability depends, in part, upon each of our hydroelectric power projects generating electricity at a level sufficient to meet or exceed the planned generation agreed with our local dispatch company, which in turn will be subject to local demand for electric power and dispatching to the grids by the dispatch centers of the local grid companies.

The dispatch of electric power generated by a power project is controlled by the dispatch centers of the applicable grid companies pursuant to a dispatch agreement with us and pursuant to governmental dispatch regulations. In each of the markets in which we operate, we compete against other power projects for power sales, and dispatch is allocated based on actual demand from the grid. No assurance can be given that the dispatch centers will dispatch the full amount of the planned generation of our power projects. A reduction by the dispatch centers in the amount of electric power dispatched relative to our hydroelectric power projects' planned generation could have a material adverse effect on our power generation and thus reduce our revenues. To date, however, other than external factors described elsewhere, such as limitations on transmission capacity in several instances, the only situation we have experienced when the dispatch centers accept less than the full amount of the power capable of being generated by our power projects is during brief periods of particularly heavy precipitation when our projects and others generate more power than the grids can physically accept and transmit. This occurs notwithstanding regulatory requirements that grids accept all power generated by renewable energy sources.

***Compliance with environmental regulations can be costly, and we may become subject to further environmental compliance requirements in connection with our operations, which could materially and adversely affect our results of operations and financial condition.***

We are required to comply with PRC national and local regulations regarding environmental protection for the construction and operation of our hydroelectric power projects. For all of our existing hydroelectric power projects, we have applied for all the environmental permits that are necessary under current PRC laws and regulations to conduct our business, but have not obtained some of the environmental permits from the relevant governmental authorities yet. Furthermore, to the extent that our existing hydroelectric power projects may have been in compliance with PRC environmental protection laws and regulations at the time they were constructed, we cannot assure you that the PRC government will not require retroactive application of current laws and regulations to such old plants. Compliance with environmental regulations can be very expensive, and non-compliance with these regulations may result in adverse publicity, potentially significant monetary damages and fines and suspension of our business operations. In addition, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with any future environmental regulations, we may be required to pay substantial fines, suspend production or even cease operations. We do not carry any insurance for damages resulting from failure to comply with environmental regulations.

In addition, China currently has no minimum flow requirements such as those that have been implemented by other countries that employ hydroelectric power. The purpose of minimum flow requirements is to ensure that there is enough water upstream and downstream for other users, and for navigation, fish and other wildlife. China may implement minimum flow requirements in the future, and to the extent we do not have sufficient water supply due to such minimum flow requirements, we may have to reduce our power generation or cease operation of the affected plants, as a result of which our results of operations and financial condition would be materially and adversely affected.

***Our business and business prospects rely in part on policy support from the PRC government, and our financial condition and results of operations may be materially and adversely affected if we lose such support.***

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National, provincial and local governments in China support the expansion of hydroelectric power, which eases the approval process for facility acquisition, construction and financing. Under the PRC Renewable Energy Law, Catalogue for the Guidance of Foreign Investment Industries, the Twelfth Five-year Plan of the Development of Renewable Energy Resources and other relevant laws, expansion of both large and small-scale hydroelectric power production is one of the priorities for the development of the nation's power supply, and foreign investment in the sector is encouraged. We currently enjoy several types of government support, including policy support for local grids to purchase all the power we generate and lower levels of VAT levied on small hydropower production in some provinces where we have operations. If for any reason, such as development of new energy production technologies or migration to other renewable energy sources, China removes such policy support, our financial condition and results of operations may be materially and adversely affected.

Table of Contents

***Competition in the PRC power industry may increase, and our results of operations and growth prospects may be materially and adversely affected if we are unable to compete effectively.***

We compete in the Chinese domestic market with other PRC power generation companies. The five biggest power companies in China, namely, China Huaneng Group, China Datang Group, China Huadian Group, China Guodian Group and China Power Investment Group, collectively operated 48.2% of China's total power generation installed capacity by the end of 2012, according to the State Electricity Regulatory Commission. These power companies and a number of other power producers have substantially greater financial, infrastructure or other resources than we do. We may also face competition from new entrants to the hydropower industry having business objectives similar to ours, including venture capital and private equity funds, leveraged buyout funds, and other operating businesses that may offer more advanced technological capabilities or that have greater financial resources. The ability of our competitors to access resources that we cannot access may prevent us from acquiring additional hydropower projects in strategic locations or from increasing our generating capacity. There is also increasing competition among operating power projects for increases in dispatched output, higher on-grid tariffs and land use rights. If we are unable to compete successfully, our growth opportunities to increase generating capacity may be limited and our revenue and profitability may be adversely affected. In recent years, the ongoing reform of the PRC power industry has included experimental programs to set on-grid tariffs through competitive bidding among thermal power projects. The tariffs determined by competitive bidding may be lower than the pre-approved tariffs for planned output. In the future, competitive bidding may extend to hydroelectric power projects and further increase price competition among domestic power generation companies. We cannot assure you that increased competition in the future will not have a material adverse effect on our results of operations and growth prospects.

***Our business depends on the competitiveness of hydroelectric power generation in relation to other forms of electric power generation. Fewer hydroelectric power projects may be built and less electricity from hydroelectric power sources may be sold if fossil fuel prices decline significantly or if other renewable energy sources become less expensive than hydroelectric power, either of which could have a material adverse effect on our results of operations, financial condition and growth prospects.***

The demand for power projects that produce electricity from renewable energy sources such as water depends in part on the cost of generation from other sources of energy. The terms under which supplies of petroleum, coal, natural gas and other fossil fuels, as well as uranium, can be obtained are key factors in determining the economic interest of using these energy sources rather than renewable energy sources. The principal energy sources in competition with renewable energy sources are petroleum, coal, natural gas and nuclear energy. The high price levels for fossil fuels, in particular, petroleum and natural gas, can enhance the price competitiveness of electricity from renewable energy sources. A decline in the competitiveness of electricity from renewable energy sources in terms of cost of generation, technological progress in the exploitation of other energy sources, discovery of large new deposits of oil, gas or coal, or a decline in prices of those fuels, could weaken demand for electricity generated from renewable energy sources.

In the renewable energy sector, competition primarily exists with regard to factors such as bidding for available sites, performance of sites in generation, quality of technologies used, price of power produced and scope and quality of services provided, including operation and maintenance services. A decline in the competitiveness of electricity generated from hydroelectric sources in terms of such factors could weaken demand for hydroelectric power. Should hydroelectric power production become uncompetitive with other forms of renewable energy production, or if fossil fuel production becomes more cost competitive, the construction of hydroelectric power projects may slow, thus reducing our pool of potential acquisition targets and limiting our ability to grow our operations.

***Certain of our operating subsidiaries are parties to loan agreements that provide for lender rights that may adversely affect our ability to operate our business and restrict our ability to pay dividends and we could be materially adversely affected if our lenders accelerate our debt due to our current or future failures to comply with our loan agreements.***



Pursuant to loan agreements to which certain of our operating subsidiaries are a party, our lenders have rights that include the following: (i) restricting the borrower during the term of the loan from undertaking any shareholding change or restructuring without obtaining prior approval of the lender; (ii) restricting the borrower from undertaking investment, asset transfer or pledging or mortgaging its assets without obtaining prior approval of the lender; (iii) restricting the borrower from paying dividends until the loan is fully repaid; and (iv) placing the borrower's power generation revenues into escrow until the loan is repaid. These restrictions may prevent us from disposing of or restructuring the ownership of our hydroelectric power projects, and limit the funds available to pay dividends to our shareholders.

***Planning, construction, acquisition and operation of our hydroelectric power projects require us to obtain and maintain a significant number of permits and approvals from PRC government agencies, some of which we have not obtained or were not transferred to us upon project acquisition. Failure to obtain these permits and approvals could result in significant fines and our loss of the right to develop or operate those assets, which would materially and adversely affect our future growth plans and results of operations.***

The planning, construction, acquisition and operation of small hydroelectric power projects in China requires permits and approvals to be obtained and maintained under different regulatory schemes administered by a wide range of PRC government agencies. Many of the completed projects we have acquired have not historically obtained or have failed to maintain all of those permits required for their operation, and in some cases permits that were obtained have not been transferred to us following our acquisition of the plant.

Table of Contents

Furthermore, the development rights we have obtained or may obtain are, in most cases, for projects that have not yet received planning and other permits. We believe we have applied for the grant, transfer or renewal, as applicable, of all permits and approvals required to develop and operate our hydroelectric power projects. However, our applications with respect to one or more projects may be rejected and we may be fined for failure to timely obtain permits and approvals for any of those projects. Failure to obtain missing permits and approvals may in certain cases result in significant fines or the government authorities requiring us to cease operation of our hydroelectric power projects, or unwind the acquisition of the project, any of which would materially and adversely affect our future growth plans and results of operations. Failure to obtain permits and approvals for our development projects may result in our inability to complete and operate the project, or our being subject to penalties and fines upon completion of the project, either of which could materially and adversely affect our future growth and results of operations.

***Our operations in China are extensively regulated by the PRC government and our costs associated with compliance with such regulations are substantial. Our results of operations and future growth prospects may be materially and adversely affected by future changes in government regulations and policies.***

All of our hydroelectric power projects in China are subject to extensive regulation by the PRC governmental authorities, including central governmental authorities such as the Ministry of Commerce, the State Administration for Industry and Commerce, the National Development and Reform Commission, the State Electricity Regulatory Commission, the State Administration of Taxation, the Ministry of Environmental Protection, the Ministry of Communications and Transportation, the Ministry of Water Resources, the Ministry of Land and Resources and the Ministry of Housing and Urban- Rural Development, as well as their provincial and local counterparts. Government regulations address virtually all aspects of our operations, including, among others, the following:

- planning and construction of new power projects;
- the granting of power generation, dispatch and supply permits;
- the amount and timing of power generation;
- the setting of on-grid tariffs paid to power producers and power tariffs paid by consumers of electricity;
- power grid control and power dispatch, including the setting of preferential policies for the dispatch of renewable energy generated power;
- allocation of water resources and control of water flows;

- environmental protection and safety standards;
- acquisitions by foreign investors; and
- taxes, in particular Enterprise Income Tax and Value Added Tax.

Our costs of compliance with, and reliance on, this regulatory system are significant to our business. An increase in the cost of compliance could increase our operating costs and expenses and materially and adversely affect our results of operations. Moreover, policy movements against renewable energy power producers could limit our opportunities for growth and materially and adversely affect our revenues.

***The transfer of state-owned assets in China is subject to approval by authorities in charge of state-owned assets administration and supervision and involves a public bidding process. Any failure by us or prior owners of our projects to comply with PRC laws and regulations in respect of the transfer of state-owned assets may result in the imposition of fines or forfeiture of our projects.***

We currently have a portfolio of twenty-five operating hydroelectric power projects. Some of our projects were previously state-owned assets. Under PRC law, the transfer of state-owned assets is subject to strict procedures and approvals. We believe we have complied with all requisite procedures in acquiring state-owned assets, namely our Shapulong hydroelectric power project. However, if a previous transferor of state-owned assets failed to comply with relevant PRC law, the transfer of the state-owned assets may be reversed by the government or fines may be levied. In such circumstances, we will have a legal right to recover our investment in the assets, but we may not be able to recover from the relevant parties, which could result in a loss of power generation plants, loss of revenues and a significant increase in operating costs.

Under PRC law, we are also required to bid for the acquisition of state-owned assets that we wish to acquire. We typically negotiate the terms of the sale with the state-owned seller prior to the bidding process, however, we may not be successful in the bid and may fail to obtain the project as a result. To the extent we seek in the future to acquire state-owned assets, we will need to follow this process, and may not be successful in obtaining the target business. To the extent we are unsuccessful in our bids for these state-owned interests, our future growth and the ability to control our existing projects may be materially and adversely affected.

Table of Contents

***Certain of our acquisitions have not obtained approval from the local counterparts of the National Development and Reform Commission, which could result in our being required to subsequently obtain the approval, losing preferential tax treatments and other preferential government support, or being ordered to cease operation of the subject hydroelectric power project.***

In accordance with relevant PRC laws and regulations, acquisitions involving foreign investment require approval from the National Development and Reform Commission, or its local counterparts. Certain of our acquisitions of hydroelectric power projects have not procured approvals from the local counterparts of the National Development and Reform Commission, despite having obtained approvals from relevant local counterparts of the Ministry of Commerce. We have in some instances approached the local counterparts of the National Development and Reform Commission to apply for these approvals, but have been told by the government agency that it is not necessary for our projects to obtain these approvals. Failure to obtain any of the approvals may have a material adverse effect on our business operations, including our being required to subsequently obtain the approval, losing preferential tax treatments and other preferential government support, or being ordered to cease operation of the subject hydroelectric power project.

***We have not obtained formal title certificates to some of the properties we occupy, which may subject us to lawsuits or other actions being taken against us and may result in our loss of the right to operate on these properties and increased operating expenses.***

We have not obtained formal title certificates in respect of the land that we use at the Zhougongyuan, Binglangjiang II, Jinlong, Jintang, Jinwei, Jinjiu, and Dongguan hydroelectric power projects with a total area of approximately 2,499,278 m<sup>2</sup>. We are in the process of completing the legal procedures for obtaining the relevant title certificates for the parcels of land and buildings involved and registering them in the name of our operating companies. However, we may not be able to obtain all of the formal title certificates. While we are indemnified by certain predecessors of our operating companies for any losses or expenses that we may suffer from these title defects, our rights as owner or occupier of these properties and buildings may be adversely affected as a result of the absence of formal title certificates and we may be subject to lawsuits or other actions taken against us and may lose the right to continue to operate on these properties.

In addition, certain of the land use rights currently held by us were obtained by way of allocation by the PRC government without charge. These parcels of land at the Wuliting, Shapulong, Banzhu, Wangkeng, Liyuan, Ruiyang, Yingchuan, Xiaopengzu, Mangxian, Husahe Cascade III, Husahe Cascade IV, and Qianling sites are used as workshops, dams and reservoirs, and have a total area of approximately 10,807,725 m<sup>2</sup>. The PRC central or local governments may in the future require us to re-obtain such land use rights by way of grant by the government or require us to pay site use fees. In the event that we are required to obtain the land use rights by way of grant, we will be obligated to enter into state-owned land use rights grant contracts with the competent land administration authorities and pay relevant taxes and fees, including but not limited to land premiums in accordance with relevant PRC laws and regulations. These taxes and fees for obtaining land use rights may be significant and if we are required to pay these amounts our operating expenses could be significantly increased.

Furthermore, part of the land occupied by Jinwei hydroelectric project is leased allocated land. In accordance with relevant PRC laws and regulations, the lease of allocated land shall obtain approval from the competent land and resources authority. We have not procured such approval so far. Jinwei hydroelectric project is also leasing certain land from the local peasants which is collectively-owned. In accordance with relevant PRC laws and regulations, collectively-owned land shall not be leased for industrial use purpose such as hydropower generation. The total area for the aforesaid leased allocated land and collectively-owned land is approximately 435,288.4 m<sup>2</sup>. In the event that we are required to cease such lease and/or any penalties are imposed on us, our business operations and financial condition could be materially and adversely affected.

***Certain of our existing hydroelectric power projects have not passed the completion acceptance procedure, which could result in the imposition of fines or the closure of non-permitted hydroelectric power projects.***

In accordance with relevant PRC laws and regulations, hydroelectric power projects are required to pass a completion acceptance procedure. Currently, only sixteen of our twenty-five projects have passed the completion acceptance procedure and two projects, namely, Husahe Cascade IV and Mangxian projects, cannot verify whether they have passed completion acceptance due to the loss of files caused by flood in 2004. The remaining seven of our existing hydroelectric power projects have not passed the completion acceptance procedure and they may not successfully pass the completion acceptance procedure in the future. We expect two will complete the procedure by the end of 2013. As for the remaining five projects in Fujian Province, we have been informed by relevant governmental authorities that Fujian Province has temporarily suspended the completion acceptance procedure for small hydroelectric projects and the time for resumption is uncertain. Failure by any of our existing projects to pass completion acceptance procedure could result in the government imposing fines or ordering us to shut down such hydroelectric power projects.

***Our directors and officers may in the future become affiliated with entities engaged in business activities similar to those conducted by us and, accordingly, may have conflicts of interest in determining to which entity a particular business opportunity should be presented, which could limit the business growth opportunities for our company.***

Our directors and officers may become affiliated with entities engaged in business activities similar to those conducted by us. Additionally, our directors and officers may become aware of business opportunities which may be appropriate for presentation to us as well as to the other entities with which they are or may be affiliated. Due to these existing affiliations, they may have fiduciary obligations or contractual obligations to present potential business opportunities to those entities prior to presenting them to us. Accordingly, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented. The loss of these business opportunities could limit the growth of our company.

Table of Contents

***If a poll is not demanded at our shareholder meetings, voting will be by a show of hands and shares will not be proportionately represented. Shareholder resolutions may be passed without the presence of the majority of our shareholders in person or by proxy.***

Voting at any of our shareholder meetings is by a show of hands unless a poll is demanded. A poll may be demanded by the chairman of the meeting or by any three shareholders present in person or by proxy or by any shareholder(s) holding 1/10 of the total voting rights of shareholders present at the meeting. If a poll is demanded, each shareholder present in person or by proxy will have one vote for each ordinary share registered in his name. If a poll is not demanded, voting will be by show of hands and each shareholder present in person or by proxy will have one vote regardless of the number of shares registered in his name. In the absence of a poll, shares will therefore not be proportionately represented. In addition, the quorum required for our shareholder meetings consists of shareholders who hold at least one-third of our ordinary shares being present at a meeting in person or by proxy. Therefore, subject to the requisite majorities, shareholder resolutions may be passed at our shareholder meetings without the presence of the majority of our shareholders in person or by proxy.

***If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud.***

We are subject to reporting obligations under the U.S. securities laws. Under the current SEC regulations, we are required to include a management report on internal control over financial reporting in our annual report, which contains management's assessment of the effectiveness of our internal control over financial reporting for the year ended December 31, 2012. However, the management's report was not subject to attestation by our independent registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act that permits us, a non-accelerated filer, to provide only management's report in this annual report. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2012. See Item 15. Control and Procedures. However, if we fail to maintain effective internal control over financial reporting in the future, our management may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Moreover, effective internal control over financial reporting is necessary for us to produce reliable financial reports and is important to help us to manage our company effectively and prevent fraud. As a result, our failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs. Furthermore, we have incurred and expect to continue to incur considerable costs and devote significant management time and efforts and other resources to comply with Section 404 of the Sarbanes-Oxley Act.

***Compliance with rules and requirements applicable to public companies is costly and complex and any failure by us to comply with these requirements on an ongoing basis could negatively affect investor confidence in us and cause the market price of our securities to decline.***

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules adopted by the SEC and the NYSE, have required changes in the corporate governance practices of public companies. We expect these rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. Complying with these rules and requirements may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in China with experience and expertise relating to U.S. GAAP and U.S. public-company reporting requirements and such personnel may command high salaries. If we cannot attract or retain sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which may be very costly. Any failure by us to comply with these requirements on an ongoing basis could expose us to increased risk of fraud and subject us to potential delisting from the NYSE, regulatory investigations and civil or criminal sanctions. In addition, we will incur additional costs associated with our public company reporting requirements.

**Risks Relating to Doing Business in China**

*Adverse changes in PRC economic and political policies could have a material adverse effect on the overall economic growth of China, which could reduce the demand for electricity and materially and adversely affect our business.*

Our operating businesses are based in China and all of our power sales are made in China. As such, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many aspects, including:

- the level of government involvement;
- the level of development;
- the growth rate;
- the level and control of capital investment;
- the control of foreign exchange; and
- the allocation of resources.

Table of Contents

While the Chinese economy has grown significantly in the past decades, the growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Chinese economy will continue to grow or to do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. It is uncertain whether various macroeconomic measures and monetary policies adopted by the PRC government will be effective in sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long term, may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments, and our ability to access bank financing has been and likely will continue to be adversely affected by changes in the PRC's monetary policy.

Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by China government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of investments and expenditures in China, which in turn could lead to a reduction in demand for electricity and consequently have a material adverse effect on our businesses.

***Interpretation of PRC laws and regulations involves uncertainty.***

We are incorporated in Cayman Islands and are subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned companies. All of our operating businesses are located within China and are governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be used as a reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretations of PRC laws and regulations are not always uniform and involves a relatively high degree of uncertainty. Laws may be changed without being immediately published or may be amended with retroactive effect. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than certain of our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

***The Antimonopoly Law may subject our future acquisitions to increased scrutiny, which could affect our ability to consummate acquisitions on terms favorable to us or at all.***

The Antimonopoly Law of China became effective on August 1, 2008. The law was enacted in part to guard against and cease monopolistic activities, and to safeguard and promote orderly market competition. In accordance with the law, monopolistic acts shall include monopolistic agreements among business operators, abuse of dominant market positions by business operators and concentration of business operators that eliminates or restricts competition or might be eliminating or restricting competition.

On August 3, 2008, the State Council promulgated the Regulations on the Thresholds for Reporting of Concentration of Business Operators, or the Reporting Threshold Regulations, which provide specific thresholds for reporting of concentration of business operators. Under the Antimonopoly Law and the Reporting Threshold Regulations, the parties to an acquisition must report to the Ministry of Commerce in advance if in the preceding accounting year the turnover in the aggregate achieved by all the parties to the transaction exceeds RMB10.0 billion (\$1.5



billion) worldwide or RMB2.0 billion (\$0.3 billion) within China, and the turnover achieved by at least two of them respectively exceeds RMB400.0 million (\$58.6 million) within China. However, the Ministry of Commerce has the right to initiate investigation of a transaction not reaching the above-mentioned reporting thresholds if the Ministry of Commerce has evidence that the transaction has or may have the effect of excluding or restricting competition. The antitrust scrutiny procedures and requirements set forth in the Antimonopoly Law and the Reporting Threshold Regulations grant the government extensive authority of evaluation and control over the terms of acquisitions in China by foreign investors, and their implementation involves significant uncertainties and risks. To the extent our future acquisitions meet the threshold requirements set forth in the law and the Reporting Threshold Regulations, or are deemed by the Ministry of Commerce to meet the thresholds, we will be subject to antimonopoly review. The consummation of our future acquisitions could therefore be much more time-consuming and complex, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or prevent the consummation of such acquisitions, and prevent us from attaining our business objectives.

Table of Contents

On February 3, 2011, General Office of the PRC State Council issued the Circular of the General Office of the State Council on the Establishment of Security Review System Regarding Mergers and Acquisitions in China by Foreign Investors with effect in March, according to which, the acquisitions by foreign investors of domestic Chinese companies active in the certain sectors shall be subject to security review, including military enterprises, key agricultural products, key energy and resources, key infrastructure, key transportation services, key technologies and key equipment manufacturing activities that raise national security concerns, where the foreign investor might acquire actual control of the target Chinese company through the acquisition. This newly-issued regulation is unclear in certain aspects including the definition of key sectors which are expected to be further specified and therefore how it will be interpreted and implemented in practice remains to be seen. In case our future acquisitions fall within the security review scope, the consummation of such acquisitions could therefore be much more time-consuming and complex, and any required approval processes may delay or prevent the consummation of such acquisitions, and prevent us from attaining our business objectives.

***The discontinuation or revocation of the preferential tax treatments and government incentives available to us could decrease our net income and materially and adversely affect our financial condition and results of operations.***

On March 16, 2007, the new PRC Enterprise Income Tax law, or EIT Law, was enacted, which became effective on January 1, 2008 and replaced the previous two separate tax legal regimes for foreign invested enterprises, or FIEs, and Chinese domestic companies. The EIT Law adopts a uniform tax rate of 25% for all enterprises, including FIEs, and revokes many of the previous tax exemption, reduction and preferential treatments which were applicable to FIEs. However, any enterprises that were established before the promulgation of the EIT Law that are entitled to preferential tax treatments for a fixed period will continue to be entitled to such preferential tax treatments until the expiration of such period. If the fixed period has not commenced because of losses, it shall be deemed to commence on January 1, 2008. In addition, under the pre-2008 tax regulations, enterprises established in the Western region of the PRC and engaged in encouraged industries (e.g., hydroelectric power activities) are entitled to a preferential tax rate of 15% from 2001 to 2010 and a two-year tax exemption followed by three-year 50% tax rate reduction starting from the first year of operation (for domestic enterprises) or first profit-making year (for foreign-invested enterprises). The treatment of preferential tax rate of 15% has been renewed in 2011 and extended to the period from 2011 to 2020. In addition, enterprises established before December 31, 2010 that entitled to the tax term holiday may continue to enjoy such tax holiday until its expiration.. Many our PRC subsidiaries are currently enjoyed various preferential tax treatments including reduced tax rate and/or term tax holidays. See Item 5. Operating and Financial Review and Prospects - A. Operating Results - Taxation .

Preferential tax treatments and incentives granted to us by PRC governmental authorities are subject to review and may be adjusted or revoked at any time in the future. The discontinuation or revocation of any preferential tax treatments and incentive currently available to us will cause our effective tax rate to increase, which will decrease our net income and materially and adversely affect our financial condition and results of operations.

***Our company may be classified as a resident enterprise for PRC enterprise income tax purposes under the PRC EIT Law. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders and ADS holders, including subject to PRC taxation on our worldwide income.***

Under the PRC EIT Law, an enterprise established outside of China with its de facto management body in China is considered a resident enterprise, meaning that it can be treated the same as a Chinese enterprise for enterprise income tax purposes, which will be subject to a uniform 25% enterprise income tax rate on its worldwide income and tax reporting obligations. In addition, the Notice on Certain Issues regarding the Recognition of Resident Enterprises for Offshore-registered Enterprises Controlled by Chinese Enterprises on the Basis of a De Facto Management Body, or Circular 82, issued by the State Administration of Taxation, or the SAT, on April 22, 2009 regarding the standards used to classify certain Chinese-controlled enterprises established outside of China as resident PRC source income, subject to PRC withholding tax currently at a rate of 10%, when paid to non-PRC enterprise shareholders. Circular 82 also subjects such resident enterprises to various reporting

requirements with the PRC tax authorities. Under the implementation regulations to the PRC EIT Law, a de facto management body is defined as a body that exercises substantial and overall management and control over the manufacturing and business operations, personnel, and human resources, finances and properties of an enterprise. In addition, Circular 82 details that certain Chinese-controlled enterprises will be classified as resident enterprises if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders meetings; and half or more of the senior management or directors having voting rights. On July 27, 2011, the SAT issued Administrative Measures of Enterprise Income Tax of Chinese-controlled Offshore Incorporated Resident Enterprises (Trial), or Bulletin 45, which became effective on September 1, 2011, to provide further guidance on the implementation of Circular 82. Bulletin 45 clarifies certain issues related to determining PRC resident enterprise status, post-determination administration and which competent tax authorities are responsible for determining offshore incorporated PRC resident enterprise status. Bulletin 45 specifies that when provided with a copy of a Chinese tax resident determination certificate issued by the competent tax authorities from an offshore incorporated PRC resident enterprise, the payer should not withhold 10% income tax when paying Chinese-sourced dividends, interest and royalties to the offshore incorporated PRC resident enterprise.

Table of Contents

Currently, a substantial majority of the members of our management team are located in China. However, Circular 82 or Bulletin 45 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign corporations like us. In the absence of detailed implementing regulations or other guidance determining that offshore companies controlled by PRC individuals or foreign corporations like us are PRC resident enterprises, we do not currently consider our company or any of our overseas subsidiaries to be PRC resident enterprises. However, the SAT may take the view that the determining criteria set forth in Circular 82 and Bulletin 45 reflects the general position on how the de facto management body test should be applied in determining the tax resident status of all offshore enterprises. It is also possible that additional implementing regulations or guidance may be issued determining that our Cayman Islands holding company is a resident enterprise for PRC enterprise income tax purposes. Any determination by the PRC tax authorities that our Cayman Islands holding company is a resident enterprise for PRC enterprise income tax purposes would result in a number of unfavorable PRC tax consequences. First, we would be subject to enterprise income tax at a rate of 25% on our worldwide income as well as PRC enterprise income tax reporting obligations. This would mean that income such as interest on offering proceeds and other income from sources other than China would be subject to PRC enterprise income tax at a rate of 25%, in comparison to no taxation in the Cayman Islands. Second, although under the PRC EIT Law and its implementing rules and Bulletin 45, dividends paid by a PRC tax resident enterprise to an offshore incorporated PRC tax resident enterprise controlled by PRC enterprise or enterprise group would qualify as tax-exempt income, we cannot guarantee that dividends paid to us by our PRC subsidiary will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities and tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes but not controlled by PRC enterprise or enterprise group like us. Finally, a 10% withholding tax will be imposed on dividends we pay to our non-PRC enterprise shareholders and gains derived by our non-PRC enterprise shareholders from transferring our ADSs or ordinary shares. It is also unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise.

***We rely principally on dividends and other distributions, if any, on equity paid by our operating businesses in China, and limitations on their ability to pay dividends to us could have a material adverse effect on our business and results of operations.***

We are a holding company and we rely principally on dividends and other distributions, if any, on equity paid by our operating businesses in China for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. We currently expect to permanently reinvest the earnings of our operating businesses in China and have no plan to cause our operating businesses to make a dividend distribution to us.

As entities established in China, our operating businesses are subject to certain limitations with respect to dividend payments. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. For each of our operating businesses that is a Sino-foreign joint venture enterprise, it may not distribute its after-tax profits to us if it has not already made contributions to its reserve fund, enterprise development fund and employee bonus and welfare fund at percentages that are decided by its board of directors. For each of our operating businesses that is a wholly foreign-owned enterprise, it may not distribute its after-tax profits to us if it has not already made contributions to its employee bonus and welfare fund at a percentage that is decided by its board of directors and to its reserve fund at a rate of no less than 10% of its net profit. A wholly foreign-owned enterprise is required to continue making contributions to its reserve fund until such fund reaches 50% of its registered capital. For each of our operating businesses that is a PRC domestic company, it may not distribute its after-tax profits to us if it has not already made contributions to its statutory reserve fund at a rate of no less than 10% of its net profit. A PRC domestic company is required to continue making contributions to its statutory reserve fund until such fund reaches 50% of its registered capital. These reserve funds may not be distributed as cash dividends. The total amount of our restricted net assets was RMB3,304.3 million (\$475.0 million) as of December 31, 2012, which exceeded our stockholders' equity balance of \$392.0 million as of that date. In addition, if our operating businesses in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. Limitations on the ability of our operating businesses in China to pay dividends to us could adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business. Accordingly, if for any of the above or other reasons, we do not receive dividends from our operating businesses in China, our liquidity, financial condition and ability to make dividend distributions to our shareholders will be materially and adversely affected.

*Fluctuations in the value of RMB will affect the amount of our non-RMB debt service in RMB terms and affect the value of, and dividends payable on, our ADSs in foreign currency terms.*

Our financial statements are expressed in U.S. dollars. However, a majority of our revenues and expenses are denominated in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments. However, the value of our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because the primary value of our business is effectively denominated in RMB, while the ADSs are traded in U.S. dollars.

The value of RMB against the U.S. dollar and other currencies depends, to a large extent, on China's domestic and international economic, financial and political developments and government policies, as well as the currency's supply and demand in the local and international markets. The People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rate and achieve certain exchange rate targets, and through such intervention kept the U.S. dollar-RMB exchange rate relatively stable for almost two years from July 2008. On June 20, 2010, the People's Bank of China announced that the PRC government would further reform the RMB exchange rate regime and increase the flexibility of the exchange rate. Since that time, the RMB has gradually appreciated against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuation of the RMB against the U.S. dollar. Fluctuation of the value of RMB will affect the amount of our non-RMB debt service in RMB terms since we have to convert RMB into non-RMB currencies to service our foreign debt.

Table of Contents

As we may rely on dividends paid to us by our PRC subsidiaries, any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition, and the value of any dividends payable on our ADSs in foreign currency terms. For example, to the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. Furthermore, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

We incurred foreign exchange loss of \$855,000, \$851,000 in 2010 and 2011, respectively, and generated a foreign exchange gain of \$28,000 in 2012. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur foreign exchange losses in the future. In addition, our foreign exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

***Restrictions on currency exchange may limit our ability to receive dividends from our operating businesses in China and their ability to obtain overseas financing.***

Our operating businesses in China may convert a portion of RMB held by them into foreign currencies to meet its foreign currency obligations, including, among others, payments of dividends declared, if any, in respect of our ordinary shares. Under China's existing foreign exchange regulations, our operating businesses in China are able to pay dividends in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, we cannot assure you that China government will not take measures in the future to restrict access to foreign currencies for current account transactions, including payment of dividends.

Foreign exchange transactions for capital account items, such as direct equity investments, loans and repatriation of investments, by our operating businesses in China continue to be subject to significant foreign exchange controls and require the approval of PRC governmental authorities, including SAFE. In particular, if our operating businesses in China borrow foreign currency-denominated loans from us or other foreign lenders, these loans must be registered with the local offices of SAFE. These limitations could affect their ability to obtain additional equity or debt funding that is denominated in foreign currencies.

***Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB.

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Inspection of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future auditor quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedure. As a result, investors may be deprived of the benefits of PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Recent action being taken by the SEC against the PRC affiliates of the Big Four accounting firms, including our auditor, could create additional uncertainty about the status of audits of U.S.-listed PRC-based companies and may materially and adversely affect the liquidity and value of our ADSs.***

In December 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese affiliates of the "big four" accounting firms, including our auditors, and also against BDO China Dahua. The Rule 102(e) proceedings initiated by the SEC relate to these firms' failure to produce documents, including audit workpapers, to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, related to China-based companies under investigation by the SEC for potential accounting fraud against U.S. investors. As the administrative proceedings are ongoing, it is difficult to determine their outcome or the impact thereof on us. We are not involved in these proceedings and are not subject to any SEC investigations. Nor are the issues raised by these proceedings specific to our auditors. However, if the administrative judge were to find in favor of the SEC under the proceeding and depending upon the remedies sought by the SEC, these audit firms could be barred from practicing before the SEC and hence unable to continue to be the auditors for China-based companies like ourselves. As a result, we may not be able to meeting the ongoing reporting requirements under the U.S. Securities Exchange Act of 1934, as amended, which may ultimately result in our deregistration from the SEC and delisting from the NYSE. Moreover, any negative news about the proceedings against these audit firms may erode investor confidence in China-based, United States listed companies and the market price of our ADSs may be adversely affected.

Table of Contents

***PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit our ability to make additional capital contributions or loans to our PRC operating businesses.***

Any capital contributions or loans that we, as an offshore company, make to our PRC operating businesses are subject to PRC regulations. For example, any of our loans to our PRC operating businesses cannot exceed the difference between the total amount of investment our PRC operating businesses are approved to make under relevant PRC laws and their respective registered capital, and must be registered with the local branch of SAFE as a procedural matter. In addition, our capital contributions to our PRC operating businesses must be approved by the National Development and Reform Commission and the Ministry of Commerce or their local counterpart and registered with the State Administration for Industry and Commerce or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC operating businesses or to fund their operations may be negatively affected, which could adversely affect their liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments.

Furthermore, SAFE promulgated a new circular in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises into RMB. Pursuant to this new circular, RMB converted from foreign exchange capital contribution can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition unless otherwise allowed by PRC laws or regulations. As a result, we may not be able to increase the capital contribution of our operating subsidiaries and subsequently convert such capital contribution into RMB for equity investment or acquisition in China. In addition, SAFE strengthened its oversight of the flow and use of RMB funds converted from the foreign currency-denominated capital of a foreign-invested enterprise. The use of such RMB may not be changed without approval from SAFE, and may not be used to repay RMB loans if the proceeds of such loans have not yet been used for purposes within the foreign-invested enterprise's approved business scope.

***We may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities if we or our domestic employees or directors fail to comply with the PRC regulations relating to employee stock incentive plans adopted by companies for domestic employees.***

On December 25, 2006, the People's Bank of China issued the Administration Measures on Individual Foreign Exchange Control, or the PBOC Regulation. On January 5, 2007, the SAFE issued the Implementation Rules for the PBOC Regulation. Both of these regulations became effective on February 1, 2007. According to these regulations, all foreign exchange matters relating to employee stock holding plans, share option plans or similar plans of overseas-listed companies with domestic employees' participation require approval from the SAFE or its local branch. In February 2012, the SAFE promulgated the Notice on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas-Listed Company, or the Stock Option Rule, which terminated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company issued by the SAFE on March 28, 2007. Under the Stock Option Rule, domestic employees who participate in any stock incentive plan, including employee stock holding plans, share option plans or similar plans in an overseas-listed company, are required to register with the relevant local SAFE branch and complete certain other procedures through a PRC agent. Under the Stock Option Rule: (i) domestic employees include PRC citizens (inclusive of Hong Kong, Macau and Taiwan nationals) and foreign nationals who have continuously resided in China for at least a year, and (ii) a PRC agent may be a domestic company participating in the stock incentive plan or a domestic institution that is qualified to engage in asset custodian business and has been duly designated by a domestic company. We are an overseas-listed company and as a result we and our domestic employees who have been granted share options or shares under our 2008 Share Incentive Plan are subject to the Stock Option Rule. We are preparing the filing with the relevant local SAFE branch and undertaking certain other procedures according to the Stock Option Rule. Failure to comply with these regulations may subject us to fines or other legal sanctions imposed by the SAFE or other Chinese government authorities. In addition, the Ministry of Finance and the State Administration of Taxation has issued certain circulars concerning employee share options. Pursuant to these circulars, our employees working in China who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have an obligation to file documents related to employee share options with the relevant tax authorities and withhold individual income taxes resulting from the exercise of their share options. If our employees fail to pay and we fail to withhold their income taxes, we may face sanctions imposed by tax authorities or other relevant PRC government



authorities. See Item 4. Information on the Company - Regulation Regulations on Employee Share Options.

Table of Contents

**Risks Relating to Our Securities**

***The trading prices of our ADSs and warrants are likely to be volatile, which could result in substantial losses to investors.***

The trading prices of our ADSs and warrants have been and are likely to continue to be volatile and fluctuate widely in response to factors beyond our control. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action suit, it could divert the attention of senior management, and, if adversely determined, could have a material adverse effect on our results of operations and financial condition.

The performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs and warrants. The trading performances of these PRC-based companies' securities at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in the United States and consequently may impact the trading performance of our ADSs and warrants. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting or other practices at other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless whether we have engaged in such practices. Furthermore, short sellers and other funds may take a short position or positions in our ADSs and warrants for the specific purpose of driving down market price for our ADSs and warrants. Short sellers may also publish articles or other allegations in conjunction with such attacks. Even when there is no truth to their claims and we rebut their allegations, such attacks can have a material impact on the market price of our ADSs and warrants and divert management resources and attention. These broad market and industry factors may significantly affect the market price and volatility of our ADSs and warrants, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume of our ADSs and warrants may be highly volatile for specific business reasons. Factors such as variations in our financial results, announcements of new business initiatives by us or by our competitors, recruitment or departure of key personnel, changes in the estimates of our financial results or changes in the recommendations of any securities analysts electing to follow our securities or the securities of our competitors could cause the market price for our ADSs and warrants to change substantially. Any of these factors may result in large and sudden changes in the trading volume and price for our ADSs and warrants.

***If we do not meet the NYSE continued listing requirements, our ADSs may be delisted.***

On June 27, 2012, we were notified by the NYSE that we were not in compliance with the NYSE's continued listing standard that requires that the average closing price of our ADS not fall below \$1.00 per ADS for any consecutive 30-trading-day period. We can regain compliance at any time during the six-month cure period if our ADS have a closing share price of at least \$1.00 on the last trading day of any calendar month during the period and also have an average closing share price of at least \$1.00 over the 30 trading-day period ending on the last trading day of that month or on the last day of the cure period. On October 8, 2012, the NYSE notified us that we had regained compliance with the NYSE's continued listing standard that requires that the average closing price of our ADS not fall below \$1.00 per ADS for any consecutive 30-trading-day period. There is no assurance that the average closing price of our ADSs will not drop below \$1.00 per ADS over a consecutive 30-trading-day period again or we will be always in compliance with other NYSE continued listing requirements. The delisting of our ADSs may significantly affect the ability of investors to trade our shares and negatively affect the value and liquidity of our ADSs. The delisting may have other negative results, including the potential loss of confidence by employees and the loss of investor interest in our ADSs and damaging our reputation and standing with lenders, suppliers and customers.



Table of Contents

***The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.***

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our future ability to raise capital through offerings of our ADSs.

Currently there are 162,057,167 ordinary shares outstanding. In addition, there are outstanding options and warrants to purchase an aggregate of 29,690,469 ordinary shares, including options and warrants to purchase an aggregate of 29,690,469 ordinary shares immediately exercisable as of the date of this annual report.

All of the ADSs sold in our initial public offering are freely tradable without restriction or further registration under the U.S. Securities Act of 1933, or the Securities Act, unless held by our affiliates as that term is defined in Rule 144 under the Securities Act. Subject to applicable restrictions and limitations under Rule 144 of the Securities Act of 1933, all of our shares outstanding prior to our initial public offering are eligible for sale in the public market. In addition, the ordinary shares subject to options and warrants for the purchase of our ordinary shares will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements and Rules 144 and 701 under the Securities Act of 1933. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our ADSs could decline.

***Future issuances of ordinary shares or ADSs may depress the trading price of our ADSs.***

Any future issuance of equity securities could dilute the interests of our existing shareholders and could substantially decrease the trading price of our ADSs. We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions and other transactions), to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons.

***Our outstanding warrants may materially and adversely affect the market price of our ADSs.***

The units sold in our initial public offering include warrants to purchase 18,000,000 ordinary shares. The potential issuance of additional ordinary shares on exercise of these warrants could materially and adversely affect the market price of our ADSs. This is because exercise of the warrants will increase the number of issued and outstanding ordinary shares and thus may dilute the net tangible book value per ADS. Additionally, the sale or possibility of sale of the ordinary shares underlying the warrants could have an adverse effect on our ability to obtain other financing.

***You will not be able to exercise your warrants if we do not have an effective registration statement in place when you desire to do so.***

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No warrants will be exercisable, and we will not be obligated to issue ordinary shares upon exercise of warrants by a holder unless, at the time of such exercise, we have a registration statement under the Securities Act in effect covering the ordinary shares issuable upon the exercise of the warrants and a current prospectus relating to ordinary shares is available. We have agreed to use our best efforts to have a registration statement in effect covering ordinary shares issuable upon exercise of the warrants from the date the warrants become exercisable and to maintain a current prospectus relating to ordinary shares until the warrants expire or are redeemed. However, we cannot assure you that we will be able to do so. Additionally, we have no obligation to settle the warrants for cash in the absence of an effective registration statement or under any other circumstances. The warrants may be deprived of any value, the market for the warrants may be limited, the holders of warrants may not be able to exercise their warrants if there is no registration statement in effect covering the ordinary shares issuable upon the exercise of the warrants, or the prospectus relating to the ordinary shares issuable upon the exercise of the warrants is not current and the warrants may expire worthless.

Table of Contents

***Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.***

If we offer holders of our shares any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you if it is lawful and reasonably practicable. However, the depositary may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them. In addition, U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to holders of ADSs, or are registered under the provisions of the Securities Act. We can give no assurance that we can establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, you may be unable to participate in our rights offerings and may experience dilution of your holdings as a result.

***A significant percentage of our outstanding ordinary shares are held by a small number of our existing shareholders, and these shareholders may have significantly greater influence on us and our corporate actions by nature of the size of their shareholdings relative to our public shareholders.***

Each of CPI Ballpark Investments Ltd and Vicis Capital Master Fund owns a significant portion of our voting shares. See Item 6E. Share Ownership. Each of these shareholders is an affiliate within the meaning of the Securities Act, due to the size of their respective shareholdings in us. Each of CPI Ballpark Investments Ltd and Vicis Capital Master Fund currently has one board representative on our six director board. Accordingly, these shareholders have had, and may continue to have, significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. We cannot assure you that we will not issue additional ordinary shares or securities convertible into ordinary shares to each of these or other shareholders. In the event that these shareholders increase their shareholdings in us, they may be in an even stronger position to exert influence over us.

***As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the New York corporate governance listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with the New York Stock Exchange corporate governance listing standards.***

As a Cayman Islands company listed on the New York Stock Exchange, we are subject to the NYSE corporate governance listing standards. However, NYSE rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE corporate governance listing standards. We have in the past decided to follow Cayman Islands corporate governance practices instead of the NYSE listing standards. See Item 16G. Corporate Governance. As a result, our shareholders may be afforded less protection than they otherwise would under the NYSE corporate governance listing standards applicable to U.S. domestic issuers.

***Anti-takeover provisions in our charter documents may discourage a third party from acquiring us, which could limit our shareholders opportunities to sell their shares at a premium.***

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Our Amended and Restated Memorandum and Articles of Association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in a change-of-control transaction. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

For example, our board of directors will have the authority, without further action by our shareholders, to issue new preferred shares in one or more tranches, which may have powers and rights, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, greater than the rights associated with our ordinary shares. These new preferred shares could thus be issued quickly, and could have terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors issues new preferred shares, the market price of our ADSs or warrants may fall and the voting and other rights of the holders of our ordinary shares may be adversely affected. In addition, our board of directors is divided into three classes and only one class of directors is up for re-election at each annual meeting of shareholders.

***We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. law, you may have less protection of your shareholder rights than you would under U.S. law.***

Our corporate affairs are governed by our Amended and Restated Memorandum and Articles of Association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

Table of Contents

Unlike many jurisdictions in the United States, Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of a company where the shares of the company are listed on a recognized stock exchange or inter-dealer quotation system. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offer or give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as ourselves have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our Amended and Restated Articles of Association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a U.S. company.

***You will have limited ability to bring an action in the Cayman Islands or in China against us or against our directors and officers, or to enforce a judgment against us or them, because we are incorporated in the Cayman Islands and because we conduct a majority of our operations in China.***

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China. Most of our directors and officers reside outside the United States and substantially all of the assets of those persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

There are uncertainties as to whether Cayman Islands courts would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or
- impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts,



and therefore China courts have discretion not to enforce judgments of U.S. courts.

***Your ability to protect your rights as shareholders through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law.***

Cayman Islands companies may not have standing to initiate a derivative action in a federal court of the United States. As a result, your ability to protect your interests if you are harmed in a manner that would otherwise enable you to sue in a U.S. federal court may be limited.

***The voting rights of holders of ADSs must be exercised in accordance with the terms of the deposit agreement, the ADRs, and the procedures established by the depositary. The process of voting through the depositary may involve delays that limit the time available to you to consider proposed shareholders' actions and also may restrict your ability to subsequently revise your voting instructions.***

Holders of our ADSs may only exercise their voting rights with respect to the underlying shares in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from a holder of ADSs in the manner set forth in the deposit agreement, the depositary will endeavor to vote the underlying shares in accordance with these instructions. Under our Amended and Restated Memorandum and Articles of Association and Cayman Islands law, the minimum notice period required for convening a general meeting is 21 days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your shares to allow you to cast your vote with respect to any specific matter at the meeting. In addition, the depositary and its agents may not be able to send voting instructions to you to give your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to send voting information to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares.

Table of Contents

Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your shares are not voted as you requested. In addition, ADS holders will not be able to call a shareholders' meeting.

***Except in limited circumstances, the depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, which could adversely affect your interests.***

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our shares underlying your ADSs at shareholders' meetings if it does not receive your voting instructions, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that we will be able to control the voting of the shares underlying your ADSs if you fail to instruct the depositary in time, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

***You may not receive distributions on our shares or any value for them if it is illegal or impractical for us to make them available to you.***

The depositary of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian for our ADSs receives on our shares or other deposited securities after deducting its fees and expenses.

You will receive these distributions in proportion to the number of our shares your ADSs represent. However, the depositary is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of

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ADSs if any government approval or registration is required for such distribution. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, common shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of our ADSs, shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

***You may be subject to limitations on transfers of your ADSs.***

Your ADSs, represented by ADRs, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it is necessary or advisable to do so in connection with the performance of its duty under the deposit agreement, including due to any requirement of law or any government or governmental body, or under any provision of the deposit agreement.

***We may be classified as a passive foreign investment company, or PFIC, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs or ordinary shares.***

Depending upon the value of our ADSs or ordinary shares and the nature of our assets and income over time, we could be classified as a PFIC for U.S. federal income tax purposes. We will be classified as a PFIC in any taxable year if either (a) the average quarterly value of our gross assets that produce passive income or are held for the production of passive income is at least 50% of the average quarterly value of our total gross assets or (b) 75% or more of our gross income for the taxable year is passive income. According to these technical rules, we would likely become a PFIC for a given taxable year if our market capitalization were to decrease significantly while we hold substantial cash and cash equivalents in that year.

Table of Contents

We believe we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2012. Although we intend to conduct our business activities in a manner to reduce the risk of our classification as a PFIC in the future, we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets, and, because the value of our assets is likely to be determined in large part by reference to the market prices of our ADSs and ordinary shares, which are likely to fluctuate, there can no assurance that we will not be classified as a PFIC for 2013 or any future taxable year. If we are treated as a PFIC for any taxable year during which a U.S. investor holds our ADSs or ordinary shares, certain adverse U.S. federal income tax consequences would apply to the U.S. investor. For more information on the U.S. tax consequences to U.S. holders that would result from our classification as a PFIC, please see Item 10.E. Taxation U.S. Federal Income Taxation Passive Foreign Investment Company.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

We were formed in July 2006 as an exempted company under the laws of the Cayman Islands to serve as a vehicle for the acquisition of hydroelectric assets in China. At the time of our formation we considered, but did not pursue, operating as a publicly traded special purpose acquisition company. We did not have any operating business until the completion of our first acquisition in April 2007. We have acquired and sold multiple operating assets since then and our principal capital expenditures and divestitures since January 1, 2010 including the following. Please note that U.S. dollar translations provided below are derived from our consolidated financial statements.

- in March 2010, we acquired 79.0% equity interest in Henan Wuyue Storage Power Generation Co., Ltd. for a total purchase price of RMB 162.5 million (\$24.4 million) and paid the first installment payment of RMB 32.5 (\$4.8 million) in cash;
- in April 2010, we acquired Yingjiang County Qinrui Husahe Hydropower Co., Ltd., which owns and operates Mangxian, Husahe Cascade III and Husahe Cascade IV hydroelectric power projects, with a total installed capacity of 18.7 MW in Yingjiang County, Yunnan province in the PRC for a purchase price of RMB 115.0 million (\$16.8 million), financed partially through cash on hand and through the assumption or refinancing of existing non-recourse debt;
- in June and August 2010, we acquired Fugong County Hengda Hydroelectric Development Co., Ltd. and Fugong Xineng Power Development Co. Ltd., respectively, which own and operate three operating projects including Aluhe, Zilenghe and Latudihe hydroelectric projects, totaling 54.1 MW in installed generating capacity, for a purchase price of RMB 96.3 million (\$14.2 million);
- in September 2010, we acquired Luquan Xiaopengzu Power Generation Co., Ltd., which owns and operates a 44.0 MW operating hydroelectric project in Luquan County, Yunnan province in the PRC for a purchase price of RMB 150.0 million (\$22.1 million);
- in December 2010, we acquired Shaowu City Jinling Power Generation Co., Ltd., which owns 55.0% equity interests in Shaowu City Jinlong Hydroelectric Co., Ltd., 74.0% in Shaowu City Jintang Hydroelectric Co., Ltd. and 74.0% in Shaowu City Jinwei Hydroelectric Co., Ltd.

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These four companies own and operate a 55.4 MW group of five operating projects in Fujian province, including Qianling&Jinjiu, Dongguan, Jinlong, Jinwei and Jintang hydroelectric projects, for a purchase price of RMB 75.1 million (\$11.3 million);

- in January 2011, we completed our purchase the remaining 10.0% equity interests in Pingnan County Wangkeng Hydroelectric Co., Ltd. for a purchase price of RMB 39.0 million (\$5.9 million);
- in April 2011, we completed our purchase of Jinping Kanghong Hydroelectric Development Co., Ltd., which owns and operates Dazhaihe hydroelectric power project, a 15.0 MW project in Yunnan province for a purchase price of RMB59.0 million (\$9.0 million);
- in December 2011, we entered into an Equity Purchase and Sale agreement to sell Pingnan County Yuanping Hydroelectric Co., Ltd., which owns and operates Yuanping hydroelectric power project, a 16.0 MW project located in Fujian province, for total consideration of \$22.2 million, including the assumption of debt by a third-party buyer; and
- in October 2012, we entered into a Share Transfer Agreement to sell the Pingnan County Yuheng hydroelectric power project, a 30.0 MW project located in Fujian province, for total consideration of \$44.3 million, including the assumption of debt by the buyer.

We conduct our business through our subsidiaries in China. For additional information on our organizational structure, see Item 4.C. Information on the Company - Organizational Structure.

Our registered office is located at the offices of Appleby Trust (Cayman) Ltd., Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. Our executive offices are located at Bldg A #2105, Ping An International Financial Center, No.3 Xinyuan South Road, Chaoyang District, Beijing, PRC 100027 and our telephone number at such location is (86-10) 6408-2341. Our website is [www.chinahydroelectric.com](http://www.chinahydroelectric.com). The information contained on our website does not form part of this annual report.

Table of Contents

In January 2010, we completed our initial public offering, and our ADSs and warrants started trading on the NYSE under the symbols `CHC` and `CHCWS`, respectively. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., 400 Madison Avenue, 4th Floor, New York, NY 10017.

Table of Contents

**B. Business overview**

**Overview**

We are a developer, owner and operator of small hydroelectric power projects in China. We were formed in July 2006 to acquire existing small hydroelectric assets in China. Our primary business is to identify, evaluate, acquire, develop, construct and finance hydroelectric power projects in China.

Our revenues to date have derived from the sale of electricity generated by our small hydroelectric power projects to the southern power grid, and our costs of operations relate to the operation of our hydroelectric power projects, as well as the cost of financing our acquisition of these hydroelectric power projects and necessary capital contributions. The map below sets out the locations and installed capacities of our hydroelectric power projects in operation as at December 31, 2012.





Table of Contents

We wholly own twenty-two operating hydroelectric power projects and have a controlling interest in three additional operating hydroelectric power projects. Our operating hydroelectric power projects are located in four provinces in China: Zhejiang, Fujian, Yunnan and Sichuan. Revenues from continuing operations contributed by projects in Zhejiang, Fujian, Yunnan and Sichuan provinces were 56.7%, 27.0%, 15.2% and 1.1% in 2010, 46.5%, 27.2%, 25.3% and 1.0% in 2011, and 48.7%, 34.8%, 15.8% and 0.7% in 2012, respectively. See Item 5.A Operating Results Geographical Information for details.

We acquired all of our existing hydroelectric power projects from other developers and operators beginning in 2007. We intend to continue our expansion by acquiring, operating and developing a diversified portfolio of additional small hydroelectric power projects in targeted locations in China. We believe our experience and capabilities gained in the acquisition, development and operation of small hydroelectric power project in China will enable us to take advantage of the opportunities present in the PRC hydropower market. Installed capacity at our projects were 502.8 MW, 517.8 MW and 517.8 MW at December 31, 2010, 2011 and 2012, respectively.

In December 2011, we entered into an Equity Purchase and Sale Agreement with a third-party buyer to sell Pingnan County Yuanping hydroelectric Co., Ltd., which owns and operates Yuanping hydroelectric power project, a 16.0 MW project located in Fujian province, for a total consideration of \$22.2 million, including the assumption of debt by the buyer. The disposal date of Yuanping was March 2, 2012, which was the date we lost effective control over Yuanping. The sale transaction was completed on the same date. Its results of operations have been classified as discontinued operations for all periods presented.

In October 2012, we entered into a Share Transfer Agreement with a third-party buyer to sell Pingnan County Yuheng Hydroelectric Co., Ltd., which owns and operates Yuheng hydroelectric power project, a 30.0 MW project located in Fujian province, for a total consideration of \$44.3 million, including the assumption of debt by the buyer. The disposal date of Yuheng was October 31, 2012, which was the date we lost effective control over Yuheng. The sale transaction is expected to complete in April, 2013.

**Our Hydropower Assets**

*Overview*

We categorize hydropower projects into the following four categories:

- *completed projects* refer to projects that are built and in operation;
- *projects under construction* refer to projects that are being built and are not yet in operation;
- *approved projects* refer to projects that have received the approvals, permits and licenses necessary for construction to commence;  
and
- *greenfield projects* refer to projects that lack one or more construction permits and have not begun construction.

We currently operate in four Chinese provinces: Zhejiang, Fujian, Sichuan and Yunnan. We focus on a number of diverse locations that are rich in hydroelectric power resources and either have relatively high tariffs or present a high likelihood of tariff increases. The provinces in which we currently operate reflect this strategy. All these provinces are rich in hydroelectric power resources. We believe Yunnan and Sichuan currently have some of the lowest tariff rates in China, and we believe there is a likelihood of tariff increases, while Zhejiang and Fujian already have some of the highest tariff rates in China. In order to rationalize overhead costs, we have acquired and plan to continue to acquire hydroelectric power assets that are clustered or located around good hydrological resources and where we might have the opportunity to acquire adjacent projects. Our six hydroelectric power projects in Zhejiang province are clustered together in the southern part of Zhejiang province, and our three hydroelectric power projects in Fujian are clustered together in the northern part of Fujian province, neighboring Zhejiang province. Our hydroelectric power projects located in Yunnan province, Sichuan province and Fujian province are all in areas of relatively high seismic risk as compared to other areas of China.

# Table of Contents

## *Descriptions of the projects*

Our hydroelectric power projects are of the following types:

A Run-of-the-river diversion dam. The typical feature of this type of hydroelectric power project is that a water diversion structure (dam) spans a river and water is conveyed to a powerhouse via a water conveyance facility, which is a tunnel, pipeline, or a combination of the two. The rate of water flow to the powerhouse is equal to the natural rate of flow in the river.

B Low head run-of-the-river. The typical feature of this type of hydroelectric power project is that a dam spans a river, a powerhouse with low head turbine generator(s) is incorporated into the diversion structure, and water flowing through the powerhouse is released back into the river at the dam. The rate of water flow to the powerhouse is equal to the natural rate of flow in the river.

C Impoundment dam reservoir. The typical feature of this type of hydroelectric power project is that a water diversion structure (dam) spans a river and water is conveyed to a powerhouse via a water conveyance facility, which is a tunnel, pipeline, or a combination of the two. The rate of water flow to the powerhouse is not equal to the natural rate of flow in the river, as water is impounded or stored at the dam site in a reservoir. This storage provides flexibility in energy production so that it can be dispatched in line with demand.

D Pumped storage (none presently owned). The essential feature of this type of hydroelectric power project is a powerhouse with reversible pump hydraulic turbine generators connected by a water conveyance facility to an upper and a lower reservoir. The water is transferred between the two reservoirs, pumped from the lower to the upper reservoir (consuming power) during off-peak periods of surplus grid power and released from the upper to the lower reservoir (producing power) during peak periods of grid deficit.

The table below sets forth technical and operating data of our hydroelectric power projects as of the dates indicated.

Project or Expansion and Location	Actual or Expected Date in Service	Approved Tariff in 2012(1) (RMB/kWh)	Installed Capacity (MW)	Electricity Sold (kWh)			Effective Utilization Rate (%)(8)			Design Utilization (%)	Type
				2010	2011	2012	2010	2011	2012		
				Completed Projects							
Binglangjiang I, Yunnan	Jan-88	0.227 January to May; 0.177 June to December	21	94,591,565	86,994,684	73,643,279	51.4	47.3	39.9	45.0	A
Binglangjiang II, Yunnan	Sept-09	0.227 January to May; 0.177 June to December	20	64,041,599	92,596,193	84,495,870	36.6	52.9	48.1	50.0	A
Liyuan, Sichuan	Aug-06	0.29	12	16,217,714	13,096,779	13,758,781	15.4	12.5	19.5	42.0	B
Shapulong(2), Zhejiang	Jun-01	0.535 peak hours; 0.268 off-peak	25	64,624,002	36,611,340	55,304,212	29.5	14.4	25.2	18.6	C
Yingchuan, Zhejiang	Apr-02	0.535 peak hours; 0.268 off-peak	40	138,329,823	101,896,872	144,948,740	39.5	29.1	41.3	31.0	C
Wuliting, Zhejiang	Oct-07		42	148,943,520	92,118,840	146,626,920	40.5	25.0	39.7	33.0	B

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		0.535 peak hours; 0.268 off-peak									
Ruiyang, Zhejiang	Dec-03	0.535 peak hours; 0.268 off-peak	32	77,819,280	49,810,200	92,434,320	27.8	17.8	32.9	24.2	C
Jiulongshan(4), Zhejiang		0.535 peak hours 0.268 off-peak	37.6	69,618,958	67,157,924	116,570,891	21.1	20.4	35.3	20.7	C/A
Zhougongyuan(4), Zhejiang	Mar-09	0.535 peak hours; 0.268 off-peak	16	41,837,946	39,827,794	64,816,701	29.9	28.4	46.1	29.0	C/A
Banzhu, Fujian	Nov-98	0.381	45	185,287,772	112,241,606	214,147,080	47.0	28.5	54.2	42.2	B
Wangkeng(2), Fujian	July 04	0.331	40	183,820,955	96,398,922	165,273,169	52.5(3)	27.5	47.0	42.5	
Husahe(5), Yunnan	Mar-95	0.227 January to May; 0.177 June to December	18.7	66,801,125	67,753,458	51,666,207	57.9	41.4	31.5	45.1	A
Aluhe(5), Yunnan	Jun-06	0.20 January to April, and December; 0.16 May to November	10	13,950,979	29,478,703	31,229,866	30.1	33.7	35.6	54.3	A
Zilenghe(5), Yunnan	Oct-07	0.20 January to April, and December; 0.16 May to November	25.2	46,546,038	86,162,474	90,217,295	39.9	39.0	40.8	60.4	A
Latudi(5), Yunnan	Feb-09	0.20 January to April, and December; 0.16 May to November	18.9	21,312,493	45,296,415	62,695,720	34.0	27.4	37.8	46.1	A
Xiaopengzu(5), Yunnan	Oct-09	0.247 January to April, and December; 0.222 May and November; 0.197 June to October	44	29,916,026	68,255,227	72,662,313	24.6	17.7	18.8	46.0-50.0	C
Qianling(6), Fujian	Jul-84	0.261	10	42,760,900	27,297,172	47,216,556	48.8	31.2	53.8	40.0	B
Jinjiu(6), Fujian	Oct-04	0.301	3	16,448,390	11,592,491	19,602,939	62.6	44.1	57.0	52.0	B
Dongguan(6), Fujian	Nov-04	0.301	4.8	7,328,800	8,147,040	15,041,000	17.4	19.4	46.6	48.1	B
Jinlong(6), Fujian	Nov-05	0.321	10	44,458,470	29,761,388	51,311,594	50.8	34.0	58.4	42.7	B
Jintang(6), Fujian	Oct-06	0.281	11.6	42,626,430	29,475,704	53,688,256	41.9	29.0	52.7	40.5	B
Jinwei(6), Fujian	Jul-09	0.3051	16	53,400,480	37,846,120	62,600,520	38.1	27.0	44.5	41.1	B
Dazhaihe(7), Yunnan	Sept-09	0.247 January to April, and December; 0.222 May and November; 0.197 June to October	15	37,600,400	32,494,133	38,025,803	28.6	34.1	28.9	49.1	A
<b>Total:</b>			517.8								

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### Table of Contents

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(1) We are required to withhold VAT due on our power dispatched at a rate of 6.0%, or in the case of two of our projects, of 17.0%, depending on the size and location of the plant. Approved tariffs presented above are gross of VAT. Peak hours are generally from 8 a.m. to 10 p.m. For Binglangjiang II, the effective tariff stated was effective from January 1, 2010. In 2009, from September 4 to November 3, the effective approved tariff was RMB0.12 and from November 4 to December 31 was RMB0.17. Effective from May 1, 2010, the tariff for Binglangjiang I, II and Husahe was increased from RMB0.22 to RMB0.227 for the period from January to May and from RMB0.17 to RMB0.177 for the period from June to December. In 2012, we received tariff increases of RMB0.021 at the following projects: Banzhu, Wangkeng, Qianling, Jinjiu, Dongguan, Jinlong, and Jintang; an increase of RMB0.0051 at the Jinwei project; and, an increase at the Dazhaihe project of RMB0.017 from January to April and December, RMB0.04 in May and November and RMB0.067 from June to October.

(2) We have owned 100.0% of the equity interest in Shapulong since August 2009. We have owned 90.0% of the equity interest in Wangkeng since October 2008. We have owned 100.0% of the equity interest in Wangkeng since January 2011.

(3) We held a 90.0% interest in Wangkeng in 2010. On an equity basis, we would be entitled to 165,438,860 kWh of electricity sold for 2010, had we owned our equity interest in Wangkeng for those periods. Effective utilization rates for the plant do not reflect our equity interest in the plant, but the operation of the plant as a whole.

(4) The Zhougongyuan project consists of three separate hydropower plants in series on the same river. The upstream hydropower plant is an impoundment dam reservoir hydropower plant (type C) and the other two in series downstream are run-of-the-river diversion dam hydropower plants (type A). Zhougongyuan project was split into two subsidiary projects in December 2009: Jiulongshan project and Zhougongyuan project.

(5) The acquisition of the Husahe, Aluhe, Zilenghe, Latudi and Xiaopengzu hydroelectric projects was made during 2010. The Electricity Sold and Effective Utilization Rate for 2010 represents the period during which the projects were under our control. Operating data are on a full year basis for 2012 and 2011.

(6) We completed our acquisition of Shaowu City Jinling Power Generation Co., Ltd., the owner of the Qianling, Jinjiu and Dongguan hydroelectric power project, together with Jinling's 55.0% controlling interest in Shaowu City Jinlong Hydroelectric Co., Ltd., the owner of the Jinlong project, Jinling's 74.0% controlling interest in Shaowu City Jintang Hydroelectric Co., Ltd., the owner of the Jintang project, and Jinling's 74.0% controlling interest in Shaowu City Jinwei Hydroelectric Co., Ltd., the owner of the Jinwei on December 30, 2010. As a result, we are not entitled to the revenue of these projects for the year ended December 31, 2010. In 2011 and 2012, we are entitled to the electricity production and revenue of Jinlong, Jintang and Jinwei on an equity basis of 55.0%, 74.0% and 74.0%, respectively.

(7) We completed our acquisition of Jinping Kanghong Hydropower Development Co., Ltd., or the Dazhaihe Hydroelectric power project, in April 2011. The 2011 data for Dazhaihe are for the period from April 10, 2011 to December 31, 2011.

(8) See Exhibit 15.1 to this annual report for detailed calculations of effective utilization rates.



Table of Contents

***Completed Projects***

*Yunnan Province*

**Binglangjiang I.** Binglangjiang I is a run-of-the-river, diversion-type hydroelectric facility commissioned in January 1988 with an installed capacity of 21.0 MW and an annual design utilization rate of 60.0%, which was reduced to 45.0% when Binglangjiang II was commissioned and water previously dedicated solely to Binglangjiang I was then allocated between Binglangjiang I and Binglangjiang II. The effective utilization rate for Binglangjiang I was 51.4%, 47.3% and 39.9% in 2010, 2011 and 2012, respectively. We have been operating this project and supplying power to local grids since 2007. On July 19, 2011, Yunnan Huabang Electric Power Development Co., Ltd. entered into our latest grid connection and dispatching agreement with Yunnan Grid Company Dehong Power Supply Bureau for Binglangjiang I and II which is valid until July 19, 2012. The agreement shall remain valid until July 19, 2013 or when a new agreement is signed. On December 29, 2010, Yunnan Huabang Electric Power Development Co., Ltd. entered into a supplemental agreement on the power purchase and sale contract for the calendar year of 2011 with Dehong Power Supply Co., Ltd. with respect to Binglangjiang I, pursuant to which, Dehong Power Supply Co., Ltd. agrees to pay RMB0.227 per kWh (January to May) and RMB0.177 per kWh (June to December). On December 25, 2011, Yunnan Huabang Electric Power Development Co., Ltd renewed such agreement for the calendar year of 2012.

Binglangjiang I is located on the Binglangjiang River, which is in the southwestern corner of Yunnan province in Yingjiang County, Dehong Prefecture. Binglangjiang I is a four-component complex consisting of a concrete diversion dam, canal and penstock, powerhouse and substation. The powerhouse contains three 7.0 MW vertical Francis-type or mixed-flow-type turbines manufactured by Hangzhou Electric Equipment Co., Ltd. The area of the powerhouse building that contains the plant is 592 m<sup>2</sup>. The area of the land the project utilizes is 2,310.7 km<sup>2</sup> including the drainage basin. We acquired Binglangjiang I in April 2007.

**Binglangjiang II.** Binglangjiang II is a run-of-the-river, diversion-type hydroelectric power project commissioned in September 2009 with a design capacity of 20.0 MW and an annual design utilization rate of 50.0%. The effective utilization rate for Binglangjiang II was 36.6%, 52.9% and 48.1% in 2010, 2011 and 2012, respectively. The combined effective utilization rate for Binglangjiang I and II was 44.2%, 50.0% and 44.0% for 2010 2011 and 2012, respectively. We have been operating this project and supplying power to local grids since 2009. On July 19, 2011, Yunnan Huabang Electric Power Development Co., Ltd. entered into our latest grid connection and dispatching agreement with Yunnan Grid Company Dehong Power Supply Bureau for both Binglangjiang I and II which is valid until July 19, 2012. The agreement shall remain valid until July 19, 2013 or when a new agreement is signed. On December 29, 2010, Yunnan Huabang Electric Power Development Co., Ltd. entered into a supplemental agreement on the power purchase and sale contract for the calendar year of 2011 with Dehong Power Supply Co., Ltd. with respect to Binglangjiang II, pursuant to which, Dehong Power Supply Co., Ltd. agrees to pay RMB0.227 per kWh (January to May) and RMB0.177 per kWh (June to December). On December 25, 2011, Yunnan Huabang Electric Power Development Co., Ltd renewed such agreement for the calendar year of 2012.

Binglangjiang II is located on the Binglangjiang River in the southwestern corner of Yunnan province in Yingjiang County, Dehong Prefecture. Binglangjiang II is a four-component complex with a concrete diversion dam, tunnel and penstock, powerhouse and substation. The powerhouse contains two 10.0 MW vertical Francis turbine generators manufactured by Kunming Electric Equipment Co., Ltd. The area of the powerhouse building that contains the plant is 800 m<sup>2</sup>. The area of the land the project utilizes is 2,310.7 km<sup>2</sup> including the drainage basin.

