AQUA RESOURCES FUND LIMITED

Annual Report and Audited Consolidated Financial Statements

For the year ended 31 December 2012

The Company is a Guernsey domiciled Authorised Closed-ended investment scheme pursuant to section 8 of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended and rule 6.02 of the Authorised Closed-ended Investment Schemes Rules 2008.

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MANAGEMENT AND ADMINISTRATION

DIRECTORS:	Hasan Askari *(Chairman)* Fergus Dunlop (appointed 2 February 2012) Jonathan Hooley (resigned 20 June 2012) Charles Parkinson (appointed 1 July 2012) Andrea Rossi (resigned 17 January 2012) *all of whom are independent non-executive directors*
REGISTERED OFFICE:	Sarnia House Le Truchot St. Peter Port Guernsey CI GY1 4NA
MANAGER:	FourWinds Capital Management Floor 4, Willow House Cricket Square PO Box 268 George Town Grand Cayman KY1-1104 Cayman Islands
CORPORATE BROKER: (until 30 November 2012)	Cenkos Securities plc 6,7,8 Tokenhouse Yard London EC2R 7AS United Kingdom
SOLICITORS TO THE COMPANY: (as to English Law)	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS United Kingdom
ADVOCATES TO THE COMPANY: (as to Guernsey Law)	Mourant Ozannes 1 Le Marchant Street St. Peter Port Guernsey CI GY1 4HP
ADMINISTRATOR AND COMPANY SECRETARY:	*Up to 14 November 2012:* HSBC Securities Services (Guernsey) Limited Arnold House St. Julian's Avenue St. Peter Port Guernsey CI GY1 3NF *From 14 November 2012:* Praxis Fund Services Limited Sarnia House Le Truchot St Peter Port Guernsey CI GY1 4NA

MANAGEMENT AND ADMINISTRATION (CONTINUED)

INDEPENDENT AUDITORS:	PricewaterhouseCoopers CI LLP Royal Bank Place 1 Glategny Esplanade St Peter Port Guernsey CI GY1 4ND
REGISTRAR:	Capita Registrars (Guernsey) Limited PO Box 627 Mont Crevelt House Bulwer Avenue St. Sampson Guernsey CI GY2 4LH
UK TRANSFER AGENT:	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom

HIGHLIGHTS OF 2012

RESULTS AND ACTIVITIES OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2012

COMPANY DETAILS AND INVESTMENT OBJECTIVE – SUMMARY

Aqua Resources Fund Limited (the "Company" or "Aqua") is an investment vehicle with an independent board of Directors and a concentrated portfolio of water-related, primarily private equity style investments. The Company provides investors with exposure to a compact but diverse portfolio of water companies globally. Full details of the Company's investment objective and policy, which were amended during the year, are set out on pages 25 to 28.

FINANCIAL HIGHLIGHTS OF 2012

Funds invested as a percentage of net assets	91 per cent
Proceeds of partial disposal received during the year	**€1.1 million**
Number of transactions closed during the year (partial disposal)	**1**
Net asset value per Ordinary Share of the Company as at 31 December 2012	€0.5397

The year was marked by the delisting of the Company from the London Stock exchange in November 2012. The net asset value ("NAV") of €0.5397 per Ordinary Share of the Company ("Ordinary Share") at 31 December 2012 showed a decrease of 43.2 per cent over the year.

GENERAL HIGHLIGHTS OF 2012

- On 3 February 2012, JP Morgan Asset Management Holdings Inc. ("JPMAM") announced that it had purchased 9,979,800 Ordinary Shares representing 13.77 per cent of the issued Ordinary Shares on 27 January 2012. JPMAM continued to make purchases of Ordinary Shares of the Company throughout the year until, on 7 November 2012, the Company announced that JPMAM had notified it that its holding had increased to 19,020,632 Ordinary Shares, bringing its total ownership to 26.25 per cent of the Company.
- On 12 October 2012, at an Extraordinary General Meeting ("EGM") of the Company, shareholders voted, *inter alia*, to change the investment objective and policy of the Company in accordance with proposals set out in a Circular to shareholders dated 20 September 2012. The amended investment objective and policy restrict the Company from making new investments, except to support follow-on commitments in existing investments subject to the prior approval of the Board and, in addition, provide that as and when the Company realises its investments, the Company may, at the sole discretion of the Board, (i) return capital to shareholders; or (ii) retain proceeds in order to meet the Company's follow-on commitments or other obligations of the Company from time to time. Accordingly, it is the Board's intention that the proceeds of realisations will in due course be distributed to shareholders in a considered and prudent way and in line with the amended policy.
- At the EGM, shareholders also voted to approve the cancellation of admission of the Ordinary Shares to the Official List of the UKLA and to trading on the Main Market of the London Stock Exchange plc (the "Delisting"). Accordingly, on 12 November 2012 the Company cancelled its listing on the Official List and its shares are no longer publicly traded
- Following the EGM and the Delisting, and in accordance with the Board's intentions as stated in the Circular to shareholders dated 20 September 2012, the Board established an Investment Monitoring Committee to, among other things, monitor compliance with the investment objective and policy of the Company, and standing instructions and other investment guidelines set by the Board from time to time.
- At 31 December 2012 the Company had invested approximately 91 per cent of its net assets.

CHAIRMAN'S STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Shareholders will be aware that this Annual Report is being issued later than is normal for Aqua (and later than the requirements of the Listing Rules, which the Company agreed to abide by at the time of its delisting). I have written twice to Shareholders since 28 April 2013, apologising for the delay, and wish to reassure them that the Directors will do their utmost to avoid a repetition in future years. By way of explanation, the delay in releasing Aqua's accounts was caused by the late receipt by the Directors of the audited accounts of one of the investee companies. This in turn was partly caused by a change in the auditors of that Company and the Board hopes and trusts that such a delay will not recur in future years. We have relayed our concerns about the delay to the investee company, through the Manager.

The year in review

After several years of global economic contraction and systemic instability in the financial markets, there was an expectation that 2012 would usher in a more stable environment. However, our hopes were disappointed as the year under review was marked by a continuation of the volatility witnessed the previous year, due to concerns about growth and uncertainty about fiscal policy in the United States and the lingering debt crisis in Europe and the consequent economic slowdown throughout the continent. A perceived slowdown in Chinese growth compounded these issues. This then was the backdrop for what has turned out to be a difficult year for the Company.

During this period the Company actively managed its portfolio of investments, which are diversified across the supply, use and treatment of water and wastewater. Despite occasional opportunities for growth, our portfolio was adversely affected by the economic slowdown and achieved mixed results.

The Board convened an EGM of the shareholders on 12 October 2012, which considerably changed the Company's course. Shareholders voted to limit future investments to those to which the Company is already committed; and to return the net proceeds of future sales to shareholders as soon as this was prudent. Shareholders also supported a move to delist the Company's shares from the Official List of the UKLA and from trading on the Main Market of the London Stock Exchange plc. This was successfully completed in November 2012. Concomitantly, an existing shareholder, JP Morgan Asset Management Holdings Inc., increased its shareholding in the Company to 26.25 per cent subsequent to a tender offer at a price of 35¢ per Ordinary Share of the Company. Finally, in accordance with the Board's intentions as stated in the Circular to shareholders dated 20 September 2012, the Board established an Investment Monitoring Committee to, among other things, monitor compliance with the investment objective and policy of the Company and standing instructions and other investment guidelines set by the Board from time to time.

As part of the Board's and the Manager's efforts to exit from successful investments, late in the year the Company pursued discussions on the possible sale of its stake in Ranhill Water Technologies ("RWT"), which represents 49 per cent of the portfolio. This led to the Company entering into a conditional sale and purchase agreement in respect of such stake in favour of the majority shareholder in RWT in January 2013, recorded as a post-balance-sheet transaction in Note 12 on page 49.

2012 was also a year of changes for the Board of Directors of the Company. On 17 January 2012, Mr. Andrea Rossi retired as a Director of the Company and on 2 February 2012, Mr. Fergus Dunlop was appointed as a new independent non-executive Director of the Company and elected a Director at the Annual General Meeting on 29 June 2012. On 20 June 2012, Mr. Jonathan Hooley resigned as a Director of the Company and Mr. Charles Parkinson was appointed as an independent non-executive Director of the Company and Chairman of the Audit Committee. This appointment became effective on 1 July 2012. A brief summary of the careers of the new appointees is set out on page 29 of this report.

I should also note that during the second half of the year, the Management Engagement Committee was active in reviewing and recommending a replacement for the Company's administrator and company secretary, after HSBC Security Services (Guernsey) Limited served notice that they wished to step down from those roles. With the appointment of Praxis Fund Services Limited, the Board has brought all fund administration and company administration within one location, which we expect to bring operational and cost benefits.

The Company ended the year with liquid funds of approximately €2.5 million, representing approximately 6.5 per cent of its net assets.

CHAIRMAN'S STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

The year in review (continued)

Year end 31 December	Net assets attributable to Ordinary Shareholders €	NAV per Ordinary Share €	Ordinary Share price[1] €	Increase/(Decrease) in Net Asset Value €
2010	81,535,743	1.1252	0.64	7,481,263
2011	68,831,602	0.9499	0.33	(12,704,141)
2012	39,106,061	0.5397	N/A	(29,725,541)

Valuation

The Company's NAV is based on the fair value of unquoted investments, as well as one listed investment which is marked to market, as at the reporting date. These have been valued using the International Private Equity and Venture Capital Valuation ("IPEV") guidelines[2] and details as to how the Company applies these guidelines are more fully described on pages 39 and 40 of this Annual Report.

Detailed valuations are prepared by the Manager, using multiples for a range of selected comparable companies, applying a discount to market multiples to reflect the illiquid nature of the investments. These valuations are reviewed thoroughly internally before they are presented to the Company's Audit Committee which then scrutinises these valuations in detail, calls for further evidence where needed and approves or adjusts such valuations where it considers appropriate. Once this process is completed and signed off by the Audit Committee, the Board discusses and, if appropriate, adopts the valuations recommended by the Audit Committee for the purposes of the financial statements of the Company. The Board believes the valuation process is rigorous, consistently applied and conforms to IPEV guidelines.

Waterleau Group NV ("Waterleau") suffered from a difficult environment in its traditionally strong growth markets of the Middle East and North Africa ("MENA") in the aftermath of the revolutions, but also in Asia, particularly in the municipal sector, while the industrial sector fared well. As a result, Waterleau reported operating results with a decline of approximately 12.5 per cent of its revenues[3]. This operational slow-down, after a decade of strong growth, resulted in a decrease in value for this investment.

RWT reported slightly improved results for the year ended on 30 June 2012 with an improvement of approximately 6 per cent of its revenues[4]. Similarly, RWT enjoyed strong EBITDA and net profit margins of 27 per cent and 19 per cent respectively (25 per cent and 19 per cent for the year ended on 30 June 2011, respectively)[5]. Furthermore, as stated above, as part of the Board's and the Manager's efforts to exit from successful investments, late in the year the Company pursued discussions on the possible sale of its stake in RWT, which represents 49 per cent of the portfolio. This led to the Company entering into a conditional sale and purchase agreement in respect of such stake in favour of the majority shareholder in RWT in January 2013. The value of this investment was established based on the level of valuation derived from these discussions, supported by good operational performance and as a result was increased when compared to the valuation published in Aqua's interim report as at 30 June 2012.

The Board has determined to decrease substantially the valuation of In-Pipe Technology Inc. ("In-Pipe"), despite a marked improvement in its operational results (approximately 17 per cent increase in revenues and EBITDA positive for the first time since the Company made the investment), with the intent to revisit the valuation when the improved trend is confirmed. A similar story applies to Waterleau, where we have taken an even more conservative discount factor on this occasion, but which may also prove a temporary measure when their 2013 results become available.

China Hydroelectric Corporation ("CHC")'s share price recovered slightly during the year.

[1] Closing share price at year end.
[2] IPEV guidelines (September 2009) can be found on www.privateequityvaluation.com.
[3] Audited
[4] Unaudited
[5] Audited.

CHAIRMAN'S STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Valuation (continued)
Finally, shareholders will recall that the Company's first ever investment was in Bluewater Bio International ('BBI') in 2009; in aggregate, £8.3 million was invested in BBI, initially in common equity and subsequently in roll-up bonds. Since our initial investment, the Company has had to undergo a number of financial restructurings, which have created several preferred classes of shares ranking above our initial investment in the ordinary shares of BBI. Following a capital restructuring in March 2012, the Company received the sum of £912,147, of which £500,000 was in partial repayment of its outstanding secured loans of £2,500,000 to BBI and £412,147 in partial repayment of accrued interest of £667,692. While we have no reason to believe that a further financial restructuring is likely, this possibility cannot be discounted. In view of its history of restructuring and the uncertainty around future performance, the Directors have decided to write down this investment to zero. We will continue to monitor developments at BBI on a regular basis and revisit this decision if we see any demonstrable sign of improvement in performance. Further details on the impairment in the value of this investment are set out in the Manager's report and in Note 3 to the financial statements on page 44.

Figure 3 on page 21 sets out an analysis of unrealised movements in the investment portfolio for the year ended 31 December 2012.

Net Asset Value
At 31 December 2012, the NAV per Ordinary Share was €0.5397 (€0.9499 at 31 December 2011). This represents a decline of 43.2 per cent in the NAV year on year.

I would like to draw the particular attention of shareholders to the basis on which the valuations have been derived, as set out in the Auditor's Report on pages 30 and 31 and in Note 3 to the Accounts.

Dividend Policy and Dividends
The Company's dividend policy states that the Directors expect returns to be reinvested and accordingly no dividends have been announced, declared or paid in the period.

However, in accordance, with the proposals outlined in the shareholder circular dated 20 September 2012 issued prior to the Company's delisting (the "Circular") and passed by the EGM on 12 October 2012, the Board intends to return the capital proceeds of realising the Company's investments (net of fees and expenses) to shareholders in an efficient manner over time (subject to retaining proceeds, as needed, in order to meet the Company's follow-on commitments or other obligations of the Company from time to time).

Outlook
I had said in my Statement in the Company's Interim Report and Financial Statements as at 30 June 2012 that 'the Board recognises the degree of uncertainty about the Company's future prospects.' The good news since then is that some of the uncertainty has abated with the delisting of the Company's shares from the Main Market of the London Stock Exchange, a successful tender offer and the placement by your Board of a substantial proportion of the Company's shares with an internationally recognised fund manager. The tender offer (at a price approximately 21 per cent above the prevailing market price) served the dual purpose of offering shareholders the option of exiting their investment in the Company and of recasting the shareholder register with a core of committed and largely institutional shareholders who subscribe to the Board's medium-term strategy of realising the Company's investments and returning the capital proceeds to shareholders.

