Ludgate Environmental Fund Limited

ANNUAL REPORT & ACCOUNTS

For the Period from 7th June 2007 to 30th June 2008

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Chairman's Statement

I am pleased to report to our shareholders that in the period to 30th June 2008 Ludgate Environmental Fund Limited, quoted on the AIM in London under the symbols LEF.L for the shares and LEFW.L for the warrants, increased the net asset value of its investments to £35,362,006 from £26,735,099 at the admission of the company's shares on 2nd August 2007. £3,000,000 was raised in a further capital placing completed in February 2008. After the payment of all fees due this represented a net asset value per share of 120.24p compared with an issue price of 100p gross of fees. Your Company has no gearing.

At the closing price for the Company's securities on 30th June the total return to shareholders for the eleven months in the public markets was 20%, outperforming the FTSE AIM All-share index by 38% over the same period. Of the £8,154,275 income recognized, £6,718,978 was attributable to unrealized gains on financial assets. All recurring expenditure, essentially fees and operational costs not relating to the placings, was paid from current income. Net profit for the year was £5,632,575.

In accordance with your Company's stated investment strategy of seeking high capital returns for shareholders over the medium term in the environmental/cleantech sector and with uninvested cash balances of approximately £17,000,000 available for investment the directors do not recommend the payment of a dividend in respect of 2008. We will review this policy annually to take account of the market performance of the Company's quoted securities relative to the net asset value of its financial assets, also considering the rate and extent of the investment of the Company's cash resources and the nature of the securities held in the underlying financial assets and generally to enhance total shareholder returns. In accordance with the investment objective of achieving substantial capital growth over the medium term, the Directors have not applied for distributor status for the Company.

The Directors have reviewed the Manager's performance at quarterly Board meetings and at each investment recommendation to ensure that your Company's investment objectives in cleantech are being fulfilled and investment policies observed. We have considered the investments made, looked at new proposals and taken account of your Company's pipeline of potential investments in the context of the overall environmental/cleantech markets. We have also analysed the investable securities recommended and proposed by the Manager to ensure that in the early stages of the investment of the proceeds of the capital raising the Company's financial assets remain sufficiently diversified by type, corporate target and industry sub sector that the returns to shareholders are appropriately managed for a closed ended fund.

The valuation uplift on financial assets was £6,718,978 on £11,284,106 invested; interest and associated income on the investments of your Company was £234,205. On a fully aggregated basis between all securities no investment in any single company accounted for more than 15% of the net asset value of the Company when subscribed. The Directors have also reviewed the Manager's treasury policy and management and are satisfied that the cash has been deposited with due regard to the quality and diversity of the banking institutions, liquidity and duration returns.

Since the 30th June 2008 there has been a number of positive developments within the portfolio companies. Hydrodec, the largest single investment in the portfolio, has subsequently announced a significant expansion of its business in Japan and enhanced economic performance. EWT has simplified the structure of its debt obligations and increased transparency. The Manager recommends that both events have increased the value of the securities your Company holds. The investments and portfolio are more fully described in the Manager's report.

The severity and breadth of the credit, liquidity and solvency problems in the financial sector has intensified since the balance sheet date. This has not impaired the cashflow position of the underlying corporate investments in the portfolio. The increased volatility in stock markets has resulted in a substantial reduction in the share prices of many equity securities; your Company's listed investments have outperformed the market.

Chairman's Statement (CONTINUED)

The Manager has recommended and the Directors agreed, in accordance with the investment objectives outlined in the prospectus, that market conditions on the AIM and the performance of certain quoted environmental/cleantech companies have created exceptional investment opportunities for investors seeking enhanced capital returns over the medium term. In line with the stated diversification principles adhered to in our investments and within the environmental/cleantech sector, the Board has endorsed the Manager's recommendation to invest up to £5,000,000 of the current net asset value of the company in such companies. The securities may be held for the medium term and the fund may seek to be actively involved in realizing corporate strategies to increase shareholder value; no individual such investment may be more than £750,000.

The Manager believes that the additional policy of investing in certain undervalued listed securities in the environmental/cleantech sector would be a sound economic complement to investment in pre-IPO capital raisings when the market for financial exits is currently weak. Moreover, investments in convertible and similar securities in pre-IPO and expansion capital rounds provide valuation support and current income when the duration of possible realization in the public markets has increased. Your Board considers this policy to be both prudent and to offer the possibility of enhancing shareholder returns in current market conditions.

The investment outlook for your Company is positive. Continuing high energy costs, the technical security of energy supplies and a host of environmental concerns stimulate and drive solutions-based innovation in the environmental/cleantech sector. In the public markets, emerging companies are rewarded for the sustainability of their growth. Many technology and engineering companies in the sector are in the late stages of venture development, either privately funded or have floated in benign markets to raise the expected final rounds of development funding. Solar energy, biofuel and wind power related businesses are expected, despite low gross market capitalization, to lead the upper quartile of earnings growth in 2009. Set against an expected worldwide increase in energy consumption of 53% between 2004 and 2030 (IEA), this creates a very particular opportunity for Ludgate Environmental Fund Limited in the size of companies targeted, the securities held and the maturity of the new issuance markets. On the basis of their performance in 2008 the Board and Manager will be looking to expand the portfolio and accelerate the rate of investment in 2009.

In reviewing the Manager's valuation of the Company's financial assets we have noted that the fair market figures recognised reflect transactions where there has been a cash or capital transfer between unconnected third parties. Otherwise investments are held at cost. We consider this prudent. I also believe that the documented advice and Manager's proposals to the Company are clear and permit effective decision making; all investment decisions taken in 2008 were unanimous. The objectives of your Company remain as adumbrated in the offering circular and rehearsed in the Investment Adviser's newsletters. Active participation in the strategic direction of the underlying companies has been undertaken where the Manager considers this would enhance their economic performance. Your Board reviews the specific risks and liabilities of portfolio companies and securities at the time of investment and at quarterly meetings. The risks relating to the governance, compliance and controls over financial and other reporting of the Investment Adviser itself are also reviewed by the audit committee and at quarterly Board meetings. Five Board meetings were held in the year, all directors or their alternates were present at each.

Your Board considers that the Manager has performed creditably and profitably in realizing the strategy of Ludgate Environmental Fund Limited in our first year, a performance reflected in the fully disclosed accounts. On this basis and in its chosen markets we look forward to continued positive development in the growth of your Company.

Investment Manager and Investment Adviser's Report

The business and affairs of the Ludgate Environmental Fund ("LEF" or the "Fund") are managed on a discretionary basis by Ludgate Fund Management (Environmental) (Jersey) Limited, advised by Ludgate Investments Limited ("LIL" or the "Investment Adviser") which is regulated and authorised by the Financial Services Authority in the UK.

OBJECTIVE AND INVESTMENT POLICY

The objective of the Ludgate Environmental Fund is to generate a significant level of capital growth in the medium to longer term and deliver superior returns to investors by building a diverse portfolio of investment holdings in environmental/cleantech companies.

