



Environmental Monitoring Report

Project Number: 39924
10 March 2009

REG: AIF Capital Asia III

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Hong Kong

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Asian Development Bank

Annual Environmental & Social Performance Report

Name of Fund: AIF Capital Asia III, L.P.
Name of Investment Manager: AIF Capital Asia Management Ltd.
Report Period: January 1, 2008 to December 31, 2008
Report Date: March 10, 2009

1. Environmental Management System (EMS)

1.1. Name of Responsible Officer for environmental issues

Theresa Chung, Managing Director, Finance & Administration
AIF Capital Limited, Suite 3401, Jardine House, 1 Connaught Place, Central, Hong Kong

1.2 Does your institution have written environmental and social policy and procedures, approved by senior management?

If yes, please attach a copy, and explain any changes since the last reporting period.

Yes, attached is a copy of the environmental and social policy and procedures of AIF Capital. The fund management company made changes to the last version to incorporate the new standards and reporting requirements of Asian Development Bank.

2. General Update

2.1 Fund Status: The Fund is still within the Investment Period.

2.2 Investment strategy (state any changes since the last reporting period)

No change

2.3 Details of divestitures

None during the reporting period of January 1, 2008 to December 31, 2008

2.4 Any major changes at fund management company

None

2.5 Any major changes with respect to Limited Partners

None

3. Portfolio Companies

3.1 New Investments

COMPANY NAME:	Telecom Tower Company in India (“Towerco”)
Project location:	India
Company business ¹ :	Telecom Infrastructure
Investment type:	Ordinary Shares and Convertible Preference Shares
Environmental Category (A, B, C, FI):	C
What environmental and social due diligence has been undertaken, and by whom?	The deal team completed an environmental assessment checklist which included a set of screening questions on impacts from project siting and environmental issues resulting from the operations of Towerco.
What were the main environmental ² and social issues associated with this project and how they were dealt with (i.e. outcome of due diligence)?	No environmental and social issues associated with Towerco were identified as its business involves installation and operation of telecom towers on private land. These installations are subject to several government approvals, which include socio-environmental considerations.
Did you discuss the environmental and social policy with the company and the importance of environmental and social management? If so, please briefly describe.	Yes, AIF Capital discussed the environmental and social policy with Towerco on a quarterly basis. Since the Fund’s investment, Towerco has been in compliance with AIF Capital’s requirements. Towerco has also started various green initiatives at its tower locations targeting: (a) use of alternative energy; (b) use of energy efficient shelters; and (c) centralized network monitoring and diagnostics for energy efficiency.
Were any conditions or stipulations related to environmental or social issues made along with the investment? ³ If so, please briefly describe.	Yes, before the Fund’s investment, Towerco agreed that it would adopt its own code of conduct at board level which would be similar to the business practices of AIF Capital.
Were any environmental studies commissioned during due diligence (e.g. audits/EIAs etc.)? If so, please briefly describe.	None, given this is a category C project and no environmental issues were identified during due diligence.
Does the investee comply with relevant host country laws?	Yes
Does the investee comply with ADB policies and guidelines?	Yes
Has any public consultation or disclosure of environmental/social information occurred during this period?	None, given this is a category C project and no environmental issues were identified during due diligence.
Is the investment for an environmentally and/or socially beneficial project (for example, a manufacturer that produces solar panels, or an agribusiness that produces organic produce), or does the investment add value to the project with respect to environmental and social risks and opportunities? If so, please briefly describe.	No

¹ Brief description, e.g., distributor of food and beverages, brokerage house, international transport company, etc.

² Remember, the term ‘*environmental*’ includes environment, health, safety, human, social and cultural issues.

³ E.g., did you include any standard or project-specific environmental covenants or warranties in the PC legal agreement? Did you adjust any loan fees or interest rates due to environmental concerns, did you set up any kind of environmental conditions or timetable for improvements that is tied to the timetable for disbursements?