The Board remains fully committed to this strategy and, as stated earlier in this letter, has begun the process of realising value. However, I must stress that there is no guarantee that the RWT transaction will be successfully consummated or that the valuations of the Company's investments, as set out in this Report and Financial Statements, can be realised.

Notwithstanding this, I believe that the future direction of the Company is now clear.

Hasan Askari
Chairman
5 August 2013

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors of the Company present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

The Company was incorporated on 12 June 2008 with registered number 49038 and is domiciled and incorporated in Guernsey, Channel Islands. The Company is a closed-ended investment company with limited liability formed under Guernsey company law. On 24 July 2008 the Company's Ordinary Shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange. On 12 November 2012 the Company cancelled its listing on the Official List and its shares are no longer publicly traded.

Principal activity and business review

The principal activity of the Company during the year was that of an investment company. Following an EGM on 12 October 2012, the Company's investment objective is to achieve an orderly management and disposal of its concentrated portfolio of water-related investments and return the proceeds to shareholders, net of fees and expenses. A review of the year is provided in the Manager's Report. The Company expects to continue its activities in the coming year.

Results and dividends

The results for the year are shown in the Consolidated Statement of Operations on page 35 and the Company's financial position at the end of the year is shown in the Consolidated Statement of Assets and Liabilities on page 32.

The Directors have historically taken the view that returns would be reinvested and a dividend would not be payable. Indeed, since the date of incorporation of the Company, there has been no dividend or distribution of any kind declared, paid or made by the Company. However, following the cancellation of the Company's listing on the Official List in November 2012, the Directors have resolved that, whenever practicable, future returns would be paid to shareholders by way of dividend or capital distribution. Where any dividend or other distribution is to be paid, it is expected to be paid in Euros and in accordance with the Companies (Guernsey) Law, 2008 (the "Law") and any other applicable laws.

Directors

The Directors of the Company who served during the year were:

Hasan Askari *(Chairman)*
Fergus Dunlop (from 2 February 2012)
Jonathan Hooley (up to 20 June 2012)
Charles Parkinson (from 1 July 2012)
Andrea Rossi (up to 17 January 2012)

All of the Directors are, or were during their term in office, independent non-executive directors.

The Directors' interests in the share capital of the Company at 31 December 2012 were:

Hasan Askari 62,500 Ordinary Shares

None of the Directors has, or has had, an interest in any transaction which is, or was, unusual in its nature or conditions, or significant to the business of the Company, or which has been effected by the Company since its incorporation.

The Directors are entitled to receive, and have received during the year, the following fees from the Company ("Directors' Fees"):

Director	Per annum fees entitlement (in £)	Fees paid during the year (in £)	Fees paid during the year (in €)	Fees payable at the end of the year (in £)	Fees payable at the end of the year (in €)
Hasan Askari	60,000	55,000	68,323	-	-
Fergus Dunlop*	30,000	20,572	25,420	-	-
Jonathan Hooley**	-	11,680	14,470	-	-
Charles Parkinson***	30,000	15,000	18,653	-	-
Andrea Rossi ****	-	1,233	1,491	-	-

** From 2 February 2012 to present*
*** From 1 January 2012 to 20 June 2012*
**** From 1 July 2012 to present*
***** From 1 January 2012 to 17 January 2012*

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Directors (continued)
The Company reserves the right to pay Mr Askari's Directors' Fee in shares but did not do so during either 2011 or 2012. With effect from 1 July 2012 Mr Askari's fee increased from £50,000 per annum to £60,000 per annum and Mr Dunlop's fee increased from £15,000 per annum to £30,000 per annum. All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, Board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

Share Capital
The share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value which are denominated in Euros. At 31 December 2012, there were 72,464,340 Ordinary Shares in issue (31 December 2011: 72,464,340).

Share issues, pre-emption rights and share repurchases
The Articles of Incorporation have granted authority to the Directors, pursuant to the Guernsey Company Law, to allot an unlimited number of Ordinary Shares (including warrants, options and other rights in respect of such shares). This authority has a term of five years from the date of adoption of the Articles of Incorporation on 23 March 2011 (that is, until 22 March 2016).

During the prior year, the Company introduced pre-emption rights in respect of all new Ordinary Share issues for cash. The pre-emption rights introduced in the Articles of Incorporation during 2011 were, at the same time, disapplied in respect of new issues of Ordinary Shares for cash, subject to the disapplication being limited to a proportion of any new issue of Ordinary Shares that represented approximately 5 per cent of the issued share capital of the Company (including treasury shares) at that time, being 3,623,217 Ordinary Shares. This disapplication was renewed at the 2012 annual general meeting of the Company, again in respect of 5 per cent of the Ordinary Shares in issue and expires at the conclusion of the 2013 Annual General Meeting of the Company (the "2013 AGM").

The Company received shareholder authority to make market acquisitions of its shares pursuant to the tender offer which completed on 1 November 2012. Such authority expired upon completion of the tender offer.

Substantial interests in share capital
At 2 July 2013 the following holdings, each representing more than 3 per cent of the Company's issued share capital, were recorded in the Company's register of members.

	Number of Ordinary Shares	Percentage of Ordinary Share capital
HSBC Global Custody Nominee (UK) Limited	21,500,000	29.67
Chase Nominees Limited	10,910,316	15.06
The Bank of New York (Nominees) Limited	10,000,000	13.80
JP Morgan Asset Management Holdings Inc.	9,510,316	13.12
Nortrust Nominees Limited	7,500,000	10.35
FourWinds Capital Management	3,685,000	5.09
HSBC Global Custody Nominee (UK) Limited	2,973,850	4.10

West Midlands Metropolitan Authorities Pension Fund ("West Midlands") is a beneficial holder of Ordinary Shares and a related party of the Company on account of the size of its beneficial holding in the Company. As at 2 July 2013, West Midlands held 29.67 per cent of the issued Ordinary Shares.

As at 2 July 2013, JP Morgan Asset Management Holdings Inc. was a beneficial holder of 26.25 per cent of the issued Ordinary Shares through its nominee holdings and accordingly is also a related party of the Company on account of the size of its beneficial holding in the Company.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

The Manager
The Manager has been appointed as the discretionary investment manager of the Company pursuant to the terms of a Management Agreement. Please refer to Note 5 on pages 45 and 46 for further details of the Management Agreement. The Directors have reviewed the performance of the Manager and are satisfied that, on the terms agreed at the inception of the Company, the continued appointment of the Manager is in the best interests of the shareholders and the Company. The Directors have formed this opinion despite a decrease in the net assets of the Company and will continue to monitor the performance of the Manager.

Independent Auditors
PricewaterhouseCoopers CI LLP ('PWC CI') were appointed on 7 November 2011 as auditors of the Company and have expressed their willingness to continue in office. The Company did not hire PWC CI to perform other consulting or non-audit services. PWC CI have charged €27,713 for the completion of the 2012 year end audit (2011: €51,813) and have not received any further fees for non-audit related services (2011: €Nil). However during the year PricewaterhouseCoopers LLP, a member firm of the PWC network, received a fee of €11,529 for performing a review of certain of the valuations of the Company's portfolio investments as at 30 June 2012 (2011: €Nil).

Going Concern
The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and, after due consideration, believe it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Corporate Governance
As explained in the Circular to Shareholders dated 20 September 2012, despite delisting the Company, the Directors intend to continue to follow the principles and provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the "Code").

Overseas companies listed on the Official List are required, under the Listing Rules, to 'comply' or 'explain' against the Code. An update to the Code was released on 28 September 2012, however this update does not become effective until the Company's next financial year. The Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have considered the principles and recommendations of the Code. Furthermore, the Directors have considered the provisions of the Finance Sector Code of Corporate Governance published by the Guernsey Financial Services Commission (the "GFSC") in September 2011 (the "Guernsey Code").

As at 31 December 2012 the Company complied substantially with the relevant provisions of the Code and, with the exception of those listed below, it is the intention of the Board that the Company will comply with those provisions throughout the year ending 31 December 2013:

- *Appointment of a Senior Independent Director:* The Board comprises three independent, non-executive directors, therefore the Board does not consider it necessary to appoint a Senior Independent Director.
- *Establishment of a separate nomination committee and remuneration committee:* Due to its size, the Board does not consider it necessary to establish a separate nomination or remuneration committee. Matters which would otherwise be delegated to such committees are considered by the Board as a whole.
- *Internal audit function:* The Board has considered the need for an internal audit function, as recommended by the Code. Due to the key functions of the Company being delegated to regulated service providers, an internal audit function is not considered necessary at this stage. The Directors will continue to monitor the systems of internal control in place.

Since all the Directors are non-executive, in accordance with the Code, the provisions of the Code on the role of the chief executive and, except in so far as they apply to non-executive Directors, on Directors' remuneration, are not relevant to the Company, and are not reported on further. Accordingly this Annual Report is not required to, and does not, contain a separate remuneration report.

Voting rights for portfolio investments
The Manager carefully considers the exercise of voting rights in relation to the Company's portfolio and votes, or refrains from voting, based on a case by case examination, using its best commercial and financial judgment, of the best long-term interests of the Company and its shareholders.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Voting rights for portfolio investments (continued)

Typically the Manager will, when making voting decisions, examine the strategic focus and operating performance of the relevant portfolio company, its corporate governance and remuneration framework and its communications and reporting structures.

The Board

The Board will generally meet at least four times a year, at which time the Directors review the management of the Company's assets and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs. The Board is responsible for the appointment and monitoring of all service providers to the Company. Between these quarterly meetings there is periodic contact with the Manager. The Directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Company and should be brought to the attention of the Directors. The Directors also have access to the Company Secretary (through its appointed representatives who are responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with) and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

In accordance with the Company's Articles of Incorporation, at each annual general meeting of the Company all the Directors who held office at the two preceding annual general meetings and did not retire shall retire from office and may be available for re-election at the same meeting. Mr Hasan Askari is retiring under this rule and, being eligible, offers himself for re-appointment at the 2013 AGM. Having been appointed as a Director during July 2012, pursuant to Article 25.3, Mr Charles Parkinson also stands for re-election at the 2013 AGM.

The Company's Audit and Management Engagement Committees (the "Committees") each comprise all three Directors. Mr Charles Parkinson acts as Chairman of the Audit Committee, Mr Fergus Dunlop of the Management Engagement Committee. The Audit Committee meets formally at least three times a year and the Management Engagement Committee meets at least once a year. The principal duties of the Audit Committee, which are outlined in the terms of reference, are to consider the appointment of external auditors (the "Auditors"), to discuss and agree with the auditors the nature and scope of the audit, to keep under review the scope, results and cost effectiveness of the audit and the independence and objectivity of the auditors, to review the auditors' letter of engagement and management letter, internal control systems pertinent to the preparation of accurate financial statements and the management of the Company, to approve the remuneration of the auditors and to review the Company's annual report and audited consolidated financial statements as well as unaudited interim financial reports. Where non-audit services are to be provided by the auditors, full consideration of the financial and other implications on the independence of the auditors arising from any such engagement will be considered by the Audit Committee before proceeding. The terms of reference are available for review at the registered office of the Company.

The Management Engagement Committee will also consider the continued appointment and remuneration of, and the key procedures adopted by the Manager and the other service providers to the Company. The terms of reference are available for review at the registered office of the Company.

The remit of the Investment Monitoring Committee is, inter alia, to monitor compliance with the Investment Objective and Policy, standing instructions and other investment guidelines set by the Board and to advise the Board accordingly. The Committee is chaired by the Chairman and has as its other members a representative from each of JP Morgan Asset Management Holdings Inc. and the Manager.

Each Director's performance is reviewed annually by the Chairman and the performance of the Chairman is assessed by his fellow Board colleagues in the same time scale.

Attendance at the Board and the Committee meetings for the year ended 31 December 2012 was as follows (the number of meetings held within each Director's period of appointment is in brackets):

	Number of meetings held	H Askari	F Dunlop	J Hooley	C Parkinson	A Rossi
Quarterly Board Meetings	4	4 (4)	4 (4)	1 (1)	2 (2)	- (-)
Ad hoc Board Meetings	12	8 (12)	10 (11)	4 (4)	8 (8)	- (-)
Management Engagement Committee Meetings	2	2 (2)	2 (2)	- (-)	1 (1)	- (-)
Audit Committee Meetings	5	5 (5)	5 (5)	3 (3)	2 (2)	- (-)

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

The Board (continued)
The Board has a breadth of experience relevant to the Company and the Directors believe that any foreseeable changes to the Board's composition can be managed without undue disruption. With any new director appointment to the Board, consideration is given as to whether an induction process is appropriate.

Internal Controls
It is the role of the Audit Committee to ensure that the internal control systems of the service providers are adequate, to receive reports from the Company's service providers covering internal control systems and procedures supported and as appropriate, by Assurance Report on Controls under International Standard on Assurance Engagements. In light of the above, it is the role of the Audit Committee to review the Company's statement on internal controls prior to endorsement by the Board.

The Board recognises the need for effective high level internal controls. High level controls in operation at the Company include:

- Segregation of duties between relevant functions and departments within the Administrator and the Manager.
- Consideration of the compliance reports, administration reports, and portfolio valuations provided by the Administrator.
- Consideration of the Manager's reports and analysis.

The Administrator has a number of internal control functions including a dedicated Compliance Officer who is appointed as a statutory requirement and whose role is determined by the Guernsey Financial Services Commission which includes the maintenance of a log of errors and breaches which are reported to the Board at each quarterly Board meeting.

The Board reviews the effectiveness of the Company's internal control systems on an ongoing basis. Procedures are in place to ensure that necessary action is taken to address any significant weaknesses identified in the control framework. The Board is not aware of any significant failings or weaknesses in the Company's internal controls in the period under review. The Board recognises that the internal controls framework is designed to manage rather than to eliminate relevant risks.

Relations with Shareholders
The Board believes that the maintenance of good relations with shareholders is important for the long term prospects of the Company. The Board receives feedback on the views of shareholders from the Manager and also seeks feedback directly from the major shareholders. The Company holds an annual general meeting each year in which shareholders are encouraged to participate.

Statement of Directors' Responsibilities
The Directors are responsible for preparing the consolidated financial statements in accordance with applicable Guernsey Company Law and generally accepted accounting principles.