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Husahe. The Husahe hydroelectric project is located in Yingjiang County, Dehong Prefecture, Yunnan province and consists of three independent projects, Husahe 3, Husahe 4 and Mangxian, in a series on the Husa River with a drainage basin of 262.6 km<sup>2</sup>, a total installed capacity of 18.7 MW and a combined Design utilization rate of 45.1%. The effective utilization rate for this three facility complex was 57.9%, 41.4% and 31.5% for the year 2010, 2011 and 2012, respectively. Husahe 3 is a 3.2 MW four component facility consisting of a masonry diversion, 816 meter long canal and penstock, powerhouse and a 35 kv substation which is connected to a 110 kv substation at Mangxian hydropower Station. The powerhouse contains two horizontal Francis type turbine generator units. The project was placed in service in 1995. The design capacity utilization rate is 74.0%.

Husahe 4 is a 14.0 MW four component facility consisting of a gravity dam, 459 meter concrete lined tunnel and penstock, powerhouse and 35 kv substation which is connected to a 110 kv substation owned by the utility at Mangxian Hydropower Station. The project buildings occupy 1,575.72 square meters. The powerhouse contains two vertical Francis type turbine generators. The project was placed in service in 1998. The actual utilization rate is 41.4%. During periods of high water flows, the overflow from Husahe 4 is directed to the 1.5 MW Mangxian Hydropower Station, which has a utilization rate of 15.0%.

Mangxian is a 1.5 MW small overflow hydroelectric power project which produces power from flows which exceed the capacity of Husahe 4.

On April 19, 2012, Yingjiang County Qinrui Husahe Hydropower Co., Ltd. entered into our latest grid connection and dispatching agreement with Yunnan Grid Company Dehong Power Supply Co., Ltd for Husahe 3, which is valid for one year. Such agreement will remain valid until the agreement is renewed. On December 29, 2010, Yingjiang County Qinrui Husahe Hydropower Co., Ltd. entered into a supplemental agreement on power purchase and sale contract for the calendar year of 2011, pursuant to which, Dehong Power Supply Co., Ltd. agrees to pay RMB0.227 per KWh (January to May) and RMB0.177 per KWh (June to December). On December 25, 2011, Yingjiang County Qinrui Husahe Hydropower Co., Ltd renewed such agreement for the calendar year of 2012.



Table of Contents

Xiaopengzu. Xiaopengzu is an impoundment reservoir type of hydroelectric power project commissioned in October 2009 with a design capacity of 44.0 MW and an annual design utilization rate which is expected to range from 46.0% to 50.0% based upon completion and the operations of the Dianchi Reservoir Diversion Project, a water project unrelated to Xiaopengzu which is expected to influence the amount of water annually that flows to Xiaopengzu, and the other hydroelectric facilities downstream. The effective utilization rate was 24.6%, 17.7% and 18.8% in 2010, 2011 and 2012, respectively, reflecting normal facility operations and below average precipitation in all three years.

In March 2010, Luquan Xiaopengzu Power Generation Corporation entered into a grid connection and dispatching agreement with Yunnan Grid Company, which is valid for one year. Such agreement will remain valid until the new agreement is signed. Luquan Xiaopengzu Power Generation Corporation entered into a power purchase and sale agreement effective from January 1, 2012 to December 31, 2012, pursuant to which the Yunnan Grid Corporation agrees to pay Xiaopengzu tariff on a seasonal basis. In 2012, Xiaopengzu received a tariff of RMB0.247 per kWh during the dry season from January to April and in December and RMB0.222 per kWh during the normal season in May and November, and RMB0.197 per kWh during the rainy season from June to October. The VAT for this plant is 6.0%.

Xiaopengzu is located on the Pudu River in the Luquan County, Kunming City in Yunnan Province. Xiaopengzu is a four-component complex consisting of a concrete impoundment dam, tunnel and penstock, powerhouse and substation. The powerhouse contains two 22.0 MW vertical Francis turbine generators. The area of the powerhouse building is 697 m<sup>2</sup>. The area of the land the project utilizes is 8,162 km<sup>2</sup> including the drainage basin.

Aluhe. Aluhe is a high head run-of-the-river diversion-type hydroelectric power project located on the Alu River, commissioned in April 2007 with a design capacity of 10.0 MW and an annual design utilization rate of 54.3%. The effective utilization rate was 30.1%, 33.7% and 35.6% in 2010, 2011 and 2012, respectively. The lower than design utilization rates in 2010, 2011 and 2012 were the result of intermittent grid availability and lower than normal precipitation.

On July 25, 2012, Fugong County Hengda Hydroelectric Development Co., Ltd entered into a grid connection and dispatching agreement with Yunnan Grid Company Nujiang Power Supply Bureau for a valid period of one year. On January 1, 2012, Fugong County Hengda Hydroelectric Development Co., Ltd entered into a new power purchase and sale agreement with Yunnan Grid Company Nujiang Power Supply Bureau and Nujiang Power Supply Co., Ltd for Aluhe and Zilenghe, which is valid for one year. The agreement will remain effective unless any party intends to change the clause. In 2012, Aluhe received a tariff of RMB0.20 per kWh during the dry season from January to April and December, and RMB0.16 per kWh during the rainy season from May to November. The VAT for this plant is 6.0%.

Aluhe is a four-component complex consisting of concrete diversions, tunnels, pipeline and penstock, powerhouse and substation. The powerhouse contains two 5.0 MW horizontal Pelton turbines coupled to 6.3 MW generators with effective capacity of 10.0 MW manufactured by Lingling Hengyuan Hydropower Equipment Co., Ltd. The area of the powerhouse building that contains the plant is 450 m<sup>2</sup>. The area of the land the project utilizes is 23 km<sup>2</sup> including the drainage basin.

Zilenghe. Zilenghe is a high head run-of-the-river, diversion-type hydroelectric power project commissioned in October 2007 with a design capacity of 25.2 MW and an annual design utilization rate of 60.4%. The effective utilization rate was 39.9%, 39.0% and 40.8% in 2010, 2011 and 2012, respectively. The lower than the design utilization rate in all three years was attributable to intermittent grid availability and lower than normal precipitation.

On July 25, 2012, Fugong County Hengda Hydroelectric Development Co., Ltd entered into a grid connection and dispatching agreement with Yunnan Grid Company Nujiang Power Supply Bureau for a valid period of one year. In 2012, Zilenghe received a tariff of RMB0.20 per kWh during the dry season from January to April and December and RMB0.16 per kWh during the rainy season from May to November. The VAT for this plant is 6.0%.

Zilenghe is a four-component complex consisting of concrete diversion dams, tunnels, pipeline and penstock, powerhouse and substation. The powerhouse contains four 6.3 MW horizontal Pelton turbine generators manufactured by Lingling Hengyuan Hydropower Equipment Co., Ltd. The area of the powerhouse building is 600 m<sup>2</sup>. The area of the land the project utilizes is 1,942 km<sup>2</sup> including the drainage basin.

Latudi. Latudi Hydropower Station is located on the Latudi River in Fugong County, Nujiang Prefecture, Yunnan Province. Latudi is a high head run of the river diversion type project commissioned in February 2009 with a design capacity of 18.9 MW and an annual design utilization rate of 46.1%. The effective utilization rate was 34.0%, 27.4% and 37.8% in 2010, 2011 and 2012, respectively. The lower than the design utilization rate in all three years was attributable to intermittent grid availability and lower than normal precipitation.

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### Table of Contents

On July 25, 2012, Fugong Xineng Power Development Co., Ltd entered into a grid connection and dispatching agreement with Yunnan Grid Company Nujiang Power Supply Bureau for a valid period of one year. On January 1, 2012, Fugong Xineng Power Development Co., Ltd. entered into a new power purchase and sale agreement with Yunnan Grid Company Nujiang Power Supply Bureau and Nujiang Power Supply Co., Ltd, which is valid for one year. The agreement will remain effective unless any party intends to change the clause. In 2012, Aluhe received a tariff of RMB0.20 per kWh during the dry season from January to April and December and RMB0.16 per kWh during the rainy season from May to November. The VAT for this plant is 6.0%.

Latudi Hydropower Station is a four-component complex consisting of two concrete diversion dams, pipelines and penstock, powerhouse and substation. The powerhouse contains three 6.3 MW horizontal Pelton turbine generators manufactured by Lingling Hengyuan Hydropower Equipment Co., Ltd. The area of the powerhouse building is 500 m2. The area of the land the project utilizes is 28 km2 including the drainage basin.

Dazhaihe. Dazhaihe is a high head run of the river hydro project located in the lower stream of the Dazhai River in Manhao town, Jinping county, Honghe prefecture. The project was commissioned in September 2009 with a design capacity of 15.0MW and an annual design utilization rate of 49.1%. The effective utilization rate was 34.1% and 28.9% in 2011 and 2012, respectively. On June 1, 2011, Jinping Kanghong Hydropower Development Co., Ltd entered into a grid connection and dispatching agreement with Yunnan Grid Company Honghe Power Supply Bureau for a valid period of one year. The agreement will remain valid until new agreement is signed. Jinping Kanghong Hydropower Development Co., Ltd entered into a power purchase and sale agreement effective from November 10, 2008 to November 10, 2009, pursuant to which the Yunnan Grid Corporation Honghe Power Supply Bureau agrees to pay Dazhaihe tariff on a seasonal basis. The effective period of the agreement was extended to December 31, 2011, and is renewable automatically unless both parties agree to terminate. According to a tariff increase notice issued by Yunnan Provincial Pricing Bureau on March 7, 2012, Dazhaihe currently received a tariff of RMB0.247 per kWh during the dry season from January to April and in December and RMB0.222 per kWh during the normal season in May and November, and RMB0.197 per kWh during the rainy season from June to October. The VAT for this plant is 6.0%.

Dazhaihe is a four component single-purpose power generation construction. The facility consists of diversion structure, tunnel, penstock, surge shaft, powerhouse and sub station. The Dazhai river is in the Honghe drainage basin, and is a branch of the Honghe River. The size of the drainage area above the water diversion is 50.9 KM2.

### ***Sichuan Province***

Liyuan. Liyuan is a low head run-of-the-river hydroelectric power project commissioned in August 2006 with an installed capacity of 12.0 MW and an annual design utilization rate of 42.0%. The effective utilization rate was 15.4%, 12.5% and 19.5% in 2010, 2011 and 2012, respectively. The effective utilization rates for Liyuan in 2010, 2011 and 2012 were lower than its design utilization rate due to high variability and concentration of precipitation and water flows during such periods. Water flows at times exceeded facility capacity resulting in abandoned water. We expect this situation to be mitigated in the future with the completed development and construction of a series of upstream plants on the Donghe river which will have the effect of moderating water flows in the river. Until such development is completed, the utilization rates for Liyuan may remain below design. Sichuan Huabang Hydroelectric Development Co., Ltd. entered into a grid connection and dispatching agreement with Sichuan Cangxi Electric Power Co., Ltd. on May 17, 2012, which is valid until May 17, 2013, pursuant to which Sichuan Huabang Hydroelectric Development Co., Ltd. is to connect the hydroelectric power project to the power grid owned or controlled by Sichuan Cangxi Electric Power Co., Ltd. On June 4, 2012, Sichuan Huabang Hydroelectric Development Co., Ltd. and Sichuan Cangxi Electric Power Co., Ltd., part of the China Southern Power Grid Corporation Ltd., or the Southern Grid, entered into a power purchase and sale agreement effective from June 5, 2012 until June 4, 2013, pursuant to which the Sichuan Cangxi Electric Power Co., Ltd. is paying Liyuan a tariff of

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RMB0.29 per KWh. According to the terms of such agreement, the agreement remains effective, unless both parties agree to terminate. The VAT for this plant is 6.0%.

Liyuan is located on the Donghe river, which is in northeast Sichuan province at Donghe, Cangxi County, Guangyuan City. Liyuan consists of a concrete gravity dam, powerhouse, hinged spill way gates and ship lock integrated into one structure, and a substation. The power house contains six vertical 2.0 MW axial Kaplan type turbines manufactured by Jiangxi Pingxiang Hydro Power Facility. The area of the structure that contains the plant is 644.0 m<sup>2</sup>. The area of the land the project utilizes is 4,934 km<sup>2</sup> including the drainage basin. We acquired Liyuan in May 2007. The major earthquake that struck Sichuan province in 2008 caused damage to the tailwater concrete apron and the spillway gates of Liyuan hydroelectric power project and the repair of such damage cost us RMB11.7 million (\$1.7 million) and was completed in March 2010. During the repair period, power generation was limited and hence less than normal production from Liyuan hydroelectric power project was achieved in 2009.

### *Zhejiang Province*

Shapulong. Shapulong is an impoundment reservoir hydroelectric power project commissioned in June 2001 with an installed capacity of 25.0 MW and an annual design utilization rate of 18.6%. The effective utilization rate was 29.5%, 14.4% and 25.2% in 2010, 2011 and 2012, respectively reflecting normal operations and natural fluctuations in precipitation.

Yunhe Shapulong Hydropower Generation Co., Ltd. entered into a grid connection and dispatching agreement with Lishui Electric Power Bureau on November 2008, which is valid for one year and thereafter so long as there is no disagreement between the two parties, pursuant to which Shapulong is to connect the hydroelectric power project to the power grid owned or controlled by Lishui Electric Power Bureau. Yunhe County Shapulong Hydropower Generation Co., Ltd. entered into a power purchase and sale agreement with Lishui Electric Power Bureau, part of the State Grid, on November 2, 2011, which is valid until November 1, 2014. We are in the process of renewing the existing agreement and expect to renew the agreement by the end of the second quarter of 2012. Without disagreement from either party, the agreement will be automatically renewed every two years, pursuant to which Lishui Electric Power Bureau is currently paying Shapulong a tariff of RMB0.535 per kWh during peak hours and RMB0.268 per kWh during off-peak hours. According to the terms of such agreement, the agreement remains effective after the initial term, unless both parties agree to its modification or termination. The VAT for this plant is 6.0%.

Table of Contents

Shapulong is located in the watershed of the Wutongkeng River, which is part of the Ou river basin in Yunhe County, Zhejiang province. Shapulong is a four component project consisting of a concrete faced dam, tunnel and penstock, powerhouse and substation. The powerhouse contains two 12.5 MW vertical Francis turbine generators manufactured by Kvaerner Hangzhou Power Equipment Co., Ltd. The area of the powerhouse is 506.3 m<sup>2</sup>. The area of the land the project utilizes is 42 km<sup>2</sup> including the drainage basin. We acquired Shapulong in December 2007.

Yingchuan. Yingchuan is an impoundment reservoir hydroelectric power project commissioned in April 2002 with an installed capacity of 40.0 MW and an annual design utilization rate of 31.0%. The effective utilization rates were 39.5%, 29.1% and 41.3% in 2010, 2011 and 2012, respectively, reflecting normal operations and natural fluctuation in precipitation.

Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. entered into a grid connection and dispatching agreement with Lishui Electric Power Bureau in November 2008, which is valid until November 2009 and thereafter so long as there is no disagreement between the two parties, pursuant to which Jingning Yingchuan Hydroelectric Development Co., Ltd. connected the hydroelectric power project to the power grid which is currently under the operation and management of Lishui Electric Power Bureau. According to the terms of such agreement, the agreement remains effective after the initial term, unless both parties agree to terminate. In October 2008 a power grid economic agreement was executed between Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. and Lishui Electric Power Bureau, part of the State Grid, effective from October 1, 2008 to September 30, 2011. Without disagreement from either party, the agreement will be automatically renewed every two years, pursuant to which the Lishui Electric Power Bureau is paying Yingchuan a tariff of RMB0.535 per kWh during peak hours and RMB0.268 per kWh during off-peak hours. The VAT for this plant is 6.0%.

Yingchuan is located on the Yingchuan stream, which is a tributary of the Xiaoxi river in the upper reaches of the Oujiang water system in Jingning County, Zhejiang province. Yingchuan is a four-component complex consisting of a concrete-faced dam, tunnel and penstock, powerhouse and substation. The powerhouse contains two 20.0 MW vertical Francis turbine generators manufactured by Kvaerner Hangzhou Power Equipment Co., Ltd. The area of the powerhouse is 489.2 m<sup>2</sup>. The area of the land the project utilizes is 200 km<sup>2</sup> including the drainage basin. We acquired Yingchuan in January 2008.

Wuliting. Wuliting is a low head, run-of-the-river hydroelectric power project commissioned in October 2007 with an installed capacity of 42.0 MW and an annual design utilization rate of 33.0%. The effective utilization rate was 40.5%, 25.0% and 39.7% in 2010, 2011 and 2012, respectively. The effective utilization rates in 2010 and 2011 were attributable to normal operations coupled with normal fluctuations in precipitation levels.

Qingtian Wuliting Hydroelectric Development Co., Ltd. entered into a grid connection and dispatching agreement with Lishui Electric Power Bureau in November 2008, which is valid until November 2009 and thereafter so long as there is no disagreement between the two parties, pursuant to which Qingtian Wuliting Hydroelectric Development Co., Ltd. is to connect the hydroelectric power project to the power grid which is currently under the operation and management of Lishui Electric Power Bureau. According to the terms of such agreement, the agreement remains effective after the initial term, unless both parties agree to terminate. In October 2008 Wuliting entered into a grid economic agreement with Lishui Electric Power Bureau. Without disagreement from either party, the agreement will be automatically renewed every two years, pursuant to which Lishui Electric Power Bureau, part of the State Grid, is paying Wuliting a tariff of RMB0.535 per kWh during peak hours, being 8 a.m. to 10 p.m., and RMB0.268 per kWh during off-peak hours, being 10 p.m. to 8 a.m. The VAT for this plant is 6.0%.

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Wuliting is located on the Daxi stream at the lower reaches of the Oujiang River, Wuliting village, Qingtian County, Zhejiang province. Wuliting consists of a concrete gated structure, powerhouse, spill way, and ship lock integrated into one structure, and a substation. The powerhouse contains three 14.0 MW horizontal bulb turbines manufactured by Hangzhou Jianghe Electromechanical Equipment Co., Ltd. The area of the structure is 1,683.1 m<sup>2</sup>. The area of the land the project utilizes is 8,872 km<sup>2</sup> including the drainage basin. We acquired Wuliting in January 2008.

Ruiyang. Ruiyang is an impoundment reservoir hydroelectric power project commissioned in December 2003 with an installed capacity of 32.0 MW and an annual design utilization rate of 24.2%. The effective utilization rate was 27.8%, 17.8% and 32.9% in 2010, 2011 and 2012, respectively. The lower than design capacity utilization in 2009 and 2011 was attributable to normal operations and lower than normal precipitation. The higher than design capacity utilization rate in 2010 was attributable to normal operations coupled with higher than average precipitation.

## Table of Contents

Longquan Ruiyang Cascade II Hydroelectric Co., Ltd. entered into a grid connection and dispatching agreement with Lishui Electric Power Bureau on October 18, 2003, for an indefinite term, pursuant to which Ruiyang is to connect the hydroelectric power project to the power grid owned or controlled by Lishui Electric Power Bureau. Longquan Ruiyang Cascade II Hydroelectric Co., Ltd. entered into a power purchase and sale agreement with Lishui Electric Power Bureau in January 1, 2012, which is valid until December 31, 2015. Without disagreement from either party, the agreement will be automatically renewed every two years, pursuant to which Lishui Electric Power Bureau is currently paying Ruiyang a tariff of RMB0.535 per kWh during peak hours and RMB0.268 per kWh during off-peak hours. According to the terms of such agreement, the agreement remains effective after the initial term, unless both parties agree to its modification or termination. The VAT for the plant is 6.0%.

Ruiyang is located on the upper reach of Longquan Brook (Mei Brook), a tributary to Ou river, within the boundaries of Xiaomei Township, Longquan City, Zhejiang province. Ruiyang is a five-component project consisting of a concrete-faced-rock-fill dam, a 4 km tunnel, penstock, powerhouse, and substation. The power house contains two 16.0 MW vertical Francis turbine generators manufactured by Kvaerner Hangzhou Power Equipment Co., Ltd. The area of the powerhouse structure is 892 m<sup>2</sup>. The area of the land the project utilizes is 188 km<sup>2</sup> including drainage basin. We acquired Ruiyang in August 2009.

Jiulongshan and Zhougongyuan. The Jiulongshan-Zhougongyuan Hydro Complex consists of Jiulongshan I, a 25.0 MW impoundment dam facility, Jiulongshan II, a 12.6 MW diversion facility, and Zhougongyuan, a 16.0 MW diversion facility. Each of the three facilities is located on a tributary of upper Wuxijiang River in Suichang County, Zhejiang Province.

The three projects have a total design capacity of 53.6 MW and a combined annual design utilization rate of 25.0%. The complex of three facilities was commissioned during May through December 2009. The effective utilization rate for Jiulongshan complex was 21.1%, 20.4% and 35.3% in 2010, 2011 and 2012, respectively. The effective utilization rate for Zhougongyuan was 29.9%, 28.4% and 46.1% in 2010, 2011 and 2012, respectively, reflecting normal operations. Suichang County Jiulongshan Hydroelectric Development Co., Ltd. entered into a grid connection and dispatching agreement with Lishui Electric Power Bureau on April 21, 2009 for each of the three hydroelectric power projects, which was valid until April 2010. Without disagreement from either party, the agreement automatically renews every year, pursuant to which Suichang County Jiulongshan Hydroelectric Development Co., Ltd. is to connect the hydroelectric power projects to the power grid which is currently under the operation and management of Lishui Electric Power Bureau. On July 16, 2010, Suichang County Jiulongshan Hydroelectric Development Co., Ltd. and Suichang County Zhougongyuan Hydroelectric Development Co., Ltd. respectively entered into a power purchase and sale contract with Lishui Electric Power Bureau for Jiulongshan I (Zhougongyuan I), Jiulongshan II (Zhougongyuan II), and Zhougongyuan, which are valid from July 1, 2010 to June 30, 2013. Without disagreement from either party, the agreement will be automatically renewed every two years, pursuant to which Lishui Electric Power Bureau, part of the State Grid, is paying a tariff of RMB0.535 per kWh during peak hours and RMB0.268 per kWh during off-peak hours. In December 2009, Suichang County Jiulongshan Hydroelectric Development Co., Ltd., which then owned all of the three hydroelectric power projects, transferred one of them, Zhougongyuan III, to the newly established Suichang County Zhougongyuan Hydroelectric Development Co., Ltd. with total investment of RMB140.0 million (\$19.5 million) and registered capital of RMB90.0 million (\$12.8 million). In connection with the transfer, Suichang County Jiulongshan Hydroelectric Development Co., Ltd., reduced its total investment to RMB320.0 million (\$44.5 million) and registered capital to RMB204.1 million (\$29.0 million). The purpose of the transfer is to have two interconnect arrangements of less than 50 MW resulting in lower VAT for the complex. The VAT for the three hydroelectric power projects was 17.0% for 2009 and 6.0% for 2010.

Each of the facilities consists of a concrete dam, tunnel, penstock, powerhouse and substation. The Zhougongyuan I powerhouse contains two 12.5 MW vertical Francis type turbine generators, the Zhougongyuan II powerhouse contains two 6.3 MW vertical Francis type turbines generators and the Zhougongyuan III powerhouse contains two 8.0 MW vertical Francis type turbine generators, all of which were manufactured by Nanping Equipment Manufacturing Co., Ltd. The area of the structures that contain powerhouses are 447.1 m<sup>2</sup>, 440.9 m<sup>2</sup> and 487.9 m<sup>2</sup>, respectively. The area of the land the project utilizes is 388.0 km<sup>2</sup> including the drainage basin.

***Fujian Province***

**Banzhu.** Banzhu is a low head, run-of-the-river hydroelectric power project commissioned in November 1998 with an installed capacity of 45.0 MW and an annual design utilization rate of 42.2%. The effective utilization rate was 47.0%, 28.5% and 54.2% in 2010, 2011 and 2012, respectively, reflecting normal operations and natural fluctuation in precipitation levels.

On September 30, 2010, Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. entered into a grid connection and dispatching agreement with Fujian Province Electric Power Co., Ltd. Sanming Power Industry Bureau which is valid for five years from the execution date and without disagreement from either party, the agreement will be automatically renewed on an annual basis. On August 18, 2008, Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. entered into a power purchase and sale agreement with Fujian Province Electric Power Co., Ltd. which was valid until December 31, 2010. Without disagreement from either party, the agreement will be automatically renewed every three years.

According to a tariff increase notice issued by Fujian Provincial Pricing Bureau on March 15, 2012, Banzhu currently receives a tariff of RMB0.381 per kWh. The VAT for this plant is 17.0%.

Banzhu is located on the Shaxi River, a main tributary of the Minjiang River in Fujian province, 8 km downstream from Sanming City. Banzhu consists of a full gated structure, powerhouse, spill way and ship lock integrated into one structure, and substation. The powerhouse contains three 15.0 MW horizontal bulb turbines manufactured by Hangzhou Generation Equipment Manufacturing Co., Ltd. The area of the structure is 5,915.3 m<sup>2</sup>. The area of the land the project utilizes is 9,774 km<sup>2</sup> including the drainage basin. We acquired a 90.0% equity interest of Banzhu in October 2008 and the remaining 10.0% equity interest in March 2009.



## Edgar Filing: China Hydroelectric Corp - Form 20-F

### Table of Contents

Wangkeng. Wangkeng is an impoundment reservoir hydroelectric power project commissioned in July 2004 with an installed capacity of 40.0 MW and an annual design utilization rate of 42.5%. The effective utilization rate was 52.5%, 27.5% and 47.0% in 2010, 2011 and 2012, respectively, reflecting normal operations and natural fluctuations in precipitation levels.

On September 30, 2010, Pingnan County Wangkeng Hydroelectric Co., Ltd. entered into a new grid connection and dispatching agreement with Fujian Province Electric Power Co., Ltd. Ningde Power Industry Bureau which is valid until December 31, 2015. The agreement will remain effective unless both parties agree to its modification or termination. On June 28, 2010, Pingnan County Wangkeng Hydroelectric Co., Ltd. entered into a new power purchase and sale contract with Fujian Province Electric Power Co., Ltd. which is valid till March 31, 2011. Without disagreement from either party, the agreement will be automatically renewed every three years. According to a tariff increase notice issued by Fujian Provincial Pricing Bureau on March 15, 2012, Banzhu currently receives a tariff of RMB0.331 per kWh. The VAT for this project is 17.0%.

Wangkeng is located on the Huotongxi river in Pingnan County, Fujian province. Wangkeng is a four component complex consisting of a concrete arch dam, tunnel and penstock, powerhouse and substation. The powerhouse contains two 20.0 MW vertical Francis type turbine generators manufactured by GE Asia (Hangzhou) Hydroelectric Equipment Co., Ltd. The area of the powerhouse structure is 706.8 m<sup>2</sup>. The area of the land the project utilizes is 290 km<sup>2</sup> including the drainage basin. We acquired Wangkeng in October 2008.

Jinlong. Jinlong is a low head run of the river hydroelectric power facility commissioned in November 2005 with an installed capacity of 10.0 MW and an annual design utilization rate of 42.7%. The effective utilization rate was 50.8%, 34.0% and 58.4% in 2010, 2011 and 2012, respectively, reflecting normal operations and natural fluctuations in precipitation levels.

On May 5, 2012, Shaowu City Jinlong Hydroelectric Co., Ltd. entered into a grid connection and dispatching agreement with Fujian Province Nanping Electric Power Industry Bureau and Fujian Province Power Co., Ltd., which is valid until December 2017. The VAT for this plant is 6.0%. On January 1, 2012, Shaowu City Jinlong Hydroelectric Co., Ltd. entered into a new power purchase agreement with Fujian Province Shaowu Power Supply Bureau, which is valid until December 31, 2013. As of 2012 year end, Jinlong received a tariff of RMB0.321 per kWh.

Jinlong is located on the on the Fu Tun Xi River in northwest Fujian province in Shaowu City. Jinlong is a low head run of the river gated complex with the powerhouse incorporated into the diversion structure on the right bank. The powerhouse contains two 5.0 MW horizontal fully regulated bulb turbine generators manufactured by Fu Chung Jiang Hydraulic Turbine Factory.

Jintang. Jintang is a low head run of the river hydroelectric power facility commissioned in October 2006 with a design capacity of 11.6 MW and an annual design utilization rate of 40.5%. The effective utilization rate was 41.9%, 29.0% and 52.7% in 2010, 2011 and 2012, respectively, reflecting normal operations and natural fluctuation in precipitation levels.

On July 31, 2011, Shaowu City Jintang Hydroelectric Co., Ltd. entered into a grid connection and dispatching agreement with Fujian Province Nanping Electric Power Industry Bureau and Fujian Province Power Co., Ltd., which is valid until December 2016. The VAT for this plant is 6.0%. On January 1, 2012, Shaowu City Jinlong Hydroelectric Co., Ltd. entered into a new power purchase agreement with Fujian Province

## Edgar Filing: China Hydroelectric Corp - Form 20-F

Shaowu Power Supply Bureau, which is valid until December 31, 2013. As of 2012 year end, Jintang received a tariff of RMB0.281 per kWh.

Jintang is located on the Futunxi River in the northwest of Fujian province in Shaowu City. Jintang is a low head run of the river gated complex with the powerhouse incorporated into the diversion structure on the right bank. The powerhouse contains two 5.8 MW horizontal fully regulated bulb turbine generators manufactured by Dong Feng Hydroelectric Machinery Works.

Jinling. Jinling is located in Shaowu City, Fujian province and consists of three projects, Qianling, Jinjiu and Dongguan. Qianling and Jinjiu are incorporated into the same powerhouse and gate structure on the Futunxi River. The entire complex of Qianling and Jinjiu has a total design capacity of 13.0 MW. Dongguan has a design capacity of 4.8 MW.

Shaowu City Jinling Power Generation Co., Ltd. entered into a power purchase agreement with Fujian Province Shaowu Power Supply Bureau for each of Qianling, Jinjiu and Dongguan hydroelectric power projects in January 2012, which is valid until December 31, 2013. The VAT for these three plants is 6.0%.

Qianling. The Qianling hydroelectric facility is a low head run of the river hydroelectric power facility commissioned in July 1984 with a design capacity of 10.0 MW and an annual design utilization rate of 52.0% reduced to 40.0% with diversion of water to the Jinjiu facility. The effective utilization rate was 48.8%, 31.2% and 53.8% in 2010, 2011 and 2012, respectively, reflecting normal operations coupled with natural fluctuation in precipitation. On June 6, 2012, Shaowu City Jinling Hydroelectric Co., Ltd. entered into a grid connection and dispatching agreement with Fujian Province Nanping Electric Power Industry Bureau and Fujian Province Power Co., Ltd., which is valid until December 2017. As of 2012 year end, Qianling received a tariff of RMB0.261 per kWh.

Table of Contents

The Qianling hydropower complex is located on the on the Fu Tun Xi River in northwest Fujian province in Shaowu City. Qianling is a low head run of the river gated complex with the powerhouse incorporated into the diversion structure on the right bank. The powerhouse contains eight 1.25 MW vertical partially regulated kaplan turbine generators manufactured by Dong Feng Hydroelectric Turbine Factory.

Jinjiu. The Jinjiu hydroelectric facility is a low head run of the river hydroelectric power facility commissioned in October 2004 with a design capacity of 3.0 MW and an annual design utilization rate of 52.0%. The effective utilization rate was 62.6%, 44.1% and 57.0% in 2010, 2011 and 2012, respectively. The higher than design utilization rate was attributable to operator preference in optimizing performance and water allocation between Jinjiu and Qianling. On December 15, 2003, Shaowu City Jinling Hydroelectric Co., Ltd. entered into a grid connection and dispatching agreement with Fujian Province Shaowu Power Supply Bureau for an indefinite term. The agreement will remain effective unless both parties agree to resign the agreement. As of 2012 year end, Jinjiu received a tariff of RMB0.301 per kWh.

The Jinjiu hydropower facility is located on the Fu Tun Xi River in northwest Fujian province in Shaowu City. Jinjiu has a single 3.0 MW fully regulated vertical kaplan style turbine that is incorporated into the Qianling complex which is a low head run of the river gated complex with the powerhouse incorporated into the diversion structure. The powerhouse contains the Qianling eight 1.25 MW vertical partially regulated kaplan turbine generators manufactured by Dong Feng Hydroelectric Turbine Factory plus the single Jinjiu 3.0 MW vertical kaplan turbine generator manufactured by Nanping Hydroelectric Turbine Generator company.

Dongguan. The Dongguan hydroelectric facility is a low head run of the river hydroelectric power facility commissioned in November 2004 with a design capacity of 4.8 MW and an annual design utilization rate of 48.1%. The effective utilization rate was 17.4%, 19.4% and 46.6% in 2010, 2011 and 2012, respectively. Effective utilization has been lower than design as water levels at the dam were reduced to accommodate construction activity immediately upstream unrelated to the project. On December 20, 2002, Shaowu City Jinling Hydroelectric Co., Ltd. entered into a grid connection and dispatching agreement with Fujian Province Shaowu Power Supply Bureau for an indefinite term. The agreement will remain effective unless both parties agree to resign the agreement. As of 2012 year end, Dongguan received a tariff of RMB0.301 per kWh.

Dongguan is located on the Fu Tun Xi River in northwest Fujian province in Shaowu City. Dongguan is a low head run of the river gated complex with the powerhouse incorporated into the diversion structure at the left bank. The powerhouse contains three 1.6 MW horizontal fully regulated bulb turbine generators.

Jinwei. Jinwei is a low head run of the river hydroelectric power facility commissioned in July 2009 with a design capacity of 16.0 MW and an annual design utilization rate of 41.1%. The effective utilization rate was 38.1%, 27.0% and 44.5% in 2010, 2011 and 2012, respectively. Effective utilization has been lower than design in 2011 reflecting lower than normal precipitation in 2011. The facility has a restricted intake which will prevent achievement of design utilization by approximately 10.0% until remedied. We currently are not planning on implementing these remedial plans until after the 2013 operating season at the earliest.

On December 24, 2010, Shaowu City Jinwei Hydroelectric Co., Ltd. entered into a grid connection and dispatching agreement with Fujian Province Nanping Electric Power Industry Bureau, which is valid until December 2015. Shaowu City Jinwei Hydroelectric Co., Ltd. entered into a power purchase agreement with Fujian Province Nanping Power Bureau on March 31, 2011, which is valid until March 31, 2014, pursuant to which Fujian Province Nanping Power Bureau agrees to pay a tariff of RMB0.30 per kWh for supplying electricity. According to the

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approval regarding the tariff of Shaowu City Jinwei Hydroelectric Co., Ltd issued by Shaowu Pricing Bureau, Nanping Pricing Bureau, and Fujian Provincial Pricing Bureau Ltd on June 28, 2012, Shaowu City Jinwei Hydroelectric Co., Ltd. currently receives a tariff of RMB0.3051 per kWh. The VAT for this plant is 6.0%. According to the terms of the power purchase agreement, the agreement remains effective unless any party has disagreement on the terms of the agreement, and its term will be automatically extended for three years.

Jinwei is located on the Fu Tun Xi River in the northwest of Fujian province in Shaowu City. Jinwei is a run of the river gated complex with the powerhouse incorporated into the diversion structure on the right bank. The powerhouse contains two 8.0 MW horizontal fully regulated bulb turbine generators manufactured by Dong Feng Hydroelectric Machinery Works.

### **Projects under Development**

#### ***Henan Province***

Wuyue. On October 22, 2009, we entered into a capital injection agreement with Henan Lantian Group to subscribe for a 79.0% equity interest in Wuyue, which owns the right to develop a pumped storage hydropower project of 1,000.0 megawatts in Henan province. Pursuant to the agreement, we completed the first capital injection of RMB32.5 million (\$4.8 million) on March 23, 2010. In September 2010, we signed a framework agreement with Guangdong Nuclear for the equity transfer of a controlling interest of Wuyue. Under the framework agreement, subject to the completion of definitive documents, completion of due diligence and receipt of required governmental and other approvals in the PRC, we would transfer 51.0% equity interest in Wuyue to Guangdong Nuclear, in exchange for which Guangdong Nuclear agreed to fund its proportionate share of the on-going development costs of the project. The framework agreement expired on December 31, 2011 and the project has been largely at a standstill since the acquisition in 2009. We expect the project will continue to be at a standstill and as it has no intention to make further investments to Wuyue. The investment in Wuyue was written off as of December 31, 2011.

Table of Contents

**Projects for Which We Have Signed a Definitive Agreement to Sell**

***Fujian Province***

*Yuanping.* In December 2011, we entered into an Equity Purchase and Sale Agreement with a third-party buyer to sell Pingnan County Yuanping Hydroelectric Co., Ltd., which owns and operates Yuanping hydroelectric power project, a 16.0 megawatt ( MW ) project located in Fujian province, for a total consideration of \$22.2 million, including the assumption of debt by the buyer. The disposal date of Yuanping was March 2, 2012, which was the date we lost effective control over Yuanping. The sale transaction was completed on the same date.

*Yuheng.* In October 2012, we entered into a Share Transfer Agreement to sell Pingnan County Yuheng Hydroelectric Co., Ltd., which owns and operates Yuheng hydroelectric power project, a 30.0 MW project located in Fujian province, for total consideration of \$44.3 million, including the assumption of debt by the buyer. The disposal date of Yuheng was October 31, 2012, which was the date we lost effective control over Yuheng. The sale transaction is expected to complete in April, 2013.

***Our Project Acquisition Process***

Our steps for evaluating and acquiring hydroelectric power projects are set forth below.



Table of Contents

**Opportunity Sourcing and Screening**

Our management has a broad network of contacts throughout China, including contacts in the hydroelectric industry and in the central, provincial and local governments, through which we have developed a pipeline of hydroelectric project acquisition opportunities.

Our criteria for evaluating a potential target hydroelectric power project or development project for acquisition include the following:

- acquisition price, and anticipated construction cost where applicable, as compared to current and projected cash flow and the historical and projected return on investment, taking into account historical tariff levels and tariff trends;
- the acquisition cost as compared to the estimated replacement value, the appraised value and our own assessment of fair value using a number of valuation methodologies;
- the status of approvals, permits and licenses required for the construction and operation of the plant, including the legal status of the land occupied by the plant;
- the hydrological condition of the plant site;
- the ability to retain existing or obtain new local bank financing on reasonable terms;
- the operating history of the target business, including actual power production and local supply and demand;
- the installed capacity and design of the hydroelectric power project operated by the target business, including opportunities to expand or otherwise improve generation capacity taking into consideration the current installed capacity and design utilization;
- the potential to diversify the regions in which we operate or to realize operational efficiencies from clustering multiple plants on a single water way;

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- the competency of existing management and operational personnel of the target project; and
- the local government for the project, the relationship with the customer grid and the local tax rates.

These criteria are not intended to be exhaustive. Any screening relating to the merits of a particular target business will be based, to the extent relevant, on the above factors as well as other considerations deemed relevant by our management in effecting the acquisition consistent with our business strategy. Our management believes there are ample acquisition targets that meet the above criteria. Furthermore, we believe that there are few experienced and funded buyers in the market. In evaluating prospective acquisitions, our management has sourced a large number of hydroelectric projects in China, including conducting site visits and analyzing operating data from the projects. In addition, our management has conducted comprehensive research on market and competitive dynamics in the industry.

### *Sign Memorandum of Understanding or Letter of Intent*

Once an acquisition opportunity is identified, our staff will conduct an internal preliminary engineering, legal and financial assessment of the target project. The results of the internal preliminary assessment are reported to our management, which decides whether we will pursue the opportunity.

If our management decides to pursue the opportunity, we will enter into a memorandum of understanding or letter of intent with the owner of the target project. This sets forth the general terms and conditions for a possible acquisition and may elect to provide for the payment by us of a deposit of up to 5.0% of the purchase price. The memorandum of understanding or letter of intent allows us to conduct our due diligence review. The memorandum of understanding or letter of intent is generally non-binding, although where we pay a deposit, we may forfeit it if we do not complete the acquisition for reasons other than the failure of the project to pass our due diligence review.

### *Due Diligence*

After the execution of a memorandum of understanding or letter of intent, we conduct a full due diligence review of the target project. The due diligence review covers four main aspects: financial, engineering, legal and asset appraisal. Generally, third-party advisors, such as engineering firms, law firms and asset appraisers, are engaged to assist us with in-depth due diligence under our direction, and will provide due diligence reports for our review. Our own staff is also responsible for the financial review of target projects.



Table of Contents

Our financial evaluation is the key first step to understanding the viability of the potential project. We conduct different analyses of the business to ensure the valuation sought is in line with market. We achieve this through evaluation of the asked price, operating expenditure and capital expenditure to ensure that the price we are paying is reasonable. The engineering firm is directed to include in their report an estimate of cost to operate the plant, taking into account periodic equipment maintenance.

The engineering review generally consists of site visits, physical inspection of the facilities, meetings with plant management, analysis of hydrological conditions and potential and historical electricity production, review of project design, construction and operation records, and review of the acquisition cost, operating cost and annual capital expenditures.

In the review of hydrological conditions and electricity production, the engineering firm is directed to (i) review the precipitation records and the methods used to determine the amount and timing of water flow and the project water intake; (ii) review the methods employed to convert the kinetic energy of water into electricity, including applying the hydrologic potential from the project water to the water conveyance facilities and turbine equipment of the project; and (iii) account for reasonable estimates of planned and unplanned outages due to maintenance, high and low water levels, and transmission interruption due to grid conditions outside the control of the project operator. The engineering firm's report typically includes monthly and annual electricity production using historical hydrologic records and the equipment installed or to be installed, reflecting a simulation of historical and likely future net electricity production from the project which is then compared, in the case of plants already in operation, to actual electricity production since commencement of operations.

The review of project design is intended to ensure that the civil, mechanical and electrical design of the project is prudent and suitable for the intended duty of a utility grade hydroelectric power project performing continuous operation. In the review of project design, the engineering firm is directed to review the suitability of the project for specific geotechnical conditions, civil structures, and the mechanical and electrical requirements for infrastructure and equipment, including the dimensions, methods of fabrication, depth of excavation, and source of materials used in all project features, including diversion structure, water conveyance, support, power house and outflow.

The actual records of the project construction are selectively reviewed to ensure that customary quality control practices were performed and that construction materials, including steel and concrete, incorporated in the project were manufactured and placed in accordance with prudent design practice. The review covers quality control measures employed by the manufacturers of turbines, generators and electrical equipment in the manufacturing and assembly process and identifies any substandard material or completed work that was removed and replaced. The review of the actual construction ensures that civil, mechanical and electrical aspects of the project conform with the design, that any redesign improvements from the original design necessitated by the actual conditions have been properly incorporated into the work, and that the final as built project is a utility grade hydroelectric power project suitable for continuous duty. Our third party-review of the project design and project construction is intended, among other things, to uncover any deficiencies in the structural or operational integrity of the hydroelectric power project that may have arisen due to construction of the hydroelectric power project based on incomplete or inaccurate technical data, faulty design or poor construction process or materials.

We engage legal counsel to investigate the legal status of the target hydropower project through a review of relevant legal documents, including permits and approvals, tax records, and building ownership certificates and land use rights. The legal counsel prepares a legal due diligence report that sets forth any issues they identify and the associated risks. This process allows us to reduce our risk exposure and more effectively negotiate with the seller to remediate material legal issues before acquiring the target project.

Finally, we also obtain an appraisal from a reputable appraiser of the fair market value of the target project before entering into an agreement with the seller. We generally obtain a written appraisal that covers the plant, property and equipment.

***Investment Committee Approval***

Upon completion and review of the financial, engineering, legal, and appraisal due diligence, our investment committee comprised of our executive officers, will decide whether to enter into a definitive acquisition agreement.

***Negotiate and Sign Definitive Agreement***

The legal documentation of the acquisition is prepared by our legal counsel in conjunction with their in-depth due diligence review of the target. If our project review committee is satisfied with the results of the in-depth due diligence, we will enter into an equity interest or asset purchase agreement and other related agreements with the seller of the target and other related parties as necessary. The agreements cover the pricing and payment terms for the acquisition, the financing requirements for the transaction, estimates of approval status and timing and may involve divestiture of non-core assets. These acquisition agreements contain representations, warranties and covenants of the parties that we believe are customary for comparable transactions in China, covering historical tariff, electricity generation and hydrology, the condition of the plant and equipment, the status of government approvals and the ownership history of the plant. Certain representations and warranties of the sellers of these projects, such as those relating to the quality and performance of the projects and obtaining key government approvals, may survive the closing of the project acquisition for a certain period of time, and the breach of these representations, warranties and covenants may entitle us to a setoff against the amounts payable to the sellers or other compensation or indemnification. The executed acquisition agreements are submitted to the relevant government authorities, in particular the provincial or local commerce authorities, for approval. The government approval process generally takes 15 to 60 days, but may take longer in some cases. We generally seek to establish a new wholly foreign-owned enterprise to hold our acquired projects, or we may transfer the assets to an existing FIE.

## Table of Contents

Upon approval by the authorities, including the Ministry of Commerce, the State Administration of Foreign Exchange, the National Development and Reform Commission and the State Administration for Industry and Commerce, of the acquisition, the relevant engineering, assets, financial and personnel records and materials are handed over from the prior owner of the hydroelectric power project to us, and we assume the operation of the hydroelectric power project. See Regulation Relating to Foreign Investment .

For projects which are wholly or partially state-owned, we must enter into a competitive bidding process to win the right to acquire a hydroelectric power project. Our acquisition process for these state-owned projects is otherwise the same as that for privately held projects. We may in the future bid for other state-owned projects. See Risk Factors Risks Relating to our Company and the PRC Hydropower Industry Acquisition of state-owned assets involves a public bidding process and failure to win the bids for our state-owned target companies or equity interests therein may limit our future growth and the control of our existing projects. and Regulation Regulations Relating to Transfer of State-Owned Assets .

## ***Project Construction***

Substantially all of the design, construction and engineering supervision work for our greenfield projects and projects under construction is subcontracted to third parties. Typically, design institutes, contractors and engineering supervisors are selected through an open bidding process. A general contractor may be hired, who is responsible for the selection of sub-contractors, or, in some projects, more than one contractor is hired, each responsible for a designated portion of the project on a turnkey basis. A selection procedure is put in place to ensure compliance with quality and workmanship standards. Factors taken into account when selecting contractors may include their qualifications, reputation, track record, past cooperation with us, and financial condition and resources, as well as the competitiveness of their bids. The qualifications and performance of the contractors are reviewed from time to time. Information throughout the entire project construction process is constantly collected from the contractors and directly by our team, and is closely monitored and analyzed to ensure compliance with quality and workmanship standards and to avoid unanticipated delays and cost overruns.

The construction contracts typically provide for fixed or capped payments, subject to adjustments for certain types of excess, such as design modifications during construction, unanticipated geological conditions discovered during construction and changes in commodities prices. The contractors are typically responsible for procuring the necessary raw materials, as well as providing engineering and construction services, if required.

We generally purchase key equipment from domestic manufacturers and vendors. China is the biggest hydroelectric power producer in the world, according to the International Energy Agency, and as a result has a number of manufacturers providing quality hydroelectric equipment at competitive prices. There are also numerous hydroelectric contractors, supervisors and installers competing for projects in China. We expect that, as we grow, we will have greater negotiating power with equipment manufacturers, vendors, contractors and related service providers for the construction and maintenance of our projects.

## ***Commissioning of Project***

Since March 2003, the National Development and Reform Commission was created and assumed authority over the review and approval of major new hydroelectric power projects. Approval by the Ministry of Commerce or its designated authority is also required when foreign

investment is involved in establishing or acquiring a hydroelectric power project.

On July 19, 2004, the State Council issued a decision entitled "Reform of the Investment System", or the State Council Decision, which changed the approval process for investments in China. Depending on the types of investments, investments are subject to one of three types of procedures: a full approval procedure, a verification procedure, or a filing for the record procedure.

According to the State Council Decision, hydroelectric power projects without PRC government funding are subject to a verification procedure. This involves the review and verification by the investment regulatory authority of the State Council; if the project is classified as important, additional review and verification by the State Council will be required. Verification by the National Development and Reform Commission and the Ministry of Commerce or local government will also be necessary if foreign investment is involved. Applicants are required to submit only project application reports in lieu of the project proposals, feasibility studies and application reports for commencing construction previously required. The types of specified investments qualified for the verification procedure are subject to change by the State Council.

To develop a new hydroelectric power project, the requisite approvals and permits must be obtained prior to the commencement of construction of a project. These approvals and permits generally include approvals in connection with the plant site, water and soil conservation, environmental protection, land use rights, water resources demonstration, construction land planning permit, construction works planning permit, and construction works commencement permit, among others. We do not plan to develop greenfield projects in the near term.

Table of Contents

The construction of hydroelectric power projects is also subject to acceptance inspections, including acceptance inspections with respect to water storage, commissioning of generator units, environmental protection, water and soil conservation facilities and construction completion, among others. Currently, sixteen of our twenty-five projects have completed completion acceptance procedures, and two more are expected to complete the procedures in 2013. See **Risk Factors** **Risks Relating to our Company and the PRC Hydropower Industry** **Certain of our existing hydroelectric power projects have not passed the completion acceptance procedure, which could result in the imposition of fines or the closure of non-permitted hydroelectric power projects.**

To operate hydroelectric power projects, relevant permits such as an Electric Power Business Permit (for power generation) and Water Drawing Permit are also required. In addition, the operation of hydroelectric power projects is subject to the supervision and administration of certain relevant governmental authorities, which include the State Electricity Regulatory Commission, and its local branches, and other authorities in charge of water resources, environmental protection, and work safety, among others. See **Regulation** .

***Project Operation and Maintenance***

We manage most of our existing hydroelectric power projects, except for the Liyuan and Xiaopengzu hydroelectric power projects in Sichuan and Yunnan provinces, and we intend to continue to manage our hydroelectric power projects in the future. The management of the Liyuan and Xiaopengzu hydroelectric power projects is currently outsourced to companies affiliated with the local power grid to which the plants are connected. We have acquired and will continue to acquire hydroelectric power projects that are clustered or located where we have the potential to acquire adjacent projects, which enables us to centralize operational and management functions for the hydroelectric power projects and thus achieve cost savings.

Repairs and maintenance of hydroelectric power projects are conducted on a regular basis or when necessary. Regular repairs and maintenance are generally scheduled during the off-peak season in order to reduce their impact on normal operations. We perform regular inspections of our generators to look for signs of possible equipment degradation. Minor repairs are typically carried out on an annual basis without interruption to the planned generation of the hydroelectric power project. Major repairs are carried out every four to six years and involve the generator ceasing operation for up to three months. Emergency repairs may be required to be made by our company or by the grid through which we dispatch our power when equipment failures or natural disasters occur. For example, we had been unable to transmit power at the Shapulong power plant to the local grid for approximately six weeks, as the transmission line connecting our plant to the local grid failed during a severe snow storm. Emergency repairs may take one or two days to a month, depending on the nature of the repair, and may interrupt our planned generation.

**Sales and Marketing**

***Power Sale***

Each of our operating hydroelectric power projects has entered into a written power purchase agreement with the grid to which it is connected. Generally, the agreement has a term of three to five years, with the tariff negotiated annually. The agreement normally provides that the annual utilization hours of the hydroelectric power project will be determined with reference to the estimated demand for electricity, the forecast water inflow volume at the plant and the strategic importance of the hydroelectric power project to the customer grid. The output that each of our

hydroelectric power projects generates is also subject to local demand for power and the amount of power to be dispatched to the grid, and is set and controlled by the relevant provincial government. Actual daily generation of electricity is determined by the dispatch authority based on the needs of the grid. Our actual power generated may therefore be less than our planned power production as approved by the provincial authorities. In practice, our actual power generated is determined based on our daily interactions with our local power grids. We must inform each grid of our ability to produce power based on actual hydrological conditions, and they will take this into account when requesting us to dispatch power each day. In Sichuan, Yunnan and Fujian provinces, our experience has been that we may dispatch all the power we can produce on any given day to the local grid. In Zhejiang province, where we receive different tariffs for peak and off-peak power, we generally dispatch all the power we can produce, however, the local grids may restrict the amount of peak power we dispatch. In line with national policy, we believe the local grids in Zhejiang generally favor renewable energy generators in selecting dispatch of peak power.

We expect that the dispatch of the power we generate will be increasingly influenced by market demand and our competitive tariff as the dispatch system continues to develop towards a market mechanism. The development of this market mechanism is described below.

In 2003, the State Electricity Regulatory Commission and the State Administration for Industry and Commerce jointly promulgated a model contract form, or the Model Contract Form, for use by power grid companies and power generation companies in connection with electricity sale and purchase transactions. The Model Contract Form contains provisions for stipulating the parties' rights and obligations, amount of electricity subject to purchase, payment method and liabilities for breach of contract. We believe that the publication of the Model Contract Form has facilitated the negotiation and execution of electricity purchase contracts between power grid companies and power generation companies in a fair, transparent and efficient manner. In 2007, all of the agreements entered into between our hydroelectric power projects and the local grid companies were based on the Model Contract Form.

## Table of Contents

Power sales through competitive bidding are one of the targets of the power market reform. The PRC government began to experiment with a program in 1999 to effect power sales through competitive bidding in some provinces, and has been gradually expanding the program with a view to creating a market-oriented electric power industry. Pursuant to the Implementation Opinions Regarding Promotion of Electric Power System Reform in the Twelfth Five-year Plan promulgated on April 6, 2007, the State Electricity Regulatory Commission will speed up the reform to establish an electric power market suitable to China's circumstances. Among other things, the State Electricity Regulatory Commission will propose relevant policies based on the practices pioneered in the northeastern region and eastern region; promote the construction of a uniform competitive bidding system in each regional power market; accelerate the development of power markets in the eastern region and the northeastern region; carry out trial or simulated operations in the southern region and central region as appropriate; formulate plans and marketing rules for the power market in the northern region and northwestern region; and expand the experimental program on direct power sales between power generation companies and large-scale end-users.

Currently, participants in the trial operations of the regional power markets are limited to coal-fired power projects. Although the Renewable Energy Law and regulations promulgated thereunder require the dispatch and purchase of all power generated by small hydroelectric power projects, these requirements are not always followed in practice. Relevant law requires 100% of our power produced to be purchased by our customer grid, but in practice our planned generation is agreed with the grid each year and may be below our design utilization output. Furthermore, where there is a decrease in demand or increased competition for supply of power to a grid, we may be required by the local dispatch company to generate less than the planned generation agreed with the grid. Establishing regional power markets and increasing the use of the bidding method are the trend in China's power market reform, and we believe this will create a competitive environment that is fair, transparent and equitable. In general, we believe the move away from local grids to larger regional and state grids will increase our competitive advantage as a low tariff provider of renewable energy, and allow us to increase our utilization levels. We believe that hydroelectric power projects may benefit from this reform, if extended to hydroelectric power projects, as hydroelectricity is a low-cost renewable energy compared to thermal energy. We expect that our efficient operations and management will enable us to compete effectively in an open, orderly and fair market. However, the recent global economic downturn, and the domestic stimulus programs implemented by the PRC government to combat the downturn, may result in the slowing of the reform process outlined above, as the government seeks to support existing thermal power producers through periods of reduced demand. We believe this may in particular be true in the coastal regions, such as Fujian and Zhejiang provinces, which have been affected significantly by the shrinking of the PRC's export economy. See Regulation Regulations on Renewable Energy Resources; Regulations of Power .

## ***On-grid Tariff***

Since April 2001, the Chinese government has started to gradually implement a new on-grid tariff-setting mechanism based on the operating and capital costs of individual power projects as well as the average costs of comparable power projects. On July 3, 2003, the Chinese government approved the tariff reform plan and made it clear that the long-term objective of the reform is to establish a standardized and transparent tariff-setting mechanism.

Pursuant to the National Development and Reform Commission circular issued in June 2004, on-grid tariffs for newly built power generating units commencing operation since June 2004 should be set based on a number of factors. This new mechanism was intended to replace the old tariff-setting mechanism which was designed to enable power projects to recover all operating and debt service costs and to earn a reasonable profit or a fixed rate of return on the net fixed assets. Based on our experience, the determination of average costs under the new mechanism usually takes into consideration factors such as the following:

- construction costs, which vary according to the capacities of the individual power projects;

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- operating and administrative expenses, such as labor and fuel costs;
- maintenance and repair costs of power projects; and
- interest expenses on outstanding debts.

In December 2004, the National Development and Reform Commission proposed and the State Council approved a linkage mechanism between coal and power tariff rates, pursuant to which the National Development and Reform Commission may adjust power tariffs if the average coal price changes by 5.0% within a period of six months compared with the preceding period. The change in a period, if less than 5.0%, will be carried forward to the future periods until the accumulated changes reach 5.0%. Currently, the tariff rates of hydropower are not subject to this linkage mechanism, but reforms in the pricing of coal-fired and other power projects influence the tariffs we receive, and the demand for hydropower, as they impact the economics of the grid as a whole.

On March 28, 2005, the National Development and Reform Commission issued the Interim Measures on Regulation of on-grid Tariff, or the Interim Measures, to provide guidance for the reform of tariff-setting mechanism in the transition period. Under the Interim Measures, the tariff is classified into an on-grid tariff, a transmission and distribution tariff and an end-user tariff. The transmission and distribution tariff will be set by the government. The end-user tariff will comprise power purchasing cost, loss of power in transmission and distribution, the transmission and distribution tariff and any government subsidy. The government is responsible for regulating and supervising power tariffs in light of the principles of efficiency, incentives, and investment encouragement and taking into consideration affordability of power to local consumers.



## Table of Contents

The on-grid tariffs for our planned output and excess output are subject to an annual review and approval process involving the relevant provincial government authority and the National Development and Reform Commission. In Zhejiang and Fujian provinces, where the tariff rates are among the highest in the country and where our hydroelectric power projects are connected to the state grid, we have little influence on the setting of the tariff rates for our planned and excess output, which are set by the local pricing bureau in line with the Interim Measures upon consultation with the state grid. In Yunnan and Sichuan provinces, where the tariff rates are among the lowest in the country and where our hydroelectric power projects are connected to local grids, we have some ability to negotiate the tariff rates for our planned and excess output with the local grid companies before the tariffs are submitted to the local pricing bureau for approval. Our ability to influence the tariff will depend on the local supply and demand for electricity and the strategic location of our plant in the grid. See Regulation Regulations on Renewable Energy Resources; Regulations of Power.

## **Competition**

Competition within the electric power industry has only been introduced recently in China, as energy producers were historically controlled by the government. China has experienced significant capacity shortages, and suppliers have often been unable to meet the surging demand for electricity. We believe that competition between power projects to sell electricity is lessened due to prevalent supply shortages. Nonetheless, we believe that competition will increase in the long run.

All hydroelectric power projects in China are subject to dispatch conducted by various dispatch centers. A dispatch center is required to dispatch electricity pursuant to the Regulations on the Administration of Electric Power Dispatch Networks and Grids, issued by the State Council with effect from November 1, 1993, and in accordance with its agreements with hydroelectric power projects subject to its dispatch. Power generation companies are also required to enter into on-grid dispatch agreements with power grid companies. As a result, there is competition for favorable dispatch treatment in China's electric power industry, especially during the off-peak periods. Our ability to sell electricity depends on the dispatch and allocation determined by the dispatch requirements of the local grids to which we sell our electricity. We therefore do not compete directly with other power producers to sell the electricity we generate, but instead, to sell the electricity solely through the local grids. Please see

Business Sales and Marketing Power Sale. As a generator of renewable energy, hydroelectric power projects are technically entitled to preferential treatment in dispatchment over thermal power projects. This factor, combined with the increasing cost of coal and other fossil fuels, has led to increased interest in and support to hydropower in China. If the gap between supply and demand for power in China is met largely by renewable energy generators in the same regions we may in the long term face competition from other renewable energy generators for dispatch of our power. However, we believe that in markets dominated by fossil fuel generators, we will experience rising tariffs over the long term.

In addition to competition from other hydroelectric power projects and other power generators to dispatch the power we generate, we may in the future face competition in acquiring additional hydroelectric power projects. Competition may come from China's five biggest power generating companies, which are all state-owned enterprises and currently operate primarily coal-fired power projects but have become increasingly interested in hydroelectric power projects and other forms of renewable energy. These companies have excellent relationships with the power grids, which provide them an advantage when introducing new plants to a grid. We expect these five companies will focus on large hydroelectric power projects and be slower to seize acquisition opportunities, while we target small projects and have a demonstrated ability to move quickly. Certain smaller China-based and overseas listed power companies are also seeking to acquire hydroelectric power projects in China. Hydroelectric power projects in China are also attractive investments for international investors seeking to generate and trade certified emissions reduction credits. We believe these local and foreign companies are acquiring hydroelectric power projects along with other renewable energy operations and lack the segment focus that our Company has. While we are aware of their activities in the market, we have not experienced direct competition with them to date for project acquisition. We may also encounter some competition from venture capital and private equity funds, leveraged buyout funds and other foreign funded entities interested in acquiring hydropower assets in China. We believe we have the expertise and experience in the hydropower sector to compete effectively with these players.

## Intellectual Property Rights

We have registered the Internet domain name [www.chinahydroelectric.com](http://www.chinahydroelectric.com).

In China, the registration and protection of a company's corporate name is carried out at the provincial level. We cannot prevent others from registering our corporate name. If a company first registers China Hydroelectric Corporation as its corporate name in a province where we operate our business, we will have to adopt another corporate name. However, we do not believe that any such loss of our right to use the name China Hydroelectric Corporation would have a significant adverse impact on our business or operations.

## Insurance

We currently maintain property insurance for our hydroelectric power projects. Our current insurance coverage is maintained with Ping An Property and Casualty Insurance Company of China, Ltd., PICC Property and Casualty Company Limited, China United Property Insurance Company Limited, Tian An Insurance Company Limited, China Pacific Property Insurance Co., Ltd., Sunshine Property and Casualty Insurance Company Limited and Taiping General Insurance Co., Ltd. on our properties, plants and equipment, and includes construction all risk insurance. Our current coverage totals approximately RMB3,181.7 million (\$505.6 million). As with most property insurance policies in China, our policies do not cover damage resulting from earthquakes, war or acts of terror. In addition, we currently maintain liability insurance for our directors and officers with coverage of \$10.0 million and employment practice liability insurance with coverage of \$3.0 million. We do not currently carry any third-party liability insurance, business interruption insurance or insurance covering environmental damage arising from accidents on our property or relating to our operations. We believe that our insurance coverage is adequate and is standard for the power industry in China. See Risk Factors Risks relating to the Company and PRC Hydropower Industry Our power generating operations may be adversely affected by operational risks, which may result in uninsured losses.

Table of Contents

**Environmental Matters**

We are subject to various environmental laws and regulations set by the national, provincial and municipal governments in China, including regulations on water pollution, as well as water and waste discharge. See Regulation.

Our new power projects are normally required to undergo an environmental impact assessment by qualified third parties, and a report of the assessment needs to be submitted to the relevant environmental authorities in order to obtain their approval before commencing construction. Upon completion of each project, the relevant environmental authorities inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is presented together with other specified documents to the relevant construction administration authorities for their approval. See Regulation Regulations on Environmental Protection in Construction Projects.

We believe our environmental protection systems and facilities for our hydroelectric power projects are adequate for us to comply with currently effective national and local environmental protection regulations. It is expected that the PRC government will impose additional and stricter environmental protection regulations which could require us to make additional expenditures to remain in compliance with environmental regulations. In particular, in the event the PRC government introduced minimum water flow requirements for hydroelectric power projects, a reduction of our power generation at some of our plants could result.

We focus on acquiring projects in operation or under construction rather than developing greenfield projects of our own. When we acquire hydropower projects, we conduct due diligence to determine whether the target project has obtained the approvals and permits necessary for construction and operation, including approvals issued by the Environmental Protection Authority. Where approvals and permits are missing, we require the target project to take remedial action after the acquisition to obtain the necessary approvals and permits. See Regulation Regulations on Environmental Protection on Construction Projects .

**Headquarters**

We currently maintain our headquarters at Bldg A #2105, Ping An International Financial Center, No.3 Xinyuan South Road, Chaoyang District, Beijing, PRC 100027. Our headquarters occupy 848.7 square meters under a lease agreement expiring in January 2014.

**Legal Proceedings**

From time to time, we are subject to various legal or administrative proceedings arising in the ordinary course of our business.

In April 2012, twenty-four employees of Henan Wuyue Storage Power Generating Co., Ltd. ( Wuyue ) filed an arbitration claim against us for the payment of salary in total amount of RMB2,693,500 (\$427,811) and the payment of social security in total amount of RMB205,440 (\$32,639).

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The claim was heard by the Henan Guangshan County Labour Arbitration Committee ( GCLACin) May 2012. GCLAC ordered that Wuyue be joined as a joint defendant with us. As of the date of this annual report, no ruling or award has been granted in respect of the claim.

Table of Contents

**REGULATION**

This section sets forth a summary of the most significant PRC regulations that affect our business and the industry in which we operate.

We operate our business in China under a legal regime consisting of the State Council, or China central government, and several ministries and agencies under its authority, including the Ministry of Commerce, the State Administration for Industry and Commerce, the State Administration of Foreign Exchange, the National Development and Reform Commission, the Ministry of Water Resources, the Ministry of Environmental Protection, the Ministry of Land and Resources, the Ministry of Housing and Urban-Rural Development, the State Administration of Taxation, and the State Electricity Regulatory Commission. From time to time, these authorities issue regulations that apply to our business.

**Regulations Relating to Foreign Investment**

On December 27, 2011, the National Development and Reform Commission and the Ministry of Commerce jointly promulgated a revised Catalogue for the Guidance of Foreign Investment Industries, or the Catalogue, which came into effect on January 30, 2012. The Catalogue lists those industries and economic activities in which foreign investment in China is encouraged, restricted or prohibited. Pursuant to the Catalogue, construction and operation of hydroelectric power projects with the main purpose of power generation fall within the encouraged category.

The principal PRC regulations in connection with foreign investment include:

- The Sino-foreign Equity Joint Venture Law (1979), as amended;
- The Regulations of Implementation of the Sino-foreign Equity Joint Venture Law (1983), as amended;
- The Wholly Foreign-owned Enterprise Law (1986), as amended;
- The Detailed Rules of the Wholly Foreign-owned Enterprise Law (1990), as amended;
- The Company Law of the PRC (1993), as amended;

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- The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (2009);
- The Interim Administrative Measures on Foreign Investment (2004);
- The Circular Regarding Further Strengthening and Regulating the Administration of Foreign Invested Projects issued by the National Development and Reform Commission (2008).
- Circular of the General Office of the State Council on the Establishment of Security Review System Regarding Mergers and Acquisitions in China by Foreign Investors (2011)

Generally, the acquisitions of domestic enterprises by foreign investors in China are subject to the prior approvals of the National Development and Reform Commission and the Ministry of Commerce, or their local counterparts. After obtaining the approvals from the National Development and Reform Commission and the Ministry of Commerce, the change of shareholders must be registered with the State Administration for Industry and Commerce or its local counterparts and other alteration registrations shall be filed with the government authorities in charge of foreign exchange, customs, tax, land, etc. The acquisition of hydropower plants may also be subject to security review.

Table of Contents

**Regulations on Renewable Energy Resources**

*The Law of Renewable Energy Resources of China*

On February 28, 2005, the Standing Committee of the National People's Congress adopted the Law of Renewable Energy Resources, or the Renewable Energy Law, effective from January 1, 2006. On December 26, 2009, the Standing Committee of the National People's Congress adopted an amendment to the Renewable Energy Law, which has come into effect on April 1, 2010. Pursuant to the Renewable Energy Law, the PRC government encourages the development and utilization of renewable energy resources, including the connection of renewable energy power generators to local power grids. Pursuant to the Renewable Energy Law, the PRC government implements the development and utilization of renewable energy resources by encouraging the purchase of all renewable energy generated. The State Council energy department, in conjunction with the national power regulatory agency and the State Council finance department, determines, in accordance with the national renewable energy development and utilization plan, the proportion of renewable energy power generation with respect to the overall generating capacity for the planning period. The grid enterprises must enter into grid connection agreements with renewable energy power generation enterprises which have procured administrative permits or have submitted filings and must purchase all hydro-produced power meeting the technical standards for grid connection within their grid coverage. Grid enterprises refusing to purchase power produced by renewable energy generators may be fined in an amount up to double the economic loss suffered by the renewable energy generator. The Renewable Energy Law also authorizes the relevant pricing authorities to set on grid tariffs based on the principles in favor of promoting the utilization of renewable energy and being economically reasonable, and to adjust the tariffs in accordance with the improvement of the renewable energy development and utilization technologies. However, the Renewable Energy Law also stipulates that the application of the Renewable Energy Law to hydroelectric power is guided by the department in charge of energy of the State Council and subject to the approval of the State Council. Such guidance has yet to be provided by the State Council, and in practice the local grids or relevant pricing authorities may not always follow the Renewable Energy Law when purchasing power or setting tariffs.

*The Medium and Long Term Development Plan of Renewable Energy Resources*

In light of the rapid growth of China economy and rising consumption of energy, China government increasingly encourages the development and use of renewable energy resources. On August 31, 2007, the National Development and Reform Commission issued the Medium and Long Term Development Plan of Renewable Energy Resources, or the Medium and Long Term Development Plan. According to the Medium and Long Term Development Plan, the share of the development and use of renewable energy accounted for 7.5% of the primary energy consumption in 2005. It aims to have the consumption of renewable energy reach 10.0% of the total energy consumption by 2010, and 15.0% by 2020.

*The Twelfth Five-year Plan of the Development of Renewable Energy Resources*

On October 24, 2012, the National Development and Reform Commission issued the Twelfth Five-year Plan of the Development of Renewable Energy Resources, or the Twelfth Five-year Plan. In accordance with the Twelfth Five-year Plan, the total installed capacity of hydroelectric power generation plants in China is to reach 290,000 MW in 2015, up from 220,000 MW at the end of 2010, among which, the newly installed capacity of small hydroelectric power generation plants shall account for 10,000 MW. During the period of the Twelfth Five-year Plan, China government plans to continue to build up small hydropower in China, aiming to build up 300 small hydro-electrical new rurals at the end of 2015.

*The Guiding Catalogue for the Development of Renewable Energy Resources Industry*

On November 29, 2005, in accordance with the Renewable Energy Law, the National Development and Reform Commission promulgated the Guiding Catalogue for the Development of Renewable Energy Resources Industry, or the Guiding Catalogue. Grid-connected hydroelectric power projects are included in the Guiding Catalogue. In accordance with relevant provisions of the Renewable Energy Law, financial institutions may provide preferential loans with interest subsidies to the development and utilization projects relating to renewable energy resources which are included in the Guiding Catalogue and satisfy the credit requirements. In addition, the Guiding Catalogue contains two categories of hydropower and four categories of relevant equipment manufacturing which are encouraged and shall be entitled to a series of preferential policies in the area of technology research/development, taxation, pricing, marketing/sales and import/export, the details of which shall be promulgated by the State Council. To date, the State Council has not issued any regulatory guidance to provide relevant details regarding these preferential policies. Business activities conducted by us in the development and use of hydroelectric power are encouraged by the government and we may be entitled to benefit from these preferential policies once the State Council issues detailed implementation rules.

