Regulatory Story

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Company	Aqua Resources Fund Limited
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AQUA RESOURCES FUND LIMITED

AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

13 April 2011 *For immediate release*

Aqua Resources Fund Limited ("Aqua"), the Authorised Closed-ended investment scheme managed by FourWinds Capital Management ("FWCM") and established to invest in global water opportunities, today issues its audited results for the year ended 31 December 2010.

HIGHLIGHTS

- At 31 December 2010, the Company had invested approximately 90% of its net assets.

- At 31 December 2010, the audited NAV per Ordinary Share of the Company was €1.1252, an uplift of 10.1% on the previous year.

- Listing of portfolio company, China Hydroelectric Corporation, via an initial public offering on the New York Stock Exchange.

- Completion of a €20 million investment in Waterleau Group N.V.

- Subscription for convertible loan in Bluewater Bio International of £500,000 (€570,525) for bridge financing.

- Subscription for secured loan notes in Bluewater Bio International of £2 million (€2.4 million).

- Follow on investment in In-Pipe Technology Inc. of US$2 million (€1.5 million).

- Since the end of the year the Company has completed one additional investment bringing the total invested amount to 92.2%of net assets and the total committed amount to approximately 95% of net assets.

Kimberly Tara, Chief Executive Officer of FWCM, commented on the results: "Despite challenging economic conditions across the geographies in which Aqua operates, the fund produced robust results, achieving an uplift in net asset value of over 10%. As at 31 December 2010, Aqua had invested approximately 90% of its net assets, reflecting the management team's expertise in navigating the economic headwinds to secure solid investment opportunities. We continue to believe that the strategy of building long term partnerships and creating synergies between the portfolio companies and local partners, positions the Company to capture the anticipated growth in the global water sector, both in the developed and emerging markets."

A set of accounts is attached to this announcement.

Further enquiries:

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Notes to Editors:

Aqua 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.

Aqua's ordinary shares were admitted to listing on the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange plc on 24 July 2008.

Aqua's investment objective is to provide long term capital appreciation through exposure to a diversified portfolio of water-related investments. Aqua will invest principally in businesses that are involved in i) water treatment and recycling (i.e. wastewater and recycling, water treatment and purification), ii) water infrastructure (i.e. water distribution) or iii) water application and conversion (water-to-energy and desalination) with the objective of capturing the growth opportunities emerging from the attractive long-term dynamics driving the water industry.

AQUA RESOURCES FUND LIMITED

Annual Report and Audited Consolidated Financial Statements

for the year ended 31 December 2010

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.

AQUA RESOURCES FUND LIMITED

MANAGEMENT AND ADMINISTRATION

DIRECTORS:	Hasan Askari *(Chairman)** Andrea Rossi* Timothy Betley* Kimberly Tara *(all of whom are non executive)* ** independent directors*
REGISTERED OFFICE:	Arnold House St. Julian's Avenue St. Peter Port Guernsey CI GY1 3NF
MANAGER:	FourWinds Capital Management Scotiabank Building PO Box 268GT George Town Grand Cayman KY1-1104 Cayman Islands

CORPORATE BROKER:	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:	HSBC Securities Services (Guernsey) Limited Arnold House St. Julian's Avenue St. Peter Port Guernsey CI GY1 3NF
AUDITORS:	Ernst & Young LLP Royal Chambers St. Julian's Avenue St. Peter Port Guernsey CI GY1 4AF
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UK TRANSFER AGENT:	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

INVESTMENT OBJECTIVE - SUMMARY

Aqua Resources Fund Limited's (the "Company") investment objective is to provide capital appreciation through exposure to a diversified portfolio of water-related investments. Full details of the Company's investment objective and policy are set out in the Company's annual report ("Annual Report").

FINANCIAL HIGHLIGHTS OF 2010

Funds invested as a percentage of net assets	**90.0%**
Funds deployed during the year	**€24.5m**
Number of transactions closed during the year	**3**
Increase in net asset value per ordinary share of the Company: 2009 - 2010	**10.1%**

CHAIRMAN'S STATEMENT

The Company experienced a good operating year having invested approximately 90% of its net assets. The portfolio is compact and well diversified, with good prospects at the underlying investments' level. The portfolio is actively managed and is well positioned to extract and deliver superior value. With a net asset value ("NAV") at €1.1252 per an ordinary share of the Company ("Ordinary Share") at 31 December 2010, the Company's NAV increased by 10.1% during the year.

It is my pleasure to report the results of the Company for the period from 1 January 2010 to 31 December 2010.

Investment highlights

- Listing of China Hydroelectric Corporation via an initial public offering on the New York Stock Exchange.

- Completion of a €20 million investment in Waterleau Group N.V.
- Subscription for convertible loan in Bluewater Bio International of £500,000 (€570,525) for bridge financing.
- Subscription for secured loan notes in Bluewater Bio International of £2 million (€2.4 million).
- Follow on investment in In-Pipe Technology Inc. of US$2 million (€1.5 million).
- At 31 December 2010, the Company had invested approximately 90% of its net assets.
- At 31 December 2010, the audited NAV per Ordinary Share of the Company was €1.1252.
- Since the end of the year the Company has completed one additional investment bringing the total invested amount to 92.2% of net assets and the total committed amount to approximately 95% of net assets.

The year in review

Following two years of difficult conditions in the financial markets with extreme volatility in 2008 and a subdued outlook in 2009, 2010 was a year with contrasting fortunes across the globe. The year was marked by growing concern of a European debt crisis, with the near implosion of Greece and Ireland, continuing weakness in the job market in the United States and at the other end of the spectrum, by strong growth in Asia, particularly in China.

During this period the Company continued to build a strong, diversified and actively managed portfolio of investments involving the supply, use and treatment of water and wastewater and had invested approximately 90% of its net assets as at the year-end. The Company holds investments in companies with operations in the United Kingdom, Continental Europe, China, South and South East Asia, Africa, the Middle East, the United States and Mexico, providing an attractive geographic diversification. The strategy of FourWinds Capital Management ("FourWinds"), the Company's investment manager (the "Manager"), is to focus on fast growing private water and wastewater treatment businesses that are established globally, or in some cases locally but with the potential to grow outside their core markets, and which have a demonstrable track record in delivering solutions to their clients. The businesses considered for investment may be active in specific industry segments (municipal, food & beverage, pharmaceuticals, power, oil & gas, etc.), or in different types of treatment (aerobic or anaerobic bio-treatment, filtration, zero-liquids discharge), or in different types of service provisioning (water metering, pipe maintenance, etc.).

The Company hit several milestones during the year.

First, the Company became a significant shareholder in Waterleau Group N.V. ("Waterleau") which is a leading player in the wastewater sector. Waterleau provides a wide range of services (from turnkey projects to operation and maintenance services to municipal and industrial clients) and is one of the three world leaders in anaerobic bio-treatment specifically applied to wastewater.

Secondly, China Hydroelectric Corporation ("CHC"), in which the Company holds a 4% interest, completed a listing via an initial public offering ("IPO") on the New York Stock Exchange ("NYSE"). Even though the share price performance subsequent to the listing has been disappointing, we continue to believe that CHC will benefit from the increasing emphasis on hydro-power in China. Full details on CHC's prospects are set out in the Manager's Report.

The Board of Directors of the Company is satisfied with the risk management and investment standards that the Manager has applied.

The Company ended the year with liquid funds of approximately €8.2 million, representing approximately 10% of its net assets. Since the end of the year, 5.6% of the net assets have been invested and committed in a follow-on transaction in Ranhill Water Technologies (Cayman) Limited ("RWT"). As a result, the Company has approximately 95% of its net assets invested or committed to investments.

Year end 31 December	Net assets attributable to ordinary shareholders (€)	NAV per Ordinary Share (€)	Ordinary Share price (Closing share price at year end) (€)	Increase/(Decrease) in Net Asset Value (€)
2008	69,280,147	0.9561	0.70	(744,857)
2009	74,054,480	1.0219	0.63	4,774,333
2010	81,535,743	1.1252	0.64	7,481,263

Valuation

The Company's NAV is based on the fair value of unquoted investments as at the reporting date. These have been valued using the International Private Equity and Venture Capital Valuation ("IPEV") guidelines (**Footnote A**) and details on how the Company applies these guidelines are fully described in 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, or kept at cost when the underlying business is not growing as fast as anticipated. 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 challenges the Manager where appropriate. Once this process is completed and signed off by the Audit Committee, the Board discusses and, if appropriate, adopts the valuations 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.

The Manager has applied conservative multiples as well as steep discounts to a range of comparable companies. Both RWT and Waterleau reported solid growth in their revenues in 2010, as well as good operating margins, which resulted in an increase in value for both investments.

Another point worth noting is that the Manager does not revalue investments during the course of the year. As a consequence, during the year, the NAV is only subject to the effects of changes in foreign exchange rates and fluctuations in the CHC stock price. To the extent that these movements have an adverse effect on the NAV, the Company does not seek to offset a reduction in NAV by revaluing, during the course of a financial year, the other investments in the portfolio which may have benefited from operational strength and improvements. This conservative approach may not always provide a precise NAV at the quarterly stages, and hence penalises the Company's stock price, but the Board believes that in the ramp up phase of the portfolio, a conservative methodology which waits for the underlying investments' performance to be confirmed before recognising it in the NAV is the right approach.

Net Asset Value

At 31 December 2010, the NAV per Ordinary Share was €1.1252 (€1.0219 at 31 December 2009). This represents a rise of 10.1% in the NAV year on year and compares with a rise of 10.9% in the FTSE All-Share Index.

Ordinary Share price

Notwithstanding the increase in NAV, the Company's stock price is trading at a substantial discount to the NAV and the Directors are conscious of this fact. The Directors review the relative and absolute performance of the share price regularly and consider measures to improve the liquidity of the Ordinary Shares and narrow the discount and will continue to do so in the future.