Important factors in achieving the Fund's objective include the ability of the Investment Adviser to identify leading technologies and companies within the environmental/cleantech sector through a rigorous review and selection process, to add value to portfolio companies through active support at all stages of their growth, and to focus on maximising returns to investors in the Fund by assisting portfolio companies in achieving an appropriate and timely exit.

The broad investment sub-sectors considered by the Investment Adviser include: energy efficiency and alternative energy sources, waste management and recycling, water treatment and management, industrial process advances and emission reduction technologies.

OPERATIONAL REVIEW AND INVESTMENT PORTFOLIO

Summary:

- Over 140 investment opportunities reviewed by the Investment Adviser.
- £11.70 million invested (including loans) by LEF into five companies in the period to 30 June 2008: Hydrodec Group (£4.45 million); Virotec International (£0.80 million) Emergya Wind Technologies (€2.0 million); STX Services (€1.29 million); and Rapid Action Packaging (£4.0 million).
- Since the year-end LEF has invested an additional £1.16 million in total into one existing portfolio company, Emergya Wind Technologies (€1.0 million) and two new companies, Phoslock Water Solutions (£0.26 million) and Azure Dynamics (£0.15 million).
- Net Asset Value per share as at 30 June 2008 was 120.24p (compared to 97.3p at AIM Admission on 02 August 2007).

Operational Review:

Since the Admission of LEF onto AIM in August 2007, LIL, as Investment Adviser to LEF, has quickly developed a strong and growing dealflow of potential investments. This has resulted in LIL reviewing over 140 investment opportunities in the eleven month period since the Fund's launch.

As at 30th June 2008, LIL had recommended, and the Fund had completed, combined investments of £11.70 million, across three private companies and two AIM listed companies, representing 39% of total funds raised by LEF. The number of companies invested in became four following completion of the acquisition of Virotec International by Hydrodec Group on 25 June 2008.

Investment Manager and Investment Adviser's Report

Company	Sector	Date of Investment	Investment Amount	% LEF Funds*
Hydrodec Group	Specialist Oils Recycling	Nov07	£3.0m (Convertible)	10.09
		Dec07, Mar08, Apr08	£1.45m (Equity)	4.88
Virotec International	Environmental Remediation and Industrial Waste Treatment	Apr08	£0.8m (Equity)	2.69
Emergya Wind Technologies	Wind Turbine Manufacturing	Dec07	€2.0m (£1.44m) (Loan Notes + Warrants)	4.84
STX Services	Environmental Product Broking / Trading	Dec07	€0.19m (£0.14m) (Equity)	0.47
		Jan08	€0.60m (£0.45m) (Convertible)	1.51
		Jun08	€0.50m (£0.40m) (Short Term Loan)	1.34
Rapid Action Packaging	Food Packaging Solutions	Apr08	£1.50m (Equity)	5.05
		Apr08	£2.50m (Convertible)	8.41

* LEF Funds = funds raised for investment (£29.73m at 30/06/08)

Since the year-end, LEF has completed three further investments: investing €1.0 million (£0.79 million) into one existing portfolio company, Emergya Wind Technologies B.V.; £0.15 million into one new company, Azure Dynamics (AIM:ADC); and a further A$0.55 million (£0.26 million) into another new company, Phoslock (ASX:PHK). This has brought the amount invested up to £12.86 million, representing 43% of total funds raised by LEF. Since the year-end the initial investment of €2.0 million into EWT has been restructured converting the warranted loan notes into preference shares. Also STX Services B.V. has announced its intention to repay the €0.50 million short term loan to LEF in advance of the final repayment date.

The investments made by the Fund to date have principally been in the UK and Western Europe, although a number of investments have also been made in Australian companies, where LIL has strong links through its network and shareholder base.

The investments made so far by LEF have been made across a broad range of financial instruments including equity, senior preference equity, convertibles and debt. Current market conditions have resulted in a number of the investments made being structured to give greater downside protection through an emphasis on debt like instruments, including convertible loan stock. Whilst initially it was not expected that the Fund would generate significant levels of income, where investments have been structured on a debt or convertible basis, those particular instruments are generating interest income for the fund over the life of the investment.

Given recent turmoil in stock exchange markets such as AIM, the Investment Adviser is also increasingly seeing opportunities to invest in quoted environmental/cleantech companies, which in its opinion, are undervalued.

Investment Manager and Investment Adviser's Report

Investment Portfolio

Hydrodec Group PLC ("Hydrodec") (AIM: HYR)

Specialist Oils Recycling

LEF Ownership: 6.7%

Date(s) of investment: November & December 2007, March & April 2008

Amounts Invested: £3.0m (Convertible), £1.45m (Equity)

Investment as % of LEF Funds Raised: 10.09%, 4.88%

Valuation: £10.46m (quoted share price)

Hydrodec's technology is a patented sustainable oil refining process that takes existing spent oil as feedstock to produce new specialty oils thus creating a virtuous "green" cycle. The process is closed loop and produces no harmful emissions. It can indefinitely return "as good as new" oil ("Superfine") to electrical utilities and transformer manufacturers (who supply the utilities) and at the same time removes their lifetime stewardship liabilities for these harmful substances.

Hydrodec's first commercial process re-refines the used transformer oils that insulate and cool utility transformer boxes. It currently has one commercially operating plant in Young, New South Wales in Australia, and is now expanding its operations into the US, the largest market for transformer oil in the world, through the construction of production plants in Canton, Ohio and Laurel, Mississippi.

On 16 June 2008, Hydrodec announced that the handover from construction to commissioning for the Canton Ohio plant had happened ahead of schedule and on budget signifying the commencement of full operations for Hydrodec North America. Hydrodec has also announced its intention to accelerate the planning and construction of the second US plant in Laurel Mississippi, which it now expects to be fully operational by the end of Q3 2009. Since then, Hydrodec has announced that its Superfine TM transformer oil has completed independent quality assurance verification and that samples of the oil have now been sent to Hydrodec's customers for their final approval.

Hydrodec has already been accredited as a vendor within the vendor prequalification system for American Electrical Power, one of the largest power utilities in the US, and has secured a conditional commitment from one of the largest transformer oil buyers in the US to purchase more than 50% of the maximum capacity of the Canton, Ohio plant once it is commissioned and to increase purchase quantities up to 30 million litres per annum once both US plants are commissioned. Initial shipments to this customer from the Canton, Ohio plant are expected to commence in October 2008. Further expansion of plants is expected in Japan and Europe.

In Japan, Hydrodec announced on 18 September 2008 that it had signed an MOU, to progress the introduction of it's technology and business to the Japanese market, with Kobelco Eco-Solutions Co. Ltd. ("KES"), a majority owned subsidiary of Kobe Steel. KES is the environmental business unit of the Kobe Steel Group, one of Japan's most prominent industrial companies.

John Gunn, Senior Adviser within LIL is non-executive Chairman of Hydrodec.