*The Administrative Regulations on Power Generation of Renewable Energy Resources*

On January 5, 2006, the National Development and Reform Commission promulgated the Administrative Regulations on Power Generation of Renewable Energy Resources. Pursuant to this regulation, grid operators are required to ensure renewable energy power generators are connected to their power grid.



Table of Contents

*The Supervision and Administrative Measures on the Full Purchase of Electricity of Renewable Energy Resources by Grid Enterprises*

On July 25, 2007, the State Electricity Regulatory Commission promulgated the Supervision and Administrative Measures on the Full Purchase of Electricity of Renewable Energy Resources by Grid Enterprises effective from September 1, 2007. This regulation further stipulates the grid operators must purchase all the power generated by renewable energy power generators connected to their grid. The regulation also provides that except for large or medium sized hydroelectric power projects, renewable energy power generators do not need to participate in competitive bidding for their on-grid tariffs. This regulation also provides that power dispatch institutions must give priority to renewable power generation companies when dispatching power.

**Regulation of Power**

The Electric Power Law, which became effective on April 1, 1996, Regulation on the Administration of Electric Power Dispatch to Networks and grids effective on November 1, 1993 and the Regulations on Electric Power Supervision and Administration, which became effective on May 1, 2005, set out the regulatory framework of the power industry in China. Pursuant to this framework the on-grid tariffs are approved and supervised by China government, and all power projects in China are subject to the dispatch of the power they produce by power grid companies assigned to them.

*Regulation of On-grid Tariffs*

On February 10, 2002, the State Council promulgated the Issuance of the Reform Plan for the Electric Power System Circular, according to which, in the long-term on-grid tariff will be gradually determined by market competition.

On April 6, 2007, the General Office of the State Council issued the Opinions on Implementing Further Reform in Electric Power Industry during the Twelfth Five-year Plan Period, which confirms, among other things, the continuance of further reform of tariff, establishment of the formation system of on-grid tariff corresponding to the competition in power generation segment, execution of the tariff policies favorable to energy saving and environmental protection, and full implementation of the tariff scheme stimulating the development of clean energy.

The Electric Power Law, effective from April 1, 1996, provides the general principles for determining tariffs, which are intended to include reasonable compensation for costs, a reasonable profit and tax, to share expenses fairly and to promote the construction of power projects.

In April 23, 2001, the former State Development and Planning Commission, the predecessor to the National Development and Reform Commission, issued a notice containing guidelines for tariff administration. Pursuant to the notice, a new on-grid tariff-setting mechanism, based on the operating term of power stations as well as the average costs of comparable advanced power stations adopting the same type of techniques that were constructed during the same period within the same provincial power grid, was gradually implemented.

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On July 9, 2003, the State Council promulgated the Tariff Reform Scheme. In accordance with the Tariff Reform Scheme, the direction of the reform of the on-grid tariff is to introduce a competitive mechanism in all respects and the tariff shall be set through the competition of supplying and demanding parties. During the transition period, the on-grid tariff is mainly implemented by a two-part tariff system, among which, capacity tariff shall be set by the government and the energy tariff shall be set by market competition. Competitive bidding for a portion of the energy tariff and other transition methods may also be adopted according to actual situations.

On March 28, 2005, the National Development and Reform Commission issued the Interim Measures on Regulation of On-grid Tariff, the Interim Measures on Regulation of Transmission and Distribution Tariff, and the Interim Measures on Regulation of End-user Tariff, to provide guidance for the reform of the tariff-setting mechanism in the transition period.

The National Development and Reform Commission issued the Trial Measures for the Administration of the Tariff of, and the Sharing of Costs in Connection with, Power Generation Using Renewable Energy Resources, or the Trial Measures, on January 4, 2006, however, the Trial Measures explicitly stipulate that the mechanism for setting the tariff after tax for hydroelectricity be in accordance with prevailing regulations for the time being.

On July 25, 2007, the State Electricity Regulatory Commission promulgated the Supervision and Administration Measures on the Full Purchase of Electricity of Renewable Energy Resources by Grid Enterprises effective from September 1, 2007. The Measures provide that except for large or medium hydroelectric power projects, renewable energy power generators will not participate in competitive bidding for on-grid tariffs. If hydropower generators with the electricity fully purchased by grid companies are engaged in any transaction in the power market, they shall comply with relevant rules and regulations of the State Electricity Regulatory Commission.

### *Regulation of Power Dispatch*

On November 1, 1993, the Regulations on the Administration of Electric Power Dispatch to Networks and Grids, or the Dispatch Regulations, became effective. The Dispatch Regulations apply to all power projects in China and require them to generate power in accordance with their grid connection agreements.

Table of Contents

On August 2, 2007, the State Council approved the Measures on Dispatch of Energy Saving Power Generation (For Trial Implementation), or the Trial Dispatch Measures, jointly issued by the National Development and Reform Commission, the State Electricity Regulatory Commission, the former State Environmental Protection Bureau, the predecessor of the Ministry of Environmental Protection and Office of the National Energy Leading Group. Pursuant to the Trial Dispatch Measures, the dispatch priority of power generation units is determined in the following sequence: (a) non-adjustable power generation units utilizing renewable energy (including hydraulic energy); (b) adjustable power generation units utilizing renewable energy (including hydraulic energy) and garbage generator units which meet the requirements of environmental protection; (c) nuclear power generation units; (d) coal-fired heat-load based CHP units and multiple resource power generation units; (e) gas-fired power generation units; (f) coal-fired power generation units, including cogeneration units without heat load; and (g) oil-fired power generation units.

*The Provisions on the Administration of Electric Power Business Permits*

On October 13, 2005, the State Electricity Regulatory Commission promulgated the Provisions on the Administration of Electric Power Business Permits, which came into effect on December 1, 2005. Pursuant to this regulation, public power projects, grid-connected self-provided power projects, and other projects as prescribed by the State Electricity Regulatory Commission shall apply for and procure power generation permits. The enterprises failing to obtain power generation permits and illegally conducting power business shall be ordered to obtain the permits and any illegal income shall be forfeited, with fines up to five times the illegal income being imposed. If a crime is constituted, criminal liability shall arise.

*Regulations Relating to Transfer of State-Owned Assets*

Under the Interim Measures for the Management of the Transfer of State-owned Assets of Enterprises, or the Interim Measures, jointly promulgated by the State-owned Assets Supervision and Administration Commission of the State Council, and the Ministry of Finance, with the effective date on February 1, 2004, the transfer of state-owned assets can be carried out by auction, bidding, agreement or other means that are permitted under the PRC laws and regulations. A seller of state-owned assets must appoint an asset valuation institution to evaluate the to-be-transferred assets and the valuation report, after being confirmed by or filed with relevant authority in charge of state-owned assets administration, shall be referenced to determine the transfer price. In case the transfer price is lower than 90% of the valuation result, the transaction shall be suspended and shall not proceed until being approved by relevant approval authorities.

On December 31, 2006, the State-owned Assets Supervision and Administration Commission and the Ministry of Finance jointly issued the Circular on Some Issues Relevant to the Transfer of State-owned Assets of Enterprises, or the Circular. Pursuant to the Circular, the state-owned assets are permitted to be transferred over the counter only under the following two (2) circumstances with the approval of the State-owned Assets Supervision and Administration Commission or the State-owned Assets Supervision and Administration Commission offices at provincial level and at the set price:

- (1) Where there are special requirements on the transferee in the restructuring of the key industries and sectors of national economy; or
- (2) Where the direct transfer by agreement is necessary in the internal assets reorganization of the invested enterprises, that is the enterprises supervised by relevant state-owned assets regulatory authorities as the investors, and the transferor and the transferee should both be the invested

enterprises or their wholly invested or absolutely controlled enterprises.

According to the Circular, in the event that the proposed state-owned assets are to be transferred to a foreign investor, such transfer shall proceed publicly in a related assets exchange market. If the agreement must necessarily be conducted by agreement, the requirements on transfer by agreement specified by the Interim Measures and the Circular shall be all satisfied. If the foreign investors are potential transferees and the target assets belong to the sectors in which foreign capital is restricted or forbidden to be invested in accordance with the Catalogue for the Guidance of Foreign Investment Industries and other applicable PRC laws and regulations, the transferor shall indicate the relevant information publicly to remind the potential transferees. If a foreign investor becomes the transferee in the assets exchange market, the transferor shall obtain approval from relevant governmental authorities in accordance with applicable laws and regulations.

#### **Regulations on Environmental Protection in Construction Projects**

All hydropower stations in China are subject to the Environmental Protection Law, the Environmental Impact Evaluation Law, the Law on the Prevention and Treatment of Water Pollution, the Law on the Prevention and Treatment of Air Pollution and the Law on Ocean Environment Protection, or collectively, the National Environmental Laws, relevant administrative regulations, ministerial rules and the environmental rules promulgated by the local governments in which jurisdictions the hydropower stations are located. According to the National Environmental Laws, the State Environmental Protection Administration, the predecessor of the Ministry of Environmental Protection, sets national pollutants emission standards and provincial governments may set their local standards for the pollutant emission not specified in the national standards, and set stricter local standards which are required to be filed at the State Administration for Environmental Protection, the predecessor of the Ministry of Environmental Protection. Enterprises discharging pollutants in areas where the local standards for pollutant emission have been set shall observe such local standards.

Table of Contents

Pursuant to the Environmental Impact Evaluation Law promulgated on October 28, 2002, the Administrative Rules on Environmental Protection of Construction Projects promulgated on November 29, 1998, and Administrative Measures on Environmental Protection Acceptance upon Completion of Construction Project promulgated on December 27, 2001, enterprises are required to engage qualified and certified institutions to provide environmental impact evaluations on construction projects and to prepare environmental impact assessments. Construction of any new hydroelectric power project or expansion of an existing hydroelectric power project may only commence after such an assessment is submitted to and approved by the relevant environmental protection administrative authority.

According to the Classified Directory for Environmental Protection and Administration of Construction Projects, promulgated on September 2, 2008 by the Ministry of Environmental Protection and effective on October 1, 2008, the construction of hydroelectric power projects are required to prepare environmental impact assessment forms except for those with total installed capacity of 1,000.0KW or above, pumped storage power stations and hydroelectric power projects in environmental sensitive areas being required to prepare environmental impact assessment reports. In accordance with the Environmental Impact Evaluation Law, construction of any hydropower station is prohibited without the approval of the relevant government authorities of such environmental report or form and the related underlying documents if construction of a hydropower station occurs without such governmental approval, whether by failing the evaluation or not applying for an evaluation, then the relevant enterprise will be ordered to cease construction and be subject to making up relevant procedures within a prescribed time period with the relevant environmental protection administrative authorities. Enterprises that fail to complete such formal procedures within the prescribed time may be fined, and the management and other personnel with direct responsibility for the enterprise are subject to administrative penalties. The National Environmental Laws generally impose discharge fees for polluting substances, and provide for possible closure by the central or local government of any enterprise which fails to comply with orders requiring it to cease or rectify the activities causing environmental damage.

In accordance with the Administrative Rules on Environmental Protection of Construction Projects, the Administrative Measures on the Completion Acceptance of Environmental Protection of the Construction Projects and other relevant regulations, each hydroelectric power project must be tested and approved by local environmental agencies before commissioning, and is subject to continuous government monitoring after commissioning. After the completion of the construction of the hydroelectric power project, it must apply for completion acceptance of environmental protection.

On December 29, 2011, the Ministry of Environment Protection issued the Notice on Strengthening Environment Impact Assessment in Southwestern China (the Notice), which became effective on the same date of its issuance. According to the Notice, the acceptance for approving environmental assessment documents for hydroelectric constructing projects shall be supported by an investigative opinion on the environment impact assessment of the development plan for the river valleys where such projects are located. With respect to the river valleys with prior development history, if no environment impact assessment on the development plan is available, submission of environmental assessment documents for the hydroelectric construction projects must be supported by retrospective researches on the environment impact assessment of the development.

**The Law of Energy Conservation of China**

On October 28, 2007, the Standing Committee of the National People's Congress adopted amendments to the Law of Energy Conservation, which sets forth policies to encourage energy conservation in industrial sector, buildings, transportation, public institutions and key energy consumption entities. The amendments also seek to develop small hydroelectric power generation plants based on the principle of scientific planning and orderly development.

**Regulations on Water and Soil Conservation**

On June 29, 1991, the Law of Water and Soil Conservation was promulgated, which was amended on December 25, 2010 with effect from March 1, 2011. On August 1, 1993, the Implementation Regulations on the Law of Water and Soil Conservation were issued, which were amended on December 29, 2010 with effect from January 8, 2011. In accordance with these regulations, when launching a construction project that may result in water and soil loss in mountainous areas, upland areas, and sandy areas with high wind or any other area specified in the water and soil conservation plan prone to water and soil loss, the construction entity shall compile a water and soil conservation scheme and submit it to the water resources authority of the people's government at or above the county level for approval. Facilities for water and soil conservation shall be designed, constructed and put into operation simultaneously with the principal part of the construction project and subject to the completion acceptance by relevant governmental authorities, including the water resources authority, before the construction project is put into production. Enterprises shall in the course of construction and production adopt water and soil conservation measures and shall be liable to the control of any loss of water and soil. In case commencing the construction of a construction project, which is required to compile a water and soil conservation scheme, without such scheme or without procuring the approval for such scheme, the water resources authority of the people's government at or above the county level shall order the construction entity to cease the illegal act and go through the relevant formalities within the prescribed time limit; if it fails to do so, a fine up to RMB500,000 shall be imposed upon; and disciplinary actions shall be taken against the directly liable person in charge and other directly liable persons of the production or construction entity according to law. Where any entity puts a construction project into operation without going through completion acceptance of facilities for water and soil or failing to pass such completion acceptance, the water resources authority of the people's government at or above the county level shall order it to cease production or use until the completion acceptance is passed, and a fine up to RMB500,000 shall be imposed upon.

Table of Contents

**Regulations on Water Drawing**

According to the Water Law, which was promulgated by the Standing Committee of the National People's Congress on August 29, 2002 and took effect on October 1, 2002, any legal entity or individual drawing water directly from rivers, lakes or underground shall apply to the water administrative departments or the drainage management departments for a Water Drawing Permit and pay the water resource fees in order to obtain the water drawing rights in accordance with the national water drawing system and the water resource fees system. The State Council is responsible for stipulating the detailed rules regarding the implementation of the Water Drawing Permit system and the collection of water resource fees.

On February 21, 2006, the State Council promulgated the Administrative Regulations on Water-drawing Permits and the Collection of Water Resource Fees, or the Water Drawing Regulations, effective from April 15, 2006. Pursuant to the Water Drawing Regulations, any entity or individual that draws water resources shall, other than for the exceptions prescribed in the Water Drawing Regulations, apply for a Water Drawing Permit and pay water resource fees. Absence of the water drawing permit or failure to obtain such a permit may result in the forced cessation of the water drawing activity, the requirement of immediate remediation and/or the imposition of fines.

The Water Drawing Regulations also provide that a water-drawing entity or individual shall pay water resource fees. A water-drawing entity or individual shall draw water according to the government-approved annual water drawing plan. For water drawing exceeding the plan or quota, water resource fees shall be charged progressively on the excess.

In accordance with the Water Drawing Regulations, the amount of water resource fees due shall be determined based on the levy standard of water resource fees at the locality of the water intake and the actual volume of water for drawing. As for water drawing for the purpose of hydroelectric power generation, the amount of water resource fees due may be determined based on the levy standard of water resource fees at the locality of the water intake and the actual quantity of electricity generated. When a water drawing entity or individual refuses to pay, delays in, or otherwise defaults on the payment of water resource fees, the entity or individual will be subject to the penalties prescribed under the Water Law.

On April 9, 2008, the Ministry of Water Resources promulgated the Measures for Administration of Water Drawing Permits, or the Water Drawing Permit Measures. Under the Water Drawing Permit Measures, for construction projects which need to apply for water drawing, the applicant shall entrust an organization with corresponding qualification to prepare a Construction Project Water Resources Analysis Report. For construction projects which draw a comparatively low volume of water and have a comparatively small impact on the surrounding environment, the applicant may be exempted from complying with the requirement to prepare a Construction Project Water Resources Analysis Report but should fill out a Construction Project Water Resources Analysis Form. The applicant should submit the application documents to the relevant authority for obtaining the Water Drawing Permit after the construction of the water-drawing project or facility has been completed and its trial operation has lasted for 30 days.

On November 10, 2008, the Ministry of Finance, the National Development and Reform Commission and the Ministry of Water Resources jointly issued the Administrative Measures on the Collection and Use of Water Resource Fees, or the Water Resource Fees Measures, effective from January 1, 2009. In accordance with the Water Resource Fees Measures, the water resource fees shall be levied on a monthly basis. A water-drawing entity or individual shall submit the volume of water drawn (or the quantity of electricity generated) to the competent water resources authority in charge of collection of water resource fees on a monthly basis and shall make payment of water resource fees within seven days after receiving the Water Resource Fees Payment Notice sent by the competent water resources authority in charge of collection of water resource fees. The Water Resource Fees Measures further clarify that the levy standard of water resource fees shall be set by the National

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Development and Reform Commission jointly with the Ministry of Finance and the Ministry of Water Resources with respect to the water conservancy projects directly under the administration of the PRC central government or covering different provinces, autonomous regions, or municipalities directly under the PRC central government whose water drawing shall be subject to examination and approval of the drainage area management authority. In addition, the Water Resource Fees Measures stipulate that the levied water resource fees are to be exclusively used for water conservation protection and management, as well as the reasonable development of water resources.

### **Regulation in Relation to Land**

All land in China is either state owned or collectively owned, depending on the location of the land. All land in the urban areas of a city or town is state owned, and all land in the suburban areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned. The State has the right to expropriate or requisition with compensations land in accordance with law if required for the benefit of the public.

In April 1988, the Constitution of China, or the Constitution, was amended by the National People's Congress to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law was amended to permit the transfer of land use rights for value.



Table of Contents

In accordance with the Land Administration Law amended in 2004, the construction unit shall obtain the state-owned land use rights through grant or by other means with consideration. But the following land may be obtained through governmental allocation with the approval of the people's governments at and above the county level according to law:

- Land for use by government organs and for military use;
- Land for building urban infrastructure and for public welfare undertakings;
- Land for building energy, communications and water conservancy and other infrastructure projects heavily supported by the State; and
- Other land as provided for by the law and administrative decrees.

Under the Provisional Regulations of China concerning the Grant and Assignment of the Land Use Right of State-owned Land in Urban Areas, or the Urban Land Regulations, promulgated in May 1990, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights against payment of a grant premium.

Under the Urban Land Regulations, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not resume possession of lawfully granted land use rights prior to expiration of the term of grant. If public interest requires the resumption of possession by the State under special circumstances during the term of grant, compensation must be paid by the State. A land user may lawfully assign, mortgage or lease its granted land use rights to a third party for the remainder of the term of grant. Under the Urban Land Regulations, there are different maximum periods of grant for different uses of land: 70 years for residential purposes; 40 years for commercial, tourism and entertainment purposes; 50 years for industrial, public utilities, comprehensive or other purposes.

On October 22, 2001, the Ministry of Land and Resources promulgated the Catalogue of Allocated Land, according to which, for infrastructure facilities projects, such as energy, transportation and water resources heavily supported by the State, the land use rights may be allocated; for the infrastructure facilities projects, such as energy, transportation and water resources which are aimed at profit-making and not heavily supported by the State, land use rights shall be supplied for value.

On March 16, 2007, the National People's Congress promulgated the Real Properties Rights Law of China effective from October 1, 2007, which stipulates that the construction land use rights may only be created through grant or allocation. For land used for industrial, business, entertainment or commercial residential purposes, the construction land use rights must be granted by means of public tender, auction or listing-for-sale. To create the construction land rights through allocation is stringently restrained. For adopting such means of allocation, the provisions on land uses in the laws and administrative regulations must be observed.

On January 3, 2008, the State Council promulgated the Notice of the State Council Regarding Promoting Saving and Intensive Use of Land, according to which, except for the lands used for military, social security housing and special purposes, it is promoted that the use of land for governmental offices, transportation, energy, water resources and other infrastructures (industries) shall be compensated. In particular, the compensated use of land should be applied to those lands used for commercial purposes firstly. As a result, we expect to be required to pay compensation for some or all of the allocated land occupied by our hydroelectric power projects.

On March 5, 2011, the State Council issued the Regulations on Land Reclamation, which was effective on the same date. According to the regulations, land reclamation means the activities of adopting rectification measures on land damaged by production or construction activities or natural disasters to restore the land to usable condition. With respect to reclaiming the land, the land damaged by production or construction activities shall be reclaimed by the production or construction entity according to the principle of reclamation by the party causing the damage . The party responsible for rehabilitating the land shall submit the land reclamation plan together with the other relevant materials when filing an application for construction land or mining rights. If such party fails to prepare the land reclamation plan or the land reclamation plan fails to meet the relevant requirements, the application will be denied.

Table of Contents

**Regulations on Construction**

Pursuant to the Construction Law, effective from March 1, 1998 and amended on April 22 2011 with effect from July 1, 2011, prior to the start of construction projects, project owners must, in accordance with relevant provisions of the State, apply to competent construction administrations at or above the county level of the place where the project is to be located for construction permits, except for small projects below a value set by the competent construction administration of the State Council.

**Regulations on Bid Invitation and Bid Tendering**

On August 30, 1999, the Standing Committee of the National People's Congress adopted the Law of China on Bid Invitation and Bid Tendering, effective from January 1, 2000; on December 20, 2011, the State Council promulgated the Implement Measures on the Law of China on Bid Invitation and Bid Tendering, which came into effect on February 1, 2012. According to the aforesaid law and its implementation measures, the projects such as large-scale infrastructure facilities and public utilities involving the social and public interests and public safety, projects which are, wholly or partially, invested by the State-owned funds or funded through State financing and projects using loans or aid funds from international organizations or foreign governments, including surveying and prospecting, design, engineering and supervision of such projects as well as the procurement of major equipment and materials related to the construction of such projects, must be subject to bid invitation procedure.

On May 1, 2000, the National Development and Reform Commission, the former State Development and Planning Commission, promulgated the Provisions on the Scope and Scale Standards of Bid Invitation for Construction Projects, which further defines the scope of projects of large-scale infrastructure facilities and public utilities involving the social and public interests and public safety, projects which are, wholly or partially, invested by the State-owned funds or funded through State financing and projects using loans or aid funds from international organizations or foreign governments.

On October 29, 2001, the Ministry of Water Resources promulgated the Administrative Provisions on Bid Invitation and Bid Tendering of Water Resources Construction Projects, effective from January 1, 2002, according to which the bid invitation procedure shall be required where any of surveying and prospecting, design, engineering, and supervision of water resources works construction projects and the procurement of substantial equipment and materials related to water resources works construction projects falls within the following specific scope and concurrently meets any of the following scale standards:

A. Specific scope

- water resources construction projects involving the social and public interests and public safety such as flood prevention, drainage, irrigation, hydraulic power generation, diversion (supply) of water, harnessing shoals, water conservation and protection of water resources;

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- water resources construction projects which are, wholly or partially, invested by the State-owned funds or funded through State financing; or

- water resources construction projects using loans or aid funds from international organizations or foreign governments.

### B. Scale standards

- the estimated price for any single construction contract exceeds RMB2,000,000;
- the estimated price for any single procurement of substantial equipment and materials exceeds RMB1,000,000;
- the estimated price for any of surveying and prospecting, design or supervision exceeds RMB500,000; or
- the estimated prices are lower than the above standards, but the total investment of the projects exceeds RMB30,000,000.

Table of Contents

**Regulations Relating to Anti-trust**

The Antimonopoly Law of China was adopted by the Standing Committee of the National People's Congress on August 30, 2007 and became effective on August 1, 2008. The Antimonopoly Law provides that business operators shall not eliminate or restrict competition by engaging in activities such as:

- entering into monopoly agreement;
- abusing the dominant market position;
- conducting concentrations (as defined under the Antimonopoly Law) without first obtaining approvals from relevant authorities;
- abusing administrative power; or
- abusing intellectual property rights.

On August 3, 2008, the State Council promulgated the Regulations on the Thresholds for Reporting of Concentration of Business Operators. In accordance with this new regulation, the concentration of business operators refers to merger of business operators, acquisition of control over other business operator(s) by acquiring equity interests or assets, or contracting or in other manners to acquire control of, or become capable of exerting decisive influences on, other business operator(s). This new regulation further provides that, where the concentration of business operators reaches any of the following thresholds, the business operators concerned shall report it to the commercial authority of the State Council beforehand, otherwise, the concentration shall not be carried out: (1) the annual turnover achieved by all the business operators to a concentration transaction exceeds RMB10 billion world-wide in the preceding financial year, and at least two of them has turnover which in each case exceeds RMB400 million in China in the preceding financial year; or (2) the annual turnover achieved by all the business operators to a concentration transaction exceeds RMB2 billion in China in the preceding financial year, and at least two of them has turnover which in each case exceeds RMB400 million in the preceding financial year. Where a concentration of business operators does not reach the aforesaid reporting thresholds but the facts and evidence collected through prescribed procedures indicate that such concentration can or may eliminate or restrict competition, the commercial authority of the State Council shall carry out investigations in accordance with the law. The calculation of turnover shall take into consideration special situations in certain industries and sectors such as banking, insurance, securities, futures and specific rules shall be formulated by the commercial authority together with other departments under the State Council.

On February 3, 2011, General Office of the PRC State Council issued the Circular of the General Office of the State Council on the Establishment of Security Review System Regarding Mergers and Acquisitions in China by Foreign Investors, or Security Review Circular, which provides for the establishment of a new inter-ministerial-security-review committee under the State Council, or the Committee, which will be comprised of members from National Development and Reform Commission, Ministry of Commerce and other relevant departments. According to the Security Review Circular, the acquisitions by foreign investors of domestic Chinese companies active in the following sectors

shall be subject to security review: (i) military including related activities, companies located near key and sensitive military facilities, and other units concerning national defense; or (ii) key agricultural products, key energy and resources, key infrastructure, key transportation services, key technologies and key equipment manufacturing enterprises etc that raise national security concerns, where the foreign investor might acquire actual control of the target Chinese company through the acquisition.

The types of merger and acquisition transaction covered by the Security Review Circular include: (i) the purchase by foreign investors of existing equity interest or shares or increased capital of Chinese non-foreign-invested-enterprises and conversion of such domestic Chinese enterprises into foreign invested enterprises; (ii) the purchase by foreign investors of equity interests or shares owned by Chinese parties in foreign invested enterprises or the purchase by foreign investors of the increased capital of foreign invested enterprises; (iii) the establishment by foreign investors of foreign invested enterprises and the purchasing and operating of assets acquired from domestic Chinese enterprises through such foreign invested enterprises, or the purchase of equity interests or shares of domestic Chinese enterprises through foreign invested enterprises; and (iv) the purchase directly by foreign investors of assets owned by domestic Chinese enterprises and the establishment of foreign invested enterprises to operate such assets.

As contemplated by the Security Review Circular, the new security review process will consider the impact of the proposed transaction on national defense, national economic stability, basic social living order, and the research and development capacity for key technologies related to national security. The new security review process would begin with a preliminary screening conducted upon application to the Ministry of Commerce initiated by the foreign investors in a proposed transaction. Chinese government agencies, national trade unions/associations, competitors, and upstream and downstream enterprises are also entitled to initiate a security review of a proposed transaction by the Committee through an application to Ministry of Commerce. The Ministry of Commerce will transfer to the Committee all applications determined to fall within the purview of the security review regulations within five working days. The Committee will first complete a general review of the proposed transaction. If after the general review, the Committee concludes that the proposed transaction may have an impact on national security, the Committee will conduct a special review of the proposed transaction. If after the special review, the Committee concludes that the proposed transaction may have a material impact on national security (including economic and social stability), the Committee will so notify Ministry of Commerce and the parties to the proposed transaction will be required to terminate the transaction or implement other measures or modifications to eliminate the impact of the proposed transaction on national security. It is unclear whether the Security Review Circular would have retrospective effect. If any of our existing projects is considered as having caused concerns to the national security, the relevant PRC authority may require us to terminate the transaction, transfer relevant equity interests or assets, or implement other measures or modifications to eliminate the impact of the transaction on national security.

Table of Contents

On March 4, 2011, Ministry of Commerce issued Tentative Measures on Certain Issues Concerning Implementation of Security Review System Regarding Mergers and Acquisitions in China by Foreign Investors with effect from March 5, 2011 to August 31, 2011, which specifies, inter alia, the application procedure and requisite documents need to be submitted to the Ministry of Commerce.

On August 25, 2011, the Ministry of Commerce issued the Provisions of the Ministry of Commerce on the Implementation of the National Security Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors (the Implementation Provisions), which became effective on September 1, 2011. The Implementation Provisions further specifies the application procedure and stipulates that (i) whether a transaction falls within the scope of the security review will be judged from the substantive contents and actual influences of the transaction and that (ii) foreign investors may not substantially evade the security review by any means, including but not limited to holding on agency basis, trust, multi-tier reinvestment, leasing, loan, control by agreement, and overseas transactions.

**Tax Law**

***Enterprise Income Tax Law***

Prior to January 1, 2008, under applicable PRC tax laws, companies established in China were generally subject to an enterprise income tax, or EIT, at the statutory rate of 33%. However, certain types of foreign-invested enterprises and high and new technology enterprises located in certain specified high-tech zones were entitled to preferential tax treatments. In March 2007, the National People's Congress enacted the Enterprise Income Tax Law, or the EIT Law, and in December 2007, the State Council promulgated the implementing rules of the EIT Law, both of which became effective on January 1, 2008. The EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the previous tax law. The EIT Law, however, (i) reduces the statutory rate of enterprise income tax from 33% to 25%, (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules, and (iii) introduces new tax incentives, subject to various qualification criteria. Under the phase-out rules, enterprises established before the promulgation date of the EIT Law and which were granted preferential EIT treatment under the then effective tax laws or regulations may continue to enjoy their preferential tax treatments until their expiration. However, its preferential time period shall be counted from 2008 if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits. The EIT Law and its implementing rules permit qualified high and new technology enterprises to enjoy a reduced 15% EIT rate. In case a nonresident enterprise that has no site or establishment within the territory of PRC, or its income has no actual connection to its site or establishment within the territory of PRC obtains income sourced within the territory of PRC, the EIT shall be levied at the rate of 20% for such incomes, which has been reduced to 10% by the implementing rules of the EIT Law. As regards a small meager-profit enterprise satisfying the prescribed conditions, the EIT shall be levied at a reduced rate of 20%. Businesses contributing to the development of Western China are also entitled to a reduced EIT rate of 15%.

Under current PRC tax laws, regulations and rulings, an enterprise payer is classified as either a resident enterprise or non-resident enterprise. A resident enterprise refers to an enterprise that is established under PRC law within the PRC, or is established under the laws of foreign country or region but has its de facto management body located in China. De facto management body is defined as an organization that exercises material and full management and control over matters including the enterprise's production and operations, personnel, finance and property. Further, a circular issued by the State Administration of Taxation on April 22, 2009 regarding the standards used to classify certain PRC-controlled enterprises established outside of China as resident enterprises, or Circular 82, clarified that dividends and other income paid by such PRC resident enterprises will be considered PRC-source income and subject to PRC withholding tax, currently at a rate of 10%, when paid to non-PRC enterprise shareholders. This circular also subjects such PRC resident enterprises to various reporting requirements with the PRC tax authorities. On July 27, 2011, the State Administration of Taxation issued Administrative Measures of Enterprise Income Tax of Chinese-controlled Offshore Incorporated Resident Enterprises (Trial), or Bulletin 45, which became effective on September 1, 2011, to provide further guidance on the implementation of Circular 82. Bulletin 45 clarifies certain issues related to determining PRC resident enterprise status, post-determination administration and which competent tax authorities are responsible for determining offshore incorporated PRC resident

enterprise status.

Under the PRC EIT Law, dividends generated from retained earnings after January 1, 2008 from a PRC company to a foreign parent company are subject to a withholding tax rate of 10% unless the foreign parent's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. See Risk Factor Our Company may be classified as a resident enterprise for PRC enterprise income tax purposes under the PRC EIT Law. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders and ADS holders, including subject to PRC taxation on our worldwide income.



Table of Contents

**Value-added Tax**

According to the amended Provisional Regulations of the PRC on Value-added Tax effective on January 1, 2009, and the amended Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax effective since November 1, 2011, all organizations and individuals engaged in the sale of goods, provision of processing, repairs and replacement services, and importation of goods within the territory of the PRC are taxpayers of value-added tax. Ordinary tax payers shall pay value-added tax at the rate of 13% or 17%, while small scale tax payers shall pay value-added tax at the rate of 3%. According to the Notice Regarding the Application of Low Value-added Tax Rate and Simplified Method Taxation Policies to Certain Products, or the Notice, which was jointly issued by the Ministry of Finance and the State Administration of Taxation on January 19, 2009 and took effect, retrospectively, on January 1, 2009, small hydropower generation units administrated at or below the county level may choose to apply the value-added tax rate of 6% in accordance with the simplified method to electric power they generate. Small hydropower generation units are defined as hydropower generation units with the installed capacity of no greater than 50 MW. The value-added tax payers using simplified method cannot claim the input value-added tax credits on their purchases.

**Urban Maintenance & Construction Tax and Education Surcharges**

On October 18, 2010, the State Council of the PRC released a Circular on Unifying the System of Urban Maintenance & Construction Tax and Education Surcharges for Domestic and Foreign-invested Enterprises and Individuals or ( Circular 35 ) providing that, effective from December 1, 2010, the relevant regulations, rules, and policies regarding urban maintenance & construction tax and education surcharges shall be applicable to foreign-invested enterprises, foreign enterprises, and foreign individuals (FIEs). Following the release of Circular 35, on November 4, 2010, the Ministry of Finance and the State Administration of Taxation jointly issued a Circular on Issues Relating to Levying Urban Maintenance & Construction Tax and Education Surcharge on FIEs for implementation of Circular 35, which provides that urban maintenance & construction tax and education surcharges will be imposed on FIEs in respect of value-added tax, consumption tax and business tax payable on and after December 1, 2010. The urban maintenance & construction tax and education surcharges are calculated as a percentage of the value-added tax, consumption tax and business tax due. The education surcharges are levied at a unified rate at 3%, while the rates for urban maintenance & construction tax differ depending on the location of the taxpayer: (i) 7% for taxpayers located in a city; (ii) 5% for taxpayers located in a county and town area; and (iii) 1% for taxpayers located in other regions.

**Foreign Currency Exchange**

The principal regulations governing foreign currency exchange in China are the Foreign Currency Administration Rules amended and promulgated on August 5, 2008, and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange. Under the above-referenced rules, for current account items such as trade and service-related foreign exchange transactions, entities or individuals inside the PRC could either retain their foreign exchange income or sell them to financial institutions engaged in foreign exchange settlement and sale business (the Authorized Financial Institutions ); additionally, they could make foreign exchange payments with their own foreign exchange or with the foreign exchange purchased from the Authorized Financial Institutions. For capital account items, the retaining or sale to the Authorized Financial Institutions of foreign exchange income (such as from direct investments, loans and investments in securities) will be subject to approval by the State Administration of Foreign Exchange, except as otherwise provided by PRC laws and regulations. Moreover, foreign exchange payments should be made to the Authorized Financial Institutions by presenting valid documentations with the payer's own foreign exchange or with the foreign exchange purchased from the Authorized Financial Institutions, with the exception of certain foreign exchange payments that are subject to approval by the State Administration of Foreign Exchange (such as repatriation of investment outside the PRC). Capital investments by foreign-invested enterprises outside of PRC are also subject to approval by certain authorities, including but not limited to, the Ministry of Commerce, the State Administration of Foreign Exchange and the National Development and Reform Commission (or their local counterparts). Currently, PRC laws and regulations do not provide clear criteria for obtaining the State Administration of Foreign Exchange approval. Generally speaking, the State Administration of Foreign Exchange and its local branches have broad discretion on the

issuance of such approval.

On August 29, 2008, the General Affairs Department of the State Administration of Foreign Exchange issued the Circular on Relevant Operating Issues concerning the Improvement of Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or the Circular. According to the Circular, among other things, the RMB fund obtained from the settlement of foreign currency capital of a foreign-invested enterprise shall be used within the business scope approved by governmental authorities, and shall not be used for domestic equity investment unless otherwise provided by PRC laws or regulations. When an enterprise intends to repay a RMB loan with the RMB fund obtained from the settlement of foreign currency capital, it shall submit a statement that the loan has been used in accordance with provisions under the respective contract, and used within the business scope approved by the government. In case of a deviation from the business scope without authorization, or a repayment of the unused RMB loan with RMB obtained from the settlement of foreign exchange capital, the exchange administration agency shall order that corrections be made, and shall confiscate the illegal gains and impose a fine of not more than 30.0% of the amount of capital involved; in case of serious violation, a fine of not less than 30.0% of the amount of capital involved but not more than the total amount involved will be imposed.

Table of Contents

**Regulations on Employee Stock Options**

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals or the People's Bank of China Regulation. In January 2007, the State Administration of Foreign Exchange issued implementing rules for the People's Bank of China Regulation, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the equity incentive plan of an overseas publicly listed company. On March 28, 2007, the State Administration of Foreign Exchange issued the Operating Procedures on Administration of Foreign Exchange regarding PRC Individuals' Participation in Employee Share Ownership Plans and Employee Stock Option Plans of Overseas Listed Companies, or the Stock Option Rule. The purpose of the Stock Option Rule is to regulate foreign exchange administration of PRC citizens who participate in equity incentive plans of overseas-listed companies. The Stock Option Rule was replaced by the Notice of the State Administration of Foreign Exchange on Issues Related to Foreign Exchange Administration in Domestic Individuals' Participation in Equity Incentive Plans of Companies Listed Abroad, or the New Stock Option Rule, which was issued on February 15, 2012.

According to the New Stock Option Rule, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges based on the stock incentive plans are required to register with the State Administration of Foreign Exchange or its local branches. Pursuant to the New Stock Option Rule, PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct the registration with the State Administration of Foreign Exchange and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend the registration the State Administration of Foreign Exchange with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to the State Administration of Foreign Exchange or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with the State Administration of Foreign Exchange or its local branches.

We and our PRC employees who have been granted stock options are subject to the New Stock Option Rule. If we or our PRC employees fail to comply with the New Stock Option Rule, we and/or our PRC employees may face sanctions imposed by the State Administration of Foreign Exchange or other PRC government authorities.

In addition, the State Administration for Taxation has issued circulars concerning employee stock options. Under these circulars, our employees working in China who exercise stock options will be subject to PRC individual income tax. Our PRC subsidiary has obligations to file documents related to employee stock options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their stock options. If our employees fail to pay their income taxes, or we fail to withhold them, we may face sanctions imposed by the tax authorities or other PRC government authorities.

**Dividend Distribution**

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The principal PRC regulations governing the distribution of dividends by foreign-invested enterprises include:

- The Sino-foreign Equity Joint Venture Law (1979), as amended;
- The Regulations of Implementation of the Sino-foreign Equity Joint Venture Law (1983), as amended;
- The Wholly Foreign-owned Enterprise Law (1986), as amended;
- The Detailed Rules of the Wholly Foreign-owned Enterprise Law (1990), as amended;
- Foreign Currency Administration Rules (1996), as amended;
- The Company Law of China (1993), as amended;
- The Enterprise Income Tax Law of China; and
- The Implementation Regulations of Enterprise Income Tax Law of China.

Under the above-mentioned regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to set aside at least 10.0% of their after-tax profits each year, if any, to fund the reserve fund unless such reserve fund has reached 50.0% of their respective registered capital and to set aside a percentage of their after-tax profits to their employee bonus and welfare fund which is decided by their respective board of directors. Sino-foreign equity joint ventures are required to set aside their reserve fund, enterprise development fund and employee bonus and welfare fund at percentages that are decided by their respective board of directors. PRC domestic companies are required to set aside at least 10.0% of their after-tax profits each year, if any, to fund their respective statutory reserve fund unless such fund has reached 50.0% of their respective registered capital. These reserves are not distributable as cash dividends.

Table of Contents

**Regulations Relating to Labor and Social Insurance**

We are subject to various labor laws and regulations in the PRC including but not limited to the PRC Labor Law, the PRC Labor Contract Law, the Implementation Regulations of the PRC Labor Contract Law, the PRC Social Insurance Law (promulgated on October 28, 2010 with effect from July 1, 2011), the Regulations of Insurance for Work-related Injury, the Interim Provisions on Registration of Social Insurance and the Interim Regulations on the Collection and Payment of Social Insurance Premiums. Pursuant to the PRC Labor Law and the PRC Labor Contract Law, labor contracts in written form shall be executed to establish labor relationship between our employees and our company. We must provide wages which are no lower than local minimum wage standards to our employees. We are required to establish a system for labor safety and sanitation, strictly abide by State rules and standards and provide relevant education to our employees. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative liabilities. Criminal liability may arise in serious cases.

According to the Regulations of Insurance for Work-related Injury effective as of January 1, 2004 (which was amended on December 8, 2010 with effect from January 1, 2011), employers in China shall pay the work-related injury insurance fees for their employees, and their employees do not pay the work related injury insurance fees.

According to the Interim Regulation on the Collection and Payment of Social Insurance Premiums effective as of January 22, 1999 and Interim Measures concerning the Management of the Registration of Social Insurance effective as of March 19, 1999, employers in China shall conduct the registration of social insurance with the competent authorities, and make contributions to the basic pension insurance, basic medical insurance and unemployment insurance for their employees.

According to Interim Measures concerning the Maternity Insurance for Employees of Enterprises effective as of January 1, 1995, the employers in China shall pay the maternity insurance fees not more than one percent of an employee's total salary for their employees, and their employees do not pay the maternity insurance fees.

According to Regulations on the Management of Housing Fund effective as of April 3, 1999, employers in China shall conduct the registration of housing fund with the competent authorities, open the relevant account with the designated banks and pay the housing fund equal to not less than five percent of an employee's monthly average salary in the last year for their employees.

On October 28, 2010, Social Insurance Law of the PRC was promulgated, which took effect on July 1, 2011. Pursuant to the Social Insurance Law, the government will establish a social insurance system including basic endowment insurance, basic medical insurance, employment injury insurance, unemployment insurance and maternity insurance. An employer must, within 30 days from the date of its formation, apply to local social insurance agency for social insurance registration. Where an employer fails to apply for social insurance registration, the social insurance administrative department will order it to take remedial measures within a prescribed time limit. Failure to implement these measures within the prescribed time limit will lead to a fine of 1 to 3 times the amount of the social insurance premiums due and payable. The social insurance administrative department may also impose a fine of not less than RMB500 but not more than RMB3,000 upon persons primarily responsible for such failure.

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According to the Interim Measures for Participation in the Social Insurance System by Foreign Nationals Working within the Territory of China, effective on October 15, 2011, foreigner nationals legally recruited and employed by enterprises duly registered within the territory of China must participate in basic social insurance, with social insurance premiums to be contributed respectively by themselves and their employer as required.

### **Regulations Relating to Construction and Work Safety**

Our operations are subject to extensive legislation and regulation relating to construction and work safety matters, including the PRC Labor Law, the PRC Construction Law, the PRC Safe Production Law, the Supervision Measures on the Safe Production of Electric Power, the Administrative Regulation on Work Safety of Construction Projects, the Provisions on the Administration of Work Safety in the Construction of Water Resources Projects and other relevant laws, regulations, national standards and industrial standards.

Pursuant to the PRC Labor Law, an employer should establish and enhance its system for labor safety, strictly abide by the PRC rules and standards on labor safety, educate employees to prevent occupational injury, and provide employees with labor safety conditions meeting the government regulations and necessary articles of labor protection.

According to the PRC Construction Law, the survey, design, and construction of projects must meet requirements of the State on safety standards of construction projects. Pursuant to the Administrative Regulation on Work Safety of Construction Projects enacted by the State Council and the Provisions on the Administration of Work Safety in the Construction of Water Resources Projects promulgated by the Ministry of Water Resources, entities involved in the work safety of construction projects, including, without limitation, construction entities, surveying entities, designing entities, supervision entities, consultancy entities, must comply with laws and regulations relating to safe production, ensure the safe construction and production of water resources projects, and assume liability for the work safety of water resources construction projects.

Table of Contents

The PRC Safe Production Law provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities and entities must provide production safety education and training programs to employees. The design, manufacture, installation, use, checking and maintenance of our safety equipment are required to conform to applicable national or industrial standards. In addition, it is required that labor protection equipment must meet the national or industrial standards and that entities must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

In accordance with the Supervision Measures on the Safe Production of Electric Power, power plants are responsible for maintaining their safe production. Power plants are required to report to the State Electricity Regulatory Commission, State Administration of Work Safety, and relevant local government authorities, within 24 hours, any fatal accident, grid accident, equipment damage accident, dam collapse accident or fire accident which is serious or extraordinary.

**Regulations Relating to Resettlement of Relocated Residents**

In accordance with the PRC Water Law, the PRC shall apply the policies of resettlement of relocated residents for development purposes to the resettlement of relocated residents in construction of water projects, and shall appropriately arrange the production and lives of the resettled relocated residents and protect their lawful rights and interests according to the principles of providing compensation and subsidy in the early stage and support in the latter stage. The resettlement of relocated residents shall be conducted at the same pace as that of the project construction. The construction entity shall, according to the environment capacity of the area of resettlement and the principle of sustainable development, formulate a plan for relocated residents resettlement in accordance with local conditions, and the relevant local people's government shall organize the implementation of the plan after it is legally approved. The expenses arising from the resettlement of relocated residents shall be included in the investment plan for project construction.

The State Council of the PRC promulgated the amended Regulation on Land Requisition Compensation and Resettlement of Relocated Residents for Construction of Large and Medium-sized Water Resources and Hydropower Projects, or the Requisition and Resettlement Regulation, on July 7, 2006 effective from September 1, 2006. Pursuant to the Requisition and Resettlement Regulation, relevant governmental authorities shall not approve or verify the construction of those large and medium-sized water resources and hydropower projects for which a plan for relocated residents' resettlement ( Plan ) has not been formulated or approved. Prior to the commencement of the construction of large and medium-sized water resources and hydropower projects, the project entity shall enter into the Plan with the people's government at provincial, municipal or county level located at the relocated residents' regions and resettlement. In addition, the project entity is required to fund a relocated residents' resettlement fund for the local government with which it has entered into the Plan. The staged completion acceptance or overall completion acceptance for large and medium-sized water resources and hydropower projects shall not be conducted if the relocated residents' resettlement has not passed acceptance. In the case of a violation of the Requisition and Resettlement Regulation, the project entity shall be ordered to rectify the violation and pay fines ranging from RMB100,000 to RMB500,000.

Table of Contents

**C. Organizational Structure**

**Organizational Chart**

The following diagram illustrates our corporate operating structure as of the date of this report:



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All of our PRC subsidiaries are organized as wholly foreign-owned enterprises established pursuant to the Law of China on Wholly Foreign-Owned Enterprises, except for Yunhe County Shapulong Hydropower Generation Co., Ltd. and Henan Wuyue Storage Power Generating Co., Ltd., which are equity joint ventures established pursuant to the Law of China on Sino-Foreign Equity Joint Ventures, and Longquan Ruiyang Cascade II Hydroelectric Co., Ltd., Yingjiang County Qinrui Husahe Hydropower Co., Ltd., Shaowu City Jinlong Hydroelectric Co., Ltd., Shaowu City Jintang Hydroelectric Co., Ltd., Shaowu City Jinwei Hydroelectric Co., Ltd., which are domestic companies established pursuant to the Company Law of China.

Table of Contents

**D. Property, Plant and Equipment**

See Information on the Company Our Hydropower Assets.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*You should read the following discussion and analysis of financial condition and results of operations in conjunction with the section entitled "Selected Consolidated and Other Financial and Operating Data" and the financial statements and related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this annual report.*

**A. Operating Results**

**Overview**

We are a developer, owner and operator of small hydroelectric power projects in China. We were formed on July 10, 2006 to acquire existing small hydroelectric assets in China. Our primary business is to identify, evaluate, acquire, develop, construct, finance and operate hydroelectric power projects in China. Our revenues to date have derived from the sale of electricity generated by our small hydroelectric power projects to local power grids, while our costs of operations relate to the operation of our hydroelectric power projects, and general and administrative expenses, as well as the cost of financing our acquisition of these hydroelectric power projects and necessary capital contributions. We were formed as an exempted company under the laws of the Cayman Islands to serve as a vehicle for the acquisition of operating hydroelectric power projects and plants under construction in China. We conduct substantially all of our business through our PRC operating subsidiaries and investment companies.

We currently wholly own twenty-two operating hydroelectric power projects and have controlling interests in three operating hydroelectric power projects. Our operating hydroelectric power projects are located in four provinces in China: Zhejiang, Fujian, Yunnan and Sichuan. Installed capacity at our plants reached 502.8 MW, 517.8MW and 517.8MW at December 31, 2010, 2011 and 2012, respectively. Revenues contributed by projects in Zhejiang, Fujian, Yunnan and Sichuan provinces were 56.7%, 27.0%, 15.2% and 1.1% in 2010, 46.5%, 27.2%, 25.3% and 1.0% in 2011, and 48.7%, 34.8%, 15.8% and 0.7% in 2012, respectively.

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Our activities during the year ended December 31, 2010 were comprised of our acquisition of 79.0% controlling interest in Henan Wuyue Storage Power Generation Co., Ltd., acquisition of Husahe, Hengda, Xineng, Xiaopengzu and Jinling hydroelectric power projects, acquisition of the controlling interests held by Jinling in three of its subsidiaries, including 55.0% controlling interest in Jinlong Hydroelectric power project, 74.0% controlling interest in Jintang Hydroelectric power project, and 74.0% controlling interest in Jinwei Hydroelectric power project, and our operation of our twenty completed projects. Our revenues from continuing operations for the year ended December 31, 2010 were \$58.2 million while our cost of revenues was \$22.7 million, resulting in a gross profit of \$35.5 million from continuing operations. After deducting operating and other expenses, including interest expense of \$13.9 million, we reported a net loss from continuing operations for the year ended December 31, 2010 of \$0.3 million. We sold 1,263.7 million kilowatt hours of electricity produced at our hydroelectric power projects in 2010, at an effective tariff of RMB0.34 per kWh.

On January 25, 2010, we completed an initial public offering ( IPO ), whereby we issued 6,000,000 units of securities at \$16.00 per unit. Each unit consists of one American Depositary Share ( ADS ) priced at \$14.8 and one warrant priced at \$1.2. Each ADS represents three ordinary shares and each warrant entitles the holder to purchase three ordinary shares for an exercise price of \$15.0. The IPO yielded aggregate gross proceeds of \$96.0 million. The proceeds, net of applicable expenses, were used to acquire hydroelectric operating companies and assets and develop new hydroelectric power projects in China. The proceeds were also used for working capital and general corporate purposes.

On March 23, 2010, we completed our initial capital injection of RMB32.5 million (\$4.8 million) to the Wuyue pumped storage hydropower project. However, the project has been largely at a standstill since the acquisition. We expect the project will continue to be at a standstill and have no intention to make further investments in the project. As a result, we recognized in the year ended December 31, 2011, an impairment loss on long-lived assets and goodwill attributable to the shareholders in the amount of \$5.0 million.

Our activities during the year ended December 31, 2011 were primarily comprised of our acquisition of Dazhaihe hydroelectric power project, the acquisition of remaining 10.0% equity interest in Pingnan County Wangkeng Hydroelectric Co., Ltd., and our operation of twenty-seven completed projects including Yuanping which the results were reflected as discontinued operations.

On December 3, 2011, we entered into an Equity Purchase and Sale Agreement to sell our Yuanping hydroelectric power project, a 16.0 MW project located in Fujian province, for total consideration of \$22.2 million, including assumption of certain bank loans by the buyer. The disposal date of Yuanping was March 2, 2012, which was the date we lost effective control over Yuanping. The sale transaction was completed on the same date. We have classified Yuanping as a discontinued operation and have adjusted our consolidated statements of comprehensive income for both 2009 and 2010 accordingly. Our revenues from continuing operations for the year ended December 31, 2011 were \$54.6 million, while our cost of revenues from continuing operations was \$31.3 million, resulting in a gross profit from continuing operations of \$23.3 million. After deducting operating and other expenses, including interest expense of \$24.8 million, we reported a net loss from continuing operations of \$55.0 million for the year ended December 31, 2011. We sold 1,262.3 million kilowatt hours of electricity produced at our hydroelectric power projects in 2011, at an effective tariff of RMB0.30 per kWh.

Table of Contents

On August 19, 2011, we sold 8,662,509 common shares (equivalent to 2,887,503 ADSs) at \$1.15 per share (equivalent to \$3.46 per ADS) to Vicis Capital Master Fund by way of a partial exercise of an existing warrant held by Vicis Capital Master Fund, which was issued to Vicis Capital Master Fund in April 2007 and allows Vicis Capital Master Fund to purchase up to 18,666,666 ordinary shares at an exercise price of \$5.00 per share. The transaction yielded aggregate gross proceeds of \$10.0 million. On October 27, 2011, we signed a warrant exercise agreement with certain members of the China Hydro LLC, to amend the Founders Warrants agreement. Pursuant to the amendment, these members exercised 31,072 units of their warrants at the adjusted exercise price of US\$1.15 per share to purchase 31,072 ordinary shares from us and are entitled to purchase up to 35,892 ordinary shares from us at US\$1.15 per share or the adjusted exercise price ( New Founders Warrants ). The proceeds, net of applicable expenses, have been used for working capital and general corporate purposes.

On October 18, 2012, we entered into a Share Transfer Agreement to sell our Yuheng hydroelectric power project, a 30.0 MW project located in Fujian province, for total consideration of \$44.3 million, including assumption of certain bank loans by the buyer. The disposal date of Yuheng was October 31, 2012, which was the date we lost effective control over Yuheng. The sale transaction is expected to complete in April, 2013. We have classified Yuheng as a discontinued operation and have adjusted our consolidated statements of comprehensive income for all years presented. Our revenues from continuing operations for the year ended December 31, 2012 were \$85.4 million, while our cost of revenues from continuing operations was \$35.8 million, resulting in a gross profit from continuing operations of \$49.6 million. After deducting operating and other expenses, including interest expense of \$28.1 million, we reported a net loss from continuing operations of \$5.1 million for the year ended December 31, 2012. We sold 1,768.0 million kilowatt hours of electricity produced at our hydroelectric power projects in 2012, at an effective tariff of RMB0.33 per kWh.

In 2010, 2011 and 2012, our revenues from continuing operations were \$58.2 million, \$54.6 million and \$85.4 million, respectively. Our net income (loss) attributed to China Hydroelectric Corporation shareholders were a net income of \$3.7 million for 2010, and net loss of \$45.4 million and \$1.2 million for 2011 and 2012, respectively.

**Our Acquisitions and Asset Sales**

We set forth below the key facts regarding our acquisitions and asset sales during the last three fiscal years. U.S. dollar translations provided below are derived from our consolidated financial statements presented elsewhere in this annual report.

***Acquisitions Completed in 2010***

In March 2010, we completed our capital injection to subscribe for a 79.0% controlling equity interest in Henan Wuyue Storage Power Generation Co., Ltd. which owns the right to develop a pumped storage hydropower plant of 1,000.0 MW in Henan province. After the first installment payment of RMB32.5 million (\$4.8 million), we were obliged to transfer RMB130.0 million (approximately \$19.4 million) cash into Wuyue in two years time as capital injections to fund the construction of the pumped storage hydroelectric power project, and will ultimately obtain 79.0% equity interest in Wuyue. This capital injection was accounted for as an asset acquisition.

In March 2010, we completed our purchase of Yingjiang County Qinrui Husahe Hydropower Co. Ltd., which owns and operates Mangxian, Husahe Cascade III and Husahe Cascade IV hydroelectric power projects, with a total installed capacity of 18.7 MW in Yingjiang County,

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Yunnan province in the PRC for a purchase price of RMB115.0 million (\$16.8 million). This acquisition was accounted for as a business combination using the acquisition method of accounting.

In June 2010, we completed our purchase of Fugong County Hengda Hydroelectric Development Co. Ltd. which owns and operates two operating projects including Aluhe, Zilenghe with a total installed capacity of 35.2 MW, for a purchase price of RMB65.0 million (\$9.6 million). This acquisition was accounted for as a business combination using the acquisition method of accounting.

In August 2010, we completed our purchase of Fugong Xineng Power Development Co., Ltd. which owns and operates Latudi hydroelectric project with an installed capacity of 18.9MW, for a purchase price of RMB31.3 million (\$4.6 million). This acquisition was accounted for as a business combination using the acquisition method of accounting.

In September 2010, we completed our purchase of Luquan County Xiaopengzu Hydroelectric Development Co. Ltd. which owns and operates a 44.0 MW hydroelectric project in Luquan County, Yunnan province in the PRC, for a purchase price of RMB150.0 million (\$22.1 million). This acquisition was accounted for as a business combination using the acquisition method of accounting.

Table of Contents

In December 2010, we completed our purchase of Shaowu City Jinling Power Generation Co., Ltd.(hereafter Jinling ), the owner of the Jinling hydroelectric power project, together with Jinling's 55.0% controlling interest in Shaowu City Jinlong Hydroelectric Co., Ltd., the owner of the Jinlong hydroelectric power project, Jinling's 74.0% controlling interest in Shaowu City Jintang Hydroelectric Co., Ltd., the owner of the Jintang hydroelectric power project, and Jinling's 74.0% controlling interest in Shaowu City Jinwei Hydroelectric Co., Ltd., the owner of the Jinwei hydroelectric power project, for a total purchase price of RMB75.1 million (\$11.3 million). These four companies own and operate a 55.4 MW group of six projects in Fujian province, including Qianling, Jinjiu, Dongguan, Jinlong, Jinwei and Jintang hydroelectric projects. This acquisition was accounted for as a business combination using the acquisition method of accounting based on the available and obtainable information as of December 31, 2010.

***Acquisitions and Asset Sale in 2011***

In January 2011, we completed our purchase of the remaining 10.0% equity interest in Pingnan County Wangkeng Hydroelectric Co., Ltd. for a purchase price of RMB39.0 million (\$5.9million). This acquisition was accounted for as an equity transaction.

In April 2011, we completed our purchase of Jinping Kanghong Hydroelectric Development Co., Ltd., which owns and operates Dazhaihe hydroelectric project, a 15 MW project in Yunnan province for a purchase price of RMB59.0 million (\$9.0 million). This acquisition was accounted for as a business combination using the acquisition method of accounting.

In December 2011, we entered into an Equity Purchase and Sale Agreement with a third-party buyer to sell Pingnan County Yuanping Hydroelectric Co., Ltd., which owns and operates Yuanping hydroelectric power project, a 16 MW project located in Fujian province, for a total consideration of \$22.2 million, including the assumption of debt by the buyer. The disposal date of Yuanping was March 2, 2012, which was the date we lost effective control over Yuanping. The sale transaction was completed on the same date.

***Asset Sale in 2012***

In October 2012, we entered into a Share Transfer Agreement with a buyer to sell Pingnan County Yuheng Hydroelectric Co., Ltd., which owns and operates Yuheng hydroelectric power project, a 30.0 MW project located in Fujian province, for total consideration of \$44.3 million, including the assumption of debt by the buyer. The disposal date of Yuheng was October 31, 2012, which was the date we lost effective control over Yuheng. The sale transaction is expected to complete in April, 2013.

***Impact of Acquisitions and Asset Sales on our Results of Operations***

The aforementioned acquisitions resulted in a significant increase in the book value of our net property, plant and equipment, our intangible assets, goodwill, revenues and gross profit. The sale of the Yuanping and Yuheng power projects resulted in gain of \$1.4 million and \$1.4 million, net of taxes, respectively.

Our consolidated results of operations in 2010 reflect approximately nine, six, four and three months of revenue, cost of revenue, including additional depreciation and amortization expense, and G&A expenses of each of the Husahe, Hengda, Xineng and Xiaopengzu projects acquired in 2010. Our consolidated results of operations in 2010 also reflect the effect of a full year of revenue, cost of revenue, including depreciation and amortization expense, and G&A expenses relating to the two acquisitions made in 2009 and the projects put into operation in 2009.

Our consolidated results of operations in 2011 reflect eight months of revenue, cost of revenue, including additional depreciation and amortization expense, and G&A expenses of the Dazhaihe project acquired in 2011. Our consolidated results of operations in 2011 also reflect the effect of a full year of revenue, cost of revenue, including depreciation and amortization expense, and G&A expenses relating to the eight acquisitions made in 2010.

Our consolidated results of operations in 2012 reflect the effect of a full year of revenue, cost of revenue, including depreciation and amortization expense, and G&A expenses relating to all acquisitions made in previous years.

We have classified Yuanping and Yuheng as a discontinued operation and have adjusted our consolidated statements of comprehensive income for all the years presented.

Table of Contents

**Going Concern**

As of December 31, 2012, we had a working capital deficiency of approximately \$81.0 million. Due to our working capital deficiency, our independent registered public accountant has stated in its report dated April 18, 2013 with respect to our financial statements as of and for the year ended December 31, 2012 that these circumstances raise substantial doubt about our ability to continue as a going concern. We regularly raise funds through various means, such as new borrowings from banks and other non-financial institutions. New borrowings are used for multiple purposes, such as daily operating liquidity, to fund new projects or acquisitions, and to refinance existing short-term loans into longer-term debt. Over the course of 2012, we reduced the working capital deficiency by 42% to \$81.0 million as of December 31, 2012, from \$138.7 million as of December 31, 2011. In 2012, we raised \$121.8 million through borrowings from banks and other institutions. In addition, we generated consideration of RMB 279.0 million (\$44.3 million) by entering a Share Transfer Agreement with a third party to sell Yuheng, a 30 megawatt project located in Fujian province. The consideration includes assumption of debt by the purchaser. Improvements in cash flow improved during 2012 are also due to the favorable revenue effect of above-average precipitation, and the cost reduction efforts initiated in the fourth quarter of 2012.

Investors should still expect us to have a working capital deficit in the foreseeable future, due to the use of leverage to finance the construction and acquisition of hydroelectric projects.

Historically, we have relied on the ready availability of credit in China to fund its operations and expansion. Commencing in 2011 and extending into early 2012, our ability to obtain financing from its principal lenders in China was constrained by restrictions on bank lending imposed by the PRC central government in an effort to contain inflation. We are currently in various stages of negotiations with a number of financial institutions that could provide refinancing packages to extend the duration of our debt obligations.

Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. Management remains confident in our ability to secure capital in order to fund our liquidity needs, debt obligations and growth plans, but obtaining financing cannot be guaranteed. In the event that we fail to raise funds sufficient to meet our liquidity needs, we may be forced to substantially curtail our operations or otherwise take measures that would materially and adversely affect our current operations and business prospects.

**Factors Affecting Our Results of Operations**

The most significant factors that affect our financial condition and results of operations are:

- availability and cost of debt financing;
- tariffs;



- hydrological conditions;
- production efficiency of our hydroelectric power projects; and
- depreciation of property, plant and equipment and amortization of intangible assets.

### **General Factors Affecting Our Results of Operations**

On a macro-level, we have benefited significantly from the growth of the industrial base, increase in consumer consumption of electricity and overall economic growth in China, which has contributed to a significant increase in electricity demand. China's electricity consumption grew 5.33% from 4,690 TWh in 2011 to 4,940 TWh in 2012, according to the China Electricity Council. Renewable energy has become a strong driving force contributing to the growth in capacity. Reform of the PRC power industry, in particular support for foreign investment in hydroelectric power, has assisted our rapid entry into and growth in the PRC's small hydroelectric power market. Deregulation of the industry and policy support for the purchase of hydroelectric power will, we believe, in the long-term result in increasing tariffs for hydroelectric power in China. However, although hydroelectric power currently is the lowest -cost source of electricity in the PRC, any adverse changes in the economic growth or regulatory environment in China may have a materially adverse effect on the demand for our electricity or our ability to operate in the PRC market, which in turn may materially adversely affect our results of operations.

### **Specific Factors Affecting Our Results of Operations**

#### *Availability and cost of debt financing*

We seek to improve shareholder returns through increasing our financial leverage at reasonable rates of interest, and we seek to enter into discussions with both PRC and international financial institutions to arrange credit facilities to support our future acquisitions. To the extent such financing is unavailable in the PRC, for policy reasons or otherwise, we are unable to raise debt financing in the international markets for any reason or such financing is unavailable at reasonable rates, our ability to increase our leverage for further acquisitions, and thus our revenue growth, will be reduced, and our ability to meet our liquidity needs will be affected. In 2012, due to the improvement in bank lending market in China, we have raised a total of \$121.8 million through borrowing from banks and other institutions. See *Going Concern* and *Liquidity and Capital Resources* and *Risk Factors* *Risks Relating to our Company and the PRC Hydroelectric Power Industry* Our liquidity position poses risk to our operations.

Table of Contents

*Tariffs*

Due to the historical mechanisms used by the PRC government to set on-grid tariffs, on-grid tariffs for renewable energy producers have until relatively recently been lower than on-grid tariffs for thermal power projects. We believe that through continued policy support from the PRC government, renewable energy throughout China, including hydroelectric power, will in the long-term achieve on-grid tariffs equal to those for thermal power. This is already the case in Zhejiang province, where heavy demand for electricity and insufficient supply has made the on-grid tariff for hydropower comparable with many thermal plants during peak hours. We believe the move to market pricing for hydroelectric power on-grid tariffs will depend on (i) the continued relatively high price of coal in the PRC, (ii) the absence of significantly cheaper sources of other renewable energy and (iii) the enforcement of laws requiring the purchase by power grids of electricity from renewable energy generators. If the level of coal prices in the PRC were to drop significantly, a cheaper form of renewable energy were to be discovered and implemented throughout China or government support for hydroelectric power and the reform of on-grid tariff setting were to be withdrawn, we might not realize these increases in tariffs or tariffs may decrease, which could materially adversely affect our future revenues. However, to date we have not experienced a deterioration in our tariffs, and expect the tariff for hydroelectric power in the PRC to continue to increase in the medium-term. For provinces where our tariff is equal or close to that for thermal power, notably in Zhejiang province, we have not experienced a decline in tariffs as the price of electricity is still driven primarily by the cost of generating thermal power. In 2012, we received a RMB0.021 per kilowatt hour tariff increase for Banzhu, Wangkeng, Dongguan, Qianling and Jinjiu which are located in Fujian province and an effective annual increase of 17% of Dazhaihe which is located in Yunnan province and received seasonally adjusted tariff rates. This is unlikely to diminish in the near-term given the high cost of transporting coal within China to thermal power projects, the built up losses at these thermal power projects, the timing difference between the setting of power tariffs and the fluctuation of coal prices and the PRC government's desire to maintain pricing stability.

We believe in Yunnan and Sichuan provinces, where the price for hydropower is well below that for thermal power, the price for hydropower will increase in the near-term and medium-term through the policy drive to bring electricity to the rural areas where our hydroelectric power projects are located. As mentioned above, one of our projects in Yunnan Province, Dazhaihe, received a tariff increase in 2012.

We seek to secure and retain favorable tariffs for each of our hydroelectric power projects by maintaining good relations with the local power grids and increasing our importance to the power grid by continuing to be a reliable supplier of peak power, power supplied from 8:00 a.m. to 10:00 p.m. We are accomplishing this through the following means:

- maintaining a good working relationship with the grid's dispatch control team, with whom our hydroelectric power project managers communicate on a daily basis;
- providing technical cooperation and support to the local grid by sharing hydrology and operations data; and
- conducting thorough and accurate forecasts of our hydropower generation capacity and management of water flows to supply power as and when required by the local grid.

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In the years ended December 31, 2010, 2011 and 2012, the effective tariff of electricity sold by us was RMB0.34 per kWh, RMB0.30 per kWh and RMB0.33 per kWh, respectively. The effective tariff for electricity sold in the year ended December 31, 2011 was lower than that in the year ended December 31, 2010 because in 2011, 30.7%, 40.3% and 27.9% of the electricity sold and 45.7%, 24.8% and 28.5% of the gross revenue were derived from our hydroelectric power projects in Zhejiang, Yunnan and Fujian provinces, respectively, where the average effective tariff was RMB0.45, RMB0.19 and RMB0.31 respectively, while in 2010, 42.8%, 26.7% and 29.2% of the electricity sold and 55.1%, 14.8% and 29.0% of the gross revenue resulted from our hydroelectric power projects located in Zhejiang, Yunnan and Fujian provinces, respectively, where the average effective tariff was RMB0.43, RMB0.19 and RMB0.34, respectively. The effective tariff for electricity sold in the year ended December 31, 2012 was slightly higher than that in the year ended December 31, 2011 because in 2012, 35.1%, 28.5% and 35.6% of the electricity sold and 47.7%, 15.4% and 36.2% of the gross revenue were derived from our hydroelectric power projects in Zhejiang, Yunnan and Fujian provinces, respectively, where the average effective tariff was RMB0.45, RMB0.18 and RMB0.34, respectively. The effective tariff of 2012 is higher than 2011 is also partially because five projects in Fujian Province and one project in Yunnan Province received tariff increase in 2012. The tariffs for our power dispatched are set through power purchase agreements with the grids to which our hydroelectric power projects are connected, and generally have terms of one to five years. We do not expect there to be any disruption in the service to the local power grid or any impact on our future revenues or liquidity regardless of the term of our agreements. If we should be unable to renegotiate a power purchase agreement with the local grid, the possibility of which we currently consider to be low due to a shortage of electricity generating capacity in the PRC, it is possible we would not be able to obtain alternative customers for the power generated by the hydroelectric power project, as only one grid is available to each hydroelectric power project and there are no neighboring industrial sites ready to take up the power. Furthermore, even if we do renegotiate a power purchase agreement for the hydroelectric power project, it may be at a lower tariff or for lower volumes of power than what was in place previously. The realization of any of the outcomes described above could materially and adversely reduce our revenues and our results of operations and net cash used in operating activities could be materially and adversely affected.

Table of Contents

*Hydrological conditions*

Our hydroelectric power generating prospects are dependent upon hydrological conditions prevailing in the broad geographic regions in which our existing and future hydroelectric generation facilities are located. Our business is seasonal, with the majority of our power generation occurring during times of high precipitation and snow melt, primarily in the second and third quarters of the calendar year. However, unusually low or high levels of precipitation or significant volatility or uneven distribution of water supply can significantly reduce or disrupt our power generation. Floods on our waterways may force us to shut down our run-of-the-river plants to avoid damage to the equipment, while droughts may cause water flows to be insufficient to operate the plant. In the future, we may construct additional projects along our waterways to help control the flow of water to our hydroelectric power projects. In the absence of further development on our waterways, other than carefully forecasting the amount of water we will receive, preparing for generation during periods of high water flow and storing water in anticipation of periods of low water flow, we are unable to mitigate the impact of hydrological conditions on our results of operations.