We have consistently maintained that we expected an investment in the Ordinary Shares to reward the long-term investor. The Company was established in August 2008 and the Directors are of the opinion that, in the limited period since establishment, the Manager has demonstrated a capacity to deploy the Company's assets in good quality investments, in a sector that is not often accessible to investors other than through public equity investing in water utilities. A prime responsibility of the Board has been to safeguard the interests of the shareholders but equally to increase the net worth of the Company on behalf of shareholders who remain committed to us.

Dividend Policy and Dividends

In accordance with the Company's dividend policy which states that the Directors expect returns to be reinvested and do not anticipate paying a dividend, no dividends have been announced, declared or paid in the period.

Outlook

We had expected that in 2010, the Company would benefit from a more stable business environment. However, the year proved to be rather more uncertain than anticipated. Businesses had to fight harder to win contracts and replenish their order books. Potential clients (industrials and municipals) were more hesitant, across the globe, and more cautious with their capital expenditure.

The Board continues to believe that the Manager's strategy of building long term partnerships and creating synergies between the portfolio companies and local partners, positions the Company to capture the anticipated growth in the global water sector, both in the developed and emerging markets.

Hasan Askari
Chairman
12 April 2011

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors of the Company present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

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, 1994 (as amended) and its Ordinary Shares are admitted to the Official List of the UK Listing Authority ("Official List") and are traded on the Main Market of the London Stock Exchange plc ("LSE").

Principal activity and business review

The principal activity of the Company during the year was that of an investment company. The Company's investment objective is to provide capital appreciation through diversified exposure to a global portfolio of water-related investments. 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 and the Company's financial position at the end of the year is shown in the Consolidated Statement of Assets and Liabilities.

The Directors expect returns to be reinvested and do not anticipate paying a dividend. Where any dividend or other distribution is to be paid, it is expected to be paid in Euros and in accordance with the Company (Guernsey) Law, 2008 (the "Guernsey Company Law"), any other applicable laws, the Listing Rules of the UK Listing Authority ("Listing Rules") and the rules and regulations of the London Stock Exchange. 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.

Directors

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

Hasan Askari *(Chairman)*
Andrea Rossi
Timothy Betley
Kimberly Tara

All of the Directors are non-executive directors and, other than Kimberly Tara, are independent directors. Kimberly Tara is not an independent director by virtue of her directorship of, and shareholding in, the Manager.

The Directors' interests in the share capital of the Company at 31 December 2010 were:

	Number of Ordinary Shares
Hasan Askari	62,500
Andrea Rossi	18,750
Timothy Betley	12,500
Kimberly Tara*	3,685,000

* Kimberly Tara's interest is in respect of Ordinary Shares owned by the Manager of which she is a director and shareholder.

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 affected by the Company since its incorporation, except for the interest of Kimberly Tara in the Manager (as stated above) and therefore in the Management Agreement (details of which are set out in Notes 5 and 8 to the consolidated financial statements).

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 £)**	**No. of Ordinary Shares paid in satisfaction of fees**	**Fees payable at the end of the year (in £)**	**Fees (prepaid)/ payable at the start of the year (in £)**
Hasan Askari	50,000	9,452	-	12,500	(28,048)
Andrea Rossi	15,000	15,000	-	3,750	3,750
Timothy Betley	20,000	20,000	-	5,000	5,000
Kimberly Tara	-	-	-	-	-

The Company reserves the right to pay Hasan Askari's Directors' Fee in Ordinary Shares but did not do so during this year. The Chairman of the Audit Committee, Timothy Betley, receives £5,000 for his services in this role in addition to his Directors' Fee of £15,000. Kimberly Tara does not receive any Directors' Fees. 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 2010, there were 72,464,340 Ordinary Shares in issue (31 December 2009: 72,464,340).

On 24 July 2008, the Ordinary Shares were admitted to the Official List and to trading on the Main Market of the LSE ("Admission").

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.

As a Guernsey incorporated vehicle, the Company is not subject to any local statutory requirements in respect of shareholder pre-emption rights for new share issues for cash. However under changes to the Listing Rules that came into effect in April 2010, non-UK companies that have shares admitted to the Official List with a premium listing were required to have pre-emption rights contained in their constitution prior to 6 April 2011. Accordingly, at an extraordinary general meeting of the Company held on 23 March 2011 (the "EGM"), new Articles of Incorporation of the Company were adopted to introduce pre-emption rights in respect of all new Ordinary Share issues for cash in order that the Company complies with the Listing Rules and retains the premium listing for the Ordinary Shares.

Pursuant to a further special resolution approved at the EGM, the pre-emption rights introduced in the new Articles of Incorporation were 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% of the issued share capital of the Company (including treasury shares) at that time, being 3,623,217 Ordinary Shares. The Company is seeking renewal of this disapplication at each annual general meeting of the Company, including at forthcoming 2011 annual general meeting of the Company (the "2011 Annual General Meeting"), again in respect of 5% of the Ordinary Shares in issue at the date of publication of the relevant consolidated financial statements.

The Directors have shareholder authority to purchase in the market up to 14.99% of the issued Ordinary Shares. This authority will expire at the conclusion of the 2011 Annual General Meeting. The Directors intend to seek renewal of this authority from shareholders at each annual general meeting in respect of 14.99% of the Ordinary Shares in issue at the time of the relevant annual general meeting. Accordingly a resolution authorising the Directors to purchase up to 14.99% of the Ordinary Shares in issue will be proposed at the 2011 Annual General Meeting. No Ordinary Shares were purchased by the Company during the year.

Substantial interests in share capital

At 31 December 2010, the following holdings representing more than 3% 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
Euroclear Nominees Limited*	22,964,000	31.69
HSBC Global Custody Nominee (UK) Limited*	21,500,000	29.67
State Street Nominees Limited*	7,500,000	10.35
Vidacos Nominees Limited*	5,230,145	7.22
FourWinds Capital Management	3,685,000	5.09
BNY (OCS) Nominees Limited*	2,988,850	4.12

* Custodian accounts holdings on behalf of individual shareholders. These holdings are therefore aggregated holdings.

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 West Midlands' beneficial holding in the Company. As at 31 December 2010, West Midlands held 29.97% of the issued Ordinary Shares.

The Manager

FourWinds has been appointed as the Manager of the Company. The Directors have reviewed the performance of the Manager and are satisfied that the continued appointment of the Manager on the terms agreed is in the best interests of the shareholders and the Company. The Directors have formed this opinion on the basis of the positive investment performance of the Manager where, in spite of uncertain market conditions, there has been a satisfactory increase in the net assets of the Company.

Please refer to Note 5 for further details of the Management Agreement.

Auditors

Ernst & Young LLP have been appointed as auditors of the Company and have expressed their willingness to continue in office.

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

There is no specific corporate governance regime in Guernsey. However from 6 April 2010, overseas companies listed on the Official List are required, under the Listing Rules, to 'comply' or 'explain' against the Combined Code on Corporate Governance (June 2008) (the "Combined Code") issued by the Financial Reporting Council (the "FRC"). The FRC allows for investment companies to discharge this obligation by reporting against the Association of Investment Companies' Code of Corporate Governance (March 2009) (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (March 2009) (the "AIC Guide") rather than the Combined Code. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues specific to investment companies, and are considered by the FRC to meet the obligations of the Combined Code.

The Board has put in place a framework for corporate governance, which it considers appropriate for an investment company such as the Company having regard to the Company's size, stage of development and resources. Since all the Directors are non-executive, in accordance with the AIC Code and the preamble to the Combined Code, the provisions of the Combined 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. In addition, and because all of the Directors are non-executive, there is no remuneration or nomination committee.

Save for departures referred to above, the Company is not presently aware of any departures from the AIC Code throughout the period.

The Board

All the Directors are non-executive and therefore there is no nomination or remuneration committee.

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 a 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. Pursuant to the Listing Rules, Kimberly Tara is required to retire from office at each annual general meeting and may be available for re-election at each such meeting. Accordingly, each of Kimberly Tara, Timothy Betley and Andrea Rossi will retire at the 2011 Annual General Meeting and will each put themselves up for re-election at that meeting. None of the Directors has a service contract with the Company.

The Chairman has reviewed and approved the re-nomination of each of the Directors who are standing for re-election (Kimberly Tara represents the Manager who under the terms of the Investment Management Agreement is entitled to nominate one Director) and expects to review the composition of the Board to assess its appropriateness and suitability during the course of the year.

The Company's Audit and Management Engagement Committees (the "Committees") comprises each of the Directors, except Kimberly Tara. Timothy Betley acts as Chairman of the Audit Committee, Hasan Askari 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, to discuss and agree with the external 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.

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 2010 was as follows:

	Number of meetings held	**H Askari**	**A Rossi**	**T Betley**	**K Tara**
Board Meetings	4	4	4	4	4
Ad hoc Committee Meetings	1	1	Not applicable	1	Not applicable
Management Engagement Committee Meetings	1	1	1	1	Not applicable
Audit Committee Meetings	4	4	2	4	Not applicable

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 will be 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, as appropriate, by SAS 70 reports. In light of the above, it 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 Company's broker, Cenkos Securities Plc and from the Manager. All general meetings of the Company will be held in Guernsey. The Company will hold an annual general meeting each year.

2011 Annual General Meeting

The following information, which is to be discussed at the forthcoming 2011 Annual General Meeting,is important and requires your immediate attention. If you are in any doubt about the action you should take, you are recommended to seek immediately

your own advice from an appropriately qualified independent adviser authorised pursuant to the UK Financial Services and Markets Act 2000 (as amended) if in the United Kingdom or otherwise regulated under the laws of your own country. If you have sold or otherwise transferred all of your Ordinary, please send this document, together with all accompanying documents at once to the purchaser or transferee or to the stockbroker, banker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Resolutions relating to the following items of special business will be proposed at the 2011 Annual General Meeting. **The Directors recommend that shareholders vote in favour of the resolutions which are, in the Directors' opinion, in the best interests of shareholders as a whole.**

Resolution 8 - Authority to buy back shares

The resolution to be proposed will seek to renew the authority granted to Directors enabling the Company to purchase its own shares. The Directors will consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of addressing any imbalance between supply of, and demand for, shares, to increase the net asset value per share and to assist in maintaining a narrow discount to net asset value per share in relation to the price at which the shares may be trading.

Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing net asset value per share. Under the Listing Rules the maximum price which can be paid by the Company for an Ordinary Share shall be the higher of (i) 5 percent above the average of the mid-market values of the Ordinary Shares for the five business days immediately preceding the date of purchase, and (ii) the higher of the last independent trade and the highest current independent bid for the Ordinary Shares on the trading venue where the purchase is carried out. The minimum price (exclusive of expenses) which may be paid for an Ordinary Share pursuant to a buy back under the authority is €0.01.

The Directors are seeking authority to purchase up to 14.99 percent of the issued share capital of the Company at the date the resolution is passed. At the date of the publication of the notice of the 2011 Annual General Meeting that represented 10,862,404 Ordinary Shares. The resolution will be proposed as a special resolution and the authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

The timing of any purchases by the Company pursuant to the authority will be decided by the Directors in their discretion. Any Ordinary Shares bought back may be held in treasury (up to a maximum of 10 percent of the issued share capital) or be subsequently cancelled by the Company.

The Company has no warrants or options to subscribe for Ordinary Shares that are outstanding as at the date of publication of these consolidated financial statements.

Resolution 9 - Authority to make tender offers

The resolution to be proposed will seek to renew the authority granted to the Directors enabling the Company to purchase its own shares pursuant to a tender offer for up to 25 percent of the issued Ordinary Shares as referred to, and on such terms as are set out in, the prospectus issued by the Company on 21 July 2008. The Directors will consider making such a tender offer from time to time if they believe it to be in shareholders' interests and as a means of addressing any imbalance between supply of, and demand for, shares, to increase the net asset value per share and to assist in maintaining a narrow discount to net asset value per share in relation to the price at which the shares may be trading.

The Directors are seeking authority to make tender offers for a maximum number of Ordinary Shares up to 25 percent of the issued share capital. Any such tender offer will only be made at a price below the prevailing net asset value less attributable costs and as otherwise determined by the Directors in their sole discretion. The minimum price (exclusive of expenses) which may be paid for a share pursuant to a tender offer under the authority is €0.01. The resolution will be proposed as a special resolution and the authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

The timing of any purchases by the Company pursuant to a tender offer made under this authority will be decided by the Directors in their discretion. Any Ordinary Shares bought back may be held in treasury (up to a maximum of 10 percent of the issued share capital) or be subsequently cancelled by the Company.

The Company has no warrants or options to subscribe for Ordinary Shares that are outstanding as at the date of publication of these consolidated financial statements.

Resolution 10 - Disapplication of pre-emption rights

As stated above, at the EGM, new Articles of Incorporation of the Company were adopted to introduce pre-emption rights in respect of all new Ordinary Share issues for cash and a special resolution was passed approving a disapplication of such pre-emption rights in respect of new issues of Ordinary Shares, subject to the disapplication being limited to a proportion of any new issue of Ordinary Shares that represented approximately 5 percent of the issued share capital of the Company (including treasury shares) at that time, being 3,623,217 Ordinary Shares.

The resolution to be proposed will seek to renew such disapplication again on a limited basis in respect of a proportion of any new issue of Ordinary Shares that represents approximately 5 percent of the issued share capital of the Company (including treasury shares) at the date of publication of the consolidated financial statements, being 3,623,217 Ordinary Shares.

The Board considers that this limitation is appropriate and customary for a closed-ended investment fund such as the Company, having regard to guidance from The Association of Investment Companies and the Statement of Principles published by the Pre-emption Group.

The disapplication is proposed by way of a special resolution of the Company and the Board intends to seek such disapplication at each annual general meeting of the Company hereafter. The authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

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.

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 confirm to the best of their knowledge:

- The consolidated financial statements have been prepared in accordance with 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 Manager's 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, as required by the Disclosure and Transparency Rules of the UK Listing Authority (**Footnote B**); 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:

Hasan Askari	Timothy Betley
Director	Director
12 April 2011	

MANAGER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

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 superior 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.

The portfolio is compact, focused, well diversified between technology and service providers and operators, with very good prospects at the underlying investments' level. The portfolio is actively managed with significant time spent on each investment and synergies built between the different portfolio companies to extract and deliver superior value.

- **Small to middle marke**t: the Company focuses on companies in the water sector with enterprise values between €20 million and €250 million.

- **Global reach:** the Manager is uniquely positioned to capture industry knowledge in Europe and help with technology transfers in emerging markets, with a strong focus on Asia (mainland China and South East Asia) for the benefit of the Company.

- **Clear investment criteria:** the Company focuses on companies with a strong track record and superior management. Investments are made in companies with proven technology offerings, service model businesses which provide substantial cost savings to their clients, or operators with long-term and attractive operating contracts. The Manager applies a rigorous and commercial investment approach when evaluating all investment opportunities.

- **Sector specialisation:** the Manager has focused expertise in the water value chain which allows the Company to select from among the best possible opportunities derived from proprietary research and through a network of relationships built over the years.

- **Active portfolio management:** the Manager's senior professionals sit on the boards of a majority of its investments, allowing them to work very closely with the management of the underlying investments.

- **Synergies:**the Manager operates a unique synergistic approach throughout the portfolio to grow in multiple geographic areas with a particular focus on Europe, Asia and Middle East and North Africa ("MENA").

- **Dedicated team:** 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

Water quality and scarcity remain at the forefront of the global agenda. The Company invests in businesses that address these issues.

Water is a US$500 billion global market, growing at an average rate of 6-7% with some sub-segments of the market, such as membranes, growing at 12% (**Footnote C**) and water reuse being the fastest growing market with double digit growth in particular in large industrialised markets such as South East Asia and MENA(**Footnote D**).

The problem of water quality and water scarcity remains acute and challenging. Countries face different challenges, whether they are developed and industrialised (these countries face high water pollution with reduced budgets to treat it), or developing and agricultural (these countries face massive sanitation problems). This is why wastewater treatment is so critical to the water sector. It remains a major problem in many places and is the result of numerous human activities, including agriculture, industry, mining, disposal of human waste, population growth, urbanisation, and climate change. Widespread lack of adequate disposal of human waste leads to contamination of water: worldwide 2.6 billion people live without adequate sanitation (**Footnote E**) and about 80% of sewage in developing countries is still being released untreated into the environment (**Footnote F**) Wastewater treatment doesn't stop only with domestic wastewater treatment. It also includes industrial contaminants where, with about 300-400 million tons of heavy metals, solvents, toxic sludge and other waste going into the world's rivers and oceans each year (**Footnote G**), this is still an issue which needs to be addressed (**Footnote H**). Some statistics show that nutrient enrichment has become one of the planet's most widespread water quality problems (**Footnote I**), and worldwide, pesticide application is estimated to be over 2 million metric tonnes per year (**Footnote J**). Furthermore, there are about 700 new chemicals used in industrial production each year in the United States alone (**Footnote K**). Finally, mining and drilling create large quantities of waste materials and by-products, resulting in large-scale waste-disposal challenges.
The Company invests in businesses that address these issues and benefit from these opportunities in developed markets as well as in developing countries.

It is our considered view that the overall drivers of investment in water-related businesses are as strong as ever and are likely to be around for a significant period, which bodes well for the Company's investment focus.

However, 2010 remained challenging because certain market uncertainties resurfaced. The 2010 Euro sovereign debt crisis has caused volatility across the environmental sector, resulting in changing regulatory landscape, volatile public and private capital markets, as well as foreign exchange turbulence across an increasingly global supply chain. The outlook for the world's largest markets for renewable infrastructure investment remains uncertain, affecting the sectors which are highly dependent on regulatory subsidies such as solar and wind. Whilst the water sector is not dependent on regulatory subsidies, it was affected to an extent as growing unease in the market led end users to keep plans on hold until the sovereign debt and capital market crises were resolved. The continuing fiscal pressure in the Eurozone, the destabilisation of the Euro, and the resulting volatility of the Euro against major currencies has had a major effect on the "Cleantech" (**Footnote L**) sector. However, the weakening of the Euro has provided much needed breathing room for European companies who manufacture in the Euro zone, as the lower Euro exchange rates have made them relatively more competitive. As a result, business was difficult in Europe (lack of liquidity of clients) but good outside Europe, and the companies in the portfolio which export their services benefited from their exposure to the rest of the world (for example, Waterleau realised approximately 50% of its sales outside of Europe).

Despite this challenging environment, the overall activity in "Cleantech" private equity increased in 2010 compared to 2009, and almost reached 2008 levels. According to data published by Zephyr and Bureau van Dijk, an independent research practice which provides company information and business intelligence, there was an increase in activity towards the second half of the year, with US$9.9 billion of value invested in venture capital, LBOs and growth capital transactions in the course of 2010 - see figures 1 and 2 below. We expect this trend towards higher activity in the "Cleantech" buyout market to continue for several reasons:

i. the need to consolidate a sector that is largely fragmented;

ii. the return of trade buyers who want to access the latest technologies after the large corporations have spent the past two years deleveraging;

iii. the return of the IPO market; and

iv. increased activity by larger private equity houses who are looking more closely into the attractive water sector, with the appetite to consolidate smaller players under one umbrella.

The Company, which invests in a sub segment of the "Cleantech" sector, benefits from these positive trends in the "Cleantech" buyout market. Furthermore, by virtue of its investment focus, the Company also benefits from the global water trends.

In Europe, water resources are managed according to the Water Framework Directive ("WFD") since its adoption in 2000. This has driven new entrants to the EU from Central and Eastern Europe to upgrade their wastewater treatment infrastructure to meet increasingly stringent discharge standards to comply with the WFD regulatory compliance standards.

In China's water sector (where the Company has direct exposure via its investments in RWT, Waterleau and Bluewater Bio International ("BBI")) the Manager continues to see growth in the businesses strongly supported by government initiatives to address water resource scarcity and environmental pollution. In the end-January 2011 policy announcement by the State Council of the People's Republic of China, the Central Government placed greater focus on infrastructure and tariff reforms in the water sector. Standard Chartered Bank estimates that China will invest RMB2trillion (US$307 billion) in water related infrastructure during the 12th Five-Year Plan (2011-2015), which is 1.9 times higher than the amount spent during the previous Five-Year Plan (2006-2010) (**Footnote M**).

