# AQUA RESOURCES FUND LIMITED

## Annual Report and Audited Consolidated Financial Statements

### For the year ended 31 December 2015

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

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## MANAGEMENT AND ADMINISTRATION

| | |
|---|---|
| **DIRECTORS:** | Charles Parkinson *(Chairman from 19 June 2015)*<br>Hasan Askari *(Chairman until 19 June 2015)*<br>Fergus Dunlop *(resigned 19 June 2015)*<br>*all of whom are independent non-executive directors* |
| **REGISTERED OFFICE:** | Sarnia House<br>Le Truchot<br>St. Peter Port<br>Guernsey GY1 1GR |
| **INVESTMENT CONSULTANT:** | Hasan Askari |
| **SOLICITORS TO THE COMPANY:**<br>(as to English Law) | Herbert Smith Freehills LLP<br>Exchange House<br>Primrose Street<br>London EC2A 2HS<br>United Kingdom |
| **ADVOCATES TO THE COMPANY:**<br>(as to Guernsey Law) | Mourant Ozannes<br>1 Le Marchant Street<br>St. Peter Port<br>Guernsey GY1 4HP |
| **ADMINISTRATOR AND COMPANY SECRETARY:** | Praxis Fund Services Limited<br>Sarnia House<br>Le Truchot<br>St Peter Port<br>Guernsey GY1 1GR |
| **INDEPENDENT AUDITORS:** | PricewaterhouseCoopers CI LLP<br>Royal Bank Place<br>1 Glategny Esplanade<br>St Peter Port<br>Guernsey GY1 4ND |
| **REGISTRAR:** | Capita Registrars (Guernsey) Limited<br>PO Box 627<br>Mont Crevelt House<br>Bulwer Avenue<br>St. Sampson<br>Guernsey GY2 4LH |
| **UK TRANSFER AGENT:** | Capita Registrars Limited<br>The Registry<br>34 Beckenham Road<br>Beckenham<br>Kent BR3 4TU<br>United Kingdom |

**CHAIRMAN'S STATEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

Dear Shareholder,

On behalf of the Board, I am pleased to present the Annual Report of the Company for the year ended 31 December 2015.

As reported in the Company's 2015 Interim Report, 2015 marked an inflexion point in the Company's history following the termination of the Investment Management Agreement with FourWinds Capital Management ("FourWinds") and the appointment of Mr Hasan Askari as Investment Consultant to the Board. As a result, I replaced Hasan as Chairman, with a casting vote, to preserve the independence of the Board. I would like to place on record my thanks to Hasan for his services as Chairman since the inception of the Company.

The most significant event of the year was undoubtedly the repayment of the convertible bond issued by Waterleau Group NV ("Waterleau") in December 2015, resulting in a capital return to shareholders in March 2016 of 29.1 cents per share. Cost-saving initiatives have also been undertaken to remove extraneous costs from the group and reduce service provider expenditure. Greater detail on the Waterleau disposal and the remaining investments in the portfolio is provided in the Investment Consultant's Report on pages 8 to 11.

**Net asset value ("NAV")**
The NAV per Ordinary Share of €0.5437 represented an increase of 14.8 per cent in the NAV year on year. This resulted from the repayment of the Waterleau convertible bond, as described above, and a decrease in the execution risk discount applied to the investment in Ranhill Water Technology (Cayman) Limited.

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 Auditors' Report on pages 13 to 14 and in notes 2 and 3 to the financial statements.

**FourWinds**
As noted in the Investment Consultant's Report, FourWinds have performed less than satisfactorily and at significant cost to the Company. I am pleased to note the progress that has been made since the replacement of FourWinds.

**Incentive fee**
Shareholders' attention is drawn to Note 8 to the Financial Statements, which sets out details of an Incentive Fee payable to the Investment Consultant, which was approved by the Board (acting without the Investment Consultant's presence or participation in the deliberations) and is payable on the fulfilment of certain conditions relating to the amount of capital returned to shareholders. In arriving at this decision, the Board was advised by the Company's solicitors, Herbert Smith Freehills. The Board also consulted informally with major institutional shareholders, with over 75 per cent of the Register supporting the payment of the Incentive Fee.

**Outlook**
I have highlighted above the status of the disposal of investments and further information on these is provided in the Investment Consultant's Report. Over the coming months our focus will be firmly on completing the disposal of the Company's investment in Ranhill Water Technology (Cayman) Limited and attempting to realise some value from In-Pipe and BBH prior to distributing any proceeds to shareholders; and finally, making arrangements for the Company to be placed into voluntary liquidation. I hope to be able to report positively on this process at the Interim stage. Until such time the Board remains fully committed to realising the investments of the Company and returning as much capital as possible to shareholders.

**Charles Parkinson**
**Chairman**
**26 April 2016**

**DIRECTORS' REPORT**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

The Directors of the Company present their annual report and the audited consolidated financial statements ("the financial statements") for the year ended 31 December 2015.

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

**Principal activity and business review**

The principal activity of the Company during the year was that of an investment company. Following an EGM on 12 October 2012, the Company's investment objective is to achieve an orderly management and disposal of its concentrated portfolio of water-related investments and return the proceeds to shareholders, net of fees and expenses. A review of the year is provided in the Investment Consultant's Report. The Directors expect to conclude the disposal of its remaining investments and place the Company into voluntary liquidation within the next year. Accordingly, these financial statements have been prepared on the basis that the Company is no longer a going concern.

**Results and dividends**

The results for the year are shown in the Consolidated Statement of Operations on page 18 and the Company's financial position at the end of the year is shown in the Consolidated Statement of Assets and Liabilities on page 15.

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

**Directors**

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

Charles Parkinson *(Chairman from 19 June 2015)*
Hasan Askari *(Chairman until 19 June 2015)*
Fergus Dunlop *(resigned 19 June 2015)*

All of the Directors are non-executive directors. Due to his engagement as Investment Consultant, Mr. Askari is not considered to be independent of the Company.

The Directors held the following interests in the share capital of the Company at 31 December 2015:

| | |
|---|---|
| Hasan Askari | 62,500 Ordinary Shares |

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

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

| Director | Per annum fees entitlement (in £) | Fees paid during the year (in £) | Fees paid during the year (in €) | Fees payable at the end of the year (in £) | Fees payable at the end of the year (in €) |
|---|---|---|---|---|---|
| Hasan Askari | 60,000 | 60,000 | 85,680 | - | - |
| Charles Parkinson | 30,000 | 30,000 | 42,840 | - | - |
| Fergus Dunlop | 30,000 | 15,000 | 21,434 | - | - |

**DIRECTORS' REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**Directors (continued)**
The Company reserves the right to pay Mr Askari's Directors' Fee in shares but did not do so during either 2014 or 2015. 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.

In addition to the Director's fee noted above, Mr Askari has also been paid a fee of €93,921 during the year for his services as Investment Consultant, as well as the sum of €27,749 for expenses and as a contribution towards office costs.