Guernsey Company Law requires the Directors to prepare consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing such consolidated financial statements the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- disclose that there is no relevant audit information of which the Company's auditor is unaware; and
- disclose that they have taken reasonable steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Statement of Directors' Responsibilities (continued)
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the consolidated financial statements have been properly prepared in accordance with Guernsey Company Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in Guernsey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors confirm to the best of their knowledge:

- The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP");
- The consolidated financial statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities and financial position and profit or loss of the Company;
- The Chairman's Statement and Directors' Report include a fair review of the development and performance of the business and position of the Company together with the description of the principal risks and uncertainties that the Company faces; and
- So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all reasonable steps he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board of Directors by:

Charles Parkinson
Director
5 August 2013

MANAGER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

Objective

The Company gives the investor a unique access to the steadily growing private water and wastewater treatment sector by investing in businesses that are established globally or locally with potential to grow outside their core markets, and have a successful track record in delivering solutions to their clients.

We believe that the Company's approach will reward investors with strong performance in the long-term.

The Company's portfolio is managed by FourWinds Capital Management, a Cayman Islands exempt limited company.

Manager's strategy

The Manager seeks to achieve the investment objective of the Company by providing shareholders with a pure exposure to the long-term capital appreciation of water companies through diversified exposure to a global portfolio of growth capital water-related investments.

By spending significant time on each investment, the Manager believes that the investments will deliver superior value.

The Manager has put together a team of seasoned investment professionals specialised in the environmental sector with a particular focus on water, wastewater, resource recovery and sustainable resources solutions, as well as individuals dedicated to operations and risk management.

Manager's market commentary

When the right conditions for rapid growth of an emerging country come together, it often creates growth so rapid that regulation cannot maintain the pace. China has been no exception, and hence it comes as no surprise that under-regulated, rapid industrial growth has led to high levels of pollution throughout the country. This pollution exists in many forms, but the forms which directly threaten human habitation the most are the two basic substances that we need to survive the most, i.e. air and water.

The problems with China, however, are far more deep-rooted than have previously been witnessed by any other emerging economy. China has an extremely low level of fresh water resources per capita, particularly across parts of the intensely crowded provinces in the North; an undeniable and tangible result of China's growth strategy.

China has seen a boom in bottled water, with sales growing from US$1 billion in 2000 to US$9 billion in 2012 and predicted to hit US$17 billion by 2017[6]. However, this is only a short-term fix, and the scale of the money involved in the industry highlights the enormous demand for a more sustainable and economical solution, which is where opportunities for Aqua's portfolio companies come into play. In particular, it presents an increasingly large opportunity for Waterleau, which offers a wide range of specialist air treatment solutions, in addition to the expertise of its water treatment technology business and for RWT. Both of these portfolio companies are keen on expanding aggressively in China and also India, where the water availability per capita is even less. Waterleau already has a rapidly growing presence in India, where it harvested particularly strong growth during the year 2012.

The economic fragility that results from this situation across most of China is truly alarming. The most populous country on the planet has internal freshwater reserves of around one quarter of the world's per capita average, with parts of the North in particular averaging even lower figures. China ranks below Morocco and comparable to the Middle East, and continues to deteriorate as pollution and the population grows. In 2012, one report stated that up to 40 per cent of China's rivers were "seriously polluted", and 20 per cent were "so polluted their water quality was rated too toxic to come into contact with"[7]. Another government report recently presented even more dire statistics, showing that 90 per cent of the nation's groundwater is polluted to varying degrees, with severe pollution found in over 60 per cent of the sources[8].

The good news, however, is that such an enormous and treacherous situation can be improved by not only investing in adequate water but also proper waste treatment and air cleaning facilities, and hence it also poses equally enormous opportunities to the water and environmental industries to which Aqua has direct exposure. Regulatory change in particular could be a trigger for immediate growth opportunities for Aqua's portfolio companies. In particular for Waterleau (which is involved in not only water, but also air treatment and waste to energy), for RWT (involved in wastewater and clean water) and for BBI (which delivers solutions to retrofit old wastewater plants). Many countries in Asia lack expertise in these fields.

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[6] http://www.bloomberg.com/news/2013-01-10/nestle-taps-china-water-thirst-as-west-spurns-plastic.html
[7] http://english.peopledaily.com.cn/90882/7732438.html
[8] Southern Metropolis Daily, 18 February 2013

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's market commentary (continued)
The extent to which air pollution affects China is equally concerning. As far back as six years ago, China's own State Environmental Protection Administration (now the Ministry of Environmental Protection) found that as many as 750,000 people were dying annually in China from respiratory illnesses related to the poor air quality. More recently, one 2012 report[9] suggested that across four major cities, over 8,500 people died prematurely just from one pollutant alone, PM 2.5, which created economic losses of US$1 billion. These tiny particles tend to penetrate into the gas exchange regions of the lungs, causing severe respiratory issues[10]. Given that China's latest Five Year Plan ("FYP") has much more focus on growth "quality" and sustainability than the absolute growth focus of earlier FYPs, this particular problem needs to be addressed. This has an impact on the Company's portfolio as Waterleau is a major player in air treatment solutions via its French subsidiary.

The regulatory changes that are to be expected are twofold:

- Improvements in water quality in China would be the simplest way to maintain and/or increase supply. Indeed, China has been passing water regulations since April 2006 to economise on water usage, particularly in agriculture, where 60 per cent of national water usage occurs. However, reducing demand can only go so far, especially when supply is consistently decreasing. The long term solution can therefore be only to increase water supply which in turn can only be achieved by building more wastewater treatment plants.
- With prior regulation lagging industrial changes in favour of allowing outright economic growth, early policies of issuing fines for pollution have been inadequate. There have been countless records of situations in which companies have opted to pay penalties rather than spend money on pollution preventatives, purely because it made financial sense. Since 2008, however, these fines have been increasing. Currently, for "serious and extraordinarily serious" pollution incidents, penalties of up to 50 per cent of the income obtained from the previous year shall be imposed upon each of the directly liable persons. This compares favourably against the old, weaker policy of fining companies at 30 per cent of direct damages, capped at RMB1,000,000, with responsible officers only being personally liable for administrative penalties[11].

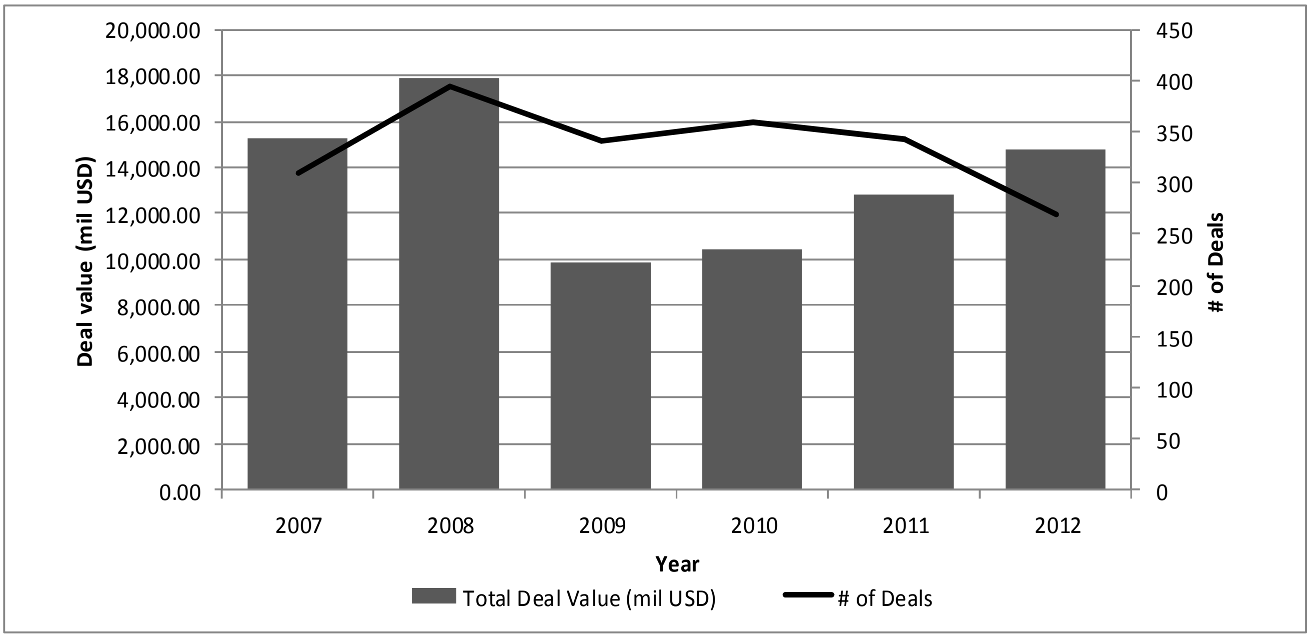
The story is very different elsewhere. In Europe, the municipal market in particular continues to crawl onwards with minimal growth. The Euro crisis is still not over, and with a lot of uncertainty regarding the long-term status of the EEA, banks continue to be very prudent over lending to municipal projects. In the US, however, where the push towards environmentally friendly policies is far weaker and the dollar remains relatively strong, the shale gas industry continues to boom. This in turn is creating a resultant boost directly to the water industry via new opportunities (shale gas extraction is extremely dependent on specialised water technologies), but also indirectly by lifting economic growth prospects for the economy as a whole, leaving Europe behind. The US is expected to overtake Saudi Arabia as the world's largest hydrocarbon producer by 2014[12] thanks to shale gas production. In the MENA region itself, however, countries like Saudi Arabia and the UAE are reducing their bias towards hydrocarbon dependency in the hope of developing a resilient and diversified industrial base before oil supplies run out. Whilst the effects of the Arab Spring linger a full 24 months after it began, Waterleau and BBI are focusing on opportunities here, since it clearly requires very substantial and consistent investment in water technologies to supply the lifeline to any sustainable growth in such a water-scarce region.

[9] http://www.chinadialogue.net/blog/5518-PM2-5-air-pollution-blamed-for-more-than-8-deaths-in-four-Chinese-cities/en
[10] http://en.wikipedia.org/wiki/Particulates
[11] http://chinawaterrisk.org/regulations/water-regulation/
[12] http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/9639192/Europe-left-behind-as-shale-shock-drives-Americas-industrial-resurgence.html

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's market commentary (continued)

Figure 1: *Merger and acquisition activity in the water sector since 2007*[13]



At the same time, this does not mean that the water industry is less interesting or profitable. A number of new entrants declared their intentions to enter the market and have been very active in acquiring companies. As a result, the M&A activity in the sector has continued to improve since its 2009 low, supporting contentions that economic recovery is now well underway, and in fact not far from the 2007 deal volume.

Siemens Water Technologies is a division of the industrial giant which was developed following Siemen's US$993 million acquisition of US Filter from Veolia in 2004, and was put up for sale at the end of 2012. Many other significant market participants that entered the water treatment industry fairly aggressively at the same time also now realise that they overestimated their ability to develop into water industry leaders over a short period of time via acquisitions. They had hoped that they can follow the same business model of selling equipment as in their "home" sectors, and as a result, they misunderstood how the water treatment industry works. The value chain of the industry is controlled by the companies that can deliver a complete solution to a specific customer problem whether industrial or municipal, and hence Aqua's strategy has been to find and invest in such companies.

These are the companies, alongside the large consulting groups in such markets as the North America, that define the equipment components that are ultimately deployed by the clients, and not the component providers, such as US Filter. Recent M&A activity amongst the water players includes the acquisition of PIMS Group, a privately held UK-based wastewater services company, by the water technology company Xylem Inc., for approximately US$57 million. These acquisitions are driven by two main aspects: (i) the desire from large water players to consolidate specialists across the industry in order to bolster their businesses, and (ii) the observation of where current growth in the industry is being driven from.

[13] Source: Bureau Van Dijk.

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's review of the portfolio: summary, performance, outlook
The Manager has deep sector knowledge and actively engages with management to realise the potential in the existing portfolio.

Highlights at the Company's portfolio level:

- During the year, RWT continued to build on their strong growth and margin improvements on existing businesses and projects already experienced in the first half of their financial year.
- RWT was awarded a new potable water project in Thailand from an existing client, Amata City Industrial Estate ("Amata Industrial Estate"), an established key industrial estate in the south of Bangkok with close to 500 factories in operation. This project is larger than the existing plant RWT built for Amata Industrial Estate in the past.
- During the year, the Manager developed a strategy alongside like-minded shareholders of CHC representing collectively approximately 40.8 per cent of CHC's issued share capital, to take some action to replace several members of CHC's board of directors and stimulate a more active management of CHC's assets. A formal announcement was made in August 2012.
- Waterleau reported unaudited operating revenues down approximately 12.5 per cent in respect of the financial year ended 31 December 2012, but continued to expand their industrial wastewater business and to grow their access into the food and beverage sector which is enjoying a strong growth and broadly outperforming most other industrial water markets[14].
- In June 2012, In-Pipe, under the leadership of the Manager whose representative was elected Chairwoman of the In-Pipe's board of directors, achieved break-even and net income positive for the first time since inception and initiated the trend towards sustainable break-even, a trend confirmed throughout the second half of the year and for the full year.
- On 27 March 2012, the Company announced a partial exit from its investment in BBI for which the Company received a total amount of £912,147 in cash as part repayment for some of its outstanding loans to BBI and related interest, with the balance of its loans being converted into two new classes of shares in BBI.

Summary of the transactions made during the year
No new investments have been made since 1 January 2012. On 27 March 2012, the Company announced a partial exit from its investment in BBI. As part of that exit, the Company received a total amount of £912,147 in cash as part repayment for some of its outstanding loans and related interest to BBI, with the balance of its loans being converted into two new classes of shares in BBI as follows:

- £283,011 into a new class of B preferred shares, ranking pari passu with the newly created A preferred shares (save that they are redeemable at any time at the discretion of the board of directors of BBI); and
- £2,117,984 into a new class of C preferred shares, ranking behind the A and B preferred shares.

As a result of the overall dilution arising from the capital increase, and including the anti-dilution shares received by the Company as part of the transaction, the ordinary equity interest retained by the Company declined to 12.12 per cent of the issued voting capital of BBI. This was reduced from approximately 17 per cent held immediately prior to this transaction, and ranks behind the preferred and other classes of shares in the capital of BBI.

Furthermore, on 19 February 2012, as part of its cost reduction and improvement of its liquidity position, In-Pipe completed a transaction with its founding partners, reducing significantly its monthly debt burden and cash burn. This was accompanied by a small injection of cash from some existing investors other than the Company, which has not invested in this subsequent round.