Investment Manager and Investment Adviser's Report

Investment Portfolio (CONTINUED)

Virotec International PLC / Hydrodec

Environmental Remediation and Industrial Waste Treatment

LEF Ownership: 2.84%

Date(s) of investment: April 2008

Investment: £0.80m (Equity)

Investment as % of LEF Funds Raised: 2.69%

Valuation: £1.02m (Hydrodec shares post acquisition - quoted share price)

On the 11th April 2008 LEF announced that it had made an investment into the environmental remediation and industrial waste treatment company Virotec. LEF purchased 7.5 million Virotec ordinary shares at an average price of 10.7 pence per share, a total investment of £0.8 million. This share purchase represented approximately 2.84 per cent of the issued share capital of Virotec at the time.

The investment into Virotec was made following the announcement by Hydrodec on the 4th April 2008 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.

Following completion of the Hydrodec offer for Virotec on 25 June 2008, LEF's investment into 7.5 million ordinary shares of Virotec has converted into 2.0 million shares in ordinary shares of Hydrodec.

Emergya Wind Technologies B.V.

Wind Turbine Manufacturing

LEF Ownership: 2.35% (post conversion of warranted loan)

Date(s) of investment: December 2007

Investment: €2.0m (£1.44m) (warranted loan)

Investment as % of LEF Funds Raised: 4.84%

Valuation: £1.85m (Further funding round)

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. EWT was established in 2004 by the acquisition of the intellectual property of Dutch wind turbines manufacturer Lagerwey. The current product portfolio consists of the 750 KW and 900 KW series and EWT is also developing larger wind turbines for both onshore and offshore applications.

Since LEF made its investment, EWT has completed a further €15 million secondary share placing with inter alia, Emerald Technology Ventures, Rabo Ventures B.V. and Impax Asset Management. In addition EWT has entered into a letter of intent to acquire Americas Wind Energy Corporation ("AWE") which would give EWT the rights to manufacture and sell the DIRECT WIND turbine product line in North America, a fast growing market for wind power. The pipeline of orders for EWT continues to grow and the market remains strong.

Investment Manager and Investment Adviser's Report

Investment Portfolio (CONTINUED)

Emergya Wind Technologies B.V. (CONTINUED)

EWT announced on 25 June 2008 that it had extended its geographical market reach into China by establishing a local marketing and sales company through a joint venture with the Chinese Academy of Launch Technology ("CALT"). The joint venture aims to install over 1000 MW of EWT wind turbine capacity in China over the next five years based on the current portfolio of 750 and 900 KW turbines as well as a 2 MW turbine that is currently being developed and is expected to become available in 2010.

STX Services B.V.

Environmental Product Broking/Trading

LEF Ownership: 19.2% (post conversion of loan notes)

Date(s) of investment: December 2007, January 2008 & June 2008

Investment: €0.19m (£0.14m) (Equity), €0.60m (£0.45m) (Convertible), €0.5m (£0.40m) (Short Term Loan)

Investment as % of LEF Funds Raised: 0.47%, 1.51%, 1.35%

Valuation: £0.67m, excluding short term loan (Further funding round)

STX is an Amsterdam-based company specialising in the broking and trading of environmental financial products with a particular focus on the carbon markets. STX was formed in 2005 as the carbon broking and environmental product division of Wallich & Matthes Holding B.V, an institutional brokerage established in 1879. STX was then spun off in May 2007 as a separate business, although Wallich & Matthes Holding B.V. remains the largest shareholder.

STX has mostly been active in broking and trading EU Emission Allowances ("EUAs") but has diversified into transactions in Certified Emission Reduction ("CERs"), Voluntary Emissions Reduction ("VERs"), Biofuel Tickets, Green Certificates and Electricity Load-Profile Arbitrage. STX is active across the European markets.

Transactions in EUAs and CERs have increased significantly in Phase 2 of the European Emission Trading Scheme and Green Certificates and Biofuels have also shown growth. This has led to the brokerage activity of STX performing above expectations. The load-profile trading activity has underperformed by comparison due to a combination of huge volatility in power prices and decreasing liquidity in these markets related to the credit crisis.

STX has seen strong growth in its revenues so far in 2008 as the carbon trading markets continue to develop with transaction volumes now double those seen 12 months ago. Point Carbon estimate that the carbon trading market will grow from €40 billion in 2008 to €63 billion in 2009.

Nick Pople, Fund Manager within LIL, is a member of the supervisory committee of STX, and Nigel Meir, Fund Manager within LIL, is a member of the credit committee of STX.

Investment Manager and Investment Adviser's Report

Investment Portfolio (CONTINUED)

Rapid Action Packaging Limited

Food Packaging Solutions

LEF Ownership: Dependent on conversion terms

Date(s) of investment: April 2008

Investment: £1.5m (Equity) and £2.5m (Convertible)

Investment as % of LEF Funds Raised: 5.05%, 8.41%

Valuation: £4.0m (Cost)

Rapid Action Packaging Ltd ("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 largest UK 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 in 2007 increased by 40% to £11million and the Company is now trading profitably. RAP is expanding into Asia and, more recently, the US through licensing its production and distribution to third parties. Product design, sales and production are based in Ireland and the UK.

Nick Pople, Fund Manager within LIL, is a non-executive director of RAP.

Post Balance Sheet Developments - New Investments

Phoslock Water Solutions Limited (ASX: PHK)

Water Treatment Technology

LEF Ownership: approximately 3%

Date(s) of investment: August 2008

Investment: AUS$0.55m (£0.26m) (Equity and Warrants)

Investment as % of LEF Funds Raised: 0.87%

PWS is an Australian public company that owns the patents and global trade mark for 'Phoslock'. Phoslock is a modified clay product which removes phosphorus from the water column and sediment pore water of water bodies. By removing the phosphorus, Phoslock effectively controls the growth and proliferation of algae through limiting one of their essential nutrients. Application of Phoslock in a water body will break existing algal blooms and prevent future blooms.

Phoslock was invented and developed by the Commonwealth Scientific & Industrial Research Organisation (CSIRO), Australia's national scientific organization. PWS manufactures Phoslock at its joint venture manufacturing operation near Kunming, China.

Investment Manager and Investment Adviser's Report

Post Balance Sheet Developments - New Investments (CONTINUED)

Phoslock Water Solutions Limited (ASX: PHK) (CONTINUED)

LEF has subscribed for five million fully paid ordinary shares in the Company at a subscription price of $0.11 per share. As part of its investment, LEF will also be granted options to subscribe for an additional 1.25 million shares in PWS at $0.11 per share any time up to 31st July 2009. LEF's investment is part of a wider share placing in PWS, raising a total of just over AUS$1.7 million for the Company on the same terms. Post investment, LEF's shareholding in PWS will be approximately 3%.

Emergya Wind Technologies B.V.

Wind Turbine Manufacturing

LEF Ownership: 2.45% (post conversion of warranted loan and additional investment)

Date(s) of investment: September 2008

Investment: €1.0m (£0.79m) (Preference Shares)

Investment as % of LEF Funds Raised: 2.66%

In September 2008, LEF invested an additional €1.0 million into Emergya Wind Technologies B.V. ("EWT") as part of a €31 million private placement into the company. The additional investment into EWT has been made by way of preference shares. At the same time LEF, along with all the holders of the warranted loan and other shareholder loans, has converted its €2.0 million of warranted loan into preference shares in the company. Post conversion of the warranted loan and follow-on equity investment, LEF holds 4.1 million shares in EWT, representing 2.45% of the share capital of the company.