**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 2015 and 31 December 2014 there were 72,464,340 Ordinary Shares in issue.

**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 (and therefore expired on 22 March 2016).

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

**Substantial interests in share capital**
At 28 March 2016 the following holdings, each representing more than 3 per cent of the Company's issued share capital, were recorded in the Company's register of members.

| | **Number of Ordinary Shares** | **Percentage of Ordinary Share capital** |
|---|---|---|
| HSBC Global Custody Nominee (UK) Limited | 21,500,000 | 29.67 |
| JP Morgan Asset Management Holdings Inc. | 19,020,632 | 26.25 |
| The Bank of New York (Nominees) Limited | 12,772,674 | 17.63 |
| Nortrust Nominees Limited | 7,500,000 | 10.35 |
| FourWinds Capital Management | 3,685,000 | 5.09 |
| HSBC Global Custody Nominee (UK) Limited | 2,973,850 | 4.10 |

As at 28 March 2016, West Midlands Metropolitan Authorities Pension Fund is a beneficial holder of 29.67 per cent of the issued Ordinary Shares of the Company and is therefore a related party of the Company on account of the size of its beneficial holding in the Company.

As at 28 March 2016, JP Morgan Asset Management Holdings Inc. is a beneficial holder of 26.25 per cent of the issued Ordinary Shares of the Company through its nominee holdings and accordingly is also a related party of the Company on account of the size of its beneficial holding in the Company.

**DIRECTORS' REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

### The Manager

The Manager was appointed as the discretionary investment manager of the Company pursuant to the terms of an Investment Management Agreement (the "Management Agreement"). Please refer to note 5 on page 28 for further details of the Management Agreement. On 13 June 2013, in accordance with the terms of the Management Agreement, the Board served two years' notice on the Manager to terminate the Management Agreement on its expiry on 24 July 2015. With effect from 1 April 2015, Mr Hasan Askari was appointed by the Board as Investment Consultant to manage the Company's portfolio on a day-to-day basis on behalf of the Board. For details of the terms of the Investment Consultancy Agreement, see note 5 on page 29.

### Independent Auditors

PricewaterhouseCoopers CI LLP ("PwC CI") were appointed on 7 November 2011 as auditors of the Company and have expressed their willingness to continue in office. The Company did not hire PWC CI to perform other consulting or non-audit services. Audit fees payable to PwC CI in the year amounted to €27,594 (2014: €37,281). PwC CI have not received any further fees for non-audit related services (2014: €Nil).

### Going Concern

The Directors expect that the Company will be placed into liquidation within 12 months of the date of signing of these financial statements and therefore, although the Company has adequate resources to continue in operational existence for the foreseeable future, the Directors believe it is appropriate to prepare these financial statements on a basis other than going concern.

### Corporate Governance

The Directors recognise the importance of maintaining high-standards of corporate governance. In the Circular to Shareholders dated 20 September 2012, despite delisting the Company, the Directors stated their intention to continue to follow the principles and provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2014 (the "Code").

However, due to the reduced size and changed composition of the Board and the mandate sanctioned by shareholders for an orderly realisation of assets, the Directors are of the opinion that it would serve no purpose and is no longer practicable to adopt all of the provisions of the Code.

### Voting rights for portfolio investments

The Investment Consultant 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 his best commercial and financial judgment, of the best long-term interests of the Company and its shareholders.

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

### The Board

The Board will generally meet at least twice 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 bi-annual meetings there is periodic contact with the Investment Consultant. 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 AGM of the Company all the Directors who held office at the two preceding AGMs and did not retire shall retire from office and may be available for re-election at the same meeting. Mr Fergus Dunlop was required to retire under this rule during the year under review and did not offer himself for re-election. Mr Charles Parkinson is retiring under this rule and, being eligible, offers himself for re-appointment at the 2016 AGM. Mr Hasan Askari, being a non-independent director, is subject to annual re-election and will therefore offer himself for re-appointment at the 2016 AGM.

**DIRECTORS' REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**The Board (continued)**

The Company's Audit Committee (the "Committee") comprises all serving Directors. Mr Hasan Askari acts as Chairman of the Audit Committee, which meets formally at least twice a year. The principal duties of the Audit Committee, which are outlined in its 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.

In view of the significantly reduced scale of the Company's operations, both the Management Engagement Committee and the Investment Monitoring Committee were deemed to be superfluous to requirements and were disbanded during the year.

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 2015 was as follows:

| | Number of meetings held | H Askari | C Parkinson | F Dunlop * |
|---|---|---|---|---|
| Quarterly Board meetings | 3 | 3 | 3 | 2 |
| Audit Committee meetings | 3 | 3 | 3 | 2 |
| Management Engagement Committee meetings | 2 | 2 | 2 | 2 |
| Ad hoc Board meetings | 2 | 2 | 2 | 0 |

* Mr Dunlop resigned as a Director on 19 June 2015.

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

**Internal Controls**

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

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

- Segregation of duties between relevant functions and departments within the Administrator and, until 24 July 2015, the Manager.
- Consideration of the compliance reports, administration reports, and portfolio valuations provided by the Administrator.
- Consideration of the Investment Consultant's (prior to 24 July 2015, 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.

**DIRECTORS' REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**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 are required to:

- 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; and
- disclose that there is no relevant audit information of which the Company's auditor is unaware.

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 comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors confirm to the best of their knowledge:

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

Signed on behalf of the Board of Directors by:

**Charles Parkinson**
**Director**
**26 April 2016**

**INVESTMENT CONSULTANT'S REPORT**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

This is a Report by the Investment Consultant to the Board of Directors ("the Board') of Aqua Resources Fund Limited ("Aqua') for the year 2015.

I am pleased to be able to report that after a protracted period of uncertainty for shareholders, there was some relief in the shape of a modest return of capital. I am also pleased to be able to reaffirm that the Company is on its way to meeting the commitment made by the Board to shareholders (in both its 2013 and 2014 Annual Reports) to realise as much value as possible through an orderly and measured disposal of its investments, and to accelerate the return of as much of the capital invested by shareholders at the outset as possible. Fuller details on each of the investments in the portfolio are set out below but a quick review of the history of the Company is provided first.

## BACKGROUND

Aqua was launched as an investment company focussed on investments in the water and water-related sector in July 2008. The promoter was FourWinds Capital Management ("FourWinds"), a Cayman Islands company with an office in London; FourWinds was appointed investment manager of the Company for a period of seven years. The Company raised an aggregate of €72,464,340 through an offer to the public and was duly listed on the London Stock Exchange on 26 July 2008.

On behalf of the Company, FourWinds made a total of five investments, two of which have been realised and the capital returned to shareholders; one which is subject to a conditional sale and purchase agreement (which we expect to be consummated); and two further investments which have both been written off and in which we see limited prospect of realising any value. Both the investments that have been realised were at a discount, in the one case, to what was initially invested and in the second, to what we should have received under the terms of the original investment.