Hydrological conditions and resultant precipitation levels vary significantly from year to year, and as such, it is typical for hydroelectric power projects to experience up to a 20.0% or greater variance in their effective utilization rates each year. In the geographical areas our plants are located, overall precipitation in 2012 was significantly above historically average, while precipitation was significantly below historically average in 2011. We cannot predict with certainty hydrological conditions for 2013 or any other future periods. We expect our revenues will continue to be directly impacted by the hydrological conditions at our plants.

*Production efficiency of our hydroelectric power projects*

Our future results of operations will depend on our ability to maintain or increase the levels of generation at the projects we acquire, while at the same time maintaining or lowering the costs of operating those projects. We seek to achieve increased generation revenues from our hydroelectric power projects through controlling water flow to maximize power generation, predicting hydrological conditions to increase generation, operating clusters of power projects where we can balance the generation load amongst multiple projects, improving management of individual projects, and improving transmission of electricity from our hydroelectric power projects through better connections to power grids. All of these efforts will be realized through the oversight of our expert management team. If our management team is unable to implement these programs, or if we are unable to maintain generation levels at any given project or control our cost of revenues and operating expenses, we may not realize expected returns on the investment in the project, which would have a material adverse effect on our results of operations.

*Depreciation*

The primary component of our cost of revenues is depreciation of property, plant and equipment. As a result, the actual cash portion of cost of revenues is low. Our depreciation expense for 2010 was \$14.4 million out of a total cost of revenues of \$22.7 million from continuing operations. Our depreciation expense for 2011 was \$20.5 million out of a total cost of revenues of \$31.3 million from continuing operations while our depreciation expense for 2012 was \$21.4 million out of a total cost of revenues of \$35.8 million from continuing operations. Unlike other renewable energy generation systems, hydroelectric power projects may operate for decades if properly maintained. In accordance with U.S. GAAP, we depreciate the machinery at our plants over a 1-30 year period, the dams and reservoirs over a 30-49 year period and the buildings over an 8-50 year period, all on a straight line basis. For property, plant and equipment acquired through a business combination, depreciation is recorded on a straight-line basis over their respective remaining estimated useful lives.

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All direct and indirect costs that are related to the construction of property, plant and equipment and incurred before the assets are ready for their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property, plant and equipment accounts and depreciation commences when these assets are ready for their intended use. Interest costs are capitalized if they are incurred during the acquisition, construction or production of a qualifying asset and such costs could have been avoided if expenditures for the assets have not been made. Capitalization of interest costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Interest costs are capitalized until the assets are ready for their intended use.

Upon the acquisition of our hydroelectric power projects, we either record the new asset value based on the consideration paid in the case of an asset purchase or based on the fair values if it is accounted for using the acquisition method of accounting, often resulting in increased depreciation costs for the plant. We may at the time of acquisition also restate the useful lives of a plant's key assets. We may also from time to time reevaluate the useful life of an asset, thus extending our depreciation expense over a longer period of time. We expect that our depreciation costs will continue to account for a significant portion of our cost of revenues.

### **Critical accounting policies**

We prepare our consolidated and other financial statements in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ), which requires us to make judgments, estimates and assumptions that affect:

- the reported amounts of our assets and liabilities;
- the disclosure of our contingent assets and liabilities at the end of each reporting period; and
- the reported amounts of revenue and expenses during each reporting period.

Table of Contents

We continually evaluate these estimates based on our own experience, knowledge and assessment of current business and other conditions and on our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application. When reading our consolidated and other financial statements, you should consider:

- our selection of critical accounting policies; the judgment and other uncertainties affecting the application of such policies; and
- the sensitivity of reported results to changes in conditions and assumptions.

We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements:

***Fair value of financial instruments***

The fair value measurement guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). When available, we measure the fair value of financial instruments based on quoted market prices in active markets, valuation techniques that use observable market-based factors or unobservable factors that are corroborated by market data. When observable market prices are not readily available, we generally estimate fair value using valuation techniques that rely on alternate market data or factors that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. In certain cases, fair values are not subject to precise quantification or verification and may fluctuate as economic and market factors vary and our evaluation of those factors changes. Although we use our best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique.

Our financial instruments include cash and cash equivalents, accounts receivable, notes receivable, certain other current assets, accounts payable, certain other liabilities, short-term loans, long-term loans, convertible redeemable preferred shares and warrants. The carrying values of these financial instruments, other than long-term loans, convertible redeemable preferred shares, and warrants approximate their fair values due to their short-term maturities. The convertible redeemable preferred shares were initially recorded at issue price net of issuance costs. We recognizes changes in the redemption value immediately as they occur and adjusts the carrying value of the convertible redeemable preferred shares to equal the redemption value at the end of each reporting period. All of the convertible redeemable preferred shares were automatically converted into ordinary shares on the date of IPO. In 2011, some terms of the warrants issued to certain warrant holders, which were previously classified as equity upon the IPO closing, were amended ( Amended Warrants ) and rendered the warrants the nature of derivative liabilities which should be presented as liabilities at fair value as determined on the amendment date. These amended warrants are adjusted to the fair-value at each reporting date. The warrants issued in connection with the convertible redeemable preferred shares were recorded as a liability at fair value as determined on the day of issuance and subsequently adjusted to the fair value at each reporting date. Upon the closing of our IPO on January 25, 2010, these warrants were reclassified from a liability to equity at the fair value immediately prior to such reclassification. With the assistance of independent third party valuation firms, we determined the fair values of the convertible notes and related derivative financial liability, convertible redeemable preferred shares and warrants. The carrying values of long-term loans approximate their fair values due to the fact that the interest rates on these loans are reset each year based on prevailing market interest rates.

***Revenue recognition***

Our revenue is derived from the sale of electricity. Revenues are recognized when the following four criteria are met as prescribed by Accounting Standards Codification ( ASC ) sub-topic 605-10, *Revenue Recognition: Overall*: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. We consider the terms of each arrangement to determine the appropriate accounting treatment. Revenue is generally earned and recognized upon transmission of electricity to a power grid. For transactions in which electricity has been transmitted to the power grid without a fixed or determinable unit price per kWh while the tariff is pending approval of the regional or provincial pricing bureau, cash received in exchange for the transmission of electricity to a power grid has been recorded as customer deposits until such time the price becomes fixed and determinable. When the price becomes fixed and determinable, all or a portion of the customer deposits will be recognized as revenue. We do not defer the related cost of revenues, which is charged to expense as incurred. We have not offered any discounts or rebates to our customers nor do we provide for refunds in our sales contracts with customers.

## Table of Contents

Our subsidiaries are subject to value-added tax ( VAT ) on the revenues earned in the PRC. The applicable rate of VAT is 6% for small hydroelectric power projects with a total installed capacity of 50.0 MW or less and 17% for large hydroelectric power projects with a total installed capacity of over 50 MW. For the year ended December 31, 2010, 2011 and 2012, the VAT rate of 17% was applied to the hydroelectric power projects of Banzhu and Wangkeng, 6% was applied to the rest of the hydroelectric power projects we owned at that time period. VAT on revenues earned from the sale of electricity by us to our customers for the years ended December 31, 2010, 2011 and 2012 were \$5.7 million, \$4.6 million and \$7.4 million, respectively. We have recognized revenues net of VAT in the consolidated statements of comprehensive income.

### ***Goodwill and intangible assets***

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the assets acquired and the liabilities assumed of acquired businesses. ASC sub-topic 350-10, *Intangibles Goodwill and other: Overall*, requires that goodwill be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. We assign and assess goodwill for impairment at the reporting unit level at each reporting date.

For the year ended December 31, 2012, we adopted ASU No. 2011-08 ( ASU 2011-08 ), Intangible-Goodwill and other (ASC 350), pursuant to which we have the option to first assess qualitative factors to determine whether it is necessary to perform two-step test. If we believe, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

The performance of the quantitative impairment test involves a two-step process. The first step of the impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. Fair value is primarily determined through the income approach by computing the future discounted cash flows expected to be generated by the reporting unit and is dependent on a number of significant entity specific assumptions, including plant utilization rate, electricity sales volumes and tariffs, costs of production, capital expenditures, working capital changes and the discount rate. The discount rate is commensurate with the risk inherent in the projected cash flows and reflects the rate of return required by an investor in the current economic conditions. For reporting units to be disposed of subsequent to the reporting date, the market approach is used where estimates of prices reasonably expected to be realized from the sale of the reporting units are used to determine the fair value of each reporting unit. If the carrying value exceeds the fair value, goodwill may be impaired. If this occurs, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. This implied fair value is then compared with the carrying amount of the reporting unit goodwill, and if it is less, we would then recognize an impairment loss. All of goodwill on our balance sheet related to the acquisition of our power projects. In 2011, we continued to experience significant decline in our stock price. As a result, our company stock price closed at \$1.14 per ADS on December 30, 2011, the last trading date of 2011, representing a 84.2% decline from \$7.21 per ADS on January 3, 2011, the first trading date of 2011. The circumstances prompted management to evaluate and test the fair value of our assets against its carrying amount in accordance with US GAAP. We concluded that the carrying amount of its acquired projects mentioned above was higher than their fair value and consequently recorded a one-time goodwill impairment charge of \$4.2 million, \$1.1 million and \$6.1 million, respectively, for Xiaopengzu, Xineng, Jinling and its subsidiaries during the last quarter of 2011, the goodwill impairment attributable to our shareholders is \$9.8 million. In 2012, we performed impairment test at the end of the year and no additional goodwill impairment charge was recognized.

Intangible assets are carried at cost less accumulated amortization. Intangible assets acquired in a business combination are recognized initially at fair value at the date of acquisition. Intangible assets with a finite useful life are amortized using the straight-line method over the estimated economic life of the intangible assets. In connection with the acquisition of Binglangjiang in 2007, we acquired a legal right to expand and operate the Binglangjiang II plant. The development rights allow us to expand the power generation capacity of Binglangjiang by utilizing the



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existing water dam of Binglangjiang, which have an estimated useful life of 30 years. We completed construction of the Binglangjiang II hydroelectric power project in August 2009. In connection with the acquisition of Yuanping in October 2008, we acquired a contractual right to use water from the dam and reservoir of the Jinzaoqiao station, which has an estimated useful life of 40 years. As we entered into an Equity Purchase and Sale Agreement to sell Yuanping in December 2011, the contractual right to use water from the dam and reservoir of the Jinzaoqiao station was reclassified as part of the assets held for sale. On August 12, 2009, Yuheng acquired a contractual right to use water from the dam and reservoir of Wangquan Power Generation Co., Ltd., the term of which is 30 years. In 2012, both Yuanping and Yuheng were disposed and their water use right were derecognized accordingly. In connection with the acquisition of Jinling, we acquired a right to use the dam of the Dongguan hydropower project which has a useful life of 40 years. We recognized the fair value of \$1,759,000 for the dam use right as a separate intangible asset apart from goodwill. The estimated useful life of the dam use right of Dongguan is 40 years.

We review and adjust the carrying value of the intangible assets if the facts and circumstances suggest the intangible assets may be impaired. We assess and concluded that there was no impairment for intangible assets in any of the periods presented.

Table of Contents

***Impairment of long-lived assets***

We evaluate our long-lived assets, including property, plant and equipment, land use right and intangible assets with finite lives, for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that will impact the future use of the assets, indicate that the carrying amount of an asset may not be recoverable in accordance with ASC subtopic 360-10, *Property, Plant and Equipment: Overall*. When these events occur, we assess the recoverability of long-lived assets by comparing the carrying amount of the assets to the expected future undiscounted cash flows resulting from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we recognize an impairment loss based on the excess of the carrying amount of the assets over their fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the assets, when the market prices are not readily available. As of December 31, 2011, we recognized impairment loss of Wuyue's construction in progress for \$11.6 million. The impairment loss attributable to our shareholders is \$5.0 million.

***Long-lived assets held for sale***

We evaluate long-lived asset to be disposed of other than by sale in accordance with the provisions of ASC sub-topic 360-10, *Impairment and Disposal of Long-Lived Assets*, where such long-lived asset continues to be classified as held and used until it is disposed of. When a long-lived asset ceases to be used, the carrying amount of the asset is written down to its salvage value, if any. When all of the following conditions are met, the asset should be classified as held for sale:

- A plan to sell the asset has been committed to by management;
- The asset can be sold in its current condition;
- An active plan has been initiated to find a buyer;
- It is probable that the sale will be completed within one year and will qualify as a completed sale;
- The sales price is reasonable relative to the asset's current fair value and the entity is actively marketing the asset; and
- It is unlikely that the plan to sell the asset will be withdrawn or changed significantly;

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The sale of Yuanping in December 2011 which was completed in March 2012 met all of the preceding requirements. Accordingly, the assets were classified as held for sale as of December 31, 2011.

### *Discontinued operations*

We evaluate the criteria in accordance with ASC sub-topic 205-20, *Presentation of Financial Statements: Discontinued Operations*, to determine whether long-lived assets held for sale should be reported as a discontinued operation. When the following two conditions are met, the component's results of operations are reported as a discontinued operation:

- The disposal group must qualify as a component of an entity;
- The operations and cash flows of the component have been eliminated from the ongoing operations of the entity as a result of the disposal transaction;
- The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

In the accounting period that a disposition occurs is expected, the results of operations for the component must be included in a separate section of statement of comprehensive income after income from continuing operations and before the extraordinary item section. The results of operations must be presented not only for the current year, but for all prior periods, presented with current year statements. Assets and liabilities from discontinued operations for which the disposition has not occurred should not be offset, but should be reported separately as assets and liabilities on the balance sheet. In addition, major classes of assets and liabilities subject to disposition should be reported separately or disclosed in related footnotes.

The sale of Yuanping in December 2011, which was completed in March 2012, met all of the preceding requirements. Accordingly, the results of operations are reported in a separate section of statement of comprehensive income as discontinued operations for both current year and for all prior periods.

On December 31, 2012, although part of considerations of sale of Yuheng has not been received, the handover of control was officially completed on October 31, 2012. Accordingly, the sale of Yuheng in October 2012 met all of the preceding requirements and the results of operations are reported in a separate section of statement of comprehensive income as discontinued operations for both current year and for all prior periods.

Table of Contents

***Income taxes***

We follow the liability method of accounting for income taxes in accordance with ASC sub-topic 740-10 ( ASC 740-10 ), *Income Taxes: Overall*. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities, net operating loss and credits carryforwards, using enacted tax rates that will be in effect for the period in which the differences are expected to reverse. We record a valuation allowance against the amount of deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in the consolidated statements of comprehensive income in the period that includes the enactment date.

We account for uncertainty in income taxes in accordance with ASC 740-10. Interests and penalties arising from underpayment of income taxes are computed in accordance with the related PRC tax law. The amount of interest expenses is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest recognized from the accounting for uncertainty in income taxes is classified in the financial statements as interest expenses, while penalties recognized from the accounting for uncertainty in income taxes are classified in the financial statements as other expenses.

We recognize in our financial statements the impact of a tax position if a tax return position or future tax position is more likely than not to prevail, which is defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position. Tax positions that meet the more likely than not threshold are measured, using a probability weighted approach, at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

***Preferred shares warrant***

On January 28, 2008 ( Warrant Issue Date ), we issued warrants to Morgan Joseph & Co. Inc. ( Morgan Joseph ), which allow Morgan Joseph to purchase (i) up to 15,000 Series A Preferred Shares at \$1,100 per share prior to the closing of an IPO, or (ii) up to such number of ordinary shares automatically converted into from 15,000 Series A Preferred Shares upon the closing of an IPO at 110% of the then-effective conversion price per Series A Preferred Shares ( Morgan Joseph Preferred Shares Warrant ). Following the IPO, the warrant currently allows Morgan Joseph to purchase 4,606,880 ordinary shares at a price of \$3.26 per share. The estimated fair value of Morgan Joseph Preferred Shares Warrant at the issue date was based on a valuation performed by us with the assistance of American Appraisal China Limited, or American Appraisal, an unrelated and independent valuation firm.

We estimated the fair value of Morgan Joseph Preferred Shares Warrant at the Warrant Issue Date as call options using Black-Scholes option-pricing model, with the assistance of American Appraisal. Under this model, we made a number of assumptions, including:

- the expected future volatility of our ordinary share prices;
- the risk-free interest rate;

- the expected dividend yield; and
- the estimated fair value of our ordinary and preferred shares at the Warrant Issue Date.

Since we were a privately held company at the Warrant Issue Date, we estimated the expected future volatility of our ordinary shares price based on the historical price volatility of the publicly traded shares of five comparable companies in the hydroelectric power related businesses over the periods equal to the contractual term of Morgan Joseph Preferred Shares Warrant. The risk-free interest rate was based on the market yield of China sovereign bonds denominated in U.S. dollars with maturity terms equal to the contractual term of the Morgan Joseph Preferred Shares Warrant. The dividend yield was estimated based on the expected dividend policy over the expected term of the warrants.

The fair value of our Morgan Joseph Preferred Shares Warrant granted on January 28, 2008 was determined based on the fair value of our ordinary shares and preferred shares based on valuation performed by us retrospectively, with the assistance of American Appraisal, as of that day. The following discussion sets forth the significant factors considered and key assumptions and methodologies used in such valuation.

Determining the fair equity value requires making complex and subjective judgments, including those regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of Warrant Issue Date. The significant factors considered include the following:

- our financial and operating results;
- the assumptions and basis of our financial projections;
- the nature of our business since our inception;
- the stage of development of our operations;
- our business plan;
- our business risks;
- the nature and prospects of the hydroelectric power industries in China;

- the global economic outlook in general and the specific economic and competitive elements affecting our business, industry and market; and
- the market-derived investment returns of entities engaged in the hydroelectric power businesses.

Table of Contents

We used the discounted cash flow method, or DCF method, under the income approach to assess the fair value of our equity as of December 31, 2007, based on our projected cash flow using management's best estimate as of the valuation date. As we believed that there was no material change in our operations in the short period between December 31, 2007 and January 28, 2008 that would materially impact the fair value of our total equity value, our equity value as of the Warrant Issue Date was derived based on (i) the equity value derived as of December 31, 2007; and (ii) the issuance proceeds from Series A preferred shares issued on January 23, 2008. Since our Company only had three hydroelectric power projects in operation as at the Warrant Issue Date and our scale of business was much smaller than those listed companies in similar business and similar locations, we concluded that a market comparison approach would not have been meaningful in determining the fair value of our equity.

The DCF method involved applying appropriate discount rates to future free cash flows that are based on five-year financial projections developed by us. The major assumptions used in deriving the financial projections were consistent with our business plan at the time of the valuation. In deriving the discount rates used in the DCF method, we considered the weighted average cost of capital, or WACC, applicable to us as well. The WACC we used was 13% for the valuation with respect to our equity value as of December 31, 2007.

In addition, we have taken into account the discount for lack of marketability of our shares in the valuation to reflect the fact that we were a private company. We quantified the discount for lack of marketability, or DLOM, using the option-pricing method. This method treats the right to sell a company's shares freely before a liquidity event as a put option. The more distant the valuation date is from a liquidation event, the higher the put option value and thus the higher the implied DLOM. We obtained and used a DLOM of 13.0% for valuation with respect to our equity value as of December 31, 2007.

To the extent our capital structure comprised ordinary shares and preferred shares as of the Warrant Issue Date, we used the option-pricing method to allocate total equity value derived to different classes of shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid—Valuation of Privately-Held-Company Equity Securities Issued as Compensation, or the Practice Aid. Under the option-pricing method, we treated ordinary shares and preferred shares as call options on our enterprise value, with exercise prices based on the liquidation preference of our preferred shares. We estimated the value of these call options using the Black-Scholes option-pricing model.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying warrants and the fair value of our common shares as of each balance sheet date.

Upon the closing of the IPO on January 25, 2010, all of the outstanding Series A Preferred Shares were automatically converted into ordinary shares. As a result, pursuant to the preferred shares subscription agreement, the Morgan Joseph Preferred Shares Warrant automatically became a warrant that allows Morgan Joseph to purchase up to 4,606,880 ordinary shares at \$3.26 per share and was reclassified from liability to equity and will be subsequently accounted for as such. Up to January 28, 2013, the warrant was fully forfeited as the warrant was not exercised before its expiration on January 28, 2013.

***Share-Based Compensation***

We account for share awards issued to employees in accordance with ASC sub-topic 718-10 (ASC 718-10), *Compensation-Stock Compensation: Overall*. In accordance with the fair value recognition provision of ASC 718-10, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense, net of estimated forfeitures, over the requisite service period, which is

generally the vesting period. We have elected to recognize share-based compensation expense for share awards granted to employees using the straight-line method.

We account for share awards issued to non-employees in accordance with the provisions of ASC 718-10 and ASC sub-topic 505-50-9 ( ASC505-50 ), *Equity-Based Payment to Non-employees*. Our share awards issued to non-employees are subject to graded vesting provisions. We recognize share-based compensation expense for share awards granted to non-employees using the accelerated recognition method over the requisite service period of the award. In accordance with ASC 718-10 and ASC 505-50, we use the binomial option pricing valuations model, or binomial model, to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation.



Table of Contents

In accordance with ASC 718-10, the grant date for the options to employees and non-employees approved by the board of directors on August 18, 2008 and January 20, 2009, was March 4, 2009 ( Option Grant Date ) and the grant date for the options to employees and one non-employee approved by the board of directors on December 3, 2009 was January 25, 2010 ( Option Grant Date ). On December 22, 2011, our Board of Director approved the fair value to fair value exchange of the options granted in 2008 and 2009 except those options issued to certain former and current board members and one former consultant. Employees were offered the opportunity to participate in the exchange program on a voluntary basis. All of the options exchanged were vested immediately on December 28, 2011, the date on which the exchange program was implemented and the exchange agreements were signed.

In accordance with ASC 718-10, the grant date for the options to employees and non-employees approved by the board of directors was May 1, 2012 ( Option Grant Date ) on which the agreements were signed. We estimated the fair value of our share options at the Option Grant Date using the binomial model, with the assistance of American Appraisal. It should be noted that the binomial model requires the input of highly subjective assumptions, including the expected share price volatility. We use projected volatility rates, which are based upon historical price volatility rates experienced by comparable public companies. Because changes in the subjective input assumptions can materially affect the fair value estimate, in our management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our share options. Changes in our estimates and assumptions regarding the expected volatility and fair value of our ordinary shares, for example, could significantly impact the estimated fair value of our share options and, as a result, our net income and net income attributable to holders of our ordinary shares.

Under the binomial model, we made a number of assumptions regarding the fair value of the options, including:

- the expected future volatility of our ordinary share price;
- the risk-free interest rate;
- the expected dividend yield;
- the expected employee share option exercise behavior;
- the expected forfeiture rate; and
- the estimated fair value of our ordinary shares at the grant date.

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Since we were a privately held company at each Option Grant Date, we estimated the expected future volatility of our ordinary share price based on the historical price volatility of the publicly traded shares of five comparable companies in the hydroelectric power related businesses over the periods equal to the contractual term of our share options. The risk-free interest rate was based on the U.S. Treasury zero-coupon yield in effect with maturity terms equal to the contractual term of the options. The dividend yield was estimated to be zero. We use historical turnover data to estimate the expected forfeiture rate.

The fair value of our share options on the grant date of March 4, 2009 was determined based on the fair value of our ordinary shares based on valuation performed by us contemporaneously, with the assistance of American Appraisal, as of that day. The following discussion sets forth the significant factors considered and key assumptions and methodologies used in such valuation.

Determining the fair equity value requires making complex and subjective judgments, including those regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of the Option Grant Date. The significant factors considered include the following:

- our financial and operating results;
- the assumptions and basis of our financial projections;
- the nature of our business since our inception;
- the stage of development of our operations;
- our business plan;
- our business risks;
- the nature and prospects of the hydroelectric power industries in China;
- the global economic outlook in general and the specific economic and competitive elements affecting our business, industry and market; and the market-derived investment returns of entities engaged in the hydroelectric power businesses.

We used a combination of (i) the guideline company method under the market approach and (ii) the DCF method under the income approach to assess the fair value of our equity value as of March 4, 2009, based on our projected cash flow using management's best estimate as of the

valuation date. We assigned an equal weighting of 50.0% to each of the results obtained using the guideline company method and the results obtained using the DCF method.

Table of Contents

Under the guideline company method, different value measures and market multiples of comparable companies were calculated and analyzed to induce a series of multiples that were considered representative of the industry average. The market multiples were then adjusted based on our growth rate, business risks and profitability.

Thereafter, the adjusted multiples were applied to our performance indicators to determine our value on a minority and freely traded basis. We specifically applied the financial ratios of enterprise value to revenues multiple, or EV/Revenues multiple, and enterprise value to earnings before interest, tax, depreciation and amortization multiple, or EV/EBITDA multiple, to our pro-forma financial results for fiscal year 2008 in arriving at an indicative value of us under the guideline company method. For the valuation with respect to our equity value as of the Option Grant Date, we applied an EV/Revenues multiple of 11.4 and an EV/EBITDA multiple of 28.3.

We have selected five companies in the hydroelectric power related businesses listed in Shanghai Stock Exchange in China for reference as comparable companies: Chongqing Three Gorges Water Conservancy and Electric Power Co. Ltd., Guangxi Guiguan Electric Power Co. Ltd., Qianjiang Water Resources Development Co. Ltd., Guangxi Guidong Electric Power Co. Ltd., Leshan Electric Power Co. Ltd. Since the nature of our operation is highly subject to geographical factors such as water supply, tariff and demand for power, etc., our business risks are most similar to the comparable companies having similar business and similar locations in China.

The DCF method involved applying appropriate discount rates to future free cash flows that are based on five-year financial projections developed by us. The major assumptions used in deriving the financial projections were consistent with our business plan at the time of the valuation. In deriving the discount rates used in the DCF method, we considered the weighted average cost of capital, or WACC, applicable to us as well. The WACC we used was 10.0% for the valuation with respect to our equity value as of the Option Grant Date.

In addition, we have taken into account the discount for lack of marketability of our shares in the valuation to reflect the fact that we are a private company. We adopted a DLOM of 10.0% for valuation with respect to our equity value as of the Option Grant Date.

To the extent our capital structure comprised ordinary shares and preferred shares as of the Option Grant Date, we used the option-pricing method to allocate total equity value derived to different classes of shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid Valuation of Privately-Held-Company Equity Securities Issued as Compensation, or the Practice Aid. Under the option-pricing method, we treated ordinary shares and preferred shares as call options on our enterprise value, with exercise prices based on the liquidation preference of our preferred shares. We estimated the value of these call options using the Black-Scholes option-pricing model.

The estimated fair value of our ordinary shares at the Option Grant Date of March 4, 2009 was \$2.08. Based on the initial public offering price of \$4.93 per ordinary share, we have determined that the intrinsic value of the outstanding options as of December 31, 2009 was nil. Although it is reasonable to expect that the completion of the initial public offering should increase the value of our ordinary shares because of their increased liquidity and marketability, we believe that the added value cannot be measured with precision or certainty.

The decrease in our ordinary share value from \$2.56 per share as of January 28, 2008 to \$2.08 per share as of March 4, 2009 was primarily due to the dilutive effect of the Series B convertible redeemable preferred shares we issued in July 2008 on our ordinary share value; and a generally unfavorable market sentiment towards China-based publicly traded companies, reflected in an overall decrease in the market value of those companies, which was partially offset by our subsequent acquisitions of Yingchuan, Wuliting, Zhougongyuan, Banzhu, Wangkeng, Yuanping

and Yuheng between the period from January 28, 2008 to March 4, 2009, which were expected to expand our business operations and improve our cash flow and financial prospects.

Under ASC topic 718 Share-Based Compensation Additional Consideration, modifications of equity instruments should be accounted for as follows:

- Any incremental compensation cost is determined as the excess of the fair value of the new award compared to the fair value of the original award measured just prior to its modification, total compensation cost is equal to the grant date fair value of the award for the service period over which it is expected to be satisfied and the incremental cost from the modification;
- and when the entity uses the intrinsic method, the change in compensation cost is measured by comparing the intrinsic value of the original award measured just prior to the modification.

Under ASC topic 718, the incremental cost for the stock options is to be recorded and expensed over the vested period of the exchanged options. The incremental cost is the difference between the fair value of the options immediately prior to the exchange and the fair value of the exchange options immediately after the exchange.

Table of Contents

On December 28, 2011, the Board approved an option exchange program. Pursuant to the option exchange program, 10,109,000 and 275,000 share options originally granted to employees and a non-employee consultant, respectively, were cancelled. Simultaneously, 407,706 and 9,250 share options at an exercise price of US\$0.46 were granted to these employees and the non-employee consultant, respectively, in exchange for the cancelled options. The option exchange program was set to give the same total fair value to the new and the original options, both determined based on Black-Scholes valuation model.

On May 1, 2012, the Board approved the grant of 9,929,998 share options and 50,000 options to the employees and a consultant of the Group, respectively, at an exercise price of US\$0.62 with a contractual life of five years. The fair value of the options at the Option Grant Date was estimated using a binomial option pricing model.

**Taxation**

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands. Stamp duty may be payable on certain instruments if they are executed, retained or adjudicated in the Cayman Islands.

***Enterprise Income Tax***

Effective from January 1, 2008, the PRC's statutory income tax rate is 25%. Our PRC subsidiaries are subject to income tax at 25% unless otherwise specified.

Pursuant to GuoShuiFa [2002] No. 47 and CaiShui [2011] No. 58, our PRC subsidiaries which are located in the Western region of the PRC and engaged in hydroelectric power activities are entitled to the preferential tax rate of 15% from 2001 to 2020 and 2-year income tax exemption followed by 3-year 50% income tax reduction (the 2+3 tax holiday), respectively. For a domestic enterprise, the 2+3 tax holiday starts from its commencement of business operation. For a foreign investment enterprise, the 2+3 tax holiday starts from its first profit-making year from income tax perspective. Accordingly, our PRC subsidiaries are currently subject to the following tax preferential treatments:

- (i) Binglangjiang and Husahe are subject to income tax at 15% from 2010 to 2020;
- (ii) Liyuan and Hengda were subject to income tax at 7.5% for 2010 and 2011, and are subject to income tax at 15% from 2012 to 2020;

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(iii) Xineng and Xiaopengzu were tax exempted for 2010, and are subject to income tax at 7.5% from 2011 to 2013, and at 15% from 2014 to 2020; and

(iv) Based on the local tax authority's approvals, Dazhaihe was tax exempted for 2010, and is subject to income tax at 7.5% for 2011, at 12.5% for 2012 and 2013, and at 15% from 2014 to 2020.

Further, Banzhu, being a foreign invested production-type enterprise, was entitled to a 2+3 tax holiday which is grandfathered under the prevailing PRC Enterprise Income Tax Law and its relevant regulations. As such, Banzhu is subject to income tax at 12.5% from 2010 to 2012.

### ***Value Added Tax***

In accordance with the relevant tax laws in China, all entities engaged in the sale of goods within the territory of China are required to pay VAT. Pursuant to applicable regulations prior to January 1, 2009, hydroelectric power projects under 50.0 MW of installed capacity are subject to a VAT of 6%, while larger hydroelectric power projects are subject to a VAT of 17%; however, in one province the higher VAT rate of 17% is applied on an exception basis to two of our hydroelectric power projects under 50.0 MW in size. Our tariffs are set gross of VAT and our revenues are reported net of VAT.

### ***Urban Maintenance & Construction Tax and Education Surcharges***

In accordance with relevant PRC regulations, an urban maintenance and construction tax and education surcharges will be imposed on foreign-invested enterprises, foreign enterprises, and foreign individuals in respect of value-added tax, consumption tax and business tax payable on and after December 1, 2010. The urban maintenance and construction tax and education surcharges are calculated as a percentage of the value-added tax, consumption tax and business tax due. The education surcharges are levied at a unified rate at 3%, while the rates for the urban maintenance and construction tax differ depending on the location of the taxpayer: (i) 7% for taxpayers located in a city; (ii) 5% for taxpayers located in a county and town area; and (iii) 1% for taxpayers located in other regions.

Table of Contents**Results of Operations of Our Company**

Our consolidated results of operations are summarized below in thousands of U.S. dollars.

	<b>For the Year Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Continuing operations:</b>			
<b>Revenues</b>	58,158	54,597	85,388
<b>Cost of revenues</b>	(22,653)	(31,314)	(35,795)
<b>Gross profit</b>	35,505	23,283	49,593
<b>% of revenue</b>	61%	43%	58%
<b>Operating expenses</b>			
General and administrative expenses	(19,166)	(28,896)	(20,348)
Impairment loss on goodwill		(11,388)	
Impairment loss on long-lived assets		(11,590)	
<b>Operating (loss) income</b>	16,339	(28,591)	29,245
<b>% of revenue</b>	28%	-52%	34%
Interest income	798	101	84
Interest expense	(13,855)	(24,757)	(28,070)
Change in fair value of warrant liabilities	365	951	(399)
Exchange gain/(loss)	(855)	(851)	28
Other (loss) income, net	166	(334)	507
<b>(Loss) income before income tax expenses</b>	2,958	(53,481)	1,395
Income tax expense	(3,208)	(1,527)	(6,451)
<b>Net loss from continuing operations</b>	(250)	(55,008)	(5,056)
<b>% of revenue</b>	0%	-101%	-6%
<b>Net income (loss) net of income tax (expense) benefits from discontinued operations</b>	4,235	(282)	3,907
<b>Less:</b>			
<b>Net (loss) income attributable to noncontrolling interest</b>	(243)	9,901	(94)
<b>Net (loss) income attributable to China Hydroelectric Corporation shareholders</b>	3,742	(45,389)	(1,243)
-Continuing operations	(493)	(45,107)	(5,150)
-Discontinued operations	4,235	(282)	3,907



Table of Contents**Revenues**

We derive revenues solely from the sale of electricity generated by our hydroelectric power projects. The generation of electricity by our hydroelectric power projects for any given period will depend on the planned annual generation as agreed with the power grid to whom the electricity is sold and as approved by the relevant pricing bureau, the actual demand for our electricity from the power grid and the actual hydrological conditions experienced during the period. The on-grid tariff for electricity generated by our hydroelectric power projects is set annually by the relevant pricing bureau in consultation with the relevant power grid. The on-grid tariff is determined in light of the initial capital investment in the plant, the historical operating cost, the water resource fees, the debt financing expense for the plant, an allowance for a reasonable return and, in practice, by the supply and demand for electricity in the local market. Furthermore, we have benefited from the central government's policy of promoting the development of additional hydroelectric power generating capacity by raising hydro tariffs to more closely approximate the higher tariffs paid for thermal generated electric power. The tariff we receive is subject to VAT and, in some cases, business surcharges, and our revenues are reported net of VAT and business surcharges. The on-grid tariff for hydropower for our plants in Zhejiang and Fujian provinces has increased over time to approach on-grid tariffs for thermal generated electric power. In Yunnan province, the tariff received by our plants is significantly lower than that for thermal power, and we expect that in the long-term we will experience an increase in the on-grid tariff for hydropower, as power grids seek to improve their operating margins through increased purchase of hydropower and the approved tariff for thermal power increases.

The power grids make monthly payments for our power delivered 30 to 60 days after month end. In 2010, 2011 and 2012 we sold our electricity to seven, ten and nine power grids as a result of our acquisitions in Yunnan and Fujian provinces, respectively. Any deterioration in our relationship with any of these grids, or in their financial condition could result in a material credit risk to our company and have a materially adverse effect on our financial condition and results of operations. The table below sets forth the percentage of our revenues from continuing operations derived from sales to each of these power grids for the year ended December 31, 2010, 2011 and 2012.

	Year Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2012
	% of Revenues from continuing operations		
Yunnan Nujiang Electric Power Co., Ltd.	1	8	5
Yunnan Dehong Electric Power Co., Ltd.	11	13	6
Yunnan Power Grid Company, Ltd.	3	4	3
Sichuan Cangxi Electric Power Co., Ltd.	1	1	1
Lishui Electric Power Bureau	56	46	49
Fujian Electric Power Co., Ltd.	28	17	22
Yunnan Honghe electric Power Co., Ltd.		1	1
Shaowu Electric Power Bureau		8	9
Nanping electric Power Bureau		2	4
<b>Total</b>	100	100	100

Before we acquired the remaining 50.0% of the equity interest in Shapulong in August 2009, our investment in Shapulong was accounted for using the equity method of accounting under Accounting Standard Codification subtopic ASC 323-10, *Investments - Equity Method and Joint Ventures: Overall*, and included as an investment in equity investees on our balance sheet. Under the equity method, our proportionate share of Shapulong's net income or loss is included as share of income or losses, as applicable, in equity investees in our statement of comprehensive income. Accordingly, Shapulong's results of operations are not reflected in our consolidated results of operations other than as a share of income or losses, as applicable, in equity investees in our consolidated statement of comprehensive income before August 2009. Shapulong became our wholly-owned subsidiary in August and its results of operations after the acquisition are reflected in our consolidated results of operations.

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In discussing our revenues, we have included information relating to (i) the effective tariff for electricity sold in the years ended December 31, 2010, 2011 and 2012, (ii) the effective utilization rate(s) for our hydroelectric power projects by province in the years ended December 31, 2010, 2011 and 2012, and (iii) the weighted average effective utilization rate for our hydroelectric power projects for both the years ended December 31, 2010, 2011 and 2012 from continuing operations.

Effective tariff is calculated as (a) gross revenues, revenues before netting for VAT and other applicable business surcharges, if any, recorded in the relevant period, divided by (b) the quantity of electricity sold in such period. Effective utilization rate of a hydroelectric power project is calculated as the quantity of electricity sold in the relevant period divided by the installed capacity for electricity generation in such period. The weighted average effective utilization rate of our hydroelectric power projects is calculated as the aggregate quantity of electricity sold in the relevant period, divided by the aggregate installed capacity for electricity generation of all our hydroelectric power projects for the period under consideration. As our effective tariffs are calculated using gross revenues, the product of our installed capacity, effective tariff and effective utilization rate for a hydroelectric power project is not equal to the net revenues for that plant in any given period. We use effective utilization rates to measure the historic ability of a hydroelectric power project to generate electricity during any given period. However, absent mechanical failure, damage to the hydroelectric power project or human error, effective utilization rates only reflect the effect of hydrological conditions for any given period, and are therefore not indicative of future effective utilization rates to be expected for a hydroelectric power project.

Table of Contents

The design utilization rate for a hydroelectric power project is a calculation performed at the feasibility study phase used to assist in the design optimization of civil structures, and in the selection of turbine generator equipment. The design utilization rate for any given hydroelectric power project is the multi-year average electricity production a facility is capable of producing given the equipment selection and historical hydrological conditions. We use design utilization rates as a management tool in monitoring actual production against precipitation to ensure our hydroelectric power projects are operating to standard.

***Cost of Revenues***

Our cost of revenues consists primarily of depreciation, employee salaries and benefits for hydroelectric power project staff, water resource fees, non-capitalized maintenance and repair costs, amortization expenses relating to water use rights and dam use rights, and other operating costs directly related to the generation of electricity. We expect that as we optimize the management and staffing of our newly acquired plants, we may in the future reduce the cost of revenues associated with operating any given plant.

***Operating Expenses***

Our general and administrative expenses comprise employee salaries and benefits for corporate and project level staff that are not classified as direct labor and therefore included in cost of revenue, office rent, travel and entertainment, office supplies, amortization of intangible assets, costs of our acquisitions that cannot otherwise be capitalized, and professional fees such as audit and legal fees. Share-based compensation expense represents the period cost associated with stock option grants.

***EBITDA, as adjusted***

We have included earnings before interest, taxes, depreciation and amortization and certain non-cash charges, which we refer to as EBITDA, as adjusted, a non-GAAP financial measure, on a consolidated basis in this annual report. We had EBITDA, as adjusted, attributable to China Hydroelectric Corporation shareholders of \$42.8 million, \$31.5 million and \$58.5 million in the year ended December 31, 2010, 2011 and 2012, respectively.

We believe that EBITDA, as adjusted, is a useful financial metric to assess our operating and financial performance before the impact of investing and financing transactions and income taxes. In addition, we believe that EBITDA is widely used by other companies in the power industry and may be used by investors as a measure of our financial performance. We note, however, that as individual companies may have different methods of calculating EBITDA for their business, their EBITDA results may not be directly comparable to our EBITDA, as adjusted. Given the significant investments that we have made in the past in net property, plant and equipment, depreciation and amortization expense comprises a meaningful portion of our cost structure. We believe that EBITDA, as adjusted, will provide investors with a useful tool for comparability between periods because it eliminates depreciation and amortization expense attributable to capital expenditures and business acquisitions. The presentation of EBITDA, as adjusted, should not be construed as an indication that our future results will be unaffected by other charges and gains we consider to be outside the ordinary course of our business.

## Edgar Filing: China Hydroelectric Corp - Form 20-F

The use of EBITDA, as adjusted, has certain limitations. Depreciation and amortization expense for various long-term assets, income tax expenses, interest expenses and interest income and certain non-cash charges have been and will be incurred and are not reflected in the presentation of EBITDA, as adjusted. Each of these items should also be considered in the overall evaluation of our results. Additionally, EBITDA, as adjusted, does not consider capital expenditures and other investing and financing activities and should not be considered as a measure of our liquidity. We compensate for these limitations by providing the relevant disclosure of our depreciation and amortization, interest expense and interest income, income tax expenses, capital expenditures and other relevant items both in our reconciliations to the U.S. GAAP financial measures and in our consolidated financial statements, all of which should be considered when evaluating our performance. The term EBITDA, as adjusted, is not defined under U.S. GAAP, and EBITDA, as adjusted, is not a measure of net income, operating income, operating performance or liquidity presented in accordance with U.S. GAAP.

## Edgar Filing: China Hydroelectric Corp - Form 20-F

### Table of Contents

A reconciliation of EBITDA, as adjusted, to our net income (loss) in thousands of U.S. dollars is provided below:

		<b>For the Year Ended December 31,</b>	
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Net (loss) income attributable to China Hydroelectric Corporation shareholders	3,742	(45,389)	(1,243)
Interest expense, net	13,058	23,710	27,145
Other non-cash charges, including exchange loss and change in fair value of warrant liabilities and share-based compensation expense	4,105	10,379	537
Income tax expense	3,208	1,556	6,295
Interest expense, Income tax expense, depreciation and amortization related to discontinued operations	2,961	3,974	2,743
Impairment loss on long-lived assets		4,984	
Impairment loss on goodwill		9,795	
Provision for impairment allowance for doubtful accounts on amount due from related party and prepayments and other current assets		1,256	792
Depreciation of property, plant and equipment, and amortization of land use rights and intangible assets	15,714	21,225	22,222
EBITDA, attributable to China Hydroelectric shareholders, as adjusted	42,788	31,490	58,491

### **Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

In January 2011, we acquired the remaining 10.0% equity interest in Pingnan County Wangkeng Hydroelectric Co., Ltd. In April 2011, we acquired Dazhaihe hydroelectric power project. In December 2011, we sold Yuanping hydroelectric power project and the disposal date of Yuanping was March 2, 2012, which was the date we lost effective control over Yuanping. The sale transaction was completed on the same date. In October 2012, we signed a Share Transfer Agreement to sell Yuheng hydroelectric power project and the disposal date of Yuheng was October 31, 2012, which was the date we lost effective control over Yuheng. The sale transaction is expected to complete in April, 2013.

Our results of operations for the year ended December 31, 2011 reflect the results of operations during the period for which Dazhaihe hydroelectric power project was consolidated in our financial statements.

Our results of operations for the year ended December 31, 2012 reflect the results of operations of Dazhaihe hydroelectric power project for the whole year of 2012, and the results of operations of Yuanping and Yuheng from January 1, 2012 to their respective disposal dates.

### ***Revenues, Cost of Revenues and Gross Profit***

Our revenues from continuing operations increased by \$30.8 million, or 56.4%, to \$85.4 million in the year ended December 31, 2012, compared to revenues from continuing operations of \$54.6 million in the year ended December 31, 2011. The increase in revenues was primarily attributable to the better than average hydrological conditions in Zhejiang and Fujian provinces and a higher effective tariff rate due to the tariff

increases at the projects in Fujian and Yunan projects.

We sold 1,768.0 million and 1,262.3 million kilowatt hours of electricity in the years ended December 31, 2012 and 2011, respectively.

The effective tariff of electricity sold by us in the years ended December 31, 2011 and 2012 was RMB0.30 per kWh and RMB0.33 per kWh, respectively. The effective tariff in the year ended December 31, 2012 was higher than that in the year ended December 31, 2011 because in 2011, 30.7%, 40.3% and 27.9% of the electricity sold and 45.7%, 24.8% and 28.5% of the gross revenue resulted from our hydroelectric power projects located in Zhejiang province, Yunnan province and Fujian province, respectively, where the average effective tariff was RMB0.45, RMB0.19 and RMB0.31, respectively, while in 2012, 35.1%, 28.5% and 35.6% of the electricity sold and 47.7%, 15.4% and 36.2% of the gross revenue resulted from our hydroelectric power projects located in Zhejiang province, Yunnan province and Fujian province, respectively, where the average effective tariff was RMB0.45, RMB0.18 and RMB0.34 respectively. Moreover, another reason that the effective tariff of 2012 is higher than 2011 is because five projects in Fujian Province and one project in Yunnan Province received tariff increase in 2012.

The effective utilization rate for the year ended December 31, 2012 for our hydroelectric power projects located in Sichuan, Yunnan, Zhejiang and Fujian provinces was 19.5%, 33.2%, 36.7% and 51.0%, respectively, compared to 12.5%, 34.4%, 23.0% and 28.7%, respectively, in 2011. In general, year over year comparisons plus or minus 5% during periods of normal equipment availability are attributed to natural fluctuation in precipitation and water flows. The increase of 13.7% and 22.3% in utilization in 2012 for the facilities located in Zhejiang and Fujian, respectively, is attributable to the favorable precipitation in these regions in 2012. As a result of the forgoing factors, the effective utilization rate for our entire portfolio of hydroelectric power projects was 39.2% in 2012, compared to 28.1% in 2011.

## Table of Contents

Our cost of revenues from continuing operations consist primarily of depreciation, as well as salaries and benefits for staff employed at our hydroelectric power projects, water resource fees, water reservoir fund, non-capitalized maintenance and repair expenses, amortization expenses relating to water use rights and other operating costs directly attributable to the production of electricity. The total cost of revenues from continuing operations increased by \$4.5 million, or 14.4%, to \$35.8 million in the year ended December 31, 2012, compared to \$31.3 million in the year ended December 31, 2011. In 2011, the cost of depreciation and amortization, employee salaries and benefits, and water resource fees accounted for 69.0%, 10.1%, and 3.9%, respectively, of the total cost of revenues, compared to 63.1%, 11.1%, and 5.3%, respectively, in 2012. We expect depreciation to continue to account for a high percentage of our cost of revenues since all our hydroelectric power projects are capital intensive.

As a result of the foregoing factors, our gross profit from continuing operations in the year ended December 31, 2012 was \$49.6 million, an increase of \$26.3 million from \$23.3 million for the year ended December 31, 2011. Gross profit margin from continuing operations was 58.1% for the year ended December 31, 2012, compared to 42.7% for the year ended December 31, 2011. The higher gross profit and margin from continuing operations in the year ended December 31, 2012 compared to the prior year were principally attributable to higher revenues from continuing operations due to hydrological conditions.

## ***Operating Expenses***

Our operating expenses from continuing operations for the years ended December 31, 2011 and 2012 consisted of general and administrative expenses incurred at both the project level and at the corporate level, and principally consist of salaries and benefits, professional fees, non-cash employee stock option expenses, rent, travel expenses, office supplies, acquisition related expenses, and other costs related to the management, expansion of our business and impairment loss of long-lived assets and goodwill for the year ended December 31, 2011. Operating expenses from continuing operations decreased by \$31.6 million, or 60.9%, to \$20.3 million in the year ended December 31, 2012, compared to \$51.9 million in the year ended December 31, 2011 for the reasons described below.

General and administrative expenses from continuing operations incurred at the hydroelectric power project level principally consist of salaries and travel expenses which increased from \$6.3 million in the year ended December 31, 2011 to \$8.8 million in the year ended December 31, 2012, principally attributable to the audit fee of \$1.9 million recorded at the project level instead of at the corporate level, as well as the \$0.4 million salaries and benefits recorded by Wuyue project in 2012. Wuyue is a standstill project and its construction-in-progress was fully recognized asset impairment in 2011. The salaries and welfares occurred in 2012 in connection with this project were recorded in general and administrative expenses due to the ongoing arbitration proceeding with the employees hired for this project.

General and administrative expenses from continuing operations at the corporate level decreased by \$11.1 million from \$22.6 million in the year ended December 31, 2011 to \$11.5 million in the year ended December 31, 2012. This decrease resulted from a decrease of \$10.3 million in share-based compensation expense, from \$10.5 million in the year ended December 31, 2011 to \$0.2 million in the year ended December 31, 2012, due to the one-time amortization of the remaining share-based compensation cost associated with the stock options granted prior to 2010 in connection to the fair value option exchange program in 2011, a decrease of \$0.5 million for employee salaries and benefits, a decrease of \$2.6 million for professional fees and a decrease of \$1.1 million for other expenses, offset by the non-recurring Extraordinary General Meeting of shareholders ( EGM ) related counsel fee of \$1.6 million and termination costs of \$1.8 million to John Kuhns and Mary Fellowour former senior management.

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Of the \$11.5 million in corporate level general and administrative expenses in the year ended December 31, 2012, share-based compensation expenses of \$0.2 million accounted for 1.7%, employee salaries and benefits of \$4.3 million accounted for 37.4%, non-recurring EGM related costs and termination costs of \$3.4 million accounted for 29.6%, while professional fees of \$0.5 million, including consulting and legal fees accounted for 4.4%. Other costs, such as travel expenses, lease expenses, acquisition related project expenses, director fees and insurance expenses accounted for the remaining 26.9%. In the year ended December 31, 2011, share-based compensation expenses of \$10.5 million accounted for 46.5%, employee salaries and benefits of \$4.8 million accounted for 21.2%, while professional fees of \$3.1 million, including consulting, legal and auditing fees accounted for 13.7%. Other costs, such as travel expenses, lease expenses, acquisition related project expenses, director fees and insurance expenses accounted for the remaining 18.6%.

In the year ended December 31, 2011, we recorded an impairment loss on long-lived assets of \$11.6 million for expenditures for Wuyue pumped storage hydropower project in Henan province previously classified as Construction in Progress on our consolidated balance sheet. Net of noncontrolling interest, the loss attribute to us was \$5.0 million. In 2011, we also recorded an impairment loss on goodwill of \$4.2 million, \$1.1 million and \$6.1 million for Xiaopengzu, Xineng, Jinling and its subsidiaries, respectively, due to the significant reduction of our market capitalization since the beginning of 2011.

In the year ended December 31, 2012, no impairment loss was recognized.

### ***Operating Profit (Loss)***

Our operating profit from continuing operations was \$29.2 million for the year ended December 31, 2012, compared to operating loss from continuing operations of \$28.6 million for the year ended December 31, 2011, principally as a result of the effect on revenues from significantly higher than average precipitation during 2012 compared to significantly lower than average precipitation during 2011, the relatively fixed nature of our cost of revenue and decreased general and administrative expenses, as well as the effect of impairment loss on goodwill and long-lived assets and a one-time write off unamortized share-based compensation expense of \$6.8 million in 2011 for the reasons described above.



Table of Contents

***Other Income and Expenses***

Our interest expense from continuing operations increased by \$3.3 million, or 13.3%, to \$28.1 million in the year ended December 31, 2012, compared to \$24.8 million in the year ended December 31, 2011. The interest on bank loans increased by \$1.6 million to \$20.0 million in the year ended December 31, 2012 compared to \$18.4 million in the year ended December 31, 2011 primarily due to interest expenses on long-term loans obtained by Binlangjiang, Shapulong, Yingchuan, Ruiyang and Wuliting. Interest penalty to original shareholders of acquired subsidiaries decreased by \$1.4 million from \$2.5 million for the year ended December 31, 2011 as we paid off such loans in 2012. Interest on loans from unrelated parties increased by \$2.2 million from \$2.6 million for the year ended December 31, 2011 due to the high refinancing expenses and interest rate. Other interest costs, such as accrued interest on unrecognized tax benefits, bank charges, amortization of debt costs accounted for the remaining \$0.9 million increase.

We recorded interest income from continuing operations of \$0.1 million and \$0.1 million in the years ended December 31, 2011 and 2012, respectively. The decrease in interest income was primarily due to a lower average balance of bank deposits.

We also experienced an exchange loss from continuing operations of \$851,000 and a gain of \$28,000 for the years ended December 31, 2011 and 2012, respectively.

***Income Tax***

We incurred income tax expenses from continuing operations of \$1.5 million and \$6.5 million in the years ended December 31, 2011 and 2012, respectively. We have adopted an income tax return preparation method principally based on tax invoices issued and received. In accordance with applicable PRC income tax laws and regulations, an income tax return should be prepared based on accounting income following certain tax adjustments. As of December 31, 2012, we have recognized total additional income tax provisions of US\$1.5 million for unrecognized tax benefits, mainly related to transfer pricing issues and non-deductible expenses. The Group also recognized a decrease of unrecognized tax benefits of US\$0.2 million for the change in prior year tax position in 2012. The Group released unrecognized tax benefits of US\$0.1 million in 2012 and recognized a decrease of unrecognized tax benefits of US\$1.3 million due to the disposal of Yuheng.

***Noncontrolling Interest***

In the year ended December 31, 2012, we recorded a gain of \$0.1 million for the net income attributable to noncontrolling interests relating to Jinling and its subsidiaries, compared to a loss of \$9.9 million attributable to noncontrolling interests relating to the impairment of Wuyue project, operation loss and goodwill impairment loss of Jinling and its subsidiaries for the year ended December 31, 2011.

***Net Loss from Continuing Operations***

The foregoing factors resulted in a net loss from continuing operations of \$5.1 million in the year ended December 31, 2012, as compared to a net loss of \$55.0 million in the year ended December 31, 2011.

***Net Loss Attributable to Ordinary Shareholders***

In the year ended December 31, 2012, the net loss from continuing operations attributable to ordinary shareholders was \$1.2 million as compared to net loss from continuing operations attributable to ordinary shareholders of \$45.4 million in the year ended December 31, 2011.

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

In March 2010, we acquired the Husahe hydroelectric power project. In June 2010, we acquired the Hengda hydroelectric power project. In August 2010, we completed the acquisition of the Xineng hydroelectric power project. In September 2010, we acquired the Xiaopengzu hydroelectric power project. In December 2010, we acquired Jinling, the owner of the Jinling hydroelectric power project, Jinling's 55.0% controlling interest in Shaowu City Jinlong Hydroelectric Co., Ltd., the owner of the Jinlong hydroelectric power project, Jinling's 74.0% controlling interest in Shaowu City Jintang Hydroelectric Co., Ltd., the owner of the Jintang hydroelectric power project, and Jinling's 74.0% controlling interest in Shaowu City Jinwei Hydroelectric Co., Ltd., the owner of the Jinwei hydroelectric power project. In January 2011, we acquired the remaining 10.0% equity interest in Pingnan County Wangkeng Hydroelectric Co., Ltd. In April 2011, we acquired Dazhaihe hydroelectric power project. In December 2011, we sold Yuanping hydroelectric power project and the disposal date of Yuanping was March 2, 2012, which was the date we lost effective control over Yuanping. The sale transaction was completed on the same date. Our results of operations for the year ended December 31, 2010 primarily reflect the results of operations during the various periods for which Husahe, Hengda, Xineng, Xiaopengzu, Jinling, Jinlong, Jintang and Jinwei hydroelectric power projects were consolidated in our financial statements.

Table of Contents

Our results of operations for the year ended December 31, 2011 reflect the results of operations during the period for which Dazhaihe hydroelectric power project was consolidated in our financial statements, and the results of operations of Husahe, Hengda, Xineng, Xiaopengzu, Jinling, Jinlong, Jintang, Jinwei and Yuanping hydroelectric power projects for the whole year of 2011.

***Revenues, Cost of Revenues and Gross Profit***

Our revenues from continuing operations decreased by \$3.6 million, or 6.2%, to \$54.6 million in the year ended December 31, 2011, compared to revenues from continuing operations of \$58.2 million in the year ended December 31, 2010. The decrease in revenue was primarily attributable to the net effect of (i) a \$4.4 million, or 7.6%, decrease in revenue contributed by projects owned as of December 31, 2010, principally due to the effect of unfavorable hydrological factors in 2011, and (ii) a \$0.8 million revenue contribution by the Dazhaihe hydroelectric project acquired in April 2011.

We sold 1,262.3 million and 1,263.7 million kilowatt hours of electricity in the years ended December 31, 2011 and 2010, respectively. In the year ended December 31, 2011, the electricity sold attributable to existing projects as of December 31, 2010 decreased by 33.9 million kWh, or 2.7%, compared to the year ended December 31, 2010, partially offset by the sale of 32.5 million kWh produced by the Dazhaihe hydroelectric power project acquired in April 2011.

The effective tariff of electricity sold by us in the years ended December 31, 2010 and 2011 was RMB0.34 per kWh and RMB0.30 per kWh, respectively. The effective tariff in the year ended December 31, 2011 was lower than that in the year ended December 31, 2010 because in 2010, 42.8%, 26.7% and 29.2% of the electricity sold and 55.1%, 14.8% and 29.0% of the gross revenue resulted from our hydroelectric power projects located in Zhejiang province, Yunnan province and Fujian province, respectively, where the average effective tariff was RMB0.43, RMB0.19 and RMB0.34 respectively, while in 2011, 30.7%, 40.3% and 27.9% of the electricity sold and 45.7%, 24.8% and 28.5% of the gross revenue resulted from our hydroelectric power projects located in Zhejiang province, Yunnan province and Fujian provinces, respectively, where the average effective tariff was RMB0.45, RMB0.19 and RMB0.31, respectively.

The effective utilization rate for the year ended December 31, 2011 for our hydroelectric power projects located in Sichuan, Yunnan, Zhejiang and Fujian provinces was 12.5%, 34.4%, 23.0% and 28.7% respectively, compared to 15.4%, 41.0%, 32.1% and 49.6%, respectively in 2010. In general, year over year comparisons plus or minus 5% during periods of normal equipment availability are attributed to natural fluctuation in precipitation and water flows. Among the newly acquired projects, the utilization rate of Aluhe, Zilenghe and Latudi hydroelectric power projects are relatively low due to the transmission limitation imposed by the local grid. The decrease of 9.1% and 20.9% in utilization between 2011 for the facilities located in Zhejiang and Fujian, respectively, is attributable to the unfavorable precipitation in these regions in 2011. As a result of the forgoing factors, the effective utilization rate for our entire portfolio of hydroelectric power projects was 28.1% in 2011, compared to 37.6% in 2010.

Our cost of revenues from continuing operations consist primarily of depreciation, salaries and benefits for staff employed at our hydroelectric power projects, water resource fees, water reservoir fund, non-capitalized maintenance and repair expenses, amortization expenses relating to water use rights and other operating costs directly attributable to the production of electricity.

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The total cost of revenues from continuing operations increased by \$8.6 million, or 37.9%, to 31.3 million in the year ended December 31, 2011, compared to \$22.7 million in the year ended December 31, 2010. In the year ended December 31, 2011, the cost of revenue included the costs for twenty four hydroelectric power projects we acquired in previous years and one new acquisition made in April 2011 for Dazhaihe. In 2010, the cost of depreciation and amortization, employee salaries and benefits, and water resource fees accounted for 67.7%, 10.9%, and 6.2%, respectively, of the total cost of revenues, compared to 69.0%, 10.1%, and 3.9%, respectively, in 2011. We expect depreciation to continue to account for a high percentage of our cost of revenues since all our hydroelectric power projects are capital intensive.

As a result of the foregoing factors, our gross profit from continuing operations in the year ended December 31, 2011 was \$23.3 million, a decrease of \$12.2 million from \$35.5 million for the year ended December, 31, 2010. Gross profit margin from continuing operations was 42.7% for the year ended December 31, 2011, compared to 61.0% for the year ended December 31, 2010. The lower gross profit and margin from continuing operations in the year ended December 31, 2011 compared to the prior year were principally attributable to lower revenues from continuing operations due to hydrological conditions and the fixed nature of expenses included in cost of revenues from continuing operations, primarily depreciation expense.

### *Operating Expenses*

Our operating expenses from continuing operations for the years ended December 31, 2010 and 2011 consisted of general and administrative expenses incurred at both the project level and at the corporate level, and principally consist of salaries and benefits, professional fees, non-cash employee stock option expenses, rent, travel expenses, office supplies, acquisition related expenses, and other costs related to the management, expansion of our business and impairment loss on long-lived assets and goodwill for the year ended December 31, 2011. Operating expenses from continuing operations increased by \$32.7 million, or 170.3%, to \$51.9 million in the year ended December 31, 2011, compared to \$19.2 million in the year ended December 31, 2010 for the reasons described below.

Table of Contents

General and administrative expenses from continuing operations incurred at the hydroelectric power project level principally consist of salaries and travel expenses which increased from \$3.2 million in the year ended December 31, 2010 to \$6.3 million in the year ended December 31, 2011, principally attributable to the eight additional projects acquired during 2010 and the one project acquired in April 2011.

General and administrative expenses from continuing operations at the corporate level increased by \$6.6 million from \$16.0 million in the year ended December 31, 2010 to \$22.6 million in the year ended December 31, 2011. This increase resulted from an increase of \$6.9 million in share-based compensation expense, from \$3.6 million in the year ended December 31, 2010 to \$10.5 million in the year ended December 31, 2011, due to the one-time amortization of the remaining share-based compensation cost associated with the stock options granted prior to 2010 in connection to the fair value option exchange program described in Note 27 to the accompanying consolidated financial statements, a decrease of \$1.3 million for employee salaries and benefits and an increase of \$1.0 million for other expenses.

Of the \$22.6 million in corporate level general and administrative expenses in the year ended December 31, 2011, share-based compensation expenses of \$10.5 million accounted for 46.5%, employee salaries and benefits of \$4.8 million accounted for 21.2%, while professional fees of \$3.1 million, including consulting, legal and auditing fees accounted for 13.7%. Other costs, such as travel expenses, lease expenses, acquisition related project expenses, director fees and insurance expenses accounted for the remaining 18.6%. In the year ended December 31, 2010, employee salaries and benefits of \$6.1 million accounted for 38.1% of the corporate general and administrative expenses, while expenses for share-based compensation and professional fee accounted for 22.5% and 18.1%, respectively, of the corporate general and administrative expenses. Other costs, such as travel expenses, lease expenses, acquisition related project expenses, director and insurance expenses, accounted for the remaining 21.3% of the corporate overhead expenses.

In the year ended December 31, 2011, we recorded an impairment loss on long-lived assets of \$11.6 million and an impairment loss on goodwill of \$4.2 million, \$1.1 million and \$6.1 million for Xiaopengzu, Xineng, Jinling and its subsidiaries, respectively, as described above.

In the year ended December 31, 2010, no impairment loss was recognized.

***Operating Profit (Loss)***

Our operating loss from continuing operations was \$28.6 million for the year ended December 31, 2011, compared to operating profit from continuing operations of \$16.3 million for the year ended December 31, 2010, principally as a result of the effect on revenues from significantly lower than average precipitation during 2011 compared to significantly higher than average precipitation during 2010, the fixed nature of our cost of revenue and increased general and administrative expenses, as well as the effect of impairment loss on goodwill and long-lived assets and a one-time write off unamortized share-based compensation expense of \$6.8 million in 2011 for the reasons described above.

***Other Income and Expenses***

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Our interest expense from continuing operations increased by \$10.9 million, or 78.4%, to \$24.8 million in the year ended December 31, 2011, compared to \$13.9 million in the year ended December 31, 2010. The interest on bank loans increased by \$5.3 million to \$18.4 million in the year ended December 31, 2011 compared to \$13.1 million in the year ended December 31, 2010. Interest penalty to original shareholders of acquired subsidiaries increased by \$2.4 million from \$0.1 for the year ended December 31, 2010. Interest on loans from unrelated parties increased by \$2.6 million from nil for the year ended December 31, 2010. Other interest costs, such as accrued interest on unrecognized tax benefits, bank charges, amortization of debt costs accounted for the remaining \$0.6 million increase.

We recorded interest income from continuing operations of \$0.8 million and \$0.1 million in the years ended December 31, 2010 and 2011, respectively. The decrease in interest income was primarily due to a lower average balance of bank deposits in 2011.

We also experienced exchange losses from continuing operations of \$855,000 and \$851,000 for the years ended December 31, 2010 and 2011, respectively. The exchange loss for the year ended December 31, 2011 was due to (i) depreciation of the U.S. dollars that we hold in our PRC subsidiaries against their functional currency, the RMB, and (ii) timing differences between the setting of the RMB purchase price of our acquisitions and our payment for the acquisitions through conversion of U.S. dollars.

### ***Income Tax***

We incurred income tax expenses from continuing operations of \$3.2 million and \$1.5 million in the years ended December 31, 2010 and 2011, respectively. We have adopted an income tax return preparation method principally based on tax invoices issued and received. In accordance with applicable PRC income tax laws and regulations, an income tax return should be prepared based on accounting income following certain tax adjustments. As of December 31, 2011, we have recognized an additional income tax provision of \$2.8 million for unrecognized tax benefits which represent the estimated income tax expense we would pay for the year ended December 31, 2011 if our income tax returns had been prepared in accordance with applicable PRC tax laws and regulations. We also recognized a decrease of unrecognized tax benefits of \$87,000 related to the deduction for prior year tax positions.

Table of Contents

***Noncontrolling Interest***

In the year ended December 31, 2011, we recorded \$9.9 million for the net loss attributable to noncontrolling interests relating to the impairment of Wuyue project, operation loss and goodwill impairment loss of Jinling and its subsidiaries, compared to an income of \$0.2 million for the net income attributable to noncontrolling interests relating to Wangkeng in the year ended December 31, 2010.

***Net Loss from Continuing Operations***

The foregoing factors resulted in a net loss from continuing operations of \$55.0 million in the year ended December 31, 2011, as compared to net loss of \$0.3 million in the year ended December 31, 2010.

***Net (Loss) Income Attributable to Ordinary Shareholders***

In the year ended December 31, 2011, the net loss from continuing operations attributable to ordinary shareholders was \$45.4 million as compared to net income from continuing operations attributable to ordinary shareholders of \$3.7 million in the year ended December 31, 2010.

Table of Contents**Geographic Information**

We manage our business, in part, through the analysis of electricity demand, hydrological conditions and the existing hydroelectric power markets in the different provinces where we operate. For the year ended December 31, 2012, 2011 and 2010, we operated and managed our business as four operating and reportable geographic segments, namely, the Yunnan province segment, the Sichuan province segment, the Zhejiang province segment and the Fujian province segment.

Our segment information, in thousands of U.S. dollars, for the year ended December 31, 2012 is as follows:

	Yunnan Province US\$	Sichuan Province US\$	Zhejiang Province US\$	Fujian Province US\$	Unallocated US\$	Eliminations US\$	Consolidated US\$
Revenues	13,460	598	41,616	29,714			85,388
Cost of revenues	(8,540)	(689)	(16,978)	(13,133)		3,545	(35,795)
General and administrative expenses including share-based compensation expense of US\$166	(2,108)	(269)	(2,569)	(3,413)	(11,989)		(20,348)
Interest income	236	121	838	1,713	3	(2,827)	84
Interest expense	(9,039)	(260)	(10,550)	(10,787)	(247)	2,813	(28,070)
Change in fair value of warrant liabilities					(399)		(399)
Exchange (loss) gain				(1)	29		28
Other (loss) income, net	136	22	(81)	420	3,736	(3,726)	507
Income tax (expense) benefit	72	(5)	(3,831)	(2,480)	(207)		(6,451)
Net (loss) income from continuing operations	(5,783)	(482)	8,445	2,033	(9,074)	(195)	(5,056)
Income from discontinued operations (net of income tax expenses of US\$399)				959		181	1,140
Gain on disposal of discontinued operations (net of income tax expenses of US\$959)					2,767		2,767
Net income for the year from discontinued operation				959	2,767	181	3,907
Net (loss) income	(5,783)	(482)	8,445	2,992	(6,307)	(14)	(1,149)
Net loss attributable to noncontrolling interests				(94)			(94)
Net (loss) income attributable to China Hydroelectric Corporation shareholders	(5,783)	(482)	8,445	2,898	(6,307)	(14)	(1,243)
Total assets	192,843	22,790	344,923	289,702	426,518	(522,460)	754,316
Total liabilities	(131,872)	(8,092)	(145,312)	(129,627)	(27,799)	80,901	(361,801)
Capital expenditures	877	1,384	3,973	1,305	15	(58)	7,496
Depreciation and amortization expenses	5,546	477	10,136	6,767	142		23,068



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Unallocated general and administrative expenses of \$12.0 million for the year ended December 31, 2012 related primarily to various administrative costs associated with supporting the operations of our existing hydropower plants.

Unallocated other income, net for the year ended December 31, 2012 mainly consisted of administrative charges levied by the Beijing corporate operation on our operating subsidiaries.

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## Table of Contents

Our segment information, in thousands of U.S. dollars, for the year ended December 31, 2011 is as follows:

	Yunnan Province US\$	Sichuan Province US\$	Zhejiang Province US\$	Fujian Province US\$	Unallocated US\$	Eliminations US\$	Consolidated US\$
Revenues	13,806	555	25,382	14,854			54,597
Cost of revenues	(8,349)	(568)	(15,034)	(10,874)		3,511	(31,314)
General and administrative expenses including share-based compensation expense of US\$10,479	(1,519)	(86)	(1,148)	(2,276)	(23,867)		(28,896)
Impairment loss on goodwill	(5,260)			(6,128)			(11,388)
Impairment loss on long-lived assets					(11,601)	11	(11,590)
Interest income	180	10	128	1,709	66	(1,992)	101
Interest expense	(8,468)		(8,565)	(9,669)	(73)	2,018	(24,757)
Change in fair value of warrant liabilities					951		951
Exchange loss	(28)			(244)	(579)		(851)
Other (loss) income, net	(285)		(36)	(158)	4,033	(3,888)	(334)
Income tax (expense) benefit	(142)	5	(843)	115	(662)		(1,527)
Net loss from continuing operations	(10,065)	(84)	(116)	(12,671)	(31,732)	(340)	(55,008)
Loss from discontinued operations (net of income tax expenses of US\$101)				(631)		349	(282)
Net loss for the year from discontinued operation				(631)		349	(282)
Net (loss) income	(10,065)	(84)	(116)	(13,302)	(31,732)	9	(55,290)
Net loss attributable to noncontrolling interests				2,546	7,355		9,901
Net (loss) income attributable to China Hydroelectric Corporation shareholders	(10,065)	(84)	(116)	(10,756)	(24,377)	9	(45,389)
Total assets	200,681	15,896	318,616	374,296	421,650	(516,224)	814,915
Total liabilities	(133,670)	(753)	(138,688)	(185,330)	(20,498)	58,902	(420,037)
Capital expenditures	1,763	1,128	3,031	645	970	(5)	7,532
Depreciation and amortization expenses	5,181	344	9,837	6,569	115		22,046

Unallocated general and administrative expenses of \$23.9 million for the year ended December 31, 2011 related primarily to various administrative costs associated with supporting the operations of our existing hydropower plants and the acquisitions completed by us in 2011. Unallocated change in fair value of warrant liabilities related to the fair value valuation of the partial warrant exercised by Vicis Master Fund. Unallocated other income, net for the year ended December 31, 2011 mainly consisted of administrative charges levied by the Beijing corporate operation on our operating subsidiaries.