In the United States (where the Company has direct exposure via its investments in In-Pipe Technology Inc. ("In-Pipe"), Global Water Intelligence expects capital expenditures by water utilities to contract in 2011 and 2012. Water and wastewater capital expenditures are expected to slip from US$34.9 billion in 2010 to US$31.5 billion in 2012, as stimulus funding is withdrawn and conditions in the bond market remain difficult. In the longer term - from 2013 onwards - the market is expected to grow faster, reflecting recovering municipal finances, the adoption of alternative funding models and the growing imperative to invest. Utility capital expenditures are expected to reach US$46.4 billion by 2016. The industrial water market is better placed for growth in the short term with demand for water technology in the energy sector, both upstream in oil & gas and downstream in the power generation sector, expected to help the water and wastewater treatment equipment market grow from US$2.5 billion in 2010 to US$3.1 billion by 2012 and to reach $3.9 billion by 2016.

In the longer term, growth outlook for the sector is strong at around 6% per annum, as the historic neglect of infrastructure investment and the growing deficit between water used but not replenished catches up with the United States (**Footnote N**).

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

Attractive investment returns, deep sector knowledge and active management with an aim to achieve growth and superior performance.

Summary of the investments made during the year

China Hydroelectric Corporation

On 25 January 2010, the Company announced the listing via an IPO of one of its portfolio companies, CHC, on the NYSE. CHC priced its IPO of 6 million American Depositary Shares ("ADS") at US$14.80 per ADS which yielded aggregate gross proceeds of US$96 million for CHC. The terms of the IPO included the conversion of three CHC shares into one ADS. The net proceeds from the IPO and the previous subscription by the Company for shares in CHC (completed in 2009) were used by CHC to acquire hydroelectric operating companies and assets, for the development of new hydropower plants in China, for working capital and for general corporate purposes. Post-IPO, the Company owns approximately 4% of CHC's ordinary shares. Subsequent to the IPO and up until the 31 December 2010, the ADS have traded in the US$13.90 to US$5.75 range (**Footnote O**), closing on 31 December 2010 at US$7.39.

Waterleau Group

In April 2010, the Company completed a subscription for five-year convertible bonds of Waterleau (the "Bonds") for a total cash consideration of €20 million. Waterleau is a privately held global environmental technology, solutions and services company. It provides a wide range of water, wastewater and solid waste and air treatment solutions for both industrial and municipal clients. Waterleau applies these technologies to purify wastewater and produce renewable energy from wastewater and bio-waste. Incorporated in 2000, Waterleau had a turnover in excess of €60 million in 2010 (unaudited), with over 10% EBITDA margin (unaudited). It has been profitable for five consecutive years and has been growing at double digit rates since inception. It currently employs approximately 250 people across offices in Belgium, France, Morocco, Egypt, India, China, Turkey and Brazil. In 2009, Waterleau was awarded two major high capacity wastewater Build & Operate projects in Marrakech and Fez, Morocco. The proceeds of the subscription for the Bonds provided Waterleau with a very strong balance sheet, allowing it to be a credible competitor to much larger environmental companies. It also gives Waterleau an on-going capacity to invest alongside its clients in build own operate transfer ("BOOT") wastewater projects, make selective add-on acquisitions, and further expand into new markets. As part of the transaction, Indufin Capital Partners S.A., a Belgium and Luxembourg based growth capital investor, maintained its investment in Waterleau.

Bluewater Bio International and In-Pipe Technology

In August 2010, the Company also increased its investment in two of its existing portfolio companies, BBI and In-Pipe. The Company subscribed for £2.0 million (€2.4 million) of secured loan notes due in 2012 in BBI ("Loan Notes"), together with warrants to subscribe for up to 5,714,285 ordinary shares in the capital of BBI (approximately 2% of the fully diluted share capital of BBI). This investment was made alongside Ecofin Water & Power Opportunities Plc. which also subscribed for £2.0 million of Loan Notes on the same terms as the Company. Earlier in the year, in April 2010, the Company provided a liquidity facility to BBI by way of a convertible bond for a total cash consideration of £500,000 (€570,525). The convertible bond is repayable in cash upon 10 business days' notice from the Company or, subject to certain conditions and at the Company's option, can be converted into BBI equity at an agreed ratio. This facility was provided to fund BBI's manufacturing capabilities to deliver equipment to new clients who are upgrading their wastewater treatment plant facilities with BBI's proprietary HYBACS technology in South Africa and to develop its commercial efforts in China.

In August 2010, the Company announced that its wholly owned subsidiary, Aqua Resources (In-Pipe) Holdings Limited ("ARIHL"), had agreed to exercise its right to acquire a further 8% of the fully diluted share capital of In-Pipe. The Company announced its initial investment in In-Pipe in August 2009. The transaction was structured in two tranches. In the first tranche, completed on 6 August 2009, ARIHL invested US$3.0 million (€2.09 million) in exchange for approximately 14% of the fully diluted share capital of In-Pipe. It was also granted a warrant to acquire additional shares representing up to a further 2% of the fully diluted share capital of In-Pipe (at 6 August 2009). This warrant was never exercised and has now been cancelled and replaced by a new warrant described below. In the second tranche announced on 10 August 2010, ARIHL acquired a further 8% of the fully diluted share capital of In-Pipe (at 9 August 2010) for approximately US$2.0 million (€1.5 million). As part of the second tranche, ARIHL was also issued a new warrant representing the right to purchase an additional 3% of the fully diluted share capital of In-Pipe (at 9 August 2010). Currently, ARIHL holds approximately 21% of the fully diluted share capital of In-Pipe and, if it exercises this new warrant, it will own approximately 24% (based on the fully diluted share capital at 9 August 2010).

At 31 December 2010, the Company had invested approximately 90% of its net assets.

Summary of the investment made since the year end

In January 2011, the Company announced that its wholly owned subsidiary, Aqua Resources Asia Holdings Limited ("ARAHL"), had agreed to invest a further US$2,325,000 via a subscription for new shares to be issued by RWT, which is the international joint venture established in March 2009 by the Company and the Ranhill Berhard and its affiliates ("Ranhill Group") to invest in water and wastewater operations in the People's Republic of China and Thailand. At that time, the Company invested US$12,555,000 for a 45% interest in RWT. The additional investment was made in two equal instalments of US$1,162,500 each (on 11 January and 16 February 2011).

Following this investment, the shareholdings of both the Ranhill Group and ARAHL were increased slightly as a result of subscribing for their respective share entitlement as existing shareholders and for additional shares in respect of the entitlement of RWT's minority shareholders, which were not taken up by those minority shareholders. ARAHL's shareholding interest in RWT increased to 45.2% from 45%, while the Ranhill Group increased its shareholding interest in RWT to 52.1% from 51.8% after investing US$2,675,000. The proceeds of these additional subscriptions will be used by RWT to undertake investments in two large wastewater treatment operations in mainland China, in regions which experience severe shortages of fresh water supplies, impacting potential economic growth and making this a critical project to government and commerce.

The Company also committed to invest a further US$2,250,000 in RWT, subject to the Ranhill Group subscribing alongside it to maintain its current shareholding ratio at 52.1%. The Company's commitment is valid until 16 February 2012. The purpose of this additional commitment is to finance the next stage of RWT's growth and to fund specific projects in the pipeline which are targeted for calendar years 2011 and 2012.

On completion of this investment in February 2011, the Company had committed approximately 95% of its net assets.

Performance

The NAV of the Company rose by €7.5 million (10.1%) over the year. The unrealised portfolio appreciated in value by €9.9 million during the year (2009: €7.8 million increase).

Ranhill Water Technologies

For the twelve months ended 30 June 2010, RWT's audited fiscal year 2010 revenues were approximately US$22.5 million; a 68% increase compared to the last fiscal year's revenues; EBITDA and net profits were respectively approximately US$6.0 million and US$4.9 million. In audited fiscal year 2009, RWT booked revenues of US$13.5 million, EBITDA of US$4.8 million and net profits of US$4.2 million. RWT has a June fiscal year end.

During the 2010 calendar year, RWT completed construction of the 30 million liters per day ("MLD") Hefei plant and started operations for the 30MLD Xiao Lan Plant, both plants located in China. In the engineering, procurement and construction ("EPC") business, RWT won a significant tender in Malaysia to build a 12MLD wastewater treatment plant for Lynas Corp, an Australian rare earth company to treat effluent from the latter's new processing plant in Malaysia. This contract represents a significant development for RWT for future work in the Asian mining sector.

China Hydroelectric Corporation

For the twelve months ending on 31 December 2010, CHC reported unaudited revenues of US$66.7 million, EBITDA of US$42.8 million which represent an increase of 84% and 88% respectively above the corresponding period in 2009. During that period, CHC reported a net loss of US$12.1 million which included cumulative dividends on convertible redeemable preferred shares of US$3.6 million and the beneficial conversion features on such shares of US$12.3 million non-cash charge which occurred upon the consummation of CHC's IPO in the first quarter of 2010.

During the fiscal year ended on 31 December 2010, CHC concluded 5 acquisitions of 10 operating hydroelectric power projects with an aggregate installed capacity of 172.2 megawatt ("MW"), bringing the company's total installed capacity to 548.8 MW as of 31 December 2010. This represents a 46% increase in installed capacity over the corresponding period in 2009.This is approximately 10% below the targeted installed capacity at the time of the IPO of 607.8 MW. This shortfall of 59 MW is expected to be met in 2011 from a number of outstanding memoranda of understanding ("MOU") signed during the course of 2010.

Beyond the immediate progress made on acquisition targets, CHC has also concluded a development partnership with China Guangdong Nuclear Energy Development Co. to jointly develop CHC's 1,000 MW pump storage hydropower project in the Henan province.

The Manager is satisfied with the operating performance of CHC since its IPO. Despite missing its intended generation capacity of 607.8 MW by end 2010 by 59 MW or 10%, on the whole, CHC's management is executing its announced business expansion strategies in line with expectations.

