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Aqua Resources Fund Limited
26 April 2012

AQUA RESOURCES FUND LIMITED

AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

26 April 2012 *For immediate release*

Aqua Resources Fund Limited ("Aqua" or the "Company"), 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 2011.

HIGHLIGHTS

- At 31 December 2011, the audited net asset value ("NAV") per ordinary share of the Company was €0.95, a decrease of 15.6% on the previous year

- The Board continues to explore all options to address the current share price discount to NAV; it also wishes to draw the attention of Shareholders to a recent development (more fully detailed in the Chairman's statement) which might require a change from the Company's premium LSE listing

- Despite a difficult operating environment, Waterleau Group N.V. ("Waterleau") reported revenues up by approximately 20% and a stable operating margin of 10% for the unaudited financial year ended 31 December 2011

- Ranhill Water Technologies (Cayman) Limited("RWT") reported revenue growth of approximately 16% and a strong operating profit margin of 24.5% for the audited financial year ended 30 June 2011; this trend has continued in the first half of the current year to 30 June 2012

- Aqua increased its shareholding in RWT to 45.2% investing an additional US$2.3 million (€1.7

million)

-In-Pipe Technology Inc. reported approximately 6% revenue growth and an improvement in gross margin to 61% for the unaudited financial year ended 31 December 2011

- Revenue at China Hydroelectric Corporation ("CHC") decreased by 15% for the unaudited nine months ended 30 September 2011 due to a combination of severe droughts across China and a lower effective tariff rate because of a change in product mix

- In December 2011, CHC announced the sale of a 16MW project in its portfolio ("Yuanping Project") for a total consideration of US$22 million

- Bluewater Bio International ("BBI") signed a 7.3 million Bahraini Dinar (circa US$20 million) project in Bahrain to upgrade and expand the Tubli wastewater treatment plant

- In November 2011, BBI closed a US$4 million financing agreement with Liberation Capital, which included a further US$4 million revolving facility for additional asset based projects

- At 31 December 2011, the Company had invested approximately 93% of its net assets

- Aqua finished the year with approximately €4m of liquid funds, representing 6.9% of NAV

DEVELOPMENTS POST FINANCIAL YEAR END

- Aqua has since year end completed a partial exit from BBI, receiving cash repayment on loans totalling £912,147

Kimberly Tara, Chief Executive Officer of FWCM, commented on the results: "Economic conditions across the markets in which Aqua invests remained challenging throughout 2011. Despite these conditions, certain elements of the portfolio, notably Waterleau and RWT, reported particularly favourable results, highlighting the benefits of a geographically diversified portfolio. FWCM continues to believe that the Company's strategy to seek a truly diversified exposure to a global portfolio of water-related investments is the right one and will result in long term appreciation for investors as markets improve."

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.

MANAGEMENT AND ADMINISTRATION

DIRECTORS:	Hasan Askari *(Chairman)** Andrea Rossi (up to 17 January 2012)* Timothy Betley (up to 22 July 2011)* Kimberly Tara (up to 2 June 2011) Jonathan Hooley (from 25 July 2011)* Fergus Dunlop (from 2 February 2012)* *(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:	Herbert Smith LLP

(as to English Law)	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:	PricewaterhouseCoopers CI LLP (from 7 November 2011) Royal Bank Place 1 Glategny Esplanade St Peter Port Guernsey GY1 4ND Ernst & Young LLP (up to 2 June 2011) Royal Chambers St. Julian's Avenue St. Peter Port Guernsey GY1 4AF
REGISTRAR:	Capita Registrars (Guernsey) Limited PO Box 627 Longue Hougue House St. Sampson Guernsey CI GY1 4PP
UK TRANSFER AGENT:	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom

HIGHLIGHTS OF 2011

RESULTS AND ACTIVITIES OF THE COMPANY FOR THE PERIOD FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

COMPANY DETAILS AND INVESTMENT OBJECTIVE - SUMMARY

*Aqua Resources Fund Limited (the "Company") is an investment vehicle with an independent board of directors, listed on the London Stock Exchange plc ("**LSE**"), 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 an experienced investment manager dedicated to providing services across a gamut of natural resources specialties.*

FINANCIAL HIGHLIGHTS OF 2011

Funds invested as a percentage of net assets	**93%**
Funds deployed during the year	**€1.7m**
Number of transactions closed during the year	**1**
Net asset value per ordinary share of the Company as at 31 December 2011	**€0.95**

*Despite the difficult economic environment, with economic uncertainties in the Eurozone and political upheaval in parts of the Middle East, the Company's two largest investments, Waterleau Group N.V. ("**Waterleau**") and Ranhill Water Technologies (Cayman) Limited ("**RWT**"), grew and strengthened their position in their respective markets. This went some way towards mitigating the disappointing results from the rest of the Company's portfolio. Overall, the Company's performance at the underlying portfolio level can, at best, be characterized as uneven though there are reasons to believe that both RWT and Waterleau will live up to their initial promise. The Company has now invested approximately 93% of its net assets. With a net asset value ("N**AV**") at €0.95 per an ordinary share of the Company ("**Ordinary Share**") at 31 December 2011, the Company's NAV decreased by 15.6% during the year.*

GENERAL HIGHLIGHTS OF 2011

- Follow on investment in RWT of US$2.325 million (€1.726 million) increasing the Company's shareholding in RWT to 45.2%.

- At 31 December 2011, the Company had invested approximately 93% of its net assets.

- At 31 December 2011, the audited NAV per Ordinary Share of the Company was €0.95.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

The year in review

Whilst the European sovereign debt crisis will probably remain the major economic event in 2011, financial markets were also impacted by other significant developments: the revolutions in the Middle East and North Africa, the Fukushima nuclear disaster in Japan and last but not least the downgrading last summer of the sovereign rating of the United States. These events exacerbated an already difficult environment for businesses in general and smaller players in particular.

During this period the Company actively managed its portfolio of companies, which are diversified acrossthe supply, use and treatment of water and wastewater. After the follow-up investment in RWT in early 2011, the Company had invested approximately 93% 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 East Asia, Africa, the Middle East, the United States and Mexico, providing an attractive geographic diversification. The strategy of FourWinds Capital Management, the Company's investment manager (the "**Manager**"), is to focus on fast growing private water and wastewater treatment businesses that are either already established globally, or demonstrate potential to grow outside their core local markets. 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.).

Reflecting the general macro-economic trends experienced in 2011, the underlying investments of the Company achieved mixed results, with some key investments performing well and achieving certain operating milestones, while others were severely impacted by the slowdown.

Both Waterleau (which is a leading player in the wastewater sector and provides a wide range of services from turnkey projects to operation and maintenance services to municipal and industrial clients) and RWT (which operates wastewater treatment plants as well as drinking water plants in China and Thailand) performed well and posted solid double digit growth and healthy operating margins. In-Pipe Technology Company Inc. ("**In-Pipe**") posted a modest revenue growth of 8% and an improvement of its operating margin.

Bluewater Bio International ("**BB**I") and China Hydroelectric Corporation ("**CHC**") fared less well. CHC, in which the Company holds approximately 3.67% of issued share capital and which is publicly listed on the New York Stock Exchange ("**NYSE**"), saw its share price decline precipitously. Full details on BBI and CHC 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.

2011 was also a year of changes for the Board of Directors of the Company. On 2 June 2011, Ms Kimberly Tara ceased to be a Director of the Company and on 22 July 2011 Mr Timothy Betley retired as a Director of the Company. On 25 July 2011, Mr Jonathan Hooley was appointed as a new independent non-executive director of the Company and Chairman of the Audit Committee. In January 2012 Mr Jonathan Hooley was elected a Jurat of the Royal Court in Guernsey. As a result Mr Jonathan Hooley is progressively relinquishing his other commitments and will step down as a Director once a suitable successor has been found. In addition, subsequent to 2011 on 17 January 2012, Mr Andrea Rossi retired as a Director of the Company and, on 2 February 2012, Mr Fergus Dunlop was appointed as a new independent non-executive director of the Company as well as member of the Audit Committee. I believe that these two appointments have significantly strengthened the Board and improved the degree of oversight we now have over the Company's assets.

The Company ended the year with liquid funds of approximately €4 million, representing approximately 6.9% of its net assets.

Year end 31 December	Net assets attributable to ordinary shareholders (€)	NAV per Ordinary Share (€)	Ordinary Share price[1] (€)	Increase/(Decrease) in Net Asset Value (€)
2009	74,054,480	1.0219	0.63	4,774,333
2010	81,535,743	1.1252	0.64	7,481,263
2011	68,831,602	0.9499	0.33	(12,704,141)

Valuation

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

Detailed valuations are prepared by the Manager, using multiples for a range of selected comparable companies, applying a discount to market multiples to reflect the illiquid nature of the investments. These valuations are reviewed thoroughly internally before they are presented to the Company's Audit Committee which thenscrutinises 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 recommended by the Audit Committee for the purposes of the financial statements of the Company. The Board believes the valuation process is rigorous, consistently applied and conforms to IPEV guidelines.

Waterleau, despite an exceptionally difficult environment in its traditionally strong growth markets of the Middle East and North Africa ("**MENA**"), reported improved operating results with more than a 20% top line growth rate and a stable operating margin in line with previous years. These strong results, which were achieved in a difficult context, resulted in an uplift in value for this investment.