Subsequent events since the year end
No new investments have been made since the year end. On 11 January 2013, the Company received a non-refundable deposit payment of US$1 million from the Ranhill Group in connection with the potential sale of the Company's stake in RWT. On that date, the Company entered into a conditional sale and purchase agreement with the Ranhill Group pursuant to which the Ranhill Group agreed to acquire the Company's entire shareholding in RWT of 14,880,000 ordinary shares, representing 45.23 per cent of the issued and paid-up capital of RWT, for US$31,659,574 of cash consideration. The sale is expected to be completed by mid-August.2013. See further at Note 12 on page 49.

[14] Audited

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's review of the portfolio: summary, performance, outlook (continued)

NAV Performance
The NAV of the Company declined by 43.2 per cent (2011: decrease 15.6 per cent) over the year. The unrealised portfolio declined in value by approximately €28.3 million during the year (2011: €11.2 million decrease).

Performance

Ranhill Water Technologies (Cayman) Limited performance
RWT is a fully integrated water and wastewater company with in-house expertise in design, construction and operations of water and wastewater plants across a number of Asian countries. It has operations in Thailand, Malaysia and China. Currently, RWT owns and operates 4 projects in China with a total treatment capacity of 160 Million Litres per Day ("MLD") as well as 2 Build Own Transfer ("BOT") projects consisting of 5 operating plants in Thailand.

Summary of RWT's financial performance (June year-end)[15]:

(in US$ million)	2009	2010	2011	2012	18 months to 31/12/2012[16]
Revenues	US$ 13.5	US$ 22.5	US$ 26.1	US$27.7	US$50.9
EBITDA	US$ 4.8	US$ 6.0	US$ 6.4	US$7.5	US$12.8
Net Profit[17]	US$ 4.2	US$ 4.9	US$ 5.0	US$5.4	US$8.9

During 2012, RWT changed its reporting calendar from a June year-end to a December year-end and as a result has not yet published its audited results for 2012. For the twelve months ended 30 June 2012, RWT registered unaudited revenues of approximately US$27.7 million, EBITDA of US$7.5 million and net profit of US$5.4 million, thus posting a twelve months revenue, EBITDA and net profit growth of approximately 6 per cent, 17 per cent and 8 per cent respectively over the corresponding period in fiscal year 2011. For the eighteen months ended 31 December 2012, RWT registered unaudited revenues of approximately US$50.9 million, EBITDA of US$12.8 million and net profit of US$8.9 million.

The Company owns approximately 45.2 per cent of RWT.

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
RWT	11,055	8,125	19,180	Discount to comparable multiples

Details on the valuation methodology can be found in Note 3 to the consolidated financial statements on page 44.

China Hydroelectric Corporation performance
CHC is an owner, consolidator, developer and operator of small hydroelectric power projects in the People's Republic of China. Led by an international management team, CHC's primary business is to identify and evaluate acquisition and development opportunities and acquire and in some cases construct, hydroelectric power projects in China. CHC currently owns twenty-four operating hydroelectric power projects in China (consisting of twenty nine operating stations) with a total installed capacity at 30 September 2012 of 547.8 Megawatt ("MW"). These projects are located in four provinces: Zhejiang, Fujian, Yunnan and Sichuan[18].

[15] Audited figures for the years ended 30 June 2009, 30 June 2010 and 30 June 2011. Unaudited figures for the year ended 30 June 2012.
[16] Unaudited figures for the 18 months ended 31 December 2012.
[17] Net Profit is calculated before currency translation differences.
[18] CHC's data.

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's review of the portfolio: summary, performance, outlook (continued)

Performance (continued)

Summary of CHC's financial performance[19] (December year-end):

(in US$ millions)	2009	2010	2011	2012
Revenues	US$ 34.3	US$ 58.2	US$ 54.6	US$ 85.4
Gross Profit	US$ 17.9	US$ 35.5	US$ 23.3	US$ 49.6
EBITDA	US$ 20.2	US$ 31.8	US$ 23.3	US$ 55.7

During the period from 1 January 2012 to 31 December 2012, CHC's share price increased by approximately 51 per cent from US$1.14 per American Depositary Share ("ADS") to US$1.72 per ADS. The stock price performance still does not do justice to the major improvements resulting from the corporate changes initiated during the course of the year. The Manager along with a number of like-minded shareholders of CHC representing collectively approximately 40.8 per cent of CHC's issued share capital sent a joint letter dated 21 August 2012 to the CHC board of directors setting out certain concerns regarding the overall management of CHC and requiring the convening of an extraordinary general meeting of CHC ("CHC EGM") to consider certain changes to the CHC board, consisting of the removal and replacement of five out of seven of its existing directors. The replacement directors included representatives of the like-minded shareholders and one independent director. In this regard, Aqua Resources Asia Holdings Limited ("ARAHL") nominated Mr Jui Kian Lim, an employee of the Manager's group, to the CHC board.

On 28 September 2012, the like-minded shareholder group's proxy fight was successful with the results of the CHC EGM showing that approximately 66.8 per cent of the ordinary shares voted at the EGM voted in favour of the appointment of Amit Gupta, Moonkyung Kim, Jui Kian Lim, and Yun Pun Wong and the removal of John D. Kuhns, Richard H. Hochman, Shadron Lee Stastney, Anthony Dixon and Stephen Outerbridge as directors of CHC.

On 1 October 2012 CHC announced that CHC, together with certain of its affiliates and executive officers and Vicis Capital ("Vicis", a substantial shareholder of CHC) entered into a settlement agreement with the like-minded shareholders, effective as at 30 September 2012 relating to the proxy contest, the CHC EGM and various related matters and litigation (the "Settlement Agreement").

Under the Settlement Agreement, among other things:

- CHC recognised the appointment of certain new directors as a result of the CHC EGM with the addition of an existing director and representative of Vicis, Shadron Stastney, being appointed to the CHC board.
- The parties to the settlement agreement agreed to cooperate to smoothly transition governance of CHC to the new CHC board. Each of the parties to the settlement agreement have also agreed to a mutual release of claims, including an agreement not to challenge the validity of the CHC EGM.
- Effective as at 30 September 2012, Mr. John D. Kuhns and Ms. Mary Fellows resigned from their positions as Chief Executive Officer, and Executive Vice President, Chief Compliance Officer and Corporate Secretary, respectively, of CHC. Mr. Kuhns and Ms. Fellows are subject to certain standstill restrictions through the 2017 annual general meeting of CHC shareholders.
- Vicis is subject to certain standstill restrictions through the earlier of (a) ninety days after Mr. Stastney (or any other director appointed by Vicis) ceases to be on the CHC board; and (b) the 2015 annual general meeting of CHC shareholders.
- CHC has agreed to reimburse the like-minded shareholder group's out-of-pocket fees and expenses in connection with the proxy contest and related litigation.

[19] Audited figures for the years ended 31 December 2009, 31 December 2010, 31 December 2011 and 31 December 2012. Source Capital IQ

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's review of the portfolio: summary, performance, outlook (continued)

Performance (continued)

China Hydroelectric Corporation performance (continued)

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
CHC	13,479	(10,898)	2,581	Market price

Details on the valuation methodology can be found in Note 3 to the consolidated financial statements on page 45.

Waterleau Group performance
Waterleau is a global provider of wastewater treatment, water treatment, sludge treatment, waste treatment, energy, and air treatment solutions for industry and municipalities. Its services include research and development, audits and consultancy, pilot testing and demonstration tests, feasibility studies, technology selection, process design, mechanical design, electricity and instrumentation design, basic engineering, detailed engineering, and procurement. The company also provides equipment supply, site supervision, general contracting, construction, erection, electricity, instrumentation and control, start-up and commissioning, training, operation and maintenance, project development, financing, and Build Own (Operate) Transfer ("BO(O)T") project related services.

Summary of Waterleau's financial performance[20] (December year-end):

(in € million)	2009	2010	2011	2012
Revenues	€ 55.5	€ 63.5	€ 75.3	€ 65.9
EBITDA	€ 6.6	€ 6.6	€ 7.2	€ 2.3

For the twelve months ended 31 December 2012, Waterleau experienced a slowdown of its revenues in the municipal sector due to very difficult market conditions especially in its core markets (such as Europe and North Africa). However, the industrial sector performed better than expected. Its unaudited fiscal year 2012 revenues were approximately €65.9 million, which represents a 12.5 per cent decrease on last fiscal year's revenues; EBITDA margin was approximately 2 per cent. As per the previous year, Waterleau booked over 50 per cent of its revenues outside of Europe. Waterleau benefited from a strong growth in orders from its industrial clients, particularly in the brewery sector.

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
Waterleau	20,000	(7,797)	12,203	Principal and accrued interest of the convertible bond, less risk discount

Details on the valuation methodology can be found in Note 3 to the consolidated financial statements on page 44.

In-Pipe Technology performance
In-Pipe provides engineered wastewater treatment technology and services for municipalities in the United States and internationally. Its technology re-engineers the sewer biofilm to offer biological nutrient removal, biosolids management, wastewater recycling, and ultraviolet disinfection services to pre-treat wastewater in the sewer collection system. The company's solutions enable customers to achieve environmental compliance, and eliminate noxious odours and corrosion, as well as lessen the impact of fats, oils, and grease.

[20] Audited figures.

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's review of the portfolio: summary, performance, outlook (continued)

Performance (continued)

Summary of In-Pipe's financial performance[21] (December year-end):

(in US$ million)	2009	2010	2011	2012
Revenues	US$ 1.7	US$ 1.6	US$ 1.8	US$2.1
EBITDA	(US$ 1.5)	(US$ 1.6)	(US$ 1.0)	US$0.03

For the twelve months ended 31 December 2012, In-Pipe's unaudited fiscal year 2012 revenues were approximately US$2.1 million (US$1.8 million in 2011) which represents an approximately 19 per cent increase year on year. Gross margin slightly improved to 61 per cent (57 per cent in the previous fiscal year) and more importantly reached a positive EBITDA for the full year, or a US$1 million improvement when compared to the previous year. In-Pipe experienced an exceptional turnaround as can be demonstrated by the strong operational improvement driven by improved sales and judicious cost cutting. These efforts were initiated at the end of the previous fiscal year and accelerated throughout the year.

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
In-Pipe	3,603	(2,001)	1,602	1 x multiple of annual revenues

Details on the valuation methodology can be found in Note 3 to the consolidated financial statements on page 44.

Bluewater Bio International performance
BBI is a provider of municipal, industrial, and commercial wastewater treatment solutions. It offers hybrid bacillus activated sludge technology, a biological odourless wastewater treatment process that produces reusable effluent and removes nutrients. The company also provides plant design, costing, installation, commissioning, training, and operation and maintenance services.

Summary of BBI's financial performance (June year-end)[22]:

(in £ million)	2009	2010	2011	2012
Revenues	£0.0	£0.0	£0.5	£2.5

Investment summary:

	Cost (€'000)	Realised value (€'000)[23]	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
BBI	9,375	597	(8,778)	0	Write down to zero

Details on the valuation methodology can be found in Note 3 to the consolidated financial statements on page 44.

[21] Audited figures for the years ended December 2009, 2010 and 2011. Unaudited estimated figures for the year ended December 2012.
[22] Audited figures for the years ended June 2009, 2010, 2011 and 2012.
[23] The realised value for BBI, and hence the unrealised value for BBI, does not take into account £412,147 (€492,466) in partial repayment of accrued interest of £667,692 (€797,812) following a capital restructuring in March 2012 during which the Company received a total sum of £912,147 (€1,089,906) of which £500,000 (€597,440) was in partial repayment of its outstanding secured loans of £2,500,000 (€2,987,200) to BBI. Exchange rate used is GBP/EUR = 1.19488.

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's review of the portfolio: summary, performance, outlook (continued)

Performance summary
At 31 December 2012, the Company had approximately 6.5 per cent of its net assets in liquid funds and 90.9 per cent was invested in unquoted and quoted (in the case of CHC) investments.

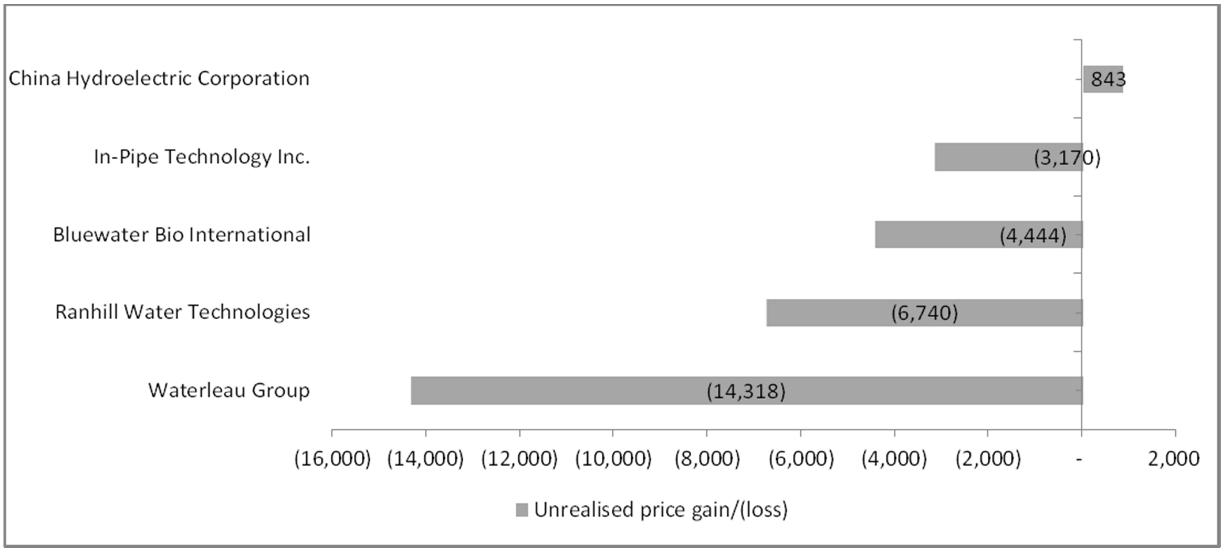
The realised and unrealised movements of the investment portfolio (including accrued interest and foreign currency movements) are analysed in Figure 2 and Figure 3 below.

The Manager considers that the valuations of the investment portfolio do not reflect the operational performance of the assets nor the value the investments could fetch in an exit scenario.