Waterleau Group

For the twelve months ended 31 December 2010, Waterleau's unaudited fiscal year 2010 revenues were approximately €60 million, a 10% increase on last fiscal year's revenues; EBITDA margin remained steady at slightly over 10%, while approximately 50% of its revenues were booked outside of Europe, with 34% of its revenues generated in Africa and 17% in Asia. Waterleau benefited from its double exposure to both municipal and industrial clients. In contrast to 2009, municipal clients provided most of Waterleau's activity throughout the year, while industrial clients, who were absent in the first half of the year, committed to large purchase orders in the second half of the year.

In-Pipe Technology

For the twelve months ended 31 December 2010, In-Pipe's unaudited fiscal year 2010 revenues were essentially flat year on year, having lost one large account during the year. Excluding this account loss, revenues for the year increased by 23%. Revenues were approximately $1.7 million ($1.7 million in the previous fiscal year); gross margin was 60% (59% in the previous fiscal year). Revenues increased by 27% in the fourth quarter compared to the previous year. In-Pipe suffered from a difficult market environment, as most of their municipal clients in the US are reluctant to expand as they have cut spending and are not willing to commit to large purchase orders. The Manager has worked very closely with In-Pipe's strong and experienced management team who has taken swift action to reduce costs and restructure the business. This has helped In-Pipe finish the year on a positive note, posting five months of consecutive revenues growth, improved margins, and a reduction of monthly cash spend by approximately 30%. The Manager will continue to work hand in hand with In-Pipe's management with the objective of strengthening the value of the equity.

Bluewater Bio International

Despite hitting several groundbreaking milestones in the course of 2010, BBI reported an operating loss for the year to 30 June 2010. The operating loss was similar to the previous year. Operating costs included mainly salaries, research and development (running of the pilot plants in the UK (for Severn Trent) and in Spain (for aqualia) as well as travel costs to continue to build up a pipeline of orders. In March 2010, BBI secured its first commercial sales in South Africa for the extension of the Botleng Sewage Treatment Plant in Delmas, a town about 100 miles East of Johannesburg, thanks to a partnership with Headstream Holdings in South Africa. The plant extension has been designed to treat 7,000m³ per day, with the first phase extension being 3,500m³ per day. BBI's technology, HYBACS, has also been selected as the chosen technology for the Swartruggens Sewage Treatment Plant, about 200 miles North West of Johannesburg. The South African Government recently released a damning report (the Green Drop Report) on the state of the nation's wastewater infrastructure stating that significant investment was required to upgrade it. In November 2010, BBI was awarded a US$20m contract by the Ministry of Works in Bahrain to install a 100,000m³ per day upgrade to the Tubli Sewage Treatment Plant servicing a population of over 400,000 people. This is a high profile project in Bahrain, on which a number of major water industry companies had been tendering. The Manager continues to work very closely with BBI's management to improve its operational performance and reduce its operating costs.

Performance Summary

At the end of 2010, the Company had approximately 10% of its net assets in cash and 90% was invested in unquoted and quoted investments.

Analysis of the portfolio by sector shows a good balance between operators and technology providers, while a small part is dedicated to the service business via its investment in In-Pipe in the US. 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.

Outlook for portfolio companies

The Manager is uniquely positioned to help the Company add value to the businesses in which it invests by bringing not only investment capital, but also business development opportunities and global expertise through a strong global network and presence in key growth markets. The Company develops a real partnership with its underlying investee companies, and helps them grow faster and compete more successfully for opportunities in major emerging markets such as Europe, South East Asia and the Middle East, North Africa.

Ranhill Water Technologies

For calendar year 2011, RWT will start the construction of two new plants in China - the Yingkou 30MLD plant and Phase 2 of Xiao Lan, a 50MLD expansion adjacent to the company's existing plant. Beyond China and Malaysia, RWT continues to pursue business opportunities in Southeast Asia, the Middle East and India.

China Hydroelectric Corporation

The environment for CHC remains strong with an attractive power generating landscape (**Footnote P**) in China:

- China has 197 gigawatts ("GW") of hydropower generating capacity, or 23% of its total installation. Coal is the source of more than three quarters of its electricity.
- China pledged in 2010 that it would cut the amount of carbon dioxide produced for each unit of national income by 40-45% by 2020 from 2005 levels.
- As the world's top emitter of CO_2, China is also aiming to boost the proportion of non-fossil fuels in overall energy consumption to 15% by 2020. Its non-fossil fuel ratio fell to less than 8% in 2009 from 8.9% in 2008.
- The outlook for hydropower capacity is positive, with strong goal to build up to 120 GW of hydropower projects in the six years through 2015. Furthermore, in order to achieve the non-fossil fuels target, hydro and nuclear power should play a leading role.

CHC is an attractive opportunity into the Chinese renewable energy sector. Hydropower is a high capital expenditures industry and having access to international capital markets through its listed status is critical to CHC's growth path.

For calendar year 2011, we expect CHC to build on their 2010 performance with hydroelectric acquisitions made throughout 2010 contributing to the full financial year in 2011. In terms of new capacity to be acquired in 2011, we estimate CHC is working on an additional 540 MW of hydroelectric projects. This is based on the MOUs announced by CHC but not completed in 2010. The estimate of 540 MW consists of 15 MW under the Dazhaihe MOU in the Yunnan province, 2 operating projects with a combined generating of 59 MW under the Taiyu MOU (48 MW Yangkou project and 11 MW Huangtangjia project) and 466 MW under the Minrui MOU. The Minrui MOU consists of 59 MW of operating capacity, 125 MW of capacity under construction and a further 341 MW of development rights.

Waterleau Group

Over the past year Waterleau has significantly expanded its international presence and significantly enhanced its position in the municipal wastewater treatment market, securing a number of large wastewater treatment projects in competition with global competitors. Municipal and industrial wastewater treatment has regained ground over the course of 2010 and in 2011 Waterleau stands to benefit from an expanding order book and pipeline in both municipal and industrial markets, in particular in food and beverage, where the company is one of the major global players. In addition to growing its turn-key project delivery revenues, Waterleau is also continuing to grow its service business through operation and maintenance agreements in major projects, which adds positively to the company's business outlook and financial stability. These revenues are expected to grow significantly in 2011 and 2012.

In-Pipe Technology

In-Pipe had secured by year end three large accounts (Lakeland, Sarasota, Crown Point) for a period of three years, giving the company consistent revenue flow in 2011, these accounts represent approximately 40% of In-Pipe's revenues. Furthermore, being a service provider, In-Pipe enjoys recurring revenues for a large part of its revenues. After stabilising the business and improving gross margins in 2010, we anticipate that In-Pipe will continue opening new accounts in 2011 and follow 2010's second half trend, with a focus on larger clients in key States such as Texas, Illinois, New York and New Jersey. Key markets remain the United States and Mexico, new markets are expected to be in Europe and South East Asia as a result of initiatives started in 2010.

Bluewater Bio International

We anticipate that 2011 will be a challenging year for BBI given the recent turmoil in Bahrain, where the company won its largest contract to date. The upheavals and the resulting state of emergency have delayed the Tubli project (wastewater plant upgrade) where construction was set to start in early spring. In South Africa meanwhile, further orders have recently been discussed and we expect BBI to consolidate their nascent position in that market.

Developments in Bahrain, post balance sheet date, have created some uncertainty as to how quickly this project will be commissioned but the prognosis so far is that it is likely to go ahead though with some delay. The Manager continues to monitor the situation very closely and work with BBI's management.

The next 12 months will be challenging for BBI, however BBI continues to pursue a number of opportunities which we expect to help insulate the business from the impact of further market shocks.

Principal risks and uncertainties

As we stated in our previous annual report, 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, 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 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 for the period 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 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 for the year ended 31 December 2010.

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

The Company specialises in investments in growth capital. 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. Management 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.

Investing in a listed private equity vehicle (**Footnote Q**)

Listed Private Equity refers to public companies whose shares are listed and traded on a primary stock exchange. In Europe, primary exchanges include the London Stock Exchange and Euronext. Some private equity companies quoted on the London Stock Exchange are structured as investment companies. All listed private equity companies offer the opportunity to participate in private equity investments in mainly unlisted companies or portfolios of funds, without the need to be a very wealthy individual or institution.

- Direct investment companies: invest in a portfolio of companies selected by a single manager, sometimes alongside Limited Partnership institutional funds managed by the same manager.
- Funds-of-funds: invest in a portfolio of direct investment funds, which themselves invest in individual companies. Funds-of-funds aim to diversify across a range of the best available private equity managers.

Some companies invest in both direct investments and funds, offering a hybrid of the two approaches set out above. Some own the private equity manager.

London Stock Exchange-listed private equity investment companies are supervised by boards of directors, the majority of whom are independent, in order to protect shareholders' interests. The objective of listed private equity is usually to provide shareholders with long term capital appreciation, rather than dividend growth. Each listed company, like each private equity firm, has its own investment strategy relating to geography, size and type of investment, etc. Listed private equity companies vary considerably in the number of their own holdings, ranging from specialist direct investment trusts, with a handful of portfolio companies in one country, to a fund-of-funds manager with holdings in over 300 private equity funds worldwide.

Listed private equity companies continually invest and reinvest; they have no fixed lifespan. Proceeds from the sale of assets are generally retained for reinvestment, rather than being distributed to investors, which would trigger taxable gains for certain investors.

This, together with the long term horizon of private equity, means that listed private equity is best suited to long term holding, rather than frequent trading.

In Europe, there are about 80 investable listed private equity companies, with market capitalisation of €45 billion of which €12 billion are London-listed companies (**Footnote R**).

The Company

The Company is an investment vehicle with an independent board of directors, listed on the London Stock Exchange, whose objective is to provide capital appreciation through exposure to a diversified portfolio of water-related investments, which it seeks to achieve primarily through private equity style investments. The approach provides investors with exposure to a compact but diverse portfolio of fast growth, mostly private, water companies globally, managed by a well-resourced and experienced Manager dedicated to providing services across a gamut of natural resources specialties.