RWT reported strong growth in both its revenues and operating profit margins in its financial year ended 30 June 2011. Furthermore, it has delivered positive first half unaudited results for the 6 months ended 31 December 2011, but reflecting the current economic environment, the Directors have applied a 35% discount to the valuation, as against 30% at the interim stage. As a result, the value for this investment increased modestly over the year.

In-Pipe's valuation was increased slightly to reflect the improvement of its operations both at the revenue level and at the operating margin level.

Meanwhile, the Company experienced a sharp setback in its holding in publicly listed stock of CHC, the share price of which lost circa 84% of its value during the period from 1 January 2011 to 31 December 2011. Whilst CHC undoubtedly had disappointing operating results due to lower incidence of rainfall adversely affecting their projects, the CHC's share price decline was exacerbated by the negative sentiment prevalent for much of the year in the United States about Chinese companies listed on stock exchanges in the United States and a possible (US) Department of Justice investigation into accounting fraud in certain of these companies. These concerns, which were the subject of widespread media comment, related to Chinese companies which had obtained listings in the United States through a 'reverse takeover' (of an existing listed company). For the record, while all of CHC's operations are in China, it is not itself listed on any Chinese stock exchange nor did it secure a listing on the New York Stock Exchange through a 'reverse takeover'. As far as the Company is aware at the date of publication of this Annual Report, CHC is not subject to any investigation by the US government or market regulator.

Regrettably, it has proven necessary to revise down the Company's investment in BBI. Despite BBI achieving a number of milestones, including their signing of a large project in Bahrain (providing the company with revenues and cash flows) and the signing of a contract with Suez Environment's US subsidiary, the outlook for the business remains very challenging. The Board has therefore decided that it was prudent to reduce the investment valuation of this business for the time being. Further details on the impairment in value of this investment are set out in the Manager's report and in Note 3 to the Accounts.

Figure 4 in the Manager's Report sets out an analysis of unrealised movements in investment portfolio for the year ended 31 December 2011.

Net Asset Value

At 31 December 2011, the NAV per Ordinary Share was €0.9499 (€1.1252 at 31 December 2010). This represents a decline of 15.6% in the NAV year on year.

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

Ordinary Share price

The Company's stock price continues to trade 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.

Shareholders will recall that, at the interim stage, I had said that the Board was very aware that the prevailing discount in the share price to the Company's Net Asset Value was a source of continuing concern to shareholders and that we were, as a Board, seeking alternatives which could include, inter alia, "some form of corporate action such as a possible merger or consolidation with other assets or similar funds and/or an examination of the merits of the Company maintaining its public listing."

The Board has explored these alternatives and has been in active discussions with the core shareholders but unfortunately, in spite of our efforts and those of our advisers, no credible alternative has emerged as yet.

Our efforts on this front will continue as the Board believes that some form of corporate action is the most appropriate future course for the Company and its shareholders to adopt. However, as I said in my previous statement, an acceptable solution will take time. I do assure shareholders, on behalf of the Board, that our efforts on this front will continue apace and further announcements will be made as soon as we have something material to report.

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

2011 has been a difficult year for businesses across the board, with volatile stock markets, banks continuing to deleverage, unemployment high, nervous lenders holding onto their assets and the re-emergence of Eurozone debt fears towards the end of the year. We had expected that after a difficult 2010, and an even more challenging 2009, the Company would benefit from a more stable business environment. However, the year proved to be rather more uncertain than we had anticipated. Nevertheless, we continue to believe that the Company offers the long-term investor the potential for growth and the prospect of a satisfactory exit, in time.

I would draw shareholders attention to the post balance sheet events noted in Note 12 and the level of intervention from central banks in the first quarter of 2012, both of which I consider positive news.

As this Report was about to be printed, we were advised by our brokers, Cenkos Securities, that, as a result of a transaction in the Company's shares on 23rd April 2012, the Company was no longer compliant with the free float requirement of the UK Listing Rules which stipulates that 25 percent of the shares in a listed company should be held by shareholders who are neither Directors nor holders who own more than a 5 percent holding each. The Board, through the Company's brokers, have discussed this development with the UK Listing Authority ('UKLA').

Shareholders should note that as a consequence of the Company failing to meet this listing requirement, the UKLA is entitled to withdraw the listing. In practice, however, we understand that the UKLA will allow the Company some time to restore the position to compliance with the UK Listing Rules. The Board are considering this issue with their advisers and with the UKLA and will make a further announcement as soon as practicable.

Hasan Askari
Chairman
25 April 2012

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

The Directors of the Company present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

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 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 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 LSE. 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
Jonathan Hooley (from 25 July 2011)
Kimberly Tara (up to 2 June 2011)
Timothy Betley (up to 22 July 2011)

All of the Directors are, or were during their term in office, non-executive directors and, other than Ms Kimberly Tara, are, or were, independent directors. Ms Kimberly Tara is not an independent director by virtue of her directorship of, and shareholding in, the Manager. At 31 December 2011, all of the Directors are non-executive and independent directors.

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

	Number of Ordinary Shares
Hasan Askari	62,500
Andrea Rossi	18,750

Whilst Ms Tara is no longer a Director at 31 December 2011, she remains interested in respect of 3,685,000 Ordinary Shares owned by the Manager of which she is a director and a shareholder, and remains a director of a number of subsidiaries of the Company.

None of the Directors has, or has had, an interest in any transaction which is, or was, unusual in its nature or conditions, or significant to the business of the Company, or which has been effected by the Company since its incorporation except for the interest of Ms Kimberly Tara in the Manager (as stated above) and related matters (as set out in Note 8 of the consolidated financial statements) and 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 £)**	**Fees paid during the year (in €)**	**Fees payable at the end of the year (in £)**	**Fees payable at the end of the year (in €)**
Hasan Askari	50,000	50,000	57,254	12,500	14,975
Andrea Rossi	15,000	15,000	17,175	3,750	4,492
Timothy Betley*	20,000	16,123	18,449	-	-
Kimberly Tara**	-	-	-	-	-
Jonathan Hooley***	25,000	4,709	5,399	6,250	7,487

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

The Company reserves the right to pay Mr Hasan Askari's Directors' Fee in Ordinary Shares but did not do so during the year. The Chairman of the Audit Committee, Mr Jonathan Hooley, receives £5,000 per annum for his services in this role in addition to his Directors' Fee of £20,000 per annum. All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, Board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

Share Capital

The share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value which are denominated in Euros. At 31 December 2011, there were 72,464,340 Ordinary Shares in issue (31 December 2010: 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 (that is, until 22 March 2016).

During the year, the Company introduced pre-emption rights in respect of all new Ordinary Share issues for cash in order to ensure that the Company complies with the Listing Rules and retains the premium listing for the Ordinary Shares. The pre-emption rights introduced in the Articles of Incorporation during 2011 were, at the same time, disapplied in respect of new issues of Ordinary Shares for cash, subject to the disapplication being limited to a proportion of any new issue of Ordinary Shares that represented approximately 5% 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 the forthcoming 2012 annual general meeting of the Company (the "2012 Annual General Meeting"), again in respect of 5% of the Ordinary Shares in issue at the date of publication of these 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 2012 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 2012 Annual General Meeting. No Ordinary Shares were purchased by the Company during the year.

Substantial interests in share capital

At 31 December 2011 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**
HSBC Global Custody Nominee (UK) Limited	21,500,000	29.67
Euroclear Nominees Limited	10,068,350	13.89
Securities Services Nominees Limited	9,979,800	13.77
State Street Nominees Limited	7,500,000	10.35
Fourwinds Capital Management	3,685,000	5.09
Rock (Nominees) Limited	3,510,440	4.84
HSBC Global Custody Nominee (UK) Limited*	2,973,850	4.10

* 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 2011, West Midlands held 29.67% of the issued Ordinary Shares.

The Manager

FourWinds Capital Management has been appointed as the Manager of the Company. The Directors have reviewed the performance of the Manager and are satisfied that, on the terms agreed, the continued appointment of the Manager is in the best interests of the shareholders and the Company. The Directors have formed this opinion in light of uncertain market conditions which have resulted in a decrease in the net assets of the Company.

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

Auditors

Ernst & Young LLP were auditors up to 2 June 2011. PricewaterhouseCoopers CI LLP have been appointed on 7 November 2011 as auditors of the Company and have expressed their willingness to continue in office. The Company did not hire PricewaterhouseCoopers CI LLP or Ernst & Young LLP to perform other consulting or non-audit services. PricewaterhouseCoopers CI LLP have charged £45,000 for the completion of the 2011 year end audit and have not received any further fees for non-audit related services.

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

Overseas companies listed on the Official List are required, under the Listing Rules, to 'comply' or 'explain' against the UK Corporate Governance Code (May 2010) (the "**Code**") issued by the Financial Reporting Council (the "**FRC**"). The Guernsey Financial Services Commission issued its Code of Corporate Governance (the "**Guernsey Code**") on 30 September 2011 and it came into effect in 1 January 2012. Companies which report against the Code are deemed to meet the requirements of the Guernsey Code.
The Company has complied throughout the year with the recommendations of the relevant provisions of the Code.

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

Voting rights for portfolio investments

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

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

In respect of CHC, at CHC's annual meeting which was held on 31 October 2011, the Company voted in favour of one resolution and against three resolutions, including reappointment of the directors.

The Board

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

In accordance with the Company's Articles of Incorporation, at each annual general meeting of the Company all the Directors who held office at the two preceding annual general meetings and did not retire shall retire from office and may be available for re-election at the same meeting. No Directors are retiring under this rule at the 2012 Annual General Meeting. However, pursuant to the Listing Rules, being newly appointed Directors, Mr Jonathan Hooley and Mr Fergus Dunlop will each retire and, being eligible, offer themselves for re-appointment at the 2012 Annual General Meeting.