Figure 2:
Analysis of movements in NAV for the year ended 31 December 2012 (in €)

Opening NAV as at 1 January 2012	68,831,602
Investment income	682,560
Management fee	(757,627)
Performance fee	-
Other costs	(1,334,631)
Net realised gain on disposal of investments	944
Net unrealised depreciation of investments	(28,300,149)
Foreign currency movements	(16,638)
Closing NAV as at 31 December 2012	39,106,061

Figure 3:
Unrealised movements in investment portfolio for the year ended 31 December 2012 (in €'000)



Analysis of the portfolio by sector shows a good balance between operators (RWT and CHC) and technology providers (Waterleau and BBI), while a small part is dedicated to a service business (In-Pipe). This creates an opportunity for the Company to create synergies within the portfolio companies, by allowing transfers and partnerships between the technology providers and the operators, and to capture a unique opportunity to benefit from advanced know-how and the fast growing markets in which the investee companies operate.

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Manager's review of the portfolio: summary, performance, outlook (continued)

Outlook for portfolio companies
The Manager helps the Company add value to the businesses in which it invests (over and above the Company's investment capital) by also introducing business development opportunities and global expertise through a strong global network and presence in key growth markets. The Manager works closely with the Company's underlying investee companies, and helps them grow faster and compete more successfully for opportunities in Europe and major emerging markets such as South East Asia and MENA.

Ranhill Water Technologies (Cayman) Limited outlook
In the Company's interim statements we indicated that demand growth in the water municipal businesses would still be supported in countries where basic water needs and targets have not been met yet, for instance in Asia, where RWT is active. We believe that RWT's growth will continue in its core markets (China and Thailand) with potential for growth in other markets such as India. Furthermore, it is anticipated that the Ranhill Group will increase its involvement in RWT with the potential purchase of the Company's stake in RWT. On 11 January 2013, the Company received a payment of US$1 million from the Ranhill Group in connection with its potential purchase of the Company's stake in RWT.

China Hydroelectric Corporation outlook
CHC will continue to manage its liquidity situation which is principally dependent on two key factors, cash-flow generated from operations and the state of domestic lending market in China. Management successfully raised a total of US$91.7 million in new borrowings and favourable re-financing through the first nine months of the year and subject to China bank lending policies, expects to continue building on these re-financing efforts through 2013 with the objective of more closely matching CHC's debt maturities to the long-life of its operating assets.

Beyond the announced sale of the Yuheng Plant, CHC has not announced any future disposal of power plants for the coming year.

Waterleau Group outlook
The municipal market has become much more competitive. The market slow down mentioned earlier, combined with difficult economic conditions in Spain and Portugal and a number of other European markets caused Waterleau's competitors in these markets to significantly lower their prices for the services they provide to municipal clients in Europe and elsewhere, sometimes to unsustainable levels. Waterleau is developing a new market strategy that will help to lower its costs further and be able to respond to these conditions, such as expanding its manufacturing through partners in emerging markets. This strategy is still at the early stages of development and has not yet had any effect on Waterleau's financial performance to date, but we anticipate it will improve the company's performance when it is fully implemented.

The industrial sector is an area of growth for the company as it is expanding further in emerging markets as well as potentially into the new industrial sectors. The current conditions are favourable to consolidating Waterleau's position in this market by making a few targeted strategic initiatives and acquisitions.

In-Pipe Technology outlook
The US municipal wastewater market, in search of multiple revenue streams, cost-saving opportunities and operational advantages, is currently favourable to In-Pipe's range of services as the company focuses on delivering solutions which contribute to savings for their clients. Indeed, In-Pipe allows its clients to generate beneficial by-products such as the reduction in sludge and solids handling, carbon footprint, wastewater discharge and disposal, energy use or fresh water consumption. In-Pipe will go one step further in the coming months, proposing an additional benefit of turning wastewater to value. As with all technologies, focusing on the greatest value to the customer is the key to success. Furthermore, In-Pipe contributes to reduced electrical costs, which can be 30 to 40 per cent of total operating costs.

These benefits have helped In-Pipe strengthen its position in 2012 and the Manager believes that it will continue to do so in 2013. In-Pipe intends to capitalise on the operational progress achieved in 2012 to harvest the benefits of these advantages and convert them into top line improvement.

Bluewater Bio International outlook
BBI continues to push ahead with the development of sales in Europe, South Africa, and India benefiting from the high profile of its Bahrain project. It is currently on track to meet its revenue budget of £9.6m for the year ending 30 June 2013 with approximately over £7m already achieved. The company is expecting EBITDA loss of £2.1m for the same period. Finally, BBI has closed a £3.5 million second tranche of financing in November 2012 from private equity firm Ombu Group ("Ombu"), the lead investor in the last round of funding.

MANAGER'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

Principal risks and uncertainties

As stated in previous annual reports, the Company expects to face challenges linked to, on the one hand, the global macroeconomic environment and, on the other hand, potential microeconomic challenges linked to the Company's investments if such investments do not achieve the expected financial and operating results. Such uncertainties are linked to the slower than expected pace of global economic recovery, political instability in large markets such as MENA which are a large source of growth for some of our portfolio companies, and additional government regulations in the water sector and currency risk.

More specifically, the Company is focused on the following key risks:

Macroeconomic risks

In addition to the specific risks set out above, the performance of the Company's underlying investment portfolio is also influenced by a combination of economic growth, interest rates, the availability of well-priced debt finance, the number of active trade and private equity buyers and the general level of merger and acquisition activity. All of these factors have an impact on the Company's ability to invest and on the Company's ability to exit from its underlying portfolio or on the levels of expected profitability achieved on exit.

Long-term strategic risks

The Company is subject to the risk that its long-term strategy and its level of performance fail to meet the expectations of its shareholders.

The Company regularly reviews its investment strategy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders.

Investment risks

The Company operates in a very competitive market. Changes in the number of market participants, the availability of funds within the market, the pricing of assets, or in the ability of the Manager to access deals on a proprietary basis could have a significant effect on the Company's competitive position and on the sustainability of returns. In order to source and execute good quality investments the Company is primarily dependent on the Manager having the ability to attract and retain people with the requisite investment experience and whose compensation is in line with the Company's objectives. Once invested, the performance of the Company's portfolio is dependent upon a range of factors. These include but are not limited to: (i) the quality of the initial investment decision; (ii) the ability of the investee company to execute successfully its business strategy; and (iii) actual outcomes against the key assumptions underlying the investee company's financial projections. Any one of these factors could have an impact on the valuation of an investee company and upon the Company's ability to make a profitable exit from the investment within the desired timeframe. A rigorous process is put in place by the Manager for managing the relationship with each investee company from inception to anticipated realisation. This includes regular asset reviews and, in many cases, board representation by one of the Manager's executives.

Operational risks

The Company's investment management, custody of assets and all administrative systems are provided or arranged for the Company by the Manager, the Administrator and other service providers. Therefore, the Company is exposed to a range of operational risks which can arise from inadequate or failed processes, people and systems or from external factors affecting these. The Company's system of internal control mainly comprises the monitoring of the services provided by the Manager, including the operational controls established by the Manager to ensure it meets the Company's business objectives.

As a result of its investment strategy, the Company is also exposed to various risks including market risk, credit risk and liquidity risk as further explained in Note 7 of the notes to the consolidated financial statements.

FourWinds Capital Management
5 August 2013

INVESTING IN PRIVATE EQUITY

Private equity is the term given to describe the supply of equity and equity type risk capital to unlisted companies. The Company specialises in growth capital private equity investing.

Growth capital investments in the water sector
Growth capital investments are less liquid than public equities, but they offer greater control over the underlying assets and the potential for more attractive returns in the long run.

Advantages that the Company sees in investing in growth capital in the water sector:

- **Governance:** businesses that the Company has an interest in are run by their respective owners/managers and the Company works alongside the respective owners/managers to expand the reach and accelerate the growth of the businesses. The Manager is focused on achieving superior results and creating value. The investments are structured to ensure alignment of interests amongst all the stakeholders.
- **Control:** over exit when the time comes.
- **Managemen**t: attract the best talent in the industry, which is particularly important in the water sector which is small and tightly knit. Having built an exceptional network of sector specialists, the Manager is particularly focused on helping the Company's underlying investments find the best managerial resources.
- **Sector:** attractiveness of the water sector and focused expertise which allows the Company to select from among the best possible opportunities which are derived from proprietary research and through a network of relationships built up by the Manager over the years.
- **Synergies:** unique synergistic approach throughout the portfolio to grow in multiple geographic areas with a particular focus on Europe, Asia and MENA.

INVESTMENT OBJECTIVE AND POLICY

At an EGM of the Company on 12 October 2012, shareholders voted to change the Investment Objective and Policy of the Company. With effect from 12 October 2012 the revised Investment Objective and Policy (the "new Investment Policy and Objective") were as follows:

The New Investment Policy and Objective

'Investment Objective
The Company's investment objective is to provide capital appreciation through exposure to a diversified portfolio of water related investments.

Investment Policy
The Manager is responsible for the discretionary investment management of the assets of the Company and seeks to accomplish the Company's investment objective by:

- seeking exposure to water-related investments (as explained below) on a global basis;
- seeking portfolio diversification by investing across the broad value chain of water-related projects and investments; and
- seeking to control risk through such portfolio diversification, investment vehicle selection and implementation of risk control strategies.

No assurance can be given, however, that the Company will achieve its investment objective, and investment results may vary substantially over time and from period to period.

No new investments
It is the general policy of the Company not to make new investments. It is the intention of the Company to continue to meet its existing capital commitments. The Company may support follow-on commitments in existing investments subject to prior approval by the Board.

Asset Allocation
Investments may be made within a diverse range of water-related sectors including infrastructure, technology, recycling and treatment and in water-related projects such as wastewater treatment, water distribution and infrastructure, water-to-energy, clean water, desalination, and others. Investment will comprise primarily direct stakes in unquoted water-related companies and projects. A target threshold of at least 60 per cent water-related activity will be set for an investment to be considered "water-related".

Gearing
Whilst the Articles of the Company permit maximum borrowings of up to 30 per cent of the Net Asset Value of the Company, the Company's policy is to ensure that its aggregate borrowings at the time of drawdown of any debt do not exceed a maximum of 20 per cent of the Net Asset Value of the Company. The Directors intend to use this facility primarily for short term liquidity, to facilitate the operation of the Company's over-commitment policy, for working capital requirements and to fund share buybacks. However, borrowings may also be used for investment financing in certain cases and, if the Directors deem it prudent, the Company may borrow for longer term purposes.

General
As at 30 June 2012, the Company had invested approximately 92 per cent of its net assets. The Company intends to remain substantially invested or committed going forwards, although the Manager may exercise its discretion to hold cash or cash equivalent instruments at any time as appropriate. Income earned from its investments will be reinvested by the Company in accordance with its investment policy, subject to working capital requirements.

The Portfolio is expected to comprise investments in multiple currencies. The Company will not systematically hedge its currency exposure, but may evaluate on a case-by-case basis the potential benefits of hedging against interest rate risk or currency risk related to assets not denominated in Euro. The Company may, where appropriate, also enter into forward interest rate agreements, forward currency agreements, interest rate and bond futures contracts and interest rate swaps and purchase or enter into put or call options on interest rates and put or call options on futures of interest rates. Any currency hedging will only be used for the purposes of efficient portfolio management and will not be used for any currency speculation.

INVESTMENT OBJECTIVE AND POLICY

The New Investment Policy and Objective (continued)

General (continued)

In order for the Company to maximise the percentage of total assets invested at any given period of time, the Manager may follow an over-commitment strategy, subject to any guidelines set by the Board. The Board has set a guideline that the Company's total commitments should not exceed 150 per cent of the current gross assets of the Company (as determined by the Directors and the Manager at the time of acquisition or commitment), subject to such commitments being in accordance with the Company's investment policy. Whilst the Board may increase or reduce this percentage in its discretion in the future, it has no current intention to do so.

Disposals

As and when the Company realises its investments, the Company may, at the sole discretion of the Board, either: (i) return capital to Shareholders; or (ii) retain proceeds in order to meet the Company's follow-on commitments in existing investments or other obligations of the Company from time to time.

Investment restrictions

The Company and any of its subsidiaries must not conduct a trading activity which is significant in the context of its group as a whole. This does not prevent the businesses forming part of the Portfolio from conducting trading activities themselves.

Although there is no restriction on the Company taking a controlling stake in an investee company, to ensure a spread of investment risk the Company will avoid:

- cross financing between the businesses forming part of its Portfolio including, for example, through the provision of undertakings or security for borrowings by such businesses for the benefit of another; and
- the operation of common treasury functions as between the Company and investee companies.

The Company will, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with the investment policy set out above.'

Prior to the EGM of 12 October 2012, the Investment Objective and Policy of the Company (the "old Investment Policy and Objective") had been as follows:

The Old Investment Policy and Objective

'Investment Objective

The Company's investment objective is to provide capital appreciation through exposure to a diversified portfolio of water related investments.

Investment Policy

The Manager is responsible for the discretionary investment management of the assets of the Company and seeks to accomplish the Company's investment objective by:

- *seeking exposure to water-related investments (as explained below) on a global basis;*
- *seeking portfolio diversification by investing across the broad value chain of water-related projects and investments; and*
- *seeking to control risk through such portfolio diversification, investment vehicle selection and implementation of risk control strategies.*

No assurance can be given, however, that the Company will achieve its investment objective, and investment results may vary substantially over time and from period to period.

Diversification

The Company's portfolio of assets and investments from time to time (the "Portfolio") will be diversified by factors such as geography, water sector and investment type, structure and size. The Company may invest in companies and projects in both mature and emerging markets. There will be no predetermined limit per region, but for diversification purposes the Company will invest in at least three regions of the world.

INVESTMENT OBJECTIVE AND POLICY (CONTINUED)

The Old Investment Policy and Objective (continued)

Diversification (continued)
Investments will be sought in a diverse range of water sectors. Once investments have been completed, it is anticipated that no single investment, at the time of acquisition, may exceed 30 per cent of the gross assets of the Company. For these purposes, where the Company invests in a portfolio of assets, each individual underlying asset shall be treated as a single investment and where the Company invests by means of a holding company, joint venture or similar investment or investment vehicle, each underlying asset shall be treated as a single investment.

In addition, in exceptional circumstances, the Board may authorise the acquisition of an investment or asset which exceeds the 30 per cent limit and is up to 50 per cent of gross assets, at the time of acquisition. Such authorisation may only be given in circumstances where the Board considers the acquisition to be of strategic importance to the Company in achieving its overall investment objective and the Manager has, at the time of acquisition, presented to the Board for approval a proposal for rebalancing the Portfolio to within the 30 per cent limit as soon as practicable (and in any event within a period not exceeding 18 months) by means of further capital raisings, additional investments, disposals of part of an investment or otherwise.