Report of the Directors

The Directors present their first report and the audited financial statements for the period 7th June 2007 to 30th June 2008.

INCORPORATION

The Company was incorporated in Jersey, Channel Islands on 7th June 2007.

ACTIVITIES

The Company is a closed-ended investment company investing in the environmental/cleantech Sector including energy efficient and alternative energy sources, waste treatment and management, waste management and recycling, industrial process advances and emission reduction technologies.

RESULTS AND DIVIDENDS

The net profit for the period amounted to £5,632,575.

The Directors do not recommend the payment of a dividend for the period.

GOING CONCERN

The Directors are of the opinion that the Company is a going concern, and accounts have been prepared on that basis.

DIRECTORS

The Directors who held office during the period were:-

J. Shakeshaft (appointed 7th June 2007)
M. Christensen (appointed 7th June 2007)
H. Grant (appointed 7th June 2007)
D. Maccabe (appointed 7th June 2007)

COMPANY SECRETARY

The Company Secretary is Mourant & Co. Secretaries Limited of 22 Grenville Street, St. Helier, Jersey, JE4 8PX.

INDEPENDENT AUDITORS

BDO Alto Limited were appointed as auditors during the period and have expressed their willingness to continue in office.

NOMINATED ADVISER

The Company's Nominated Adviser is PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH, who have expressed their willingness to continue in office.

REGISTRAR

Computershare Investor Services (Channel Islands) Limited, Ordnance House, 31 Pier Road, St. Helier, JE4 8PW.

BROKER

Fairfax I.S. PLC, 46 Berkeley Square, Mayfair, London, WIJ 5AT.

BANKERS

Royal Bank of Scotland International, 71 Bath Street, St. Helier, Jersey, JE4 8PQ.

Report of the Directors (CONTINUED)

LEGAL ADVISERS

Norton Rose, 3 More London Riverside, London, SE1 2AQ.
Carey Olsen, 47 Esplanade, St. Helier, Jersey, JE1 0BD.

INVESTMENT ADVISER

Ludgate Investments Limited, 80 Cannon Street, London, EC4N 6HL.

REGISTERED OFFICE

22 Grenville Street
St Helier
Jersey
JE4 8PX

BY ORDER OF THE BOARD

Marisa Warren

Authorised Signatory
Mourant & Co. Secretaries Limited
Company Secretary

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards.

Jersey company law requires the Directors to prepare financial statements for each financial year, 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991. 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.

Independent Auditors' Report

To the Members of Ludgate Environmental Fund Limited

We have audited the financial statements of Ludgate Environmental Fund Limited for the period ended 30 June 2008 which comprise the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable Jersey law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the company has not kept proper accounting records and if we have not received all the information and explanations we require for our audit.

We read the Chairman's Statement, Investment Manager and Investment Adviser's Report and the Report of the Directors and consider the implications for our Report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the company's affairs as at 30 June 2008 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991; and
- the information given in the Report of the Directors is consistent with the financial statements.

BDO Alto Limited
Chartered Accountants, Jersey

Balance Sheet

As at 30th June 2008

	Notes		2008
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	7		18,003,084
			18,003,084
Current assets			
Loan receivable	9		399,361
Trade and other receivables	10		483,483
Cash and cash equivalents	8		17,468,862
			18,351,706
TOTAL ASSETS		£	36,354,790
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital account	12		29,729,431
Warrants	12		-
Retained earnings	13		5,632,575
TOTAL SHAREHOLDERS' EQUITY		£	35,362,006
LIABILITIES			
Current liabilities			
Trade and other payables	11		992,784
TOTAL EQUITY AND LIABILITIES		£	36,354,790
Net asset value per ordinary share outstanding		£	1.2024

These financial statements on pages 14 to 36 were approved and authorised for issue by the Board of Directors on the 8th day of October 2008 and were signed on its behalf by:

Director: John Shakeshaft

(The notes on pages 18 to 36 form part of these financial statements)

Income Statement

For the period 7th June 2007 to 30th June 2008

	Notes		7th June 07 to 30th June 08
INCOME			
Deposit interest income			1,194,199
Interest income on investments			230,960
Loan facility interest			2,704
Commitment fees			541
Unrealised gain on financial assets at fair value through profit or loss	7		6,718,978
Other income			2,417
Realised movement on foreign exchange			4,476
			8,154,275
EXPENDITURE			
Legal fees			81,026
Professional fees			299,803
Investment management fees			527,799
Performance fees	3		916,988
Administration & accountancy fees			52,864
Fee paid on behalf of a third party			9,750
Directors' fees and expenses	4		43,560
Audit fees			12,000
Issue costs			581,187
Miscellaneous charges			2,223
			2,521,700
PROFIT FOR THE PERIOD		£	5,632,575
Earnings per ordinary share	6	£	0.2369
Weighted average ordinary shares outstanding	6		23,772,934

(The notes on pages 18 to 36 form part of these financial statements)

Statement of Changes in Shareholders' Equity

For the period 7th June 2007 to 30th June 2008

		Share capital account		Warrants		Retained earnings		Total
Issue of ordinary shares on incorporation		2		-		-		2
Issue of ordinary shares on IPO		26,735,099		-		-		26,735,099
Subsequent issue of ordinary shares		2,994,330		-		-		2,994,330
Net profit for the period		-		-		5,632,575		5,632,575
Balance at 30th June 2008	£	29,729,431	£	-	£	5,632,575	£	35,362,006

(The notes on pages 18 to 36 form part of these financial statements)

Cash Flow Statement

For the period 7th June 2007 to 30th June 2008

	Notes		7th June 07 to 30th June 08
Cash flows from operating activities			
Cash flow from operations	15		(609,129)
Cash flows from investing activities			
Purchase of investments			(11,284,106)
Interest and dividends received			32,027
Loan finance provided			(399,361)
Net cash used in investing activities			(11,651,440)
Cash flows from financing activities			
Proceeds from issue of ordinary shares during the period			29,729,431
Net cash generated from financing activities			29,729,431
Net increase in cash and cash equivalents			17,468,862
Cash and cash equivalents at beginning of the period			-
Cash and cash equivalents at end of the period	8	£	17,468,862

(The notes on pages 18 to 36 form part of these financial statements)

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

1. Reporting Entity

The Company was registered as a public Company on 7th June 2007 with registered number 97690 under the Companies (Jersey) Law 1991. The Company's IPO closed on 2nd August 2007 and its shares are listed on the Alternative Investment Market ("AIM"). The registered office of the Company is 22 Grenville Street, St Helier, Jersey, JE4 8PX.

The principal activities of the Company include building a diversified portfolio of investment holdings in Environmental and Cleantech companies. The Company's investment objective is to generate a significant level of capital growth in the medium to long term. The Company seeks to attain its objectives by using the expertise of Ludgate Investments Limited (the "Investment Adviser") to identify, invest and build successful businesses against the background of current rapid growth in investment demand and opportunities within the environmental/cleantech sector. The Investment Adviser seeks to maximise returns and reduce investment risk through an active investment approach and an ability to provide important value-added services to portfolio companies throughout the life of each investment.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

2. Accounting Policies

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee.