The Company's Audit and Management Engagement Committees (the "**Committees**") comprise each of the Directors. Mr Jonathan Hooley acts as Chairman of the Audit Committee, Mr 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 (the "**auditors**"), to discuss and agree with the auditors the nature and scope of the audit, to keep under review the scope, results and cost effectiveness of the audit and the independence and objectivity of the auditors, to review the auditors' letter of engagement and management letter, internal control systems pertinent to the preparation of accurate financial statements and the management of the Company, to approve the remuneration of the auditors and to review the Company's annual report and audited consolidated financial statements as well as unaudited interim financial reports. Where non-audit services are to be provided by the auditors, full consideration of the financial and other implications on the independence of the auditors arising from any such engagement will be considered by the Audit Committee before proceeding. The terms of reference are available for review at the registered office of the Company.

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

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 2011 was as follows (the number of meetings held within each Director's period of appointment is in brackets):

	Number of meetings held	**H Askari**	**A Rossi**	**T Betley**	**K Tara**	**J Hooley**
Quarterly Board Meetings	4	4(4)	3 (4)	3 (3)	2 (2)	2 (2)
Ad hoc Board Meetings	5	4 (5)	3 (5)	2 (3)	1 (2)	- (-)

Management Engagement Committee Meetings	1	1 (1)	- (1)	- (1)	1 (1)	- (-)
Audit Committee Meetings	7	7 (7)	2 (7)	3 (3)	N/A	4 (4)

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

Since the year end, on 17 January 2012, Mr Andrea Rossi retired as a Director and Mr Fergus Dunlop was appointed as an independent non-executive Director on 2 February 2012.

Internal Controls

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

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

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

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

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

Relations with Shareholders

The Board believes that the maintenance of good relations with shareholders is important for the long term prospects of the Company. The Board receives feedback on the views of shareholders from the Company's broker, Cenkos Securities Plc and from the Manager. The Board also seeks feedback directly from the major shareholders. The Company holds an annual general meeting each year.

2012 Annual General Meeting

The following information, which is to be discussed at the forthcoming 2012 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 Shares, 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 2012 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 7 - 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 Ordinary Shares subject to availability of funding. The Directors will consider repurchasing Ordinary 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, Ordinary 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 Ordinary 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% 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% 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 2012 Annual General Meeting that represented 10,862,404 Ordinary Shares. 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% 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 8 - 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 Ordinary Shares pursuant to a tender offer for up to 25% 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 Ordinary Shares may be trading.

The Directors are seeking authority to make tender offers for a maximum number of Ordinary Shares up to 25% of the issued share capital at the date the resolution is passed. 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 an Ordinary Share pursuant to a tender offer under the authority is €0.01. 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% 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 - Disapplication of pre-emption rights

The Articles of Incorporation of the Company contain pre-emption rights in respect of all new Ordinary Share issues for cash and the Company currently has a disapplication of such pre-emption rights in respect of new issues of Ordinary Shares limited to a proportion of any new issue of Ordinary Shares that represents approximately 5 per cent. of the issued share capital of the Company (including treasury 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 per cent. of the issued share capital of the Company (including treasury shares) at the date of publication of these 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 are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom and Guernsey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors confirm to the best of their knowledge:

- The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("**US GAAP**");
- The consolidated financial statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities and financial position and profit or loss of the Company;
- The Chairman's Statement and Directors' Report include a fair review of the development and performance of the business and position of the Company together with the description of the principal risks and uncertainties that the Company faces, as required by the Disclosure and Transparency Rules of the UK Listing Authority[3]; 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 *Jonathan Hooley*

25 April 2012

MANAGER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Objective

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

We believe that the Company's approach will reward investors with 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.

Despite being compact and focused, the portfolio is well diversified between technology, service providers and operators. 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 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

Aging water infrastructure is a global issue. Targeting this problem via innovation or via more traditional solutions is a worldwide priority. The Company has invested in businesses that provide solutions and address these issues.

Recent governmental focus has been on promises to stimulate stumbling economies via substantial infrastructure investment, both domestically and internationally. Water infrastructure in particular has been highlighted as a primary cause for concern, since despite water's fundamental importance to life, the lack of visibility of underground water networks has allowed many countries to continue under investing in sufficient maintenance and upgrades. The Company aims to benefit strategically from both sides of this situation by investing in companies which provide services to businesses with aging infrastructure, and also in technology companies supplying the next-generation infrastructure. The sudden influx of business in maintenance due to crumbling infrastructure, combined with fiscal tightening across the world is driving a new demand for cost-saving maintenance technologies. Fiscal tightening, climate change fears and the need to replace infrastructure to cope with growing populations has also, however, had the effect of driving demand for a new level of efficiency within new infrastructure builds. The Manager therefore remains very bullish on the water reuse sector globally, particularly given the continued rising costs of global water and wastewater tariffs, which should help to drive industrial water use efficiency.

In the US, water infrastructure has become a hot topic of current publications. It is estimated that the cost of America's failing water infrastructure will run into trillions of dollars within the next 25 years[4], providing an "enormous opportunity for far-sighted investors" [5] looking to invest in companies that can provide both short term remedies to support the ailing infrastructure and also cost effective infrastructure upgrades. In his State of the Union address in late January 2012, President Barack Obama called for a new American commitment to nationwide infrastructure "built to last" [6]. The American Society of Civil Engineers ("**ASCE**") have even specifically branded water infrastructure as the most in need of development of all American infrastructure, rating it D-. The report estimated the cost of maintenance and upgrade required for drinking and wastewater treatment across the US in 2010 was US$91 billion, which will balloon to US$126 billion by 2020 and US$195 billion by 2040. However, of the

US$91 billion required in 2010, only US$36 billion was funded, hence leaving a gap which needs to be urgently funded[7].

Failure to invest sufficiently has even more severe consequences: the report published by ASCE cited that the total estimated costs for US households and businesses due to unreliable water and wastewater infrastructure could amount to well over US$2 trillion by 2040 if funding gaps continue, partly due to implications for American health (see table below) [8]. In addition, there is growing concern over drought conditions, which threaten half of the country, plus a current clamour for stricter limits on pollutants, which bring water onto the centre stage[9].

Figure 1: Estimated costs for US households and businesses due to unreliable water and wastewater infrastructure *(in billions of 2010 US$)*

Sector	2011-2040	
	Total costs across the period	Annual average
Households	$616	$21
Businesses	$1,634	$54
TOTAL	**$2,250**	**$75**

In large and fast developing markets, the urgency is even more apparent. China began its 12th Five-Year Plan ("**FYP**") in 2011, for which it revealed plans for accelerated infrastructure investment at the end of 2011. The details of this plan imply that municipal wastewater investment is to be increased by a further 14% over investment during the previous five-year period, with US$60 billion to be spent on urban wastewater systems, including reuse, out of a US$536 billion earmarked for developing environmental protection before the end of 2015. This is particularly exciting for some of the Company's wastewater portfolio investments, which are already well referenced within the rapidly developing Chinese market. The 11th FYP saw national wastewater treatment coverage increase from 52% in 2005 to 72% in 2010, but the new plan aims to see treatment rates of 90% in more developed cities and 80% in towns, averaging around 85% at a national level.

The story in other large developing countries is similar. For example, sparse and inefficient water networks, poor sanitation, insufficient power and outdated technology make India's water infrastructure shortcomings substantial and, in its annual economic survey, the Finance Ministry estimated that India's infrastructure will need over US$1 trillion in investment during its 12th FYP if it wishes to maintain 9% economic growth in 2012-2017. In relation to a resource as fundamentally important to life as water, infrastructure gaps clearly stifle growth and drive away investors. With a lack of local innovation in many developing countries, international companies which can fill these infrastructure voids or provide cost-saving technologies are in a strong position.

In the meantime, as current infrastructure in the developed world and particularly in OECD countries continues to relentlessly crumble, the Company is positioning itself to benefit from the consistently increasing demand for technologies that can cut the costs of water network maintenance during this era of austerity. [10]

In addition to the major infrastructure build-out plans outlined above (which are expected to provide a stable growing market for water treatment companies in the Company's portfolio), and possibly due to these plans, global combined water and wastewater tariffs prices are going up across the world by an average rate of 6.8% per year[11]. This makes the investment in water operators such as RWT in the Company's portfolio attractive. This shift shows that authorities across the world are taking clear steps to slowly relax the water subsidies which artificially disengage pricing from the natural level that would be achieved under dynamic free market supply and demand, hence also dramatically increasing the value of water reuse technologies.

The Manager continues to have a positive focus on water reuse in general, and water reuse technology providers in particular, as are other industry experts who predict that "the future of water is the reuse movement" [12]. For instance, in the USA the reuse of non-potable water through industry, agriculture and commerce has been tried and tested via the Southwest Florida Water Management District, which now recycles 10% of total water use in the district. Across the US as a whole, however, less than 0.3% of total water used comes from recycling, highlighting the long journey ahead for US water reuse infrastructure, particularly given the high costs associated with long-distance imports and desalination, while the United States' swelling population continues to draw from the water reserves in aquifers at unsustainable rates.