Asset Allocation
Investments may be made within a diverse range of water-related segments including infrastructure, technology, recycling and treatment and in water-related projects such as wastewater treatment, water distribution and infrastructure, water-to-energy, clean water, desalination, and others. Investment will comprise primarily direct stakes in unquoted water-related companies and projects. A target threshold of at least 60 per cent water-related activity will be set for an investment to be considered "water-related".

Gearing
Whilst the Articles of Association of the Company permit maximum borrowings of up to 30 per cent of net asset value of the Company, the Company's policy is to ensure that its aggregate borrowings from time to time do not exceed a maximum of 20 per cent of net asset value of the Company. Initially, the Directors intend to use this facility primarily for short term liquidity, to facilitate the operation of the Company's over-commitment policy, for working capital requirements and to fund share buybacks. However, borrowings may also be used for investment financing in certain cases and, if the Directors deem it prudent, the Company may borrow for longer term purposes.

General
It is the intention of the Directors, subject to market conditions, for the Company to be substantially invested or committed (i.e. 80 to 85 per cent) in accordance with its investment policy at all times, although the Manager may exercise its discretion to hold cash or cash equivalent instruments at any time as appropriate. Income earned from its investments will be reinvested by the Company in accordance with its investment policy, subject to working capital requirements.

The Portfolio is expected to comprise investments in multiple currencies. The Company will not systematically hedge its currency exposure, but may evaluate on a case-by-case basis the potential benefits of hedging against interest rate risks or currency risk related to assets not denominated in Euro. The Company may, where appropriate, also enter into forward interest rate agreements, forward currency agreements, interest rate and bond futures contracts and interest rate swaps and purchase or enter into put or call options on interest rates and put or call options on futures of interest rates. Any currency hedging will only be used for the purposes of efficient portfolio management and will not be used for any currency speculation.

In order for the Company to maximise the percentage of total assets invested at any given period of time, the Manager intends to follow an over-commitment strategy, subject to any guidelines set by the Board. The Board has set a guideline that the Company's total commitments should not exceed 150 per cent of the current gross assets of the Company (as determined by the Directors and the Manager at the time of acquisition or commitment), subject to such commitments being in accordance with the Company's investment policy. Whilst the Board may increase or reduce this percentage in its discretion in the future, it has no current intention to do so.

The Company will comply with certain investment restrictions for so long as they remain requirements of the UK Listing Authority as set out below. The Directors do not currently intend to propose any material changes to the Company's investment objective and policy, save in the case of exceptional and unforeseen circumstances. As long as the Listing Rules so require, any material change to the investment policy of the Company will be made only with the approval of shareholders.

INVESTMENT OBJECTIVE AND POLICY (CONTINUED)

The Old Investment Policy and Objective (continued)

Investment restrictions
The Company will comply with the following investment restrictions for so long as they remain requirements of the UK Listing Authority:

- *the Company and any of its subsidiaries must not conduct a trading activity which is significant in the context of its group as a whole. This does not prevent the businesses forming part of the Portfolio from conducting trading activities themselves; and*
- *not more than 10 per cent in aggregate of the value of the total assets of the Company at the time of Admission may be invested in other listed closed ended investment funds except that this restriction shall not apply to investments in closed ended investment funds which themselves have published investment policies to invest no more than 15 per cent of their total assets in other listed closed ended investment funds; and*
- *the Company will notify to a regulatory information service within five business days of the end of each quarter, a list of all investments in other listed closed ended investment funds, as at the last business day of that quarter, which themselves do not have stated investment policies to invest no more than 15 per cent of their total assets in other listed closed ended investment funds.*

Although there is no restriction on the Company taking a controlling stake in an investee company, to ensure a spread of investment risk the Company will avoid:

- *cross financing between the businesses forming part of its Portfolio including, for example, through the provision of undertakings or security for borrowings by such businesses for the benefit of another; and*
- *the operation of common treasury functions as between the Company and investee companies.*

The Company will, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with the investment policy set out above.'

The Directors are as follows:

Hasan Askari (Chairman)
Mr Askari has been an investment banker since 1975, initially with SG Warburg & Co. Limited (now UBS Limited) and subsequently with JP Morgan Chase Investment Bank in Hong Kong and Barclays Capital in Tokyo and London. He was most recently at Old Mutual plc, London as a member of the Executive Committee responsible for the United Kingdom and Europe and later, for Asia-Pacific. He is an adviser to the Kotak Mahindra Group, one of India's leading banking groups and on the Board of Sun Life of Canada (UK) Limited and of New India Investment Trust plc. He has an M.A. (Oxon). Besides chairing the Company, he also chairs the Investment Monitoring Committee.

Fergus Dunlop (appointed 2 February 2012)
Mr Dunlop has investment experience in the UK, Germany and the Channel Islands. From 1987 to 2001 he was with Mercury Asset Management (now BlackRock), initially in London managing a joint venture with Munich Re and establishing a German office, and subsequently in Frankfurt. From 2002 to 2007 he joint-owned and managed an award winning institutional advisory business in Munich. Mr Dunlop holds a number of non-executive directorships, including Princess Private Equity Holding Limited and the Schroder Oriental Income Fund Limited, both traded on the London Stock Exchange. Mr Dunlop has an M.Phil. (Oxon). He chairs the Company's Management Engagement Committee and is resident in Guernsey.

Charles Parkinson (appointed 1 July 2012)
Mr Parkinson is a former Minister of Treasury & Resources in the States of Guernsey. He read Law at Cambridge before qualifying as a Chartered Accountant and being called to the Bar in London. After a successful career in financial services, he was elected a Deputy in the States of Guernsey in 2004, and he served as a Minister from 2008 until he stood down at a general election in 2012. He has been a director of a number of companies listed on the London Stock Exchange and is currently a director of several private companies and companies listed on AIM and the Channel Islands Stock Exchange. He chairs the Company's Audit Committee and is a resident of Guernsey.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AQUA RESOURCES FUND LIMITED

Report on the Financial Statements

We have audited the accompanying consolidated financial statements (the "financial statements") of Aqua Resources Fund Limited and its subsidiaries (together "the Group") which comprise the consolidated statement of assets and liabilities as of 31 December 2012 and the consolidated statement of operations, consolidated schedule of investments, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with accounting principles generally accepted in the United States of America and with the requirements of Guernsey law. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2012, and of the financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008 and The Protection of Investors (Bailiwick of Guernsey) Law, 1987.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the fact that investments are included in the financial statements at fair value as determined by the Directors as detailed in Notes 2 and 3. The nature and basis of each investment is different and valuation protocols applied by the Directors have varied in determining the fair value. Due to the nature and location of each investment, there are inherent difficulties in determining the fair value. Amounts realised on the sale of investments may be higher or lower than the values reflected in these financial statements and the differences may be material.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AQUA RESOURCES FUND LIMITED (CONTINUED)

Report on other Legal and Regulatory Requirements

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information is as noted on the contents page.

In our opinion the information given in the Directors' report is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Group's members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands
5 August 2013

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AT 31 DECEMBER 2012

	Notes	31 December 2012 €	31 December 2011 €
Assets			
Cash and cash equivalents		2,537,771	4,078,716
Investments at fair value (cost 2012: €57,432,537 and 2011: €57,529,286)	3	35,565,755	63,991,141
Interest receivable		150,000	643,739
Receivable from the Manager		1,039,935	279,213
Prepaid expenses		6,685	13,863
TOTAL ASSETS		39,300,146	69,006,672
Liabilities			
Other payables	4	194,085	175,070
TOTAL LIABILITIES		194,085	175,070
NET ASSETS		39,106,061	68,831,602
Net Assets consist of:			
Ordinary Shares (no par value, authorised to issue unlimited number of Ordinary Shares, of which 72,464,340 (2011: 72,464,340) were issued and outstanding)	6	70,030,004	70,030,004
Retained earnings		(30,923,943)	(1,198,402)
		39,106,061	68,831,602
Net asset value per Ordinary Share		0.5397	0.9499

The consolidated financial statements on pages 32 to 49 were approved by the Board of Directors on 5 August 2013 and signed on its behalf by:

Charles Parkinson
Director

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS
AT 31 DECEMBER 2012

Investments	Quantity/ Notional	Fair Value €	NAV %
INVESTMENTS AT FAIR VALUE			
Bonds			
Belgium (cost: €20,000,000)			
Waterleau Group N.V. Convertible Loan	€20,000,000	12,202,500	31.20
Total investments in bonds (cost: €20,000,000)		**12,202,500**	**31.20**
Equities in unlisted Companies			
Belgium (cost: €277)			
Waterleau Group N.V.	1	338	-
Cayman Islands (cost: €20,351,156)			
Bluewater Bio International (Note 3)	88,783,918	-	-
Bluewater Bio International B Senior Preferred	8,250,577	-	-
Bluewater Bio International C Junior Preferred	2,117,984	-	-
Ranhill Water Technologies (Cayman) Limited	14,880,000	19,179,816	49.05
United States of America (cost: €3,602,651)			
In-Pipe Technology Company Inc.	474,834	1,601,854	4.10
Total investments in unlisted companies (cost: €23,954,084)		**20,782,008**	**53.15**
Equities in listed companies			
China (cost: €13,478,451)			
China Hydroelectric Corporation – American Depository Shares	1,980,538	2,581,247	6.60
Total investments in listed companies (cost: €13,478,451)		**2,581,247**	**6.60**
Warrants			
Cayman Islands (cost: €1)			
Bluewater Bio International – Warrant 02/11/2016 (Note 3)	1	-	-
Bluewater Bio International – Part 2 Warrant 31/03/2013 (Note 3)	1	-	-
United States of America (cost: €1)			
In-Pipe Technology Company Inc. – Warrants 05/08/2016 (Note 3)	74,225	-	-
Total investments in warrants (cost: €2)		**-**	**-**
Total investments at fair value (cost: €57,432,537)		**35,565,755**	**90.95**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS
AT 31 DECEMBER 2011

Investments	Quantity/ Notional	Fair Value €	NAV %
INVESTMENTS AT FAIR VALUE			
Bonds			
Belgium (cost: €20,000,000)			
Waterleau Group N.V. Convertible Loan	€20,000,000	26,520,207	38.53
Cayman Islands (cost: €2,979,301)			
Bluewater Bio International Convertible Loans	£2,500,000	2,758,201	4.01
Total investments in bonds (cost: €22,979,301)		**29,278,408**	**42.54**
Equities in unlisted companies			
Belgium (cost: €277)			
Waterleau Group N.V.	1	367	-
Cayman Islands (cost: €17,468,604)			
Bluewater Bio International (Note 3)	49,170,112	2,282,585	3.32
Ranhill Water Technologies (Cayman) Limited	14,880,000	25,920,200	37.66
United States of America (cost: €3,602,651)			
In-Pipe Technology Company Inc.	474,834	4,771,731	6.96
Total investments in unlisted companies (cost: €21,071,532)		**32,974,883**	**47.91**
Equity in listed companies			
China (cost: €13,478,451)			
China Hydroelectric Corporation – American Depository Shares	1,980,537	1,737,849	2.52
Total investments in listed companies (cost: €13,478,451)		**1,737,849**	**2.52**
Warrants			
Cayman Islands (cost: €1)			
Bluewater Bio International – Warrant 2/11/2016 (Note 3)	1	-	-
Bluewater Bio International – Part 2 Warrant 31/3/2013 (Note 3)	1	1	-
United States of America (cost: €1)			
In-Pipe Technology Company Inc. – Warrants 05/08/2016 (Note 3)	74,225	-	-
Total investments in warrants (cost: €2)		**1**	**-**
Total investments at fair value (cost: €57,529,286)		**63,991,141**	**92.97**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	31 December 2012 €	31 December 2011 €
Investment income			
Interest income		682,560	808,740
Other income		-	997
Total investment income		682,560	809,737
Operating expenses			
Administrator fees		110,309	119,725
Audit fees		73,993	35,826
Fees for non-audit services		11,529	-
Professional fees		386,498	134,309
Brokerage fee		200,705	61,199
Directors' fees	5	139,113	100,407
Directors' expenses		18,310	16,292
Due diligence expenses		171,128	76,613
Management fees	5	757,627	1,484,195
Marketing expense		48,628	41,882
Miscellaneous expenses		174,418	230,058
Total operating expenses		2,092,258	2,300,506
Net investment loss		(1,409,698)	(1,490,769)
Realised and unrealised (loss)/gain from investments and foreign currency			
Net realised loss from foreign currency transactions		-	(33,628)
Net unrealised (loss)/gain from foreign currency transactions		(16,638)	13,509
Net realised gain on disposal of investments		944	-
Net unrealised depreciation of investments		(28,300,149)	(11,193,253)
		(28,315,843)	(11,213,372)
Net decrease in net assets resulting from operations		(29,725,541)	(12,704,141)
Net investment loss per Ordinary Share (annualised):			
Basic & diluted		(0.0195)	(0.0206)
Net loss per Ordinary Share (annualised):			
Basic & diluted		(0.4102)	(0.1753)
Weighted Average Number of Ordinary Shares Outstanding:			
Basic & diluted		72,464,340	72,464,340

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	31 December 2012 €	31 December 2011 €
Movement in net assets resulting from operations			
Net investment loss		(1,409,698)	(1,490,769)
Net realised loss from foreign currency transactions		-	(33,628)
Net unrealised (loss)/gain from foreign currency transactions		(16,638)	13,509
Net realised gain on disposal of investments		944	-
Net unrealised depreciation of investments		(28,300,149)	(11,193,253)
Net decrease in net assets resulting from operations		(29,725,541)	(12,704,141)
Share capital transactions			
Issuance of capital		-	-
Redemption of capital		-	-
Net increase in net assets resulting from share capital transactions		-	-
Net decrease in net assets resulting from operations		(29,725,541)	(12,704,141)
Net assets at beginning of year		68,831,602	81,535,743
Net assets at end of year		39,106,061	68,831,602
Net asset value per Ordinary Share		0.5397	0.9499
Number of Ordinary Shares issued and outstanding at end of year	6	72,464,340	72,464,340

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012 €	31 December 2011 €
Cash flows from operating activities		
Decrease in net assets resulting from operations	(29,725,541)	(12,704,141)
Adjustment to reconcile decrease in net assets resulting from operations to net cash used in operating activities:		
Net unrealised depreciation of investments	28,300,149	11,193,253
Net realised gain on disposal of investments	(944)	-
Decrease/(increase) in interest receivable	493,739	(643,739)
Increase in receivable from the Manager	(760,722)	(279,213)
Decrease in prepaid expenses	7,178	2,633
Increase in other payables	19,015	54,477
Purchase of investments	(2,882,553)	(1,725,936)
Disposals of investments	3,008,734	-
Net cash used in operating activities	(1,540,945)	(4,102,666)
Net decrease in cash	(1,540,945)	(4,102,666)
Cash and cash equivalents at beginning of year	4,078,716	8,181,382
Cash and cash equivalents at end of year	2,537,771	4,078,716

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	31 December 2012	31 December 2011
Per share data[1]		
Net asset value at beginning of year	0.9499	1.1252
Net investment loss	(0.0195)	(0.0206)
Net foreign currency loss	(0.0002)	(0.0003)
Net realised gain on disposal of investments	-	-
Net unrealised depreciation of investments	(0.3905)	(0.1544)
Net decrease in net assets resulting from operations	(0.4102)	(0.1753)
Net asset value at end of year	0.5397	0.9499
Ratios/supplemental data		
Total return	(43.19)%	(15.58)%
Number of Ordinary Shares outstanding at end of year	72,464,340	72,464,340
Weighted average number of Ordinary Shares	72,464,340	72,464,340
Net assets at end of year (in €)	43,889,441	68,831,602
Average net assets[2] (in €)	56,558,495	74,824,397
Ratio of operating expenses to average net assets[3]	(3.70)%	(3.07)%
Ratio of net investment loss to average net assets[3]	(2.49)%	(1.99)%

[1]Basic weighted average per share data
[2]Average net assets calculated using the quarterly net assets
[3]Calculated based on weighted average number of Ordinary Shares

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. ORGANISATION

The Company was incorporated in Guernsey on 12 June 2008 as a closed-ended investment company with limited liability under The Companies (Guernsey) Law, 1994 (as amended). The Company is now governed under The Companies (Guernsey) Law, 2008.