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## Table of Contents

Our segment information, in thousands of dollars, for the year ended December 31, 2010 is as follows:

	Yunnan Province US\$	Sichuan Province US\$	Zhejiang Province US\$	Fujian Province US\$	Unallocated US\$	Eliminations US\$	Consolidated US\$
Revenues	8,822	660	32,959	15,718	(1)		58,158
Cost of revenues	(4,059)	(597)	(14,414)	(6,002)	1	2,418	(22,653)
General and administrative expenses including share-based compensation expense of US\$3,615	(605)	(148)	(1,319)	(1,054)	(16,040)		(19,166)
Interest income	9	16	8	727	557	(519)	798
Interest expense	(2,945)		(7,493)	(3,887)	(49)	519	(13,855)
Change in fair value of warrant liabilities					365		365
Exchange loss				(452)	(403)		(855)
Other (loss) income, net	(4)	29	(133)	(22)	3,087	(2,791)	166
Income tax expense (benefit)	204	1	(2,138)	(1,192)	(83)		(3,208)
Net income (loss) from continuing operations	1,422	(39)	7,470	3,836	(12,566)	(373)	(250)
Income from discontinued operations (net of income tax expenses of US\$152)				3,862		373	4,235
Net income for the year from discontinued operation				3,862		373	4,235
Net income (loss)	1,422	(39)	7,470	7,698	(12,566)		3,985
Net income attributable to noncontrolling interests				(243)			(243)
Net income (loss) attributable to China Hydroelectric Corporation shareholders	1,422	(39)	7,470	7,455	(12,566)		3,742
Total assets	183,888	14,910	305,927	396,388	435,361	(506,018)	830,456
Total liabilities	(117,138)	(420)	(138,055)	(202,276)	(20,578)	64,994	(413,473)
Capital expenditures	879	569	250	317	1,380		3,395
Depreciation and amortization expenses	2,660	373	9,392	3,153	92		15,670

Unallocated general and administrative expenses of \$16.0 million for the year ended December 31, 2010 related primarily to various administrative costs associated with indirectly supporting the operations of our existing hydropower plants, and the acquisitions completed by us during that year.

## Table of Contents

### **Holding Company Structure**

China Hydroelectric Corporation is a holding company with no material operations of its own, and conducts all operations in China through subsidiaries. As a result, the ability of the holding company to pay dividends and to finance any debt it may incur depends upon dividends paid by its subsidiaries. If its current or future subsidiaries and company incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to the holding company. In addition, the subsidiaries in China are only permitted to pay dividends to us out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under relevant PRC laws and regulations, wholly foreign-owned enterprises in China are required to set aside at least 10% of their after-tax profits each year, if any, to fund the reserve fund unless such reserve fund has reached 50% of their respective registered capital, and set aside a percentage of their after-tax profits to their employee bonus and welfare fund which is decided by the enterprises themselves. Sino-foreign equity joint ventures are required to set aside their reserve fund, enterprise development fund and employee bonus and welfare fund at percentages that are decided by any such entity's board of directors. PRC domestic companies are required to set aside at least 10% of their after-tax profits each year, if any, to fund their respective statutory reserve fund unless such fund has reached 50% of their respective registered capital. Although the statutory reserves can be used to, among other things, increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserves may not be distributed as cash dividends except in the event of liquidation of the companies. See Note 1 to the audited consolidated financial statements included elsewhere in this annual report.

### **Recently Issued Accounting Standards**

In July 2012, the FASB issued ASU No. 2012-02 ( ASU 2012-02 ), *Intangibles - Goodwill and Other* ( Topic 350 ), which is intended to reduce the cost and complexity of performing the impairment test for indefinite-lived intangible assets other than goodwill by providing entities an option to perform a qualitative assessment to determine whether further quantitative impairment testing is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that an indefinite lived intangible asset is impaired, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We are currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In February 2013, the FASB issued ASU No. 2013-02 ( ASU 2013-02 ), *Comprehensive Income* ( Topic 220 ), which is intended to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account (for example, inventory) instead of directly to income or expense in the same reporting period. This standard is effective for fiscal years beginning after December 15, 2012, with early adoption permitted. We are currently evaluating the impact on its consolidated financial statements of adopting this guidance.

### **B. Liquidity and Capital Resources**

As of December 31, 2012, we had a working capital deficiency of approximately \$81.0 million. Due to our working capital deficiency, our independent registered public accountant has stated in its report dated April 18, 2013 with respect to our financial statements as of and for the year ended December 31, 2012 that these circumstances raise substantial doubt about our ability to continue as a going concern. We regularly raise funds through various means, such as new borrowings from banks and other non-financial institutions. New borrowings are used for

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multiple purposes, such as daily operating liquidity, to fund new projects or acquisitions, and to refinance existing short-term loans into longer-term debt. Over the course of 2012, we reduced the working capital deficiency by 42% to \$81.0 million as of December 31, 2012, from \$138.7 million as of December 31, 2011. In 2012, we raised \$121.8 million through borrowings from banks and other institutions. In addition, we generated consideration of RMB 279.0 million (\$44.3 million) by entering a Share Transfer Agreement with a third party to sell Yuheng, a 30 megawatt project located in Fujian province. The consideration includes assumption of debt by the purchaser. Improvements in cash flow improved during 2012 are also due to the favorable revenue effect of above-average precipitation, and the cost reduction efforts initiated in the fourth quarter of 2012.

Investors should still expect us to have a working capital deficit in the foreseeable future, due to the use of leverage to finance the construction and acquisition of hydroelectric projects.

Historically, we have relied on the ready availability of credit in China to fund its operations and expansion. Commencing in 2011 and extending into early 2012, our ability to obtain financing from its principal lenders in China was constrained by restrictions on bank lending imposed by the PRC central government in an effort to contain inflation. We are currently in various stages of negotiations with a number of financial institutions that could provide refinancing packages to extend the duration of our debt obligations.

Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. Management remains confident in our ability to secure capital in order to fund our liquidity needs, debt obligations and growth plans, but obtaining financing cannot be guaranteed. In the event that we fail to raise funds sufficient to meet our liquidity needs, we may be forced to substantially curtail our operations or otherwise take measures that would materially and adversely affect our current operations and business prospects.

Table of Contents**Our Consolidated Cash Flow**

Our operations have primarily been financed by cash flows from operating activities and long-term and short-term loans, issuance of shares upon partial exercise of warrants by Vicis Capital Master Fund and the sale of certain assets, as well as by our initial public offering in January 2010. Our long-term and short-term loans outstanding as of December 31, 2012 were \$248.5 million and \$21.7 million, respectively. Our short-term and long-term loans are typically secured by pledges of the property, plant and equipment and future electricity sales of the respective entities and/or guaranteed by third parties and with principal repayment date between 2013 and 2027. The interest rates on these short-term and long-term loans are variable based on the benchmark rate published by the People's Bank of China each year. The average interest rates on the short-term and long-term loans for 2012 were 9.8% and 7.0%, respectively. For detailed informations, please see Note 15 to the Financial Statement Borrowings .

We do not present cash flows from discontinued operations separately and believes that a quantification of the cash flows from discontinued operations is not necessary because such cash flows were of immaterial amount. The absence of cash flows from discontinued operations may have a marginally negative effect on future liquidity and capital resources. In 2010, cash and cash equivalents increased by \$1.8 million to \$33.5 million, primarily due to \$103.6 million used in investing activities partly offset by \$62.4 million provided by financing activities and \$43.1 million provided by operating activities, and \$0.1 million as effect of changes in exchange rate on cash and cash equivalent. In 2011, cash and cash equivalents decreased by \$25.1 million to \$8.4 million, primarily due to \$24.7 million used in investing activities and \$2.0 million used in financing activities and offset by \$1.6 million provided by operating activities and \$76,000 due to changes in exchange rate on cash and cash equivalent. In 2012, cash and cash equivalents decrease by \$0.4 million to \$8.0 million, primarily due to \$2.8 million used in investing activities and \$20.4 million used in financing activities and offset by \$22.7 million provided by operating activities and \$11,000 due to changes in exchange rate on cash and cash equivalent.

The following table sets forth the components of our consolidated cash flows for the periods indicated:

	For the Year Ended December 31,		
	2010	2011	2012
Net cash provided by operating activities	43,122	1,644	22,700
Net cash used in investing activities	(103,606)	(24,734)	(2,784)
Net cash provided by (used in) financing activities	62,444	(2,041)	(20,362)
Effect of changes in exchange rate on cash	(121)	76	11
Net increase (decrease) in cash and cash equivalents	1,839	(25,055)	(435)

***Operating Activities***

Net cash provided by operating activities was \$22.7 million in 2012, which was primarily attributable to a net loss of \$1.1 million, and the add-back of non-cash expenses, including depreciation expenses of \$22.4 million, amortization expenses of \$1.4 million, share-based compensation expenses of \$0.2 million, deferred income taxes and loss from disposal of property, plant and equipment and others of \$1.3 million, offset by the gain from disposal of subsidiaries of \$2.8 million. Also, a decrease in account receivables of \$1.8 million, a decrease in notes receivable of \$1.9 million, and a decrease in prepayments and other current assets of \$0.5 million, an increase in other non-current assets of \$0.8 million, an increase in other non-current liabilities of \$6.6 million and a decrease in accrued expenses and other current liabilities of \$1.5 million are factors contributing to the overall cash provided by operating activities for the year ended December 31, 2012.

Net cash provided by operating activities was \$1.6 million in 2011, which was primarily attributable to a net loss of \$55.3 million, and the add-back of non-cash expenses, including depreciation expenses of \$22.0 million, share-based compensation expenses of \$10.5 million, assets impairment of \$23.0 million, provision for impairment allowance of \$2.0 million, deferred income taxes and loss from disposal of property, plant and equipment and others of \$1.2 million. Also, an increase in account receivable of \$0.2 million, and an increase in prepayments and other current assets of \$0.3 million, a decrease in other non-current assets of \$0.3 million, and a decrease in accrued expenses and other current liabilities of \$1.9 million are factors contributing to the overall cash provided by operating activities for the year ended December 31, 2011.

Net cash provided by operating activities was \$43.1 million in 2010, which was primarily attributable to a net gain of \$4.0 million, and the add-back of non-cash expenses, including depreciation expenses of \$15.8 million, share-based compensation expenses of \$3.6 million. Also, an increase in account receivable of \$5.4 million, and an increase in prepayments and other current assets of \$3.7 million, a decrease in other non-current assets of \$0.1 million, an increase in accounts payable of \$0.7 million and an increase in accrued expenses and other current liabilities of \$10.1 million are factors contributing to the overall cash provided by operating activities for the year ended December 31, 2010.

Table of Contents

***Investing Activities***

Net cash used in investing activities was \$2.8 million in the year ended December 31, 2012, relating principally to proceeds from the disposal of Yuanping and Yuheng of \$20.2 million, payment for the acquisitions of \$8.9 million, construction payments to contractors of \$6.9 million, purchase of property, plant and equipment and intangible assets of \$7.1 million, loan payment to a related party of \$86,000 and proceeds from disposal of property, plant and equipment of \$35,000.

Net cash used in investing activities was \$24.7 million in the year ended December 31, 2011, relating principally to purchase consideration of \$19.3 million in relation to the acquisition of Dazhaihe, cash deposit for potential acquisition of \$0.7 million, construction payments to contractors of \$3.3 million, purchase of property, plant and equipment and intangible assets of \$1.5 million and proceeds from disposal of property, plant and equipment of \$0.1 million.

Net cash used in investing activities was \$103.6 million in the year ended December 31, 2010, relating principally to purchase consideration of \$43.2 million in relation to the acquisition of subsidiaries including Wuyue, Husahe, Hengda, Xineng, Xiaopengzu, Jinling, Jintang, Jinlong and Jinwei, cash advancement to an acquired business prior to the acquisition date of \$43.5 million, cash deposit for potential acquisition of \$9.5 million, construction payments to contractors of \$4.2 million, purchase of property, plant and equipment of \$2.9 million and acquisition of land use rights of \$0.2 million.

***Financing Activities***

Net cash used in financing activities was \$20.4 million in the year ended December 31, 2012, resulting from proceeds of \$72.9 million from long-term loans, \$28.1 million from short-term loans, \$20.2 from third parties and \$0.6 million from related parties, repayment of long-term loans of \$70.0 million, short-term loans of \$28.1 million, other loans of \$38.1 million, loans of related parties of \$0.1 million, restricted cash of 5.2 million and payment of debt issuance costs of \$0.7 million.

Net cash used in financing activities was \$2.0 million in the year ended December 31, 2011, resulting from proceeds of \$45.8 million from long-term loans, \$23.1 million from short-term loans, related party of \$1.3 million, \$10.0 million received from the partial warrant exercise by Vicis Capital Master Fund, and other loans of \$17.5, repayment of long-term loans of \$67.0 million, short-term loans of \$20.9 million, other loans of \$10.6 million and a purchase of subsidiary shares from noncontrolling interests of \$1.2 million.

Net cash provided by financing activities was \$62.4 million in the year ended December 31, 2010, resulting from proceeds of \$23.8 million from long-term loans, proceeds of \$8.3 million from short-term loans, proceeds of loans from related party of \$2.2 million, and net proceed of \$96.0 million received from initial public offering, partially offset by Payment of deferred initial public offering costs of \$10.0 million, repayment of long-term loans of \$50.7 million, repayment of short-term loans of \$7.2 million.

**Capital Expenditures**



In the year ended December 31, 2010, we incurred capital expenditures of \$3.4 million consisting primarily of capital expenditures of \$0.7 million, \$0.6 million, and \$1.4 million for the construction of the Binglangjiang II, Liyuan and Wuyue hydroelectric power projects, respectively. In the year ended December 31, 2011, we incurred capital expenditures of \$7.5 million, consisting primarily of capital expenditures of \$1.5 million, \$1.1 million, and \$2.9 million for the construction of the Binglangjiang II, Liyuan and Zhougongyuan, respectively. In the year ended December 31, 2012, we incurred capital expenditures of \$7.5 million consisting primarily of capital expenditures of \$1.1 million for the construction of Wangkeng, \$1.4 million, 1.4 million, and 1.4 million for Liyuan, Wuliting and Zhougongyuan, respectively. We will in the future make significant capital expenditures to develop, expand and complete the construction of additional small hydropower assets and our pumped storage hydroelectric power project. We generally deposit our excess cash in interest-bearing bank accounts in banks in China, Hong Kong and the United States of America.

During the last four years, while the first quarter has been the most volatile quarter in terms of precipitation, it is typically ranked third in terms of electricity production. While each quarter makes a contribution to revenues, the first and fourth quarters contribute less revenue than second and third quarters. Thus far in the first quarter, general precipitation levels for us are below long-term averages. Compared to in 2012, electricity production in the first quarter is lower, but in line with our expectations. We still need additional cash from sources other than tariffs required to meet our expected cash requirements, including for working capital and capital expenditure purposes, for at least the next 12 months. We may seek to sell additional assets which have a ready market and interested buyers in the market, equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders' interests. The incurrence of debt would divert cash for working capital and capital expenditures to servicing debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may be adversely affected. See **Risk Factors**. We will need additional funding to accomplish our growth strategy and may be unable to raise capital on terms favorable to us or at all, which could increase our financing costs, dilute your ownership interests, affect our business operations or force us to delay, reduce or abandon our growth strategy.

Table of Contents**C. Research and Development**

Not applicable.

**D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2012 that are reasonably likely to have a material adverse effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**E. Off-Balance Sheet Arrangements**

We have not entered into any material outstanding financial guarantees or other commitments to guarantee the payment of obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

**F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our contractual obligations as of December 31, 2012:

	<b>Total</b>	<b>Within 1 Year</b>	<b>Payment Due by Period 1-3 Years (unaudited) (US\$ in thousands)</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>
Short-term borrowings(1)	21,676	21,676			
Interest on short-term borrowings(1)	1,492	1,492			
Long-term borrowings (including current portion of long-term borrowings)(1)	248,506	35,536	67,394	58,520	87,056
Interest on long-term borrowings (including interest on current portion of long-term borrowings)(1)	75,200	16,045	24,611	16,043	18,501
Operating lease commitment	409	406	3		

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Other commitments(3)	6,316	105	506	170	5,535
Purchase obligations(2)	41	41			
<b>Total</b>	<b>353,640</b>	<b>75,301</b>	<b>92,514</b>	<b>74,733</b>	<b>111,092</b>

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(1) See Note 15 to our audited consolidated financial statements, which are included elsewhere in this annual report, for a discussion of our short- term and long-term borrowings.

(2) This represents contracted but unpaid amounts for the purchase of property, plant and equipment of Husahe, Ruiyang, Yingchuan, Zhougongyuan and Banzhu

(3) This represents the compensation agreements signed with certain land owners in the Fujian Province, the PRC, who lost the usage of their land due to the operation of our hydroelectric power projects in the areas.

### G. Safe Harbor

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act and as defined in the Private Securities Litigation Reform Act of 1995. See Introduction Special Note Regarding Forward-Looking Statements.

Table of Contents**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and Senior Management**

The following table sets forth information regarding our directors and executive officers.

<b>Name</b>	<b>Age</b>	<b>Position/Title</b>
Amit Gupta	36	Chairman, Director
Moonkyung Kim	39	Director
Jui Kian Lim	41	Director
Shadron Lee Stastney	43	Director
Dr. You-Su Lin	59	Director, Interim CEO, Chairman of Beijing A.B.C. Investment
Yun Pun (Felix) Wong	47	Director
Liya Chen	40	Chief Financial Officer
Wu Gan	55	Vice Chairman of Beijing A.B.C. Investment

Unless otherwise indicated, the business address of each director and executive officer is c/o Bldg A#2105, Ping An International Financial Center, No.3 Xinyuan South Road, Chao Yang District, Beijing, PRC 100027.

A description of the business experience and present position of each director and executive officer is provided below:

***Directors***

*Mr. Amit Gupta* has been our chairman since October 2012 and a director and interim corporate secretary of our company since September 2012. Mr. Gupta is a co-founder and partner at NewQuest Capital Advisors (HK) Limited. Mr. Gupta heads the India business for the NewQuest Capital Partners group and overseas investments in power and financial services sector. He is also the Chief Operating Officer of the NewQuest Capital Partners group. Mr. Gupta has about 13 years of industry experience. Mr. Gupta is currently a member of the Board and Audit Committee of OM Logistics Limited, Ittiam Systems Private Limited and several other group and investee companies of NewQuest Capital Partners group including CPI Ballpark Investments Ltd. Prior to co-founding the NewQuest Capital Partners group, he was a Director at Bank of America Merrill Lynch's (BAML) Asia Private Equity group where he led the India business and oversaw investments in the energy and financial services sectors across Asia Pacific. Mr. Gupta has also served in other roles in BAML, including the Corporate Principal Investments team in Hong Kong and the Investment Banking team in Mumbai. Prior to working at BAML, he worked as a software engineer based in Mumbai and the USA. Mr. Gupta has an MBA from Indian Institute of Management (IIM), Bangalore India (placed in Director's Merit List) and an undergraduate degree in electrical engineering from Regional Engineering College (REC) Kurukshetra India (University Gold Medal).

*Ms. Moonkyung (Moon) Kim* has been a director of our company since September 2012. She is the Founder and Managing Director of Peony Investments (Hong Kong) Limited, providing investment, advisory, and board leadership to green businesses. She is also Cleantech Venture

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Partner of Spring Capital, a Greater China-focused early growth equity investment fund, and Senior Advisor to SOW Asia Foundation, a not-for-profit venture philanthropic organization in Hong Kong. Ms. Kim has over 15 years of experience in the energy and environmental sectors serving in roles ranging from venture capital and growth equity investment to entrepreneurship, investment banking, strategic consulting, and engineering. From 2007 to 2010, she was head of Asia cleantech growth equity investments at Nomura's principal investing group based in Hong Kong. Ms. Kim was a member of the board of directors of Moser Baer Solar, a solar photovoltaic company in Delhi, from 2008 to 2010. Prior to joining Nomura, she was with DFJ Element Ventures, a cleantech-focused venture capital fund based in Silicon Valley, and before that she was with the energy and utilities group of Booz Allen Hamilton, a global strategy consulting firm. Ms. Kim received a Master of Business Administration degree from the Wharton School of the University of Pennsylvania and a Bachelor of Science with honors in Environmental Engineering from Harvard University.

*Mr. Jui Kian Lim* has been a director of our company since September 2012. He is the Managing Director and Head of Asia Environment Group for FourWinds Capital Management (HK) Limited. He joined FourWinds Capital Management (HK) Limited in February 2008. Mr. Lim has more than 17 years of experience in the Asian infrastructure and environment sectors. He began his career in equity research in 1994 with Morgan Grenfell/Deutsche Securities and later, Peregrine Securities covering infrastructure, construction and building materials sector in Malaysia, Thailand and Singapore. In 1998, he joined Veolia Water Asia-Pacific's Project Finance Department where he spent eight years helping Veolia Water Asia-Pacific build its Asian franchise and worked on acquisitions, joint-ventures, privatizations and project financing transactions across the region. In 2006, Mr. Lim joined JPMorgan Chase's investment banking department to focus on client advisory services in the infrastructure and environment sectors. A Chevening Scholar, Mr. Lim earned his MSc (Economics) from the London School of Economics in 1994.

*Mr. Shadron Lee Stastney* has been a director of our company since October 2012, and previously served as a director of our company from May 2007 to September 2012. Mr. Stastney is the Chairman of Care Media and a member of the board of directors of China Board Mill Corporation, China Silicon Corporation, China New Energy Group Company, China Natural Energy Corporation, Quality Health Plans, MDwerks, the Amacore Group, Inc., Master Silicon Carbide Industries, Inc. and Ambient Corporation. Since June 2004, Mr. Stastney has been a partner at Vicis Capital, LLC, which is an investment management firm and the managing partner of one of our principal shareholders, Vicis Capital Master Fund. From September 2001 to February 2004, Mr. Stastney was a partner of Vicis Capital Management, an investment management firm. Mr. Stastney received his Bachelor of Arts degree from the University of North Dakota and a Juris Doctor degree from the Yale Law School.

Table of Contents

*Dr. You-Su Lin* has been our interim chief executive officer since October 2012, a director of our company since August 2008 and chairman of the board of Beijing A.B.C. Investment since 2007. Dr. Lin has also been the chairman of China Board Mill Corporation since August 2008. Dr. Lin was a chief consultant for Beijing Urban Construction Group Co., Ltd. in charge of the construction of 2008 Olympic venues from 2002 to 2004. Dr. Lin received his Ph.D. in the Arts and master's degree in the Arts from Australian National University and his bachelor's degree in the Arts from Beijing Foreign Language University.

*Mr. Yun Pun (Felix) Wong* has been a director of our company since September 2012. He is the CFO and Executive Director of Tsing Capital, a venture capital firm which manages China Environment Fund III, L.P. Prior to his current role, Mr. Wong has also served as the CFO and Senior Director of Spring Capital, the CFO of Natixis Private Equity Asia and Associate Director of Finance for JAFCO Asia. Mr. Wong has additionally served in the finance departments of several multinational companies and as an auditor for PricewaterhouseCoopers. Mr. Wong graduated from the Hong Kong Polytechnic University and holds a Master of Business from the Curtin University, Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants.

**Officers**

*Ms. Liya Chen* joined our company in August 2011 and has been appointed the CFO since then. Prior to joining us, Ms. Chen was a Financial Controller for Pharmaron (Beijing) New Drugs Technology Company Ltd. From 2003 to 2010, she was an audit manager in the Energy and Utility Assurance Service Group of PricewaterhouseCoopers. Ms. Chen started her career in PwC's Canada firm as an associate and worked there for over three years. Ms. Chen is a Canadian Chartered Accountant (CICA) and HKCPA. Ms. Chen received her Master of Accountancy degree from Brock University, Canada in 2003.

*Mr. Wu Gan* has been the vice chairman of Beijing A.B.C. Investment since January 2011 and was the general manager of Beijing A.B.C. Investment from July 2008 to December 2010. Mr. Gan was the director of the general office of the State Supervision Work Committee of the Communist Party of China from 2002 to 2008. Mr. Gan received his bachelor's degree in Engineering from the Yellow River Water Conservancy and Hydroelectric Technology School and his master's degree in Economics from Harbin Institute of Technology.

**B. Compensation**

**Compensation of Directors and Executive Officers**

The aggregate cash compensation that we paid to our directors and executive officer for the year ended December 31, 2012 was \$2.87 million, including those who left during 2012, was \$1.51 million. From 2009 to 2010, we established 401(k) safe harbor plan, which requires a dollar by dollar matching contribution from the employer up to 3% of the employee's eligible annual salary. In 2010 we introduced 401 (k) profit sharing plan, which allows us to contribute up to 25.0% of the employees' eligible annual salary. For the year ended December 31, 2012 we contributed \$0.1 million to our 401(k) retirement plan. In 2010, our company established a defined benefit plan for certain executives, which is a type of pension plan in which we promise a specified monthly benefit on retirement for certain executives that is predetermined by a formula based on the employee's earnings history, tenure of service, age, and present value factor. For the year ended December 31, 2012 we contributed \$0.1 million to the defined benefit plan. For share-based compensation, see 2008 Share Incentive Plan.

## **2008 Share Incentive Plan**

The China Hydroelectric Corporation 2008 Share Incentive Plan, or the 2008 Plan, allows our company to grant options, share appreciation rights, share awards, phantom awards and other equity-based or cash-based awards to employees, consultants, and other individuals providing services to our company, including our directors. The maximum aggregate number of ordinary shares that may be issued under the 2008 Plan is 12,000,000 ordinary shares. The purpose of the 2008 Plan is to promote long-term growth and profitability of our company by (i) providing key people with incentives to improve shareholder value and to contribute to the growth and financial success of our company through their future services, and (ii) enabling our company to attract, retain and reward the best-available persons.

The 2008 Plan administrator, which may be our board of directors or its authorized designee, has full power and authority to administer, construe and interpret the 2008 Plan. Grants under the 2008 Plan will be governed by individualized grant agreements and stock restriction agreements and may be subject to either time-based or performance-based vesting provisions. Separate form grant agreements have been drafted for employees in China to comply with certain registration, reporting and tax rules.

The only awards that have been granted pursuant to the 2008 Share Incentive Plan are stock options.

Table of Contents

*Share Options.* The exercise price of incentive share options must be at least equal to the fair market value of our ordinary shares on the date of grant. However, the exercise price of all other options may be as determined by the administrator. The term of an incentive stock option may not exceed ten years from the date the 2008 Plan is adopted by our board of directors or the date that is approved by the shareholders. The administrator determines the term of all other options. After termination of an employee, director or consultant, he or she may exercise his or her options for the period of time stated in the option agreement. Generally, if termination is due to death or disability, the option will remain exercisable for twelve months. In all other cases, the option will generally remain exercisable for thirty days. However, an option generally may not be exercised later than the expiration of its term. We grant awards with exercise prices at or above fair market value. In pricing awards under the plan, the administrator has considered the share purchase price negotiated with independent third parties in recently completed equity financings, as well as the progress of the company in developing its business since the time of those financings.

*Share Appreciation Rights.* Share appreciation rights allow the recipient to receive the appreciation in the fair market value of our ordinary shares between the date of grant and the exercise date. The exercise price of share appreciation rights granted under our plan may be as determined by the administrator.

*Share Awards.* Share awards relate to the grant of restricted or unrestricted share awards to eligible participants in such amounts, on such terms and conditions, and for such consideration, including no consideration or such minimum consideration as may be required by law as the administrator may from time to time determine.

*Phantom Shares.* Phantom shares are share-equivalent units granted to a participant that is credited to a bookkeeping reserve account solely for SEC reporting purposes and shall not require a segregation of any of our assets. Such shares are granted from time to time as the administrator may determine.

*Amendment and Termination.* Our 2008 Plan will automatically terminate in 2018, unless we terminate it sooner. Our board of directors has the authority to amend, alter, suspend or terminate the 2008 Plan.

Our board of directors granted stock options to purchase 3,897,000 ordinary shares in August 2008, of which the options granted to one employee to purchase 5,000 ordinary shares expired as the employee terminated his services to us before the option became exercisable, stock options to purchase 35,000 ordinary shares in January 2009 and subsequently stock options to purchase 7,000,000 ordinary shares in December 2009 under the 2008 Plan to our executive officers, directors, employees and consultants. The options granted in December 2008 and January 2009 to our executive officers, employees and consultants have an exercise price of \$7.70 per share and will vest in a three-year period, with one-third vesting each year, and a term of five years. The options granted in December 2009 have an exercise price equal to the price of the ordinary shares underlying the ADSs sold in the IPO and will vest in a four-year period, with one-fourth vesting each year, and a term of five years. The 40,000 options granted to our non-executive directors, Shadron Lee Stastney, and three non-executive directors who have resigned from our board, Richard H. Hochman, Robert W. MacDonald and Dennis Galgano, have an exercise price of \$7.70 per share, and will vest, or did vest, 100% on the first anniversary of the grant date or upon the resignation or removal of such director from our board.

In December 2011, the board authorized a stock option exchange program, under which (i) employees would be given the option to voluntarily forfeit their existing stock options, (ii) any cancelled shares resulting from stock options forfeited would be added back to the option share pool to be used to make future grants, (iii) new stock options would be granted to deliver the same current expected value as the forfeited option grants, but at a reduced exercise price of \$0.46 per option share (which was the equivalent to one third of the 25 day trailing average closing



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price of our ADSs as of the close of business on December 21, 2011), which reduced exercise price shall in no event be less than the fair market value on the date of the grant; and (iv) the new options issued under the exchange program would expire on the fifth anniversary of the grant, (v) the new options should become exercisable immediately upon grant; and (vi) the 40,000 options granted to our non-executive directors and 50,000 options granted to a former consultant were excluded on this exchange program.

On May 1, 2012, the Board approved the grant of 9,979,998 share options to the employees and non-employee consultant at exercise prices of US\$0.62 with a contractual life of five years. On December 1, 2012, the Board approved the grant of 600,000 share options to our new employee at exercise prices of US\$0.72 with a contractual life of five years. Subject to the terms and conditions described in the option agreement, the options with exercise price of US\$0.62 become exercisable for (i) 50% of the number of shares covered by the options on the first anniversary of the grant date and (ii) 25% of the number of shares covered by the options on each of the second and third anniversaries of the grant date; the options with exercise price of US\$0.72 become exercisable for (i) 25% of the number of shares covered by the options on May 31, 2013 and (ii) 25% of the number of shares covered by the options on each of the first, second and third anniversaries of Dec 1, 2012. During the year ended December 31, 2012, four employees terminated their employment relationship with us and their unvested 7,238,217 share options were forfeited.

As of the date of this annual report, the maximum number of ordinary shares that may be issued pursuant to all awards under the 2008 Share Incentive Plan is 12,000,000 and options to purchase 3,352,201 ordinary shares are outstanding under the 2008 Share Incentive Plan.

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### Table of Contents

The following table sets forth information on share options that have been granted and are outstanding as of the date of this annual report under the 2008 Share Incentive Plan, reflecting the participation of the stock option exchange program described above by certain of our employees:

Name	Ordinary Shares Underlying Exercisable Options	Exercise Price (\$/Share)	Grant Date	Expiration Date
Dr. You-Su Lin	101,507	0.46	December 28, 2011	December 28, 2016
Shadron Lee Stastney	10,000	7.70	August 18, 2008	August 18, 2013
Other employees and consultants as a group	18,913	0.46	December 28, 2011	December 28, 2016
Former consultant	50,000	7.70	August 18, 2008	August 18, 2013
Former directors	30,000	7.70	August 18, 2008	August 18, 2013
Total	210,420			

Name	Ordinary Shares Underlying Unvested Options	Exercise Price (\$/Share)	Grant Date	Expiration Date
Dr. You-Su Lin	2,221,781	0.62	May 1, 2012	May 1, 2017
Other employees and consultants as a group	320,000	0.62	May 1, 2012	May 1, 2017
New employee	600,000	0.72	Dec 1, 2012	Dec 1, 2017
Total	3,141,781			

### **Compensation Expenses Relating to Stock Option Grants**

The administrator, which is the board of directors or its authorized designee, has full power and authority to administer, construe and interpret the 2008 Plan. Under the terms of the 2008 Plan, incentive stock options must be granted at exercise prices at least equal to the fair market value on the date of grant. On August 18, 2008, the board of directors approved the grant of 40,000, 260,000 and 3,597,000 non-qualified stock options to certain directors, non-employees and employees, respectively, at an exercise price of \$7.70 per share. On January 20, 2009, our board of directors approved the grant of 35,000 non-qualified stock options to certain employees at an exercise price of \$7.70 per share. On March 4, 2009, the board of directors passed a resolution to modify the 2008 Plan such that the 2008 Plan could be made effective without approval by our shareholders. In accordance with ASC sub- topic 718-10, *Compensation Stock Compensation: Overall*, the grant date for the share-based awards issued on August 18, 2008 and January 20, 2009 was March 4, 2009. Accordingly, no compensation expense was recognized for the year ended December 31, 2008. We recognized compensation expense of \$0.6 million for the year ended December 31, 2009. See Note 27 to our audited consolidated financial statements included elsewhere in this annual report.

On December 3, 2009, our board of directors approved the grant of 7,000,000 share options to certain of directors, officers and employees at an exercise price equal to the price at which the ordinary shares underlying the ADSs are sold in our IPO; provided that the options shall expire in the event that we do not consummate our initial public offering within six months of the approval date. Since the exercise price was not known until the initial public offering was priced on January 25, 2010, the accounting grant date for the share-based awards issued on December 3, 2009 was not established as of December 31, 2009. As such, no compensation expense related to the December 3, 2009 grant was recognized in 2009.

On December 22, 2011, the board of directors approved a stock option for stock option exchange program for the employees and consultants who were holding options, at a reduced exercise price of \$0.46 per share and vested immediately on December 28, 2011. As such, the remaining option expenses of \$6.8 million for the existing options were expensed immediately at the time of the exchange.

Table of Contents

On May 1, 2012, the Board approved the grant of 9,979,998 share options to the employees and non-employee consultant at exercise prices of US\$0.62 with a contractual life of five years. On December 1, 2012, the Board approved the grant of 600,000 share options to our new employee at exercise prices of US\$0.72 with a contractual life of five years. Subject to the terms and conditions described in the option agreement, the options with exercise price of US\$0.62 become exercisable for (i) 50% of the number of shares covered by the options on the first anniversary of the grant date and (ii) 25% of the number of shares covered by the options on each of the second and third anniversaries of the grant date; the options with exercise price of US\$0.72 become exercisable for (i) 25% of the number of shares covered by the options on May 31, 2013 and (ii) 25% of the number of shares covered by the options on each of the first, second and third anniversaries of Dec 1, 2012. See Note 27 to our audited consolidated financial statements included elsewhere in this annual report. We recognized compensation expense of \$0.2 million for the year ended December 31, 2012.

**Employment Agreements with Executive Officers**

We have entered into employment agreements with each of our executive officers.

Under the agreements with Dr. You-Su Lin and Wu Gan, we may terminate an executive officer's employment for cause, with thirty days advance written notice and an opportunity to cure, for certain acts of such officer including but not limited to a conviction of a felony or crime involving moral turpitude, willful failure to perform the officer's responsibilities in our best interests, or breach of any provision of any employment, non-disclosure, non-competition, non-solicitation or other similar agreement executed by the officer for our benefit.

We may also terminate our employment agreements with these executive officers without cause upon thirty calendar days' advance written notice. Under the employment agreement with Mr. Gan, in such case of termination by us, and also in a case where an officer voluntarily terminates his/her employment with us upon thirty-days' advance written notice for good reason (except in the event of a qualifying termination during certain change in control periods), we shall continue to provide the officer with his/her base salary and health and welfare benefits for a period of twelve full months. Further, we shall pay the officer all other benefits to which the officer has a vested right at the time, according to the provisions of each governing plan or program. Under the employment agreement with Dr. Lin, in both cases of termination by us for cause or without cause upon thirty calendar days' advance written notice, such officers will be entitled to any base salary, bonus and incentive payment that has accrued under the agreement but has not been paid on or before the termination date and any reimbursement due to the officer under the agreement for expenses incurred by the officer on or before the termination date. In the event of constructive termination or termination of the employment agreement by the company without cause, under the employment agreements with Mr. Gan and Dr. Lin, such officers shall be entitled to receive an amount equal to 100% of his annualized salary as in effect on the severance date.

In addition, the employment agreement with Mr. Gan contains clauses of non-competition, non-solicitation, confidential information and work product agreements. According to these clauses, Mr. Gan should be bound by (i) non-competition restrictions during his employment and for three years after the termination of his employment, (ii) confidential information restrictions during his employment and for a period of three years thereafter and (iii) non-solicitation restrictions during the non-competition period.

Dr. Lin entered into a letter agreement with us, which contains, among others, confidentiality, non-competition and non-solicitation provisions.

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We have also entered into employment agreements with Liya Chen and certain other employees. Each of these employment agreements can be terminated under circumstances stipulated under the PRC Labor Contract Law and refers to confidentiality obligations provided under the PRC Labor Contract Law.

### **C. Board Practices**

Our board of directors currently has six directors. Our board has determined that Mr. Amit Gupta, Mr. Yun Pun (Felix) Wong, Ms. Moonkyung Kim, Mr. Jui Kian Lim, and Mr. Shadron Lee Stastney are independent directors under NYSE rules.

### **Terms of Directors and Executive Officers**

Our directors are divided into three classes and are subject to a term of office of three years and shall automatically retire from office (unless vacated sooner) on the expiry of such term, unless appointed for an additional term. Directors may be removed from office by an ordinary resolution of the shareholders. A director will be removed from office automatically if, among other things, the director becomes bankrupt or makes any arrangement or composition with his creditors, or dies or is found by our company to be or to have become of unsound mind. Our officers are appointed by and serve at the discretion of our board of directors.

### **Committees of the Board of Directors**

Our board of directors has established an audit committee, a compensation committee and the corporate governance and nominating committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Table of Contents

***Audit Committee***

Our audit committee consists of Mr. Wong, Ms. Kim and Mr. Lim, each of whom we believe satisfies the independence requirements under current NYSE rules and Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Mr. Wong acts as the chairman of our audit committee. Our board of directors has determined that Mr. Wong qualifies as an audit committee financial expert under applicable SEC rules. The audit committee oversees our accounting and financial reporting processes and audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, which term refers to transactions that would be required to be disclosed pursuant to Item 7B of Form 20-F, regardless of the dollar amount involved in such transactions;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter; and
- meeting separately and periodically with management and the independent auditors.

***Compensation Committee***

Our compensation committee consists of Mr. Gupta and Mr. Stastney. Mr. Gupta acts as the chairman of our compensation committee. Our board has determined that both Mr. Gupta and Mr. Stastney qualify as an independent director of our company within the meaning of the current NYSE rules. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. The compensation committee is responsible for, among other things:

- reviewing and approving the total compensation package for our three most senior executives;
- reviewing and recommending to the board of directors with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

#### ***Corporate Governance and Nominating Committee***

Our corporate governance and nominating committee consists of Ms. Kim, Mr. Gupta and Mr. Lim, each of whom satisfies the independence requirements under current NYSE rules. Ms. Kim acts as the chairperson of our corporate governance and nominating committee. The corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending qualified candidates as director nominees for selection of directors, nominees for election to the board of directors, or for appointment to fill any vacancy;
- reviewing annually with the board of directors the current composition of the board of directors with regards to characteristics such as independence, age, skills, experience and availability of service to us;
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

#### **Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess with the care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our Amended and Restated Memorandum and Articles of Association. We have the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

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- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.



Table of Contents

**Interested Transactions**

Under our code of ethics, in the event that our board of directors considers entering into a transaction which would produce a conflict of interest, interested directors must abstain from any discussion of or vote on such transaction.

**Remuneration**

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. Our directors are not entitled to any post-termination benefits.

**Power to Obligate our Company**

The directors may exercise all the powers of our company to raise or borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled capital, and to issue debentures, bonds or other securities whether outright or as collateral security for any debt liability or obligations of our company or of any third party.

**Qualification**

There is no shareholding qualification for directors.

**Indemnification Agreements**

We have entered into indemnification agreements with our directors. Each of the indemnification agreements provides the directors with contractual rights to indemnification and expense advancement rights.

Pursuant to our Amended and Restated Memorandum and Articles of Association and the indemnification agreements, our directors are indemnified to the fullest extent permitted under the law and public policy of the Cayman Islands for all judgments, fines, settlements, legal fees and other expenses actually and reasonably incurred in connection with pending or threatened legal proceedings because of such director's position with us or another entity that the director serves at our request, subject to various conditions.

**D. Employees**

We had 665, 681 and 609 employees as of December 31, 2010, 2011 and 2012, respectively. The following table sets forth the number of employees categorized by function as of December 31, 2012:

	<b>Number of Employees</b>	<b>(%)</b>
Management	5	0.8
Finance	39	6.4
Project Construction, Operations and Management	487	80.0
Administrative and Human Resources	78	12.8
<b>Total:</b>	<b>609</b>	<b>100.0</b>

Table of Contents**E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares, as of March 31, 2013, by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

Percentage of beneficial ownership is calculated by dividing the number of shares beneficially owned by 162,057,167, which was the number of ordinary shares outstanding as of March 31, 2013. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days from March 31, 2013, including through the exercise of any option, warrant, or other right. These shares, however, are not included in the computation of the percentage ownership of any other person.

Name	Ordinary Shares Beneficially Owned	
	Number	Percent
<b>Directors and Executive Officers</b>		
Amit Gupta	*	*%
Moonkyung Kim	*	*%
Jui Kian Lim	*	*%
Dr. You-Su Lin	2,145,548	1.3%
Shadron Lee Stastney	*	*%
Yun Pun (Felix) Wong	*	*%
Liya Chen	*	*%
All Directors and Executive Officers as a Group(1)	2,208,048	1.4%
<b>Principal Shareholders:</b>		
CPI Ballpark Investments Ltd (2)	48,858,903	30.2%
Vicis Capital Master Fund(3)	48,882,716	28.4%
Jennison Associates, LLC (4)	19,607,913	12.1%
Prudential Financial, Inc(4)	19,607,913	12.1%

\* Upon exercise of all options and warrants exercisable within 60 days after March 31, 2013, would beneficially own less than 1.0% of our outstanding ordinary shares.

(1) Includes ordinary shares held by all of our directors and executive officers as a group and ordinary shares issuable upon the exercise of all of the options and warrants that are exercisable within 60 days after March 31, 2013, held by all of our directors and executive officers.

(2) Based on a Schedule 13D jointly filed by NewQuest Capital Management (Cayman) Limited, NewQuest Asia Fund I (G.P.) Ltd., NewQuest Asia Fund I, L.P. and CPI Ballpark Investments Ltd on December 5, 2012 and includes 48,858,903 shares beneficially owned by NewQuest Asia Fund I, L.P., a Cayman Islands exempted limited partnership, NewQuest Asia Fund I (G.P.) Ltd., a Cayman Islands exempted company and general partner of NewQuest Asia Fund I, L.P., CPI Ballpark Investments Ltd, a limited liability company organized under the laws of Mauritius and a wholly owned subsidiary of NewQuest Asia Fund I, L.P., and NewQuest Capital Management (Cayman) Limited, a Cayman Islands exempted company. NewQuest Capital Management (Cayman) Limited is an exempted company registered in the Cayman Islands. The principal address of NewQuest Capital Management (Cayman) Limited is c/o Intertrust Corporate Services (Caymen) Limited, 190 Elgin Avenue, Georgetown, Grand Cayman, Cayman Islands KY1-9005. NewQuest Asia Fund I (G.P.) Ltd. is an exempted company registered in the Cayman Islands. The principal address of NewQuest Asia Fund I (G.P.) Ltd. is c/o Intertrust Corporate Services (Caymen) Limited, 190 Elgin Avenue, Georgetown, Grand Cayman, Cayman Islands KY1-9005. NewQuest Asia Fund I, L.P. is an exempted limited partnership registered in the Cayman Islands. The principal address of NewQuest Asia Fund I, L.P. is Walker House, 87 Mary Street, George Town, Grand Cayman, Cayman Islands KY1-9005. CPI Ballpark Investments Ltd is wholly owned by NewQuest Asia Fund I, L.P. The principal address of CPI Ballpark Investments Ltd is 10th Floor, Raffles Tower, 19 Cybercity, Ebene, Republic of Mauritius.

(3) Based on 13D/A filed by Vicis Capital LLC on October 9, 2012 and includes 38,878,559 ordinary shares and 10,004,157 ordinary shares issuable upon the exercise of an amended and restated warrant granted to Vicis Capital Master Fund in August 2011 that is exercisable within 60 days after March 31, 2013, with ownership percentage calculated by dividing (i) 38,878,559 ordinary shares plus 10,004,157 shares by (ii) 162,057,167 ordinary shares plus 10,004,157 ordinary shares. The amended and restated warrant expires on December 31, 2013 and has an exercise price of \$1.15 per ordinary share. Vicis Capital Master Fund is a sub-trust of the Vicis Capital Master Series Trust, a unit trust organized under the laws of the Cayman Islands. The address of Vicis Capital Master Fund is 445 Park Avenue, Suite 1901 New York, NY 10022. The address of Capital Master Series Trust is P. O. Box 1043GT, Caledonian House, First Floor, 69 Dr Roys Dr, George Town, Grand Cayman, Cayman Islands, BWI. Vicis Capital, LLC, a limited liability company organized under the laws of the state of Delaware, is the investment adviser to Vicis Capital Master Fund. The address of Vicis Capital, LLC is 445 Park Avenue, 16th Floor, New York, NY, 10022. John Succo, Shadron Lee Stastney and Sky Lucas have voting and investment control over the securities beneficially owned by Vicis Capital Master Fund and Vicis Capital, LLC.

Table of Contents

(4) Based on Schedule 13G/As filed by Jennison Associates LLC and Prudential Financial, Inc. on February 13, 2013, respectively. As a result of its role as investment adviser to clients in its managed portfolios, Jennison Associates, LLC may be deemed to be the beneficial owner of 19,607,913 ordinary shares. The address of Jennison Associates, LLC is 466 Lexington Avenue, New York, New York 10017. Prudential Financial, Inc. is a parent holding company and the indirect parent of Jennison Associates, LLC. The address of Prudential Financial, Inc. is 751 Broad Street, Newark, New Jersey 07102- 3777.

None of our existing shareholders has voting rights that will differ from the voting rights of other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

Please refer to Item 6.B. Directors, Senior Management and Employees Compensation 2008 Share Incentive Plan for information regarding option ownership of our directors and executive officers.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

The following table describes the significant changes in percentage of ownership of major shareholders:

Shareholders ownership	Year ended December 31		
	2012	2011	2010
CPI Ballpark Investments Ltd	30.2%	23.9%	20.1%
Vicis Capital Master Fund	28.4%	28.4%	28.4%
Jennison Associates, LLC	12.1%	12.1%	12.6%
Prudential Financial, Inc	12.1%	12.1%	12.6%
Swiss Re Asset Management (America) Inc		6.2%	6.6%

Please refer to Item 6.E, Directors, Senior Management and Employees Share Ownership

### B. Related Party Transactions

The following describes our related party transactions since the beginning of 2012.

#### Transactions with Kuhns Brothers, Inc.

John D. Kuhns, our former Chairman and Chief Executive Officer, who resigned on September 30, 2012, was a member of the board of directors of Kuhns Brothers, Inc. Kuhns Brothers, Inc. is not a member of China Hydro, LLC and does not own a beneficial interest in any of our ordinary shares or any securities convertible into or exchangeable for our ordinary shares.

During the year ended December 31, 2012, we rented office space from Kuhns Brothers, Inc. The rental expenses for the years ended December 31, 2012 were \$0.2 million, which was expensed in our consolidated statements of comprehensive income.

During the year ended December 31, 2012, Kuhns Brothers, Inc. paid for certain general and administrative services provided to us on a reimbursement basis. The general and administrative services was \$74,000 for the year ended December 31, 2012, which were expensed in our consolidated statements of comprehensive income. These amounts were subsequently repaid in full by us.

#### **Transactions with CPI Ballpark Investment Ltd**

CPI Ballpark Investment Ltd is one of our principle shareholders. During the year ended December 31, 2012, CPI Ballpark Investment Ltd paid expenses on our behalf primarily relating to the proxy contest amounting to \$0.3 million.

#### **Transactions with China New Energy Group Company**

China New Energy Group Company was controlled by John D. Kuhns, our former Chairman and CEO, who resigned on September 30, 2012. During the year ended December 31, 2012, we lent a prepayment of \$86,000 to China New Energy Group Company. The short-term loans are unsecured, and repayable on demand.

Table of Contents

**Transactions with Xiamen Youen Hydropower Development Co., Ltd.**

During the year ended December 31, 2012, US\$0.1 million was repaid and additional short-term borrowing of US\$0.6 million was obtained from Xiamen Youen Hydropower Development Co., Ltd. As of December 31, 2012, the \$11.2 million due to Xiamen Youen Hydropower Development Co., Ltd assumed in the acquisition of Jinling and its subsidiaries is unsecured and interest free.

**Balances Payable to Nanping City Xingshui Co., Ltd. and Xiamen Youen Hydropower Development Co., Ltd.**

Nanping City Xingshui Co., Ltd. is a minority shareholder of Jinlong, and Xiamen Youen Hydropower Development Co., Ltd. are minority shareholders of Jintang and Jinwei. In December 2010, we completed our purchase of Shaowu City Jinling Power Generation Co., Ltd. (hereafter Jinling ), together with Jinling's 55.0% controlling interest in Jinlong, Jinling's 74.0% controlling interest in Jintang, and Jinling's 74.0% controlling interest in Jinwei. As of December 31, 2012, the amount of RMB 9.4 million (\$1.5 million) due to Nanping City Xingshui Co., Ltd., represent the current liabilities acquired in the acquisition of Jinlong, Jintang and Jinwei.

**Shareholders Agreement**

Under the terms of an amended and restated shareholders agreement with our former Series A, Series B and Series C convertible redeemable preferred shareholders, among others, at any time six months after the closing of our initial public offering, any shareholder(s) holding of record at least 15.0% of Series A, Series B or Series C registrable securities then outstanding may, on three occasions only, request us to effect the registration, on a form other than Form F-3, of all or part of the Series A, Series B or Series C registrable securities then outstanding. Series A, Series B and Series C registrable securities are ordinary shares issued or issuable to the holders of our Series A, Series B and Series C convertible redeemable preferred shares or their respective transferees.

In addition, upon our company becoming eligible for using Form F-3, any holder of registrable securities may request us to effect a registration statement on Form F-3 for a public offering of registrable securities and we are entitled to use Form F-3, or a comparable form, for such offering. Holders of registrable securities may demand a registration on Form F-3 on unlimited occasions, although we are not obligated to affect more than two such registrations in any 12-month period.

Holders of registrable securities also have piggyback registration rights, whereby they may request us to register all or any part of the registrable securities then held by such holders when we register any of our ordinary shares. If any of the offerings involves an underwriting, the managing underwriter of any such offering has certain rights to limit the number of shares included in such registration. However, the number of registrable securities included in an underwritten public offering subsequent to our initial public offering pursuant to piggyback registration rights may not be reduced to less than 25% of the aggregate securities included in such offering. However, no specific damages, payment, transfer or any other consideration to holders of registrable securities is provided for in the event of non-performance to effect a registration statement.

**2008 Share Incentive Plan**

We have granted share options to some of our directors, officers and related parties. See Item 6.B. Directors, Senior Management and Employees Compensation 2008 Share Incentive Plan.

### **C. Interests of Experts and Counsel**

Not applicable.

### **ITEM 8. FINANCIAL INFORMATION. Consolidated statements and other financial information.**

We have appended consolidated financial statements filed as part of this annual report. See Item 18, Financial Statements.

### **Legal Proceedings**

See Item 4, Information on the Company Business Overview Legal Proceedings.

### **Dividend Policy**

We have never declared or paid cash dividends on our ordinary shares. We currently intend to retain all of our available funds and future earnings for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Under the terms of our Amended and Restated Memorandum and Articles of Association the declaration and payment of any dividends in the future will be determined by our board of directors, in its discretion, and will depend on a number of factors, including our earnings, capital requirements and overall financial condition and our ability to receive dividends from our operating subsidiaries. If we pay any dividends, we will pay our ADS holders dividends with respect to their underlying shares to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.



Table of Contents

Current regulations in China permit our PRC subsidiaries to pay dividends to us only out of their respective accumulated distributable profits, if any, determined in accordance with their articles of association and PRC accounting standards and regulations. The ability of these subsidiaries to make dividends and other payments to us may be restricted by factors that include changes in applicable foreign exchange laws and other laws and regulations. In particular, wholly foreign-owned enterprises in China are required to set aside at least 10% of their after-tax profits each year, if any, to fund their reserve fund unless such reserve fund has reached 50% of their respective registered capital and to set aside a percentage of their after-tax profits, if any, to their employee bonus and welfare fund which is decided by their respective boards of directors. Sino-foreign equity joint ventures are also required to set aside a percentage of their annual after-tax profits, if any, to their reserve fund, enterprise development fund and employee bonus and welfare fund at percentages that are decided by their respective boards of directors. PRC domestic companies are required to set aside at least 10% of their after-tax profits each year, if any, to fund their respective statutory reserve fund unless such fund has reached 50% of their respective registered capital. Such cash reserve may not be distributed as cash dividends. In addition, if any of our PRC operating subsidiaries incurs further debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us. Some of our subsidiaries are restricted from paying dividends by the terms of outstanding loan agreements. See Risk Factors Risks Relating to our Company and the PRC Hydropower Industry Certain of our operating subsidiaries are parties to loan agreements that provide for lender rights that may adversely affect our ability to operate our business and restrict our ability to pay dividends.

**B. Significant Changes**

See Item 5. Operating and Financial Review and Prospects Going Concern and Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

Table of Contents**ITEM 9. THE OFFER AND LISTING.****A. Offering and listing details.****Price Range of Our ADSs**

Our ADSs are listed for trading on the New York Stock Exchange under the symbol **CHC** since January 25, 2010. The following table sets forth the high and low trading prices of our ADSs on the New York Stock Exchange for the periods indicated:

	<b>High</b>	<b>Low</b>
<b>Yearly highs and lows</b>		
Year 2010	\$ 14.80	\$ 5.60
Year 2011	7.72	0.67
Year 2012	2.84	0.62
<b>Quarterly highs and lows</b>		
First Quarter 2011	7.64	6.90
Second Quarter 2011	7.46	2.77
Third Quarter 2011	4.49	2.01
Fourth Quarter 2011	2.04	0.67
First Quarter 2012	2.44	0.95
Second Quarter 2012	2.06	0.64
Third Quarter 2012	1.65	0.62
Fourth Quarter 2012	2.84	1.22
First Quarter 2013	2.80	1.43
<b>Monthly highs and lows</b>		
October 2012	2.84	1.22
November 2012	2.16	1.45
December 2012	2.15	1.41
January 2013	1.87	1.43
February 2013	2.23	1.67
March 2013	2.80	1.81
April 2013 (through April 17, 2013)	3.25	2.60

On April 17, 2013, the closing sale price of our ADSs as reported on the New York Stock Exchange was \$2.90 per ADS.

Table of Contents

Our warrants are listed for trading on the New York Stock Exchange under the symbol **CHCWS** since January 25, 2010. The following table sets forth the monthly high and low trading prices of our warrants on the New York Stock Exchange for the periods indicated:

	High	Low
<b>Yearly highs and lows</b>		
Year 2010	\$ 1.77	\$ 0.28
Year 2011	0.38	0.03
Year 2012	0.07	0.00
<b>Quarterly highs and lows</b>		
First Quarter 2011	0.38	0.26
Second Quarter 2011	0.37	0.10
Third Quarter 2011	0.39	0.08
Fourth Quarter 2011	0.14	0.03
First Quarter 2012	0.05	0.01
Second Quarter 2012	0.07	0.01
Third Quarter 2012	0.03	0.01
Fourth Quarter 2012	0.03	0.00
First Quarter 2013	0.03	0.01
<b>Monthly highs and lows</b>		
October 2012	0.03	0.01
November 2012	0.03	0.00
December 2012	0.03	0.01
January 2013	0.03	0.01
February 2013	0.02	0.01
March 2013	0.03	0.01
April 2013 (through April 17, 2013)	0.05	0.02

On April 17, 2013, the closing sale price of our warrants as reported on the New York Stock Exchange was \$0.04 per warrant.

**B. Plan of Distribution**

Not applicable.

Table of Contents

**C. Markets**

See Item 9.A above.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

Table of Contents

**ITEM 10. ADDITIONAL INFORMATION.**

**A. Share capital**

Not applicable.

**B. Memorandum and Articles of Association**

The following are summaries of material provisions of our amended and restated memorandum and articles of association, as well as the Companies Law (2011 Revision) insofar as they relate to the material terms of our ordinary shares.

**Registered Office and Objects**

The Registered Office of our company is situated at the offices of Appleby Trust (Cayman) Ltd., Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY-1108, Cayman Islands or at such other place in the Cayman Islands as our directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2011 Revision), as amended from time to time, or any other law of the Cayman Islands.

**Board of Directors**

Our board of directors consists of seven directors, including five independent directors. Directors who are in any way, whether directly or indirectly, interested in a contract or proposed contract with our company shall declare the nature of their interest at a meeting of the board of directors. Following such declaration, a director may vote in respect of any contract or proposed contract notwithstanding his interest. However, under our code of ethics, in the event that our board of directors considers entering into a transaction which would produce a conflict of interest, interested directors must abstain from any discussion of or vote on such transaction.

Directors are not required to hold shares; however, a minimum share requirement for directors may be established at a general meeting. Directors may exercise all powers of our company to borrow money, under our Amended and Restated Memorandum and Articles of Association, in a variety of ways, including issuing bonds and other securities either outright or as security for any debt liability or obligation of our company or of any third party.

**Ordinary Shares**

*General.* The ordinary shares of our company are issued in book-entry form only. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their ordinary shares.

*Dividends.* The holders of our ordinary shares are entitled to such dividends as may be declared by the board of directors subject to the Companies Law. All dividends or distributions will be paid out of our realized or unrealized profits, or out of the share premium account or other reserve account permitted by the Companies Law.

*Voting Rights.* Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded or required by the rules of the designated stock exchange. A poll may be demanded by (i) the chairman of the meeting, (ii) a shareholder or shareholders present in person by its duly authorized representative or by proxy, and holding not less than one-tenth of the issued share capital of our voting shares; (iii) by at least three shareholders present in person or represented by proxy, or (iv) any shareholder, present in person or represented by proxy, holding shares conferring the right to vote at such meeting, being shares on which as aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all such shares conferring such right.

Table of Contents

A quorum required for a meeting of shareholders consists of one or more shareholders present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative, holding not less than one-third of the total voting rights of ordinary shares represented at a general meeting. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or by one or more members holding an aggregate of one-third of the issued and outstanding shares. Advance notice of at least twenty-one days is required for the convening of a general meeting.

No business may be transacted at a general meeting, other than business that is specified in a notice given at the direction of, or otherwise properly brought before the meeting by, our board of directors or is properly brought by a shareholder who provides us with advance notice, in accordance with our Amended and Restated Memorandum and Articles of Association, describing the business desired to be conducted at the general meeting.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the ordinary shares. A special resolution is required for important matters such as a change of name or an amendment to our Amended and Restated Memorandum and Articles of Association.

*Transfer of Shares.* Subject to the restrictions of our Amended and Restated Memorandum and Articles of Association, as more fully described below, any of our shareholders may transfer all or any of his or her ordinary shares by executing an instrument of transfer and, upon approval by the board in writing, the name of the transferee is entered into the register of shareholders in order for the transfer to become effective.

If a shareholder dies, the legal representative of the deceased shareholder is the only person recognized as having title to his share interest. Any person entitled to a share as a result of death or bankruptcy or liquidation or dissolution of a shareholder (or in any other way than by transfer) may, upon providing evidence of such right, elect to become the holder of the share or nominate someone as the transferee. In either case, our directors have the same right to decline or suspend registration as they would have in the case of a transfer of the share by the shareholder before his death or bankruptcy, unless the transferee is an immediate family member of the shareholder or a trust for their benefit.

*Liquidation.* On a return of capital on winding-up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares will be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

*Redemption of Shares.* Subject to the provisions of the Companies Law and our Amended and Restated Memorandum and Articles of Association and to any special rights conferred on the holders of any shares or class of shares, the board of directors may issue shares on terms that they are subject to redemption at the option of the board or at the option of the holders, on such terms and in such manner as may be determined by ordinary resolution, before the issue of the shares.

*Variations of Rights of Shares.* The rights attached to any class of shares may, subject to the provisions of the Companies Law and to any special rights attached to any class of shares, be varied with the sanction of a special resolution passed at a separate general meeting of the holders of the

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shares of that class at which the necessary quorum shall be one or more persons holding or representing by proxy not less than one-third of the issued shares of that class.

*Cumulative Voting.* Under Cayman Islands law, cumulative voting is allowed. However, under our Amended and Restated Memorandum and Articles of Association cumulative voting is not allowed. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director.

*Inspection of Books and Records.* Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements.

*Designations and Classes of Shares.* Upon the closing of this offering all of our issued shares will be ordinary shares. Our Amended and Restated Articles of Association provide that our authorized unissued shares shall be at the disposal of our board of directors, which may subject to any special rights conferred on the holders of any shares or class of shares, offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as our board may in its absolute discretion determine. In particular, our board of directors is empowered to redesignate from time to time authorized and unissued ordinary shares as other classes or series of shares, to authorize from time to time the issuance of one or more series of preferred shares and to fix the designations, powers, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions thereof, if any, including without limitation, the number of shares constituting each such class or series, dividend rights, conversion rights, redemption privileges, voting powers and liquidation preferences, and to increase or decrease the size of any such class or series, to the extent permitted by the Amended and Restated Articles of Association and the Companies Law.



Table of Contents

**Preferred Shares**

Our board of directors will have the authority, without further action by our shareholders, to issue new preferred shares in one or more tranches, which may have powers and rights, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, greater than the rights associated with our ordinary shares. These new preferred shares could thus be issued quickly, and could have terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors issues new preferred shares, the market price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares may be adversely affected.

**C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, Information on the Company and in Item 7, Major Shareholders and Related Party Transactions or elsewhere in this annual report on Form 20-F.

**D. Exchange Controls**

Please refer to Item 4, Information on the Company Regulation .

**E. Taxation**

*The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our securities is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our securities, such as the tax consequences under state, local, non-U.S., non-PRC and non-Cayman Islands tax laws.*

**Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double taxation treaties, save for a Double Taxation Arrangement with the United Kingdom which was signed on 16 June 2009 but which is not, as of the date hereof, in force. There are no exchange control regulations or currency restrictions in the Cayman Islands, apart from standard anti-money laundering legislation.

No Cayman Islands stamp duty will be payable by you in respect of the issue or transfer of ordinary shares or warrants. However, an instrument transferring title to an ordinary share or warrant, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

#### **People's Republic of China Taxation**

Under the Enterprise Income Tax Law of 2007 and its Implementation Regulations, both of which became effective on January 1, 2008, an enterprise established outside the PRC with its *de facto* management body within the PRC is considered a resident enterprise. The *de facto* management body is defined as an organization that exercises material and full management and control over matters including the enterprise's production and operations, personnel, finance and property. At present, the PRC tax authorities have not issued any guidance on the application of the new EIT Law and its Implementation Regulations on foreign incorporated enterprises that are not controlled by PRC enterprises or PRC enterprise groups. As a result, it is unclear what factors will be used by the PRC tax authorities to determine whether we are a *de facto* management body in China. However, a substantial number of our management members reside in the PRC, and almost all of our revenues derive from our operations in the PRC. We may therefore be treated as a resident enterprise for PRC tax purposes and be subject to an enterprise income tax rate of 25% on our worldwide income. Furthermore, if we are treated as a resident enterprise for PRC tax purposes, it is unclear whether dividends you receive on our ordinary shares or ADSs, or the gain you may realize from the disposition of our ordinary shares, ADSs or warrants, would be treated as income derived from sources within the PRC and would be subject to PRC withholding tax. It is also unclear whether, if we would be treated as a resident enterprise for PRC tax purposes, holders of our ordinary shares, ADSs or warrants might be able to enjoy the benefit of income tax treaties entered into between the PRC and other countries. See Risk Factors - Risks Relating to Doing Business in China - Our company may be classified as a resident enterprise for PRC enterprise income tax purposes under the PRC EIT Law. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders and ADS holders, including subject to PRC taxation on our worldwide income.

Moreover, the Enterprise Income Tax and its Implementation Regulations provide that a withholding tax rate of 10% will be applicable to dividends payable to non-PRC shareholders by a PRC resident enterprise, unless a tax treaty exists between the PRC and the relevant jurisdictions where such non-PRC shareholders reside and such treaty provides for a reduction or exemption of the relevant tax. If we are considered a non-resident enterprise, dividends we received from our PRC resident subsidiaries will be subject to the 10% PRC withholding tax since the Cayman Islands, where our company was incorporated, has not concluded any tax treaty with the PRC.

Table of Contents

**U.S. Federal Income Taxation**

**Introduction**

The following discusses the material U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares, ADSs or warrants, which we refer to collectively as our securities, by U.S. Holders, as defined below. This discussion applies only to U.S. Holders that purchase and hold the securities as capital assets. This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This discussion does not address all of the tax considerations that may be relevant to specific holders in light of their particular circumstances or to holders subject to special treatment under U.S. federal income tax law, such as banks, other financial institutions, insurance companies, tax-exempt entities, persons who acquired the securities pursuant to the exercise of employee stock options, participation in an employee stock purchase plan or otherwise as compensation, regulated investment companies, real estate investment trusts, dealers in securities, brokers, U.S. expatriates, persons subject to the alternative minimum tax, persons who have acquired the securities as part of a straddle, hedge, conversion transaction or other integrated investment, persons that have a functional currency other than the U.S. dollar or persons that own, or are deemed to own, 10% or more, by voting power, of our stock. Additionally, this discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold our securities through such entities. If a partnership holds securities, the consequences to a partner will depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership holding securities should consult its own tax adviser regarding the U.S. tax consequences of its investment in the securities through the partnership. This discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations. Further, the discussion below assumes that any distributions made (or deemed made) on the securities and any consideration received by a holder in consideration for the sale or other disposition of the securities will be in U.S. dollars.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of the securities that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any state or political subdivision thereof or therein, including the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source thereof, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a U.S. person.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have and will be complied with in accordance with their terms. For U.S. federal income tax purposes, a holder of an ADS should be treated as the beneficial owner of the ordinary shares represented by the ADSs and exchanges of ordinary shares for ADSs, and ADSs for ordinary shares, should not be subject to U.S. federal income tax.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SECURITIES, INCLUDING THE APPLICABILITY OF U.S. FEDERAL, STATE AND LOCAL TAX LAWS OR NON-U.S. TAX LAWS, ANY CHANGES IN APPLICABLE TAX LAWS AND ANY PENDING OR PROPOSED LEGISLATION OR REGULATIONS.

**Tax Consequences to U.S. Holders of Ordinary Shares and Warrants**

***Exercise of a Warrant***

Subject to the PFIC rules discussed below, a U.S. Holder generally will not recognize gain or loss upon the exercise of a warrant. Ordinary shares acquired pursuant to the exercise of a warrant for cash generally will have a tax basis equal to the U.S. Holder's tax basis in the warrant (that is, the portion of the U.S. Holder's purchase price for a unit that is allocated to the warrant), increased by the amount paid to exercise the warrant. The holding period of such ordinary shares generally would begin on the day after the date of exercise of the warrant.

***Sale, Taxable Exchange, Redemption or Expiration of a Warrant***

Subject to the PFIC rules discussed below, upon a sale, taxable exchange (but not exercise), or redemption of a warrant, a U.S. Holder will recognize gain or loss in an amount equal to the difference between (i) the amount realized upon such disposition (or, if the warrant is disposed of through the disposition of a unit, the portion of the amount realized on such disposition that is allocated to the warrant based on the then fair market values of the warrant and the ordinary share included in the unit) and (ii) the U.S. Holder's tax basis in the warrant (that is, the portion of the U.S. Holder's purchase price for a unit that is allocated to the warrant). Upon expiration of a warrant, a U.S. Holder will recognize a loss in an amount equal to the U.S. Holder's tax basis in the warrant. Any such gain or loss would generally be treated as capital gain or loss and will be long-term capital gain or loss if the warrant was held by the U.S. Holder for more than one year at the time of such disposition or expiration. As discussed below in "Sale or other Disposition of Ordinary Shares or ADSs," the deductibility of capital losses is subject to various limitations.

Table of Contents

If PRC taxes apply to any gain from the disposition of a warrant by a U.S. Holder (see *Taxation People's Republic of China Taxation*, above), such taxes may be treated as foreign taxes eligible for credit against such holder's U.S. federal income tax liability (subject to certain limitations), and a U.S. Holder may be entitled to certain benefits under the income tax treaty between the United States and the PRC. The rules relating to the U.S. foreign tax credit are complex. U.S. Holders should consult their own tax advisors regarding the creditability of any such PRC tax and their eligibility for the benefits of the income tax treaty between the United States and the PRC.

***Dividends***

Subject to the discussion below under *Passive Foreign Investment Company*, the gross amount of any distribution made by us on the ordinary shares or ADSs will generally be treated as a dividend includible in the gross income of a U.S. Holder as ordinary income to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, when actually or constructively received by the U.S. Holder, in the case of ordinary shares, or when actually or constructively received by the depository, in the case of ADSs. To the extent the amount of such distribution exceeds our current and accumulated earnings and profits as so computed, it will be treated first as a non-taxable return of capital to the extent of such U.S. Holder's adjusted tax basis in such ordinary shares or ADSs and, to the extent the amount of such distribution exceeds such adjusted tax basis, will be treated as gain from the sale of such ordinary shares or ADSs. We, however, do not intend to calculate earnings and profits in accordance with U.S. federal income tax principles. Accordingly, distributions paid on our ADSs or ordinary shares, if any, will be treated as dividend distributions for U.S. federal income tax purposes.