Despite difficult financial market conditions, recent merger and acquisition activity in the water sector has provided a promising indication of the growing interest in the new technologies available, as shown in the graph below[13]. The total annual value of these deals fell drastically in 2009, but has recovered to pre-crisis levels in the past year, indicating that acquisitions are already fetching much higher valuations once again.

We said last year that we believed the trend towards higher activity in the "Cleantech" buyout market, particularly in the water sector, will 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 three years deleveraging;

iii. the return of the IPO market relative to the immediate preceding year; 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.

Capitalising on this trend, the Manager continues to explore exit opportunities for the underlying investments, and the active mergers and acquisitions market in the water sector is expected to provide a favourable environment for this activity.

Figure 2: Recent merger and acquisition activity in the water sector[14]:

To view the graph associated with Figure 2 please refer to the full Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2011 which will shortly be submitted to the National Storage Mechanism for inspection at www.hemscott.com/nsm.do

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

Deep sector knowledge and active management with an aim to achieve growth and superior performance in the long term.

Summary of the investments made during the year

Ranhill Water Technologies (Cayman) Limited

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 (€1,725,935) via a subscription for new shares to be issued by RWT. RWT is the international joint venture established in March 2009 by the Company and Ranhill Berhad and its affiliates (the "**Ranhill Group**") to invest in water and wastewater operations in the People's Republic of China and Thailand. In March 2009, the Company invested US$12,555,000 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 are being deployed by RWT for 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.

In February 2011, 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 was valid until 16 February 2012 and has not been exercised by the Ranhill Group as the additional capital was not required by RWT in the twelve months to 16 February 2012.

Following this investment, at 31 December 2011, the Company had invested approximately 93% of its net assets.

Summary of the investments made since the year end

No new investments have been made since the year end. However, on 27 March 2012, the Company announced a partial exit from its investment in BBI. As part of that exit, the Company received a total amount of £912,147 in cash as part repayment for some of its outstanding loans to BBI, with the balance of its loans being converted into two new classes of shares in BBI.

NAV Performance

The NAV of the Company declined by 15.6% (2010: increase 10.1%) over the year. The unrealised portfolio declined in value by approximately €11.2 million during the year (2010: €9.9 million increase).

Performance

Ranhill Water Technologies (Cayman) Limited performance

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

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

(in US$ million)	2009	2010	2011
Revenues	$ 13.5	$ 22.5	$ 26.1
EBITDA	$ 4.8	$ 6.0	$ 6.4
Net Profit[16]	$ 4.2	$ 4.9	$ 5.0

RWT's audited fiscal year 2011 revenues were approximately US$26.1 million, a 16% increase to the last fiscal year's revenues; EBITDA and net profits were respectively approximately US$6.4 million and US$5.0 million. In audited fiscal year 2010, RWT booked revenues of US$22.5 million, EBITDA of US$6.0 million and net profit of US$4.9 million. RWT has a June fiscal year end.

For the first six months (to 31 December 2011) of fiscal year ending 30 June 2012, RWT registered unaudited revenues of approximately US$12.3 million, EBITDA of US$3.4 million and net profit of US$2.6 million. EBITDA and net profit margins are slightly ahead of their fiscal year 2011 (ending 30 June 2011) performance[17].

During the calendar year 2011, RWT started operations on the 30 MLD Hefei Plant and the 50 MLD Xinxiang Plant in China. Construction work commenced during the year on two new plants - the 30 MLD wastewater treatment plant ("**WWTP**") & 30 MLD recycled water treatment plant ("**RWTP**") Yingkou Plant (the "**Yingkou Plant**") and 50 MLD Xiao Lan phase 2 plant. Inclusive of these two plants currently under construction, RWT's total treatment capacity in China will reach approximately 240 MLD by early 2013.

The Yingkou Plant, when completed, will be a strong addition to RWT's growing portfolio of projects in China. This plant, besides treating wastewater, recycles the effluent into industrial grade water for use by industries in the adjacent areas. Yingkou is located in China's northern region, a region that has water shortage problems. Industries in Yingkou are subject to water rationing by water authorities and this negatively impacts industrial expansion. RWT is finalising an off-take agreement with a local steel miller to supply water for the miller's manufacturing process. This project is a good example of RWT's ability to leverage existing projects to secure new business. The Yingkou RWTP is RWT's first in China. RWT has an existing RWTP in Amata, Thailand and this operation was instrumental in RWT winning the Yingkou project.

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
RWT	11,055	14,865	25,920	Discount to comparable multiples

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

China Hydroelectric Corporation performance

CHC is an owner, consolidator, developer and operator of small hydroelectric power projects in the People's Republic of China. Led by an international management team, CHC's primary business is to identify and evaluate acquisition and development opportunities and acquire and in some cases construct, hydroelectric power projects in China. CHC currently owns twenty-four operating hydroelectric power projects in China (consisting of twenty nine operating stations) with a total installed capacity at 30 September 2011 of 563.8 Megawatt ("**MW**"). These projects are located in four provinces: Zhejiang, Fujian, Yunnan and Sichuan[18].

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

(in US$ millions)	2009	2010

Revenues	$ 36.2	$ 66.7
Gross Profit	$ 19	$ 41.8
EBITDA	$ 22.8	$ 42.8

For the nine months to 30 September 2011, CHC reported unaudited revenues of US$48.3 million, EBITDA of US$30.5 million and a net loss of US$11.1 million. At the operating level, the nine months revenue and EBITDA are down by 15% and 24% respectively, over the corresponding period in fiscal year 2010.

The decrease in revenues was attributable principally to less than average hydrology levels caused by severe droughts across China in the first nine months of 2011 compared to better than average hydrology levels in the same period in 2010 and to a lesser extent, the result of a lower effective tariff rate due to a change in project mix. These factors were partially offset by incremental revenues contributed in 2011 by projects acquired in the twelve month period since 30 September 2010.

CHC sold 1,123.9 million kilowatt-hours ("**kWh**") in the nine months ended 30 September 2011, a decrease of 110.1 million kWh, or 9%, from 1,234 million kWh sold in the nine months ended 30 September, 2010. Sales from existing projects decreased by 261.8 million kWh, or 21%, partially offset by the sale of 151.7 million kWh produced by projects acquired since 30 September 2010.

The consolidated effective utilisation rate in the nine months ended 30 September 2011 was 30.7%, a decrease from 46.2% in the same period of 2010. The decrease was principally the result of below average hydrology levels in the nine months to 30 September 2011 in all provinces, compared to above average hydrology levels in all provinces in the nine months ended 30 September 2010.

The effective tariff for electricity decreased year on year by 12% to RMB 0.30/kWh at 30 September 2011. This decrease in tariff is attributable to a larger revenue contribution from Yunnan province where tariffs are lower than in the two eastern provinces.

Cost of revenues, which consist of cost of goods sold and depreciation, was US$24.3 million for the nine months ended 30 September 2011, as compared to US$17.5 million for the same period in 2010. The increase is primarily due to acquisition of operating assets since 30 September 2010. Cost of revenue as a percentage of revenues increased to 50% for the nine months ended 30 September 2011, from 31% in the same period of 2010, as a result of lower revenue due to unfavorable hydrological conditions explained above and the fixed nature of these expenses. Depreciation was US$17.1 million for the nine months ended 30 September 2011, compared to US$11.9 million for the same period in 2010.

General and administrative expenses for the nine months ended 30 September 2011 were US$14.8 million or 31% of revenues compared to US$13.8 million, or 24% of revenues for the same period in 2010. They included an employee stock-based compensation expense of $2.9 million, compared to $2.6 million in 2010. The increase in general and administrative expenses was also due to financing costs and higher professional fees associated with being a public company which are fixed costs. As a consequence, as the revenues decreased during the year, these expenses increased as a percentage of revenues.

Net interest expense was US$18.7 million during the nine months ended 30 September 2011 compared to US$10.5 million in the same period of 2010. The increase in interest expense was primarily due to the higher balance of outstanding loans from the addition of loans assumed from projects acquired after 30 September 2010.

Besides the poor hydrological factors and lower effective tariff in 2011, CHC's efforts to refinance some of its project loans coming due was unsuccessful owing to restrictions on onshore bank lending imposed by the Chinese central government. These restrictions are part of the Chinese central government's efforts to contain domestic inflationary pressures.

In their efforts to raise financing to resolve cash shortfalls resulting from events above, in August 2011, CHC entered into a financing agreement with one of their main shareholders, Vicis Capital, pursuant to which Vicis Capital exercised certain warrants it held for ordinary shares of CHC at an agreed reduced exercise price, thereby providing CHC with US$10 million in equity financing.

In December 2011, CHC announced the sale of a 16MW project in its portfolio ("**Yuanping Project**") for a total consideration of US$22 million, including the assumption of debt by the buyer. The sale closed in March 2012.

During the period from 1 January 2011 to 31 December 2011, CHC's share price declined by approximately 84% from US$7.21 per American Depositary Share ("**ADS**") to US$1.14 per ADS. Beside the worse than expected operational results described above, CHC's share price decline was aggravated by the very negative sentiment relayed by major international financial press regarding possible US Department of Justice investigations into allegations of accounting fraud in reverse-takeover companies involving Chinese listed companies. CHC does not in fact have a Chinese listing, nor did its listing result from a reverse-takeover. Rather it a straight listing on the NYSE and, as far as the Manager is aware at the date of publication of this Annual Report, CHC is not subject to any investigation by the US government or market regulator. This negative news flow hit most US-listed Chinese stock without differentiating one company from another.