Shares in Aqua depreciated consistently in the period between 2008 and 2012, reaching a nadir of 27 cents in January 2012. At that point, the Board, acting through the undersigned, determined that there was no discernible benefit to retaining a public listing for shareholders and arranged for a block of 23.2 per cent of the Company's shares to be placed with a single institutional investor. A further 6.66 per cent of the issued share capital, which was principally with retail investors, was bid for by the same institutional investor at 35 cents per share (a premium of 20.7 per cent to the prevailing market price of the shares of 29 cents per share on 13 August 2012). A total of 2.92 per cent of the issued share capital was taken up under this tender offer. The Company was delisted from the London Stock Exchange in November 2012. Most retail investors took advantage of this offer, leaving the Company with a substantially institutional investor base.

FourWinds' investment management contract expired on 24 July 2015 and was not renewed. The portfolio is now managed by the Board acting through me in my capacity as Investment Consultant. I was requested to oversee the orderly disposal of the remaining investments and to maximise the return of capital to shareholders. The Company has now returned 36 cents per share to shareholders; the lowest traded price of the Company's shares was 27 cents and the offer price to retail investors at the time of the delisting of the shares was 35 cents.

## INVESTMENTS

### Waterleau Group NV ('Waterleau")

Our convertible bond in Waterleau, maturing in January 2016, was repaid on 11 December 2015. The total amount received by Aqua was €22,000,277 (including €277 for the one share held in the ordinary share capital of Waterleau). The total amount due to Aqua on maturity in January 2016 would have been €29,454,794. There are a number of reasons why the Board, in consultation with some of the major shareholders, chose to accept this discounted value and these are set out below.

a) Waterleau's financial position was such that they were not in a position to repay the full amount in January 2016 and they had said as much to Aqua. It was anticipated that they would have invoked the one year extension (as they were entitled to under the terms of the original agreement), without any certainty that they would be in any better position to repay the bond in January 2017.

b) Guernsey is not part of the European Union and all interest payments from Belgium to Guernsey are subject to a withholding tax of up to 27 per cent. To manage this situation, FourWinds had set up intermediary holding companies in the Netherlands; it was not clear to the Board whether this arrangement was sufficiently robust. There were elements in the structure that could invite comment (names of the Dutch subsidiaries were the same; there was some evidence of capital flows between Aqua and the Dutch subsidiary). Equally, it was not possible for the Board (or for me as a director of Waterleau), to deny outright that there was no connection between Aqua and the Dutch subsidiaries.

**INVESTMENT CONSULTANT'S REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**INVESTMENTS (CONTINUED)**

**Waterleau Group NV ("Waterleau") (continued)**

As a consequence of this, Waterleau advised Aqua that they would withhold a notional amount of interest from the full amount due on maturity and hold this amount until the Belgian tax authorities had opined on the matter. It was not clear exactly what the amount so withheld would be, but it would have been in the region of €3 million.

It is important to stress that the position as to potential tax liability set out above is not in any way definitive. What is clear is that Waterleau would have imposed a notional withholding and waited for us to resolve the issue with the Belgian tax authorities. The end result would have been for us to engage in a protracted period of negotiation and attendant expense with no certainty that we would benefit from a favourable tax ruling. There was no appetite on the part of the shareholders to prolong the process (which, for clarity, would have begun in January 2017, as Waterleau had indicated that they would invoke the mandatory extension and continue for a period thereafter).

c) In accepting a discounted value in settlement of the Convertible Bond, the Board agreed and duly documented an Agreement with Waterleau that absolves Aqua completely from any liability to Belgian tax now or in the future.

Having arrived at what the Board believed was a reasonable compromise, in view of the significance of Waterleau to our overall portfolio, I undertook to consult our major shareholders on whether the proposed compromise was an acceptable outcome. Over 80 per cent of the register agreed with our proposed course of action.

Taking into account the interest of 1 per cent per annum received from Waterleau during the life of the Bond, the total return to the Company on its investment of €20 million in Waterleau was €23,155,928.

On 4 March 2016, the Company made a capital distribution to shareholders of 29.1 cents per share, a total of €21,087,123, representing the majority of the proceeds of the Waterleau disposal.

**China Hydroelectric Corporation ("China Hydroelectric")**

Shareholders will be aware that this holding was disposed of in July 2014 and 6.9 cents per share was returned to shareholders in September 2014. Complete details on this disposal were set out in the 2014 Annual Report of the Company but for the sake of completeness, I would like to remind shareholders that Aqua's total investment in this company was US$20 million and Aqua received on realisation a sum of US$6.85 million.

**Ranhill Water Technology (Cayman) Limited ("RWTC")**

RWTC was incorporated as a joint venture between the Ranhill Group of Malaysia (the 'Ranhill Group") and Aqua in November 2008 and commenced business in April 2009 with a paid-up capital of US$32 million. Its principal activity is the provision of consultancy services, project management, engineering, procurement, construction and O&M services to both municipal and industrial water, sewage and wastewater plants in Malaysia and the region.

Aqua entered into a Conditional Sale and Purchase Agreement with the Ranhill Group for the sale of its 45.23 per cent shareholding in RWTC for a cash consideration of US$24 million, which is subject to interest at 5 per cent per annum from 16 August 2013 up to the completion of the Agreement. It was anticipated that the Agreement would be completed no later than 31 March 2016, especially as a fully underwrItten public Offer for Sale for shares in the enlarged and reorganised Ranhill Group (to include RWTC) was launched and closed on 18 February 2016. However, due to difficult market conditions both in Malaysia and internationally, the shares were priced at the bottom of the anticipated price range, which meant that the existing creditors of the Ranhill Group (including Aqua) could not be paid as originally anticipated. The Ranhill Group requested that we extend the agreed completion date of the Agreement to 30 June 2016; we have agreed to an extension but insisted on an enhanced interest rate of 10 per cent (rather than 5 per cent) on the sum due to us from 1 April 2016 until completion. This extended period will allow Ranhill to arrange the requisite financing to meet the shortfall between the amount raised in the public Offer for Sale and the amount due to its creditors. We remain in close touch with Ranhill on developments on the financing front.

For the sake of completeness, it is important to record that this is the second Sale and Purchase Agreement entered into by Aqua with the Ranhill Group. The first, signed in January 2013, was due to complete in mid-August, 2013, following the listing of the shares of the Ranhill Group on the Kuala Lumpur Stock Exchange ("the Ranhill IPO"). But the Ranhill IPO was terminated and the Agreement between Aqua and the Ranhill Group was also terminated. The consideration payable by Ranhill under the first agreement was US$31.66 million.