Applicable new standards and interpretations not yet effective

In November 2006, the IASB issued IFRS 8, "Operating Segments" which is effective for annual periods beginning on or after 1 January 2009. The standard requires segmental disclosure based on the components of the entity that management monitors in making decisions about operating matters. This "management approach" differs from IAS 14, which currently requires the disclosure of two sets of segments, business and geographical segments, based on a desegregation of information contained in the financial statements. Under IFRS 8 operating segments become reportable based on threshold tests related to revenues, results and assets. The Company will apply IFRS 8 for its accounting period commencing 1 July 2009.

b) Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following:

Financial instruments designated at fair value through profit or loss are measured at fair value and changes therein are recognised in the income statement. Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised within the financial statements are included in Section o of Note 2 'Determination of fair values'.

c) Functional and presentation currency

These financial statements are presented in sterling, which is the Company's functional and presentation currency.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

2. Accounting Policies (CONTINUED)

d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires the Board to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

e) Foreign currencies

Transactions in foreign currencies, other than sterling, are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the foreign currency closing exchange rate ruling at the balance sheet date. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to sterling at the foreign currency exchange rates ruling at the dates that the values were determined. Foreign currency differences arising on retranslation are recognised in the income statement.

f) Financial instruments

Financial assets and financial liabilities are initially recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of a given instrument.

Regular way purchases and sales of financial instruments are recognised on the trade date. Gains and losses are recognised from that date.

Financial assets are derecognised when the contractual rights to cash flows from the assets expire or the Company transfers the financial assets and substantially all of the risks and rewards of ownership have been transferred. Financial liabilities are derecognised when the liabilities are extinguished.

Financial instruments comprise investments in equity and debt securities, loans receivable, trade and other receivables, cash and cash equivalents and trade and other payables.

Financial instruments are recognised initially at fair value. Subsequent to initial recognition financial instruments are measured as described below.

Cash comprises fixed deposits, cash balances and call deposits with banks. Cash equivalents are short-term highly-liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

2. Accounting Policies (CONTINUED)

f) Financial instruments (CONTINUED)

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or designated as such upon initial recognition. The Company has designated its investment holdings as at fair value through profit or loss as permitted by International Accounting Standard 39 Financial Instruments: Recognition and Measurement. Upon initial recognition attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

Other financial instruments

Other financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

Ordinary shares

Ordinary shares are non-redeemable and these are classified as equity.

g) Provisions

A provision is recognised if, as a result of a past event, the Company has a legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to that liability.

h) Revenue and expenses

Revenue is recognised to the extent that it is possible that economic benefits will flow to the Company and the revenue can be reliably measured. Expenses are accounted for on an accruals basis.

i) Finance income and expenses

Finance income comprises interest income on funds invested (including financial assets at fair value through profit or loss), interest income, loan interest income and changes in the fair value of financial assets at fair value through profit or loss. Interest income and loan interest income are recognised as they accrue in the income statement, using the effective interest rate method. Dividend income is recognised in the income statement on the date the Company's right to receive payments is established which is usually the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of discounts on provisions and changes in the fair value of financial assets held at fair value through profit or loss.

Foreign currency gains and losses are reported in the income statement on a net basis.

j) Earnings per share

The Company presents basic earnings per share data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. For further details please see Note 6.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

2. Accounting Policies (CONTINUED)

k) Transaction costs

Expenses incurred by the Company that are directly attributable to its initial public offering have been expensed to the income statement.

l) Taxation

The Company has exempt status for Jersey taxation purposes for the year of assessment 2008. Effective 1 January 2009, Jersey's tax regime will change. The new regime will impose a general corporate income tax rate of 0%, 10% rate will apply to certain regulated financial services companies and a 20% rate will apply to utilities and income from Jersey land (ie rents and development profits). Jersey registered companies will be treated as resident for tax purposes and will be subject to a 0% or 10% standard income tax rate.

Since the company is not a regulated financial service entity, the effect of the new tax regime is limited to the change of status from exempt to liable to Jersey income tax at 0%.

In accordance with the investment objective of achieving substantial capital growth over the medium term the directors have not applied for distributor status for the Company. This may in certain circumstances lead to non-exempt UK taxpayers incurring an income tax liability on recognised but unrealised capital gains retained within the Company.

m) Dividends payable

Dividends payable on ordinary shares are recognised in the Statement of Changes in Shareholders' Equity.

n) Offsetting

Financial assets and liabilities are offset and the net amount is reported within assets and liabilities where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

o) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair values for the financial assets and liabilities. Fair value is the amount for which an asset or liability could be exchanged or settled between knowledgeable, willing parties in an arms length transaction. Fair values have been determined for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Financial assets for which quoted prices are available from a third party in a liquid market are valued on the basis of quoted bid prices. Where there are no available quoted prices the fair values will be determined in accordance with International Private Equity and Venture Capital Valuation Guidelines of the British Venture Capital Association as amended from time to time.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

2. Accounting Policies (CONTINUED)

o) Determination of fair values (CONTINUED)

As at 30th June 2008 the fair values of quoted equities are based on quoted bid prices at the period end. Unquoted equities and unquoted securities are valued at cost where the investment is purchased within three months of the period end (Rapid Action Packaging Limited) or at prices used for subsequent arms length purchases of the same investments (STX Services B.V.). The Hydrodec Group plc Convertible Bonds have been valued using the quoted share price for the Ordinary shares as the Directors consider this to be the most accurate estimation of the fair value.

The fair value of financial liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

3. Performance Fees

		7th June 07 to 30th June 08
Performance fees payable	£	916,988

Performance fees are payable to the Manager with reference to the increase in adjusted net asset value per share over the course of each performance period. The Manager becomes entitled to receive a performance fee if the following conditions are met:

- The adjusted net asset value per share at the end of the performance period exceeds the Performance Hurdle. The Performance Hurdle is an amount equal to the placing price increased at a rate of 8% per annum on a compounded basis up to the end of the relevant performance period.
- The adjusted net asset valued per share at the end of the performance period exceeds the High Watermark. The High Watermark is the highest previously recorded adjusted net asset value per share at the end of a performance period for which a performance fee was last earned.

If the above conditions are met the Manager is entitled to receive a fee equal to 20% of the amount by which the adjusted net asset value exceeds the higher of (i) the performance hurdle and (ii) the relevant High Watermark multiplied by the times-weighted average number of shares in issue since the end of the last performance period for which a performance fee was earned.

20% of performance fees earned by the Manager shall be retained and deposited in a Reserve Account, which is to be set up by the Company in due course. The reserve amount shall only be released on the final calculation date when the Administrator will calculate the Reserve Release Amount in accordance with Schedule 1 of the Management Agreement.

