



Ludgate Environmental Fund

Newsletter 2: Covering Q1 2008

This is the second newsletter of the Ludgate Environmental Fund (“LEF” or “Fund”) covering the three month period from 1st January 2008 to 31st March 2008. Details of investments made by LEF, since the end of Q1 2008 but prior to the publication of this newsletter, are also included.

Having raised a total of £26.74 million at the time of admission to AIM in August 2007, at a subscription price of 100p per share, LEF announced on the 26th February 2008 that it had successfully placed an additional 2,673,509 ordinary shares at a subscription price of 112p per share, raising additional funds of £2.99 million. This placing represented a 10% increase in the number of shares in issue, being the amount permitted under the Articles of Association of LEF. Total funds raised by LEF now stand at £29.73 million.

In the three month period to 31st March 2008, Net Assets of LEF have risen to £34.15 million with the NAV per share of the Fund rising from 102.19p to 116.13p. This represents an increase in NAV per share of 13.64% over this three month period and an increase of 19.35% over the eight month period since the Fund’s admission to AIM. This compares with an 8.99% and a 10.27% fall in the FTSE All-Share Index over these periods respectively.

Key Fund & Performance Data

	Q4 2007 (as at 31 Dec 07)	Q1 2008 (as at 31 Mar 08)
Share Price (pence)	102.50	114.00
Warrants Price (pence)	9.00	15.00
Net Assets (£m)	27.32	34.15
Shares in Issue	26,735,099	29,408,608
NAV per Share (pence)	102.19	116.13
Market Capitalisation (£m)	27.40	33.53
Exchange	London - AIM	
Admission Date	2nd August 2007	
Currency	GBP	

Investment Portfolio

Ludgate Investments Ltd (“LIL”), as Investment Adviser to LEF, has reviewed over 100 investment opportunities in the eight month period since Fund launch in August 2007.

As at 31st March 2008, LIL had recommended, and the Fund had completed, combined investments of £6.22 million across three companies, representing 21% of total funds raised by LEF. Since then and prior to the release of this newsletter, the Fund has either completed or committed to further combined investments of £5.05 million across one existing and two additional companies (one of which is linked to an existing investment).

This brings the total combined amount invested or committed by the Fund to date to £11.27 million, representing 38% of total funds raised by LEF. All five investment portfolio companies are revenue generating requiring additional development capital for expansion of their businesses.

Out of the £11.27 million total, £7.39 million of investments made or committed by the fund have been structured as loan notes all carrying a coupon of 8% per annum. This generates interest income of around £0.59 million per annum for LEF.



Company	Sector	Investment	% LEF Assets
Hydrodec Group PLC	Specialist Oils Recycling	£3.0m (CULS)	10.09
		£1.45m (Ords)	4.88
Emergya Wind Technologies B.V.	Wind Turbine Manufacturing	€2.0m (£1.44m) (Loan Notes + Warrants)	4.84
STX Services B.V.	Environmental Product Broking / Trading	€0.19m (£0.14m) (Ords)	0.47
		€0.60m (£0.45m) (Convertible Loan)	1.51
Virotec International PLC	Industrial Waste Treatment	£0.80m (Ords)	2.69
Rapid Action Packaging Ltd	Food Packaging Solutions	£1.50m (Ords)	5.05
		£2.50m (CULS)	8.41

** LEF Funds = funds raised for investment (£29.73m at 31/03/08)*

1. Hydrodec / Virotec

1.a. Hydrodec Group PLC (“Hydrodec”) (AIM:HYR)

As at 31st December 2007, LEF had invested £3.5 million into Hydrodec; £3 million as five year, 8% convertible unsecured loan notes (“CULS”) convertible into 15.79 million new ordinary shares at a conversion price of 19p, and £500,000 in ordinary shares at a price of 20p per share.