Certain dividends received by non-corporate U.S. Holders, including individuals will be subject to a reduced rate of tax. This reduced income tax rate is applicable to dividends paid by qualified foreign corporations and only with respect to ordinary shares or ADSs held for a minimum holding period of at least 61 days during a specified 121-day period, and if certain other conditions are met. A qualified foreign corporation is any non-U.S. corporation if (a) either (i) its stock is readily tradable on an established securities market in the United States or (ii) it is eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program, and (b) it is not a passive foreign investment company (as discussed below) for both the taxable year in which the dividend is paid and the preceding taxable year. We expect to be considered a qualified foreign corporation because our ADSs will be listed on the NYSE. Accordingly, subject to the discussions below under *Passive Foreign Investment Company*, dividends paid by us on our ADSs should be eligible for the reduced income tax rate. In addition, if we are treated as a resident enterprise for PRC tax purposes under the EIT Law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC, see *Taxation People's Republic of China Taxation*. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporate shareholders with respect to dividends received from U.S. corporations.

Dividends paid by us will constitute income from sources outside the United States for U.S. foreign tax credit limitation purposes and will be categorized as passive category income for U.S. foreign tax credit purposes. If PRC withholding taxes apply to dividends paid to a U.S. Holder with respect to our ADSs or ordinary shares, see *Taxation People's Republic of China Taxation*, subject to certain conditions and limitations, such PRC withholding taxes may be treated as foreign taxes eligible for credit against such holder's U.S. federal income tax liability. The rules relating to the U.S. foreign tax credit are complex. U.S. Holders should consult their own tax advisors regarding the effect of these rules in their particular circumstance.

***Sale or Other Disposition of Ordinary Shares or ADSs***

Subject to the discussion below under *Passive Foreign Investment Company*, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes upon a sale or other disposition of the ordinary shares or ADSs in an amount equal to the difference between the amount realized from such sale or disposition and the U.S. Holder's adjusted tax basis in such ordinary shares or ADSs. Such gain or loss will be a capital gain or

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loss and will be long-term capital gain, taxable at a reduced rate for non-corporate U.S. Holders, including individuals, or loss if, on the date of sale or disposition, such ordinary shares or ADSs were held by such U.S. Holder for more than one year. The deductibility of capital losses is subject to limitations under the Code. Any gain or loss on the sale or disposition by a U.S. Holder will be treated as U.S. source income or loss for U.S. foreign tax credit limitation purposes, subject to certain exceptions and limitations. However, if we are treated as a resident enterprise for PRC tax purposes, you may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, see *Taxation People's Republic of China Taxation*, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income. The U.S. foreign tax credit rules are complex. Therefore, U.S. Holders should consult their own tax advisors regarding the application of such foreign tax credit rules.

Table of Contents

***Passive Foreign Investment Company***

In general, we will be classified as a passive foreign investment company, or PFIC in any taxable year if either: (a) the average quarterly value of our gross assets that produce passive income or are held for the production of passive income is at least 50% of the average quarterly value of our total gross assets (the asset test) or (b) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties). For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. For purposes of the asset test: (a) any cash and cash invested in short-term, interest bearing, debt instruments, or bank deposits that are readily convertible into cash will count as producing passive income or held for the production of passive income, and (b) the total value of our assets is calculated based on our market capitalization.

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2012, and we do not expect to be a PFIC in the foreseeable future. However, PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since the value of our assets is to be determined in large part by reference to the market prices of our ADSs and ordinary shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC in 2013 or for any future taxable year.

If we are a PFIC in any year during which a U.S. Holder owns the securities, such U.S. Holder may experience certain adverse tax consequences. Such U.S. Holder could be liable for additional taxes and interest charges (i) upon excess distributions, which include distributions received by the U.S. Holder on our securities during the year, but only to the extent that the aggregate of the distributions for the taxable year exceeds 125% of the average amount of distributions received by the U.S. Holder in the preceding three years, or (ii) upon a sale or other disposition of the securities at a gain, whether or not we continue to be a PFIC. The tax will be determined by allocating the excess distribution or recognized gain ratably to each day of the U.S. Holder's holding period. The amount allocated to the current taxable year and any taxable year with respect to which we were not a PFIC will be taxed as ordinary income, rather than capital gain, earned in the current taxable year. The amount allocated to other taxable years will be taxed at the highest marginal rates applicable to ordinary income for such taxable years and, in addition, an interest charge will be imposed on the amount of such taxes.

With respect to U.S. Holders of ADSs, these adverse tax consequences may be avoided if the U.S. Holder is eligible to and does elect to annually mark-to-market the ADSs.

If a U.S. Holder makes a mark-to-market election with respect to the ADSs, such holder will include as ordinary income the excess, if any, of the fair market value of the ADSs at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the ADSs over their fair market value at the end of the taxable year, but only to the extent of the net amount of previously included income as a result of the mark-to-market election. Any gain recognized on the sale or other disposition of the securities will be treated as ordinary income. The mark-to-market election is available only for marketable stock, which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. We expect the ADSs to be marketable stock because our ADSs will be listed on the NYSE.

Alternatively, a U.S. Holder of stock (but not warrants) in a PFIC may make a qualified electing fund election with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder that makes a valid qualified electing fund election with respect to a PFIC will include in gross income for a taxable year such holder's pro rata share of the corporation's earnings and profits for the taxable year. However, the qualified

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electing fund election is available only if the PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations, and we do not intend to prepare or provide the information that would entitle U.S. Holders to make a qualified electing fund election.

If we are regarded as a PFIC, each U.S. Holder of a PFIC is required to file an annual report containing such information as the U.S. Treasury may require. If we are or become a PFIC, you should consult your tax advisor regarding any reporting requirements that may apply to you.

### ***Backup Withholding and Information Reporting***

Dividend payments made to U.S. Holders and proceeds paid from the sale or other disposition of their ordinary shares or ADSs may be subject to information reporting to the Internal Revenue Service and possible U.S. federal backup withholding at a current rate of 28%. Certain exempt recipients, such as corporations, are not subject to these information reporting requirements. Backup withholding will not apply to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification).



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## Table of Contents

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service in a timely manner and furnishing any required information. Certain individuals holding the ADSs or ordinary shares other than in an account at a U.S. financial institution may be subject to additional information reporting requirements.

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts.**

Not applicable.

### **H. Documents on Display**

We previously filed with the Securities and Exchange Commission our registration statement on Form F-1.

We have filed this annual report on Form 20-F with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Statements made in this annual report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this annual report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

We are subject to the informational requirements of the Exchange Act and file reports and other information with the Securities and Exchange Commission. Reports and other information which we filed with the Securities and Exchange Commission, including this annual report on Form 20-F, may be inspected and copied at the public reference room of the Securities and Exchange Commission at 450 Fifth Street N.W. Washington D.C. 20549.

You can also obtain copies of this annual report on Form 20-F by mail from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates. Additionally, copies of this material may be obtained from the Securities and Exchange Commission's Internet site at <http://www.sec.gov>. The Commission's telephone number is 1-800-SEC-0330.

### **I. Subsidiaries Information**

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

### Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates, and foreign currency exchange rates.

#### *Interest rate risk*

Our exposure to interest rate risk primarily relates to the interest rates for our outstanding debt and the interest income generated by excess cash, which is held primarily in interest-bearing bank deposits or investment products provided by PRC banks. We have US\$21.7 million short-term bank loans and US\$248.5 million long-term bank loans outstanding as of December 31, 2012. We have not used derivative financial instruments in our investment portfolio. Interest-bearing instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

#### *Foreign currency risk*

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic condition. Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.5% per day and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate. This change in policy has resulted in an appreciation of the RMB against the U.S. dollar of approximately 0.1%, 3.0%, 4.9% and 0.2% in 2009, 2010, 2011 and 2012, respectively. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and reduce their level of intervention in the foreign exchange market. Because substantially all of our earnings and cash assets are denominated in Renminbi, and we maintain our consolidated financial statements in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and the Renminbi will affect our balance sheet and earnings per share. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollars without giving effect to any underlying change in our business or results of operations. Fluctuations in the Renminbi/U.S. dollar exchange rate will also affect the relative value of any dividend we reserve that will be exchanged into U.S. dollars and earnings from, and the value of, any Renminbi-denominated investments we make in the future. We have not entered into any hedging transactions that would reduce or increase our exposure to this foreign currency exchange risk.

Table of Contents

**Inflation**

In recent years, China has not experienced significant inflation, and therefore inflation has not had a significant effect on our business. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 5.9%, -0.7%, 3.3%, 5.4% and 2.6% in 2008, 2009, 2010, 2011 and 2012, respectively. Based on the upward change of the Consumer Price Index in late 2007, the PRC government announced measures to restrict bank lending and investment in China in order to reduce inflationary pressures on China's economy. The People's Bank of China's benchmark loan interest rate for one-year RMB denominated loans was 7.47%, 5.31%, 5.81%, 6.56% and 6.0% in 2008, 2009, 2010, 2011 and 2012, respectively.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.**

**A. Debt securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other securities**

Not applicable.

**D. American Depositary Shares**

**Fees and Charges Our ADS holders May Have to Pay**

The Bank of New York Mellon, the depositary of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for

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making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book- entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Persons depositing or withdrawing shares or ADS holders must pay:**

**For:**

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none"> <li>• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property</li> <li>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li> </ul>
\$0.02 or less per ADS (or portion)	<ul style="list-style-type: none"> <li>• Any cash distribution made pursuant to the deposit agreement</li> <li>• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to registered ADS holders</li> </ul>
	<ul style="list-style-type: none"> <li>• Depositary services</li> <li>• Expenses of the depositary</li> <li>• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</li> <li>• Converting foreign currency to U.S. dollars</li> </ul>
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary
Taxes and other governmental charges the depositary or the As necessary custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary

Table of Contents

**Fees and Other Payments Made by the Depositary to Us**

The Bank of New York Mellon, as depositary, has agreed to reimburse us for expenses they incur that are related to establishment and maintenance expenses of the ADS program. The depositary has agreed to reimburse us for its continuing annual stock exchange listing fees. The depositary has also agreed to pay the standard out-of-pocket maintenance costs up to certain amount for the ADRs, which consist of the standard out-of-pocket legal fees and disbursements, including preparing and deposit Agreement and Form F-6. It also agreed to waive us certain value-added services fees, certain technology services fees, and certain administration and ongoing ADR holder servicing fees. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors. For the year ended December 31, 2011 and 2012, the depositary reimbursed us a gross amount of \$526,520 and nil, respectively. The depositary also waived us an amount of \$134,970 and \$130,077 respectively for the same periods for certain technology services fees such as ADR insight and certain administration ADR holder servicing fees.

**PART II.**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.**

None of these events occurred in any of the years ended December 31, 2010, 2011 and 2012.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES.**

*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rule 13a-15(e) of the Exchange Act as of the end of the period covered by this report. Based on such evaluation, our management has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by our company in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

***Management's Annual Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Rule 13a-15 of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reports and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financials.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee on Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management concluded that, as of December 31, 2012, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. After year-end and prior to completion of the audit of our 2012 financial statements, our management noted certain control deficiencies in connection with accounts and business activities at entities and projects previously acquired by us. We are in the process of implementing measures to address these issues. This annual report does not include an attestation report of our registered public accounting firm, Ernst & Young Hua Ming LLP, regarding our internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act that permit us, a non-accelerated filer, to provide only management's report in this annual report.

Table of Contents

***Changes in Internal Control over Financial Reporting***

There have been no significant changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.**

Our audit committee consists of Mr. Yun Pun (Felix) Wong, Ms. Moonkyung Kim and Mr. Jui Kian Lim, each of whom we believe satisfies the independence requirements under current NYSE rules and Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Mr. Wong acts as the chairman of our audit committee. Our board of directors has determined that Mr. Wong qualifies as an audit committee financial expert under applicable SEC rules.

**ITEM 16B. CODE OF ETHICS.**

Our board of directors has adopted a code of business conduct and ethics that is applicable to all of our directors, officers and employees. Our code of ethics and our code of conduct are publicly available on our website.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our independent registered public accounting firm, for the periods indicated. We did not pay any other fees to our independent auditors during the periods indicated below.

		2011	For the Year Ended December 31, (In US\$ thousands)	2012
Audit fees(1)	\$		1,251	\$ 915
Audit-related fees(2)			5	

(1) Audit fees consist of fees billed associated with the annual audit, procedures performed on our interim financial statements, the audit on the financial statements of the entities acquired by us. Fees billed for those services that are normally provided by the independent auditors in connection with regulatory filings are also included.

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(2) Audit-related fees consist of the fees paid to the independent accountants for the tax desk review for one entity.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Ernst & Young Hua Ming LLP, including audit services and audit-related services as described above are approved by the Audit Committee prior to the commencement to services.

### **ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.**

None.

### **ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.**

None.

### **ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.**

Not applicable.

### **ITEM 16G. CORPORATE GOVERNANCE.**

#### **Differences Between the Our Current Corporate Governance Practices and the NYSE Corporate Governance Requirements Applicable to Domestic US Companies**

Our American Depositary Shares are listed on the New York Stock Exchange (the "NYSE"). As such, we are subject to corporate governance requirements imposed by the NYSE. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed non-US companies such as ourselves may, in general, follow their home country corporate governance practices in lieu of some of the NYSE corporate governance requirements. The Listed Company Manual requires that non-US companies disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies listed on the NYSE. We are committed to a high standard of corporate governance and we believe that our corporate governance practices and guidelines are consistent, in principal, with those required of U.S. companies listed on the NYSE.



Table of Contents

The following summarizes one significant difference between our corporate governance practices and the NYSE standards applicable to domestic U.S. companies: we do not intend to rely on any of the exemptions provided by the NYSE to foreign private issuers, except that we will not provide an annual certification by our chief executive officer that he or she is not aware of any non-compliance with any corporate governance rules of the NYSE, and we will not seek shareholder approval for (i) the issuance of more than 1% of our outstanding ordinary shares or more than 1% of our outstanding voting power to a related party, (ii) the issuance of more than 20% of our outstanding ordinary shares, (iii) an issuance that would result in a change of control, and (iv) material revisions to compensation plans. As a result, you may not be provided with the benefits of certain corporate governance requirements of the NYSE.

Other than noted above, currently there is no significant difference between our corporate governance practices and what the NYSE requires of domestic US companies. See Risk Factors Risks Relating to Our Securities As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the New York corporate governance listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with the New York Stock Exchange corporate governance listing standards.

**ITEM 16H. MINE SAFETY DISCLOSURE.**

Not applicable.

Table of Contents

**PART III.**

**ITEM 17. FINANCIAL STATEMENTS.**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS.**

Our consolidated financial statements are included at the end of this annual report.

**ITEM 19. EXHIBITS.**

**Index to Exhibits**

- |     |   |
|-----|---|
| 1.1 | Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.1 to our Report on Form 6-K filed with the SEC on October 1, 2010)  |
| 2.1 | Form of Ordinary Share Certificate (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)   |
| 2.2 | Form of Deposit Agreement between the Registrant and the Bank of New York Mellon as depositary (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)   |
| 2.3 | Form of American depositary receipt evidencing American depositary shares (included in Exhibit 2.2)   |
| 2.4 | Amended and Restated Shareholders Agreement, dated October 27, 2009, amongst the Registrant and its shareholders (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)   |
| 2.5 | Form of Unit Certificate (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)   |
| 4.1 | 2008 Share Incentive Plan of the Registrant and form of Option Agreement (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)  |
| 4.2 | Amended and Restated Warrant to Purchase the Company's Ordinary Shares by Vicis Capital Master Fund (incorporated by reference to Exhibit 4.1 to our Report on Form 6-K filed with the SEC on August 19, 2011)  |
| 4.3 | Form of Indemnification Agreement between the Registrant and its directors (incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)  |
| 4.4 | Sino-Foreign Equity Joint Venture Contract entered into by the Registrant, Zhejiang Water Resources and Hydroelectric Investment Group Co., Ltd. and Zhejiang Guangning Hydroelectric Development Co., Ltd. on November 6, 2007 (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009) |
| 4.5 | Contract for Transfer of Fifty Percent of the Equity Interests of Yunhe County Shapulong Hydropower Generation Co., Ltd. entered into by Yunhe County Yunhe State-Owned Assets Management Co., Ltd. and the Registrant on October 12, 2007  |

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(incorporated by reference to Exhibit 10.5 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

4.6 (Intentionally left blank)

4.7 Share Transfer and Capital Increase Contract entered into by the Registrant, and Ye Jian Hua, Zhou Jian Bin and Zhejiang Dahua Construction Group Co., Ltd. on March 15, 2007 (incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

4.8 Supplemental Agreement entered into by the Registrant, Ye Jian Hua, Zhou Jian Bin and Zhejiang Dahua Construction Group Co., Ltd. on March 27, 2007 (incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

4.9 Share Transfer Agreement for Pingnan County Wangkeng Hydroelectric Co., Ltd. entered into by Sanming City Chenyang Hydroelectric Co., Ltd., Sanming City Fufeng Industrial Co., Ltd, Beijing Xunjing Interactive Technology Co., Ltd., Huang Shao Jian, Yu Rong Ji, Zhang Rong Bin, Sun Xiao Dong, Xie Fang Wu, Ye Chang He and the Registrant on August 9, 2008 (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

4.10 Equity Joint Venture Contract for the establishment of Pingnan County Wangkeng Hydroelectric Co., Ltd. entered into by the Registrant and Sanming City Chenyang Hydroelectric Co., Ltd. on August 10, 2008 (incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

4.11 Equity Interest Transfer Contract entered into by Guangsha Construction Group Co., Ltd., Lu Chunliang and the Registrant regarding Qingtian Wuliting Hydroelectric Development Co., Ltd. on December 13, 2007 (incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

Table of Contents

- 4.12 Equity Interest Transfer Contract entered into by Zhejiang Guangsha Stock Co., Ltd., Zhejiang Guangsha Hydropower Investment Co., Ltd. and the Registrant regarding Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. on December 13, 2007 (incorporated by reference to Exhibit 10.12 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.13 Equity Interest Transfer Contract entered into by Guangsha Construction Group Co., Ltd., Lu Chunliang and the Registrant regarding Suichang County Jiulongshan Hydroelectric Development Co., Ltd. on December 13, 2007 (incorporated by reference to Exhibit 10.13 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.14 Agreement relating to the Sale and Purchase of the equity of Sunpower Asia Limited entered into by the Registrant and Sanming Ruifeng Hydropower Investment Co., Ltd. on July 11, 2008 (incorporated by reference to Exhibit 10.14 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.15 Equity Interest Transfer Contract entered into by the Registrant, Sanming Ruifeng Hydropower Investment Co., Ltd. and Yong'an Ruifeng Hydroelectric Ltd. on July 11, 2008 (incorporated by reference to Exhibit 10.15 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.16 Contract on Transfer of Ten Percent Equity Interests of Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. entered into by China Hydroelectric Corporation (Hong Kong) Limited and Sanming Ruifeng Economic Technological Development Ltd. on January 30, 2009 (incorporated by reference to Exhibit 10.16 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.17 Supplemental Agreement of the Contract on Transfer of Ten Percent Equity Interests of Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. entered into by Sanming Ruifeng Economic Technological Development Ltd., China Hydroelectric Corporation (Hong Kong) Limited, Sanming Ruifeng Hydropower Investment Co., Ltd. and the Registrant on January 30, 2009 (incorporated by reference to Exhibit 10.17 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.18 Joint Venture Contract Among Foreign Investors for Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. entered into by the Registrant, China Hydroelectric Corporation (Hong Kong) Limited and Sunpower Asia Limited in February 2009 (incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.19 Share Transfer Agreement for Pingnan County Yuheng Hydropower Co., Ltd. entered into by the Registrant and Fujian Province Anheng Assets Management Co., Ltd., Shanghai Yufeng Hotel Management Co., Ltd., Chen Can Ling, Wang Jiang, Zhang Rong Bin and Zhou Jian Biao on August 15, 2008 (incorporated by reference to Exhibit 10.19 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.20 Share Transfer Agreement for Pingnan County Yuanping Hydroelectric Co., Ltd. entered into by the Registrant and Lin Yun, Wu Ting Li, Zhang Yao Fang and Zhou Jian on August 15, 2008 (incorporated by reference to Exhibit 10.20 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.21 Power Purchase Contract entered into by Yunnan Huabang Electric Power Development Co., Ltd. and Yunnan Dehong Electric Power Co., Ltd. on June 19, 2009 (incorporated by reference to Exhibit 10.22 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.22 Supplemental Agreement to Power Purchase and Sale Contract entered into by Yunnan Huabang Electric Power Development Co., Ltd. and Yunnan Dehong Electric Power Co., Ltd. on June 19, 2009 (incorporated by reference to Exhibit 10.23 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.23 Grid Connection and Dispatching Agreement entered into by Yunnan Dehong Electric Power Co., Ltd. and Yingjiang County Huafa Electric Power Development Co., Ltd. (formerly Yunnan Huabang Electric Power Development Co., Ltd.) on January 15, 2004 (incorporated by reference to Exhibit 10.24 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

Table of Contents

- 4.24 Grid Connection and Dispatching Agreement entered into by Sichuan Cangxi Electric Power Co., Ltd. and Sichuan Huabang Hydroelectric Development Co., Ltd. on May 17, 2009 (incorporated by reference to Exhibit 10.25 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.25 Power Purchase and Sale Contract entered into by Sichuan Cangxi Electric Power Co., Ltd. and Sichuan Huabang Hydroelectric Development Co., Ltd. on May 16, 2009 (incorporated by reference to Exhibit 10.26 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.26 Grid Connection Economic Agreement entered into by Lishui Electric Power Bureau and Yunhe County Shapulong Hydropower Generation Co., Ltd. in October 2008 (incorporated by reference to Exhibit 10.27 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.27 Grid Connection and Dispatching Agreement for Wangkeng Hydropower Station entered into by Fujian Province Ningde Electric Power Industry Bureau and Pingnan County Wangkeng Hydroelectric Co., Ltd. on July 21, 2008 (incorporated by reference to Exhibit 10.28 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.28 Power Purchase and Sales Contract for Wangkeng Hydropower Station entered into by Fujian Province Electric Power Co., Ltd. and Pingnan County Fushun Hydroelectric Co., Ltd. on October 28, 2004 (incorporated by reference to Exhibit 10.29 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.29 Grid Connection and Dispatching Agreement for Wuliting Hydropower Station entered into by Lishui Electric Power Bureau and Qingtian Wuliting Hydroelectric Development Co., Ltd. on November 20, 2008 (incorporated by reference to Exhibit 10.30 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.30 Grid Connection Economic Agreement entered into by Lishui Electric Power Bureau and Qingtian Wuliting Hydroelectric Development Co., Ltd. in November, 2007 (incorporated by reference to Exhibit 10.31 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.31 Grid Connection and Dispatching Agreement for Jingning Yingchuan Hydropower Station entered into by Lishui Electric Power Bureau and Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. on November 20, 2008 (incorporated by reference to Exhibit 10.32 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.32 Grid Connection Economic Agreement entered into by Lishui Electric Power Bureau and Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. in November 2007 (incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.33 Intent Agreement of Conformity of Power Purchase and Supply in Rongping Supply Area entered into by Fujian Province Pingnan County Power Supply Co., Ltd., Fujian Province (Pingnan) Rongping Chemical Industry Co., Ltd., Pingnan County Hengli Hydroelectric Co., Ltd. and Pingnan County Yuheng Hydropower Co., Ltd. on August 31, 2007 (incorporated by reference to Exhibit 10.34 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.34 Grid Connection and Dispatching Agreement for Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. entered by Fujian Province Sanming Power Industry Bureau and Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. on September 22, 2006 (incorporated by reference to Exhibit 10.39 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.35 Grid Connection and Power Purchase Agreement entered into by Fujian Province Sanming Power Industry Bureau and Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. on April 30, 1997 (incorporated by reference to Exhibit 10.40 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.36 Share Transfer Contract for Longquan Ruiyang Cascade II Hydroelectric Co., Ltd. entered into by Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd., Guangdong Qingneng Power Generation Group Co., Ltd. and Yao Lin Fu on August 11, 2009 (incorporated by reference to Exhibit 10.41 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

Table of Contents

- 4.37 Share Transfer Contract for Thirteen Percent of the Equity Interests of Yunhe County Shapulong Hydropower Generation Co., Ltd. entered into by Zhejiang Province Water Resources and Hydroelectric Investment Group Co., Ltd. and the Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. on June 29, 2009 (incorporated by reference to Exhibit 10.42 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.38 Share Transfer Contract for Yunhe County Shapulong Hydropower Generation Co., Ltd. entered into by Zhejiang Guangning Hydroelectric Development Co., Ltd. and the Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. on July 22, 2009 (incorporated by reference to Exhibit 10.43 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.39 Grid Connection Economic Agreement entered into by Longquan Ruiyang Cascade II Hydroelectric Co., Ltd. and Lishui Power Industry Bureau in April 2007 (incorporated by reference to Exhibit 10.44 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.40 Grid Connection and Dispatching Agreement entered into by Longquan Ruiyang Cascade II Hydroelectric Co., Ltd. and Lishui Power Industry Bureau, Dispatching and Communication Center, on October 18, 2003 (incorporated by reference to Exhibit 10.45 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.41 Renminbi Loan Agreement (Long/Medium Term) entered into by Qingtian Wuliting Hydroelectric Development Co., Ltd. and Bank of China Limited, Lishui City Dayang Sub-branch, on March 19, 2009 (incorporated by reference to Exhibit 10.46 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.42 Medium/Long-Term Renminbi Loan Contract entered into by Pingnan County Wangkeng Hydroelectric Co., Ltd. and Industrial Bank Co., Ltd., Ningde Branch, on March 24, 2009 (incorporated by reference to Exhibit 10.47 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.43 Renminbi Loan Contract (Medium/Long Term) entered into by Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. and Bank of China Limited, Fujian Province Branch, on June 16, 2009 (incorporated by reference to Exhibit 10.48 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.44 Loan Contract entered into by Suichang County Jiulongshan Hydroelectric Development Co., Ltd. and Agricultural Bank of China, Lishui City Branch, on June 19, 2009 (RMB9.0 million) (incorporated by reference to Exhibit 10.49 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.45 Loan Contract entered into by Suichang County Jiulongshan Hydroelectric Development Co., Ltd. and Agricultural Bank of China, Lishui City Branch, on June 19, 2009 (RMB216.0 million) (incorporated by reference to Exhibit 10.50 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.46 Memorandum of Understandings entered into by Bank of China, Fujian Branch, and China Hydroelectric Corporation in July 2009 (incorporated by reference to Exhibit 10.51 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.47 Employment Agreement entered into by Beijing A.B.C. Investment Consulting Co., Ltd. and You-Su Lin on July 1, 2008 (incorporated by reference to Exhibit 10.53 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.48 Employment Agreement entered into by Beijing A.B.C. Investment Consulting Co., Ltd. and Gan Wu on July 1, 2008 (incorporated by reference to Exhibit 10.54 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.49 Capital Increase Agreement for Henan Wuyue Storage Power Generation Co., Ltd. entered into by China Hydroelectric Corporation and Henan Lan Tian Group Co., Ltd. on October 22, 2009 (incorporated by reference to Exhibit 10.61 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.50 Form of Warrant to Purchase Ordinary Shares of the Registrant by Broadband Capital Management LLC to be dated the closing of the initial public offering (incorporated by reference to Exhibit 10.62 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)

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### Table of Contents

- 4.51 Warrant to Purchase Units Consisting of Ordinary Shares and Warrants to Purchase Ordinary Shares of the Registrant by Morgan Joseph & Co. Inc. dated November 10, 2006 (283,333 Units) (incorporated by reference to Exhibit 10.63 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.52 Warrant to Purchase Units Consisting of Ordinary Shares and Warrants to Purchase Ordinary Shares of the Registrant by Morgan Joseph & Co. Inc. dated November 10, 2006 (550,000 Units) (incorporated by reference to Exhibit 10.64 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.53 Warrant to Purchase Common Shares of the Registrant by JMG Capital Partners, L.P. dated September 28, 2007 (incorporated by reference to Exhibit 10.65 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.54 Warrant to Purchase Common Shares of the Registrant by JMG Triton Offshore Fund, Ltd. dated September 28, 2007 (incorporated by reference to Exhibit 10.66 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.55 Warrant to Purchase Preferred Shares or Ordinary Shares, as Applicable, of the Registrant by Morgan Joseph & Co. Inc. dated January 28, 2008 (incorporated by reference to Exhibit 10.67 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.56 Letter Agreement between the Registrant and Vicis Capital Master Fund dated April 11, 2007 (incorporated by reference to Exhibit 10.68 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.57 Form of warrant agreement (incorporated by reference to Exhibit 10.69 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
- 4.58 Share Transfer Contract for Yingjiang County Qingrui Husahe Power Co., Ltd. dated as of March 2, 2010 between Dehong Qinrui (Group) Power Investment and Development Co., Ltd. and Yunnan Huabang Electric Power Development Co., Ltd. (incorporated by reference to Exhibit 4.70 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)
- 4.59 Share Transfer Contract for Fugong County Hengda Hydroelectric Development Co., Ltd. (Aluhe Hydropower Station and Zilenghe Hydropower Station) dated as of April 14, 2010 between Yunnan Minfa Hydroelectric Development Group Co., Ltd., Xiamen Minrui Investment Co., Ltd. and Fujian Huabang Hydroelectric Investment Co., Ltd. (incorporated by reference to Exhibit 4.71 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)
- 4.60 Share Transfer Contract for Fugong Xineng Power Development Co., Ltd. (Latudihe Hydropower Station) dated as of April 14, 2010 between Yunnan Minhe Hydroelectric Investment Co., Ltd. and Fujian Huabang Hydroelectric Investment Co., Ltd. (incorporated by reference to Exhibit 4.72 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)
- 4.61 Supplemental Agreement on the Power Purchase and Sale Contract for the Year of 2010 (Contract Number: De Dian Si 2010-011) for Binglangjiang Power Station and Binglangjiang Expanded Power Station dated as of March 31, 2010 between Yunnan Huabang Electric Power Development Co., Ltd. and Dehong Power Supply Co., Ltd. (incorporated by reference to Exhibit 4.73 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)

Table of Contents

- 4.62 Supplemental Agreement on the Power Purchase and Sale Contract for the Year of 2010 (Contract Number: 2010-009) for Husahe Cascade III & VI Power Station and Mangxian Power Station (incorporated by reference to Exhibit 4.74 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)
- 4.63 Power Purchase Agreement (contract Number: De Dian Si 2009-079) (Binglangjiang expanded Power Station) dated as of November 4, 2009 between Dehong Power Supply Co., Ltd. and Yunnan Huabang Electric Power development Co. (incorporated by reference to Exhibit 4.75 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)
- 4.64 Supplemental Agreement on the Power Purchase and Sale Contract for the Year of 2009 (Contract Number: De Dian Si 2009-079) (Binglangjiang expanded Power Station) dated as of November 4, 2009 between Dehong Power Supply Co., Ltd. and Yunnan Huabang Electric Power Development Co., Ltd. (incorporated by reference to Exhibit 4.76 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)
- 4.65 Grid Connection Agreement (Serial Number: De Dian Ru Wang No. 2009-003) dated as of July 16, 2009 between Yunnan Dehong Electric Power Co., Ltd. and Yunnan Huabang Electric Power Development Co., Ltd. (incorporated by reference to Exhibit 4.77 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)
- 4.66 Share Transfer Contract for Luquan Xiaopengzu Power Generation Co., Ltd. dated as of April 23, 2010 among Fujian Huabang Hydroelectric Investment Co., Ltd. and various individual parties thereto (incorporated by reference to Exhibit 4.78 of our Annual Report on Form 20-F filed with the SEC on May 24, 2010)
- 4.67 Shaowu City Qianling Hydroelectric Station Grid Connection Agreement dated as of October 19, 2000 between Shaowu Power Supply Bureau (hereinafter Party A ) and Shaowu City Jinling Power Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.68 Shaowu Power Supply Bureau Grid Connection and Dispatching Agreement dated December 20, 2002 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jinling Power Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.69 Shaowu Power Supply Bureau Grid Connection and Dispatching Agreement dated December 15, 2003 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jinling Power Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.70 Shaowu Power Supply Bureau Grid Connection and Dispatching Agreement dated October 15, 2004 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jintang Hydroelectric Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.71 Shaowu Power Supply Bureau Grid Connection and Dispatching Agreement dated October 15, 2004 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jinlong Hydropower Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.72 Power Purchase and Sale Contract for Jinwei Hydropower Station dated as of January 2007 between Fujian Province Nanping Electric Power Industry Bureau and Shaowu City Jinwei Hydroelectric Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.73 Power Purchase and Sale Contract for Dongguan Hydropower Station dated as of March 2007 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jinling Power Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.74 Power Purchase and Sale Contract for Qianling Hydropower Station dated as of March 2007 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jinling Power Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)



Table of Contents

- 4.75 Power Purchase and Sale Contract for Jinjiu Hydropower Station dated as of March 2007 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jinling Power Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.76 Power Purchase and Sale Contract for Jinlong Hydropower Station dated as of March 2007 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jinlong Hydropower Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.77 Power Purchase and Sale Contract for Sanming Banzhu Power Station entered into by Fujian Province Electric Power Co., Ltd. and Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. on August 18, 2008 (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.78 Grid Connection Economic Agreement entered into by Lishui Electric Power Bureau and Qingtian Wuliting Hydroelectric Development Co., Ltd. in October 2008 (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.79 Grid Connection Economic Agreement entered into by Lishui Electric Power Bureau and Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. in October 2008 (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.80 Grid Connection and Dispatching Agreement dated as of November 2008 between Lishui Electric Power Industry Bureau and Yunhe County Shapulong Hydropower Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.81 Power Purchase and Sale Contract for Jintang Hydropower Station dated as of December 2008 between Fujian Province Shaowu Power Supply Bureau and Shaowu City Jintang Hydroelectric Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.82 Grid Connection and Dispatching Agreement of Zhougongyuan Cascade I Power Station dated as of April 21, 2009 between Lishui Electric Power Industry Bureau and Suichang County Jiulongshan Hydroelectric Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.83 Grid Connection and Dispatching Agreement of Zhougongyuan Cascade II Power Station dated as of April 21, 2009 between Lishui Electric Power Industry Bureau and Suichang County Jiulongshan Hydroelectric Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.84 Grid Connection and Dispatching Agreement of Zhougongyuan Cascade III Power Station dated as of April 21, 2009 between Lishui Electric Power Industry Bureau and Suichang County Jiulongshan Hydroelectric Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.85 Power Purchase and Sale Contract dated as of June 19, 2009 between Yunnan Dehong Power Co., Ltd. and Yingjiang County Qinrui Husahe Hydropower Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.86 Power Purchase and Sale Contract dated as of January 1, 2010 between Yunnan Nujiang Grid Co., Ltd. and Fugong Xineng Power Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.87 Power Purchase and Sale Contract dated as of January 1, 2010 between Yunnan Nujiang Grid Co., Ltd. and Fugong County Hengda Hydroelectric Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.88 Power Purchase and Sale Contract of Xiaopengzu Power Plant for the Year of 2011 dated as of March 2011 between Yunnan Grid Company and Luquan Xiaopengzu Power Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.89 Grid Connection and Dispatching Agreement dated as of May 14, 2010 between Yunnan Nujiang Grid Co., Ltd. and Fugong Xineng Power Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.90 Grid Connection and Dispatching Agreement dated as of May 14, 2010 between Yunnan Nujiang Grid Co., Ltd. and Fugong County Hengda Hydroelectric Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)

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### Table of Contents

- 4.91 Power Purchase and Sale Contract entered into by Sichuan Cangxi Electric Power Co., Ltd. and Sichuan Huabang Hydroelectric Development Co., Ltd. on May 17, 2010 (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.92 Grid Connection and Dispatching Agreement entered into by Sichuan Cangxi Electric Power Co., Ltd. and Sichuan Huabang Hydroelectric Development Co., Ltd. on May 18, 2010 (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.93 Power Purchase and Sales Contract for Wangkeng Hydropower Station entered into by Fujian Province Electric Power Co., Ltd. and Pingnan County Wangkeng Hydroelectric Co., Ltd. on June 28, 2010 (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.94 Fixed Assets Loan Contract dated as of July 15, 2010 between Fugong Xineng Power Development Co., Ltd. and Bank of China Limited, Fujian Branch (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.95 Power Purchase and Sale Contract dated as of July 16, 2010 between Lishui Electric Power Industry Bureau and Suichang County Zhougongyuan Hydroelectric Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.96 Power Purchase and Sale Contract dated as of July 16, 2010 between Lishui Electric Power Industry Bureau and Suichang County Jiulongshan Hydroelectric Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.97 Grid Connection and Dispatching Agreement dated as of August 11, 2010 between Dehong Power Supply Co., Ltd. and Yunnan Huabang Electric Power Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.98 Grid Connection and Dispatching Agreement for Husahe III Power Station dated as of August 11, 2010 between Dehong Power Supply Co., Ltd. and Yingjiang County Qinrui Husahe Hydropower Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.99 Grid Connection and Dispatching Agreement for Husahe IV Power Station dated as of August 11, 2010 between Dehong Power Supply Co., Ltd. and Yingjiang County Qinrui Husahe Hydropower Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.100 Grid Connection and Dispatching Agreement for Mangxian Power Station dated as of August 11, 2010 between Dehong Power Supply Co., Ltd. and Yingjiang County Qinrui Husahe Hydropower Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.101 Agricultural Bank of China Fixed Assets Loan Contract and Installment Repayment Agreement dated as of August 26, 2010 between Yunnan Huabang Electric Power Development Co., Ltd. and Agricultural Bank of China, Yingjiang County Sub-branch (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.102 Share Purchase Agreement for Shaowu City Jinling Power Generation Co., Ltd. dated as of September 28, 2010 among Fujian Huabang Hydroelectric Investment Co., Ltd., Fujian Taiyu Investment (Group) Co., Ltd., Shaowu City Fengyi Power Development Co., Ltd. and Jianyang City Xinguang Power Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.103 Grid Connection and Dispatching Agreement for Wangkeng Hydropower Station entered into by Fujian Province Electric Power Co., Ltd. Ningde Electric Power Industry Bureau and Pingnan County Wangkeng Hydroelectric Co., Ltd. on September 30, 2010 (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
- 4.104 Share Transfer Contract for Jinping Kanghong Hydroelectric Development Co., Ltd. dated as of November 6, 2010 among Luquan Xiaopengzu Power Generation Co., Ltd. and various individual parties thereto (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)

## Edgar Filing: China Hydroelectric Corp - Form 20-F

### Table of Contents

4.105	Transfer Contract Regarding 10% of the Equity of Pingnan County Wangkeng Hydroelectric Co., Ltd. dated as of November 22, 2010 between Sanming City Chenyang Hydroelectric Co., Ltd. and Fujian Huabang Hydroelectric Investment Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.106	Fixed Assets Loan Contract dated as of December 24, 2010 between Pingnan County Yuheng Hydroelectric Co., Ltd. and Bank of China Limited, Fujian Branch (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.107	Supplemental Agreement on the Power Purchase and Sale Contract for the Year of 2011 (Contract Number: De Dian Si 2011-079) (Binglangjiang expanded Power Station) dated as of December 29, 2010 between Dehong Power Supply Co., Ltd. and Yunnan Huabang Electric Power Development Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.108	Grid Connection and Dispatching Agreement for Jinwei Hydropower Plant dated as of December 24, 2010 between Fujian Province Electric Power Co., Ltd. Nanping Electric Power Industry Bureau and Shaowu City Jinwei Hydroelectric Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.109	Supplemental Agreement on Power Purchase and Sale Contract for the Year of 2011 dated as of December 29, 2010 between Dehong Power Supply Co., Ltd. and Yingjiang County Qinrui Husahe Hydropower Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.110	Supplemental Agreement to Power Purchase and Sale Contract entered into by Yunnan Huabang Electric Power Development Co., Ltd. and Yunnan Dehong Electric Power Co., Ltd. on December 29, 2010 (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.111	Fixed Assets Loan Contract dated as of December 31, 2010 between Fugong County Hengda Hydroelectric Development Co., Ltd. and Bank of China Limited, Yunnan Branch (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.112	Fixed Assets Loan Contract dated as of January 7, 2011 between Fugong County Hengda Hydroelectric Development Co., Ltd. and Bank of China Limited, Fujian Branch (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.113	Grid Connection and Dispatching Agreement dated as of March 2010 between Yunnan Grid Company and Luquan Xiaopengzu Power Generation Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.114	Grid Connection and Dispatching Agreement dated as of September 30, 2010 between Fujian Province Electric Power Co., Ltd. Sanming Power Industry Bureau and Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. (incorporated by reference to exhibit with identical exhibit number of our Annual Report on Form 20-F filed with the SEC on April 4, 2011)
4.115	Warrant Exercise Agreement dated August 19, 2011 between China Hydroelectric Corporation and Vicis Capital Master Fund (incorporated by reference to Exhibit 4.1 to our Report on Form 6-K filed with the SEC on August 19, 2011)
4.116	Translation of Share Transfer Agreement for Pingnan County Yuanping Hydroelectric Co., Ltd. dated December 3, 2011 between China Hydroelectric Corporation and Mr. You Lang Fei (incorporated by reference to Exhibit 10.2 to our Annual Report on Form 20-F filed with the SEC on April 27, 2012)
4.117	Settlement Agreement dated September 30, 2012 between China Hydroelectric Corporation, Vicis Capital, LLC, John D. Kuhns, Mary Fellows, Richard H. Hochman, Anthony H. Dixon, Shadron Lee Stastney, Stephen Outerbridge, You-Su Lin and the Shareholder Group defined there in (incorporated by reference to Exhibit 99.2 to our Report on 6-K filed with the SEC on October 2, 2012)
4.118	Translation of Share Transfer Agreement for Pingnan County Yuheng Hydroelectric Co., Ltd dated October 18, 2012 between China Hydroelectric Corporation and a third party.
8.1	Subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 to our Registration Statement on Form F-1 (file no. 333-163558), as amended, initially filed with the SEC on December 8, 2009)
12.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Calculation of Effective Tariff Rate, Effective Utilization Rate and Weighted Average Effective Utilization Rate
15.2	Consent of Independent Registered Public Accounting Firm

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XBRL Interactive Data File will be filed by amendment to this Form 20-F within 30 days of the filing date of this Form 20-F, as permitted by Rule 405(a)(2)(ii) of Regulation S-T.

[Table of Contents](#)

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 18, 2013

CHINA HYDROELECTRIC CORPORATION

By: /s/ You-Su Lin

**Name:**

**Title:**

**Dr. You-Su Lin**

**Interim Chief Executive Officer**

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CHINA HYDROELECTRIC CORPORATION

	PAGE
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2011 and 2012</u>	F-2
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2010, 2011 and 2012</u>	F-3
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2011 and 2012</u>	F-5
<u>Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2010, 2011 and 2012</u>	F-7
<u>Notes to the Consolidated Financial Statements</u>	F-9

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Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of  
China Hydroelectric Corporation

We have audited the accompanying consolidated balance sheets of China Hydroelectric Corporation as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Hydroelectric Corporation at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that China Hydroelectric Corporation will continue as a going concern. As discussed in Note 2(a) to the financial statements, the Company has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Ernst & Young Hua Ming LLP  
Beijing, People's Republic of China  
April 18, 2013

Table of Contents**CHINA HYDROELECTRIC CORPORATION****CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2011 AND 2012****(Amounts in thousands of U.S. dollars ( US\$ ), except for number of shares and per share data)**

	Notes	December 31, 2011	2012
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		8,391	7,967
Restricted cash			5,171
Accounts receivable (net of allowance for doubtful accounts of US\$nil as of December 31, 2011 and 2012)	4	4,246	5,772
Notes receivable			1,877
Deferred tax assets	14	1,799	1,659
Amounts due from related parties (net of allowance for doubtful accounts of US\$1,334 and US\$1,338 as of December 31, 2011 and 2012)	28		86
Prepayments and other current assets (net of provision for impairment allowance of US\$714 and US\$1,560 as of December 31, 2011 and 2012)	5	2,999	14,150
Assets classified as held-for-sale	6	21,693	
<b>Total current assets</b>		<b>39,128</b>	<b>36,682</b>
<b>Non-current assets:</b>			
Property, plant and equipment, net	7	580,964	548,511
Land use rights, net	10	50,666	48,640
Intangible assets, net	8	5,788	4,660
Goodwill	9	135,651	112,481
Deferred tax assets	14	1,767	1,329
Other non-current assets	11	951	2,013
<b>Total non-current assets</b>		<b>775,787</b>	<b>717,634</b>
<b>TOTAL ASSETS</b>		<b>814,915</b>	<b>754,316</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable		5,251	3,124
Short-term loans	15	20,881	21,676
Current portion of long-term loans	15	51,651	35,537
Amounts due to related parties	28	12,174	12,705
Deferred tax liabilities	14	536	
Accrued expenses and other current liabilities	12	75,002	43,825
Warrant liabilities	18	440	839
Liabilities directly associated with the assets classified as held-for-sale	6	11,920	
<b>Total current liabilities</b>		<b>177,855</b>	<b>117,706</b>
<b>Non-current liabilities:</b>			
Long-term loans	15	215,382	212,970
Deferred tax liabilities	14	26,563	24,345
Other non-current liabilities	16	237	6,780
<b>Total non-current liabilities</b>		<b>242,182</b>	<b>244,095</b>
<b>Total liabilities</b>		<b>420,037</b>	<b>361,801</b>



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<b>Commitments and contingencies</b>	24		
<b>Shareholders' equity</b>			
<b>China Hydroelectric Corporation shareholders' equity:</b>			
Ordinary shares (par value US\$0.001 per share, 400,000,000 shares authorized as of December 31, 2011 and 2012; 161,989,097 shares issued and outstanding as of December 31, 2011 and 2012)	19	162	162
Additional paid-in capital		509,499	509,665
Accumulated other comprehensive income	21	42,968	41,597
Accumulated deficit		(158,229)	(159,472)
<b>Total China Hydroelectric Corporation shareholders' equity</b>		394,400	391,952
<b>Noncontrolling interests</b>		478	563
<b>Total shareholders' equity</b>		394,878	392,515
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		814,915	754,316

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****CONSOLIDATED STATEMENTS OF****COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

(Amounts in thousands of U.S. dollars ( US\$ ), except for number of shares and per share data)

		For the Years Ended December 31,		
	Notes	2010	2011	2012
<b>Revenues</b>		58,158	54,597	85,388
<b>Cost of revenues</b>		(22,653)	(31,314)	(35,795)
<b>Gross profit</b>		35,505	23,283	49,593
<b>Operating expenses:</b>				
General and administrative expenses (including share-based compensation expense of US\$3,615, US\$10,479 and US\$166 in 2010, 2011 and 2012)		(19,166)	(28,896)	(20,348)
Impairment loss on goodwill	9		(11,388)	
Impairment loss on long-lived assets	7		(11,590)	
<b>Total operating expenses</b>		(19,166)	(51,874)	(20,348)
<b>Operating income (loss)</b>		16,339	(28,591)	29,245
Interest income		798	101	84
Interest expense	23	(13,855)	(24,757)	(28,070)
Changes in fair value of warrant liabilities	18	365	951	(399)
Exchange (loss) gain		(855)	(851)	28
Other income (loss), net	25	166	(334)	507
<b>Income (loss) before income tax expense</b>		2,958	(53,481)	1,395
Income tax expense	13	(3,208)	(1,527)	(6,451)
<b>Net loss from continuing operations</b>		(250)	(55,008)	(5,056)
<b>Discontinued operations</b>				
Income (loss) from discontinued operations (net of income tax expense of US\$152, US\$101 and US\$399 in 2010, 2011 and 2012)		4,235	(282)	1,140
Gain on disposal of discontinued operations (net of income tax expense of US\$nil, US\$nil and US\$959 in 2010, 2011 and 2012)				2,767
<b>Net income (loss) from discontinued operations</b>	6	4,235	(282)	3,907
<b>Net income (loss)</b>		3,985	(55,290)	(1,149)
<b>Less:</b>				
<b>Net (income) loss attributable to noncontrolling interests</b>		(243)	9,901	(94)
<b>Net income (loss) attributable to China Hydroelectric Corporation shareholders</b>		3,742	(45,389)	(1,243)
- Continuing operations		(493)	(45,107)	(5,150)
- Discontinued operations		4,235	(282)	3,907
<b>Other comprehensive income (loss), net of income tax expense</b>				
Foreign currency translation adjustments		11,857	20,394	(1,413)
Defined benefit pension plans			(33)	33
<b>Other comprehensive income (loss)</b>		11,857	20,361	(1,380)
<b>Comprehensive income (loss)</b>		15,842	(34,929)	(2,529)
Less: Comprehensive (income) loss attributable to noncontrolling interests		(243)	9,586	(85)

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<b>Comprehensive income (loss) attributable to China Hydroelectric Corporation shareholders</b>	15,599	(25,343)	(2,614)
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F-3

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012 (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ), except for number of shares and per share data)

	Notes	For the Years Ended December 31,		
		2010	2011	2012
Net income (loss) attributable to China Hydroelectric Corporation shareholders		3,742	(45,389)	(1,243)
Less:				
Cumulative dividends on Series A convertible redeemable preferred shares	17	(1,989)		
Cumulative dividends on Series B convertible redeemable preferred shares	17	(1,412)		
Cumulative dividends on Series C convertible redeemable preferred shares	17	(162)		
Accretion of beneficial conversion feature on Series A convertible redeemable preferred shares	17	(6,990)		
Accretion of beneficial conversion feature on Series B convertible redeemable preferred shares	17	(5,040)		
Accretion of beneficial conversion feature on Series C convertible redeemable preferred shares	17	(222)		
Loss attributable to ordinary shareholders		(12,073)	(45,389)	(1,243)
Net (loss) income attributable to ordinary shareholders per share	20	(0.08)	(0.29)	(0.01)
From continuing operations basic and diluted		(0.11)	(0.29)	(0.03)
From discontinued operations basic and diluted		0.03	(0.00)	0.02
Weighted average number of ordinary shares used in computing:				
Net loss attributable to ordinary shareholders per share basic and diluted	20	143,253,450	156,505,076	161,989,097
Net (loss) income attributable to ordinary shareholders per ADS (equivalent to three ordinary shares)		(0.25)	(0.87)	(0.02)
From continuing operations basic and diluted		(0.34)	(0.86)	(0.09)
From discontinued operations basic and diluted		0.09	(0.01)	0.07
Weighted average number of ADS used in computing:				
Net loss attributable ordinary shareholders per ADS basic and diluted		47,751,150	52,168,358	53,996,366

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

(Amounts in thousands of U.S. dollars ( US\$ ), except for number of shares and per share data)

	2010	For the Years Ended December 31, 2011	2012
<b>Cash flows from operating activities:</b>			
Net income (loss)	3,985	(55,290)	(1,149)
Adjustments to reconcile net income (loss) to net cash generated from operating activities:			
Depreciation of property, plant and equipment	15,834	21,984	22,407
Amortization of land use rights	935	1,144	1,174
Amortization of intangible assets	161	213	199
Impairment loss on goodwill		11,388	
Impairment loss on long-lived assets		11,590	
Deferred income taxes	(656)	(485)	(163)
Changes in fair value of warrant liabilities	(365)	(951)	399
Gain from disposal of subsidiaries			(2,767)
Amortization of debt issuance costs	19	19	191
Accretion of guarantee deposit	391		
Amortization of unfavorable contract obligations	(586)		
Amortization of government grant	(6)	(3)	(3)
Share-based compensation expense	3,615	10,479	166
Loss from disposal of property, plant and equipment	73	266	508
Exchange loss (gain)	855	851	(28)
Gain from extinguishment of amounts due to original shareholders of acquired subsidiaries			(462)
Provision for impairment allowance on prepayments and other current assets		696	843
Provision for allowance for doubtful accounts on amounts due from a related party		1,302	
Net pension cost recognized		173	33
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable	5,426	242	(1,797)
Notes receivable			(1,874)
Amounts due from related parties	(1,487)		
Prepayments and other current assets	3,703	310	(463)
Other non-current assets	(138)	(344)	779
Accounts payable	690	(42)	(345)
Amounts due to related parties			(2)
Accrued expenses and other current liabilities	10,089	(1,903)	(1,524)
Other non-current liabilities	584	5	6,578
<b>Net cash generated from operating activities</b>	<b>43,122</b>	<b>1,644</b>	<b>22,700</b>
<b>Cash flows from investing activities:</b>			
Acquisition of subsidiaries, net of cash acquired	(43,213)	(19,330)	(8,923)
Proceeds from disposal of subsidiaries			20,212
Advances to an acquired business prior to the acquisition date	(43,548)		
Cash deposit for potential acquisitions	(9,475)	(696)	
Acquisition of land use rights	(223)		

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Acquisition of property, plant and equipment	(2,927)	(1,490)	(7,091)
Proceeds from disposal of property, plant and equipment	3	112	35
Payment to contractors for construction projects	(4,223)	(3,330)	(6,931)
Loans to a related party			(86)
<b>Net cash used in investing activities</b>	<b>(103,606)</b>	<b>(24,734)</b>	<b>(2,784)</b>

F-5

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012 (Continued)****(Amounts in thousands of U.S. dollars ( US\$ ), except for number of shares and per share data)**

	2010	For the Years Ended December 31, 2011	2012
<b>Cash flows from financing activities:</b>			
Purchase of subsidiary shares from noncontrolling interests		(1,204)	
Proceeds from loans from related parties	2,247	1,263	572
Proceeds from short-term loans	8,327	23,066	28,070
Proceeds from long-term loans	23,805	45,823	72,947
Proceeds from initial public offering	96,000		
Proceeds from exercised warrants		10,036	
Proceeds from loans from third parties		17,456	20,161
Payment of deferred initial public offering costs	(10,012)		
Payment of debt issuance costs and service fee			(704)
Payment of loans from related parties			(69)
Repayment of short-term loans	(7,206)	(20,889)	(28,051)
Repayment of long-term loans	(50,717)	(66,955)	(69,986)
Repayment of loans from third parties		(10,637)	(38,136)
Restricted cash			(5,166)
<b>Net cash provided by (used in) financing activities</b>	<b>62,444</b>	<b>(2,041)</b>	<b>(20,362)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,960</b>	<b>(25,131)</b>	<b>(446)</b>
<b>Effect of changes in exchange rate on cash and cash equivalents</b>	<b>(121)</b>	<b>76</b>	<b>11</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>31,618</b>	<b>33,457</b>	<b>8,402</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>33,457</b>	<b>8,402</b>	<b>7,967</b>
<b>Supplementary disclosure of cash flow information</b>			
Interest paid	15,812	22,928	19,983
Income taxes paid	1,261	2,333	2,855
Non-cash activities:			
Non-cash portion of deferred initial public offering costs	1,036		
Convertible redeemable preferred shares issued as dividends	3,563		
Conversion of convertible redeemable preferred shares into ordinary shares	119,754		
Non-cash portion of acquisition of subsidiaries	11,333	1,825	
Non-cash portion of acquisition of property, plant and equipment	2,741	9,595	3,330
Non-cash portion of disposal of property, plant and equipment		20	
Discharge of liability from disposal of subsidiaries			158

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

(Amounts in thousands of U.S. dollars ( US\$ ), except for number of shares and per share data)

	China Hydroelectric Corporation shareholders						
	Number of ordinary shares	Ordinary shares	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Noncontrolling interests	Total shareholders equity (deficit)
<b>Balance at December 31, 2009</b>	<b>15,541,666</b>	<b>16</b>	<b>36,251</b>	<b>11,065</b>	<b>(100,767)</b>	<b>789</b>	<b>(52,646)</b>
Issuance of ordinary shares upon initial public offering	18,000,000	18	65,083				65,101
Issuance of warrants (Note 18)			7,200				7,200
Reclassification of warrant liabilities upon initial public offering (Note 18)			13,968				13,968
Cumulative dividends on Series A convertible redeemable preferred shares					(1,989)		(1,989)
Cumulative dividends on Series B convertible redeemable preferred shares					(1,412)		(1,412)
Cumulative dividends on Series C convertible redeemable preferred shares					(162)		(162)
Conversion of Series A convertible redeemable preferred shares into ordinary shares	63,016,780	62	186,467				186,529
Conversion of Series B convertible redeemable preferred shares into ordinary shares	50,795,457	51	150,304				150,355
Conversion of Series C convertible redeemable preferred shares into ordinary shares	5,941,613	6	20,512				20,518
Beneficial conversion feature on Series A convertible redeemable preferred shares upon conversion into ordinary shares			6,990				6,990
Accretion of beneficial conversion feature on Series A convertible redeemable preferred shares					(6,990)		(6,990)



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Beneficial conversion feature on Series B convertible redeemable preferred shares upon conversion into ordinary shares				5,040			5,040
Accretion of beneficial conversion feature on Series B convertible redeemable preferred shares					(5,040)		(5,040)
Beneficial conversion feature on Series C convertible redeemable preferred shares upon conversion into ordinary shares				222			222
Accretion of beneficial conversion feature on Series C convertible redeemable preferred shares					(222)		(222)
Noncontrolling interest in acquired subsidiaries						10,064	10,064
Share-based compensation expenses				3,615			3,615
Other comprehensive income					11,857		11,857
Net income					3,742	243	3,985
<b>Balance at December 31, 2010</b>	<b>153,295,516</b>	<b>153</b>	<b>495,652</b>	<b>22,922</b>	<b>(112,840)</b>	<b>11,096</b>	<b>416,983</b>

Table of Contents**CHINA HYDROELECTRIC CORPORATION****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012 (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ), except for number of shares and per share data)

	Number of ordinary shares	China Hydroelectric Corporation shareholders Ordinary shares	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Noncontrolling interests	Total shareholders equity (deficit)
<b>Balance at December 31, 2010</b>	<b>153,295,516</b>	<b>153</b>	<b>495,652</b>	<b>22,922</b>	<b>(112,840)</b>	<b>11,096</b>	<b>416,983</b>
Reclassification of warrants from equity to liability			(1,391)				(1,391)
Exercise of warrants	8,693,581	9	9,666				9,675
Purchase of subsidiary shares from noncontrolling interests			(4,907)			(1,032)	(5,939)
Share-based compensation expenses			10,479				10,479
Other comprehensive income				20,046		315	20,361
Net loss					(45,389)	(9,901)	(55,290)
<b>Balance at December 31, 2011</b>	<b>161,989,097</b>	<b>162</b>	<b>509,499</b>	<b>42,968</b>	<b>(158,229)</b>	<b>478</b>	<b>394,878</b>
Share-based compensation expenses			166				166
Other comprehensive loss				(1,371)		(9)	(1,380)
Net (loss) income					(1,243)	94	(1,149)
<b>Balance at December 31, 2012</b>	<b>161,989,097</b>	<b>162</b>	<b>509,665</b>	<b>41,597</b>	<b>(159,472)</b>	<b>563</b>	<b>392,515</b>

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

China Hydroelectric Corporation (the Company) was incorporated on July 10, 2006 under the laws of the Cayman Islands to serve as a vehicle for the acquisition of equity interests in companies with hydroelectric assets in the People's Republic of China (the PRC or China). The Company and its subsidiaries (the Group) are principally engaged in the operation and development of hydroelectric assets and the generation of hydroelectric power in the PRC.

On January 25, 2010, the Company completed an initial public offering (IPO), whereby the Company issued 6,000,000 units of securities at US\$16.00 per unit. Each unit consists of one American Depositary Share (ADS) priced at US\$14.80 and one warrant priced at US\$1.20. Each ADS represents three ordinary shares and each warrant entitles the holder to purchase three ordinary shares for an exercise price of US\$15.00. The IPO yielded aggregate gross proceeds of US\$96,000. The proceeds, net of applicable expenses, are used to acquire hydroelectric operating companies and assets and to develop new hydroelectric power projects in China, for working capital and for general corporate purposes.

The Company does not conduct any substantive operation of its own and conducts its primary business operations through its subsidiaries.

During the years ended December 31, 2010, 2011 and 2012, the Company made six, one and nil acquisitions of hydroelectric entities, respectively. Details of the acquisitions made are disclosed in Note 3.

As of December 31, 2012, the Company's subsidiaries included the following entities:

<b>Subsidiaries</b>	<b>Place of Incorporation</b>	<b>Date of Establishment/ Acquisition</b>	<b>Percentage of Ownership</b>	<b>Principal Activities</b>
Beijing A.B.C. Investment Consulting Co., Ltd. (ABC)	Mainland of PRC	April 19, 2007	100%	Provision of general and administrative services to group companies
Yunnan Huabang Electric Power Development Co., Ltd. (Binglangjiang)	Mainland of PRC	April 25, 2007	100%	Operation and development of hydroelectric assets
Sichuan Huabang Hydroelectric Development Co., Ltd. (Liyuan)	Mainland of PRC	May 21, 2007	100%	Operation and development of hydroelectric assets

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Zhejiang Province Jingning Yingchuan Hydroelectric Development Co., Ltd. ( Yingchuan )	Mainland of PRC	January 31, 2008	100%	Operation and development of hydroelectric assets
Qingtian Wuliting Hydroelectric Development Co., Ltd. ( Wuliting )	Mainland of PRC	January 31, 2008	100%	Operation and development of hydroelectric assets
Suichang County Jiulongshan Hydroelectric Development Co., Ltd. ( Jiulongshan )	Mainland of PRC	January 31, 2008	100%	Operation and development of hydroelectric assets
China Hydroelectric Corporation (Hong Kong) Limited ( CHC HK )	Hong Kong ( HK )	June 25, 2008	100%	Investment holding company

F-9

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

	<b>Place of Incorporation</b>	<b>Date of Establishment/ Acquisition</b>	<b>Percentage of Ownership</b>	<b>Principal Activities</b>
Pingnan County Wangkeng Hydroelectric Co., Ltd. ( Wangkeng )	Mainland of PRC	October 21, 2008	100%	Operation and development of hydroelectric assets
Sanming Zhongyin Banzhu Hydroelectric Co., Ltd. ( Banzhu )	Mainland of PRC	October 22, 2008	100%	Operation and development of hydroelectric assets
Sun Power Asia Limited ( Sunpower )	HK	November 14, 2008	100%	Investment holding company
Yunhe County Shapulong Hydropower Generation Co., Ltd. ( Shapulong )	Mainland of PRC	August 3, 2009	100%	Operation and development of hydroelectric assets
Zhejiang Longquan Ruiyang Cascaded II Hydropower Plant Co., Ltd. ( Ruiyang )	Mainland of PRC	August 20, 2009	100%	Operation and development of hydroelectric assets
Suichang County Zhougongyuan Hydroelectric Development Co., Ltd. ( Zhougongyuan )	Mainland of PRC	December 3, 2009	100%	Operation and development of hydroelectric assets
Fujian Huabang Hydroelectric Investment Co., Ltd. ( Fujian Huabang )	Mainland of PRC	January 14, 2010	100%	Investment holding company
Henan Wuyue Storage Power Generation Co., Ltd. ( Wuyue )	Mainland of PRC	March 23, 2010	79%	Development of hydroelectric assets
Yingjiang County Qinrui Husahe Power Co., Ltd. ( Husahe )	Mainland of PRC	April 19, 2010	100%	Operation and development of hydroelectric assets
Fugong County Hengda Electric Power Development Co., Ltd. ( Hengda )	Mainland of PRC	June 22, 2010	100%	Operation and development of hydroelectric assets
Fugong County Xineng Electric Power Development Co., Ltd. ( Xineng )	Mainland of PRC	August 16, 2010	100%	Operation and development of hydroelectric assets
Luquan Xiaopengzu Power Generation Co., Ltd. ( Xiaopengzu )	Mainland of PRC	September 8, 2010	100%	Operation and development of hydroelectric assets
Shaowu City Jinling Power Generation Co., Ltd. ( Jinling )	Mainland of PRC	December 30, 2010	100%	Operation and development of hydroelectric assets
Shaowu City Jinlong Hydroelectric Co., Ltd. ( Jinlong )	Mainland of PRC	December 30, 2010	55%	Operation and development of hydroelectric assets
Shaowu City Jintang Hydroelectric Co., Ltd. ( Jintang )	Mainland of PRC	December 30, 2010	74%	Operation and development of hydroelectric assets
Shaowu City Jinwei Hydroelectric Co., Ltd. ( Jinwei )	Mainland of PRC	December 30, 2010	74%	Operation and development of hydroelectric assets
Jinping Kanghong Hydroelectric Development Co., Ltd. ( Dazhaihe )	Mainland of PRC	April 10, 2011	100%	Operation and development of hydroelectric assets

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of presentation**

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ( US GAAP ). Certain comparative amounts have been reclassified to conform with the current year's presentation.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern.

As of December 31, 2012, the Group had working capital deficiency of US\$81,024. This factor raises substantial doubt about the Company's ability to continue as a going concern. The continued operation of the Group is dependent upon the Group's ability in raising additional capital, obtaining additional financing and improving future operating and financial results. Therefore, the Company may not be able to realize its assets and discharge its liabilities in the normal course of business. In view of this, management has taken steps to actively pursue additional capital and financing.

While the Company strongly believes that its capital resources will be sufficient in the near term, there is no assurance that sufficient funds required during the next year or thereafter will be generated from operations or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there is no assurance that any additional financing, if available, will be obtainable on terms satisfactory or attractive to the Company.

The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might have been necessary should the Company not be able to continue in existence as a going concern.

**(b) Principles of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control and continued to be consolidated until the date that such control ceases.

Investments in entities that the Company does not control, but has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Investments in entities in which the Company does not have the ability to exercise significant influence are accounted for under the cost method. All significant intercompany transactions and balances have been eliminated upon consolidation.

The Group accounted for business combinations in accordance with ASC sub-topic 805-10 ( ASC 805-10 ), *Business Combinations: Overall*. ASC 805-10 requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. During the measurement period, which shall not exceed one year from the acquisition date, the Company recognizes adjustments to the provisional amounts of acquisition-date fair value and the resulting goodwill for new information obtained as if the accounting for the business combination had been completed at the acquisition date. The comparative information for prior periods presented in the consolidated financial statements is revised as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

For a component of the Group that either has been disposed of or is classified as held-for-sale, the Group accounted for the result of operations of the component as a discontinued operation in accordance with ASC sub-topic 205-20 ( ASC 205-20 ), *Presentation of Financial Statements* when (1) the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the Group as a result of the disposal transaction; and (2) the Group will not have any significant continuing involvement in the operations of the component after the disposal transaction.

The Company accounted for the purchase of additional ownership in its subsidiary from noncontrolling interests as an equity transaction in accordance with ASC sub-topic 810-10 ( ASC 810-10 ), *Consolidation: Overall*. The carrying amount of the noncontrolling interest is adjusted to reflect the change in the Group's ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is recognized in additional paid-in capital.

**(c) Use of estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**(d) Fair value measurement**

Financial instruments include cash and cash equivalents, accounts receivable, notes receivable, certain other current assets, accounts payable, certain other liabilities, short-term loans, long-term loans, convertible redeemable preferred shares and warrants. The carrying values of these financial instruments, other than long-term loans, convertible redeemable preferred shares and warrants, approximate their fair values due to their short-term maturities. The warrants issued in connection with the convertible notes and the IPO were recorded in equity at the fair value as determined on the day of issuance (Note 18). The convertible redeemable preferred shares were initially recorded at issue price net of issuance costs. The Company recognized changes in the redemption value immediately as they occur and adjusted the carrying value of the convertible redeemable preferred shares to equal the redemption value at the end of each reporting period. All of the convertible redeemable preferred shares were automatically converted into ordinary shares on January 25, 2010, the date of the Company's IPO (Note 17). The warrants issued in connection with the convertible redeemable preferred shares were recorded as a liability at fair value as determined on the day of issuance and subsequently adjusted to the fair value at each reporting date (Note 18). Upon the closing of the Company's IPO, these warrants issued in connection with the convertible redeemable preferred shares were reclassified from liability to equity at the fair value immediately prior to such reclassification (Note 18). During the year ended December 31, 2011, certain warrants were reclassified from equity to liability upon



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modification of terms (Note 18). These amended warrants were recorded as liabilities at fair value on the day of modification and subsequently adjusted to the fair value at each reporting date.

The carrying values of long-term loans approximate their fair values due to the fact that the interest rates on these loans are reset each year based on prevailing market interest rates.

The Group applied the provisions of ASC sub-topic 820-10 ( ASC 820-10 ), *Fair Value Measurements and Disclosures: Overall*, measuring fair value. ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC 820-10 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

ASC 820-10 describes three main approaches to measure the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

In accordance with ASC 820-10, the Group measures the fair value of money market funds included in cash equivalents using the market approach based on quoted market prices. The warrant liabilities were valued using the income approach based on inputs that are unobservable in the market (Level 3).

All assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 are summarized below:

	Quoted price in active market for identical assets (Level 1) US\$	Significant other observable inputs (Level 2) US\$	Significant unobservable inputs (Level 3) US\$
Money market funds in cash equivalent	807		
Warrant liabilities (Note 18)			440
	807		440

All assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 are summarized below:

	Quoted price in active market for identical assets (Level 1) US\$	Significant other observable inputs (Level 2) US\$	Significant unobservable inputs (Level 3) US\$
Money market funds in cash equivalent	8		
Warrant liabilities (Note 18)			839
	8		839

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The following table presents a reconciliation of warrant liabilities measured at fair value on a recurring basis using significant unobservable inputs for the year ended December 31, 2012:

	<b>Warrant liabilities US\$</b>
Balance as of December 31, 2011	440
Unrealized losses	399
Balance as of December 31, 2012	839

Unrealized losses of US\$399 for the year ended December 31, 2012 were recorded in changes in fair value of warrant liabilities in the consolidated statements of comprehensive income.

All assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2011 are summarized below:

	<b>Quoted price in active market for identical assets (Level 1) US\$</b>	<b>Significant other observable inputs (Level 2) US\$</b>	<b>Significant unobservable inputs (Level 3) US\$</b>	<b>Total loss</b>
Construction in progress				(11,590)
Goodwill			135,651	(11,388)
			135,651	(22,978)

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

In accordance with ASC 360-10, construction in progress of Wuyue with a carrying amount of US\$11,590 was written down to its fair value of zero, resulting in an impairment charge of US\$11,590, which was included in the statements of comprehensive income for the year ended December 31, 2011 (Note 7).

In accordance with ASC 350-20, goodwill with a carrying amount of US\$147,039 was written down to its implied fair value of US\$135,651, resulting in an impairment charge of US\$11,388, which was included in the statements of comprehensive income for the year ended December 31, 2011 (Note 9).

No assets and liabilities were measured at fair value on a non-recurring basis as of December 31, 2012.

**(e) Foreign currency**

The Company determined its functional currency to be the US\$ while its subsidiaries determine their functional currency based on the criteria of ASC sub-topic 830-10 ( ASC 830-10 ), *Foreign Currency Matters: Overall*. All of the Company's subsidiaries determined their functional currency to be their respective local currency, except for CHC HK and Sunpower which determined their functional currency to be the US\$. The Company uses the US\$ as its reporting currency.