FourWinds Capital Management
12 April 2011

INVESTMENT OBJECTIVE AND POLICY

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.

Investments will be sought in a diverse range of water sectors. Once investment is substantially completed it is anticipated that no single investment, at the time of acquisition, may exceed 30% 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% 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% 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 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% 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% 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% 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%) in accordance with its investment policy within 12 to 18 months of Admission and thereafter at all times, although the Manager may exercise its discretion to hold cash or cash equivalent instruments at any time as appropriate. Pending such investment the net proceeds of the initial placing of the Company's Ordinary Shares at Admission will be held in cash or fixed income securities (including, but not limited to, bank deposits, bonds or government issued treasury securities) for the purpose of protecting the Company's capital assets. 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% 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 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% 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% 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% 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.

BOARD OF DIRECTORS

The Directors are as follows:

Hasan Askari (Chairman)
Mr Askari has been an investment banker since 1975, initially with SG Warburg & Co. Ltd. (now UBS Ltd.) 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. He has an M.A. (Oxon). Besides Chairing the Company he also Chairs the Management Engagement Committee.

Andrea Rossi
Mr Rossi is currently Chairman and Chief Executive Officer of AXA Italy and Deputy Chairman of AXA activities in the Gulf Region. He has worked for the AXA Group for the past eight years, and previously served as Senior Vice President for International Operations for the Mediterranean region, Latin America and the Middle East before becoming Chief Operating Officer for the Mediterranean region in 2005. He has been a board member of AXA entities in countries including Turkey, Spain, Portugal, Morocco, Brazil, Argentina and Chile and is currently a board member of AXA Middle East (Lebanon), AXA Italy and AXA Gulf. Before AXA, he held senior executive positions in GE Capital and Aegon Transamerica. Mr Rossi was awarded a Master of Science degree in Economics from the University of Rome in 1992 and an MBA from Fontainebleau's INSEAD in 1994.

Timothy Betley
Mr Betley is the Chairman of the Audit Committee. He has extensive experience in offshore financial management, having started his career with the Trust Corporation of the Bahamas in 1960 and became Managing Director of Royal Bank of Canada (Channel Islands) Limited, Guernsey in 1973. Between 1973 and 2000 he at various times served as a director of Royal Bank of Canada trust companies in the Bahamas, the Cayman Islands, Jersey, Hong Kong and Switzerland. In the 1990s he was Chairman of Bank Sarasin (Guernsey) Limited, and in 2000 became a director of Close Trust Company Guernsey Limited. He is presently Chairman of the Trust Corporation of the Channel Islands Limited. Mr Betley has been a member of the Investment Dealers Association Canada, the Society of Trust and Estate Practitioners, and the Chartered Institute of Bankers.

Kimberly Tara
Ms Tara is the Chief Executive Officer of the Manager. She started her career in 1991 in Mergers & Acquisitions at Morgan Stanley. In 1995 she joined Value Partners, a McKinsey spin−off that is today the largest private consulting firm in Italy. In 1999, she began working as an alternative investment consultant, providing financial and advisory services for clients in Europe and the US. She also worked as Chief Financial Officer and Director of Business Development for a US−based biotech company. In 2005, Ms Tara co−founded the Manager. Ms. Tara graduated magna cum laude from Brown University with a degree in Business Economics and received her MBA from INSEAD in France.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AQUA RESOURCES FUND LIMITED

We have audited the Consolidated Financial Statements of Aqua Resources Fund Limited for the year ended 31 December 2010, which comprise the Consolidated Statement of Operations, the Consolidated Statement of Assets and Liabilities, the Consolidated Statement of Cash Flows, the Consolidated Financial Highlights, the Consolidated Statement of Changes in Net Assets, the Consolidated Schedule of Investments and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and US generally accepted accounting principles.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Guernsey Company Law. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its increase in net assets resulting from operations for the year then ended;
- Have been properly prepared in accordance with US generally accepted accounting principles; and
- Have been prepared in accordance with the requirements of the Guernsey Company Law.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Guernsey Company Law we are required to report to you if, in our opinion:

- Proper accounting records have not been kept; or
- The financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Andrew J. Offen FCA
For and on behalf of Ernst & Young LLP
Guernsey, Channel Islands
12 April 2011

The consolidated financial statements are published on websites maintained by the Investment Manager.
The maintenance and integrity of the these web sites are the responsibility of the Investment Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
AT 31 DECEMBER 2010

	Notes	31 December 2010 €	31 December 2009 €
Assets			
Cash		8,181,382	35,177,646
Investments at fair value (cost 2010: €55,803,352 and 2009: €31,313,024)	3	73,458,458	39,046,630
Prepaid expenses		16,496	57,148

TOTAL ASSETS		81,656,336	74,281,424
Liabilities			
Directors' fees payable		24,742	14,945
Other payables	4	95,851	211,999
TOTAL LIABILITIES		120,593	226,944
NET ASSETS		81,535,743	74,054,480
Net Assets consist of:			
Ordinary Shares (no par value, authorised to issue unlimited number of Ordinary Shares, of which 72,464,340 (2009: 72,464,340) were issued and outstanding)	6	70,030,004	70,030,004
Retained earnings		11,505,739	4,024,476
		81,535,743	74,054,480
Net asset value per Ordinary Share		1.1252	1.0219

The consolidated financial statements were approved by the Board of Directors on 12 April 2011 and signed on its behalf by:

Hasan Askari
Director

Timothy Betley
Director

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

CONSOLIDATED SCHEDULE OF INVESTMENTS
AT 31 DECEMBER 2010

Investments	**Quantity/ Notional**	**Fair Value €**	**% of NAV**
INVESTMENTS AT FAIR VALUE			
Bonds			
Belgium (cost: €20,000,000)			
Waterleau Group N.V. Convertible Loan	20,000,000	23,000,000	28.21
Cayman Islands (cost: €2,979,301)			
Bluewater Bio International Convertible Loans	2,500,000	2,910,809	3.57
Total investments in bonds (cost: €22,979,301)		**25,910,809**	**31.78**
Unlisted Companies			
Belgium (cost: €277)			
Waterleau Group N.V.	1	277	-
Cayman Islands (cost: €15,742,670)			
Bluewater Bio International (Note 3)	49,170,112	8,873,739	10.88
Ranhill Water Technologies (Cayman) Limited	12,555,000	23,752,000	29.13
United States of America (cost: €3,602,651)			
In-Pipe Technology Company Inc.	474,834	3,513,669	4.31
Total investments in unlisted companies (cost: €19,345,598)		**36,139,685**	**44.32**
Listed Companies			
China (cost: €13,478,451)			
China Hydroelectric Corporation - American Depository Shares	1,980,537	10,914,781	13.39
Total investments in listed companies (cost: €13,478,451)		**10,914,781**	**13.39**
Warrants			

Cayman Islands (cost: €1)			
Bluewater Bio International - Part 1 Warrant 20/04/2011, Part 2 Warrant 31/03/2013 (Note 3)	2	2	-
Bluewater Bio International -Warrant 31/07/2012 (Note 3)	1	-	-
United States of America (cost: €1)			
In-Pipe Technology Company Inc. - Warrants 30/06/2012	74,225	493,181	0.60
Total investments in warrants (cost: €2)		**493,183**	**0.60**
Total investments at fair value (cost: €55,803,352)		**73,458,458**	**90.09**

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

CONSOLIDATED SCHEDULE OF INVESTMENTS
AT 31 DECEMBER 2009

Investments	**Quantity/ Notional**	**Fair Value €**	**% of NAV**
INVESTMENTS AT FAIR VALUE			
Companies			
Cayman Islands (cost: €15,742,669)			
Bluewater Bio International (Note 3)	49,170,112	8,593,448	11.60
Ranhill Water Technologies (Cayman) Limited	12,555,000	10,989,391	14.84
China (cost: €13,478,451)			
China Hydroelectric Corporation - Series C Convertible Preferred Shares	20,356	17,370,573	23.46
United States of America (cost: €2,091,902)			
In-Pipe Technology Company LLC	284,900	2,093,216	2.83
Total investments in companies (cost: €31,313,022)		39,046,628	52.73
Warrants			
Cayman Islands (cost: €1)			
Bluewater Bio International - Part 1 Warrant 20/04/2011, Part 2 Warrant 31/03/13 (Note 3)	1	1	-
Bluewater Bio International - Supplemental Warrant 25/09/2014 (Note 3)	-	-	-
United States of America (cost: €1)			
In-Pipe Technology Company LLC - Warrants 06/08/2016	1	1	-
Total investments in warrants (cost: €2)		2	-
Total investments at fair value (cost: €31,313,024)		39,046,630	52.73

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

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	**31 December 2010 €**	**31 December 2009 €**
Investment Income			
Interest income		748	3
Other income		1,730	-
Total investment income		2,478	3
Operating Expenses			
Administrator fees		99,999	105,588
Audit and professional fees		99,561	73,437
Brokerage fee		30,614	30,173
Directors' fees	5	99,902	95,232

Directors' expenses		55,905	26,987
Due diligence expenses		265,297	903,850
Management fees	5	1,557,801	1,441,545
Marketing expense		14,225	170,492
Miscellaneous expenses		205,357	167,672
Total operating expense		2,428,661	3,014,976
Net investment loss		(2,426,183)	(3,014,973)
Realised and unrealised gain from investments and foreign currency			
Net realised and unrealised (loss)/gain from foreign currency		(14,054)	55,700
Net unrealised appreciation of investments		9,921,500	7,733,606
		9,907,446	7,789,306
Increase in net assets resulting from operations		7,481,263	4,774,333
Net investment loss per Ordinary Share (annualised):			
Basic & diluted		(0.0335)	(0.0416)
Net gain per Ordinary Share (annualised):			
Basic & diluted		0.1032	0.0659
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 2010