**INVESTMENT CONSULTANT'S REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**INVESTMENTS (CONTINUED)**

**Ranhill Water Technology (Cayman) Limited ("RWTC") (continued)**
However, shareholders should note that the total payment to Aqua (inclusive of accrued interest, and assuming a closing date of 30 June 2016) will be US$27.75 million. In addition, Aqua has retained the US$1 million received as a deposit under the first Agreement signed in February 2013. We also received a further US$100,000 towards notional expenses. The total amount to be received by Aqua therefore, will amount to approximately US$28.85 million, a significant return on the Company's investment of US$14.88 million.

**In-Pipe Technology Inc ("In-Pipe")**
In-Pipe, a company based in the Chicago area of the United States, provides wastewater treatment technology and services for municipalities, principally in the United States. The technology seeks to pre-treat waste water in the sewage collection system to remove noxious odours and reduce the presence of oils, fats and grease. The technology is one of several steps necessary to prepare waste water for industrial or commercial use.

Financial performance

| (in US$ million) | **2011** | **2012** | **2013** | **2014** | **2015** |
|---|---|---|---|---|---|
| Revenues | US$ 1.8 | US$2.1 | US$2.3 | US$2.2 | US$2.0 |
| EBITDA | (US$ 1.0) | US$0.02 | US$0.4 | US$0.3 | US$0.3 |

As is self-evident from the figures above, In-Pipe has not made any material progress over the past five years. The improvement in EBITDA is a function of a very substantial reduction in staff expenses but this may have resulted in a reduced sales and marketing effort and, consequently, a static revenue outcome. However, there have been a couple of expressions of interest from investors seeking value assets or with existing operations which complement In-Pipe's platform. While it is too early to say whether these will lead to more substantive discussions, these approaches are being assiduously followed up. The directors do not believe that, at this stage, these approaches merit a write back of any value to this investment.

The table below summarises our investment in the company; the investment was written off in 2014. Details on the valuation summary can be found in Note 3 on page 27 of the Financial Statements.

| | **Cost (€'000)** | **Realised value (€'000)** | **Unrealised value (€'000)** | **Total value (€'000)** | **Valuation methodology** |
|---|---|---|---|---|---|
| In-Pipe | 3,603 | - | (3,603) | - | Written down to zero |

It is also worth noting that, under the terms of the original preference share purchase agreement through which Aqua made its investment in In-Pipe, Aqua is due a 12% cumulative, compounding return on the purchase price paid, an amount which stands at US$4.9 million as at 31 December 2015, plus a capital return of US$9.5 million, a total of US$14.4 million. The cost of this investment was US$5.0 million.

**Bluewater Bio Holdings Limited ("BBH")**
BBH is a provider of municipal, industrial and commercial wastewater treatment solutions, based in the United Kingdom. Aqua's original investment was in a company called Bluewater Bio International ("BBI"); BBH is the successor company to BBI and was formed after a restructuring of BBI in November 2014, which reduced our substantial position in BBI to a holding of only 82,902 preference shares. This investment was written off in 2012.

As mentioned in the Interim Report issued in August 2015, Aqua is seeking information from BBH as to current performance. BBH's management have advised that the earliest that we can expect any substantive information on the company is September this year, when BBH's annual accounts will be published. BBH has refused to accept that we are entitled to earlier access to the company's management accounts regardless of Aqua's historical association and significant initial shareholding in the company. Consequently, we are not in a position to advise shareholders with specific financial details but on the basis of informal discussions, we believe that BBH continues to operate at a loss.

The table below summarises our investment in the company; the investment was written off in 2012. Details on the valuation summary can be found in Note 3 on page 27 of the Financial Statements.

| | **Cost (€'000)** | **Realised value (€'000)** | **Unrealised value (€'000)** | **Total value (€'000)** | **Valuation methodology** |
|---|---|---|---|---|---|
| BBH | 9,375 | 597 | (8,778) | - | Written down to zero |

**INVESTMENT CONSULTANT'S REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**FOURWINDS CAPITAL MANAGEMENT**

It is important to record that total management fees paid to FourWinds since the inception of the Company to July 2015, when the contract was terminated, amounted to €7,243,151; in addition, €1,354,814 was paid as expenses, including €1,058,940 paid for 'due diligence' expenses, presumably to assess the five investments. The result of this due diligence is summarised under the Background paragraph in the Investment Consultant's Report. A sum of €163,802 is claimed by FourWinds as additional management fees to the date of termination, which is disputed and is the subject of discussion between the Company and the new management of FourWinds. A further claim of US$28,000 for miscellaneous expenses has been rejected by the Company.

**NEXT STEPS**

Meanwhile, our efforts will focus on completing the RWTC disposal, seeking some value for In-Pipe and Bluewater Bio and on unravelling and winding up a series of holding companies set up by the former Investment Manager in jurisdictions as diverse as the Cayman Islands and the Netherlands. Regrettably, this process is both onerous and expensive. Once again, we hope to report on this process at the Interim stage.

**OUTLOOK**

I am pleased to be able to report that the Board, following the expected divestment of our interest in RWTC and subsequent distribution of capital, will have substantially completed its task of realising the investments of the Company and returning as much value as possible to shareholders. We still have to resolve the issue of In-Pipe and Bluewater Bio, but I would regard this as a process of tidying up and a step towards the voluntary liquidation of the Company. I am actively pursuing this task and will endeavour to complete as soon as possible.

I am pleased to have been part of the process that ensured that shareholders received value for their shares that seemed most unlikely when the shares were trading at 27 cents. Having been Chairman of the Company from its inception until June 2015, I have lived with the reality that shareholders have been disappointed in the Company's performance (despite this being attributed largely to the former Investment Manager) and hope that the unexpected recovery in the amount of capital returned will go some way towards alleviating their disappointment. I also remain deeply grateful to shareholders for their unstinted support at various points during the course of the past eight years; we would have been well short of what has been achieved had shareholders not been steadfast in the confidence they reposed in the Board.

**Hasan Askari**
**Director and Consultant**
**26 April 2016**

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## BOARD OF DIRECTORS

The Directors are as follows:

**Charles Parkinson (Chairman)**
Mr Parkinson is a former Minister of Treasury & Resources in the States of Guernsey. He read Law at Cambridge before qualifying as a Chartered Accountant and being called to the Bar in London. After a successful career in financial services, he was elected a Deputy in the States of Guernsey in 2004, and he served as a Minister from 2008 until he stood down at a general election in 2012. He was re-elected to the States as a Deputy at a by-election in December 2015. He has been a director of a number of companies listed on the London Stock Exchange and is currently a director of several private companies as well as companies listed on AIM and the Channel Islands Securities Exchange. He is Chairman of the Company and is resident in Guernsey.

**Hasan Askari**
Mr Askari is Chairman of New India Investment Trust plc. He is also a director of Sun Life Financial of Canada (UK) Ltd. After graduating from the University of Oxford, Mr Askari started his career in 1975 at SG Warburg & Co. Ltd, London (now UBS) and has since worked at JP Morgan Chase in Hong Kong and Barclays Capital in Tokyo and London. He was most recently at Old Mutual plc, London as a member of the group's executive committee. He chairs the Company's Audit Committee and acts as Investment Consultant to the Company.