Each entity in the Group maintains its financial records in its own functional currency. Transactions denominated in foreign currencies are measured at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are remeasured at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in the consolidated statements of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are remeasured using the exchange rates at the dates of the initial transactions.

The assets and liabilities of the Company's subsidiaries are translated into the reporting currency of the Company at the exchange rates prevailing at the balance sheet date. The statements of comprehensive income of the Company's subsidiaries are translated into the reporting currency of the Company at the weighted average exchange rates for the year. The resulting translation gains (losses) are recorded in accumulated other comprehensive income as a component of shareholders' equity.

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For the purpose of the consolidated statements of cash flows, cash flows of the Company's subsidiaries are translated into the reporting currency of the Company at the exchange rates prevailing on the dates of the cash flows. Frequently recurring cash flows of the Company's subsidiaries, which arise throughout the year, are translated into the reporting currency of the Company at the weighted average exchange rates for the year.

### **(f) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and short-term deposits with original maturity of three months or less at the date of purchase. Except for the restricted cash, none of the Group's cash and cash equivalents is restricted as to withdrawal and use.

### **(g) Restricted cash**

Restricted cash represents cash pledged to financial institutions as collateral for the Company's bank loans (Note 15). The restriction on the cash collateral amount of US\$5,171 as of December 31, 2012 will be released in May 2013 upon repayment of the bank loans.

### **(h) Accounts receivable**

Accounts receivable are carried at net realizable value. In evaluating the collectability of receivable balances, the Group considers many factors, including the aging of the balance, the customer's payment history, its current credit-worthiness and current economic trends. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Accounts receivable are written off after all collective efforts have ceased.

### **(i) Notes receivable**

Notes receivable represent short-term bank acceptance notes issued by financial institutions that entitle the holder to receive the stated amount from the financial institutions at the maturity date of the bill, which is generally within six months from the date of issuance. The holder of the bills can obtain payment from the financial institutions prior to the stated maturity date. In such a case, the holder will receive a discounted amount off the face value of the bill. There is recourse to the customers in the event the financial institutions default upon demand for payment by the holders of the notes. To reduce the Group's credit risk, the Group has required certain customers to pay for electricity using notes receivable during the year ended December 31, 2012.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

**(j) Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. The depreciable amount of an item of property, plant and equipment is its cost less its estimated residual value, if any. The residual value is calculated by taking the price such an asset would fetch at the reporting date, with the assumption that it was already in the condition it will be in at the end of its useful life. Depreciation is recorded on a straight-line basis over the following estimated useful lives:

Dams and reservoirs	30-49 years
Buildings	8-50 years
Machinery	1-30 years
Transportation equipment	1-11 years
Electronic equipment and others	1-15 years

For property, plant and equipment acquired through a business combination, depreciation is recorded on a straight-line basis over their respective remaining estimated useful lives. The useful lives, residual values and methods of depreciation are reviewed at each reporting date and adjusted prospectively, if appropriate.

All direct and indirect costs that are related to the construction of property, plant and equipment and incurred before the assets are ready for their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property, plant and equipment accounts and commences depreciation when these assets are ready for their intended use.

Interest costs are capitalized if they are incurred during the acquisition, construction or production of a qualifying asset and such costs could have been avoided if expenditures for the assets have not been made. Capitalization of interest costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Interest costs are capitalized until the assets are ready for their intended use.

Repair and maintenance costs are charged to expense when incurred, whereas the cost of renewals and betterment that extend the useful life of fixed assets are capitalized as additions to the related assets. Retirement, sale and disposal of assets are recorded by removing the cost and accumulated depreciation, with any resulting gain or loss reflected in the consolidated statements of comprehensive income.



Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

**(k) Goodwill and intangible assets**

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the assets acquired and the liabilities assumed of acquired businesses. ASC sub-topic 350-10 ( ASC 350-10 ), *Intangibles Goodwill and Other: Overall*, requires that goodwill be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Group assigns and assesses goodwill for impairment at the reporting unit level at each reporting date. The Group determines that each reporting unit is identified at the component level, which is one level below the operating segment.

The performance of the impairment test involves a two-step process. The first step of the impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. Fair value is primarily determined through the income approach by computing the future discounted cash flows expected to be generated by the reporting unit and is dependent on a number of significant entity specific assumptions, including plant utilization rate, electricity sales volumes and tariffs, costs of production, capital expenditures, working capital changes and the discount rate. The discount rate is commensurate with the risk inherent in the projected cash flows and reflects the rate of return required by an investor in the current economic conditions. For reporting units to be disposed of subsequent to the reporting date, the market approach is used where estimates of prices reasonably expected to be realized from the sale of the reporting units are used to determine the fair value of each reporting unit.

If the carrying value exceeds the fair value, goodwill may be impaired. If this occurs, the Group performs the second step of the quantitative goodwill impairment test to determine the amount of impairment loss. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. This implied fair value is then compared with the carrying amount of the reporting unit goodwill, and if it is less, the Group would then recognize an impairment loss. For the year ended December 31, 2012, the Company adopted ASU No. 2011-08 ( ASU 2011-08 ), *Intangibles Goodwill and Other (ASC 350)*, pursuant to which the Company has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step test. If the Company believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

The Group recognized goodwill impairment loss of US\$nil, US\$11,388 and US\$nil for the years ended December 31, 2010, 2011 and 2012, respectively (Note 9).

Intangible assets are carried at cost less accumulated amortization. Intangible assets acquired in a business combination are recognized initially at fair value at the date of acquisition. Intangible assets with a finite useful life are amortized using the straight-line method over the estimated economic life of the intangible assets. The estimated useful life for the intangible assets as of December 31, 2012 is as follows:



Development right of Binglangjiang Phase II	30 years
Dam use right of Dongguan	40 years

The Group reviews and adjusts the carrying value of the intangible assets if facts and circumstances suggest the intangible assets may be impaired (Note 2(n)). The Group assessed and concluded that there was no impairment for intangible assets in any of the years presented.

**(l) Land use rights**

The land use rights represent the amounts paid and relevant costs incurred for the right to use land in the PRC and are recorded at purchase cost less accumulated amortization. Amortization is provided on a straight-line basis over the terms of the respective land use rights agreements, which are 50 years. For land use rights acquired through a business combination, amortization is recorded on a straight-line basis over their respective remaining estimated useful lives, which range from 41 to 50 years.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**(m) Asset retirement obligations**

ASC sub-topic 410-20 ( ASC 410-20 ), *Asset Retirement Obligations*, requires companies to record the present value of obligations associated with the retirement of tangible long-lived assets in the period in which it is incurred. The value of the liability is capitalized as part of the carrying amount of the related long-lived asset. Over time, accretion of the liability is recognized as an operating expense and the capitalized cost is depreciated over the expected useful life of the related asset. The Group's asset retirement obligations relate primarily to the restoration of leased lands under land use rights granted by the local government to their original condition. Asset retirement obligations as of December 31, 2011 and 2012 were insignificant.

**(n) Impairment of long-lived assets**

The Group evaluates its long-lived assets, including property, plant and equipment, land use rights and intangible assets with finite lives, for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that will impact the future use of the assets, indicate that the carrying amount of an asset may not be recoverable in accordance with ASC sub-topic 360-10 ( ASC 360-10 ), *Property, Plant, and Equipment: Overall*. When these events occur, the Group assesses the recoverability of long-lived assets by comparing the carrying amount of the assets to the expected future undiscounted cash flows resulting from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group recognizes an impairment loss based on the excess of the carrying amount of the assets over their fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the assets, when the market prices are not readily available. The Group recognized impairment loss on long-lived assets of US\$nil, US\$11,590 and US\$nil for the years ended December 31, 2010, 2011 and 2012, respectively.

**(o) Derivative instruments**

ASC sub-topic 815-10 ( ASC 815-10 ), *Derivatives and Hedging: Overall*, requires all contracts which meet the definition of a derivative to be recognized in the consolidated financial statements as either assets or liabilities and recorded at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in earnings or in shareholders' equity as a component of other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. Changes in fair values of derivatives not qualified as hedges are reported in the consolidated statements of comprehensive income. The estimated fair values of derivative instruments are determined at discrete points in time based on the relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques.

**(p) Comprehensive income (loss)**

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Comprehensive income (loss) is defined as the change in shareholders' equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. The Group presents items of net income (loss) and other comprehensive income (loss) in one continuous statement. Accumulated other comprehensive income (loss) of the Group includes the cumulative foreign currency translation adjustments and net losses not recognized immediately as a component of net periodic pension cost of a defined benefit plan.

### (q) Revenue recognition

The Group's revenue is derived from the sale of electricity. Revenues are recognized when the following four criteria are met as prescribed by ASC sub-topic 605-10 (ASC 605-10), *Revenue Recognition: Overall*: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. The Group considers the terms of each arrangement to determine the appropriate accounting treatment. Revenue is generally earned and recognized upon transmission of electricity to the power grid controlled and owned by the respective regional or provincial grid companies. For transactions in which electricity has been transmitted to the power grid without a fixed or determinable unit price per kWh while the tariff is pending approval of the regional or provincial pricing bureau, cash received in exchange for the transmission of electricity to the power grid controlled by the respective regional or provincial grid companies has been recorded as customer deposits until such time the price becomes fixed and determinable. When the price becomes fixed and determinable, all or a portion of the customer deposits will be recognized as revenue. The Group does not defer the related cost of revenues, which is charged to expense as incurred. No customer deposits were recognized as of December 31, 2011 and 2012. The Group has not offered any discounts or rebates to its customers nor does it provide for refunds in its sales contracts with customers.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The Company's subsidiaries are subject to withholding value-added tax ( VAT ) on the revenues earned in the PRC. The applicable rate of VAT is 6% for small hydroelectric power projects with a total installed capacity of 50 megawatts or less and 17% for large hydroelectric power projects with a total installed capacity of over 50 megawatts. For the year ended December 31, 2010, the lower VAT rate of 6% was applied to the hydroelectric power projects of Binglangjiang, Liyuan, Yingchuan, Wuliting, Pingnan County Yuheng Hydropower Co., Ltd. ( Yuheng ), Pingnan County Yuanping Hydroelectric Co., Ltd. ( Yuanping ), Jiulongshan, Zhougongyuan, Shapulong, Ruiyang, Husahe, Hengda, Xineng, Xiaopengzu, Jinling, Jinlong, Jintang and Jinwei, and the VAT rate of 17% was applied to the hydroelectric power projects of Banzhu and Wangkeng. For the years ended December 31, 2011 and 2012, the lower VAT rate of 6% was applied to the hydroelectric power projects of Binglangjiang, Liyuan, Yingchuan, Wuliting, Yuheng, Yuanping, Jiulongshan, Zhougongyuan, Shapulong, Ruiyang, Husahe, Hengda, Xineng, Xiaopengzu, Jinling, Jinlong, Jintang Jinwei and Dazhaihe, and the VAT rate of 17% was applied to the hydroelectric power projects of Banzhu and Wangkeng. VAT on revenues earned from the sale of electricity by the Group to its customers for the years ended December 31, 2010, 2011 and 2012 were US\$5,728, US\$4,583 and US\$7,387, respectively. The Group has recognized revenues net of VAT in the consolidated statements of comprehensive income.

**(r) Cost of revenues**

Cost of revenues consists primarily of depreciation expense of hydroelectric power projects and related operating costs and overhead expenses directly attributable to the production of electricity.

**(s) Leases**

In accordance with ASC sub-topic 840-10 ( ASC 840-10 ), *Lease: Overall*, leases are classified at the inception date as either a capital lease or an operating lease. For the lessee, a lease is a capital lease if any of the following conditions exist: (i) ownership is transferred to the lessee by the end of the lease term, (ii) there is a bargain purchase option, (iii) the lease term is at least 75% of the property's estimated remaining economic life or (iv) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed on a straight-line basis over the lease periods.

The Group has no capital leases for any of the years presented.

**(t) Income taxes**

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The Group follows the liability method of accounting for income taxes in accordance with ASC sub-topic 740-10 ( ASC 740-10 ), *Income Taxes: Overall*. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities, net operating loss and credits carryforwards, using enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The Group records a valuation allowance against the amount of deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in the consolidated statements of comprehensive income in the period that includes the enactment date.

The Company accounts for uncertainty in income taxes in accordance with ASC 740-10. Interests and penalties arising from underpayment of income taxes are computed in accordance with the related PRC tax law. The amount of interest expenses is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest recognized from the accounting for uncertainty in income taxes is classified in the financial statements as interest expenses, while penalties recognized from the accounting for uncertainty in income taxes are classified in the financial statements as other expenses.

The Group recognizes in its financial statements the impact of a tax position if a tax return position or future tax position is more likely than not to prevail, which is defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position. Tax positions that meet the more likely than not threshold are measured, using a probability weighted approach, at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

The Group's estimated liability for unrecognized tax benefits is periodically assessed for adequacy and may be affected by changing interpretation of laws, rulings by tax authorities, certain changes and/or developments with respect to audits, and expiration of the statute of limitations. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Group's estimates. As each audit is concluded, adjustments, if any, are appropriately recorded in the Group's financial statements. Additionally, in future periods, change in facts, circumstances, and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the change occurs. The Group classified unrecognized tax benefits as current liabilities to the extent the Group anticipates payment of cash within one year or the operating cycle, if longer.

The Company recognizes the tax benefit for the excess of the tax basis over the financial reporting basis or the tax liability when the financial reporting basis exceeds the tax basis ( outside basis difference ) of an investment in subsidiary in accordance with ASC sub-topic 740-30 ( ASC 740-30 ), *Income Taxes: Recognition*, when it is apparent that the temporary differences will reverse in the foreseeable future. If it is more likely than not that a deferred tax liability will be realized as a result of the decision to dispose of a subsidiary, the tax liability would be recorded when the disposal group is classified as held for sale even though any gain expected upon disposal cannot be recognized until the sale is consummated.

**(u) Net (loss) income per share**

In accordance with ASC sub-topic 260-10 ( ASC 260-10 ), *Earnings Per Share: Overall*, basic (loss) income per share is computed by dividing net (loss) income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted (loss) income per share is calculated by dividing net (loss) income attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary share equivalents outstanding during the period. Ordinary share equivalents consist of the ordinary shares issuable upon the Group's convertible redeemable preferred shares (Note 17), using the if-converted method, and ordinary shares issuable upon the conversion of the warrants (Note 18) and share options (Note 27), using the treasury stock method.

**(v) Segment reporting**

The Group follows ASC sub-topic 280-10 ( ASC 280-10 ), *Segment Reporting: Overall*, for the presentation of segment information. The Group's chief operating decision maker, who has been identified as the chief executive officer ( CEO ), relies upon financial information by provinces with operations in the PRC when making decisions about allocating resources and assessing the performance of the Group. As a result, the Group operates and manages its business as four operating and reportable segments, namely the Yunnan Province segment, the Sichuan Province segment, the Zhejiang Province segment and the Fujian Province segment. As the Group's long-term assets are substantially all located in and derived from the PRC, no geographical segments are presented.

**(w) Government grant**

Government grants are recognized when there is reasonable assurance that the attaching conditions will be complied with. A grant relates to an expense item is recognized as income over the period necessary to match the grant on a systematic basis to the related costs, whereas a grant relates to an asset acquisition is recognized as deferred government grant and recognized as income in proportion to depreciation of the related assets. Grant income is recognized on a net basis as a reduction to cost of revenues in the consolidated statements of comprehensive income.

**(x) Share-based payment**

The Company accounts for share awards issued to employees in accordance with ASC sub-topic 718-10 ( ASC 718-10 ), *Compensation-Stock Compensation: Overall*. In accordance with the fair value recognition provision of ASC 718-10, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period. The Company has elected to recognize share-based compensation expense for share awards granted to employees using the straight-line method. The Company uses a binomial option pricing valuations model in determining the fair value of the options granted.

The Company accounts for share awards issued to non-employees in accordance with the provisions of ASC 718-10 and ASC sub-topic 505-50 ( ASC 505-50 ), *Equity: Equity-Based Payment to Non-employees*. The Company's share awards issued to non-employees are subject to graded vesting provisions. The Group recognizes share-based compensation expense for share awards granted to non-employees using the accelerated recognition method over the requisite service period of the award. In accordance with ASC 718-10 and ASC 505-50, the Company uses the binomial option pricing valuations model to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

ASC 718-10 requires forfeitures to be estimated at the time of grant and revised, if necessary, in the subsequent period if actual forfeitures differ from initial estimates. Share-based compensation expense was recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest. Forfeiture rate is estimated based on historical and future expectation of employee turnover rate and is adjusted to reflect future change in circumstances and facts, if any.

**(y) Long-lived assets to be disposed of and discontinued operations**

The Company accounts for a long-lived asset to be disposed of other than by sale in accordance with the provisions of ASC sub-topic 360-10 ( ASC 360-10 ), *Impairment and Disposal of Long-Lived Assets*, where such long-lived asset continues to be classified as held and used until it is disposed of. When a long-lived asset ceases to be used, the carrying amount of the asset is written down to its salvage value, if any.

The Company accounts for a long-lived asset or disposal group to be sold in accordance with ASC 360-10, where such long-lived asset or disposal group is classified as held for sale in the period in which all six criteria are met: (1) a plan to sell the asset has been committed to by management; (2) the asset can be sold in its current condition; (3) an active plan has been initiated to find a buyer; (4) it is probable that the asset will be sold and the sale will be completed within one year and will qualify as a completed sale; (5) the sales price is reasonable relative to the asset's current fair value and the entity is actively marketing the asset; and (6) it is unlikely that the plan to sell the asset will be withdrawn or changed significantly.

A long-lived asset or disposal group classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell, and it is presented separately on the balance sheets. Long-lived assets reclassified as held for sale are not depreciated or amortized.

The Company follows ASC 205-20 in its accounting for a component of the Company that has been disposed of or is classified as held for sale and has operations and cash flows that can be clearly distinguished from the rest of the Company. Such component is reported as discontinued operations. In the period in which a component has been disposed of or classified as held for sale, the results of operations, including any gain or loss after tax recognized in accordance with ASC 360-10, less applicable income taxes, for the periods presented are reclassified into line items of income separately from net income (loss) from continuing operations before extraordinary items (if applicable), in the consolidated statements of comprehensive income.

**(z) Recently issued accounting standards**



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In July 2012, the FASB issued ASU No. 2012-02 ( ASU 2012-02 ), *Intangibles - Goodwill and Other* ( Topic 350 ), which is intended to reduce the cost and complexity of performing the impairment test for indefinite-lived intangible assets other than goodwill by providing entities an option to perform a qualitative assessment to determine whether further quantitative impairment testing is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that an indefinite lived intangible asset is impaired, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In February 2013, the FASB issued ASU No. 2013-02 ( ASU 2013-02 ), *Comprehensive Income* ( Topic 220 ), which is intended to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account (for example, inventory) instead of directly to income or expense in the same reporting period. This standard is effective for fiscal years beginning after December 15, 2012, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

In March 2013, the FASB issued ASU No. 2013-05 ( ASU 2013-05 *Foreign Currency Matters* ( Topic 830 ) ), which is intended to resolve the diversity in practice about whether ASC 810-10 or ASC 830-30 applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity by requiring a parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. This standard is effective for the first interim or annual period beginning after December 15, 2014, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**3. ACQUISITIONS****(a) Acquisition of subsidiaries****Acquisition of subsidiaries during the year ended December 31, 2010**

During the year ended December 31, 2010, the Company completed the acquisitions of 100% ownership interest in (i) Husahe, (ii) Hengda, (iii) Xineng, (iv) Xiaopengzu and (v) Jinling and 79% ownership interest in (vi) Wuyue. As a result of these acquisitions, the Company is expected to further expand its hydroelectric power generation capacity in the PRC.

**(i) Husahe**

On March 2, 2010, Yunnan Huabang entered into an equity transfer purchase agreement with Dehong Qinrui Power Investment and Development Co., Ltd. to acquire 100% of the equity interest in Husahe. The total purchase price for the acquisition is RMB114,980 (US\$16,844), which comprises a cash purchase price of RMB106,000 (US\$15,528) and an additional cash payment of RMB8,980 (US\$1,316) to acquire certain receivables of Husahe which were not originally included as part of the acquired assets in the equity transfer purchase agreement. Prior to the acquisition completion date, Fujian Huabang and Binglangjiang advanced RMB57,000 (US\$8,350) and RMB51,000 (US\$7,471) cash, respectively, as a capital injection to Husahe. The capital injection is to fund the future operations of Husahe. The Company concluded that the capital injection transferred to Husahe represents an advance to a subsidiary prior to the consummation of its acquisition rather than a cost directly related to its acquisition. Since the capital injection is not a liability incurred by the Group to former owners of Husahe, the payment does not form part of the total purchase consideration. Husahe owns and operates three hydroelectric stations located in Dehong County, Yunnan Province, which have been in operation since March 1995. The acquisition was completed and Yunnan Huabang took effective control of Husahe on April 19, 2010. The acquisition of Husahe meets the definition of a business acquisition and the results of operations of the acquired business have been included in the Company's consolidated financial statements since April 19, 2010.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition on April 19, 2010.

	US\$
Cash purchase price	16,844

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Total purchase consideration	16,844
Cash	7,478
Property, plant and equipment, net	14,089
Other assets	9,958
Goodwill	1,826
Total assets acquired	33,351
Other liabilities	(15,998)
Deferred tax liabilities non-current	(509)
Total liabilities assumed	(16,507)
Net assets acquired	16,844

The US\$1,826 goodwill from the acquisition of Husahe was assigned to the Yunnan Province segment. The goodwill recognized is primarily attributable to expected synergies and the assembled workforce of Husahe. None of the goodwill is expected to be deductible for tax purposes.

The Company recognized US\$54 of acquisition-related costs that were expensed in the year ended December 31, 2010. These costs are included in General and administrative expenses in the consolidated statements of comprehensive income.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

The amounts of revenue and net profit of Husahe included in the Company's consolidated statement of comprehensive income from April 19, 2010, the acquisition date, to December 31, 2010 are as follows:

	US\$
Revenue	1,698
Net profit	706

**(ii) Hengda**

On April 14, 2010, Fujian Huabang entered into an equity transfer purchase agreement with Yunnan Minfa Hydroelectric Development Co., Ltd and Xiamen Minrui Investment Co., Ltd. to acquire 100% equity interest in Hengda. The total purchase price for the acquisition is RMB65,000 (US\$9,562) cash. Prior to the acquisition completion date, Fujian Huabang and Banzhu advanced RMB74,521 (US\$10,962) and RMB1,130 (US\$166) cash, respectively, as a capital injection to Hengda. The capital injection is to fund the future operations of Hengda. The Company concluded that the capital injection transferred to Hengda represents an advance to a subsidiary prior to the consummation of its acquisition rather than a cost directly related to its acquisition. Since the capital injection is not a liability incurred by the Group to former owners of Hengda, the payment does not form part of the total purchase consideration. Hengda owns and operates two hydroelectric stations located in Fugong County, Yunnan Province, which have been in operation since June and October 2007, respectively. The acquisition was completed and Fujian Huabang took effective control of Hengda on June 22, 2010. The acquisition of Hengda meets the definition of a business acquisition and the results of operations of the acquired business have been included in the Company's consolidated financial statements since June 22, 2010.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition on June 22, 2010.

	US\$
Cash purchase price	9,562
Total purchase consideration	9,562
Cash	1
Property, plant and equipment, net	38,653
Intangible assets	342
Other assets	407
Goodwill	428
Total assets acquired	39,831

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Current portion of long-term loans	(3,015)
Other liabilities	(12,598)
Long-term loans	(14,269)
Deferred tax liabilities non-current	(387)
Total liabilities assumed	(30,269)
Net assets acquired	9,562

The US\$428 goodwill from the acquisition of Hengda was assigned to the Yunnan Province segment. The goodwill recognized is primarily attributable to expected synergies and the assembled workforce of Hengda. None of the goodwill is expected to be deductible for tax purposes.

The Company recognized US\$169 of acquisition-related costs that were expensed in the year ended December 31, 2010. These costs are included in General and administrative expenses in the consolidated statements of comprehensive income.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The amounts of revenue and net loss of Hengda included in the Company's consolidated statement of comprehensive income from June 22, 2010, the acquisition date, to December 31, 2010 are as follows:

	US\$
Revenue	1,497
Net loss	(58)

**(iii) Xineng**

On April 14, 2010, Fujian Huabang entered into an equity transfer purchase agreement with Yunnan Minhe Hydroelectric Investment Co., Ltd. to acquire 100% equity interest in Xineng. The total purchase price for the acquisition is RMB31,250 (US\$4,591) cash. Prior to the acquisition completion date, Fujian Huabang and Hengda advanced RMB13,630 (US\$2,003) and RMB6,134 (US\$901) cash, respectively, as a capital injection to Xineng. The capital injection is to fund the future operations of Xineng. The Company concluded that the capital injection transferred to Xineng represents an advance to a subsidiary prior to the consummation of its acquisition rather than a cost directly related to its acquisition. Since the capital injection is not a liability incurred by the Group to former owner of Xineng, the payment does not form part of the total purchase consideration. The hydroelectric project of Xineng is located in Fugong County, Yunnan Province, and has been in operation since February 2009. The acquisition was completed and Fujian Huabang took effective control of Xineng on August 16, 2010. The acquisition of Xineng meets the definition of a business acquisition and the results of operations of the acquired business have been included in the Company's consolidated financial statements since August 16, 2010.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition on August 16, 2010.

	US\$
Cash purchase price	4,591
Total purchase consideration	4,591
Property, plant and equipment, net	19,847
Intangible assets	124
Other assets	255
Goodwill	1,004
Total assets acquired	21,230
Current portion of long-term loans	(73)

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Other liabilities	(3,231)
Long-term loans	(13,149)
Deferred tax liabilities    non-current	(186)
 Total liabilities assumed	 (16,639)
 Net assets acquired	 4,591

The US\$1,004 goodwill from the acquisition of Xineng was assigned to the Yunnan Province segment. The goodwill recognized is primarily attributable to expected synergies and the assembled workforce of Xineng. None of the goodwill is expected to be deductible for tax purposes.

The Company recognized US\$104 of acquisition-related costs that were expensed in the year ended December 31, 2010. These costs are included in    General and administrative expenses    in the consolidated statements of comprehensive income.



Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

The amounts of revenue and net loss of Xineng included in the Company's consolidated statement of comprehensive income from August 16, 2010, the acquisition date, to December 31, 2010 are as follows:

	US\$
Revenue	556
Net loss	(80)

**(iv) Xiaopengzu**

On April 23, 2010, Fujian Huabang entered into an equity transfer purchase agreement with eight individual shareholders to acquire 100% of the equity interest in Xiaopengzu. The total purchase price for the acquisition is RMB150,000 (US\$22,089). Prior to the acquisition completion date, Fujian Huabang, Binglangjiang, Yingchuan, Banzhu, Wangkeng and Yuanping advanced RMB42,500 (US\$6,259), RMB13,000 (US\$1,914), RMB10,000 (US\$1,473), RMB6,500 (US\$957), RMB20,000 (US\$2,945) and RMB1,000 (US\$147) cash, respectively, as a capital injection to Xiaopengzu. The capital injection is to fund the future operations of Xiaopengzu. The Company concluded that the capital injection transferred to Xiaopengzu represents an advance to a subsidiary prior to the consummation of its acquisition rather than a cost directly related to its acquisition. Since the capital injection is not a liability incurred by the Group to former owners of Xiaopengzu, the payment does not form part of the total purchase consideration. The hydroelectric project of Xiaopengzu is located in Luquan County, Yunnan Province and has been in operation since December 2009. The acquisition was completed and Fujian Huabang took effective control of Xiaopengzu on September 8, 2010. The acquisition of Xiaopengzu meets the definition of a business acquisition and the results of operations of the acquired business have been included in the Company's consolidated financial statements since September 8, 2010.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition on September 8, 2010.

	US\$
Cash purchase price	22,089
Total purchase consideration	22,089
Cash	2,350
Property, plant and equipment, net	45,592
Other assets	569
Goodwill	12,398
Total assets acquired	60,909

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Current portion of long-term loans	(1,878)
Other liabilities	(16,420)
Long-term loans	(20,210)
Deferred tax liabilities    non-current	(312)
<b>Total liabilities assumed</b>	<b>(38,820)</b>
<b>Net assets acquired</b>	<b>22,089</b>

The US\$12,398 goodwill from the acquisition of Xiaopengzu was assigned to the Yunnan Province segment. The goodwill recognized is primarily attributable to expected synergies and the assembled workforce of Xiaopengzu. None of the goodwill is expected to be deductible for tax purposes.

The Company recognized US\$27 of acquisition-related costs that were expensed in the year ended December 31, 2010. These costs are included in    General and administrative expenses    in the consolidated statements of comprehensive income.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

The amounts of revenue and net loss of Xiaopengzu included in the Company's consolidated statement of comprehensive income from September 16, 2010, the acquisition date, to December 31, 2010 are as follows:

	US\$
Revenue	876
Net loss	(202)

**(v) Jinling**

On November 3, 2010, Fujian Huabang entered into an equity transfer purchase agreement with Fujian Taiyu Investment (Group) Co., Ltd. Shaowu City Fengyi Power Development Co., Ltd. and Jianyang City Xinguang Power Development Co., Ltd. (collectively referred to as the Original Shareholders of Jinling ) to acquire 100% equity interest in Jinling, which held 55%, 74% and 74% of controlling interest in Jinlong, Jintang and Jinwei, respectively.

The total purchase price for the acquisition is RMB75,060 (US\$11,333) cash. These hydroelectric projects are located in Shaowu City, Fujian Province, and have been in operation since 1985. The acquisition was completed and Fujian Huabang took effective control of Jinling and its subsidiaries on December 30, 2010. The acquisition of Jinling and its subsidiaries meets the definition of a business acquisition and the results of operations of the acquired business have been included in the Company's consolidated financial statements since December 30, 2010.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition on December 30, 2010.

	US\$
Cash purchase price	11,333
Total purchase consideration	11,333

  

	US\$
Cash and Bank	26
Property, plant and equipment, net	78,953
Intangible assets	1,759
Other assets	1,665
Goodwill	9,341
Deferred tax assets - non-current	474

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Total assets acquired	92,218
Short-term loans	(9,286)
Current portion of long-term loans	(5,964)
Long-term loans	(16,081)
Other liabilities	(41,549)
Deferred tax liabilities non-current	(4,274)
Total liabilities assumed	(77,154)
Noncontrolling interest	(3,731)
Net assets acquired	11,333

F-26

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The Company used the income approach to measure the fair value of the noncontrolling interest at the acquisition date. Significant inputs include estimated future revenue and costs to calculate future operating cash flows as well as internal rate of return to compute the present value of operating cash flows.

The US\$9,341 goodwill from the acquisition of Jinling and its subsidiaries was assigned to the Fujian Province segment. The goodwill recognized is primarily attributable to expected synergies and the assembled workforce of Jinling and its subsidiaries. None of the goodwill is expected to be deductible for tax purposes.

The Company recognized US\$51 of acquisition-related costs that were expensed in the year ended December 31, 2010. These costs are included in General and administrative expenses in the consolidated statements of comprehensive income.

The amount of revenue and earnings of Jinling and its subsidiaries included in the Company's consolidated statements of comprehensive income from December 30, 2010, the acquisition date, to December 31, 2010 were insignificant.

**Unaudited pro forma consolidated financial information**

The following unaudited pro forma consolidated financial information reflects the results of the operations of the Group for the year ended December 31, 2010, as if the acquisitions in 2010 described above had been completed at the beginning of the years presented. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisitions actually taken place on the dates indicated and may not be indicative of future operating results. The pro forma adjustments are based upon available information and certain assumptions that management believes are reasonable.

	<b>For the Year Ended December 31, 2010 US\$</b>
Revenues	69,580
Loss before income taxes	(9,575)
Net loss attributable to ordinary shareholders	(7,653)
Basic and diluted loss per share	(0.05)

(vi) Wuyue

On October 22, 2009, the Company entered into a capital injection agreement (the Agreement) with Henan Lantian Group Co., Ltd. (Lantian) to subscribe 79% equity interest in Wuyue, which owns the right to develop a pumped storage hydropower project of 1,000 megawatts in the Henan Province. Pursuant to the Agreement, the Company is obligated to pay a first installment of RMB32,500 (US\$4,771) and to transfer an additional RMB130,000 (US\$19,629) cash as capital injections to Wuyue within two years after obtaining the certificate of approval from the government to fund the construction of the pumped storage hydroelectric power project. The Company completed the first capital injection of RMB32,500 (US\$4,771) on March 23, 2010. Pursuant to the capital injection agreement, the Company controls a majority of the board of directors and manages the daily business operations of Wuyue subsequent to the first capital injection on March 23, 2010. As a result, Wuyue has been accounted for as a subsidiary and included in the Company's consolidated financial statements since March 23, 2010.

The acquisition of Wuyue does not meet the definition of a business acquisition and is accounted for as an asset acquisition. Wuyue is in the development stage during the year ended December 31, 2010. As a result, no revenue and earnings of Wuyue are included in the Company's consolidated statement of comprehensive income from March 23, 2010 to December 31, 2010.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**Acquisition of a subsidiary during the year ended December 31, 2011**

During the year ended December 31, 2011, the Company completed the acquisition of 100% ownership interest in Dazhaihe. This acquisition is in line with the Company's plan to further expand its hydroelectric power generation capacity in the PRC.

On November 6, 2010, Xiaopengzu entered into an equity transfer purchase agreement with seven individual shareholders to acquire 100% of the equity interest in Dazhaihe. The total purchase consideration for the acquisition was US\$9,019 (RMB59,000) cash. The hydroelectric project of Dazhaihe is located in Mengqian County, Yunnan Province, and has been in operation since September 2008. The acquisition was completed and Xiaopengzu took effective control of Dazhaihe on April 10, 2011. The acquisition of Dazhaihe meets the definition of a business acquisition and the results of operations of the acquired business have been included in the Company's consolidated financial statements since April 10, 2011.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition on April 10, 2011.

	US\$
Cash purchase price	9,019
Total purchase consideration	9,019
Cash	59
Property, plant and equipment, net	11,540
Other assets	555
Goodwill	6,646
Total assets acquired	18,800
Other liabilities	(9,303)
Deferred tax liabilities non-current	(478)
Total liabilities assumed	(9,781)
Net assets acquired	9,019

The US\$6,646 goodwill from the acquisition of Dazhaihe was assigned to the Yunnan Province segment. The goodwill recognized is primarily attributable to expected synergies and the assembled workforce of Dazhaihe. None of the goodwill is expected to be deductible for tax purposes.

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The Company recognized US\$28 of acquisition-related costs that were expensed in the year ended December 31, 2011. These costs are included in General and administrative expenses in the consolidated statements of comprehensive income.

The amounts of revenue and net loss of Dazhaihe included in the Company's consolidated statement of comprehensive income from April 10, 2011, the acquisition date, to December 31, 2011 are as follows:

	US\$
Revenue	831
Net loss	(717)

F-28

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**Unaudited pro forma consolidated financial information**

The following unaudited pro forma consolidated financial information reflects the results of the operations of the Group for the years ended December 31, 2010 and 2011, as if the acquisition of Dazhaihe in 2011 described above had been completed at the beginning of the years presented. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisitions actually taken place on the dates indicated and may not be indicative of future operating results. The pro forma adjustments are based upon available information and certain assumptions that management believes are reasonable.

	<b>For the Years Ended December 31,</b>	
	<b>2010</b>	<b>2011</b>
	<b>US\$</b>	<b>US\$</b>
Revenues	59,125	54,960
Profit (loss) before income taxes	2,824	(53,730)
Net loss attributable to ordinary shareholders	(12,322)	(45,638)
Basic and diluted loss per share	(0.09)	(0.29)

**(b) Acquisition of noncontrolling interest**

On January 14, 2011, Fujian Huabang, a wholly-owned subsidiary of the Company, completed the acquisition of the remaining 10% equity interest of Wangkeng pursuant to an equity transfer purchase agreement with Sanming Chenyang Hydroelectric Co., Ltd. dated November 22, 2010. The purchase consideration for the acquisition was US\$5,939 (RMB38,967). The Company accounted for the purchase of subsidiary shares from the noncontrolling interest as an equity transaction in accordance with ASC 810-10. The carrying amount of the noncontrolling interest was adjusted from US\$1,032 (RMB6,777) to US\$nil to reflect the noncontrolling interest holder's reduced ownership interest in Wangkeng's net assets. The difference between the consideration paid by the Company to the noncontrolling interest holder and the adjustment to the carrying amount of the noncontrolling interest in Wangkeng was recognized in additional paid-in capital. Upon the completion of this transaction, Wangkeng became a wholly-owned subsidiary of the Group.

The following table shows the effects of changes in the Company's ownership interest in Wangkeng on the Company's equity:

	<b>For the Years Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2011</b>
	<b>US\$</b>	<b>US\$</b>

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Net income (loss) attributable to the Company	3,742	(45,389)
Decrease in the Company's paid-in capital for purchase of 10% of equity interest in Wangkeng		(4,907)
Net transfers to noncontrolling interest		(4,907)
Change from net income (loss) attributable to the Company and transfers to noncontrolling interest	3,742	(50,296)

During the year ended December 31, 2012, the Company did not complete any acquisition of hydropower projects.

F-29

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**4. ACCOUNTS RECEIVABLE**

The Group's trading terms with its customers are mainly on credit. The credit terms are generally within 60 days after the delivery of electricity. The Group does not offer extended payment terms and all accounts receivable balances are non-interest-bearing.

As of December 31, 2011 and 2012, all of the accounts receivable balances were within credit terms.

**5. PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets consist of the following:

	2011 US\$	December 31, 2012 US\$
Advances for construction projects	88	78
Acquisition deposits	714	716
Amounts due from original shareholders of acquired subsidiaries	1,244	1,297
Consideration receivable from disposal of a subsidiary		11,534
Others	1,667	2,085
	3,713	15,710
Less: Provision for impairment allowance	(714)	(1,560)
Total	2,999	14,150

Acquisition deposits as of December 31, 2012 and 2011 represent a deposit of US\$477 (2011: US\$476) advanced by Wangkeng to Long Yan Ting Zhou Hydroelectric Development Co., Ltd. in April 2011 for the acquisition of the Ting Zhou hydroelectric project and a deposit of US\$239 (2011: US\$238) advanced by Hengda to Lushui Jinman Hydro Development Co., Ltd. in April 2011 for the acquisition of the Jinmanhe power project. As of December 31, 2011, these acquisitions have not been completed and the memorandums of understanding in relation to these acquisitions have expired. As a result, the Group recognized a full provision for impairment allowance on the acquisition deposits of US\$716 (2011: US\$714) as of December 31, 2012.

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Amounts due from original shareholders of acquired subsidiaries as of December 31, 2012 and 2011 mainly represent US\$794 (2011: US\$487) receivable from the original shareholders of Jinling and its subsidiaries for business tax and land value added tax related to the disposal of an office building and US\$503 (2011: US\$502) from the original shareholders of Banzhu for social insurance which should be borne by the original shareholders in accordance with the equity purchase agreements. As of December 31, 2012, the amounts due from the original shareholders of Jinling and its subsidiaries are determined to be not recoverable. As a result, the Group recognized a full provision for impairment allowance of US\$794 in the year ended December 31, 2012.

On October 18, 2012, the Company entered into an equity purchase and sale agreement with a third-party to dispose 100% equity interest in Yuheng for a total consideration of US\$21,269 (RMB134,000) cash. Consideration receivable from disposal of a subsidiary as of December 31, 2012 represents US\$11,534 unpaid consideration due from the buyer, which was fully settled on March 19, 2013.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**6. DISCONTINUED OPERATIONS**

On December 3, 2011, the Company entered into an equity purchase and sale agreement with a third-party to dispose 100% equity interest in Yuanping for a total consideration of US\$11,276 (RMB71,050) cash. Yuanping owns and operates one hydroelectric station located in the Fujian Province, the PRC. On the same day, an agreement was entered into between Yuanping and Yuheng whereby Yuanping is assigned a right to use 36.48% of the water generated by Yuheng's dam and reservoir at nil consideration with immediate effect. The dam and reservoir legally owned by Yuheng had been utilized in power generation by both Yuanping and Yuheng historically.

As of December 31, 2011, Yuanping met the criteria for disposal group to be classified as held for sale in accordance with ASC 360-10. In addition, Yuanping has operations and cash flows that were clearly distinguished from the rest of the Group in accordance with ASC 205. Accordingly, the operating results of Yuanping have been presented as discontinued operations in the consolidated statements of comprehensive income for all years presented. The assets and liabilities related to Yuanping have been presented as assets classified as held-for-sale and liabilities directly associated with the assets classified as held-for-sale, respectively, in accordance with ASC360-10 in the consolidated balance sheet as of December 31, 2011. The disposal date was March 2, 2012, which was the date the Company lost effective control over Yuanping.

On October 18, 2012, the Company entered into an equity purchase and sale agreement with a third-party to dispose 100% equity interest in Yuheng for a total consideration of US\$21,269 (RMB134,000) cash. Yuheng owns and operates one hydroelectric station located in the Fujian Province, the PRC. The disposal date was October 31, 2012, which was the date the Company lost effective control over Yuheng. Accordingly, the operating results of Yuheng have been presented as discontinued operations in the consolidated statements of comprehensive income for all years presented.

The breakdown of assets and liabilities attributable to discontinued operations as of each reporting date and the disposal dates and the results of discontinued operations for the years presented are as follows:

## (a) Assets of disposal group classified as held-for-sale

	<b>December 31 2011 US\$</b>
Cash and cash equivalents	11
Property, plant and equipment, net	17,376
Goodwill	3,214

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Other intangible assets	587
Deferred tax assets	259
Other current assets	246
Total	21,693

F-31

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

(b) Liabilities directly associated with the assets classified as held-for-sale

	<b>December 31 2011 US\$</b>
Long-term loans	10,475
Deferred tax liabilities, non-current	815
Current portion of long-term loans	476
Accrued expenses and other current liabilities	154
<b>Total</b>	<b>11,920</b>

In accordance with ASC 740, as it is more likely than not that a deferred tax liability will be realized as a result of the decision to dispose of Yuanping, a tax liability of US\$136 was recorded when the disposal group is classified as held for sale even though any capital gain tax expected upon disposal cannot be recognized until the sale is consummated. In March 2012, the tax liability was cleared when the disposal transaction was completed.

(c) Assets and liabilities attributable to discontinued operations

The breakdown of assets and liabilities attributable to discontinued operations of Yuanping as of December 31, 2011 and the date of disposal on March 2, 2012 is as follows:

	<b>December 31 2011 US\$</b>	<b>March 2 2012 US\$</b>
<b>Assets:</b>		
Cash and cash equivalents	11	56
Property, plant and equipment, net	17,376	17,304
Goodwill	3,214	3,219
Other intangible assets	587	617
Deferred tax assets	259	259
Other current assets	246	328
<b>Total</b>	<b>21,693</b>	<b>21,783</b>
<b>Liabilities:</b>		
Long-term loans	10,475	10,489
Deferred tax liabilities, non-current	815	827

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Current portion of long-term loans	476	477
Accrued expenses and other current liabilities	154	163
Total	11,920	11,956

F-32

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The breakdown of assets and liabilities attributable to discontinued operations of Yuheng as of December 31, 2011 and the date of disposal on October 31, 2012 is as follows:

	<b>December 31 2011 US\$</b>	<b>October 31 2012 US\$</b>
<b>Assets:</b>		
Cash and cash equivalents	33	472
Property, plant and equipment, net	19,004	18,509
Goodwill	23,445	23,448
Other intangible assets	1,966	1,916
Deferred tax assets	333	174
Other current assets	651	241
<b>Total</b>	<b>45,432</b>	<b>44,760</b>
<b>Liabilities:</b>		
Long-term loans	8,729	7,301
Deferred tax liabilities, non-current	1,818	2,046
Current portion of long-term loans	15,553	14,920
Accrued expenses and other current liabilities	1,402	2,256
Other non-current liabilities		33
<b>Total</b>	<b>27,502</b>	<b>26,556</b>

## (d) Results of discontinued operations

	<b>For the Years Ended December 31,</b>		
	<b>2010 US\$</b>	<b>2011 US\$</b>	<b>2012 US\$</b>
Revenues	8,495	4,737	4,661
Cost of revenues	(2,192)	(2,098)	(1,131)
General and administrative expenses	(274)	(226)	(176)
Interest income	393	2	2
Interest expense	(1,997)	(2,580)	(1,634)
Other (loss) income, net	(38)	(16)	3,543
Income tax expense	(152)	(101)	(1,358)
<b>Net income (loss) from discontinued operations</b>	<b>4,235</b>	<b>(282)</b>	<b>3,907</b>

The gain on disposal of US\$1,819 and US\$1,907 from the disposition of Yuanping and Yuheng, respectively, was included in other (loss) income, net .

(e) No allocation of cash flows has been made between continuing and discontinued operations, as the cash flows provided by or used in the operating, investing and financing activities of the discontinued operations were insignificant.

F-33

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**7. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment and its related accumulated depreciation as of December 31, 2011 and 2012 are as follows:

	December 31,	
	2011 US\$	2012 US\$
Dams and reservoirs	343,851	339,123
Buildings	128,448	124,154
Machinery	156,685	153,837
Transportation equipment	1,840	1,865
Electronic equipment and others	4,187	4,244
Less: Accumulated depreciation	(55,237)	(74,852)
	579,774	548,371
Construction in progress, net	1,190	140
Total	580,964	548,511

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

Construction in progress, net of impairment charge, as of December 31, 2011 and 2012 is as follows:

	Jiulongshan US\$	Liyuan US\$	Binglangjiang US\$	Wuyue US\$	Wuliting US\$	Yingchuan US\$	Xineng US\$	Hengda US\$	Ruiyang US\$	Zhougongyuan US\$	Jinling US\$	Dazhaihe US\$	Total US\$
<b>Balance as of December 31, 2010</b>	33		268	10,520		9			9	19	8		10,866
Addition to construction in progress	34	1,129	1,384	808						2,922			6,277
Transfer to property, plant and equipment	(55)		(1,658)							(2,942)	(8)		(4,663)
Impairment of construction in progress				(11,590)									(11,590)
Foreign currency translation adjustment	1	29	7	262						1			300
<b>Balance as of December 31, 2011</b>	13	1,158	1			9			9				1,190
Addition to construction in progress		1,350			1,316		278	11	1,091	1,429		48	5,523
Transfer from property, plant and equipment							610					13	623
Transfer to property, plant and equipment		(2,416)	(1)		(1,316)		(888)	(11)	(1,076)	(1,429)		(61)	(7,198)
Foreign currency translation adjustment		2											2
<b>Balance as of December 31, 2012</b>	13	94				9			24				140

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

Impairment of construction in progress represents the full write-off of the hydropower project development costs incurred by Wuyue, a 79% owned subsidiary of the Company. Wuyue holds the right to develop a hydropower project of 1,000 megawatts in the Henan Province, the PRC. The project made minimum progress after the acquisition of Wuyue by the Company in October 2009. During the year ended December 31, 2011, the Company decided to abandon the development of the hydropower project and fully impair the construction in progress.

Interest costs from continuing operations qualifying for capitalization in the years ended December 31, 2010, 2011 and 2012 were US\$nil, US\$10 and US\$nil, respectively.

Depreciation expenses from continuing operations for the years ended December 31, 2010, 2011 and 2012 were US\$14,645, US\$20,763 and US\$21,747, respectively. Accumulated depreciation as of December 31, 2011 and 2012 included foreign currency translation adjustment of US\$2,164 and US\$157, respectively. Depreciation expenses have been reported in the following accounts:

	<b>For the Years ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Cost of revenues	(14,419)	(20,466)	(21,402)
General and administrative expenses	(226)	(297)	(345)
Total	(14,645)	(20,763)	(21,747)

**8. INTANGIBLE ASSETS**

In connection with the acquisition of Binglangjiang in 2007, the Company acquired a legal right to develop and operate Phase II of Binglangjiang's hydroelectric power project. The development right allows the Company to expand the power generation capacity of Binglangjiang by utilizing the existing water dam of Binglangjiang, which has a useful life of 30 years. The Company recognized the fair value of US\$2,909 of the development right as a separate intangible asset apart from goodwill in accordance with ASC 805-10. The estimated useful life of the development right is 30 years.

In connection with the acquisition of Yuanping in 2008, the Company acquired a contractual right to use water from the dam and reservoir of the Jinzaqiao station, which has a useful life of 40 years. The Company recognized the fair value of US\$563 of the water use right as a separate intangible asset apart from goodwill in accordance with ASC 805-10. The estimated useful life of the water use right is 40 years. As of December 31, 2011, the net carrying value of the water use right of US\$562 was classified as assets held-for-sale. The water use right was disposed in March 2012 (Note 6).

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On August 12, 2009, Yuheng acquired a contractual right to use water from the dam and reservoir of Wanquan Power Generation Co., Ltd. for a purchase price of US\$1,025. The term of the water use right is 30 years. The water use right was disposed in October 2012 (Note 6).

In connection with the acquisition of Jinling, the Company acquired a right to use the dam of the Dongguan hydropower project which has a useful life of 40 years. The Company recognized the fair value of US\$1,759 for the dam use right as a separate intangible asset apart from goodwill in accordance with ASC 805-10. The estimated useful life of the dam use right of Dongguan is 40 years.

Intangible assets and their related accumulated amortization as of December 31, 2011 and 2012 are as follows:

	<b>December 31, 2011</b>			
	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Foreign Currency Translation Adjustment</b>	<b>Net Carrying Value</b>
Development right of Binglangjiang Phase II	2,909	(509)	611	3,011
Water use right of Wanquan Power Generation Co., Ltd.	1,025	(129)	78	974
Dam use right of Dongguan	1,759	(45)	89	1,803
Total	5,693	(683)	778	5,788

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

	December 31, 2012			
	Gross Carrying Value	Accumulated Amortization	Foreign Currency Translation Adjustment	Net Carrying Value
Development right of Binglangjiang Phase II	2,909	(629)	619	2,899
Dam use right of Dongguan	1,759	(90)	92	1,761
Total	4,668	(719)	711	4,660

Amortization expenses from continuing operations for the years ended December 31, 2010, 2011 and 2012 were US\$111, US\$161 and US\$165, respectively. Amortization expenses have been reported in the following accounts:

	For the Years Ended December 31,		
	2010 US\$	2011 US\$	2012 US\$
Cost of revenues		(45)	(45)
General and administrative expenses	(111)	(116)	(120)
Total	(111)	(161)	(165)

The estimated annual amortization expenses for each of the five succeeding fiscal years are as follows:

	US\$
2013	165
2014	165
2015	165
2016	165
2017	165

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**9. GOODWILL**

Goodwill of US\$112,481 as of December 31, 2012 represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired relating to the acquisition of Binglangjiang during 2007, the acquisitions of Yingchuan, Wuliting, Wangkeng, and Banzhu during 2008, the acquisitions of Shapulong and Ruiyang during 2009, the acquisitions of Husahe, Hengda, Xineng, Xiaopengzu and Jinling and its subsidiaries during 2010 and the acquisition of Dazhaihe during 2011, net of foreign currency translation adjustment. Goodwill is not deductible for tax purposes. In accordance with ASC 350-10, goodwill is not amortized but is tested for impairment at least annually.

The changes in the carrying amount of goodwill by operating and reportable segments for the years ended December 31, 2011 and 2012 are as follows:

	<b>Yunnan Province US\$</b>	<b>Sichuan Province US\$</b>	<b>Fujian Province US\$</b>	<b>Zhejiang Province US\$</b>	<b>Total US\$</b>
Balance as of December 31, 2010	19,036		76,358	41,241	136,635
Goodwill acquired during the year	6,646				6,646
Reclassified to assets held-for-sale			(3,214)		(3,214)
Foreign currency translation adjustment	1,122		3,744	2,106	6,972
Impairment of goodwill	(5,260)		(6,128)		(11,388)
Balance as of December 31, 2011	21,544		70,760	43,347	135,651
Foreign currency translation adjustment	53		119	106	278
Disposal of subsidiaries			(23,448)		(23,448)
Balance as of December 31, 2012	21,597		47,431	43,453	112,481

	<b>December 31,</b>	
	<b>2011 US\$</b>	<b>2012 US\$</b>
Gross carrying value	147,330	124,189
Less: Accumulated impairment loss	(11,679)	(11,708)
Net carrying value	135,651	112,481

During the year ended December 31, 2011, due to the significant decline in its share price for a sustained period, the Company determined that there was an impairment indicator related to the carrying value of its goodwill. Thus, the Company performed the two-step goodwill impairment test on each of its reporting units.



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In estimating the fair value of each of the reporting units in the first step of the impairment test, significant management judgment was applied. The Company estimated the fair value of each of the reporting units using the income approach valuation methodology. The market-based valuation methodology is not considered as appropriate because of volatility of the general market condition as well as insufficient number of comparable companies. In using the income approach methodology of valuation, estimates to determine the fair value of the reporting units included management's judgment related to forecasts of future operating results, discount rates and expected future growth rates. The underlying assumptions used in the first step of the impairment test considered the market capitalization as of December 31, 2011 as well as the current local operating environment in certain provinces in the PRC and its expected impact on the fair value of the reporting unit. The Company determined that the fair value of certain reporting units was less than their carrying value and performed the second step of the impairment test.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

The Company performed the second step of the impairment test to determine the implied fair value of goodwill for the reporting units with fair value less than carrying value. The implied fair value of goodwill was determined by allocating the fair value of the reporting unit to all of the assets and liabilities including any unrecognized intangible assets of the reporting units. This implied fair value was compared to the carrying value of reporting unit goodwill to quantify the amount of impairment loss.

During the year ended December 31, 2012, the Company performed a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on the qualitative assessment, the Company determined that it is not more likely than not that the fair value of its reporting units was less than their carrying value. Accordingly, the first and second steps of the goodwill impairment test are not necessary in accordance with ASC 350-10. For the years ended December 31, 2011 and 2012, the Company recognized an impairment loss on goodwill of US\$11,388 and US\$nil, respectively.

During the year ended December 31, 2012, the Company completed the disposal of two wholly-owned subsidiaries, Yuheng and Yuanping (Note 6). Goodwill amounting to US\$23,448 and US\$3,219 for Yuheng and Yuanping, respectively, was derecognized on the respective disposal date.

**10. LAND USE RIGHTS**

Land use rights and their related accumulated amortization as of December 31, 2011 and 2012 are as follows:

	<b>December 31,</b>	
	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>
Land use right	48,500	47,521
Less: Accumulated amortization	(3,528)	(4,614)
Foreign currency translation adjustment	5,694	5,733
Total	50,666	48,640

The estimated annual amortization expenses for each of the five succeeding fiscal years are as follows:

	<b>US\$</b>
2013	1,156

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2014	1,156
2015	1,156
2016	1,156
2017	1,156

F-39

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**11. OTHER NON-CURRENT ASSETS**

Other non-current assets consist of the following:

	2011 US\$	December 31, 2012 US\$
Long-term prepaid debt insurance cost	591	315
Long-term prepaid rental expenses	270	118
Long-term prepaid compensation cost	90	337
Deposit for financing arrangement		859
Unamortized service fee		187
Long-term prepaid guarantee fee		197
Total	951	2,013

On August 9, 2012, Liyuan entered into an agreement with International Far Eastern Leasing Co., Ltd. ( IEL ) to sell certain power generation assets to IEL for cash consideration of US\$7,151 and simultaneously leased back the assets for three years at a monthly lease payment of US\$219. The implicit interest rate on the lease payments is 6.5% per annum which is determined based on 0.35% above the benchmark interest rate announced by the People's Bank of China for 1 to 3 years loans on August 9, 2012. As Liyuan retained substantially all of the benefits and risks from the ownership of the leased assets, the arrangement was accounted for as financing from IEL in accordance with ASC 840-40, *Sale-leaseback transactions* (Note15). Pursuant to the agreement, Liyuan paid a nonrefundable service fee of US\$354 and a refundable deposit of US\$858 to IEL. The deposit will be repaid to Liyuan at the end of the lease period.

**12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	2011 US\$	December 31, 2012 US\$
Accrued payroll expenses	2,583	3,445
Retainage due to contractors	2,283	199
Purchase consideration payable	4,752	

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Employee termination costs		1,750
Guarantee deposits from original shareholders of acquired subsidiaries	4,265	1,358
Income tax payable	1,425	5,406
Other taxes payable	1,989	2,326
Amounts due to original shareholders of acquired subsidiaries	22,942	1,345
Unrecognized tax benefits (Note 13)	4,344	
Accrued interests on unrecognized tax benefits (Note 13)	1,036	
Accrued water resource fee	1,417	1,496
Loans from third parties	14,483	13,627
Interest payable	1,056	1,260
Accrued dam and reservoirs repair fee	3,835	1,424
Reservoir maintenance fund	1,398	1,905
Advance from customers	124	1,014
Deposits from third parties	1,905	716
Accrued audit fee	937	650
Other liabilities	4,228	5,904
Total	75,002	43,825

F-40

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

Purchase consideration payable as of December 31, 2011 represents the US\$1,825, US\$18 and US\$2,909 outstanding unpaid portion of the purchase consideration for the acquisitions of Xiaopengzu, Ruiyang and Wuliting, respectively, which were fully settled with the original shareholders during the year ended December 31, 2012.

Employee termination costs as of December 31, 2012 represent the termination benefits payable to the former chairman and CEO, John Kuhns, and the former executive vice president and corporate secretary, Mary Fellows. Based on a settlement agreement with the Company, John Kuhns and Mary Fellows resigned from their executive officer positions with the Group with effective date on September 30, 2012 and agreed to serve as senior advisors to the board of directors until December 15, 2012. After completion of their advisory roles, the Company shall pay aggregate termination benefits of US\$1,250 and US\$500 to John Kuhns and Mary Fellows, respectively, on a monthly basis over the course of 24 months.

Guarantee deposits of US\$4,265 from original shareholders of acquired subsidiaries as of December 31, 2011 represent security deposits received by the Company from original shareholders of Wangkeng, Wuliting and Yingchuan which will be returned by the Company within ten days when the original shareholders of the acquired subsidiaries furnish the Company with final documentation relating to the acquired hydroelectric power projects and dams and reservoirs. The final documentation has not been provided in full as of December 31, 2011 and the Company will retain the guarantee deposits until receipt of such documentation. The final documentation was provided by the original shareholders of Wangkeng and Wuliting and the guarantee deposits were returned by the Company during the year ended December 31, 2012. Guarantee deposits of US\$87 and US\$1,271 from original shareholders of acquired subsidiaries as of December 31, 2012 represent security deposits received by the Company from original shareholders of Yingchuan and Jinling, respectively, which will be returned by the Company when the original shareholders of the acquired subsidiaries furnish the Company with final documentation relating to the acquired hydroelectric power projects and dams and reservoirs or formal title certificates with respect to the land. The final documentation and title certificates have not been provided in full as of December 31, 2012 and the Company will retain the security deposits until receipt of such documentations.

Amounts due to original shareholders of acquired subsidiaries as of December 31, 2011 represent (i) US\$2,785 payable to the original shareholders of Dazhaihe, Wangkeng and Wuliting for their entitlement to the net working capital surplus of Dazhaihe, Wangkeng and Wuliting immediately prior to the consummation of the acquisitions in accordance with the supplemental equity transfer purchase agreements; and (ii) liabilities assumed in the acquisition of Jinling, which consisted of amounts payable to original shareholders of Jinling related to borrowings from these original shareholders before the acquisition date of US\$18,735. The borrowings are repayable on demand and are subject to a weighted average interest rate of 7.33% per annum as of December 31, 2011. Amounts due to the original shareholder of Wangkeng, Wuliting and Jinling were fully settled during the year ended December 31, 2012. Amounts due to original shareholders of acquired subsidiaries as of December 31, 2012 mainly represent US\$1,271 payable to the original shareholders of Dazhaihe, Hengda, Xineng and Banzhu for their entitlement to the net working capital surplus of Dazhaihe, Hengda, Xineng and Banzhu immediately prior to the consummation of the acquisitions in accordance with the supplemental equity transfer purchase agreements.

Loans from third parties as of December 31, 2011 represent RMB denominated loans from non-financial institutions of US\$3,483, US\$1,478, US\$3,174, US\$3,174 and US\$3,174 for Jinling, Jinlong, Xiaopengzu, Wuliting and Jiulongshan, respectively. The loans for Jinling and Jinlong

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bear an interest rate of 18.55% per annum and 18.0% per annum, respectively, and are unsecured and repayable within one year. The loans for Xiaopengzu, Wuliting and Jiulongshan were guaranteed by Yuheng, repayable on demand, and bear an interest rate of 21.6% per annum. Loans from non-financial institutions for Xiaopengzu, Wuliting and Jiulongshan were fully repaid during the year ended December 31, 2012. Loans from third parties as of December 31, 2012 represent RMB denominated loans from non-financial institutions of US\$9,139, US\$4,121, US\$240 and US\$127 for Jinling, Jinlong, Hengda and Binglangjiang, respectively. The loans of US\$32, US\$2,743 and US\$6,364 for Jinling bear an interest rate of 24%, 18% and 32% per annum, respectively. The loans for Jinlong bear an interest rate of 18% per annum. The loans for Hengda and Binglangjiang are interest free.

Deposits from third parties as of December 31, 2011 and 2012 represent cash deposits received from certain third-party individuals bidding for the right to provide outsourcing management services to the Group's hydropower stations in the Zhejiang Province, the PRC, in 2013. The deposits are interest-free and repayable by the Group upon selection of the provider for the outsourcing management services. On September 1, 2012, the subsidiaries in the Zhejiang Province signed new agreements with third-parties to terminate the bidding and reached consensus to return the deposits during the first six months of 2013.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**13. INCOME TAX EXPENSE**

**Cayman Islands**

Under the current income tax laws of the Cayman Islands, the Company is not subject to tax on any income or capital gain.

**Hong Kong**

Under the current income tax laws of Hong Kong, in general, companies are subject to Hong Kong Profits Tax at 16.5% on income arising in or derived from Hong Kong. CHC HK and Sunpower do not derive any income which is subject to Hong Kong Profits Tax since their incorporations. In addition, upon payments of dividends by CHC HK and Sunpower to the Company, no Hong Kong withholding tax will be imposed.

**PRC**

Effective from January 1, 2008, the PRC's statutory income tax rate is 25%. The Company's PRC subsidiaries are subject to income tax at 25% unless otherwise specified.

Pursuant to GuoShuiFa [2002] No. 47 and CaiShui [2011] No. 58, the Company's PRC subsidiaries which are located in the Western region of the PRC and engaged in hydroelectric power activities are entitled to the preferential tax rate of 15% from 2010 to 2020 and 2-year full income tax exemption followed by 3-year 50% income tax reduction (the 2+3 tax holiday), respectively. For a domestic enterprise, the 2+3 tax holiday starts from its commencement of business operation. For a foreign investment enterprise, the 2+3 tax holiday starts from its first profit-making year from income tax perspective. Accordingly, the following preferential tax rates are noted:

- (i) Binglangjiang and Husahe are subject to income tax at 15% from 2010 to 2020;



(ii) Liyuan and Hengda were subject to income tax at 7.5% for 2010 and 2011, and are subject to income tax at 15% from 2012 to 2020;

(iii) Xineng and Xiaopengzu were tax exempted for 2010, and are subject to income tax at 7.5% from 2011 to 2013, and at 15% from 2014 to 2020; and

(iv) Based on the local tax authority's approvals, Dazhaihe was tax exempted for 2010, and is subject to income tax at 7.5% for 2011, at 12.5% for 2012 and 2013, and at 15% from 2014 to 2020.

Further, Banzhu, being a foreign invested production-type enterprise, was entitled to a 2+3 tax holiday which is grandfathered under the prevailing PRC Corporate Income Tax Law (the CIT Law) and its relevant regulations. As such, Banzhu is subject to income tax at 12.5% from 2010 to 2012.

In accordance with the prevailing CIT Law and its relevant regulations, enterprises established under the laws of foreign countries or regions and whose place of effective management is located within the PRC territory are considered PRC resident enterprises and subject to the PRC income tax at the rate of 25% on worldwide income. The definition of place of effective management refers to an establishment that exercises, in substance, overall management and control over the production and business, personnel, accounting, properties, etc. of an enterprise. As of December 31, 2012, no detailed interpretation or guidance has been issued to define place of effective management for non-China-funded overseas enterprises, such as the Company. If the Company's non-PRC incorporated entities are deemed PRC tax residents, such entities would be subject to PRC tax under the CIT Law. As of December 31, 2012, the Company has analyzed the applicability of this law and has not accrued for PRC tax on such basis. The Company will continue to monitor changes in the interpretation or guidance of this law.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The Group had minimal operations in jurisdictions other than the PRC.

Income (loss) before income tax expense from continuing operations consists of:

	<b>For the Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Cayman Islands	(11,072)	(17,593)	(7,962)
Hong Kong	(1,262)	(659)	(680)
PRC	15,292	(35,229)	10,037
	2,958	(53,481)	1,395

Income tax expense consists of:

	<b>For the Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Current income tax expense	3,846	2,113	7,013
Deferred income tax benefit	(638)	(586)	(562)
Income tax expense	3,208	1,527	6,451

A reconciliation of the actual income tax expense to the amount computed by applying the PRC statutory tax rate to income (loss) before income tax expense in the consolidated statements of comprehensive income is as follows:

	<b>For the Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Taxation at PRC statutory tax rate of 25%	739	(13,370)	349
Effect of non-PRC entities not subject to income tax	3,083	4,564	2,161
Effect of tax holiday	(301)		(466)
Effect of preferential tax rate	(210)	(248)	(14)
Current and deferred tax rate differential		1,015	1,167
Deemed interest income	695	1,010	276
Non-deductible expenses	565	4,337	3,041

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Change in valuation allowance	(1,363)	3,818	575
Impact of changes in enacted tax rates		(325)	
Prior year tax audit adjustment		190	
PRC withholding tax on the outside basis difference of the discontinued operations		136	
Provision for (reversal of) PRC dividend withholding tax		400	(296)
Effect of changes in the tax basis of property, plant and equipment			(225)
Reduction to unrecognized tax benefits due to lapse of statute of limitations			(117)
Income tax expense	3,208	1,527	6,451
Effective tax rate (%)	108.45%	(2.86)%	462.44%

The aggregate amount and effect of tax holidays on basic and diluted loss per share are as follows:

	For the Years Ended December 31,		
	2010 US\$	2011 US\$	2012 US\$
Aggregate amount	301		466
Basic and diluted	0.002		0.003

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The Company's unrecognized tax benefits are mainly related to transfer pricing and non-deductible expenses.

A reconciliation of the Company's unrecognized tax benefits is as follows:

	For the Years Ended December 31,		
	2010 US\$	2011 US\$	2012 US\$
Balance as of January 1	2,329	3,743	6,093
Addition for tax positions taken in the current period	88	459	396
Reclassified from income tax payable for tax positions of prior years	973	2,336	1,138
Addition for tax positions from newly acquired entities	382		
Reduction for tax positions of prior years	(122)	(87)	(171)
Lapse of statute of limitations			(117)
Reclassified to liabilities directly associated with the assets classified as held-for-sale or disposal of discontinued operations		(618)	(1,276)
Foreign currency translation	93	260	14
Balance as of December 31	3,743	6,093	6,077

As of December 31, 2011 and 2012, the Company's unrecognized tax benefits of US\$6,093 and US\$6,077, of which US\$4,998 and US\$4,159, respectively, of the unrecognized tax benefits, if ultimately recognized, will impact the effective tax rate. Of the US\$6,093 and US\$6,077 unrecognized tax benefits, US\$1,749 and US\$986, respectively, are presented on a net basis on the face of the balance sheet against deferred tax asset related to net operating loss, for which a full valuation allowance would otherwise be recorded.

Management does not expect the amount of unrecognized tax benefits will change significantly in the next 12 months. As of December 31, 2011 and 2012, unrecognized tax benefits of US\$4,344 and US\$5,091 were included in accrued expense and other current liabilities and other non-current liabilities, respectively. During the years ended December 31, 2010, 2011 and 2012, the Company recognized interest related to unrecognized tax benefits amounting to US\$200, US\$457 and US\$576 in interest expense, respectively. Total accrued interests as of December 31, 2011 and 2012 were US\$1,036 and US\$1,583, respectively, and were included in accrued expenses and other current liabilities and other non-current liabilities, respectively. There is no penalty recognized by the Company in relation to its unrecognized tax benefits.

For the Company's PRC subsidiaries, their tax year 2006 through 2012 remain open to examination by the tax authorities as of December 31, 2012.



Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**14. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES**

The significant components of deferred tax assets and deferred tax liabilities of the Company are as follows:

	2011 US\$	December 31, 2012 US\$
Deferred tax assets - current		
Allowance for uncollectible other receivables	533	747
Accrued water resource fee	277	332
Accrued expenses	517	706
Other payable	1,076	622
Deferred tax assets - current	2,403	2,407
Valuation allowance	(604)	(748)
Net deferred tax assets-current	1,799	1,659
Deferred tax liabilities - current		
Outside basis difference of discontinued operations (Note 6)	(136)	
PRC dividend withholding tax	(400)	
Deferred tax liabilities - current	(536)	
Deferred tax assets - non-current		
Net operating loss carryforwards	2,056	1,746
Depreciation of property, plant and equipment	505	812
Provision for impairment allowance	3,472	3,481
Others	11	10
Deferred tax assets - non-current	6,044	6,049
Valuation allowance	(4,277)	(4,720)
Net deferred tax asset - non-current	1,767	1,329
Deferred tax liabilities - non-current		
Fair value step-up of property, plant and equipment	(25,246)	(23,279)
Unfavorable contract obligation - electricity supply contract	9	
Fair value step-up of intangible assets	(1,326)	(1,066)
Deferred tax liabilities - non-current	(26,563)	(24,345)

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

Deferred tax assets of US\$333 and deferred tax liabilities of US\$1,818 as of December 31, 2011 were derecognized as a result of the disposal of Yuheng during the year ended December 31, 2012.

The Group records a valuation allowance on its deferred tax assets that is sufficient to reduce the deferred tax assets to an amount that is more likely than not to be realized. Future reversal of the valuation allowance will be recognized either when the benefit is realized or when it has been determined that it is more likely than not that the benefit in future earnings will be realized.

The Group recognized a decrease in valuation allowance of US\$1,363 and increases in valuation allowance of US\$3,818 and US\$575 during the years ended December 31, 2010, 2011 and 2012, respectively. Foreign currency translation adjustments of US\$54, US\$69 and US\$12 on valuation allowance were recognized in accumulated other comprehensive income during the years ended December 31, 2010, 2011 and 2012, respectively.

Net operating loss carryforward amounted to US\$13,830 as of December 31, 2012, of which US\$170, US\$1,160, US\$1,883, US\$6,396 and US\$4,221 will expire in years 2013, 2014, 2015, 2016 and 2017, respectively.