	Notes	31 December 2010 €	31 December 2009 €
Operations			
Net investment loss		(2,426,183)	(3,014,973)
			-
Net realised and unrealised (loss)/gain from foreign currencies		(14,054)	55,700
Net unrealised appreciation of investments		9,921,500	7,733,606
Net increase in net assets resulting from operations		7,481,263	4,774,333
Share capital transactions			
Issuance of capital		-	-
Offering costs		-	-
Net increase in net assets resulting from share capital transactions		-	-
Net increase in net assets		7,481,263	4,774,333
Net assets at beginning of year		74,054,480	69,280,147
Net assets at end of year		81,535,743	74,054,480
Net asset value per Ordinary Share		1.1252	1.0219
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 2010

	31 December 2010 €	31 December 2009 €
Operating activities		
Increase in net assets resulting from operations	7,481,263	4,774,333

Adjustment to reconcile increase in net assets resulting from operations to net cash used in operating activities:

Net unrealised appreciation of investments	(9,921,500)	(7,733,606)
Decrease in interest receivable	-	2,338
Decrease in prepaid expenses	40,652	258,058
Decrease in other payables	(106,351)	(113,165)
Net cash used in operating activities	(2,505,936)	(2,812,042)
Investment activities		
Purchase of investments	(24,490,328)	(31,313,024)
Net cash used in investment activities	(24, 490,328)	(31,313,024)
Net decrease in cash	(26,996,264)	(34,125,066)
Cash at beginning of year	35,177,646	69,302,712
Cash at end of year	8,181,382	35,177,646

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

CONSOLIDATED FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	31 December 2010	31 December 2009
Per share data[1]		
Net asset value at beginning of year	1.0219	0.9561
Offering costs	-	-
Net asset value after deducting offering costs	1.0219	0.9561
Net investment loss	(0.0335)	(0.0417)
Net realised foreign currency (loss)/gain	(0.0007)	0.0008
Total from investment operations	0.1375	0.1067
Change in net asset value for the year	0.1033	0.0658
Net asset value at end of year	1.1252	1.0219
Ratios/supplemental data		
Net asset value per share at end of year	1.1252	1.0219
Total return	10.11%	6.88%
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 €)	81,535,743	74,054,480
Average net assets[2] (in €)	72,060,818	69,730,982
Ratio of operating expenses to average net assets	(3.37%)	(4.32%)
Ratio of net investment loss to average net assets	(3.37%)	(4.32%)

[1]Basic weighted average per share data

[2]Average net assets calculated using the quarterly net assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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 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 has been appointed as the Manager of the Company with responsibility for the discretionary 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 under the ticker symbol "H2O".

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;

- ARIHL, a Guernsey limited company formed in August 2009;
- 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. Actual results could differ materially from those estimates.

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.

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 2010 were valued are contained in Note 3 below.

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:
a) Quoted prices for similar assets or liabilities in active markets;
b) Quoted prices for identical or similar assets or liabilities in non-active markets;
c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
d) 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.

Fair Value
The fair value of the Company's assets and liabilities which qualify as financial instruments under Accounting Standard Codification ("ASC") Topic 825, "Disclosure about Fair Value of Financial Instruments", ("ASC 825") (formerly Statement of Financial Accounting Standards (SFAS) Topic 107) approximates the carrying amounts presented in the statement of assets and liabilities.

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
Cash comprises bank balances with banks and financial institutions.

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.

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 Investment Manager. Factors considered by the directors and the Investment 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 recognizes 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 Manager has analysed the Company's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions for open tax years (2008-2009) and the positions to be taken for tax year ended 31 December, 2010. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the period ended 31 December, 2010, the Company did not incur any interest or penalties. The Company identifies its major tax jurisdictions as Belgium and China where the Company makes significant investments; however the Company is not aware of any tax positions for which it is reasonably possible that total amounts of unrecognized tax benefits will change materially in the next twelve months.

3. INVESTMENTS

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06" or the "ASU"). The ASU amends ASC 820 to require a number of additional disclosures regarding fair value measurements. This ASU clarifies existing disclosure requirements regarding (i) the level of disaggregation for which fair value measurement disclosures should be provided, and (ii) the inputs and valuation techniques used to measure fair value for measurements that fall within either Level 2 or Level 3 of the fair value hierarchy. It also requires disclosure of significant transfers into and out of Level 1 and Level 2 measurements in the fair value hierarchy and the reasons for those transfers, as well as the reasons for all transfers into and out of Level 3. This guidance is effective for interim and annual reporting periods beginning after 15 December 2009. The Company has adopted this ASU effective for the year ended 31 December 2010. ASU 2010-06 had no material impact on the company's net assets or results of operations.

ASU 2010 - 06 expanded the disclosure requirements for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), entities are now required to disclose description of the valuation techniques used and inputs used in determining fair value for each class of assets or liabilities.

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 2010 **Class**	**Total** **€**	**Quoted prices in active markets for identical assets (Level 1)** **€**	**Other market-based observable inputs (Level 2)** **€**	**Unobservable inputs (Level 3)** **€**
Listed equities	10,914,781	10,914,781	-	-
Unlisted equities	36,139,685	-	-	36,139,685
Convertible bonds	25,910,809	-	-	25,910,809
Warrants	493,183	-	-	493,183
Total	73,458,458	10,914,781	-	62,543,677

Assets at fair value as of 31 December 2009 **Class**	**Total** **€**	**Quoted prices in active markets for identical assets (Level 1)** **€**	**Other market-based observable inputs (Level 2)** **€**	**Unobservable inputs (Level 3)** **€**
Equities	39,046,628	-	-	39,046,628
Warrants	2	-	-	2
Total	39,046,630	-	-	39,046,630

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 2010.

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

	Total **€**	**Equities** **€**	**Bonds securities** **€**	**Warrants** **€**
Opening balance 1 January 2010	39,046,630	39,046,628	-	2
Purchases of investments	24,490,328	1,511,027	22,979,301	-
Change in net unrealised appreciation	16,377,293	12,952,604	2,931,508	493,181
Transfer to level 1	(17,370,574)	(17,370,574)	-	-
Closing balance 31 December 2010	62,543,677	36,139,685	25,910,809	493,183
Total unrealised gains at 31 December 2010	20,218,776	16,794,087	2,931,508	493,181

[1] The transfer of €17,370,574 relates to CHC which became a publicly traded stock on 25 January 2010 on the NYSE.

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 2009.

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

	Total **€**	**Equities** **€**	**Warrants** **€**
Opening balance 1 January 2009	-	-	-
Purchases of investments	31,313,024	31,313,022	2
Change in net unrealised appreciation	7,733,606	7,733,606	-
Closing balance 31 December 2009	39,046,630	39,046,628	2
Total unrealised gains at 31 December 2009	7,733,606	7,733,606	-

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

Warrants

On 9 August 2010 the Company announced that it had subscribed for £2.0 million (€2.4 million) of secured Loan Notes in BBI due 2012 together with warrants to subscribe for up to 5,714,285 ordinary shares in the capital of BBI (approximately 2% of the fully diluted share capital of BBI). This investment was made alongside Ecofin Water & Power Opportunities Plc which have also subscribed for £2.0 million Loan Notes on the same terms as the Company.

On 10 August 2010, the Company announced that its wholly owned subsidiary, ARIHL had agreed to exercise its right to acquire a further 8% of the fully diluted share capital of In-Pipe. The Company announced its initial investment in In-Pipe on 7 August 2009. The transaction was structured in two tranches. In the first tranche, completed on 6 August 2009, ARIHL invested US$3.0 million (€2.09 million) in exchange for approximately 14% of the fully diluted share capital of In-Pipe. It was also granted a warrant to acquire further shares in In-Pipe up to a further 2% of the fully diluted share capital of In-Pipe (at 6 August 2009). This warrant was never exercised and has now been cancelled and replaced by a new warrant described below. In the second tranche, ARIHL acquired a further 8% of the fully diluted share capital of In-Pipe (at 9 August 2010) for approximately US$2.0 million (€1.51 million). As part of the second tranche, ARIHL was also issued a new warrant representing the right to purchase an additional 3% of the fully diluted share capital of In-Pipe (at 9 August 2010). If it exercises this new warrant, ARIHL will own approximately 24% of the fully diluted share capital of In-Pipe (at 9 August 2010).

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.

As at 31 December 2010 the investments held by the Company which were valued using an estimate of fair value were as follows;

Waterleau Group

In considering the valuation for the Company's holding in Waterleau, the Manager reviewed two methodologies: (i) based on the assumption that the exit of the investment in the convertible bond would be by converting the Bonds into equity and (ii) based on the assumption that the Company would get back cost plus 20% compounded return if the shares were repaid by Waterleau within the first two years of the investment. The Manager decided to value the Company's holding in Waterleau using the conversion feature of the instrument that includes cost plus the implied value of interest earned during the holding period. The Directors are of the opinion that this represented the fair value of this investment at the year end.

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 the year 2010. The equity portion, which final tranche was completed in September 2009, was part of a wider fundraising exercise by BBI and the shares offered by BBI were subscribed for by a number of existing shareholders, including the Company, at £0.155 per share. Based on the Manager's review, the Directors are of the opinion that this fundraising exercise established a fair value for the shares in BBI at the time and are of the opinion that is it reasonable to keep the valuation at the same level in 2010, and accordingly are valuing the Company's equity holding in BBI at £0.155 per share. The Directors are of the opinion that a market participant considering purchasing the investment would value the two loan notes at 31 December 2010 at a value which is not materially different from their cost. Accordingly the Directors have decided to measure these two instruments at 31 December 2010 at their original cost.

China Hydroelectric Corporation

The Company owns approximately 4% of CHC's ordinary shares (1,980,537 ADS) and the appropriate valuation of the Company's investment in CHC is based on the closing price on 31 December 2010 on an active market of US$7.39 per ADS.

Ranhill Water Technologies

The Manager has valued the Company's holding in RWT using a combination of net earnings and book value derived from RWT's latest audited financial statements for the year ending 30 June 2010 and applied a conservative discount of 30% to a range of comparable peer group sector relevant multiples to derive a market valuation for RWT. Discounted multiples of respectively 14.3x price/earnings ratio and 1.9x price/book value have been applied to historical figures resulting in a value of the Company's stake in RWT of €23.7 million. The adjustment factor reflecting the illiquidity and non-transferability of RWT's shares has been applied in deriving the final valuation. The Directors are of the opinion that a market participant considering purchasing the investment would value it using the same valuation methodology. Accordingly the Directors have decided that this represented the fair value of this investment at the year end.