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements (the "financial statements") of Aqua Resources Fund Limited and its subsidiaries (together "the Group") which comprise the consolidated statement of assets and liabilities as of 31 December 2015 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' judgement, 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 2015, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

### Emphasis of matter – Investment valuation

Without qualifying our opinion, we draw your attention to the fact that investments are included in the financial statements at fair value as determined by the Directors as detailed in notes 2 and 3. The nature and location of each investment is different and valuation protocols applied by the Directors have varied in determining the fair value. Due to the nature and location of each investment, there are inherent difficulties in determining the fair values. 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.

### Emphasis of matter – Going concern

Without qualifying our opinion, we draw your attention to note 2 to the financial statements which indicates that the Directors have prepared the financial statements on a basis other than going concern.

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

**Report on other Legal and Regulatory Requirements**

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

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

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

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

**26 April 2016**

## CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
## AT 31 DECEMBER 2015

| | Notes | 31 December 2015 € | 31 December 2014 € |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 23,873,646 | 2,156,505 |
| Investments at fair value (cost 2015: €23,953,808 and 2014: €43,954,085) | 3 | 16,576,954 | 31,830,936 |
| Interest receivable | | - | 150,000 |
| Receivable from the Manager | | - | 242,692 |
| Prepaid expenses | | 62,331 | 17,279 |
| **TOTAL ASSETS** | | 40,512,931 | 34,397,412 |
| **Liabilities** | | | |
| Management fee payable | 5 | 163,802 | - |
| Incentive fee payable | 5 | 875,000 | - |
| Other payables | 4 | 76,926 | 65,789 |
| **TOTAL LIABILITIES** | | 1,115,728 | 65,789 |
| **NET ASSETS** | | **39,397,203** | **34,331,623** |
| **Net Assets are represented by:** | | | |
| Ordinary Shares (no par value, authorised to issue unlimited number of Ordinary Shares, of which 72,464,340 (2014: 72,464,340) were issued and outstanding) | 6 | 70,030,004 | 70,030,004 |
| Retained earnings | | (30,632,801) | (35,698,381) |
| | | **39,397,203** | **34,331,623** |
| **Net asset value per Ordinary Share** | | **0.5437** | **0.4738** |

The consolidated financial statements on pages 22 to 32 were approved and authorised for issue by the Board of Directors on 26 April 2016 and signed on its behalf by:

**Charles Parkinson**
**Director**

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

## CONSOLIDATED SCHEDULE OF INVESTMENTS
## AT 31 DECEMBER 2015

| Investments | Quantity/ Notional | Fair Value € | NAV % |
|---|---|---|---|
| **INVESTMENTS AT FAIR VALUE** | | | |
| **<u>Equities in unlisted Companies</u>** | | | |
| **Cayman Islands (cost: €20,351,156)** | | | |
| Bluewater Bio Holdings Limited | 82,902 | - | - |
| Ranhill Water Technologies (Cayman) Limited | 14,880,000 | 16,576,954 | 42.08 |
| **United States of America (cost: €3,602,651)** | | | |
| In-Pipe Technology Company Inc. | 474,834 | - | - |
| **Total investments in unlisted companies (cost: €23,953,807)** | | 16,576,954 | 42.08 |
| **<u>Warrants</u>** | | | |
| **United States of America (cost: €1)** | | | |
| In-Pipe Technology Company Inc. – Warrants 05/08/2016 (note 3) | 74,225 | - | - |
| **Total investments in warrants (cost: €1)** | | **-** | **-** |
| **Total investments at fair value (cost: €23,953,808)** | | **16,576,954** | **42.08** |

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS**
**AT 31 DECEMBER 2014**

| Investments | Quantity/ Notional | Fair Value € | NAV % |
|---|---|---|---|
| **INVESTMENTS AT FAIR VALUE** | | | |
| **Bonds** | | | |
| **Belgium (cost: €20,000,000)** | | | |
| Waterleau Group N.V. Convertible Loan | €20,000,000 | 17,944,000 | 52.27 |
| **Total investments in bonds (cost: €20,000,000)** | | 17,944,000 | 52.27 |
| **Equities in unlisted Companies** | | | |
| **Belgium (cost: €277)** | | | |
| Waterleau Group N.V. | 1 | - | - |
| **Cayman Islands (cost: €20,351,156)** | | | |
| Bluewater Bio Holdings Limited | 82,902 | - | - |
| Ranhill Water Technologies (Cayman) Limited | 14,880,000 | 13,886,936 | 40.45 |
| **United States of America (cost: €3,602,651)** | | | |
| In-Pipe Technology Company Inc. | 474,834 | - | - |
| **Total investments in unlisted companies (cost: €23,954,084)** | | 13,886,936 | 40.45 |
| **Warrants** | | | |
| **United States of America (cost: €1)** | | | |
| In-Pipe Technology Company Inc. – Warrants 05/08/2016 (note 3) | 74,225 | - | - |
| **Total investments in warrants (cost: €1)** | | **-** | **-** |
| **Total investments at fair value (cost: €43,954,085)** | | **31,830,936** | **92.72** |