From time to time members of the Ludgate group may provide corporate financial services to the Company. The directors ensure that such services are pre-approved, provided on an arms length basis and market terms and that any possible conflicts of interest are disclosed.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

4. Directors' Renumeration

		7th June 07 to 30th June 08
Directors' fees		40,829
Directors' expenses		2,731
	£	43,560

As at the balance sheet date, the following ordinary shares and warrants of the Company were held by the Directors:

	Ordinary Shares	Warrants
J. Shakeshaft	50,000	12,500
M. Christensen	10,000	2,500

5. Dividends

The Directors have not recommended a dividend for the period ended 30th June 2008.

6. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following information	2008 £
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders	5,632,575
Weighted average number of ordinary shares for the purposes of basic earnings per share	Number 23,722,934

7. Financial Assets at Fair Value Through Profit or Loss

As noted above the Company has designated its investment holdings in environmental/cleantech companies at fair value through profit or loss. Financial assets are initially recognised on the Company's balance sheet at fair value when the Company becomes party to the contractual provisions of a given instrument and changes thereafter are recognised in the income statement.

Quoted equities:		2008:
Cost: Hydrodec Group plc Ordinary Shares		2,265,589
Fair value movement to 30th June 2008		1,156,780
Fair value as at 30th June 2008		3,422,369
Fair value of quoted equities as at 30th June 2008	£	3,422,369

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

7. Financial Assets at Fair Value Through Profit or Loss (CONTINUED)

Unquoted equities:		**2008:**
Cost: STX Services B.V. Ordinary Shares		134,402
Fair value movement to 30th June 2008		64,016
Fair value as at 30th June 2008		198,418
Cost: Rapid Action Packaging Limited Ordinary Shares		1,500,000
Fair value movement to 30th June 2008		-
Fair value as at 30th June 2008		1,500,000
Fair value of quoted equities as at 30th June 2008	£	1,698,418

Unquoted securities:		**2008:**
Cost: Energy Wind Technologies B.V. Loan Notes		1,436,369
Movement in fair value to 30th June 2008		418,036
Fair value as at 30th June 2008		1,854,405
Cost: Hydrodec Group plc Convertible Bonds		3,000,000
Fair vaue movement to 30th June 2008		5,052,632
Fair value as at 30th June 2008		8,052,632
Cost: STX Services B.V. 8% Convertible Loan Notes		447,746
Fair value movement to 30th June 2008		27,514
Fair value as at 30th June 2008		475,260
Cost: Rapid Action Packaging Limited 8% Convertible Loan Notes 2011		2,500,000
Fair value movement to 30th June 2008		-
Fair value as at 30th June 2008		2,500,000
Fair value of unquoted securities as at 30th June 2008	£	12,882,297
Total financial assets at fair value through profit or loss as at 30th June 2008	£	18,003,084

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

7. Financial Assets at Fair Value Through Profit or Loss (CONTINUED)

The following table shows an analysis of financial assets recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

	Quoted market price (£)	Valuation technique - market observable inputs (£)	Valuation technique - non-market observable inputs (£)	Total (£)
Financial Assets	3,422,369	8,052,632	6,528,083	18,003,084

8. Cash and Cash Equivalents

		2008:
Cash at bank:		
Royal Bank of Scotland International - current account GBP		465,325
Royal Bank of Scotland International - current account EUR		4,128
Royal Bank of Scotland International - current account GBP		401
Mourant & Co. Limited - client account		2
Cash held on fixed term deposit:		
Fixed term deposits held with Bank of Scotland		13,988,928
Fixed escrow account held with Royal Bank of Scotland International		3,010,078
	£	17,468,862

The Company has an undrawn right to borrow sums equivalent to 25% of the net asset value. At the balance sheet date no amount has been drawn down in this respect.

9. Loan receivable

		2008
Loan receivable - STX Services B.V.	£	399,361

The Company has entered into a Loan Facility Agreement dated 5th June 2008 with STX Services B.V. The loan is unsecured, bears interest at 10% per annum, payable quarterly on the last business day of March, June, September and December and is repayable on the Facility End Date of 31st October 2008. A commitment fee is payable to the Company at a rate of 2% per annum on the loan facility amount. The facility is in the principal sum of €500,000.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

10. Trade and Other Receivables

		2008:
Fixed deposit interest receivable		216,243
Investment income receivable		198,933
Loan facility interest receivable		2,703
Loan commitment fees receivable		541
Reimbursement of legal fees receivable		59,000
Prepayments and other receivables		6,063
	£	483,483

11. Trade and Other Payables

		2008:
Directors' expenses payable		177
Professional fees payable		5,538
Performance fees payable		916,988
Pincent Manson legal fees payable		59,000
Audit fees payable		4,000
Mourant & Co. fees payable		1,667
Ludgate management fees payable		5,414
	£	992,784

The following expenses are payable on presentation of invoice: Directors' expenses, Professional fees, Pinsent Mason's legal fees, Mourant & Co fees and Audit fees.

The following expense is payable within 30 days of presentation of invoice: Ludgate management fees.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

12. Stated Capital Account

	2008
AUTHORISED:	
Ordinary shares of no par value each	unlimited

The authorised share capital of the Company comprises an unlimited number of voting, non-convertible ordinary shares with no par value each.

ISSUED DURING THE PERIOD:

	No. of ordinary shares	No. of investor warrants	No. of management warrants
Issued on incorporation	2	-	-
Issued during the period	29,408,608	6,683,775	1,285,250
Balance at 30th June 2008	29,408,610	6,683,775	1,285,250

Two Founder Shares of £1.00 each were issued on incorporation. The initial public offering of Ordinary Shares on 2nd August 2007 was priced at £1.00 per share. Subscribers for the shares received one investor warrant for every four ordinary shares subscribed. Each investor warrant entitles the holder to subscribe for additional shares in the Company at a subscription price of £1.50 until the final subscription date of 31st October 2012.

A second placing of shares occurred on 22nd February 2008. 2,673,509 ordinary shares of no par value were issued at a price of £1.12p per share. There were no warrants attached to these shares. The ordinary shares and warrants are listed and traded on AIM.

Ludgate Fund Management (Environmental) (Jersey) Limited (the “Manager”) received 1,285,250 unlisted Manager Warrants which entitles the Manager to subscribe for additional shares in the Company at a subscription price of £1.75 until the subscription date of 31st October 2012.

The ordinary shares and founder shares carry the right to vote at general meetings, dividends, and the surplus assets of the Company on winding-up. All holders of the Ordinary Shares and Founder Shares have the same voting rights.

	Share capital £
Issued on incorporation	2
Issued during the period	29,729,429
Balance at 30th June 2008	29,729,429

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

12. Stated Capital Account (CONTINUED)

WARRANTS:

		2008
Investor warrants:		
Issue of warrants at IPO (1:4 exercisable for ordinary shares)	Number GBP	6,683,775
Value of warrants at IPO		-
Exercise price		£1.50
Management warrants:		
Issue of Management Warrants at IPO	Number GBP	1,285,250
Value of warrants at IPO		-
Exercise price		£1.75

The Investor Warrants entitle the holder to subscribe for one ordinary share in the Company at a price of £1.50 up to the Final Subscription Date of 31st October 2012. Investors who subscribed for Shares pursuant to the placing received one Investor Warrant for every four shares acquired.