Since then and prior to 31st March 2008, the Fund made two further investments totalling £700,000, purchasing an additional 1.71 million ordinary shares. Post Q1 2008, LEF has purchased a further 500,000 shares at a price of 50p per share as part of the larger placing of 10 million shares at 50p per share announced by Hydrodec on the 21st April, and described in more detail below. To date, LEF has invested a total of £4.45 million into Hydrodec, representing 14.97% of total funds raised by the Fund.

Following these new investments, LEF currently holds 20.5 million shares in Hydrodec, or 7.4% of the Company’s share capital assuming full conversion of all the CULS outstanding.

Hydrodec, which has patented technology for a sustainable, speciality oil refining process using spent oil as feedstock, made significant progress in Q1 2008 since LEF’s last newsletter. Highlights include:

- The first shipment of 144,000 litres of its Superfine transformer oil to a purchaser in Turkey, supplied from Hydrodec’s Australian plant. The agreement with the Turkish company is for a minimum supply of 2,400,000 litres during the first year;
- The appointment of John Dickson as Finance Director, bringing with him extensive strategic and hands-on financial management experience in medium and large-scale international companies including Rio Tinto, KPMG and the Australian Magnesium Corporation;
- The construction of the first plant in the US (Canton, Ohio) is ahead of projected schedule and the Company has also announced its decision to accelerate the planning and construction of the second US plant in Laurel, Mississippi, which it now expects to be fully operational by Q3 2009;
- Feedstock oil started arriving at the Canton plant towards the end of February 2008, representing the first commercial activity for Hydrodec’s US operations, ahead of schedule;
- Hydrodec has also been accredited as a vendor within the vendor prequalification system for American Electrical Power, one of the largest power utilities in the USA;
- Hydrodec announced that it had reached price agreement and secured a conditional commitment from one of the largest transformer oil buyers in the USA to purchase more than 50% of the maximum production capacity of the Canton, Ohio plant, to commence immediately once the plant is commissioned. This company has also expressed firm interest in increasing purchase quantities up to a potential 30 million litres per year once both US plants have been commissioned; and
- Hydrodec expects, before the end of 2008, a secure plan for start up in Japan to be in place.



Since the end of Q1 2008, Hydrodec has announced on the 4th April 2008 its intention to make an all-share offer for Virotec International plc. ("Virotec") – *see Virotec below*.

Hydrodec also announced on the 21st April 2008 that it has raised an additional £5.0 million in a placing with investors of 10 million new ordinary shares at a subscription price of 50.0p per share. The placing will provide Hydrodec with additional funds which may be required in connection with its proposed offer for Virotec and also for general corporate purposes including the further expansion of Hydrodec's operations.

As at 31st March 2008, Hydrodec's share price was 46.00p, valuing LEF's combined investment at £9.20 million. Since then, Hydrodec's share price has risen further to 53.00p at close of business on 25th April 2008, valuing LEF's total investment of £4.45 million at £10.87 million, an uplift of 2.44x.

1.b. Virotec International PLC ("Virotec") (AIM: VTI)

On the 11th April 2008 LEF announced that it had made an investment into the environmental remediation and industrial waste treatment company Virotec. The Fund purchased 7.5 million Virotec ordinary shares at an average price of 10.66 pence per share, a total investment of £0.8 million. This share purchase represents approximately 2.84 per cent of the issued share capital of Virotec.

The investment into Virotec was made following the announcement by Hydrodec on the 4th April of its intention to make an all-share offer for Virotec, on the basis of one Hydrodec ordinary share for every 3.75 Virotec ordinary shares. Virotec holds 54.5 million shares of Hydrodec (approximately 28.1% of the ordinary share capital). This offer would give Virotec shareholders the benefit of a direct ownership in Hydrodec rather than the indirect interest they currently own. The combined group would also benefit from the cancellation of an existing royalty agreement between Virotec and Hydrodec and any payments that may be due to Virotec from Hydrodec under this agreement.

Since LEF's investment on the 11th April, Virotec's share price has risen to 14.00p, at close of business on the 25th April, valuing LEF's holding at £1.05 million, an increase of 31.29%.