COMPANY NAME:	Pharmaceutical Company in India (“Pharmaco”)
Project location:	India
Company business:	Healthcare products: pharmaceuticals, food supplements and additives
Investment type:	Ordinary Shares and Convertible Preference Shares
Environmental Category (A, B, C, FI):	C
What environmental and social due diligence has been undertaken, and by whom?	The deal team completed an environmental assessment checklist which included a set of screening questions on impacts from project siting and environmental issues resulting from the operations of Pharmaco. Management confirmed compliance with the checklist prior to funding and also provides quarterly updates thereto.
What were the main environmental and social issues associated with this project and how they were dealt with (i.e. outcome of due diligence)?	Pharmaco has an effluent treatment system at its plant and complies with applicable environment related regulations. Approval from regulatory agencies was a pre-requisite for the investment and was obtained prior to funding.
Did you discuss the environmental and social policy with the company and the importance of environmental and social management? If so, please briefly describe.	Yes, AIF Capital discussed the environmental and social policy with Pharmaco on a quarterly basis. Since the Fund’s investment, Pharmaco has been in compliance with AIF Capital’s requirements.
Were any conditions or stipulations related to environmental or social issues made along with the investment? If so, please briefly describe.	Yes, before the Fund’s investment, Pharmaco agreed that it would adopt the best business practices of AIF Capital when conducting its business and would comply with environmental undertakings required by AIF Capital.
Were any environmental studies commissioned during due diligence (e.g. audits/EIAs etc.)? If so, please briefly describe.	None, given this is a category C project and no environmental issues were identified during due diligence.
Does the investee comply with relevant host country laws?	Yes
Does the investee comply with ADB policies and guidelines?	Yes
Has any public consultation or disclosure of environmental/social information occurred during this period?	None, given this is a category C project and no environmental issues were identified during due diligence.
Is the investment for an environmentally and/or socially beneficial project (for example, a manufacturer that produces solar panels, or an agribusiness that produces organic produce), or does the investment add value to the project with respect to environmental and social risks and opportunities? If so, please briefly describe.	No

COMPANY NAME:	Media Company in China (“Mediaco”)
Project location:	China
Company business:	Mediaco is a leading integrated television advertising services provider and a pioneer in the securing of media resources, including exclusive advertising rights, on nationwide television stations and multiple regional/satellite television channels in China. The company provides one-stop advertising solutions, which include market research, branding strategies and creative design, and acts as a media consultant to its exclusive television channels.
Investment type:	Redeemable Convertible Preferred Shares
Environmental Category (A, B, C, FI):	C
What environmental and social due diligence has been undertaken, and by whom?	The environmental and social due diligence undertaken on Mediaco was minimal since it is in the service industry which does not involve in building/relocating of new site and resettlement of people. In addition, no environmental impacts and implications were identified.
What were the main environmental and social issues associated with this project and how they were dealt with (i.e. outcome of due diligence)?	No environmental and social issues were identified during due diligence of the deal team.
Did you discuss the environmental and social policy with the company and the importance of environmental and social management? If so, please briefly describe.	Yes, AIF Capital discussed the environmental and social policy with Mediaco on a quarterly basis. Since the Fund’s investment, Mediaco has been in compliance with AIF Capital’s requirements.
Were any conditions or stipulations related to environmental or social issues made along with the investment? If so, please briefly describe.	Yes, before the Fund’s investment, Mediaco agreed that it would adopt the best business practices of AIF Capital when conducting its business and would comply with environmental undertakings required by AIF Capital.
Were any environmental studies commissioned during due diligence (e.g. audits/EIAs etc.)? If so, please briefly describe.	None, given this is a category C project and no environmental issues were identified during due diligence.
Does the investee comply with relevant host country laws?	Yes
Does the investee comply with ADB policies and guidelines?	Yes
Has any public consultation or disclosure of environmental/social information occurred during this period?	None, given this is a category C project and no environmental issues were identified during due diligence.
Is the investment for an environmentally and/or socially beneficial project (for example, a manufacturer that produces solar panels, or an agribusiness that produces organic produce), or does the investment add value to the project with respect to environmental and social risks and opportunities? If so, please briefly describe.	No