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
CHC	13,479	(11,741)	1,738	Market price

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

Waterleau Group performance

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

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

(in € million)	2009	2010	2011
Revenues	€ 55.5	€ 63.5	€ 77.5
EBITDA	€ 6.6	€ 6.6	€ 7.8

For the twelve months ended 31 December 2011, Waterleau experienced a steady growth despite very difficult market conditions especially in its core markets (such as Europe and the MENA region). Its unaudited fiscal year 2011 revenues were approximately €77 million which represents a 20% increase on last fiscal year's revenues; EBITDA margin remained at approximately 10%. As per the previous year, Waterleau booked over 50% of its revenues outside of Europe. Waterleau benefited from a strong growth in orders from its industrial clients, particularly in the brewery sector.

In December 2011, Waterleau's client, Régie Autonome de Distribution d'Eau et d'Electricité de Marrakech ("**RADEEMA**"), the public water agency for Marrakech which was established in 1971, successfully started operations on a 17 hectare plant which is North Africa's first integrated WWTP. The plant generates energy through sludge treatment and biogas recovery for electricity and heat cogeneration. The cogeneration unit provides up to 60% of the plant's energy needs, reducing not only its carbon footprint but also the demand on the country's already-stretched electricity grid. The plant treats 110,000m³/d of wastewater from the city of Marrakech in Morocco. Waterleau has a 10-year operation and maintenance contract with RADEEMA.

As recently as 2005, Morocco treated just 10% of its municipal effluent, with an estimated 2,000 hectares of agricultural land being irrigated with raw sewage[21]. The installation of the Marrakech plant brings wastewater treatment penetration in Morocco's fourth-largest city up to 100%, easing the serious problem of pollution in the city's waterways. Faced with mounting pollution problems, the country has launched a national wastewater strategy, Plan National de l'Assainissement, with the long term objective of treating 60% of effluent and connecting 80% of the population to the sewerage network by 2020.

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
Waterleau	20,000	6,521	26,521	Discount to comparable multiples

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

In-Pipe Technology performance

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

Summary of In-Pipe's financial performance[22] (December year-end):

(in $ million)	2009	2010	2011
Revenues	$ 1.7	$ 1.6	$ 1.8
EBITDA	($ 1.5)	($ 1.6)	($ 0.8)

For the twelve months ended 31 December 2011, In-Pipe's unaudited fiscal year 2011 revenues were approximately US$1.8 million (US$1.6 million in 2010) which represents an approximately 6% increase year on year. Gross margin slightly improved to 61% (59% in the previous fiscal year). In-Pipe continues to suffer from a difficult market environment, as most of its municipal clients in the US are still reluctant to expand (having cut spending and being unwilling to commit to large purchase orders). The Manager has worked very closely with In-Pipe's experienced management team, which has taken swift action to reduce costs and restructure the business. This has helped In-Pipe finish the year on a positive note having improved its margins and reduced its monthly cash spend by approximately 50% over the full year. The Manager will continue to work hand in hand with In-Pipe's management with the objective of continuing strengthen the value of the company.

In October 2011, In-Pipe announced that Suffolk County in the state of New York, USA, had signed a contract for the company to provide professional, green sewer collection system services to the 30.5 million gallons per day ("**MGD**") Bergen Point WWTP's collection system to control fats, oils and grease, improve treatment efficiency and reduce energy, chemicals and sludge processing costs at the plant. In-Pipe projects that this servicing contract will allow Suffolk County to save US$600,000 in the first year of operation and US$1.2 million in each subsequent year. In-Pipe will be paid as a percentage of achieved savings. The awarding of this contract is a turning point for In-Pipe and a significant milestone.

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
In-Pipe	3,603	1,168	4,771	Preferred return

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

Bluewater Bio International performance

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

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

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

BBI has made good progress during the period, having executed a 7.3 million Bahraini Dinar (circa US$20 million) contract with the Ministry of Works of the Kingdom of Bahrain to upgrade and expand the Tubli wastewater treatment plant. Tubli is the largest plant of its kind in the country and serves a population equivalent to c. 800,000. BBI has also completed the installation of its HYBACS process at the Botleng wastewater treatment plant in South Africa, serving 17,000 residents. The first six months of BBI's financial year to 31 December 2011 posted revenues of an estimated £1.1 million.

We had anticipated and warned that 2011 was going to be a challenging year for BBI given the situation in Bahrain, where the company won its largest tender in late 2010, although the contract for which signature was delayed until 7 June 2011. The upheavals and the resulting state of emergency have delayed the Tubli project where construction was set to start in early spring of 2011. The financial situation of BBI remains fragile but it is starting to convert pilot projects (most notably with Severn Trent) and recently acquired pipeline in real revenues.

In November 2011, BBI closed a US$4 million round financing with Liberation Capital, a US firm whose principals specialise in small project finance. This funding was instrumental in financing Tubli's working capital requirements. At the same time, BBI negotiated a further US$4 million revolving facility with Liberation Capital for additional asset based projects. At 31 December 2011, BBI had not drawn down on the additional revolving facility.

During the course of the second half of 2011, BBI also focused its attention on fund raising to help cope with the growth resulting from the Tubli project. Details on the fund raising and its implications for the Company can be found in "Summary of the investments made since the year end" section and in the "Subsequent event" section in Note 12.

Investment summary:

	Cost (€'000)	Unrealised value (€'000)	Total value (€'000)	Valuation methodology
BBI	9,375	(3,841)	5,534	Write down and recent transaction

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

Performance summary

At 31 December 2011, the Company had approximately 6.9% of its net assets in liquid funds and 93% was invested in unquoted and quoted (in the case of CHC) investments.

The realised andunrealised movements of the investment portfolio (including accrued interest and foreign currency movements) are analysed in Figure 3 and Figure 4 below.

Figure 3
Analysis of movements in NAV for the year ended 31 December 2011 (in €)

Opening NAV as at 1 January 2011	81,535,743
Investment income	809,737
Management fee	(1,484,195)
Performance fee	-
Other costs	(816,311)
Net unrealised depreciation of investments	(11,193,253)
Foreign currency movements	(20,119)
Closing NAV as at 31 December 2011	68,831,602

Figure 4
Unrealised movements in investment portfolio for the year ended 31 December 2011 (in €'000)

To view the graph associated with Figure 4 please refer to the full Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2011 which will shortly be submitted to the National Storage Mechanism for inspection at www.hemscott.com/nsm.do

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 the Company's investment in In-Pipe. This creates an opportunity for the Company to create synergies within the portfolio companies, by allowing transfers and partnerships between the technology providers and the operators, and to capture a unique opportunity to benefit from advanced know-how and the fast growing markets in which the investee companies operate.

Outlook for portfolio companies

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

MENA.

Ranhill Water Technologies (Cayman) Limited outlook

For the calendar year 2012, RWT will be operating four plants completed to date in China with a total treatment capacity of 160 MLD. The company is currently in the midst of constructing two additional plants - the 50 MLD Xiao Lan Phase 2 Plant and the 30 MLD Yingkou Plant. These plants are scheduled for completion by late 2012 and early 2013 respectively. The Manager continues to see strong opportunities in wastewater treatment and recycling in China. RWT's target for fiscal year 2012 is to conclude negotiations on two new BOT projects from a number of projects currently under various stages of development.

China Hydroelectric Corporation outlook

For 2012, including the recent sale of the 16MW Yuanping project, CHC will have a total installed and operating capacity of 547.8MW spread across 26 hydropower projects. CHC's management focus in 2012 will be on refinancing project loans coming due during 2012. The Manager estimates CHC has a total of approximately US$300 million of outstanding loans with an average loan life of five to six years.

In the last quarter of 2011, the Chinese central government started to ease credit lending in the banking sector and the Manager expects this trend to continue in 2012. This should bode well for CHC's refinancing efforts. The Manager does not expect CHC to expand their portfolio of projects in the short-term as cash generated from operations will be deployed to pay down outstanding debt.

Waterleau Group outlook

During 2011, Waterleau has consolidated its international presence to become an established player in both the municipal and industrial wastewater treatment markets. In 2012, the Manager expects that the industrial wastewater treatment market will continue to progress, in particular in the food and beverage sector, where Waterleau is one of the major global players.

In addition to growing its turnkey project delivery revenues in countries where it can offer solutions based on its own technology as opposed to off-the-shelf technologies where there is intense competition, Waterleau will seek to continue 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.

A good example of that line of business is the Marrakech WWTP which started full operations in December 2011, treating the wastewater of the city's one million inhabitants and leading the way to a sustainable future for the entire region. Waterleau will benefit from recurring revenues from its 10-year operation and maintenance contract with RADEEMA for a total value of €30 million.

North-Africa is a key market for Waterleau with established local presence in Morocco, Algeria and Egypt where it has regional offices. Waterleau is expected to complete the construction of the WWTP in the Royal City of Fes (1,300,000 people equivalent)[23], Bouskoura (50,000 people equivalent) and Dakhla (60,000 people equivalent).

In-Pipe Technology outlook

In-Pipe continues its efforts to grow its key client base and win new accounts while reducing its costs with a view of reaching break-even by the end of 2012. As part of its costs reduction and improvement of its liquidity position, in February 2012 In-Pipe completed a transaction with its founding partners partially to convert their debt into equity, reducing significantly its monthly debt burden and cash burn. This was accompanied by an injection of cash from some existing investors for an undisclosed amount.