The Company aims to provide capital appreciation through diversified exposure to a global portfolio of water-related investments. The Company's portfolio of investments will be diversified by factors such as geography, water sector, and investment type, structure and size. The Company may invest in companies and projects in both mature and emerging markets. There is no predetermined limit per region, but for diversification purposes the Company will invest in at least three regions of the world.

FourWinds Capital Management has been appointed as the Manager of the Company with responsibility for the discretionary investment management of the Company's assets.

On 24 July 2008 the Company's Ordinary Shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange. On 12 November 2012 the Company cancelled its listing on the Official List and its shares are no longer publicly traded.

The Company's financial year end is 31 December.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The accompanying consolidated financial statements have been prepared in accordance with US GAAP.

The Company's consolidated financial statements are presented in Euro which is the functional and the reporting currency of the Company.

Basis of Consolidation
Under the Accounting Standard Codification ("ASC") Topic 810, "Consolidation" ("ASC 810"), consolidation by an investment company of a non-investment company investee is not appropriate within the scope of Topic 946 Financial Services - "Investment Companies". An exception to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. The consolidated financial statements consolidate the financial statements of the three wholly owned subsidiaries of the Company;

- Aqua Resources (In-Pipe) Holdings Limited ("ARIHL"), a Guernsey limited company formed in August 2009;
- Aqua Resources Asia Holdings Limited ("ARAHL"), an exempt company incorporated in the Cayman Islands formed in October 2008; and
- Cooperative Aqua Netherlands Holdings UA, a Dutch co-operative company formed on 22 March 2010.

ARAHL wholly owns a subsidiary, Robinson Investments Limited, which is an exempt company incorporated in the Cayman Islands formed in October 2008 and Cooperative Aqua Netherlands Holdings UA wholly owns a subsidiary, Aqua Netherlands Holdings BV, which is a Dutch special purpose vehicle formed on 26 March 2010. All intercompany accounts are eliminated on consolidation.

Use of Estimates
The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses and other income during the reporting periods. Due to the inherent uncertainty of such estimates, including estimates of values of investments, amounts ultimately determined on realization may differ from the Company's current estimates and such differences may be significant.

Valuation of Investments
The investments of the Company are carried at fair value in accordance with Financial Accounting Standard Board ("FASB") ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820"). ASC 820 provides a framework for measuring the fair value of assets and liabilities. ASC 820 also provides guidance regarding a fair value hierarchy which prioritises information used to measure fair value and the effect of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments (continued)

ASC 820 defines fair value in terms of 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. The price used to measure the fair value is not adjusted for transaction costs while the cost basis of investments may include initial transaction costs.

Under ASC 820, the fair value measurement also assumes that the transaction to sell an asset occurs in the principal market for the asset or, in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume and level of activity for the asset. In determining the principal market for an asset or liability under ASC 820, it is assumed that the reporting entity has access to the market as of the measurement date. If no market for the asset exists or if the reporting entity does not have access to the principal market, the reporting entity should use a hypothetical market.

Securities that are listed on an exchange and are freely transferable are valued at their latest closing price as published by the relevant exchange or clearing house quoted on such exchange. Securities which are not listed or quoted on any securities exchange or similar electronic system or if, being so listed or quoted, are not regularly traded thereon or in respect of which no prices are available, are valued on the basis of the latest available valuation provided by a relevant counterparty and are adjusted in such a manner as the Directors, in their sole discretion, think fit. If no such valuation is available, the Directors determine the value in good faith in consultation with the Manager having regard to such factors as they deem relevant.

Details of the basis upon which the investments held by the Company as at 31 December 2012 were valued are contained in Note 3.

ASC 820 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Financial assets and liabilities whose values are based on the following:
- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect the Directors' own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Investment Transactions and Related Investment Income

Transactions in securities are recorded on a trade date basis. Realised gains and losses on security transactions are based on the average cost method. Dividend income is recorded on the ex-dividend date.

Cash and cash equivalents

Cash comprises bank balances with banks and financial institutions. Cash balances are carried at notional value. Foreign balances are converted to Euros at the prevailing spot rate. All cash balances are readily accessible by the Company.

Interest Income

Interest is recorded on an accruals basis to the extent that the amounts are collectible.

Expenses

Expenses are accounted for on an accruals basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private placements
Private placement securities are not registered for public sale and are carried at an estimated fair value at the end of the year, as determined by Directors in consultation with the Manager. Factors considered by the Directors and the Manager in determining fair value include cost, the type of investment, subsequent purchases of the same or similar investments by the Company or other investors, the current financial position and operating results of the Company invested in and such other factors as may be relevant. Private placements are classified within level 2 or level 3 of the fair value hierarchy depending on whether they are valued based on observable inputs or unobservable inputs. Fair value of these securities may differ significantly from the values that would have been used had a ready market existed, and the differences could be material.

Foreign Currency Translation
Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the date of the consolidated financial statements. Transactions in foreign currencies are translated at the rates of exchange prevailing at the time of the transaction. Exchange gains or losses are included in the Consolidated Statement of Operations under net realised gain/(loss) and appreciation/(depreciation) of foreign currency.

Taxation
The Company is a Guernsey Exempt Company and is therefore not subject to taxation on its income under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. In jurisdictions other than the Cayman Islands, in some cases foreign taxes will be withheld at source on dividends and interest received by the Company. Capital gains derived by the Company in such jurisdictions generally will be exempt from foreign income or withholding taxes at source.

The Company recognises the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities.

The Company's tax positions have been analysed and it has concluded that no liability for unrecognised tax benefits should be recorded relating to uncertain tax positions for open tax years (2008-2011) and the positions to be taken for the tax year ended 31 December 2012. The Company recognises interest and penalties, if any, related to unrecognised tax benefits as income tax expense in the Consolidated Statement of Operations. During the year ended 31 December 2012, the Company did not incur any interest or penalties. The Company identifies its major tax jurisdictions as Belgium, China, the Netherlands, Cayman Islands and Guernsey where the Company holds its investments; however the Company is not aware of any tax positions for which it is reasonably possible that total amounts of unrecognised tax benefits will change materially in the next twelve months.

3. INVESTMENTS

The following tables show an analysis of assets and liabilities recorded at fair value, between those whose fair value is based on quoted market prices (Level 1), those involving valuation techniques where model inputs are observable in the market (Level 2) and those where the valuation technique involves the use of non-market observable inputs (Level 3).

Assets at fair value as of 31 December 2012 Class	Total €	Quoted prices in active markets for identical assets (Level 1) €	Other market-based observable inputs (Level 2) €	Unobservable inputs (Level 3) €
Equities - Listed companies	2,581,247	2,581,247	-	-
Equities - Unlisted companies	20,782,008	-	-	20,782,008
Convertible bonds	12,202,500	-	-	12,202,500
Warrants	-	-	-	-
Total	35,565,755	2,581,247	-	32,984,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

3. INVESTMENTS (CONTINUED)

Assets at fair value as of 31 December 2011 Class	Total €	Quoted prices in active markets for identical assets (Level 1) €	Other market-based observable inputs (Level 2) €	Unobservable inputs (Level 3) €
Equities- Listed companies	1,737,849	1,737,849	-	-
Equities- Unlisted companies	32,974,883	-	-	32,974,883
Convertible bonds	29,278,408	-	-	29,278,408
Warrants	1	-	-	1
Total	63,991,141	1,737,849	-	62,253,292

Transfers in or out of level 3
The ASU requires entities to discuss the reasons for these transfers and to disclose the transfers on a gross basis. Transfers into level 3 must be separately disclosed from transfers out of level 3. The ASU also requires that entities disclose their policy for determining when transfers between levels are recognised and provides the following examples of policies;

- the actual date of the event of change in circumstances that cause the transfer
- the beginning of the reporting period
- the end of the reporting period

The Company is using the policy of recognising transfers at the beginning of the reporting period.

The Company's policy about the timing of recognising transfers into the hierarchy levels is the same as the policy for recognising transfers out and this policy is applied consistently.

The table below shows a reconciliation of beginning to ending balances for Level 3 investments and the amount of total gains or losses for the year included in earnings attributable to the change in unrealised gains or losses relating to assets and liabilities held at 31 December 2012.

Fair value measurements: A reconciliation of the movement in Level 3 assets is presented below:

	Total €	Equities €	Bonds securities €	Warrants €
Opening balance 1 January 2012	62,253,292	32,974,883	29,278,408	1
Purchases of investments	2,882,553	2,882,553	-	-
Disposals of investments	(3,008,734)	-	(3,008,734)	-
Realised gain on disposal of investments	944	-	944	-
Net unrealised depreciation of investments	(29,143,547)	(15,075,428)	(14,068,118)	(1)
Closing balance 31 December 2012	32,984,508	20,782,008	12,202,500	-
Total unrealised loss at 31 December 2012*	(10,969,578)	(3,172,076)	(7,797,500)	(2)

*The total change in unrealised appreciation/(depreciation) included in the consolidated statement of operations attributable to level 3 movements still held at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

3. INVESTMENTS (CONTINUED)

The table below shows a reconciliation of beginning to ending balances for Level 3 investments and the amount of total gains or losses for the year included in earnings attributable to the change in unrealised gains or losses relating to assets and liabilities held at 31 December 2011.

Fair value measurements: A reconciliation of the movement in Level 3 assets is presented below:

	Total €	Equities €	Bonds securities €	Warrants €
Opening balance 1 January 2011	62,543,677	36,139,685	25,910,809	493,183
Purchases of investments	1,725,936	1,725,936	-	-
Net unrealised depreciation of investments	(2,016,321)	(4,890,739)	3,367,600	(493,182)
Closing balance 31 December 2011	62,253,292	32,974,882	29,278,409	1
Total unrealised gains at 31 December 2011	18,145,628	11,903,440	6,242,189	(1)

The Company's policy for valuation of investments is disclosed in Note 2.

Warrants
The Company holds warrants to subscribe for a total of 55,366,136 ordinary shares of BBI expiring in November 2016.

The Company also holds warrants (via its subsidiary ARIHL) to subscribe for 74,225 of additional shares in In-Pipe, representing approximately 2 per cent of the share capital of In-Pipe as at 31 December 2012. These warrants expire in August 2016.

Equity Investments
In determining an investment's placement within the fair value hierarchy, the Directors take into consideration the following.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1. These include listed equities. The Directors do not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include less liquid listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments also include private equity investments. When observable prices are not available for these securities, the Directors use one or more valuation techniques (e.g., the market approach or the income approach) for which sufficient and reliable data is available. For fair value measurements using significant other observable inputs (level 2) and significant unobservable inputs (level 3), if there has been a change in the valuation technique, the reporting entity shall disclose that change and the reason for making it. Within level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the Directors in estimating the value of level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalisations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Directors in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalised as part of the security's cost basis. Assumptions used by the Directors due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Company's results of operations. The actual amounts realised on a disposal of any investments could differ from their carrying values, and these differences could be significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

3. INVESTMENTS (CONTINUED)

Equity Investments (continued)
As at 31 December 2012 the investments held by the Company which were valued using an estimate of fair value were as follows;

Ranhill Water Technologies (Cayman) Limited
The Company has valued its holding in RWT based on an exit valuation agreed upon with RWT's parent company, less a 20 per cent discount to allow for execution risk.

Waterleau Group
The Company has valued its holding in Waterleau based on the principal amount of the convertible bond plus the implied value of interest earned during the holding period, less a substantial discount in respect of credit and liquidity risk. The methodology differs from the one applied in the Company's 2011 Annual Report which consisted of value based on an "as-converted" basis (assuming full conversion of the convertible bonds into ordinary equity), using an EBITDA figure derived from Waterleau's audited financial statements for the year ended 31 December 2011 and applying a 20 per cent discount to a range of comparable peer group sector relevant multiples to reflect the illiquidity of Waterleau's shares. Accordingly the Directors have decided that the principal, plus implied value of interest earned, less risk discount, represents the fair value of this investment at the year end. The Directors have applied a conservative discount factor on this occasion, but this may prove a temporary measure when Waterleau's 2013 results become available.

In-Pipe Technology
The Company has valued its holding in In-Pipe by applying a 1 times multiple of annual revenues. This departs from the methodology that was applied in the financial statements of the Company for the year ended 31 December 2011. The Directors are of the opinion that the value of this investment, as at the period end, is fairly stated notwithstanding the improved operational results of In-Pipe, with the intention to revisit the valuation when the improved trend is confirmed.

Bluewater Bio International
The Company purchased its equity interest in BBI in a number of tranches during 2009 and subscribed to two loan instruments during 2010.