3.2 PREVIOUS/ONGOING INVESTMENTS

Name of Investment	Location	Business Activity	Investment type	Category	Environmental and Social Issues at approval	Current environmental & social status/any changes since the last report
Copper Cable Manufacturer	China	Wire & cable manufacturing	Equity	C	None	Good standing/ no change since the last report
Steel Manufacturer	India	Tin-plate manufacturing	Equity	C	None	Good standing/ no change since the last report
Pharmaceutical Manufacturer	China	Pharmaceutical manufacturing	Equity	C	None	Good standing/ no change since the last report
Private Bank	India	Financial services	Equity	C	None	Good standing/ no change since the last report
Electronic Components Manufacturer	China	Metal processing, impact extrusion, metal injection molding and functional decorative coating businesses	Equity	C	None	Good standing/ no change since the last report
Outdoor Media Company	China	Media business	Equity	C	None	Good standing/ no change since the last report

4. Project Environmental and Social Compliance

4.1 How do you know whether AIF Capital’s portfolio companies comply with the relevant environmental, health and safety regulations of your country?

Before making an investment, each portfolio company is required to sign an undertaking to the Fund regarding the ongoing compliance of all applicable environmental laws and to notify AIF Capital promptly if a breach or violation is occurred. Subsequent to the investment, AIF Capital has board representation in most of its portfolio companies to oversee its corporate governance.

In addition, each deal team is required to verify the ongoing compliance of environmental, health and safety regulations of the relevant countries with the management team of portfolio companies and to submit a quarterly monitoring worksheet to the Fund’s Compliance Officer. On annual basis, each portfolio company is required to submit an environmental assessment report to AIF Capital.

4.2 Please provide details on any known instances of non-compliance with ADB’s requirements and the measures taken by your company and/or portfolio company to remedy the situation.

None during the period

4.3 In the past year, did AIF Capital make any loans for specific environmentally and/or socially beneficial projects (for example, a manufacturer that produces solar panels, or an agribusiness that produces organic produce)?

If yes, please provide details:

None during the period

4.4 Please describe any instances where AIF Capital has added value to a project(s) with respect to environmental and social risks and opportunities.

Portfolio Company	Value adding opportunities	Actions taken by fund manager or portfolio company
Outdoor Media Company	* Further highlight ESG credentials to customers	* Introduced best business practices by AIF Capital * Compliance report is obtained quarterly
Pharmaceutical Manufacturer	* Staff incentive scheme * Increase company and staff awareness of ESG	* Introduced best business practices by AIF Capital * Compliance report is obtained quarterly
Electronic Components Manufacturer	* Staff incentive scheme * Increase company and staff awareness of ESG	* Quality assurance manager recruited * Various executive committees setup * Recruitment of CFO * Introduced business practices by AIF Capital * Compliance report is obtained quarterly

Portfolio Company	Value adding opportunities	Actions taken by fund manager or portfolio company
Copper Cable Manufacturer	<ul style="list-style-type: none"> * Staff incentive scheme * Increase company and staff awareness of ESG 	<ul style="list-style-type: none"> * Quality assurance manager recruited * Various executive committees set up * Independent directors recruited * Introduced best business practices by AIF Capital * Compliance report is obtained quarterly
Steel Manufacturer	<ul style="list-style-type: none"> * Increase company and staff awareness of ESG * Ensure strict enforcement of regulatory standards 	<ul style="list-style-type: none"> * Introduced best business practices by AIF Capital * Compliance report is obtained quarterly
Private Bank	<ul style="list-style-type: none"> * Enforce high ESG standards from borrowers * Impose ESG compliance in lending covenants 	<ul style="list-style-type: none"> * Introduced best business practices by AIF Capital * Compliance report is obtained quarterly
Telecom Tower Company	<ul style="list-style-type: none"> * Introduce solar energy panels to minimize fuel bills * Economies of scale * Use new energy-saving technologies 	<ul style="list-style-type: none"> * Introduced best business practices by AIF Capital * Management has incorporated a code of conduct consistent with AIF Capital's Compliance requirements * Energy-saving initiatives being discussed at board meetings
Pharmaceutical Company (India)	<ul style="list-style-type: none"> * Use biomass fuel for captive power plant * Introduce other energy saving measures 	<ul style="list-style-type: none"> * Introduced best business practices by AIF Capital * Compliance report is obtained quarterly
Media Company	<ul style="list-style-type: none"> * Staff incentive scheme * Increase company and staff awareness of ESG 	<ul style="list-style-type: none"> * Introduced best business practices by AIF Capital and documented in the shareholders agreement * Compliance report is obtained quarterly