2. Emergya Wind Technologies B.V. ("EWT")

EWT is a Dutch-based manufacturer and supplier of wind turbines and turnkey wind parks. It specialises in the development and manufacture of advanced direct-drive (gearless) wind turbines, turbine blades and towers.

LEF invested €2 million (£1.44 million) as part of a €20 million fund raising round completed by EWT and announced by LEF in December 2007. LEF's investment is in two year secured loan notes with warrants attached. The loan notes have an 8% per annum coupon and the warrants are convertible into ordinary shares of EWT based on 2008 financial performance of the company.

Since LEF made its investment into EWT, an additional €15 million secondary share placing has been completed, with Emerald Technology Ventures announcing on the 14th February 2008 that they, along with Rabo Ventures B.V. and Impax Asset Management Ltd, had acquired an equity position in EWT. The addition of these parties to the shareholder base of EWT alongside LEF and AtlasInvest, all of whom have a very strong collective knowledge of the renewable energy sector, further validates the strong market position and growth potential of EWT.

The pipeline of orders for EWT's wind turbines continues to grow well and the blade and tower market is also currently very strong. EWT is still considering an IPO towards the end of 2008.

As at 31st March 2008, LEF's investment into EWT was valued at £1.85 million.



3. STX Services B.V. (“STX”)

STX is an Amsterdam-based company specialising in the broking and trading of environmental financial products with a particular focus on the carbon markets.

LEF has invested a total of €792,000 (£590,000) into STX, €192,000 through the purchase of 2,432 ordinary shares at €78.93 per share and €600,000 as three year 8% loan notes convertible into 5,825 ordinary shares at a conversion price of €103 per share. LEF’s total holding of 8,257 shares in STX represents 19.2% of the company’s enlarged issued share capital, assuming that all the Loan Notes are converted into ordinary shares.

Through Q1, STX has generated revenues above forecast and across a good spread of products. As an example, several major oil companies entered the biofuel ticket market, boosting volumes and revenues for STX. STX completed its first spot EU Emission Allowance (“EUA”) trade as part of Phase 2 of the European Emission Trading Scheme (“ETS”) and volumes within this market are expected to grow further in the next few months.

Similarly, STX completed its first spot Certified Emission Reduction (“CER”) trade between Europe and Japan and its first cleared spot CER transaction on Climex, an exchange for environmental commodities and energy contracting. The market in spot CERs is also picking up now that Phase 2 of the ETS is in place. Increasing demand for energy load profiles has also resulted in higher revenues for the trading side of the business.

Ludgate continues to believe that the carbon trading markets have a strong growth profile. A recent article in the FT estimates the greenhouse gas market at €40 billion in 2008 and Point Carbon, the market analyst of carbon markets, estimates that this will grow to €63 billion next year.

As at 31st March 2008, LEF’s investment into STX was valued at £0.67 million.

4. Rapid Action Packaging Limited (“RAP”)

LEF announced on the 23rd April 2008 its commitment to invest £4 million into Rapid Action Packaging Limited (“RAP” or the “Company”).

RAP specialises in the design, manufacture and supply of innovative, ergonomic, cost effective and environmentally responsible packaging systems particularly for the “food on the move” marketplace. RAP’s unique packaging solutions combine the benefits of both paper and film technologies to improve packaging as a vital tool in sales growth for food retailers whilst also putting a strong emphasis on environmental performance and responsibility.

All RAP’s products are available in fully compostable and biodegradable materials. Raw materials are sourced sustainably and the design of RAP’s finished products not only leads to raw material ‘source reduction’ but also, through their flat-pack form ensures that distribution and storage have a lower environmental impact.

RAP’s current customers include most of the large supermarket companies and some of the world’s leading quick service restaurant companies. Established in 1997, RAP has experienced rapid growth in recent years. Turnover has increased in 2007 by some 40% to £11million, mainly in the UK, and RAP is now trading on a profitable basis. Similar rates of growth are being experienced in Asia where RAP licenses production and distribution to third parties. In the US RAP has recently agreed the terms for the manufacture and distribution of certain of its products. Product design, sales and administration and production are based in the Republic of Ireland (Donegal) and the UK with the Company’s UK head office in London.