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

**CONSOLIDATED STATEMENT OF OPERATIONS**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

| | Notes | 31 December 2015 € | 31 December 2014 € |
|---|---|---|---|
| **Investment income** | | | |
| Interest income | | 188,575 | 200,000 |
| Other income | | 3,951 | 181,641 |
| **Total investment income** | | 192,526 | 381,641 |
| | | | |
| **Operating expenses** | | | |
| Administrator fees | | 159,458 | 102,719 |
| Audit fees | | 27,594 | 37,281 |
| Professional fees | | 69,659 | 59,276 |
| Directors' fees | 5 | 161,328 | 164,571 |
| Directors' expenses | | 20,465 | 26,027 |
| Investment Consultant's fee and expenses | 5 | 112,705 | - |
| Incentive fee | 5 | 875,000 | - |
| Management fees | 5 | 406,494 | 681,779 |
| Marketing expense | | 1,115 | 20,605 |
| Miscellaneous expenses | | 48,096 | 77,403 |
| **Total operating expenses** | | 1,881,914 | 1,169,661 |
| | | | |
| **Net investment loss** | | (1,689,388) | (788,020) |
| | | | |
| **Realised and unrealised gain from investments and foreign currency** | | | |
| Net unrealised gain from foreign currency transactions | | 8,673 | 11,767 |
| Net realised gain on disposal of investments | | 4,056,000 | 1,229,536 |
| Net unrealised appreciation of investments | | 2,690,295 | 435,433 |
| | | 6,754,968 | 1,676,736 |
| | | | |
| **Net increase in net assets resulting from operations** | | **5,065,580** | **888,716** |
| | | | |
| **Net investment loss per Ordinary Share:** | | | |
| Basic & diluted | | (0.0466) | (0.0217) |
| | | | |
| **Net profit per Ordinary Share:** | | | |
| Basic & diluted | | 0.0699 | 0.0123 |
| | | | |
| **Weighted Average Number of Ordinary Shares Outstanding:** | | | |
| Basic & diluted | | 72,464,340 | 72,464,340 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 31 December 2015 € | 31 December 2014 € |
|---|---|---|---|
| **Movement in net assets resulting from operations** | | | |
| Net investment loss | | (1,689,388) | (788,020) |
| Net unrealised gain from foreign currency transactions | | 8,673 | 11,767 |
| Net realised gain on disposal of investments | | 4,056,000 | 1,229,536 |
| Net unrealised appreciation of investments | | 2,690,295 | 435,433 |
| **Net increase in net assets resulting from operations** | | 5,065,580 | 888,716 |
| **Transactions with owners** | | | |
| Capital distribution | | - | (5,000,039) |
| **Net decrease in net assets resulting from transactions with owners** | | - | (5,000,039) |
| **Net increase/(decrease) in net assets** | | 5,065,580 | (4,111,323) |
| **Net assets at beginning of year** | | 34,331,623 | 38,442,946 |
| **Net assets at end of year** | | 39,397,203 | 34,331,623 |
| **Net asset value per Ordinary Share** | | **0.5437** | **0.4738** |
| **Number of Ordinary Shares issued and outstanding at end of year** | 6 | 72,464,340 | 72,464,340 |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | 31 December 2015 € | 31 December 2014 € |
|---|---|---|
| **Cash flows from operating activities** | | |
| Increase in net assets resulting from operations | 5,065,580 | 888,716 |
| Adjustments to reconcile increase in net assets resulting from operations to net cash from/(used in) operating activities: | | |
| Net unrealised appreciation of investments | (2,690,295) | (435,433) |
| Net realised gain on disposal of investments | (4,056,000) | (1,229,536) |
| Decrease in receivable from the Manager | 242,692 | 681,778 |
| Increase in payable to the Manager | 163,802 | |
| Decrease in interest receivable | 150,000 | - |
| Increase in prepaid expenses | (45,052) | (4,526) |
| Increase in incentive fee payable | 875,000 | - |
| Increase in other payables | 36,902 | 4,313 |
| Disposals of investments | 22,000,277 | 5,089,639 |
| **Net cash from operating activities** | 21,717,141 | 4,994,951 |
| **Cash flows used in financing activities** | | |
| Capital distributions | - | (5,000,039) |
| **Net increase/(decrease) in cash** | 21,717,141 | (5,088) |
| **Cash and cash equivalents at beginning of year** | 2,156,505 | 2,161,593 |
| **Cash and cash equivalents at end of year** | **23,873,646** | **2,156,505** |

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

## CONSOLIDATED FINANCIAL HIGHLIGHTS
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Per share data**[1] | | |
| Net asset value at beginning of year | 0.4738 | 0.5305 |
| Net investment loss | (0.0233) | (0.0109) |
| Net foreign currency gain | 0.0001 | 0.0002 |
| Net realised gain on disposal of investments | 0.0560 | 0.0170 |
| Net unrealised appreciation of investments | 0.0371 | 0.0060 |
| Net increase in net assets resulting from operations | 0.0968 | 0.0123 |
| Capital distribution | - | (0.0690) |
| **Net asset value at end of year** | **0.5437** | **0.4738** |
| **Ratios/supplemental data** | | |
| Total return | 14.76% | 2.31% |
| Number of Ordinary Shares outstanding at end of year | 72,464,340 | 72,464,340 |
| Weighted average number of Ordinary Shares[1] | 72,464,340 | 72,464,340 |
| Net assets at end of year (in €) | 39,397,203 | 34,331,623 |
| Average net assets[2] (in €) | 36,563,171 | 38,404,469 |
| Ratio of operating expenses to average net assets[3] | (5.15%) | (3.05%) |
| Ratio of net investment loss to average net assets[3] | (4.62%) | (2.05%) |

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 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. Following an EGM on 12 October 2012, the Company's investment objective is to achieve an orderly management and disposal of its investments and return the proceeds to shareholders, net of fees and expenses.

FourWinds Capital Management was appointed as the Manager of the Company with responsibility for the discretionary investment management of the Company's assets. Notice of termination of contract was served on Four Winds on 13 June 2013, and accordingly the Company's contract with Four Winds terminated on 24 July 2015. With effect from 1 April 2015, Mr Hasan Askari was appointed by the Board as Investment Consultant to manage the Company's portfolio on a day-to-day basis on behalf of the Board.

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

## 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.

The Directors expect that the Company will be placed into voluntary liquidation within 12 months of the date of signing of these financial statements and therefore, although the Company has adequate resources to continue in operational existence for the foreseeable future, the Directors believe it is appropriate to prepare these financial statements on a basis other than going concern.

The preparation of financial statements on a basis other than going concern requires that assets are reduced to their recoverable amounts and that provisions are made for future losses. The Directors have considered whether there is any indication that the recoverable amount of the Company's assets is lower than the amount recorded as fair value at 31 December 2015. They have concluded that any post balance sheet changes in value reflect fair value changes and do not indicate a reduction in the recoverable amount at 31 December 2015 and, accordingly, that no adjustment is required to the carrying amount of the Company's assets or liabilities. In addition the Directors have considered whether any provision is required for future losses. The Company will continue to incur expenses up to the date that the Company is placed into liquidation. However, the anticipated excess of the disposal value of the Company's investments over their carrying value at 31 December 2015 is expected to exceed the Company's estimated future expenses and, accordingly, the Directors do not consider that a provision for future losses is required. The Directors do not anticipate that the costs of liquidation will be material.

***Basis of Consolidation***
The Company is classified as an investment company under the terms of Accounting Standard Codification ("ASC") 946, "Financial Services – Investment Companies" and follows the accounting and reporting requirements of that standard, except as noted below.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Basis of Consolidation (continued)***
ARAHL wholly owns a subsidiary, Robinson Investments Limited ("Robinson"), 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.