The Management Warrants were issued in registered form and entitle the holder to subscribe for one share at a price of £1.75 until the Final Subscription Date of 31st October 2012.

The subscription right of all warrants may only be exercisable during the 28 days following the date of publication of the Company's annual audited accounts for any of the financial periods/years ended June 2008 to 2011 inclusive and/or during the 28 days prior to the Final Subscription Date of 31st October 2012.

13. Reserves

		Retained Earnings
Profit for the period		5,632,575
	£	5,632,575

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

14. Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company maintains positions in a variety of financial instruments as dictated by its investment management strategy. The Company's investment portfolio comprises quoted and unquoted equity investments and unquoted debt securities which the Company intends to hold for an indefinite period of time (subject to the lifetime of the Fund). Asset allocation is determined by the Company's Manager who manages the distribution of the assets to achieve the investment objectives.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income and or the value of its holdings in financial instruments. The Manager is responsible for monitoring, measuring and reporting market risk.

The Company's exposure to market risk comes mainly from movements in the value of its investments.

The Company's strategy on the management of investment risk is driven by the Company's investment objective. The Company's investment objective is to deliver to investors a significant level of capital growth in the medium to long term by building a diverse portfolio of investments in environmental/cleantech companies. The Company's market risk is managed by the Manager in accordance with the policies and procedures in place.

The Company seeks to achieve its investment objective and minimise investment risk through the identification of appropriate technologies and companies within the environmental/cleantech sector using a vigorous review and selection process; by adding value to companies in the portfolio through active support at all stages of their growth and by focusing on maximising returns for shareholders by assisting companies in achieving an appropriate and timely exit.

A pre-screening of potential investments is carried out to ensure that investments comply with the investment criteria, as defined in the Admission Document. A full review and due diligence is undertaken before a potential investment can be submitted for approval by the Screening Committee, Investment Committee and the Manager.

Monitoring of the portfolio is carried out on a monthly basis by the Investment Adviser who will review the investments against milestones of technology developments, commercial progress, financial and trading results including management accounts, management assessment, market intelligence and anticipated planning and exit. Investment risk is also reviewed at the time of any investment proposal, the publication of the net asset values and any capital raising.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

14. Financial Risk Management (CONTINUED)

The Company's overall market positions are reviewed on a quarterly basis by the Board of Directors. Details of the Company's investment portfolio composition as at the balance sheet date are disclosed in Note 7 to these financial statements.

Interest Rate Risk

To the extent the Company incurs indebtedness, changes in interest rates can affect the Company's net interest income, which is the difference between the interest income earned on interest-bearing assets and the interest expense incurred on interest-bearing liabilities. Changes in the level of interest rates also can affect, among other things, the Company's ability to acquire loans and investments, the value of its investments and the Company's ability to realise gains from the settlement of such assets. Interest rate risk is mitigated by a policy of holding diversified instruments with varied counterparties.

The majority of the Company's financial assets are fixed rate or non-interest bearing and all of the Company's financial liabilities are non-interest bearing. Therefore the Directors believe that the Company's exposure to interest rate risk is minimal. Any excess cash and cash equivalents are invested in fixed term deposits with maturities of 12 months or less. Investments in debt securities are in fixed rate instruments and therefore the Company has limited exposure to prevailing interest rates. Any adverse movement in interest rates would negatively affect the return on cash deposits over time. The amount of cash held on fixed term deposit is expected to reduce over the forthcoming years in accordance with the Company's stated investment objectives.

The Company's overall interest rate risk is monitored by the Board on a quarterly basis.

Interest Rate Profile as at 30th June 2008	**2008**			
	Interest charging basis	**Effective interest rate**		**Amount**
Financial Assets:				
Cash and cash equivalents	Floating	6.31%		17,468,862
Financial assets at fair value through profit or loss				
Unquoted securities	Fixed	8.00%		12,882,297
Quoted equities	Non-interest bearing	n/a		3,422,369
Unquoted equities	Non-interest bearing	n/a		1,698,418
Loan receivable	Fixed	10.00%		399,361
Trade and other receivables	Non-interest bearing	n/a		483,483
			£	36,354,790
Financial liabilities:				
Trade and other payables	Non-interest bearing	n/a		992,784
			£	992,784

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

14. Financial Risk Management (CONTINUED)

Interest Rate Sensitivity

IFRS 7 Financial Instruments: Disclosures ("IFRS 7) requires sensitivity analysis for each type of market risk to which the entity is exposed at the balance sheet date, showing how the profit or loss and equity would have been affected by changes in the relevant risk variable that are reasonably possible.

As disclosed above, the majority of the Company's financial assets and financial liabilities are non-interest bearing or fixed rate. During the period, the Company received £1,194,199 in interest income from fixed deposits which accrue and pay floating rate interest. Had interest rates been 50 basis points higher throughout the period the Company would have recognised an extra £104,964 in profit, with a corresponding extra loss had interest rates been 50 basis points lower.

Currency Risk

The Company may invest in financial instruments and enter into transactions that are denominated in currencies other than its functional currency, sterling. Consequently the Company is exposed to risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's assets and liabilities denominated in currencies other than sterling.

The Company's policy is to accept a limited amount of currency risk within the portfolio. It does not hedge either the fair value of its foreign currency investments nor the cashflows, if any, arising from such investments. Any gain or loss, recognised as a result of the Company's investment and valuation policies is recognised in the income statement. When the company has entered into a definitive contract to purchase or sell securities denominated in foreign currency it purchases forward contracts; any ineffectiveness in this hedging would also be recognised in the income statement. The Company's overall currency risk and exposure is monitored on a quarterly basis by the Board of Directors. The Directors intend to keep this policy under quarterly review as the portfolio becomes more invested. The Directors further consider that investment in currencies is a separate asset class and not as such part of the normal trading business of the company.

As at 30th June 2008 the Company had the following currency risk exposure:

		2008
Investments:		
Unquoted securities denominated in Euro	£	1,854,405
Loan receivable:		
Loan receivable denominated in Euro	£	399,361
Trade receivables:		
Trade receivables denominated in Euro	£	64,072
Trade payables:		
Trade payables denominated in Euro	£	(177)

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

14. Financial Risk Management (CONTINUED)

Currency Rate Sensitivity

As at 30th June 2008 if GBP strengthened against the Euro by 5%, with all other variables held constant, the profit for the period as per the income statement and the net assets of the Company would have decreased by £110,365. A 5% weakening of GBP against the Euro would have resulted in an increase in profit for the period as per the income statement and the net assets of the Company of £121,982, with all other variables held constant.

Market Price Risk

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices (other than those arising due to currency risk or interest rate risk) whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As the majority of the Company's financial instruments are held at fair value with changes in fair value being recognised in the income statement, all changes in market conditions will directly affect the profit for the period and the Company's net assets. Price risk is monitored and reviewed by the Directors on a quarterly basis, at any valuation event and at each investment committee meeting, whichever is the more frequent.