In-Pipe Technology

The Manager has valued the Company's holding in In-Pipe by keeping the equity portion of the investment at cost and by re-valuing the in-the-money warrants to a level that reflects the latest fundraising which established a fair value for the shares in In-Pipe. This was valued by calculating the enterprise value and take into account the diluted affect, then split the value between equity shares and warrants. Given there appears to be no restriction on the ability to exercise the warrants held by the Company at any time, the Manager took the view to apply the financial instrument rules of US GAAP and recognised the warrants as a financial instrument and considered their value as well as the value of the equity. Based on the Manager's review, the Directors are of the opinion that the fair value of the Company's holding in In-Pipe is to keep the equity portion at cost but revalue the warrants to the latest price paid for the equity which establishes a fair value for the shares in In-Pipe.

4. OTHER PAYABLES

	31 December 2010	**31 December 2009**
	€	**€**
Accounting fees	5,000	9,410
Administration fees	25,205	50,410
Audit fees	40,000	34,000
Due diligence expense	-	108,000
Other accrued expenses	25,646	10,179
	95,851	211,999

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 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 annum on a basis which increases 2.5% 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 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%). 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% 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 below the benchmark net asset value per Ordinary Share.

The Base Fees expensed for the year ended 31 December 2010 amounted to €1,557,801 (31 December 2009: €1,441,545). There was no Performance Fee paid or accrued at 31 December 2010 or for the year ended 31 December 2009. The High Water Mark at 31 December 2010 was €1.1252 (31 December 2009: €0.9675). The benchmark net asset value per Ordinary Share at 31 December 2010 was €1.2312 (31 December 2009: €1.1154).

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.

Administrator

The Administrator is paid fees for acting as Administrator of the Company on a sliding scale, based on the net asset value of the Company subject to a minimum quarterly fee of €25,000, or such other fees as may be agreed on normal commercial terms between the Administrator and the Company from time to time. The following scale is used for calculating the Administrator's fees:

Net Asset Value of the Company	
€0 to €500,000,000	0.05% per annum
€500,000,001 to €1,000,000,000	0.04% per annum
€1,000,000,001 to €1,500,000,000	0.03% per annum
€1,500,000,001 and above	0.02% per annum

The fees are payable quarterly in arrears. The Administrator is also entitled to a transaction fee of €35 per transaction, a minimum termination fee of €5,000 in the event of termination or liquidation of the Company, and may be entitled to a minimum fee of €10,000 in the event of any future restructuring of the Company. The Administrator is also entitled to a corporate services management fee on a time charge basis, subject to a minimum of €2,000 per calendar month, a fee of €10,000 for the preparation of each set of consolidated financial statements and additional fees for any tax related services provided to the Company.

The Administrator's fees expensed for the year ended 31 December 2010 amounted to €99,999 (31 December 2009: €105,588). The amount outstanding at 31 December 2010 was €25,205 (31 December 2009: €50,410).

Directors' Remuneration and Expenses

31 December 2010

Director	**Per annum fees entitlement (in £)**	**Fees paid during the year (in £)**	**No. of Ordinary Shares paid in satisfaction of fees**	**Fees payable at the end of the year (in £)**	**Prepaid Directors Fees for 2010 (in £)**
Hasan Askari	50,000	9,452	-	12,500	-
Andrea Rossi	15,000	15,000	-	3,750	-
Timothy Betley	20,000	20,000	-	5,000	-
Kimberly Tara	-	-	-	-	-

31 December 2009

Director	**Per annum fees entitlement (in £)**	**Fees paid during the year (in £)**	**No. of Ordinary Shares paid in satisfaction of fees**	**Fees payable at the end of the year (in £)**	**Prepaid Directors Fees for 2009 (in £)**
Hasan Askari	50,000	50,000	-	-	28,048
Andrea Rossi	15,000	2,813	-	3,750	-
Timothy Betley	20,000	9,372	-	5,000	-
Kimberly Tara	-	-	-	-	-

The Company reserves the right to pay Hasan Askari's Directors' Fee in shares but did not do so during either year. The Chairman of the Audit Committee, Timothy Betley, receives £5,000 for his services in this role in addition to his Directors' Fee of £15,000. Kimberly Tara does not receive any Directors' Fees. 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.

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 2010	**Number of Ordinary Shares**	**€**

Ordinary Shares at 1 January 2010	72,464,340	70,030,004
Ordinary Shares outstanding at 31 December 2010	72,464,340	70,030,004

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

31 December 2009	**Number of Ordinary Shares**	**€**
Ordinary Shares at 1 January 2009	72,464,340	70,030,004
Ordinary Shares outstanding at 31 December 2009	72,464,340	70,030,004

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

7. RISKS ASSOCIATEDWITH FINANCIAL INSTRUMENTS

The risks associated with the investments have been set out at greater length in this report. As a result of its investment strategy, the Company is 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.

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 HSBC Bank Plc.

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

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.

8. RELATED PARTIES

Kimberly Tara is a Director and is also a director and shareholder of the Manager. As at 31 December 2010, Kimberly Tara had an interest in 3,685,000 (31 December 2009: 3,985,000) Ordinary Shares of the Company which are owned by the Manager. The decrease in Kimberly Tara's interest resulted from the transfer of 300,000 Ordinary Shares from the Manager to an employee of the Manager's group, as announced by the Company on 30 June 2010.

At the time of the Company's initial investments in BBI and RWT, Kimberly Tara became a director of each of those companies.

At the time of the Company's initial investments in In-Pipe and Waterleau, 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, 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.

At the time of the Company's initial investment in Waterleau, 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 the Company paid €1,557,801 in Management Fees.

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

	31 December 2010	**31 December 2009**
	€	**€**
Due diligence expenses	265,297	286,800
Marketing expenses	14,225	168,411
Total	279,522	455,211

A subsidiary of the Manager subleases office space to an investee company. The sub-lease commenced on 1 September 2010 and expires on 21 March 2013. The annual rent under this agreement is £151,900 (approximately €176,861).

The Directors' interests in the share capital of the Company at 31 December 2010 and 31 December 2009 were:

31 December 2010	**Number of Ordinary Shares**
Hasan Askari	62,500
Andrea Rossi	18,750
Timothy Betley	12,500
Kimberly Tara*	3,685,000

31 December 2009	**Number of Ordinary Shares**
Hasan Askari	62,500
Andrea Rossi	18,750
Timothy Betley	12,500

Kimberly Tara*	3,985,000

* Kimberly Tara's interest is in respect of Ordinary Shares owned by the Manager of which she is a director and shareholder

9. COMPARATIVE FIGURES

Comparative figures used in these consolidated financial statements are for the year ended 31 December 2009 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.

10. SUBSEQUENT EVENTS

On 12 January 2011, the Company announced that its wholly owned subsidiary, ARAHL, had agreed to invest a further US$2,325,000 (approximately €1.8 million) via a subscription for new shares to be issued by RWT, which is the international joint venture established in March 2009 by the Company and the Ranhill Group to invest in water and wastewater operations in the People's Republic of China and Thailand. At that time, the Company had previously invested US$12,555,000 (€9.3 million) for a 45% interest in RWT. The additional investment was made in two equal installments of US$1,162,500 each (on 11 January and 16 February 2011).

Following this investment, the shareholdings of both the Ranhill Group and ARAHL were increased slightly as a result of subscribing for their respective share entitlement as existing shareholders and for additional shares in respect of the entitlement of RWT's minority shareholders, which were not taken up by those minority shareholders. ARAHL's shareholding interest in RWT increased to 45.2% from 45%, while the Ranhill Group increased its shareholding interest in RWT to 52.1% from 51.8% after investing US$2,675,000. The proceeds of these additional subscriptions will be used by RWT to undertake investments in two large wastewater treatment operations in mainland China, in regions which experience severe shortages of fresh water supplies, impacting potential economic growth and making this a critical project to government and commerce.

The Company also committed to invest a further US$2,250,000 in RWT, subject to the Ranhill Group subscribing alongside it to maintain its current shareholding ratio at 52.1%. The Company's commitment is valid for a period of 12 months post-closing of the most recent additional subscriptions. The purpose of this additional commitment is to finance the next stage of RWT's growth and to fund specific projects in the pipeline which are targeted for calendar years 2011 and 2012.

These are the entire subsequent events up to the 12 April 2011, the date of approval of these financial statements.

LIST OF FOOTNOTES

Footnote A - IPEV guidelines (September 2009) can be found on www.privateequityvaluation.com.
Footnote B - DTR 4.1.12
Footnote C - Prequin Cleantech research report 2010.
Footnote D - Global Water Intelligence water reuse report 2010.
Footnote E - UNICEF and World Health Organisation (WHO) 2010.
Footnote F - UN World Water Assessment Programme (WWAP) 2009.
Footnote G - UN WWAP Water and Industry.
Footnote H - UN Water: www.unwater.org.
Footnote I - UN WWAP 2009.
Footnote J - Pesticide Action Network (PAN) 2009: www.pesticideinfo.org.
Footnote K - Stephenson, J. (2009). Testimony before the Subcommittee on Commerce, Trade, and Consumer Protection, Committee on Energy and Commerce, House of Representatives: Options for Enhancing the Effectiveness of the Toxic Substances Control Act. US Government Accountability Office.
Footnote L - Covers all segments of the global Cleantech sector, including solar, LED/advanced lighting, energy smart technologies (smart meters, energy efficiency, power storage, electric vehicles), biofuels /biomass, wind, geothermal and water.
Footnote M - Standard Chartered Bank Equity Research, 26 January 2011.
Footnote N - Source: American Water Intelligence, January 2011.
Footnote O - Closing prices on the NYSE.
Footnote P - Reuters report "China clean energy goal will require hydro projects: official from the Head of the National Energy Administration & Deputy Head of the National Development and Reform Commission", 31 May 2010.
Footnote Q - http://www.lpeq.com/Aboutlistedprivateequity.aspx.
Footnote R - LPX December 2010.

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