On the operational front, In-Pipe will turn its focus to servicing large MGD plants and also lagoons in 2012. Large MGD plants can secure higher revenue streams for In-Pipe such as the plant they have recently won and are starting to service in Suffolk County, NY. Lagoons meanwhile are a new focus area which is a growing problem in the US and can be treated through the continuous addition of a highly concentrated formulation of facultative bacteria, which are more robust and sustainable than indigenous wastewater bacteria. In-Pipe microbes can accelerate the treatment process under aerobic (with oxygen) or anaerobic (without oxygen) conditions. In-Pipe enhances its engineered strategy by adding a low energy mixer to the process to circulate the stagnant water in the lagoon. The mixer promotes oxygen transfer to create aerobic conditions. Furthermore, the combination of the mixer and In-Pipe bacteria suppresses sulfate reducing activity and thereby eliminates the sulfide odour generated from the lagoon giving In-Pipe an edge.

Bluewater Bio International outlook

The coming year will remain challenging for BBI as it needs to execute and deliver the Tubli project as well as its recently won contract with Severn Trent Water which was announced in January 2012. The contract is for four units which will be part of an upgrade of Severn Trent's Ashbourne sewage treatment works in Derbyshire. Both projects are currently expected to significantly strengthen BBI's 2012 revenues.

Furthermore, the Manager expects significant improvement on BBI's liquidity position resulting from the successful completion of a fund raising exercise carried out by the financial advisory firm GP Bullhound. On 27 March 2012, the Company announced a partial exit from its investment in BBI, as part of a wider fundraising by two new investors in BBI, Ombu Group and Hermes GPE, of up to £16 million (the "Ombu Transaction"). Some of the proceeds of the fundraising are to be used by BBI to repay part of its existing debt. The remaining proceeds of this fundraising will be used to finance BBI's working capital, and should allow it to successfully deliver and complete its outstanding projects and sustain its growth in markets where it is well positioned to benefit from its existing relationships (particularly in the United States through its agreement with Degremont Technologies, a subsidiary of Suez Environnement).

Principal risks and uncertainties

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

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

Macroeconomic risks

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

Long-term strategic risks

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

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

Investment risks

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

Operational risks

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

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

FourWinds Capital Management
25 April 2012

INVESTING IN PRIVATE EQUITY

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

Growth capital investments in the water sector

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

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

- **Governance:**businesses that the Company has an interest in are run by their respective owners/managers and the Company works alongside the respective owners/managers to expand the reach and accelerate the growth of the businesses. The Manager is focused on achieving superior results and creating value. The investments are structured to ensure alignment of interests amongst all the stakeholders.

- **Control:**over exit when the time comes.

- **Managemen**t: attract the best talent in the industry, which is particularly important in the water sector which is small and tightly knit. Having built an exceptional network of sector specialists, the Manager is particularly focused on helping the Company's underlying investments find the best managerial resources.

- **Sector:**attractiveness of the water sector and focused expertise which allows the Company to select from among the best possible opportunities which are derived from proprietary research and through a network of relationships built up by the Manager over the years.

- **Synergies:** unique synergistic approach throughout the portfolio to grow in multiple geographic areas with a particular focus on Europe, Asia and MENA.

Investing in a listed private equity vehicle

Listed Private Equity refers to public companies whose shares are listed and traded on a primary stock exchange. In Europe, primary exchanges include the LSE and Euronext. Some private equity companies quoted on the LSE 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.

LSE-listed private equity investment companies are supervised by boards of directors, in the case of the Company, all 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.

In general, listed private equity companies continually invest and reinvest. In certain cases they have no fixed lifespan and 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.

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 investments have been 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 an investment or otherwise.

Asset Allocation

Investments may be made within a diverse range of water-related segments including infrastructure, technology, recycling and treatment and in water-related projects such as wastewater treatment, water distribution and infrastructure, water-to-energy, clean water, desalination, and others. Investment will comprise primarily direct stakes in unquoted water-related companies and projects. A target threshold of at least 60% 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 and on the Board of Sun Life of Canada (UK) Limited. He has an M.A. (Oxon). Besides chairing the Company, he also chairs the Management Engagement Committee.

Andrea Rossi (up to 17 January 2012)
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 INSEAD in France, in 1994.

Timothy Betley (up to 22 July 2011)
Mr Betley was the Chairman of the Audit Committee up to 22 July 2011. 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 (up to 2 June 2011)
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.

Jonathan Hooley (effective 25 July 2011)
Mr Hooley is a Jurat of the Royal Court in Guernsey. He was until February 2012 the Chairman of the Channel Islands Stock Exchange and holds a number of non-executive directorships. He retired as the senior partner of KPMG in the Channel Islands on 30th September 2007. He was a tax partner with KPMG for over 20 years, firstly in London where he was an international tax partner specialising in banking and other financial sector work and subsequently in Guernsey where he has been responsible for advising a large number of investment funds. Mr. Hooley was a member of the States of Guernsey Fiscal Policy Technical Group for eight years. He is a member of the Offshore Advisory Committee of the Association of Investment Companies. Mr. Hooley replaced Mr. Timothy Betley effective 25 July 2011, and is Chairman of the Audit Committee.

Fergus Dunlop (effective 2 February 2012)
Mr. Dunlop holds a number of non-executive directorships, including Resolution Limited, Princess Private Equity Holdings Limited and the Schroder Oriental Income Fund Limited. Previously, Mr. Dunlop was Managing Director and Partner at Südprojekt Gesellschaft für Finanzanalysen GmbH, an award winning fund of funds and hedge fund advisory business based in Munich. He began his investment career with Mercury Asset Management ("**MAM**") in London, managing the firm's joint venture with Munich Re and establishing MAM's German office, where he subsequently worked to develop its institutional business.

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements (the "financial statements") of Aqua Resources Fund Limited ("**the Group**") which comprise the consolidated statement of assets and liabilities as of 31 December 2011 and the consolidated statement of operations, consolidated schedule of investments, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2011, and of the financial performance and cash flows of the Group for the year then ended in accordance with accounting principles generally accepted in the United States of America and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Emphasis of matter

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

Report on other Legal and Regulatory Requirements

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

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters which we are required to review under the Listing Rules:

- the Directors' statement set out on page 14 in relation to going concern;
- the part of the Corporate Governance Statement relating to the Group's compliance with the nine provisions of the UK Corporate

Governance Code specified for our review.

Evelyn Brady
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands
25 April 2012

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
AT 31 DECEMBER 2011

	Notes	31 December 2011 €	31 December 2010 €
Assets			
Cash and cash equivalents		4,078,716	8,181,382
Investments at fair value (cost 2011: €57,529,286 and 2010: €55,803,352)	3	63,991,141	73,458,458
Interest receivable		643,739	-
Receivable from the Manager		279,213	-
Prepaid expenses		13,863	16,496
TOTAL ASSETS		69,006,672	81,656,336
Liabilities			
Other payables	4	175,070	120,593
TOTAL LIABILITIES		175,070	120,593
NET ASSETS		68,831,602	81,535,743
Net Assets consist of:			
Ordinary Shares (no par value, authorised to issue unlimited number of Ordinary Shares, of which 72,464,340 (2010: 72,464,340) were issued and outstanding)	6	70,030,004	70,030,004
Retained earnings		(1,198,402)	11,505,739
		68,831,602	81,535,743
Net asset value per Ordinary Share		0.9499	1.1252

The consolidated financial statements were approved by the Board of Directors on 25 April 2012 and signed on its behalf by:

Hasan Askari *Jonathan Hooley*

CONSOLIDATED SCHEDULE OF INVESTMENTS
AT 31 DECEMBER 2011

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	26,520,207	38.53
Cayman Islands (cost: €2,979,301)			
Bluewater Bio International Convertible Loans	£2,500,000	2,758,201	4.01
Total investments in bonds (cost: €22,979,301)		**29,278,408**	**42.54**
Equities in Unlisted Companies			
Belgium (cost: €277)			
Waterleau Group N.V.	1	367	-
Cayman Islands (cost: €17,468,604)			
Bluewater Bio International (Note 3)	49,170,112	2,282,585	3.32
Ranhill Water Technologies (Cayman) Limited	14,880,000	25,920,200	37.66
United States of America (cost: €3,602,651)			
In-Pipe Technology Company Inc.	474,834	4,771,731	6.96
Total investments in unlisted companies (cost: €21,071,532)		**32,974,883**	**47.91**
Equities in Listed Companies			
China (cost: €13,478,451)			
China Hydroelectric Corporation - American Depository Shares	1,980,537	1,737,849	2.52
Total investments in listed companies (cost: €13,478,451)		**1,737,849**	**2.52**
Warrants			
Cayman Islands (cost: €1)			
Bluewater Bio International - Warrant 02/11/2016 (Note 3)	1	-	-
Bluewater Bio International - Part 2 Warrant 31/03/2013 (Note 3)	1	1	-
United States of America (cost: €1)			
In-Pipe Technology Company Inc. - Warrants 05/08/2016 (Note 3)	74,225	-	-
Total investments in warrants (cost: €2)		**1**	**-**
Total investments at fair value (cost: €57,529,286)		**63,991,141**	**92.97**

CONSOLIDATED SCHEDULE OF INVESTMENTS
AT 31 DECEMBER 2010

	Quantity/	**Fair Value**	**% of**

Investments	Notional	€	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**
Equities in 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**
Equity in 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 05/08/2016 (Note 3)	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**

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	31 December 2011 €	31 December 2010 €
Investment Income			
Interest income		808,740	748
Other income		997	1,730

