

China wastewater sector

China's 12<sup>th</sup> 5-Year Plan (2011-2015)

China recently unveiled its 12<sup>th</sup> 5-Year Plan ("12<sup>th</sup> FYP") for the period from 2011 to 2015 to accelerate changes to China's economic growth model with an aim to focus more on quality and sustainability of growth. The key takeaways are:

1. Lowering annual GDP growth to 7%
2. Boosting domestic consumption through income distribution reforms, urbanisation & encouragement of private investments
3. Building up a low-carbon economy by focusing on:
  - a) industry upgrading through (i) tariff reforms, (ii) accelerating the pace of consolidation to handle better industry overcapacity and, (iii) cut back on high pollution and energy-consuming sectors
  - b) investments in 7 emerging strategic industries (also known as the "Magic 7"). One of the Magic 7 sectors is environmental protection which includes water and wastewater treatment

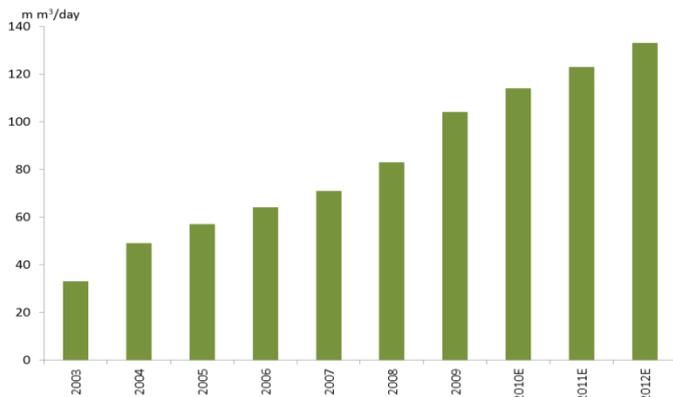
2011 Number One Document

The Chinese central government announced development and reform of water resource management as the focus of its Number One Document in January 2011. This document is issued at the beginning of each year jointly by the ruling Communist Party and the State Council, indicating top policy priorities.

This is the first time the document has focused on water. This policy mainly focuses on increasing water supply to rural China, upgrading water infrastructure as well as tariff reforms including hikes for industrial/commercial users and progressive pricing. China is expected to spend RMB2 trillion (\$307 billion) on water resource in the 12<sup>th</sup> FYP, almost 3 times the amount budgeted under the 11<sup>th</sup> FYP<sup>(1)</sup>.

(1) - China Water sector, 31 January 2011 Standard Chartered Research

China's wastewater treatment capacity

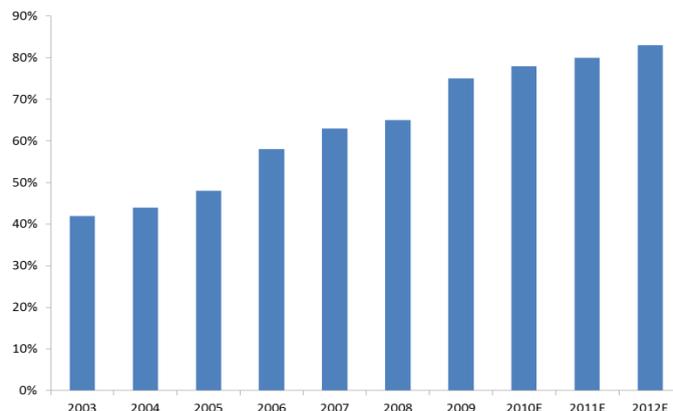


Source: State Environmental Protection Administration, Standard Chartered Research

Wastewater sector

China's water and wastewater sector falls into the environmental protection category. Developments under the 12<sup>th</sup> FYP and the 2011 Number One Document are strong positives for the sector and show the government's willingness to tackle issues on clean water scarcity and environmental pollution-related problems resulting from an under-treatment of domestic and industrial wastewater discharge.

China's wastewater treatment ratio in urban areas



Source: State Environmental Protection Administration, Standard Chartered Research

The 12<sup>th</sup> FYP is expected to provide for \$51 billion of new investments in wastewater, drainage piping, wastewater reuse and sludge treatment: much the same amount as in the 11<sup>th</sup> FYP but with a new emphasis on sludge treatment and reuse. Besides the continued emphasis on the construction of wastewater treatment plants ("WWTPs") as well as upgrading existing WWTPs, Global Water Intelligence predicts sludge treatment to be the fastest growing component in the wastewater sector under the 12<sup>th</sup> FYP. This segment appears to be at the same point of development as wastewater treatment stood a decade ago before the government began its increased spending in this area <sup>(2)</sup>.