During the year, the Company has paid the following amounts on behalf of its subsidiaries, in return for asset holding services provided by the subsidiaries:

- ARIHL – Professional and statutory fees of €3,684 (2014: €1,788)
- ARAHL – Professional and statutory fees of €4,837 (2014: €2,826)
- Robinson – Professional and statutory fees of €4,274 (2014: €2,944)

***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 realisation 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 2015 were valued are contained in note 3.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

***Expenses***
Expenses are accounted for on an accruals basis.

***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 unrealised gain/(loss) from foreign currency transactions.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Taxation***

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

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

The Company's tax positions have been analysed and it has concluded that no liability for unrecognised tax benefits should be recorded relating to uncertain tax positions for open tax years (2010-2014) and the positions to be taken for the tax year ended 31 December 2015. 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 2015, the Company did not incur any interest or penalties. The Company identifies its major tax jurisdictions as Belgium, 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 12 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 at 31 December 2015** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Class** | **€** | **€** | **€** | **€** |
| Equities - Unlisted companies | 16,576,954 | - | - | 16,576,954 |
| Warrants | - | - | - | - |
| Total | 16,576,954 | - | - | 16,576,954 |

| **Assets at fair value as at 31 December 2014** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Class** | **€** | **€** | **€** | **€** |
| Equities - Unlisted companies | 13,886,936 | - | - | 13,886,936 |
| Convertible bonds | 17,944,000 | - | - | 17,944,000 |
| Warrants | - | - | - | - |
| Total | 31,830,936 | - | - | 31,830,936 |

*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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 3. INVESTMENTS (CONTINUED)

The table below shows a reconciliation of beginning to ending balances for Level 3 investments and the amount of total gains or losses for the year included in earnings attributable to the change in unrealised gains or losses relating to assets and liabilities held at 31 December 2015.

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

| | Total | Equities | Bonds | Warrants |
|---|---|---|---|---|
| | € | € | € | € |
| Opening balance 1 January 2015 | 31,830,936 | 13,886,936 | 17,944,000 | - |
| Disposal of investments | (22,000,277) | (277) | (22,000,000) | - |
| Profit on disposal of investments | 4,056,000 | - | 4,056,000 | - |
| Net unrealised appreciation of investments | 2,690,295 | 2,690,295 | - | - |
| Closing balance 31 December 2015 | 16,576,954 | 16,576,954 | - | - |
| Total unrealised loss at 31 December 2015* | (7,376,854) | (7,376,853) | - | (1) |

*The total cumulative change in unrealised losses included to date in the consolidated statement of operations attributable to Level 3 movements still held at 31 December 2015.

The following table 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 2014.

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

| | Total | Equities | Bonds | Warrants |
|---|---|---|---|---|
| | € | € | € | € |
| Opening balance 1 January 2014 | 31,395,503 | 13,192,003 | 18,203,500 | - |
| Net unrealised appreciation/(depreciation) of investments | 435,433 | 694,933 | (259,500) | - |
| Closing balance 31 December 2014 | 31,830,936 | 13,886,936 | 17,944,000 | - |
| Total unrealised loss at 31 December 2014* | (12,123,149) | (10,067,148) | (2,056,000) | (1) |

*The total change in unrealised depreciation included in the consolidated statement of operations attributable to Level 3 movements still held at 31 December 2014.

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

***Warrants***
The Company holds warrants (via its subsidiary ARIHL) to subscribe for 74,225 additional shares in In-Pipe, representing approximately 2 per cent of the share capital of In-Pipe as at 31 December 2015. These warrants expire in August 2016.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 3. INVESTMENTS (CONTINUED)

***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 2015 the investments held by the Company which were valued using an estimate of fair value were as follows;

**Ranhill Water Technologies (Cayman) Limited**

The Company has valued its holding in RWT based on the valuation in the executed conditional sale and purchase agreement ("SPA") with the Ranhill Group, less a 25% discount to allow for execution risk. This methodology is the same as that applied in the Company's 2014 Annual Report, except that the discount has been reduced from 30%. The SPA specifies that the consideration is subject to interest of 5 per cent per annum for the period from 16 August 2013 to the date of completion of the transaction (by separate agreement rising to 10% with effect from 1 April 2016), however no account has been taken of interest receivable in determining the value of this investment.

**In-Pipe Technology Inc**

The Company has valued this investment at nil value as at 31 December 2015 and 31 December 2014.

**Bluewater Bio Holdings Limited**

The Company has valued this investment at nil value as at 31 December 2015, as it has done since 2012.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 4. OTHER PAYABLES

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| | € | € |
| Administration fees | 31,257 | 2,804 |
| Audit fees | 27,142 | 32,190 |
| Tax advice | 8,660 | 23,168 |
| Other accrued expenses | 9,867 | 7,627 |
| | 76,926 | 65,789 |

## 5. SIGNIFICANT AGREEMENTS

***Manager***

The Manager was 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"). This agreement was terminated on 24 July 2015. Under the Management Agreement, the Manager was entitled to a base fee ("Base Fee") of 2 per cent per annum of the net asset value of the Company. The Base Fee is payable quarterly in advance and is calculated at the beginning of each quarter using the higher of (i) an implied straight line increase in net asset value (excluding cash) of 10 per cent per annum on a basis which increases 2.5 per cent per quarter over the most recently published audited net asset value plus the actual value of all cash, and (ii) the most recently published estimated net asset value.

In addition, the Manager was, in certain circumstances, entitled to a performance fee ("Performance Fee") in respect of each calculation period, however the criteria for payment of the Performance Fee were not met at any stage during the period of engagement of the Manager.

The Base Fees expensed for the year ended 31 December 2015 amounted to €406,494 (31 December 2014: €681,779). Of this amount, €163,802 is unpaid and disputed by the Company, and is the subject of continuing discussion between the Company and the former Manager. No Performance Fee was paid or accrued during the years ended 31 December 2015 or 31 December 2014.

The Management Agreement between the Company and the Manager was for an initial fixed term of seven years, 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 the 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. On 13 June 2013 the Company served notice on the Manager to terminate the Management Agreement, which was duly terminated with effect from 24 July 2015.

A sum of €163,802 is claimed by FourWinds as additional management fees to the date of termination, which is disputed and is the subject of discussion between the Company and the new management of FourWinds.

***Administrator and Company Secretary***

On 14 November 2012 Praxis Fund Services Limited ("PFS") was appointed as Administrator and Company Secretary. Until 30 April 2014, PFS was paid a basic fee of £66,000 (€84,982) per annum for its services as administrator of the Company and of its subsidiary Aqua Resources (In-Pipe) Holdings Limited, payable quarterly in arrears; this increased to £67,800 per annum (€87,299) with effect from 1 May 2014; and to £68,610 per annum (€93,111) with effect from 1 May 2015. In addition, PFS receives fees on a time charge basis for any project work undertaken that falls outside of the scope of the Administration Agreement.