Total investment income		809,737	2,478
Operating Expenses			
Administrator fees		119,725	99,999
Audit fees		35,826	40,537
Fees for non-audit services		-	-
Professional fees		134,309	79,004
Brokerage fee		61,199	30,614
Directors' fees	5	100,407	99,902
Directors' expenses		16,292	55,905
Due diligence expenses		76,613	265,297
Management fees	5	1,484,195	1,557,801
Marketing expense		41,882	14,225
Miscellaneous expenses		230,058	185,377
Total operating expense		2,300,506	2,428,661
Net investment loss		(1,490,769)	(2,426,183)
Realised and unrealised (loss)/gain from investments and foreign currency			
Net realised loss from foreign currency transactions		(33,628)	(31,057)
Net unrealised gain from foreign currency transactions		13,509	17,003
Changes in unrealised (depreciation)/appreciation of investments		(11,193,253)	9,921,500
		(11,213,372)	9,907,446
Net (decrease)/increase in net assets resulting from operations		(12,704,141)	7,481,263
Net investment loss per Ordinary Share (annualised):			
Basic & diluted		(0.0206)	(0.0335)
Net (loss)/gain per Ordinary Share (annualised):			
Basic & diluted		(0.1753)	0.1032
Weighted Average Number of Ordinary Shares Outstanding:			
Basic & diluted		72,464,340	72,464,340

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	**31 December 2011 €**	**31 December 2010 €**
Movement in net assets resulting from operations			
Net investment loss		(1,490,769)	(2,426,183)
Net realised loss from foreign currency transactions		(33,628)	(31,057)
Net unrealised gain from foreign currency transactions		13,509	17,003
Net change in unrealised (depreciation)/appreciation of investments		(11,193,253)	9,921,500
Net (decrease)/increase in net assets resulting from operations		(12,704,141)	7,481,263
Share capital transactions			
Issuance of capital		-	-
Redemption of capital		-	-
Net increase in net assets resulting from share capital transactions		-	-
Net (decrease)/increase in net assets resulting from operations		(12,704,141)	7,481,263

Net assets at beginning of year		81,535,743	74,054,480
Net assets at end of year		68,831,602	81,535,743
Net asset value per Ordinary Share		0.9499	1.1252
Number of Ordinary Shares issued and outstanding at end of year	6	72,464,340	72,464,340

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	31 December 2011 €	31 December 2010 €
Cash flows from operating activities		
(Decrease)/increase in net assets resulting from operations	(12,704,141)	7,481,263
Adjustment to reconcile (decrease)/increase in net assets resulting from operations to net cash used in operating activities:		
Net change in unrealised depreciation/(appreciation) of investments	11,193,253	(9,921,500)
Increase in interest receivable	(643,739)	-
Increase in receivable from the Manager	(279,213)	-
Decrease in prepaid expenses	2,633	40,652
Increase/(decrease) in other payables	54,477	(106,351)
Purchase of investments	(1,725,936)	(24,490,328)
Net cash used in operating activities	(4,102,666)	(26,996,264)
Net decrease in cash	(4,102,666)	(26,996,264)
Cash and cash equivalents at beginning of year	8,181,382	35,177,646
Cash and cash equivalents at end of year	4,078,716	8,181,382

CONSOLIDATED FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED 31 DECEMBER 2011

	31 December 2011	31 December 2010
Per share data[25]		
Net asset value at beginning of year	1.1252	1.0219
Net investment loss	(0.0206)	(0.0335)
Net realised foreign currency loss	(0.0003)	(0.0007)
Net change in unrealised appreciation/(depreciation) of investments	(0.1544)	0.1375
Net (decrease)/increase in net assets resulting from operations	(0.1753)	0.1033
Net asset value at end of year	0.9499	1.1252
Ratios/supplemental data		
Net asset value per share at end of year	0.9499	1.1252

Total return	(15.58%)	10.11%
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 €)	68,831,602	81,535,743
Average net assets[26] (in €)	74,824,397	72,060,818
Ratio of operating expenses to average net assets[27]	(3.07%)	(3.37%)
Ratio of net investment loss to average net assets[27]	(1.99%)	(3.37%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1. ORGANISATION

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

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

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

On 24 July 2008 the Company's Ordinary Shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange 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;

- Aqua Resources (In-Pipe) Holdings Limited ("**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. Due to the inherent uncertainty of such estimates, including estimates of values of investments, amounts ultimately determined

on realization may differ from the Company's current estimates and such differences may be significant.

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

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 2011 were valued are contained in Note 3.

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

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

Level 2: Financial assets and liabilities whose values are based on the following:
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.

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

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

Interest Income

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

Expenses

Expenses are accounted for on an accruals basis.

Private placements

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

Foreign Currency Translation

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

Taxation

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

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

The Manager has analysed the Company's tax positions, and has concluded that no liability for unrecognised tax benefits should be recorded relating to uncertain tax positions for open tax years (2008-2010) and the positions to be taken for tax year ended 31 December 2011. The Company recognises interest and penalties, if any, related to unrecognised tax benefits as income tax expense in the Consolidated Statement of Operations. During the year ended 31 December 2011, the Company did not incur any interest or penalties. The Company identifies its major tax jurisdictions as Belgium, China, the Netherlands, Cayman Islands and Guernsey where the Company holds its investments; however the Company is not aware of any tax positions for which it is reasonably possible that total amounts of unrecognised tax benefits will change materially in the next twelve months.

3. INVESTMENTS

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

Assets at fair value as of 31 December 2011 **Class**	**Total** **€**	**Quoted prices in active markets for identical assets (Level 1)** **€**	**Other market-based observable inputs (Level 2)** **€**	**Unobservable inputs (Level 3)** **€**
Equities- Listed companies	1,737,849	1,737,849	-	-
Equities- Unlisted companies	32,974,882	-	-	32,974,882
Convertible bonds	29,278,409	-	-	29,278,409
Warrants	1	-	-	1
Total	63,991,141	1,737,849	-	62,253,292

		Quoted prices in active markets for identical	**Other market-based observable**	**Unobservable**

Assets at fair value as of 31 December 2010 Class	Total €	assets (Level 1) €	inputs (Level 2) €	inputs (Level 3) €
Equities- Listed companies	10,914,781	10,914,781	-	-
Equities- Unlisted companies	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

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 2011.

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

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

*The total change in unrealised appreciation (depreciation) included in the consolidated statement of operations attributable to level 3 movements still held at 31 December 2011.

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	-
Sale of investments	(607,573)	-	(607,573)	-
Change in net unrealised appreciation	16,984,866	12,952,604	3,539,081	493,181
Transfer to level 1[28]	(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

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

Warrants

In November 2011, BBI agreed with the Company to extend the expiry date of the warrants, previously granted to it in 2010, to 2 November 2016 and to adjust the amount as well as the exercise price of such warrants. As a result, the Company now holds warrants to subscribe for a total of 55,366,136 ordinary shares of BBI expiring in November 2016.

The Company also holds warrants (via its subsidiary ARIHL) to subscribe for 74,225 of additional shares in In-Pipe, representing approximately 2% of the share capital of In-Pipe as at 31 December 2011. These warrants expire in August 2016[29].

Equity Investments

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

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

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

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

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

As at 31 December 2011 the investments held by the Company which were valued using an estimate of fair value were as follows;

Ranhill Water Technologies (Cayman) Limited

The Company has valued its holding in RWT using net earnings derived from (i) RWT's latest audited financial statements for the year ended 30 June 2011 and (ii) unaudited interim financial statements for the 6 months ending 31 December 2011; and has applied a discount of 35% (30% at the Company's 2011 interim financial statements at 30 June 2011) to a range of comparable peer group sector relevant multiples to derive a market valuation for RWT. This adjustment reflects the unlisted nature of RWT's shares (in comparison with the peer group referred to above), enhanced risk aversion amongst investors due to the overall global environment and the reduced level of activity in the regional capital markets. 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 represents the fair value of this investment at the year end.

Waterleau Group

The Company has valued its holding in Waterleau on an "as-converted" basis (assuming full conversion of the convertible bonds into ordinary equity), using an EBITDA figure derived from Waterleau's latest unaudited financial statements for the year ending 31 December 2011 and applying a 20% discount to a range of comparable peer group sector relevant multiples to reflect the illiquidity of Waterleau's shares. At the end of December 2011, Waterleau had a net cash position which was added to the value obtained from multiplying the EBITDA to the discounted sector multiple in order to obtain Waterleau's enterprise value at 31 December 2011. The methodology differs from the one applied in the Company's 2010 Annual Report which consisted of using a conversion feature of the instrument that included cost plus the implied value of interest earned during the holding period. 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 Company has valued its holding in In-Pipe by keeping the equity portion of the investment at cost and by accruing the preferred return. This is a change from the methodology that was applied in 2010 which consisted of keeping the preferred shares at cost without accruing the preferred return and re-valuing the in-the-money warrants to a level that reflected the latest fundraising which established a fair value for the shares in In-Pipe. This was valued by calculating the enterprise value taking into account the diluted affect and then split the value between equity shares and warrants. The Company still holds warrants in In-Pipe (see Note 3 above) but ascribing no value to them is a more accurate basis to establish the fair value of the investment. 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 and to accrue the preferred return.

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.