(2) - Global Water Intelligence, April 2011

Planned prefecture-level wastewater treatment & reuse investment

	Wastewater treatment	Drainage pipelines	Water reuse	Sludge treatment
11FYP	24%	63%	3%	10%
12FYP	23%	23%	9%	45%

Source: Ministry of Housing and Urban-Rural Development, PRC

China wastewater sector

In wastewater treatment, Standard Chartered (“SC”) research predicts significant near-term growth potential due to:

1. Severe under-investment and under-penetration;
2. Environmental pollution under current conditions; and
3. Sewerage pipeline network under-capacity in many cities

As of September 2009, China had 1,792 WWTPs in urban areas with a combined capacity of 99million cu m/day, and another 1,977 projects under development with a designed capacity of 55.3million cu m/day. Among the 655 urban cities in China, only 77% have WWTPs in place, with 1,266 plants in operation and a treatment ratio of more than 65%. Of the other 473 counties and towns, only 30% have wastewater assets, with 522 plants in operation and a treatment ratio of only 29%.

SC estimates urban capacity to grow at 8% per annum in 2010-2015, adding a further 62.5m cu m/day of wastewater capacity into the urban treatment system during that period. Further growth is expected in third and fourth tier cities and counties where treatment ratios are 30-50%. In contrast, wastewater treatment ratios in development countries generally exceed 80% on a country basis. In the US and the Netherlands, the figure is higher at 95%.

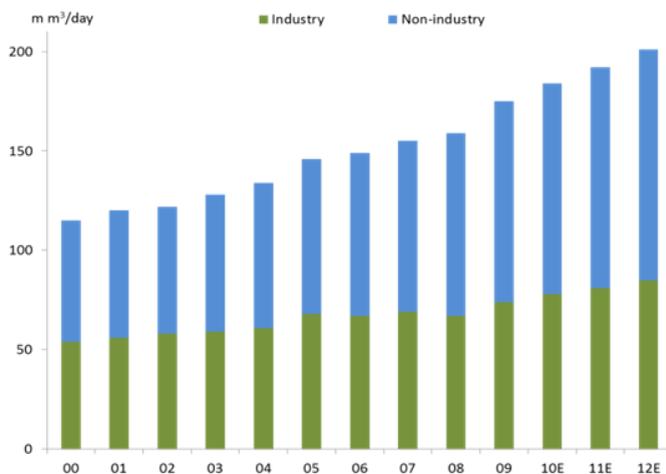
Source: Extracts from Standard Chartered Research report “Getting Hotter: Wind, Water, Waste – Framing Renewable Energy and Environmental Finance”, 6 October 2010.

Aqua’s portfolio companies – Ranhill Water Technologies (Cayman) Limited (“RWT”) and Waterleau Group N.V. (“Waterleau”) are well positioned to capture future growth in the sector, in particular in the construction and rehabilitation of WWTPs as well as wastewater reuse and sludge treatment projects.

RWT continues to grow its portfolio of Chinese wastewater assets and is increasingly looking at water reuse projects as an add-on to their WWTPs.

Waterleau has a strong portfolio of technology offerings in wastewater treatment & reuse and in the treatment of sludge. Furthermore, Waterleau has established a name in the Chinese environment sector through their past activities in wastewater & waste-to-energy projects which create a valuable platform to capitalise upon for upcoming projects.

Urban wastewater emission in China



Source: State Environmental Protection Administration, Standard Chartered Research

<p><b>About FourWinds Capital Management (Aqua’s Investment Manager)</b></p> <p>FourWinds is a specialist in global commodities and natural resources with products investing across energy, metals, agriculture, timber, water, waste, and alternative energy.</p> <p>FourWinds Capital Management (UK) Ltd. 105 Wigmore Street, London W1U 1QY United Kingdom Tel: + 44 20 7518 7970</p> <p>FourWinds Capital Management (HK) Ltd. Level 8, Two Exchange Square 8 Connaught Place, Central, Hong Kong Tel: + 852 2297 2475</p> <p>Website: <a href="http://www.FourWindsCM.com">www.FourWindsCM.com</a>      Email: <a href="mailto:info@fourwindscm.com">info@fourwindscm.com</a></p>	<p><b>Fundamentals of Aqua Resources Fund</b></p> <p>Listing date: 24<sup>th</sup> July 2008</p> <p>Ordinary shares outstanding: 72,464,340</p> <p>Latest audited NAV per share (31 Dec. 2010): EUR 1.1252</p> <p>Total NAV (31 Dec. 2010): EUR 81,535,743</p> <p>YoY audited NAV performance (2009 - 2010): +10.1%</p> <p>Number of investments/continents: 5 / 3</p> <p>Total invested (31 Dec. 2010): 92% of net assets</p> <p>Total committed (31 Dec. 2010): 95% of net assets</p>
<p><b>About the Fund</b></p> <p>Aqua Resources Fund Limited is an LSE-listed investment fund (H2O) managed by FourWinds Capital Management, investing in the full value chain of global water. The strategy combines direct investments in projects, companies, and infrastructure across water-related business areas. <a href="http://www.AquaResourcesFund.com">www.AquaResourcesFund.com</a></p>	

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