PFS's total administration fee for the year amounted to €114,714 (31 December 2014: €84,537). As at 31 December 2015 €7,016 was payable to PFS (31 December 2014: €nil).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 5. SIGNIFICANT AGREEMENTS (CONTINUED)

***Directors' Remuneration and Expenses***

**31 December 2015**

| Director | Per annum fees entitlement (in £) | Fees paid during the year (in £) | Fees paid during the year (in €) | Fees payable at the end of the year (in £) | Fees payable at the end of the year (in €) |
|---|---|---|---|---|---|
| Hasan Askari | 60,000 | 60,000 | 85,680 | - | - |
| Charles Parkinson | 30,000 | 30,000 | 42,840 | - | - |
| Fergus Dunlop | 30,000 | 15,000 | 21,434 | - | - |

**31 December 2014**

| Director | Per annum fees entitlement (in £) | Fees paid during the year (in £) | Fees paid during the year (in €) | Fees payable at the end of the year (in £) | Fees payable at the end of the year (in €) |
|---|---|---|---|---|---|
| Hasan Askari | 60,000 | 60,000 | 76,599 | - | - |
| Charles Parkinson | 30,000 | 30,000 | 38,299 | - | - |
| Fergus Dunlop | 30,000 | 30,000 | 38,299 | - | - |

The Company reserves the right to pay Mr Askari's Directors' Fee in shares but did not do so during either 2014 or 2015. 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.

Under the terms of a consultancy contract signed on 8 April 2015 (and subsequently amended and restated by an Amendment and Restatement Agreement dated 9 December 2015 ("the amended agreement")), Mr Askari was appointed to act on the Board's behalf to oversee an orderly run-down of the remaining assets of the Company. The contract is effective from 1 April 2015 until 31 March 2017. In consideration for these services, Mr Askari receives a fee of €125,000 per annum and, separately, a contribution towards office costs of €25,000 per annum.

Under the terms of the amended agreement, Mr Askari is also entitled to receive an incentive fee in the sum of €875,000, if the total return to shareholders (including amounts returned to shareholders in 2014) is at least €0.60 per share. If the winding up of the Company is completed after 30 September 2016, then the incentive fee payable shall be €875,000 less any fees payable under the above consultancy agreement after 30 September 2016.

## 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015**

## 6. SHAREHOLDERS' EQUITY (CONTINUED)

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 2015 | Number of Ordinary Shares | € |
|---|---|---|
| Ordinary Shares at 1 January 2015 | 72,464,340 | 70,030,004 |
| Ordinary Shares outstanding at 31 December 2015 | 72,464,340 | 70,030,004 |

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

| 31 December 2014 | Number of Ordinary Shares | € |
|---|---|---|
| Ordinary Shares at 1 January 2014 | 72,464,340 | 70,030,004 |
| Ordinary Shares outstanding at 31 December 2014 | 72,464,340 | 70,030,004 |

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

## 7. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

As a result of its investment strategy, the Company is also exposed to varying degrees of market risk, credit risk and liquidity risk.

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

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

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

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

## 8. RELATED PARTIES

At the time of the Company's initial investments in In-Pipe and Waterleau, Valerie Daoud Henderson, formerly an employee of the Manager's group in the role of Head of Europe Environment Group, became a director of each of those companies. Ms Daoud Henderson retired as a director of In-Pipe on 11 February 2014 and Herman Cai, an employee of the Manager's Group in the role of Managing Director, Asia Environment Group, was appointed in her place. In September 2014, Mr Herman Cai resigned from the Manager and was replaced as director of In-Pipe by Mr Yin Kee Wong, an employee of the Manager's group in the role of Vice President, Business Development.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 8. RELATED PARTIES (CONTINUED)

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

At the time of the Company's initial investment in Waterleau, Lydia Whyatt, formerly an employee of the Manager's group in the role of Managing Director, Environment Group, became a director of that company. Ms Whyatt retired as a director of Waterleau on 28 March 2014 and Hasan Askari was appointed in her place on 24 April 2014. Mr Askari received no remuneration for his services as a director of Waterleau.

During the year ended 31 December 2015 the Company incurred Management Fees payable to the Manager of €406,494 (2014: €681,779). As further described in note 5, there was no Performance Fee earned during the years ended 31 December 2015 and 2014.

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

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| | **€** | **€** |
| Marketing expenses | - | 20,605 |
| **Total** | - | 20,605 |

When the Company first acquired an interest in BBI, in 2009, it purchased 21,100,000 shares in BBI from the Manager for a consideration of US$2.97 million (€2.30 million). At the time, that transaction was a related party transaction between the Manager and the Company pursuant to Listing Rules 15.5.4R and 11.1.4R by virtue of the Manager being the investment manager of the Company, a shareholder of the Company and an associate of a then Director, Ms Kimberly Tara. All of the requirements of the Listing Rules in respect of such transaction were satisfied at that time. There have been no further related party transactions for the purposes of the Listing Rules since that date, including during the year. The Manager ceased to be a related party on the termination of the Management Agreement on 24 July 2015 (see note 5).

The Directors' interests in the share capital of the Company at 31 December 2015 and 31 December 2014 were:

| | **Number of Ordinary Shares** |
|---|---|
| Hasan Askari | 62,500 |

Under the terms of a consultancy contract signed on 8 April 2015 (and subsequently amended and restated by an Amendment and Restatement Agreement dated 9 December 2015 ("the amended agreement")), Mr Askari was appointed to act on the Board's behalf to oversee an orderly run-down of the remaining assets of the Company. The contract is effective from 1 April 2015 until 31 March 2017. In consideration for these services, Mr Askari receives a fee of €125,000 per annum and, separately, a contribution towards office costs of €25,000 per annum.

Under the terms of the amended agreement, Mr Askari is also entitled to receive an incentive fee in the sum of €875,000, if the total return to shareholders (including amounts returned to shareholders in 2014) is at least €0.60 per share. If the winding up of the Company is completed after 30 September 2016, then the incentive fee payable shall be €875,000 less any fees payable under the above consultancy agreement after 30 September 2016.

## 9. COMPARATIVE FIGURES

Comparative figures used in these consolidated financial statements are for the year ended 31 December 2014 for the Consolidated Statement of Assets and Liabilities, Consolidated Schedule of Investments, the Consolidated Statement of Operations, the Consolidated Statement of Changes in Net Assets, the Consolidated Statement of Cash Flows and the Consolidated Financial Highlights.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**

## 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.

The payment of the Incentive Fee, which has been accrued in these financial statements, is contingent on the total return to shareholders (including amounts returned to shareholders in 2014) being at least €0.60 per share.

## 11. RECENT ACCOUNTING DEVELOPMENTS

There are no new Accounting Standards Updates applicable in the current year which are relevant to the Company's operations.

## 12. SUBSEQUENT EVENTS

On 4 March 2016, the Company made a capital distribution to shareholders of €0.291 per share, a total of €21,087,123.

On 18 February 2016 the Ranhill Group of Malaysia ("the Ranhill Group") completed its fully-underwritten public Offer for Sale, albeit at a lower price per share than anticipated. As a result, the Ranhill Group raised insufficient capital to enable it to complete its purchase of the Company's investment in Ranhill Water Technology (Cayman) Limited ("RWTC") by 31 March 2016 in accordance with the extended Conditional Sale & Purchase Agreement ("the SPA"). However, the SPA has been extended to 30 June 2016, and the Directors are hopeful that the disposal of the Company's holding in RWTC will be completed by that date.

There have been no other subsequent events requiring disclosure in these financial statements.