Risk is mitigated in a thematic portfolio diversified by securities, assets, geography and industrial sector. No single investment can account for more than 15% of ungeared NAV at investment. No single investment held for short term trading can account for more than £750,000 or 15% of ungeared NAV at the time of investment whichever is less. The following table breaks down the investment assets held by the Company:

	2008 percentage of net assets
Investor assets:	
Equity investments:	
Quoted	9.68%
Unquoted	4.80%
Debt investments:	
Unquoted	36.43%

Other Price Risk Sensitivity

19.01% of the Company's investment assets are listed on European stock exchanges. A 3% increase in stock prices as at 30th June 2008 would increase the profit for the period and the net assets of the Company by £344,250. An equal change in the opposite direction would decrease the profit and net assets of the Company by an equal but opposite amount.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

14. Financial Risk Management (CONTINUED)

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amount of financial assets best represents the maximum exposure at the balance sheet date. At the reporting date the Company's financial assets exposed to credit risk amounted to the following:

Financial assets at fair value through profit or loss:		**2008**
Unquoted securities		12,882,297
Loan receivable	£	399,361
Trade and other receivables	£	483,483
Cash and cash equivalents	£	17,468,862
Total financial assets exposed to credit risk	£	36,354,790

The Company is subject to credit risk with respect to its unquoted securities. The Company and its Manager seek to mitigate credit risk by actively monitoring the underlying credit quality of the Company's investment holdings. As noted above, monitoring of the portfolio is carried out on a quarterly basis by the Investor Adviser who will review the investments against milestones of technology developments, commercial progress, financial and trading results including management accounts, management assessment, market intelligence and anticipated planning and exit. Any indications of credit risk will be reported to the Board who will also review the portfolio and the related credit risk on a quarterly basis. The Company holds no hedges or insurance against counterparty risk. The Directors believe that the purchase of credit insurance would expose the company to an unapproved asset class of derivatives.

The Company holds fixed term deposits of varying maturities with a number of banks each with a minimum long term credit rating from Standard and Poors, Moody's, or Fitch of AA- through a pooled account. This service is titled "Cash2". All transactions are in the name of Mourant & Co. Limited Client Nominee, advised by Mourant & Co. Limited. The Company is the beneficial owner of these deposits and there is no additional payment, liquidity, or settlement risk associated with the pooling.

The company analyses the credit concentration based on the counterparty, industry and geographical location of the financial assets that the Company holds. The Company's financial assets exposed to credit risk were concentrated in the following industries:

	2008
Environmental/cleantech industries	43.38%
Banks/financial sectors	56.62%

All of the Company's financial assets which were held at the balance sheet date are European. None of the financial assets are either past due or impaired.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

14. Financial Risk Management (CONTINUED)

Concentration Risk

The Company may be exposed at any given time to a degree of concentration risk. To the extent that the Company's investments are concentrated in any one sub-sector of the environmental/cleantech Sector, country or asset class down turns affecting the source of concentration may result in total or partial loss on such investments, which will reduce the Company's net asset value. The Directors consider the sector a diversified asset class and that effective hedging could be achieved by replication in purchasing differentiated securities but that the cost of these transactions would negate the value of the protection. The Company's investments are concentrated as follows:

	2008
Investments in environmental/cleantech industries	100.00%
Geographical area - Europe	100.00%

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company may face liquidity risks. Most of the assets in which the Company invests are relatively illiquid i.e. private companies which require a long-term capital commitment. A substantial amount of the Company's funds are concentrated in a limited number of investments subject to legal and other restrictions on resale, transfer, pledge or other disposition or that are less liquid than publicly traded securities. The illiquidity of these investments may make it difficult to sell investments if the need arises or the Investment Adviser determines that such sale would be in the Company's interests.

The Directors monitor liquidity risk at least quarterly and perform going concern tests before the semi annual publication of accounts. As operating practice the Company is expected to hold at least sufficient working capital for a year's continuous operation on a rolling basis. The Company also holds sums equivalent to three months' forward operating expenses in call accounts. The Directors review this policy regularly. The Company also has an undrawn right to borrow sums equivalent to 25% of NAV.

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

14. Financial Risk Management (CONTINUED)

Maturity Profile

The tables below show the maturity of the current borrowings under the facilities, rather than the maturity over the whole life of the facilities and the expected maturity of the securities, rather than the legal maturity date.

Maturity profile as at 30th June 2008:

	Within one year	One to five years
Financial assets:	£	£
Cash and cash equivalents	17,468,862	-
Financial assets at fair value through profit or loss	-	18,003,084
Loan receivable	399,361	-
Trade and other receivables	483,483	-
	18,351,706	18,003,084
Financial liabilities:		
Trade and other payables	992,784	-

15. Cash Generated From Operations

		2008
Profit for the period		5,632,575
Adjustments for:		
Unrealised gain on financial assets at fair value through profit or loss		(6,718,978)
Interest and dividends receivable		(230,960)
Increase in trade and other receivables		(284,550)
Increase in trade and other payables		992,784
CASH FLOW FROM OPERATIONS	£	(609,129)

Notes to the Financial Statements

For the period 7th June 2007 to 30th June 2008

16. Related Party Disclosure

H. Grant is an employee of a subsidiary of Mourant Limited. D. Maccabe was a shareholder and an employee of a subsidiary of Mourant Limited. Affiliates of Mourant Limited provide ongoing administrative services to the Company at commercial rates. Directors remuneration and expenses payable for the period ended 30th June 2008 are disclosed in Note 3.

The terms and conditions of any transactions with key management personnel and their related parties are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Under the Investment Management Agreement the Manager is entitled to receive a management fee from the Company at a rate of 2% per annum of the Company's net asset value calculated for each three month period ending on 31 March, 30th June, 30th September and 31 December each year on the basis of the Company's net asset value at the end of the preceding period and payable quarterly in arrears.

During the period the management fees payable were £527,799. No accrued management fees were outstanding as at 30th June 2008.

Under the terms of the Investment Management Agreement the Manager is also entitled to a performance fee which is payable in arrears in respect of each annual period ending 30th June. The first calculation period begins on the admission date and ends on 30th June 2008. The performance fee is dependent on the Company's performance.

17. Immediate Holding Company and Ultimate Controlling Party

In the opinion of the Directors there is no single ultimate controlling party since the criteria contained within the definition of "control" in IAS 24 - Related Party Disclosures are not satisfied by any one party.

18. Shareholders' Interests

As at the balance sheet date, the ordinary shareholder's of the Company with a least a 3% share of the total share capital included:

	Ordinary shares held	Percentage shareholding
HSBC Global Custody Nominee (UK) Limited	6,000,000	20.40%
Quintain Estates and Development PLC	4,000,000	13.60%
Morstan Nominees Limited	2,500,000	8.50%
BNY (OCS) Nominees Limited	2,405,000	8.18%
The Bank of New York (Nominees) Limited	2,200,000	7.48%
Flintshire County Council	1,892,858	6.44%
HSBC Global Custody Nominee (UK) Limited	1,122,286	3.82%
W B Nominees Limited	1,064,000	3.62%
HSBC Client Holdings Nominee (UK) Limited	1,000,000	3.40%
Morstan Nominees Limited	990,099	3.37%