LEF has conditionally committed to invest £4 million into RAP; 1.5 million in ordinary shares and 2.5 million in Convertible Unsecured Loan Stock (“CULS”). The total investment represents 13.46% of investment funds in LEF and is part of a wider placing of £6.125 million (the “Placing”) comprising

2 million of ordinary shares and £4.125 million of CULS. The three year CULS carry an 8% p.a. coupon payable semi-annually in arrears and are convertible into ordinary shares of RAP. LEF led the Placing and was joined by two co-investors who are current shareholders in LEF and also by Joint Funding Partners Limited, an existing shareholder in RAP.



The funds raised from the Placing will be used to refinance loan capital in the Company and to accelerate RAP's next stage of growth with a strong focus on further expansion of the Company's international business. Nick Pople, Director of Ludgate Investments Ltd, LEF's Investment Adviser will join the Board of RAP.

The Placing, and the Fund's investment, are conditional, inter alia, on the passing of a special resolution and RAP meeting certain statutory requirements in connection with the cancellation of existing loan capital in the Company.

The Market

Despite concerns about a general economic downturn as the credit crunch continues to bite, investment activity in the Environmental / Cleantech sector at the back end of 2007 and into Q1 2008 has remained strong.

The Cleantech Investment Monitor (published by Cleantech Venture Network) reported an increase in investments made in Q4 2007 with total investment commitments of US\$1.59 billion in North America and Europe (including Israel), slightly more than double the amount invested in Q4 2006. This amount still remains small when compared to overall sums invested across all areas of venture capital and private equity. Investments were down 15% sequentially from the record Q3 2007 but this is a pattern typical of most Q3 to Q4 movements. Year on year, North American investment was up 129% and Europe was up 117%. Average deal size nearly doubled from US\$8.1million in Q4 2006 to US\$15 million in Q4 2007 as two-thirds of all rounds were made in later stage investments.

Whilst the alternative energy sector continues to capture the bulk of investment, other areas are also growing rapidly. For example, The LEF Fund Team is currently seeing an increasing number of investment opportunities in the waste and recycling sector.

Environmental issues continue to be a focus for regulators around the world. New Energy Finance has reported a strong push towards binding milestones for the 20% renewable energy target by 2020. This will undoubtedly favour the wind sector, but also encourage the further development of other sectors such as tidal and wave in the UK. Regulations are also being strengthened in the areas of waste and recycling particularly in the UK where the Landfill Tax escalator came into force earlier this month. Pressure is also mounting on supermarkets to "green" supply chains and reduce packaging. Significantly the UK Climate Change Bill passed through the House of Lords last month with amendments including a stipulation that listed companies will have to disclose their greenhouse gas emissions in annual reports.

In the US there is now strong cross-party support for broad based action tackling climate change, and momentum is building towards federal limits on greenhouse gases ("GHGs"). 28 states have now introduced, or are about to create, formal GHG limits. Meanwhile, the US wind power sector is, according to CleanEdge, set to become the world's largest market for wind energy by 2009.

The above market developments underline the Fund Team's view that the focus for environmental investing is broad and that there are opportunities to invest in many sectors where significant efforts are being made to address environmental problems.

Deal Flow

Deal flow remains strong with the Fund Team continuing to see a growing number of investment opportunities in the Cleantech / Environmental space at the pre-IPO and development stages. With investments made in five companies to date, the Fund Team is currently undergoing detailed due diligence on a number of UK, European and Australian companies, and expect to make additional investment recommendations in Q2 2008. LEF still expects to be fully invested within 18 months of its launch.



Other Fund Data

ISIN Number - shares	JE00BIYW3102
ISIN Number - warrants	JE00BIYW3L02
Reuters RIC Code - shares	LEF.L
Reuters RIC Code - warrants	LEFW.L
Bloomberg code - shares	LEFLN
Bloomberg code - warrants	LEFWLN

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