As part of the Ombu Transaction, which occurred subsequent to 31 December 2011, the Company received a total cash amount of £912,147 by way of partial redemption/repayment of its outstanding secured loans to BBI, the balance of which has been converted into two new classes of preferred shares as follows:

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

The residual value of the Company's two loan instruments as at 31 December 2011 (after the repayment of cash) which have since been converted into 2 new classes of preferred shares has been discounted by 20% to reflect the illiquid nature of the preferred shares. The Directors are of the opinion that a market participant considering purchasing the investment would apply a 20% discount to reflect the illiquid nature of the holding of the preferred shares. Accordingly the Directors have decided to measure these instruments at 31 December 2011at a discount to the most recent transaction price.

The ordinary equity interest retained by the Company, which now represents 12.12% of the issued voting capital of BBI (reduced from approximately 17% which it held immediately prior to this financing round) and which ranks behind the preferred and other classes of shares in the capital of BBI, has been written down by approximately 75% compared to the value of the ordinary equity interest as presented in the Company's 2010 Annual Report. The Company also holds warrants in BBI giving it the right to subscribe for additional ordinary shares (see above) which have been valued at nil.

As at 31 December 2011 the investment held by the Company which is based on quoted market price (Level 1) was;

China Hydroelectric Corporation

The Company owns approximately 3.67% of CHC's ordinary shares (representing 1,980,537 ADS) and the appropriate valuation of the Company's investment in CHC is based on the closing price on 31 December 2011 on an active market of US$1.14 per ADS.

4. OTHER PAYABLES

	31 December 2011	31 December 2010
	€	€
Administration fees	50,137	25,205
Audit fees	40,000	40,000
Directors' fees	26,954	24,742

Financial reporting fees	10,000	5,000
Other accrued expenses	47,979	25,646
	175,070	120,593

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 of being below the benchmark net asset value per Ordinary Share.

The Base Fees expensed for the year ended 31 December 2011 amounted to €1,484,195 (31 December 2010: €1,557,801). There was no Performance Fee paid or accrued at 31 December 2011 or for the year ended 31 December 2010. The High Water Mark at 31 December 2011 was €1.1252 (31 December 2010: €1.1252). The benchmark net asset value per Ordinary Share at 31 December 2011 was €1.3543 (31 December 2010: €1.2312)

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 2011 amounted to €119,725 (31 December 2010: €99,999). The amount outstanding at 31 December 2011 was €60,137 (31 December 2010: €30,205).

Directors' Remuneration and Expenses

31 December 2011

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

**From 1 January 2011 to 22 July 2011*
***From 1 January 2011 to 2 June 2011*
****From 25 July 2011 to present*

31 December 2010

Director	Per annum fees entitlement (in £)	Fees paid during the year (in £)	Fees paid during the year (in €)	Fees payable at the end of the year (in £)	Fees payable at the end of the year (in €)
Hasan Askari	50,000	9,452	10,962	12,500	14,554
Andrea Rossi	15,000	15,000	17,562	3,750	4,366
Timothy Betley	20,000	20,000	23,275	5,000	5,822
Kimberly Tara	-	-	-	-	-

The Company reserves the right to pay Mr Hasan Askari's Directors' Fee in shares but did not do so during either year. The Chairman of the Audit Committee, Mr Jonathan Hooley during the period 25 July 2011 to 31 December 2011, received £2,192 for his services in this role in addition to his Directors' Fee of £8,767. Ms Kimberly Tara did 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 2011	**Number of Ordinary Shares**	**€**
Ordinary Shares at 1 January 2011	72,464,340	70,030,004
Ordinary Shares outstanding at 31 December 2011	72,464,340	70,030,004

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

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.

7. RISKS ASSOCIATEDWITH FINANCIAL INSTRUMENTS

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

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

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

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

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

8. RELATED PARTIES

Ms Kimberly Tara is a shareholder of the Manager and was a Director of the Company up to 2 June 2011. At 31 December 2011, Ms Kimberly Tara had an interest in 3,685,000 (31 December 2010: 3,685,000) Ordinary Shares of the Company which are owned by the Manager.

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

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

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

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

During the year the Company paid €5,654 for directors and officers liability policies for the Directors.

During the year the Company paid €1,763,408 in Management Fees and will be reimbursed €279,213 by the Manager for the difference between the actual base fee and the amount billed during the year ended 31 December 2011. As further described in Note 5, there was no Performance Fee earned during the years ended 31 December 2011 and 2010.

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

	31 December 2011	31 December 2010
	€	**€**
Due diligence expenses	76,613	265,297
Marketing expenses	41,882	14,225
Total	118,495	279,522

A subsidiary of the Manager subleases office space to an investee company. The sub-lease commenced on 1 September 2010 and ended on 13 April 2012. The annual rent under this agreement was £151,900 (approximately €176,861). This agreement was completed at arm's length.

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

The Directors' interests in the share capital of the Company at 31 December 2011 and 31 December 2010 were:

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

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

* Ms 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 2010 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. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company may enter into contracts that provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would be dependent on future claims that may be made against the Company. The risk of material loss from such claims is considered remote. At 31 December 2011, the Company had one outstanding commitment to RWT which subsequently expired in February 2012. Post balance sheet, the Company had no outstanding commitments to investee companies.

11. RECENT ACCOUNTING DEVELOPMENTS

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

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

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

ASU 2011-04 is effective for annual periods beginning after 15 December 2011 and is to be applied prospectively. The Company is currently assessing the impact of this guidance on its financial statements.

12. SUBSEQUENT EVENTS

On 17 January 2012, Mr Andrea Rossi resigned as a Director of the Company.

On 2 February 2012, Mr Fergus Dunlop was appointed as an independent non-executive director. Mr Dunlop's summary resume is set out in the Board of Directors section of this Annual Report.

On 3 February 2012, J.P. Morgan Asset Management Holdings Inc. through its J.P. Morgan Specialist Fund, J.P. Morgan Special Opportunities Fund and J.P. Morgan Private Equity Limited (together "J.P. Morgan"), announced that it had purchased 9,979,800 shares in the Company representing 13.77% of the issued Ordinary Shares on 27 January 2012. At that date J.P. Morgan held 9,979,800 shares in the Company representing 13.77% of the issued Ordinary Shares.

On 19 February, as part of its costs reduction and improvement of its liquidity position, In-Pipe completed a transaction with its founding partners partially to convert their debt into equity, reducing significantly its monthly debt burden and cash burn. This was accompanied by an injection of cash from some existing investors for an undisclosed amount.

On 27 March 2012, the Company announced that BBI had raised additional investment in a financing round led by Ombu Group and Hermes GPE Environmental Innovation Fund LP. The transaction includes the recapitalisation of BBI by way of a subscription by the new investors for a new class of A preferred shares in the capital of BBI, and partial repayment of certain debt held by the Company and other debt holders in BBI.

As part of the transaction, the Company received a total cash amount of £912,147 by way of partial redemption/repayment of its outstanding secured loans to BBI, the balance of which has been converted into two new classes of shares as follows:

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

The Company retains an ordinary equity interest in BBI, acquired in a number of tranches during 2009, which now represents 12.12% of the issued voting capital of BBI (reduced from approximately 17% which it held immediately prior to this financing round) and ranks behind the preferred and other classes of shares in the capital of BBI. The Company also holds warrants in BBI giving it the right to subscribe for additional ordinary shares (see Note 3).

In March 2012, Ms Kimberly Tara ceased to be a director of BBI.

Footnotes:

[1] Closing share price at year end.

[2] IPEV guidelines (September 2009) can be found on www.privateequityvaluation.com.

[3] DTR 4.1.12

[4] Bloomberg, 2 February 2 2012, "America's Trillion Dollar Leaky-Pipe Bill".

[5] Environmental Finance, 30th January 2012, "Charting new waters".

[6] WhiteHouse.gov, 24 January 2012, "Blueprint for an America built to last".

[7] Nicholas L. Dean, Post-Journal, 22 January 2012, "Idle Infrastructure: State Sewer Systems Treading Water".

[8] American Society of Civil Engineers, 2011, "Failure to Act: The Economic Impact of Current Investment Trends in Water and Wastewater Treatment Infrastructure".

[9] Benne Hutson et al., 23 January 2012, "United States: Environment 2012: Water Issues".

[10] Global Water Intelligence, January 2012, "Re-inventing Asia's water future".

[11]Global Water Intelligence, September 2011, "Global water tariffs continue upward trend".

[12]Ben Grumbles, President of Clean Water America Alliance, January 2012.

[13]Global Water Intelligence, January 2012, "Chart of the Month".

[14] GWI: Global Water Intelligence.

[15]Audited figures for the years ended 30 June 2009, 30 June 2010 and 30 June 2011.

[16]Net Profit is calculated before currency translation differences.

[17] Interim figures for the six-months ended December 2011 are unaudited estimates.

[18]CHC's data.

[19]Audited figures for the years ended 31 December 2009, 31 December 2010. Audited figures for the year ended 31 December 2011 were not available at the time this report was prepared.

[20]Audited figures for the years ended December 2009 and 2010. Unaudited estimated figures for the year ended December 2011.

[21]Waterleau's data.

[22]Audited figures for the years ended December 2009 and 2010. Unaudited estimated figures for the year ended December 2011.

[23]"people equivalent" measures the capacity of a plant in terms of number of people it provides water to.

[24] http://www.lpeq.com/Aboutlistedprivateequity.aspx.

[25] Basic weighted average per share data

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

[27] Calculated based on weighted average number of ordinary shares

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

[29] The expiry date of the In-Pipe warrants was erroneously reported to be June 2012 in the 2010 Annual Report as well as in the 2011 Interim Report.

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