Apart from the amount disclosed above related to PRC dividend withholding tax on the undistributed earnings of a foreign subsidiary, deferred tax liabilities have not been provided on the undistributed earnings amounting US\$19,245 and US\$29,260 of the Company's other foreign subsidiaries as of December 31, 2011 and 2012, respectively, as the Company intends to indefinitely reinvest such earnings into its foreign subsidiaries. Under the prevailing income tax law of the PRC and its relevant regulations, dividends paid by PRC enterprises out of profits earned after December 31, 2007 to non-PRC tax resident investors are subject to PRC withholding tax of 10%. A lower withholding tax rate may be applied based on applicable tax treaty with certain countries. The amounts of unrecognized deferred tax liabilities for the foreign subsidiaries undistributed earnings are US\$1,925 and US\$2,926 as of December 31, 2011 and 2012, respectively.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**15. BORROWINGS**

Total borrowings as of December 31, 2011 and 2012 consist of:

	2011 US\$	December 31, 2012 US\$
Short-term:		
Secured	20,087	21,676
Unsecured	794	
Long-term:		
Current portion, secured	51,651	35,537
Non-current, secured	215,382	212,970
Total borrowings	287,914	270,183

The short-term loans outstanding as of December 31, 2011 represent RMB denominated loans of US\$9,141, US\$1,111, US\$794, US\$1,587, US\$5,555 and US\$2,693 for Jinling, Jinlong, Wuliting, Yingchuan, Ruiyang and Binglangjiang obtained from financial institutions, respectively. These loans are due for settlement in 2012. The short-term loans for Jinling of US\$7,554 were obtained from Agricultural Bank of China with annual interest rates between 5.8410% and 7.8720% and were secured by the pledge of the property, plant and equipment of Jinling. The short-term loan for Jinling of US\$1,587 was obtained from China Construction Bank with an annual interest rate of 6.1160% and was guaranteed by Fujian Taiyu Investment (Group) Co., Ltd. The short-term loan for Jinlong of US\$1,111 was obtained from Rural Credit Cooperative Shaowu Jiefang Branch with an annual interest rate of 14.43% and was secured by the pledge of the property, plant and equipment of Jinlong. The short-term loan for Wuliting of US\$794 was obtained from Shanghai Pudong Development Bank with an annual interest rate of 9.76% and was guaranteed by Yingchuan. The short-term loan for Yingchuan of US\$1,587 was obtained from Shanghai Pudong Development Bank with an annual interest rate of 10.496% and was guaranteed by Wuliting. The short-term loans for Ruiyang of US\$5,555 were obtained from Shanghai Pudong Development Bank with annual interest rates between 10.496% and 18% and were guaranteed by Wuliting. The short-term loans for Binglangjiang of US\$1,587 were obtained from Agricultural Bank of China with annual interest rates of 6.626% and 6.888% and were secured by the pledge of the property, plant and equipment of Binglangjiang. The short-term loans for Binglangjiang of US\$1,106 were obtained from Construction Bank of China with annual interest rates between 6.728% and 7.625% and were secured by the pledge of proceeds from the future electricity sales of Binglangjiang.

The short-term loans outstanding as of December 31, 2012 represent RMB denominated loans of US\$5,823, US\$3,818, US\$795, US\$4,773, US\$2,243, US\$1,101 and US\$623 for Jinling, Wangkeng, Yingchuan, Ruiyang, Zhougongyuan, Binglangjiang and Hengda, respectively, and US\$ denominated loans of US\$2,500 obtained from financial institutions. These loans are due for settlement in 2013. The short-term loans for Jinling of US\$2,386 were obtained from Agricultural Bank of China with annual interest rates between 7.20% and 7.80% and were guaranteed by Wangkeng, and US\$3,437 were obtained from Agricultural Bank of China with annual interest rates between 7.80% and 8.528% and were secured by the pledge of the property, plant and equipment of Jinling. The short-term loan for Wangkeng of US\$3,818 was obtained from



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Industrial bank of Fujian with an annual interest rate of 8.7% and was guaranteed by Pingnan County Yuanping Hydroelectric Co., Ltd. The short-term loan for Yingchuan of US\$795 was obtained from Shanghai Pudong Development Bank with an annual interest rate of 9.60% and was guaranteed by Wuliting. The short-term loan for Ruiyang of US\$1,591 was obtained from Shanghai Pudong Development Bank with annual interest rates of 15%, and was secured by the pledge of the property, plant and equipment of Zhougongyuan and guaranteed by Yingchuan, and US\$3,182 was obtained from Shanghai Pudong Development Bank with annual interest rates of 18% and was secured by the pledge of the property, plant and equipment of Jiulongshan and guaranteed by Wuliting. The short-term loan for Zhougongyuan of US\$2,243 was obtained from Shanghai Pudong Development Bank with an annual interest rate of 5.40% and was secured by the pledge of a certificate of deposit of Zhougongyuan. The short-term loan for Binglangjiang of US\$1,101 was obtained from Construction Bank of China with annual interest rates of 7% and was secured by the pledge of proceeds from the future electricity sales of Binglangjiang. The short-term loan for Hengda of US\$623 was obtained from Agricultural Bank of China with annual interest rate of 6.29% and was secured by the pledge of notes receivable with face amount of US\$636. The short-term loan for CHC HK of US\$2,500 was obtained from Bank of China with an annual interest rate of 4.64% and was secured by the pledge of a certificate of deposit of Fujian Huabang.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

The long-term loans of US\$267,033 outstanding as of December 31, 2011 relate to RMB denominated loans obtained by Binglangjiang, Hengda, Xineng, Xiaopengzu, Yingchuan, Wuliting, Jiulongshan, Ruiyang, Zhougongyuan, Shapulong, Yuheng, Wangkeng, Banzhu, Jinling and its subsidiaries from financial institutions. The loan balances of Yingchuan that were not in compliance with certain debt covenants as of December 31, 2010 were not settled during the year ended December 31, 2011 and remained classified as current portion of long-term loans as of December 31, 2011.

The long-term loans of US\$248,507 outstanding as of December 31, 2012 relate to RMB denominated loans obtained by Binglangjiang, Hengda, Xineng, Xiaopengzu, Yingchuan, Wuliting, Jiulongshan, Ruiyang, Zhougongyuan, Shapulong, Wangkeng, Banzhu, Liyuan, Jinling and its subsidiaries from financial institutions. The loan balances of Yingchuan that were not in compliance with certain debt covenants as of December 31, 2011 were fully settled during the year ended December 31, 2012.

The interest rates on these long-term loans are variable based on the benchmark rate published by the People's Bank of China each year. The weighted average interest rate on the long-term loans for the years ended December 31, 2011 and 2012 was 7.00% and 6.96%, respectively. The long-term loans are due from 2013 to 2027 and are secured by the following:

**(a) Corporate guarantee by third parties**

Long-term loans amounting to US\$30,552 and US\$28,256 as of December 31, 2011 and 2012, respectively, were guaranteed by the following third parties:

	<b>December 31,</b>	
	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>
Guaranteed by:		
Guangsha Construction Group Co., Ltd.	14,284	10,119
Fujian Taiyu Investment (Group) Co., Ltd.		7,159
Shaowu City Jinling Power Generation Co., Ltd. and Nanping City Xingshui Co., Ltd.	5,079	4,455
Fujian Taiyu Investment (Group) Co., Ltd., Shaowu City Jinling Power Generation Co., Ltd. and Xiamen Youen Hydropower Development Co., Ltd.	11,189	6,523
	30,552	28,256

**(b) Pledge of property, plant and equipment**

As of December 31, 2011, long-term loans of US\$251,639 were secured by the pledge of the property, plant and equipment in the amount of US\$569,006 of Binglangjiang, Hengda, Xineng, Xiaopengzu, Yingchuan, Wuliting, Ruiyang, Jiulongshan, Zhougongyuan, Shapulong, Wangkeng, Banzhu, Jinlong, Jinwei and Jintang.

As of December 31, 2012, long-term loans of US\$237,752 were secured by the pledge of the property, plant and equipment in the amount of US\$564,563 of Binglangjiang, Liyuan, Hengda, Xineng, Xiaopengzu, Yingchuan, Wuliting, Ruiyang, Jiulongshan, Zhougongyuan, Shapulong, Wangkeng, Banzhu, Jinlong, Jinwei and Jintang.

**(c) Pledge of proceeds from future electricity sales**

As of December 31, 2011, long-term loans of US\$115,978 were secured by the proceeds from future electricity sales of Binglangjiang, Hengda, Xineng, Xiaopengzu, Zhougongyuan, Jiulongshan, Wangkeng, Jinling and Jinlong.

As of December 31, 2012, long-term loans of US\$171,740 were secured by the proceeds from future electricity sales of Hengda, Xineng, Xiaopengzu, Wuliting, Zhougongyuan, Jiulongshan, Ruiyang, Yingchuan, Shapulong, Wangkeng, Jinling, Jinlong and Liyuan.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**(d) Pledge of equity interest**

As of December 31, 2012, long-term loans of US\$20,683 and US\$6,431 were secured by the pledge of the Company's equity interest in Wuliting and Liyuan, respectively.

Maturities of long-term loans for the five years succeeding December 31, 2012 are as follows:

	US\$
2013	35,537
2014	37,274
2015	30,120
2016	30,082
2017	28,438
Thereafter	87,056
	248,507

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**16. OTHER NON-CURRENT LIABILITIES**

Other non-current liabilities consist of the following:

	December 31,	
	2011 US\$	2012 US\$
Unrecognized tax benefits (Note 13)		5,091
Accrued interests on unrecognized tax benefits (Note 13)		1,583
Government grant	103	100
Defined benefit plan obligation	129	
Others	5	6
Total	237	6,780

Other non-current liabilities as of December 31, 2011 mainly represent deferred government grant of US\$103 relating to Banzhu and net defined benefit obligation of US\$129 (Note 22(b)). The defined benefit obligation was fully settled during the year ended December 31, 2012.

Other non-current liabilities as of December 31, 2012 mainly represent deferred government grant of US\$100 relating to Banzhu and unrecognized tax benefits and related interests of US\$6,674.

The government grant of Banzhu is recognized as income over the periods necessary to match it on a systematic basis with the related costs which it is intended to compensate. During the years ended December 31, 2010, 2011 and 2012, US\$6, US\$3 and US\$3 has been recognized as a reduction to cost of revenues, respectively.

**17. CONVERTIBLE REDEEMABLE PREFERRED SHARES**

In 2008, the Company issued 150,025 Series A Preferred Shares and 129,000 Series B Preferred Shares for an aggregate purchase price of US\$279,025 or US\$1,000 per share. In 2009, the Company issued 20,000 Series C Preferred Shares for an aggregate purchase price of US\$20,000 or US\$1,000 per share. The initial carrying amount of the Series A, Series B and Series C Preferred Shares was measured at their respective issuance price of US\$150,025, US\$129,000 and US\$20,000, net of issuance cost of US\$10,569, US\$4,134 and US\$1,872,

respectively.

The Series A, Series B and Series C Preferred Shares were classified as mezzanine equity from their respective issuance date to the closing of the Company's IPO on January 25, 2010, as these preferred shares were redeemable at the option of the holders on or after an agreed upon date. Upon the listing of the Company's shares on the New York Stock Exchange on January 25, 2010, all of the issued and outstanding Series A, Series B and Series C Preferred Shares and the related accrued cumulative dividends were automatically converted into ordinary shares.

No cash dividends were declared by the Company on the Series A, Series B and Series C Preferred Shares for the period from January 1, 2010 to January 25, 2010. A cumulative dividend of US\$1,989, US\$1,412 and US\$162 for Series A, Series B and Series C Preferred Shares, respectively, was accrued and recorded as a reduction of income available to ordinary shareholders for the period from January 1, 2010 to January 25, 2010.

Pursuant to the preferred shares subscription agreements, the Series A, Series B and Series C Preferred Shares shall automatically be converted into ordinary shares based on an adjusted conversion price equivalent to 60%, 60% and 70% of the IPO price, respectively, on the date of a qualified IPO. As a result, upon the closing the Company's IPO on January 25, 2010, (i) the Series A Preferred Shares and related accrued cumulative dividends amounting to US\$186,530 were converted in to 63,016,780 ordinary shares at an adjusted conversion price of US\$2.96, or 60% of the IPO price of US\$4.93; (ii) the Series B Preferred Shares and related accrued cumulative dividends amounting to US\$150,355 were converted in to 50,795,457 ordinary shares at an adjusted conversion price of US\$2.96, or 60% of the IPO price of US\$4.93; and (iii) the Series C Preferred Shares and related accrued cumulative dividends amounting to US\$20,518 were converted in to 5,941,613 ordinary shares at an adjusted conversion price of US\$3.45, or 70% of the IPO price of US\$4.93.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

In accordance with ASC subtopic 470-20 ( ASC 470-20 ), *Debt: Debt with Conversion and Other Options*, changes to the conversion terms that would be triggered by future events not controlled by the issuer are accounted for as contingent beneficial conversion features and the intrinsic value of such conversion options would not be recognized until and unless a triggering event occurred. Since the terms of the Series A, Series B and Series C Preferred Shares do not permit the number of shares that would be received upon conversion if an IPO occurs to be calculated at the commitment date, the conversion price adjustment triggered by the occurrence of an IPO was accounted for as a contingent beneficial conversion feature and was recognized upon the Company's IPO based on the excess number of ordinary shares that would be received upon conversion at the adjusted conversion price over the number of shares that would have been received prior to the occurrence of the contingent event multiplied by the commitment date share price. A contingent beneficial conversion feature of US\$6,990, US\$5,040 and US\$222 was recognized for the Series A, Series B and Series C Preferred Shares, respectively, through a credit to additional paid-in capital on January 25, 2010.

In accordance with ASC 470-20, a discount resulting from the accounting for a beneficial conversion option for convertible instruments that do not have a stated redemption date is amortized from the date of issuance to the earliest conversion date. Since the holders of the Series A, Series B and Series C Preferred Shares can convert the preferred shares anytime after their respective issuance date, the beneficial conversion features of US\$6,990, US\$5,040 and US\$222 for the Series A, Series B and Series C Preferred Shares, respectively, were immediately amortized as a reduction of income available to ordinary shareholders upon their recognition on January 25, 2010.

As of December 31, 2011 and 2012, 6,000,000 preferred shares at par value of US\$0.001 per share were authorized and no preferred shares were issued and outstanding.

**18. WARRANTS**

On November 10, 2006, the founding shareholders of the Company purchased 375,000 units of securities issued by the Company through China Hydro LLC ( CHL ), a limited liability company formed under the laws of the State of Delaware which holds the equity interest in the Company for the founding shareholders. Each unit consists of one ordinary share and two warrants each to purchase one ordinary share of the Company at US\$5.00 per share ( Founders' Warrants ). The exercise period of the Founders' Warrants commences on the date of issuance and expires on the earlier of November 10, 2011 or the redemption of the warrants by the Company. The Founders' Warrants can be redeemed at the option of the Company at any time during the exercise period at US\$0.001 per warrant, provided that the last independent bid price of the ordinary share exceeds US\$8.50 per share.

On November 10, 2006, the Company also issued two warrants to Morgan Joseph & Co., Inc ( Morgan Joseph ), as part of the payment for services rendered by Morgan Joseph on the issuance of convertible notes (the Notes ). One warrant allows Morgan Joseph to purchase 550,000 units of securities (each unit consists of one ordinary share and two warrants each to purchase one ordinary share of the Company at US\$5.00 per share) and the other warrant allows Morgan Joseph to purchase 283,333 units of securities (each unit consists of one ordinary share and four

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warrants each to purchase one ordinary share of the Company at US\$5.00 per share) issued by the Company at US\$6.60 per unit ( Morgan Joseph Warrants ). The exercise period of the Morgan Joseph Warrants commences on the date of issuance and expires on November 10, 2011. The Morgan Joseph Warrants provide for a cashless exercise option. The Morgan Joseph Warrants expired unexercised.

On April 11, 2007, Vicis Capital Master Fund ( Vicis ), JMG Capital Partners, LLP and JMG Triton Offshore Fund Limited (collectively, JMG ), which are holders of the US\$50,000 convertible notes (the Notes ) issued by the Company in November 2006, approved the consummation of a business combination by the Company. Pursuant to the Notes agreements, Vicis converted its US\$41,000 Notes into 6,833,333 ordinary shares and 18,666,666 warrants each to purchase one ordinary share at US\$5.00 per share while JMG elected not to convert its US\$9,000 Notes and received 666,666 warrants each to purchase one ordinary share at US\$5.00 per share. The warrants issued to Vicis and JMG (collectively, the Holders Warrants ) have terms identical to the Founders Warrants in that the Company has an option to redeem at any time at US\$0.001 per warrant, provided that the last independent bid price of the ordinary share exceeds US\$8.50 per share, and that the exercise period commences on the date of issuance and expires on the earlier of November 10, 2011 or the redemption of the warrants by the Company. The Holders Warrants issued to JMG expired unexercised.



Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

Under ASC sub-topic 815-40 ( ASC 815-40 ), *Derivatives and Hedging: Contracts in Entity's Own Equity*, if a contract could potentially be cash settled, and such settlement is not within the control of the issuer, the derivative is accounted for as an asset or liability, and changes in fair value are recognized in the consolidated statements of comprehensive income. From their respective issuance date to the expiration date on November 10, 2011, the Company evaluated ASC 815-40-25-7 to ASC 815-40-25-35 and concluded that the Founder's Warrants, Morgan Joseph Warrants and Holders' Warrants could only be physical settled or net-share settled but not net-cash settled. Therefore these warrants have been classified as equity since their respective issuance date and the fair value at their respective commitment date was determined to be minimal.

On January 28, 2008, the Company issued another warrant to Morgan Joseph, as part of the payment for services rendered by Morgan Joseph on the issuance of the Series A Preferred Shares. The warrant allows Morgan Joseph to purchase (i) up to 15,000 Series A Preferred Shares at US\$1,100 per share prior to the closing of a qualified public offering or (ii) up to such number of ordinary shares automatically converted into from 15,000 Series A Preferred Shares upon the closing of a qualified public offering at 110% of the then-effective conversion price per Series A Preferred Share ( Morgan Joseph Preferred Shares Warrant ). The exercise period of the Morgan Joseph Preferred Shares Warrant commences on the date of issuance and expires on January 28, 2013. The Morgan Joseph Preferred Shares Warrant provides for a cashless exercise option.

The Morgan Joseph Preferred Shares Warrant was classified as a liability from its issuance date to the closing of the Company's IPO on January 25, 2010, in accordance with ASC sub-topic 480-10 ( ASC 480-10 ), *Distinguishing Liabilities from Equity: Overall*, as Morgan Joseph is entitled to a cashless exercise into Series A Preferred Shares which are contingently redeemable for cash. The fair value of the Morgan Joseph Preferred Shares Warrant was US\$899 and US\$13,968 at the time of issuance and as of January 25, 2010, respectively. An income of US\$365 from the change in fair market value of the Morgan Joseph Preferred Shares Warrant was recognized in the statements of comprehensive income during the year ended December 31, 2010.

Upon the closing of the IPO on January 25, 2010, all of the outstanding Series A Preferred Shares were automatically converted into ordinary shares. As a result, pursuant to the preferred shares subscription agreement, the Morgan Joseph Preferred Shares Warrant automatically became a warrant that allows Morgan Joseph to purchase up to 4,606,880 ordinary shares at US\$3.26 per share and was reclassified from liability to equity ( Morgan Joseph Converted Warrant ). The Morgan Joseph Converted Warrant commences on the date of the IPO and expires on January 28, 2013. The Morgan Joseph Converted Warrant provides for a cashless exercise option. The Morgan Joseph Converted Warrant expired unexercised.

On January 25, 2010, the Company completed an IPO, whereby the Company issued 6,000,000 units of securities at US\$16.00 per unit. Each unit consists of one American Depositary Share ( ADS ) and one warrant ( IPO Warrant ). Each ADS represents three ordinary shares and each IPO Warrant entitles the holder to purchase three ordinary shares for an exercise price of US\$15.00. The Company determined that the relative fair value of the ADSs and the IPO Warrants was US\$14.80 and US\$1.20, respectively, and allocated the sales proceeds of US\$16.00 per unit of securities to the ADS and the IPO Warrant based on their relative fair values. The exercise period of the IPO Warrants commences on the date of issuance and expires on the earlier of January 27, 2014 or the redemption of the warrants by the Company. The IPO Warrants can be redeemed

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at the option of the Company at any time during the exercise period at US\$0.01 per warrant, provided that the sales price per ADS equals or exceeds US\$23.00 for any 20 trading days within a 30-trading day period before the redemption.

On January 25, 2010, the Company issued a warrant to Broadband Capital Management LLC ( "Broadband Capital" ), as part of the payment for services rendered by Broadband Capital in connection with the Company's IPO, for US\$100.00. The warrant allows Broadband Capital to purchase a number of units of securities equal to an aggregate of 4% of the units of securities sold in the IPO at an exercise price of 120% of the IPO price, or US\$19.20 per unit (the "Underwriter's Warrants" ). The warrants underlying the units of securities issuable upon exercise of the Underwriter's Warrant are equivalent to the IPO Warrants, except that the Underwriter's Warrants are exercisable at 120% of the IPO warrant exercise price, or \$18.00 for three ordinary shares. The Underwriter's Warrants are exercisable on a cashless basis, are non-redeemable and have a five-year term.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

Upon the closing of the Company's IPO on January 25, 2010 and as of December 31, 2011 and 2012, in accordance with ASC 815-40, the Morgan Joseph Converted Warrant, IPO Warrants and Underwriter's Warrants were concluded to be indexed solely to the Company's own stock since the warrants do not contain an exercise contingency based on an observable market or an observable index, and the settlement amount would equal to the difference between the fair value of a fixed number of the Company's ordinary shares and a fixed exercise price. In addition, the Company evaluated ASC 81-40-25-7 to ASC 815-40-25-35 and concluded that the Morgan Joseph Converted Warrant, IPO Warrants and Underwriter's Warrants could only be physical settled or net-share settled but not net-cash settled. Therefore, the Morgan Joseph Converted Warrant, IPO Warrants and Underwriter's Warrants have been classified as equity since the Company's IPO on January 25, 2010.

The Morgan Joseph Converted Warrant, IPO Warrants and Underwriter's Warrants will continue to be reported as equity until such time as the warrants are exercised, expire, or become cash-settleable. In the event of a reclassification from equity to liability, the warrants will be measured at a new fair value as of the reclassification date with the change from the existing carrying value to the new fair value as an adjustment to shareholders' equity.

On July 26, 2010, the directors of CHL resolved to distribute its ordinary shares in the Company and the Founders' Warrants to founding shareholders in proportion of their shareholding percentage at nil consideration. In connection with the distribution, CHL distributed to Sam Shoen and Shoen's Trusts (collectively, Shoen) 66,964 Founders' Warrants (the Shoen's Warrants). Except for the Shoen's Warrants, all of the other Founders' Warrants expired unexercised.

On August 18, 2011, the Company amended the exercise price of the Holder's Warrants held by Vicis to US\$1.1544 per share. Immediately after the amendment, Vicis exercised 8,662,509 of the warrants to purchase 8,662,509 ordinary shares of the Company at the reduced exercise price of US\$1.1544 per share. Vicis holds 10,004,157 warrants after the exercise. On August 19, 2011, the Company further amended three other terms of the remaining 10,004,157 warrants held by Vicis (the Vicis Amended Warrants) by (i) introducing full-ratchet anti-dilution protection where the exercise price is further adjusted to equal the dilutive price if the Company issues or sells any shares or equity-linked instrument at a price per share or new exercise price per share less than the reduced exercise price of US\$1.1544; (ii) providing a cashless exercise option; and (iii) increasing the hurdle for the Company's exercise of its call option over the Holders' Warrants, from a bid price equals or exceeds US\$8.50 per share to US\$17.66 per share.

On October 27, 2011, the Company amended the exercise price of the Shoen's Warrants to US\$1.15 per share. Immediately after the amendment, Shoen exercised 31,072 of the warrants to purchase 31,072 ordinary shares of the Company at the reduced exercise price of US\$1.15 per share. After the exercise, the Company further amended three other terms of the remaining 35,892 warrants held by Shoen (the Shoen's Amended Warrants) by (i) introducing full-ratchet anti-dilution protection where the exercise price is further adjusted to equal the dilutive price if the Company issues or sells any shares or equity-linked instrument at a price per share or new exercise price per share less than the reduced exercise price of US\$1.15; (ii) providing a cashless exercise option; and (iii) increasing the hurdle for the Company's exercise of its call option over the Founders' Warrants, from a bid price equals or exceeds US\$8.50 per share to US\$17.66 per share.

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The Company evaluated ASC 815-40-15 and concluded that the 10,004,157 Vicis Amended Warrants and the 35,892 Shoen's Amended Warrants are not indexed to its own stock due to the full-ratchet anti-dilution protection because the issuance of shares or an equity-linked instrument in the future is not an input to the determination of the fair value of the settlement amount of a fixed-for-fixed or equity instrument. Therefore, the Vicis Amended Warrants and the Shoen's Amended Warrants were reclassified from equity to liability. In accordance with ASC 815-40-35, the change in fair value of the Vicis's Amended Warrants and the Shoen's Warrants during the period these warrants were classified as equity was accounted for as an adjustment to stockholders' equity with any subsequent change in fair value being adjusted through earnings. The aggregate fair value of the Vicis Amended Warrants and the Shoen's Amended Warrants were US\$1,391, US\$440 and US\$839 at the time of amendment and as of December 31, 2011 and 2012, respectively. Thus, a debit to additional paid-in capital of US\$1,391 and a gain of US\$951 from the change in fair value of the Vicis Amended Warrants and Shoen's Amended Warrants were recognized in the statements of shareholders equity and the statements of comprehensive income, respectively, during the year ended December 31, 2011. A loss of US\$399 from the change in fair value of the Vicis Amended Warrants and Shoen's Amended Warrants was recognized in the statements of comprehensive income during the year ended December 31, 2012.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The fair values of the outstanding Vicis s Amended Warrants and Shoen s Amended Warrants, which are classified as liabilities, were estimated at their commitment date and December 31, 2011 and 2012 using the following assumptions:

<b>Commitment date/ year-end date</b>	<b>Vicis Amended Warrants August 18, 2011</b>	<b>Shoen s Amended Warrants October 27, 2011</b>	<b>Vicis /Shoen s Amended Warrants December 31, 2011</b>	<b>Vicis /Shoen s Amended Warrants December 31, 2012</b>
Average risk-free rate of return	0.24%	0.24%	0.24%	0.14%
Expected term/life	2.38 years	2.18 years	2.00 years	1.00 years
Volatility rate	52.52%	51.20%	72.00%	88.40%
Expected dividend yield				
Fair value of ordinary share	0.14	0.04	0.04	0.57
Estimated forfeiture rate	0%	0%	0%	0%

The fair values of the Morgan Joseph Converted Warrants, IPO Warrants and Underwriter s Warrants, which are classified as equity, were estimated at their commitment date using the following assumptions:

<b>Commitment date</b>	<b>Morgan Joseph Converted Warrant January 25, 2010</b>	<b>IPO Warrants January 25, 2010</b>	<b>Underwriter s Warrants January 25, 2010</b>
Average risk-free rate of return	2.40%	2.40%	2.40%
Expected term/life	3.00 years	4.99 years	4.99 years
Volatility rate	66.00%	66.00%	66.00%
Expected dividend yield			
Fair value of ordinary share	4.93	4.93	4.93
Estimated forfeiture rate	0%	0%	0%

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying warrants and the fair value of the Company s ordinary shares as of December 31, 2012, for those warrants that have an exercise price currently below the fair value of the Company s ordinary shares. As of December 31, 2012, the Company has warrants outstanding to purchase an aggregate 34,086,929 ordinary shares. None of these warrants has an exercise price below the fair value of the Company s ordinary shares, resulting in an aggregate intrinsic value of US\$nil.

All warrants were vested as of the date they were issued, except for the Underwriter s Warrants which vested 540 days after the IPO on July 19, 2011. Except for the exercise and expiration of warrants described above, no other warrants were redeemed, forfeited, cancelled or exercised for the years ended December 31, 2010, 2011 and 2012.

## 19. SHARE CAPITAL

The Company's authorized ordinary share capital was 400,000,000 shares at par value of US\$0.001 per share as of December 31, 2011 and 2012. There were 161,989,097 ordinary shares issued and outstanding as of December 31, 2011 and 2012, respectively.

On January 25, 2010, the Company completed an IPO, whereby the Company issued 6,000,000 units of securities at US\$16.00 per unit. Each unit consists of one ADS priced at US\$14.80 and one warrant priced at US\$1.20. Each ADS represents three ordinary shares and each warrant entitles the holder to purchase three ordinary shares for an exercise price of US\$15.00. Upon the closing of the Company's IPO on January 25, 2010, all of the issued and outstanding Series A, Series B and Series C Preferred Shares and the related accrued cumulative dividends were automatically converted into 63,016,780, 50,795,457 and 5,941,613 ordinary shares, respectively. There were no preferred shares issued and outstanding as of December 31, 2011 and 2012.

On August 19, 2011 and October 27, 2011, Vicis and Shoen exercised a portion of their warrants to purchase 8,662,509 ordinary shares at US\$1.1544 per share and 31,072 ordinary shares at US\$1.15 per share from the Company, respectively (Note 18).

The Group has not paid or declared any dividends on ordinary shares to date. The payment of dividends in the future will be contingent upon the Group's revenues and earnings, if any, capital requirements and general financial condition subsequent to the completion of a business combination. The payment of dividends will be subject to the discretion of the Group's board of directors and subject to the requirements of Cayman Islands laws.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**20. BASIC AND DILUTED (LOSS) INCOME PER SHARE**

Basic and diluted (loss) income per share for the years ended December 31, 2010, 2011 and 2012 are calculated as follows:

	For the Years Ended December 31,		
	2010 US\$	2011 US\$	2012 US\$
Numerator for basic loss per share:			
Loss attributable to ordinary shareholders	(12,073)	(45,389)	(1,243)
Cumulative dividends on Series A convertible redeemable preferred shares			
Cumulative dividends on Series B convertible redeemable preferred shares			
Cumulative dividends on Series C convertible redeemable preferred shares			
Accretion of beneficial conversion feature on Series A convertible redeemable preferred shares			
Accretion of beneficial conversion feature on Series B convertible redeemable preferred shares			
Accretion of beneficial conversion feature on Series C convertible redeemable preferred shares			
Numerator for diluted loss per share	(12,073)	(45,389)	(1,243)
Denominator:			
Weighted average number of ordinary shares outstanding basic	143,253,450	156,505,076	161,989,097
Dilutive effect of convertible securities:			
Warrants			
Convertible redeemable preferred shares			
Share options			
Weighted average number of ordinary shares outstanding diluted	143,253,450	156,505,076	161,989,097
(Loss) income per share basic and diluted	(0.08)	(0.29)	(0.01)
From continuing operations	(0.11)	(0.29)	(0.03)
From discontinued operations	0.03	(0.00)	0.02

The Group had securities outstanding which could potentially dilute basic loss per share in the future, but these securities were excluded from the computation of diluted loss per share in the years ended December 31, 2010, 2011 and 2012, as their effects would have been anti-dilutive. Such outstanding securities consist of warrants and share options in 2010, 2011 and 2012 and convertible redeemable preferred shares in 2010.





Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**21. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The changes in the balances of each component of accumulated other comprehensive income for the years ended December 31, 2010, 2011 and 2012 are as follows:

	Foreign currency items US\$	Defined benefit pension plan items US\$	Total US\$
<b>Balance at December 31, 2009</b>	11,065		11,065
Current-period other comprehensive income	11,857		11,857
<b>Net current-period other comprehensive income</b>	11,857		11,857
<b>Balance at December 31, 2010</b>	22,922		22,922
Current-period other comprehensive income (loss)	20,079	(33)	20,046
<b>Net current-period other comprehensive income (loss)</b>	20,079	(33)	20,046
<b>Balance at December 31, 2011</b>	43,001	(33)	42,968
Current-period other comprehensive income	954	33	987
Amounts reclassified from accumulated other comprehensive income	(2,358)		(2,358)
<b>Net current-period other comprehensive (loss) income</b>	(1,404)	33	(1,371)
<b>Balance at December 31, 2012</b>	41,597		41,597

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**22. EMPLOYEE BENEFIT PLANS**

**(a) Defined contribution plan**

The Group's full time employees in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain medical care unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on 33.5% to 44.9% of the employees' salaries, subject to a certain cap limit, depending on the location of employment. The total contribution for such employee benefits, which was expensed as incurred, was US\$810, US\$1,045 and US\$1,324 for the years ended December 31, 2010, 2011 and 2012, respectively. The Group has no additional legal obligations or liabilities for the benefits beyond the paid and accrued amounts.

In November 2008, the New York office of the Company established a 401(k) retirement plan, which requires a dollar by dollar matching contribution from the employer up to 3% of the employee's annual salary. The total contribution for the 401(k) retirement plan, which was expensed as incurred, was US\$77, US\$155 and US\$74 for the years ended December 31, 2010, 2011 and 2012, respectively. The Group has no additional legal obligation or liabilities for the benefits beyond the paid and accrued amounts.

**(b) Defined benefit plan**

The Company established a defined benefit plan with a retirement plan service agent for two executive officers, John Kuhns and Mary Fellows, with an effective date of January 1, 2010. The guaranteed retirement benefit under this defined benefit plan is based on the two executive officers' salaries and length of service periods. In 2012, the two executive officers terminated their employment relationship with the Company and opted to have a lump sum cash distribution for their accumulated defined benefit of US\$244, resulting in zero assets and obligation as of December 31, 2012. The benefit obligation, net periodic benefit cost, fair value of plan contributed assets and changes in the funded status of the plan were insignificant as of and for the years ended December 31, 2011 and 2012 based on the actuarial valuation dated January 13, 2012 and January 18, 2013, respectively.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**23. INTEREST EXPENSE**

Interest expense for the years ended December 31, 2010, 2011 and 2012 consist of:

	<b>For the Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Interest on loans	13,057	18,371	20,017
Accrued interest on unrecognized tax benefits (Note 13)	200	457	576
Amortization of debt issuance costs	19	19	191
Interest to original shareholders of acquired subsidiaries	129	2,503	1,126
Interest on loans from third parties	2	2,567	4,757
Bank charges	342	672	1,340
Others	106	168	63
Total	13,855	24,757	28,070

**24. COMMITMENTS AND CONTINGENCIES****(a) Operating lease commitments**

The Group has entered into certain operating leasing arrangements relating to the lease of the Group's office premises. Payments made under operating leases are expensed on a straight-line basis over the term of the lease. Rental expenses under operating leases for the years ended December 31, 2010, 2011 and 2012 were US\$766, US\$912, US\$639 respectively.

Future minimum lease payments for non-cancellable operating leases as of December 31, 2012 are as follows:

	<b>US\$</b>
2013	406
2014	2

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2015	1
2016 and thereafter	
Total	409

**(b) Capital commitments**

Capital commitments as of December 31, 2012 were approximately US\$41 (RMB256) representing contracted but unprovided amounts for the purchase of property, plant and equipment by Yingchuan, Jiulongshan and Ruiyang and Binglangjiang.

F-58

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**(c) Other commitments**

During the year ended December 31, 2011, the Company entered into compensation agreements with certain land owners in the Fujian Province, the PRC, who lost the usage of their land due to the operation of the Company's hydroelectric power projects in the areas. These agreements have terms ranging from 5 to 43 years from the date of signing of the compensation agreements. The annual compensation is based on the relevant land acres and agreed compensation rate per acre. The total compensation costs to the land owners, which were recorded in cost of revenues, were US\$166 and US\$739 for the years ended December 31, 2011 and 2012, respectively.

Future minimum compensation costs to the land owners for the five years succeeding December 31, 2012 are as follows:

	US\$
2013	105
2014	86
2015	203
2016	194
2017	193
Thereafter	5,535
Total	6,316

**(d) Other contingencies**

As of December 31, 2012, the Group has not obtained formal title certificates with respect to the land that the Group used at the hydroelectric power projects of Wuliting, Zhougongyuan, Binglangjiang, Jinlong, Jintang, Jinling and Jinwei with a total area of approximately 2,571,106 meter square. The management is in the process of completing the legal procedures for obtaining the relevant title certificates for the parcels of land and buildings involved and registering them in the name of the Group's operating companies. In addition, the Group has not passed the completion acceptance procedure for hydroelectric power projects of Wangkeng, Banzhu, Jinlong, Jintang, Jinwei and Jinling. Moreover, the hydroelectric power projects of Husahe and Jinling cannot verify whether they have passed completion acceptance due to the loss of files caused by flood in 2004. The management is in the process of performing the completion acceptance procedure for these hydroelectric power projects. In the opinion of management, the likelihood of not obtaining the formal title certificates and completing the acceptance procedures is remote based on current facts and circumstances.

There were no significant contingencies as of December 31, 2011 and 2012.

**(e) Legal proceedings**

In April 2012, twenty-four employees of Wuyue filed an arbitration claim against the Company for the payment of salary in total amount of US\$428 and the payment of social security in total amount of US\$33. The claim was heard by the Henan Guangshan County Labour Arbitration Committee ( GCLAC) in May 2012. GCLAC ordered that Wuyue be joined as a joint defendant with the Company. As of December 31, 2012, no ruling or award has been granted in respect of the claim. The Company had made a full accrual of the claimed amount in accrued expenses and other current liabilities.

**25. OTHER INCOME (LOSS), NET**

Other income (loss), net for the years ended December 31, 2010, 2011 and 2012 consists of:

	<b>For the Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Loss from disposal of property, plant and equipment	(26)	(248)	(25)
Reimbursement from ADS depositary bank	446	527	
Gain from extinguishment of amounts due to original shareholders of acquired subsidiaries			462
Others	(254)	(613)	70
Other income (loss), net	166	(334)	507

For the years ended December 31, 2010, 2011 and 2012, a net reimbursement amounting to US\$446, US\$527 and US\$nil, respectively, was received from Bank of New York Mellon, the Company's ADS depositary bank, for the establishment of an ADS depositary receipt facility after the Company's IPO.

For the year ended December 31, 2012, amounts due to the original shareholder of Jinling of US\$462 were extinguished pursuant to a settlement arrangement entered into between the Company and the original shareholder of Jinling.

[Table of Contents](#)**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**26. SEGMENT AND GEOGRAPHIC INFORMATION**

The Group follows ASC 280-10 for disclosure of segment information. The Group's chief operating decision maker, who has been identified as the CEO, relies upon financial information by provinces with operations in the PRC when making decisions about allocating resources and assessing the performance of the Group. For the years ended December 31, 2010, 2011 and 2012, the Group operated and managed its business as four operating and reportable segments, namely the Yunnan Province segment, the Sichuan Province segment, the Zhejiang Province segment and the Fujian Province segment. As the Group's long-lived assets and revenues are substantially all located in and derived from the PRC, no geographical segments are presented.

The Group's segment information as of and for the year ended December 31, 2010 is as follows:

	Yunnan Province US\$	Sichuan Province US\$	Zhejiang Province US\$	Fujian Province US\$	Unallocated US\$	Eliminations US\$	Consolidated US\$
Revenues	8,822	660	32,959	15,718	(1)		58,158
Cost of revenues	(4,059)	(597)	(14,414)	(6,002)	1	2,418	(22,653)
General and administrative expenses (including share-based compensation expense of US\$3,615)	(605)	(148)	(1,319)	(1,054)	(16,040)		(19,166)
Interest income	9	16	8	727	557	(519)	798
Interest expense	(2,945)		(7,493)	(3,887)	(49)	519	(13,855)
Changes in fair value of warrant liabilities					365		365
Exchange loss				(452)	(403)		(855)
Other (loss) income, net	(4)	29	(133)	(22)	3,087	(2,791)	166
Income tax expense (benefit)	204	1	(2,138)	(1,192)	(83)		(3,208)
Net income (loss) from continuing operations	1,422	(39)	7,470	3,836	(12,566)	(373)	(250)
Income from discontinued operations (net of income tax expense of US\$152)				3,862		373	4,235
Net income for the year from discontinued operation				3,862		373	4,235
Net income (loss)	1,422	(39)	7,470	7,698	(12,566)		3,985
Net income attributable to noncontrolling interests				(243)			(243)
Net income (loss) attributable to China Hydroelectric Corporation	1,422	(39)	7,470	7,455	(12,566)		3,742

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shareholders							
Total assets	183,888	14,910	305,927	396,388	435,361	(506,018)	830,456
Total liabilities	(117,138)	(420)	(138,055)	(202,276)	(20,578)	64,994	(413,473)
Capital expenditures	879	569	250	317	1,380		3,395
Depreciation and amortization expenses	2,660	373	9,392	3,153	92		15,670

F-60



Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The Group's segment information as of and for the year ended December 31, 2011 is as follows:

	Yunnan Province US\$	Sichuan Province US\$	Zhejiang Province US\$	Fujian Province US\$	Unallocated US\$	Eliminations US\$	Consolidated US\$
Revenues	13,806	555	25,382	14,854			54,597
Cost of revenues	(8,349)	(568)	(15,034)	(10,874)		3,511	(31,314)
General and administrative expenses (including share-based compensation expense of US\$10,479)	(1,519)	(86)	(1,148)	(2,276)	(23,867)		(28,896)
Impairment loss on goodwill	(5,260)			(6,128)			(11,388)
Impairment loss on long-lived assets					(11,601)	11	(11,590)
Interest income	180	10	128	1,709	66	(1,992)	101
Interest expense	(8,468)		(8,565)	(9,669)	(73)	2,018	(24,757)
Changes in fair value of warrant liabilities					951		951
Exchange loss	(28)			(244)	(579)		(851)
Other (loss) income, net	(285)		(36)	(158)	4,033	(3,888)	(334)
Income tax (expense) benefit	(142)	5	(843)	115	(662)		(1,527)
Net loss from continuing operations	(10,065)	(84)	(116)	(12,671)	(31,732)	(340)	(55,008)
Loss from discontinued operations (net of income tax expense of US\$101)				(631)		349	(282)
Net loss for the year from discontinued operations				(631)		349	(282)
Net loss	(10,065)	(84)	(116)	(13,302)	(31,732)	9	(55,290)
Net loss attributable to noncontrolling interests				2,546	7,355		9,901
Net loss attributable to China Hydroelectric Corporation shareholders	(10,065)	(84)	(116)	(10,756)	(24,377)	9	(45,389)
Total assets	200,681	15,896	318,616	374,296	421,650	(516,224)	814,915
Total liabilities	(133,670)	(753)	(138,688)	(185,330)	(20,498)	58,902	(420,037)
Capital expenditures	1,763	1,128	3,031	645	970	(5)	7,532
Depreciation and amortization expenses	5,181	344	9,837	6,569	115		22,046

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

The Group's segment information as of and for the year ended December 31, 2012 is as follows:

	Yunnan Province US\$	Sichuan Province US\$	Zhejiang Province US\$	Fujian Province US\$	Unallocated US\$	Eliminations US\$	Consolidated US\$
Revenues	13,460	598	41,616	29,714			85,388
Cost of revenues	(8,540)	(689)	(16,978)	(13,133)		3,545	(35,795)
General and administrative expenses (including share-based compensation expense of US\$166)	(2,108)	(269)	(2,569)	(3,413)	(11,989)		(20,348)
Interest income	236	121	838	1,713	3	(2,827)	84
Interest expense	(9,039)	(260)	(10,550)	(10,787)	(247)	2,813	(28,070)
Changes in fair value of warrant liabilities					(399)		(399)
Exchange (loss) gain				(1)	29		28
Other income (loss), net	136	22	(81)	420	3,736	(3,726)	507
Income tax benefit (expense)	72	(5)	(3,831)	(2,480)	(207)		(6,451)
Net (loss) income from continuing operations	(5,783)	(482)	8,445	2,033	(9,074)	(195)	(5,056)
Income from discontinued operations (net of income tax expense of US\$399)				959		181	1,140
Gain on disposal of discontinued operations (net of income tax expense of US\$959)					2,767		2,767
Net income for the year from discontinued operations				959	2,767	181	3,907
Net (loss) income	(5,783)	(482)	8,445	2,992	(6,307)	(14)	(1,149)
Net income attributable to noncontrolling interests				(94)			(94)
Net (loss) income attributable to China Hydroelectric Corporation shareholders	(5,783)	(482)	8,445	2,898	(6,307)	(14)	(1,243)
Total assets	192,843	22,790	344,923	289,702	426,518	(522,460)	754,316
Total liabilities	(131,872)	(8,092)	(145,312)	(129,627)	(27,799)	80,901	(361,801)
Capital expenditures	877	1,384	3,973	1,305	15	(58)	7,496
Depreciation and amortization expenses	5,546	477	10,136	6,767	142		23,068

**27. SHARE-BASED PAYMENT**

On August 18, 2008, the board of directors (the Board) of the Company adopted the China Hydroelectric Corporation 2008 Share Incentive Plan (the 2008 Plan) that provides for the issuance of share-based awards to purchase up to 12,000,000 ordinary shares. The effectiveness of the 2008 Plan is subject to the approval of the Company's shareholders within twelve months from the date on which the 2008 Plan is adopted by the Board. Under the 2008 Plan, the Company may grant share options including incentive stock options and non-qualified stock options, equity appreciation rights, restricted ordinary shares, restricted ordinary share units, performance-based grants of ordinary shares, performance units and other equity-based or cash-based awards to employees of the Group, consultants and other individuals who provide services to the Group, including the Company's directors. The administrator, which may be the Board or its authorized designee, has full power and authority to administer, construe and interpret the 2008 Plan. Under the terms of the 2008 Plan, options intended to qualify as incentive shares options must have an exercise price at least equal to the fair market value as of the date of grant, but all other share options can be granted with an exercise price less than the fair market value.

On August 18, 2008, the Board approved the grant of 40,000 options, 260,000 options and 3,597,000 non-qualified stock options to certain directors, consultants and employees of the Group, respectively.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

Options granted to employees and consultants have a contractual life of five years, an exercise price of \$7.70 and a vesting period of three years. Options granted to directors have a contractual life of five years, an exercise price of \$7.70 and a vesting period of one year. The vesting of the unvested options granted to a director will be accelerated upon the director's resignation from the Board. On January 20, 2009, the Board approved another grant of 35,000 non-qualified stock options to certain employees of the Group. These options have a contractual life of five years, an exercise price of \$7.70 and a vesting period of three years. The exercise prices of options granted to employees, directors and consultants are denominated in US\$. On March 4, 2009, the Board passed a resolution to modify the 2008 Plan for it to be effective without approval by the shareholders of the Company. In accordance with ASC 718-10, the grant date for the share-based awards issued on August 18, 2008 and January 20, 2009 was March 4, 2009.

On December 3, 2009, the Board approved the grant of 7,000,000 share options to the directors, officer, employees and a consultant of the Group at an exercise price equal to the price at which the ordinary shares underlying the ADS are sold in the initial public offering of the Company; provided that the options shall expire in the event that the Company does not consummate its initial public offering within six months of the approval date. Since the exercise price was not known until IPO was successfully completed on January 25, 2010, the accounting grant date for the share-based awards issued on December 3, 2009 was not established until January 25, 2010. Accordingly, no compensation expense related to the December 3, 2009 grant was recognized for the year ended December 31, 2009.

The fair value of options granted is estimated using a binomial option pricing model. The binomial model requires the input of highly subjective assumptions, including the expected stock price volatility, the expected price multiple at which the holder is likely to exercise stock options and the expected employee forfeiture rate. The Company uses historical data and future expectations to estimate forfeiture rate. For expected volatility, the Company has made reference to historical volatilities of several comparable companies. The risk-free rate for periods within the contractual life of the option is based on U.S. Treasury zero-coupon yield in effect at the grant date. The dividend yield is based on the expected pay-out ratio. The expected share option life was estimated based on the resulting output of the binomial option pricing model. The option awards are not transferable and the grantees have a limited amount of time subsequent to their termination of employment or service to exercise the options. These post-vesting restrictions are considered in the binomial option pricing model as a suboptimal exercise factor.

On December 28, 2011, the Board approved an option exchange program. Pursuant to the option exchange program, 10,109,000 and 275,000 share options originally granted to employees and a non-employee consultant, respectively, were cancelled. Simultaneously, 407,706 and 9,250 share options at an exercise price of US\$0.46 were granted to these employees and the non-employee consultant, respectively, in exchange for the cancelled options. The option exchange program was structured to provide the same total fair value to the original and the new share options on the day of exchange. These new share options have a contractual life of five years and are exercisable immediately upon grant. These new options expire 30 days after termination of service if unexercised by the employees or non-employee consultant. Other non-employee consultants and directors did not participate in the option exchange program. The Company accounted for the exchange of the original award for a new award as a modification in accordance with ASC sub-topic 718-20-35, and measured the incremental compensation cost from the modification as the excess of the fair value of the modified award based on current circumstances over the fair value of the original option measured immediately before its terms are modified based on current circumstances. The incremental compensation cost was determined to be zero by the Company after considering the terms of fair value to fair value option exchange. The US\$7,620 unrecognized compensation cost of the original options was fully recognized on December 28, 2011, the modification date, as the modified share options were immediately vested upon modification.

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On May 1, 2012, the Board approved the grant of 9,929,998 and 50,000 share options to employees and a non-employee consultant, respectively, at an exercise price of US\$0.62 with a contractual life of five years. 50% of the share options will vest and become exercisable on the first anniversary of the grant date and 25% of the share options will vest and become exercisable on each of the second and third anniversaries of the grant date.

In accordance with the settlement agreement with John Kuhns and Mary Fellows signed on September 28, 2012, all of their unvested options were immediately expired and all of their vested options must be exercised within 90 days from December 15, 2012.

On December 1, 2012, the Board approved the grant of 600,000 share options to an employee at an exercise price of US\$0.72 with a contractual life of five years. 25% of share options will vest and become exercisable on May 31, 2013 and 25% of the share options will vest and become exercisable on each of the first, second and third anniversaries of the grant date.

F-63

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

*Options granted to directors*

The following table summarizes the share options granted to directors as of and for the year ended December 31, 2012:

	Number of Options	Weighted- Average Exercise Price (US\$)	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (US\$)
Outstanding at January 1, 2012	40,000	7.70	1.63	
Granted				
Exercised				
Forfeited or cancelled				
Outstanding at December 31, 2012	40,000	7.70	0.63	
Vested and expected to vest at December 31, 2012	40,000	7.70	0.63	
Exercisable at December 31, 2012	40,000	7.70	0.63	

The explicit service condition of the options granted to directors is considered nonsubstantive since the vesting of share-based payments accelerates in full upon a director's resignation from the Board. As a result, share-based compensation cost for options granted to directors was immediately recognized on the grant date.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value of the Company's shares as of December 31, 2012, for those awards that have an exercise price currently below the fair value of the Company's shares. As of December 31, 2012, all of the options granted to directors have an exercise price above the fair value of the Company's shares, resulting in an aggregate intrinsic value of US\$nil.

The weighted-average grant-date fair value of options granted to directors of the Group in 2009 was US\$0.30.

The grant-date fair value of the 40,000 options granted to directors in 2009 was estimated using the following assumptions:

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Suboptimal exercise factor	1.5
Risk-free interest rate	3.67%
Expected volatility rate	59%
Expected dividend yield	0%
Expected share option life	4.46 years
Estimated forfeiture rate	0%
Fair value of ordinary share	US\$2.08

F-64

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

*Options granted to consultants*

The following table summarizes the share options granted to consultants as of and for the year ended December 31, 2012:

	Number of Options	Weighted- Average Exercise Price (US\$)	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (US\$)
Outstanding at January 1, 2012	59,250	6.57	2.16	
Granted	50,000	0.62		
Exercised				
Forfeited or cancelled	(50,000)	0.62		
Outstanding at December 31, 2012	59,250	6.57	0.55	1
Vested and expected to vest at December 31, 2012	59,250	6.57	0.55	1
Exercisable at December 31, 2012	59,250	6.57	0.55	1

As of December 31, 2012, 9,250 share options granted to consultants on December 28, 2011 have an exercise price below the fair value of the Company's shares, resulting in an aggregate intrinsic value of US\$1. All of the remaining share options granted to consultants have an exercise price above the fair value of the Company's shares as of December 31, 2012, resulting in an aggregate intrinsic value of US\$nil.

The weighted-average fair value of options granted to consultants in 2011 and 2012 was US\$0.22 and US\$0.19, respectively. All of the newly granted share options in 2012 were forfeited due to the termination of services of the consultant as of December 31, 2012.

During the year ended December 31, 2011, the total fair value of options vested based on the year-end fair value was US\$2. No share options vested during the year ended December 31, 2012.

As of December 31, 2012, all share-based compensation costs related to options granted to consultants have been recognized. To the extent the actual forfeiture rate is different from the original estimate or the assumptions used in estimating the fair value of options are changed, actual share-based compensation related to these awards granted to consultants may be different from the expectation.



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The fair value for the options granted to consultants during the years ended December 31, 2010, 2011 and 2012 was estimated using the binomial option pricing model with the following assumptions:

	2010	December 31, 2011	2012
Suboptimal exercise factor	1.5	3	1.5
Risk-free interest rate	0.87-1.48%	0.85%	0.83%
Expected volatility rate	40.09%	71.87%	73.4%
Expected dividend yield	0%	0%	0%
Expected share option life	2.63-3.93 years	5 years	5 years
Estimated forfeiture rate	0%	0%	0%
Fair value of ordinary share	US\$2.46	US\$0.38	US\$0.44

F-65

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

*Options granted to employees*

The following table summarizes the share options granted to employees as of and for the year ended December 31, 2012:

	Number of Options	Weighted- Average Exercise Price (US\$)	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (US\$)
Outstanding at January 1, 2012	407,706	0.46	5.00	
Granted	10,529,998	0.63		
Exercised				
Forfeited or cancelled	(7,238,217)	0.62		
Expired	(64,237)	0.46		
Outstanding at December 31, 2012	3,635,250	0.62	4.17	38
Vested and expected to vest at December 31, 2012	3,635,250	0.62	4.17	38
Exercisable at December 31, 2012	343,469	0.46	1.60	38

As of December 31, 2012, 343,469 share options granted to employees have an exercise price below the fair value of the Company's shares, resulting in an aggregate intrinsic value of US\$38. All of the remaining share options granted to employees have an exercise price above the fair value of the Company's shares as of December 31, 2012, resulting in an aggregate intrinsic value of US\$nil.

The weighted average grant-date fair value of options granted to employees of the Group in 2011 and 2012 was US\$0.22 and US\$0.19, respectively. During the year ended December 31, 2011, the total fair value of options vested based on the grant date fair value was US\$90. No share options vested during the year ended December 31, 2012.

During the year ended December 31, 2012, four employees terminated their employment relationship with the Company. As a result, their 7,238,217 unvested share options were forfeited and 64,237 vested share options were expired.

As of December 31, 2012, there was US\$494 of unrecognized share-based compensation cost related to options granted to employees, which will be recognized over a weighted-average vesting period of 2.44 years. To the extent the actual forfeiture rate is different from the original estimation actual share-based compensation related to these awards may be different from the expectation.

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The grant-date fair value of the options granted to employees during the years ended December 31, 2010, 2011 and 2012 was estimated with the following assumptions:

	January 25, 2010	December 28, 2011	May 1, 2012	December 1, 2012
Suboptimal exercise factor	1.5		1.5	1.5
Risk-free interest rate	3.07%	0.85%	0.83%	0.62%
Expected volatility rate	58%	71.87%	73.4%	89.21%
Expected dividend yield				
Expected share option life	4.86 years	5 years	5 years	5 years
Estimated forfeiture rate				
Founders				
Senior management	8.9			
Employees	4.3			
Fair value of ordinary shares	US \$4.63	US\$0.39	US\$0.44	US\$0.62

Total compensation cost recognized for share options granted to directors, consultants and employees for the years ended December 31, 2010, 2011 and 2012:

	2010 US\$	For the Years Ended December 31, 2011 US\$	2012 US\$
Cost of revenues			
General and administrative expenses	3,615	10,479	166
	3,615	10,479	166

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**28. RELATED PARTY TRANSACTIONS**

The principal related parties with which the Group had transactions during the years presented are as follows:

<b>Name of related parties</b>	<b>Relationship with the Group</b>
China Hydro LLC	A shareholder of the Company
CPI Ballpark Investments Ltd.	A shareholder of the Company
Kuhns Brothers, Inc.	A company owned by the former CEO, who resigned on September 30, 2012
China New Energy Group Company	A company controlled by the former CEO, who resigned on September 30, 2012
Sanming City Chenyang Hydropower Co., Ltd.	Noncontrolling interest in Wangkeng before January 14, 2011
Henan Lantian Group Co., Ltd.	Noncontrolling interest in Wuyue
Nanping City Xingshui Co., Ltd.	Noncontrolling interest in Jinlong
Xiamen Youen Hydropower Development Co., Ltd.	Noncontrolling interest in Jintang and Jinwei

**(a) The Company had the following related party transactions during the years presented:**

	<b>2010</b>	<b>For the Years Ended December 31,</b>	
	<b>US\$</b>	<b>2011</b>	<b>2012</b>
		<b>US\$</b>	<b>US\$</b>
Expense paid on behalf by related parties:			
Kuhns Brothers, Inc.	98	90	
	98	90	

During the years ended December 31, 2010, 2011 and 2012, Kuhns Brothers, Inc. paid US\$98, US\$90 and US\$nil of miscellaneous expenses on behalf of the Company, respectively. The amounts were fully repaid by the Company as of December 31, 2012.

	<b>2010</b>	<b>For the Years Ended December 31,</b>	
	<b>US\$</b>	<b>2011</b>	<b>2012</b>
		<b>US\$</b>	<b>US\$</b>
Rental for office space and office services provided by:			
Kuhns Brothers, Inc.	288	288	314
	288	288	314
Reimbursement of expenses related to extraordinary shareholders meeting:			

CPI Ballpark Investments Ltd.

269  
269

During the years ended December 31, 2010, 2011 and 2012, the Company rented office space from the Kuhns Brothers, Inc. and incurred rental expenses of US\$288, US\$288 and US\$240, respectively, and incurred office services expenses of US\$nil, US\$nil and US\$74, respectively.

During the year ended December 31, 2012, the Company recorded expenses of US\$269 incurred by a shareholder in connection with the extraordinary shareholders meeting held on September 28, 2012 for the election of director nominees.

F-67

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

	For the Years Ended December 31,		
	2010 US\$	2011 US\$	2012 US\$
Loans from related parties:			
Sanming City Chenyang Hydropower Co., Ltd.	2,247		
Xiamen Youen Hydropower Development Co., Ltd.		1,263	572
	2,247	1,263	572
Repayment of loans to related parties:			
Xiamen Youen Hydropower Development Co., Ltd.			69
Loans to related parties:			
China New Energy Group Company			86
Prepayment to related parties for acquisition of noncontrolling interest:			
Sanming City Chenyang Hydropower Co., Ltd.	4,643		
Prepayment to a related party for hydroelectric project construction:			
Henan Lantian Group Co., Ltd.	1,251		

During the year ended December 31, 2010, the Company obtained short-term borrowings amounting to US\$2,247 from Sanming City Chenyang Hydropower Co., Ltd, which are unsecured, interest-free and repayable on demand. The amounts were fully repaid as of December 31, 2011.

During the year ended December 31, 2011, the Company obtained short-term borrowings amounting to US\$1,263 from Xiamen Youen Hydropower Development Co., Ltd. During the year ended December 31, 2012, US\$69 was repaid and additional short-term borrowings of US\$572 were obtained from Xiamen Youen Hydropower Development Co., Ltd. The short-term loans are unsecured, interest-free and repayable on demand.

During the year ended December 31, 2012, the Company provided a short-term loan amounting to US\$86 to China New Energy Group Company. The short-term loan is unsecured, interest-free and repayable on demand.

During the year ended December 31, 2010, Fujian Huabang made a prepayment of US\$4,643 to Sanming City Chenyang Hydropower Co., Ltd. for the acquisition of the remaining 10% noncontrolling interest in Wangkeng. The acquisition was completed in January 2011.

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During the year ended December 31, 2010, the Company made a payment of US\$1,251 to Henan Lantian Group Co., Ltd., the noncontrolling shareholder of Wuyue, for the construction of Wuyue's hydroelectric project.

F-68

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Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**(b) The Company had the following related party balances as of December 31, 2011 and 2012:**

	2011 US\$	December 31, 2012 US\$
Amounts due from related parties:		
Sanming City Chenyang Hydropower Co., Ltd.		
China New Energy Group Company		86
Henan Lantian Group Co., Ltd.	1,334	1,338
	1,334	1,424
Less: Allowance for doubtful accounts	(1,334)	(1,338)
		86
Amounts due to related parties:		
CPI Ballpark Investments Ltd.		2
Kuhns Brothers, Inc.	4	
Nanping City Xingshui Co., Ltd.	1,490	1,494
Xiamen Youen Hydropower Development Co., Ltd.	10,680	11,209
	12,174	12,705

Amounts due from related parties as of December 31, 2012 mainly represent payments made on behalf of Henan Lantian Group Co., Ltd. by the Company for the construction of Wuyue's hydroelectric project in 2010. During the year ended December 31, 2011, the Company decided to abandon the construction of Wuyue's hydroelectric project. As a result, the Company made a full bad debt provision of US\$1,344.

All balances with related parties as of December 31, 2012 are unsecured, interest free and repayable on demand.

**29. STATUTORY RESERVES**

The Group's ability to pay dividends is primarily dependent on the Group receiving distributions from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with US GAAP differ from those reflected in the statutory financial statements of the Group's subsidiaries.



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In accordance with the Law of the People's Republic of China on Foreign Invested Enterprises ( FIE ) and its articles of association, a FIE established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A wholly-owned foreign invested enterprise ( WOFE ) is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. A non-wholly-owned foreign invested enterprise is permitted to provide all the above allocation of annual after-tax profit at the discretion of its board of directors, except for the general reserve fund which has the same requirement as a WOFE. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. All of the subsidiaries of the Company except Wangkeng, Shapulong, Wuyue, Ruiyang, Husahe, Jinlong, Jintang, Jinwei and Dazhaihe were acquired or established as WOFEs, and therefore are subject to the above mandated restrictions on distributable profits. Wangkeng was acquired as a non-wholly-owned foreign invested equity; Shapulong and Wuyue are equity joint ventures established pursuant to the Law of China on Sino-Foreign Equity Joint Ventures, and Ruiyang, Husahe, Jinlong, Jintang, Jinwei and Dazhaihe are domestic companies established pursuant to the Company Law of China, and therefore are only subject to the 10% general reserve fund requirement.

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

As a result of the PRC laws, rules and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as general reserve fund, the Group's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets in the form of dividend payments, loans or advances. The amounts restricted include paid-up capital and statutory reserves as determined pursuant to PRC generally accepted accounting principles, totaling US\$490,621 and US\$475,004 as of December 31, 2011 and 2012, respectively. Profit appropriations of US\$1,255, US\$333 and US\$1,005 were made for the years ended December 31, 2010, 2011 and 2012, respectively.

**30. CONCENTRATION OF RISKS**

Financial instruments that potentially subject the Group to significant concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. As of December 31, 2011 and 2012, substantially all of the Group's cash and cash equivalents were managed by financial institutions located in the United States and the PRC which management believes are of high credit quality.

Accounts receivable are typically unsecured and derived from revenue earned from customers in the PRC. As a percentage of total accounts receivable, the top five customers accounted for 85% and 86% as of December 31, 2011 and 2012, respectively.

Due to the Group's dependence on a limited number of customers, any negative events or deterioration in financial strength with the Group's customers or deterioration of relationship with the Group's customers, may cause material loss to the Group and have a material adverse effect on the Group's financial condition and results of operations. The major customers and the portion of revenue from these customers for the years ended December 31, 2010, 2011 and 2012 are listed below:

Segment		For the Years Ended December 31,		
		2010	2011	2012
Yunnan Nujiang Electric Power Co., Ltd.	Yunnan Province	1%	7%	5%
Yunnan Dehong Electric Power Co., Ltd.	Yunnan Province	9%	11%	6%
Yunnan Honghe Electric Power Co., Ltd.	Yunnan Province		1%	1%
Yunnan Grid Company, Ltd.	Yunnan Province	3%	4%	3%
Sichuan Cangxi Electric Power Co., Ltd.	Sichuan Province	1%	1%	1%
Lishui Electric Power Bureau	Zhejiang Province	49%	43%	46%
Fujian Electric Power Co., Ltd.	Fujian Province	24%	16%	20%
Pingnan Power Supply Company	Fujian Province	13%	8%	5%
Shaowu Electric Power Bureau	Fujian Province		7%	9%
Nanping Electric Power Bureau	Fujian Province		2%	4%
		100%	100%	100%

**Currency convertibility risk**

Substantially all of the Group's businesses are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China. However, the unification of the exchange rates does not imply the convertibility of RMB into US\$ or other foreign currencies. Under Mainland China's Foreign Exchange Currency Regulation and Administration, the Group is permitted to exchange RMB for foreign currencies through banks authorized to conduct foreign exchange business. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with invoices and signed contracts.

Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

**Foreign currency exchange rate risk**

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to US\$. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 3.0%, 4.9% and 0.2% appreciation of the RMB against the US\$ in 2010, 2011 and 2012, respectively. On June 19, 2010, the People's Bank of China announced the end of the RMB's de facto peg to US\$, a policy which was instituted in late 2008 in the face of the global financial crisis, to further reform the RMB exchange rate regime and to enhance the RMB exchange rate flexibility. The exchange rate floating bands will remain the same as previously announced in the inter-bank foreign exchange market. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant volatility of the RMB against the US\$.

Any significant revaluation of RMB may materially and adversely affect the cash flows, revenues, earnings and financial position in US\$.

**Current vulnerability due to certain other concentrations**

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for almost 30 years, no assurance can be given that the PRC Government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

**31. SUBSEQUENT EVENTS**

On January 6, 2013, the Group obtained a long-term loan amounting to US\$795 (RMB5,000) from Agricultural Bank of China. The loan bears interest at 10% premium above the benchmark interest rate announced by the People's Bank of China, that is 7.205%, with maturity dates ranging from 2017 to 2019.

On March 27, 2013, the Group received additional banking facility amounting to US\$25,455 (RMB160,000) from IEL effective up to March 27, 2014.

On March 29, 2013, the Group received additional banking facility amounting to US\$14,319 (RMB90,000) from Agricultural Bank of China effective up to July 31, 2013.

F-71

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[Table of Contents](#)**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**32. CONDENSED FINANCIAL INFORMATION OF THE COMPANY**

The following is the condensed financial information of the Company on a non-consolidated basis:

**Balance sheets**

	2011 US\$	December 31, 2012 US\$
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	2,884	164
Amounts due from subsidiaries		10,000
Prepayments and other current assets	135	11,616
<b>Total current assets</b>	3,019	21,780
<b>Non-current assets:</b>		
Property, plant and equipment, net	7	5
Investment in subsidiaries	416,549	399,364
Other non-current assets	139	
<b>Total non-current assets</b>	416,695	399,369
<b>TOTAL ASSETS</b>	419,714	421,149
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Amounts due to subsidiaries	13,919	16,464
Accrued expense and other current liabilities	2,821	4,424
Amounts due to related parties		2
Deferred tax liabilities	537	
Warrant liabilities	440	839
<b>Total current liabilities</b>	17,717	21,729
<b>Non-current liabilities:</b>		
Other non-current liabilities	129	
<b>Total non-current liabilities</b>	129	
<b>Total liabilities</b>	17,846	21,729
<b>Shareholders' equity:</b>		
Ordinary shares (par value US\$0.001 per share, 400,000,000 shares authorized as of December 31, 2011 and 2012, 161,989,097 shares issued and outstanding as of December 31, 2011 and 2012)	162	162
Additional paid-in capital	516,967	517,133

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Accumulated other comprehensive income	42,968	41,597
Accumulated deficit	(158,229)	(159,472)
<b>Total shareholders' equity</b>	<b>401,868</b>	<b>399,420</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>419,714</b>	<b>421,149</b>

F-72

Table of Contents**CHINA HYDROELECTRIC CORPORATION****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)

**Statements of comprehensive income**

	<b>For the Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Revenues</b>			
<b>Cost of revenues</b>			
<b>Gross profit</b>			
<b>Operating expenses:</b>			
General and administrative expenses	(12,016)	(18,247)	(7,324)
<b>Total operating expenses</b>	(12,016)	(18,247)	(7,324)
<b>Operating loss</b>	(12,016)	(18,247)	(7,324)
Equity in profits (losses) of subsidiaries	14,814	(27,395)	3,662
Interest income	555	66	3
Interest expense	(19)	(23)	(142)
Changes in fair value of warrant liabilities	365	951	(399)
Exchange (loss) gain	(403)	(580)	30
Gain from disposal of subsidiaries			3,726
Other income, net	446	375	293
<b>Income (loss) before income tax expense</b>	3,742	(44,853)	(151)
Income tax expense		(536)	(1,092)
<b>Net income (loss)</b>	3,742	(45,389)	(1,243)
<b>Other comprehensive income (loss), net of income tax expense</b>			
Foreign currency translation adjustments	11,857	20,079	(1,404)
Defined benefit pension plans		(33)	33
<b>Other comprehensive income (loss)</b>	11,857	20,046	(1,371)
<b>Comprehensive income (loss)</b>	15,599	(25,343)	(2,614)

**Statements of cash flows**

	<b>For the Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Cash flows used in operating activities	(10,157)	(8,740)	(3,651)
Cash flows (used in) provided by investing activities	(86,071)	(6,500)	931
Cash flows provided by financing activities	85,988	10,036	
<b>Net decrease in cash and cash equivalents</b>	(10,240)	(5,204)	(2,720)
<b>Cash and cash equivalents at the beginning of year</b>	18,328	8,088	2,884
<b>Cash and cash equivalents at the end of year</b>	8,088	2,884	164





Table of Contents

**CHINA HYDROELECTRIC CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of U.S. dollars ( US\$ ) or RMB ( RMB ), except for number of shares and per share data)**

**(a) Basis of presentation**

In the Company-only financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. Company-only financial statements should be read in conjunction with the Company's consolidated financial statements.

The Company records its investment in its subsidiaries under the equity method of accounting as prescribed in ASC 323-10. Such investment is presented as Investment in subsidiaries in the balance sheet and share of the subsidiaries' losses or profits is presented as Equity in profits (losses) of subsidiaries in the statements of comprehensive income.

The subsidiaries paid US\$nil, US\$nil and US\$1,039 dividend to the Company for the years ended December 31, 2010, 2011 and 2012, respectively.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted by reference to the disclosures in the consolidated financial statements.

**(b) Commitments**

The Company does not have any significant commitments or long-term obligations as of any of the years presented, except for those disclosed in the consolidated financial statements (Note 24).