As part of the Ombu transaction, in which two new investors invested in BBI and which was announced by the Company on 27 March 2012, the Company received a total cash amount of £912,147 by way of partial redemption/repayment of its outstanding secured loans to BBI, the balance of which has been converted into two new classes of shares as follows:

- £283,011 into a new class of B preferred shares, ranking pari passu with the newly created A preferred shares (save that they are redeemable at any time at the discretion of the board of directors of BBI); and
- £2,117,984 into a new class of C preferred shares, ranking behind the A and B preferred shares.

In addition, the Company has an ordinary equity interest of 12.12 percent in the issued voting capital of BBI.

The Ombu transaction in November 2012 valued each ordinary share of BBI at 1.189 pence per share. Immediately following this transaction, BBI required (and received), in December 2012 and January 2013, further cash injections from Ombu. BBI incurred a loss of £6.6 million in the year ended 30 June 2012 and the Directors do not have any information to support the view that BBI is trading profitably this year. In view of this, the Directors have chosen not to ascribe any value to the Company's investment in BBI this year and have written down this investment to zero.

As at 31 December 2012 the investment held by the Company which is based on quoted market price (Level 1) was;

China Hydroelectric Corporation
The Company owns approximately 3.67 per cent of CHC's ordinary shares (representing 1,980,538 ADS) and the appropriate valuation of the Company's investment in CHC is based on the closing price on 31 December 2012 on an active market of US$1.72 per ADS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

4. OTHER PAYABLES

	31 December 2012	31 December 2011
	€	€
Administration fees	14,130	50,137
Audit fees	27,713	40,000
Directors' fees	-	26,954
Financial reporting fees	-	10,000
Brokerage fees	95,764	-
Other accrued expenses	56,478	47,979
	194,085	175,070

5. SIGNIFICANT AGREEMENTS

Manager

The Manager has been appointed by the Company as discretionary investment manager of the Company's assets pursuant to an investment management agreement dated 21 July 2008 ("Management Agreement"). Under the Management Agreement, the Manager is entitled to a base fee ("Base Fee") of 2 per cent per annum of the net asset value of the Company. The Base Fee is payable quarterly in advance and is calculated at the beginning of each quarter using the higher of (i) an implied straight line increase in net asset value (excluding cash) of 10 per cent per annum on a basis which increases 2.5 per cent per quarter over the most recently published audited net asset value plus the actual value of all cash, and (ii) the most recently published estimated net asset value.

In addition, the Manager is, in certain circumstances, entitled to a performance fee ("Performance Fee") in respect of each calculation period. The first calculation period was the period from Admission to 31 December 2008 and, thereafter, the calculation periods shall be each financial period of the Company ("Calculation Period"). The Performance Fee is payable where the net asset value per Ordinary Share at the end of the relevant Calculation Period exceeds the benchmark net asset value per Ordinary Share, which is the figure equal to the High Water Mark net asset value per Ordinary Share (defined below) increased by 10 per cent per annum (or, if the period since a Performance Fee was last paid is not twelve months, an amount equating to an annual compound rate of 10 per cent). The High Water Mark net asset value per Ordinary Share is the net asset value per Ordinary Share at the end of the last Calculation Period in respect of which a Performance Fee was paid (or if no Performance Fee has been paid, the net asset value per Ordinary Share immediately following Admission).

The Performance Fee per Ordinary Share will be equal to 20 per cent of the amount by which the net asset value per Ordinary Share at the end of the relevant Calculation Period exceeds the High Water Mark net asset value per Ordinary Share subject to the net asset value per Ordinary Share never being reduced as a result of being below the benchmark net asset value per Ordinary Share.

The Base Fees expensed for the year ended 31 December 2012 amounted to €757,627 (31 December 2011: €1,484,195). There was no Performance Fee paid or accrued at 31 December 2012 or for the year ended 31 December 2011. The High Water Mark at 31 December 2012 was €1.1252 (31 December 2011: €1.1252). The benchmark net asset value per Ordinary Share at 31 December 2012 was €1.4897 (31 December 2011: €1.3543).

The Management Agreement between the Company and the Manager is for an initial fixed term of seven years and is terminable by either party giving to the other not less than 24 months' notice to expire on the seventh anniversary of Admission or on any two year interval after the initial seven year term. In the event that the Management Agreement is terminated by the Company giving notice in this manner, the Base Fee and the Performance Fee will be calculated for period up to and including the date of termination. In such circumstances, any calculation of fees payable in lieu of notice shall be based upon the NAV and cash amounts as at the date on which any notice of termination is deemed received. No additional payment will be required to be made to the Manager by the Company in the event of such termination.

In addition, the Management Agreement may be terminated by the Company immediately in the event of a continuing material breach of the Management Agreement by the Manager or certain insolvency or regulatory events affecting the Manager. If the Management Agreement is terminated by the Company in these circumstances, or if the Management Agreement is terminated by the Manager otherwise than in accordance with the provisions of the Management Agreement, no Performance Fee will be payable in respect of the Calculation Period ending on the date of termination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

5. SIGNIFICANT AGREEMENTS (CONTINUED)

Administrator and Company Secretary

On 14 November 2012 HSBC Securities Services (Guernsey) Limited ('HSBC') resigned as Administrator and Company Secretary and on the same date Praxis Fund Services Limited ('PFS') was appointed as Administrator and Company Secretary. PFS is paid £62,000 (€76,452) per annum for its services, payable quarterly in arrears.

HSBC's fees expensed for the year ended 31 December 2012 amounted to €140,888 (31 December 2011: €119,725). PFS's fees expensed for the year amounted to €10,043 (31 December 2011: €Nil). The amount outstanding at 31 December 2012 was €10,043 due to PFS (31 December 2011: €60,137 due to HSBC).

Directors' Remuneration and Expenses

31 December 2012

Director	Per annum fees entitlement (in £)	Fees paid during the year (in £)	Fees paid during the year (in €)	Fees payable at the end of the year (in £)	Fees payable at the end of the year (in €)
Hasan Askari	60,000	55,000	68,324	-	-
Fergus Dunlop*	30,000	20,572	25,420	-	-
Jonathan Hooley**	25,000	11,680	14,470	-	-
Charles Parkinson***	30,000	15,000	18,653	-	-
Andrea Rossi****	15,000	1,233	1,491	-	-

** From 2 February 2012 to present*
*** From 1 January 2012 to 20 June 2012*
**** From 1 July 2012 to present*
***** From 1 January 2012 to 17 January 2012*

31 December 2011

Director	Per annum fees entitlement (in £)	Fees paid during the year (in £)	Fees paid during the year (in €)	Fees payable at the end of the year (in £)	Fees payable at the end of the year (in €)
Hasan Askari	50,000	50,000	57,254	12,500	14,975
Timothy Betley*	20,000	16,123	18,449	-	-
Jonathan Hooley**	25,000	4,709	5,399	6,250	7,487
Andrea Rossi	15,000	15,000	17,175	3,750	4,492
Kimberly Tara***	-	-	-	-	-

** From 1 January 2011 to 22 July 2011*
*** From 25 July 2011 to 31 December 2011*
**** From 1 January 2011 to 2 June 2011*

The Company reserves the right to pay Mr Askari's Directors' Fee in shares but did not do so during either 2011 or 2012. With effect from 1 July 2012 Mr Askari's fee increased from £50,000 per annum to £60,000 per annum and Mr Dunlop's fee increased from £15,000 per annum to £30,000 per annum. All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, Board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

6. SHAREHOLDERS' EQUITY

The authorised share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value which are denominated in Euro.

The holders of Ordinary Shares are entitled to:

- receive and participate in any dividends or other distributions out of the profits of the Company available for dividend or distribution;
- the right to the surplus assets remaining after payment of all the creditors of the Company in the case of winding up; and
- the right to receive notice of, and to attend and vote at, general meetings of the Company and each holder of Ordinary Shares being present in person or by attorney at a meeting upon a show of hands has one vote and upon a poll each such holder present in person or by proxy or by attorney has one vote in respect of each share held by him.

Under the Company's Articles of Incorporation, the Company may purchase its own Ordinary Shares in accordance with the Guernsey Company Law. The Company may hold any Ordinary Shares purchased by it whether out of distributable profits or the proceeds of a fresh issue of Ordinary Shares as treasury shares in accordance with the Guernsey Company Law. Shares held in treasury do not carry the rights as set out above in respect of Ordinary Shares.

Issued capital

31 December 2012	Number of Ordinary Shares	€
Ordinary Shares at 1 January 2012	72,464,340	70,030,004
Ordinary Shares outstanding at 31 December 2012	72,464,340	70,030,004

No shares were issued or repurchased by the Company during the year.

31 December 2011	Number of Ordinary Shares	€
Ordinary Shares at 1 January 2011	72,464,340	70,030,004
Ordinary Shares outstanding at 31 December 2011	72,464,340	70,030,004

No shares were issued or repurchased by the Company during the year.

7. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The risks associated with the investments have been set out at greater length on page 23 of this report. As a result of its investment strategy, the Company is also exposed to varying degrees of market risk, credit risk and liquidity risk.

a) Market Risk
Market risk is the risk that the value of the Company's investments will fluctuate due to changes in interest rates, currency rates and other market factors. Price risk embodies not only the potential for loss but also the potential for gain. Market risk also reflects that investments in unlisted companies are further subject to the limitations of fair value as a measurement device.

b) Credit Risk
Credit risk is represented by the possibility that counterparties or exchanges will not perform under the terms of contracts agreed to with the Company. Cash amounts are held with Royal Bank of Scotland International Limited. Credit risk includes the potential for covenant violations and possible repercussions therefrom of underlying debt instruments owned by investee companies. This also includes the potential of investee companies not meeting scheduled principal and interest payments.

The company continuously monitors the credit standing of its counterparties and does not expect any material losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

7. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

c) Liquidity Risk

Liquidity risk is the risk that the Company may encounter as a result of its inability to sell its investments quickly at fair value. It also includes the risk of not meeting unscheduled demands from vendors and third parties.

8. RELATED PARTIES

At the time of the Company's initial investments in In-Pipe and Waterleau, Ms Valerie Daoud Henderson, an employee of the Manager's group in the role of Head of Europe Environment Group, became a director of each of those companies.

At the time of the Company's initial investment in RWT, Mr Jui Kian Lim, an employee of the Manager's group in the role of Head of Asia Environment Group, became a director of that company. Furthermore, Mr Jui Kian Lim was appointed a director of CHC during 2012.

At the time of the Company's initial investment in Waterleau, Ms Lydia Whyatt, an employee of the Manager's group in the role of Managing Director, Environment Group, became a director of that company.

During the year ended 31 December 2012 the Company paid €1,661,232 in Management Fees and will be reimbursed €897,052 by the Manager for the difference between the actual base fee and the amount billed during the year ended 31 December 2012. As further described in Note 5, there was no Performance Fee earned during the years ended 31 December 2012 and 2011.

The following expenses are also paid by the Manager on behalf of the Company and were reimbursed:

	31 December 2012	31 December 2011
	€	€
Investee management-related expenses	116,268	76,613
Marketing expenses	15,242	41,882
Total	131,510	118,495

A subsidiary of the Manager subleased office space to an investee company throughout 2011 and until 13 April 2012. The annual rent under this agreement was £151,900 (approximately €176,861). This agreement was completed at arm's length.

When the Company first acquired an interest in BBI, in 2009, it purchased 21,100,000 shares in BBI from the Manager for a consideration of US$2.97 million (€2.30 million). At the time, that transaction was a related party transaction between the Manager and the Company pursuant to Listing Rules 15.5.4R and 11.1.4R by virtue of the Manager being the investment manager of the Company, a shareholder of the Company and an associate of a then Director, Ms Kimberly Tara. All of the requirements of the Listing Rules in respect of such transaction were satisfied at that time. There have been no further related party transactions for the purposes of the Listing Rules since that date, including during the year.

The Directors' interests in the share capital of the Company at 31 December 2012 and 31 December 2011 were:

31 December 2012	**Number of Ordinary Shares**
Hasan Askari	62,500

31 December 2011	**Number of Ordinary Shares**
Hasan Askari	62,500
Andrea Rossi	18,750

9. COMPARATIVE FIGURES

Comparative figures used in these consolidated financial statements are for the year ended 31 December 2011 for the Consolidated Statement of Assets and Liabilities, Consolidated Schedule of Investments, the Consolidated Statement of Operations, the Consolidated Statement of Changes in Net Assets, the Consolidated Statement of Cash Flows and the Consolidated Financial Highlights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company may enter into contracts that provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Company. The risk of material loss from such claims is considered remote.

11. RECENT ACCOUNTING DEVELOPMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04,"*Fair Value Measurements and Disclosures (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS"* ("ASU 2011-4"). ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements.

Specifically, the guidance specifies that the concepts of highest and best use and valuation premise in a fair value measurement are only relevant when measuring the fair value of nonfinancial assets whereas they are not relevant when measuring the fair value of financial assets and liabilities.

Required disclosures are expanded under the new guidance, especially for fair value measurements that are categorised within Level 3 of the fair value hierarchy, for which quantitative information about the unobservable inputs used and a narrative description of the valuation processes in place are required.

ASU 2011-04 is effective for annual periods beginning after 15 December 2011 and has been applied in these financial statements.

12. SUBSEQUENT EVENTS

On 11 January 2013, the Company received a non-refundable deposit payment of US$1 million from the Ranhill Group in connection with the potential sale of the Company's stake in RWT. On that date, Aqua's wholly-owned subsidiary, Robinson Investments Limited ("Robinson"), entered into a conditional sale and purchase agreement with the Ranhill Group pursuant to which the Ranhill Group agreed to acquire Robinson's entire shareholding in RWT of 14,880,000 ordinary shares, representing 45.23 per cent of the issued and paid-up capital of RWT, for US$31,659,574 of cash consideration. The consideration (less the US$1 million deposit already paid) is subject to interest of 5 per cent per annum for the period between 11 January 2013 and completion of the transaction.

The transaction, amongst other things, is conditional (subject to rights to waive such conditions) upon the approval by all relevant regulatory authorities of the Ranhill Energy & Resources ("Ranhill Energy", part of the Ranhill Group) proposed initial public offering (the "Ranhill Energy IPO") and the use of part of the proceeds of the proposed public offering for payment of the consideration.

On 26 July 2013, Ranhill Energy decided to withdraw its IPO application and to no longer seek a listing on the Kuala Lumpur Stock Exchange. As a result, there is now some uncertainty as to whether this transaction will be completed.