# Brookwell Limited
## Annual report 2011

**Contents**



**Investment objective**

The objective of the Company is to realise value from its portfolios of AIM Securities and Listed Securities and, in the case of the D Share class fund, PLUS Securities and progressively return cash to shareholders.

**Financial highlights**

| | A Shares | B Shares | D Shares |
|---|---|---|---|
| Amount raised in placing | £25.5m | £13.0m | £16.4m |
| Amount returned to shareholders in the year to 30 June 2011 | £0.9m | £3.6m | £2.5m |
| Amount returned to shareholders in the period from admission of shares to trading on AIM ("Admission")* to 30 June 2011 | £11.6m | £14.3m | £2.5m |
| Number of securities acquired in the placing* | 84 | 62 | 76 |
| Number of securities at 30 June 2011 | Nil | Nil | 39 |
| Net asset value per Share at Admission** | 97.00p | 96.60p | 96.80p |
| Net asset value per Share at 30 June 2011 | n/a | n/a | 96.17p |
| Weighted average net asset value*** at 30 June 2011 | n/a | n/a | 96.20p |

*The A Shares were admitted to trading on AIM on 26 June 2008.
The B Shares were admitted to trading on AIM on 19 February 2009.
The D Shares were admitted to trading on AIM on 24 February 2011.

**after share issue expenses

$$\text{***} \frac{\text{net assets and cash returned to shareholders}}{\text{shares issued in placing}}$$

**Financial Calendar**

| | |
|---|---|
| Annual General meeting | 6 December 2011 at 11.00 a.m.<br>11 New Street<br>St Peter Port<br>Guernsey |

The Annual Report can be downloaded in electronic format from www.brookwelllimited.com

# Chairman's statement

## The D Class Fund was successfully launched in February/March 2011 with the acquisition of a portfolio with an initial aggregate valuation of £16.4m. The D Class Fund has had an excellent start, returning £2.5m on 30 June 2011, only three months after stocks were acquired. During the year the Company also completed the realisation of the remaining investments in the A Class Fund and in the B Class Fund, and returned the proceeds to Shareholders.

The net asset value ('NAV') per D Share, as at 30 June 2011, was 96.17p, and the number of holdings was reduced from 76 to 39. Subsequently, the NAV per D share, at 16 September, 2011, was 82.15p, and the number of holdings has been further reduced to 32. Despite the recent deteriorating market conditions, progress has continued to be made, and the D Share Class Fund held cash of £1.1m on that date.

Further details on disposals are provided in the Investment Manager's report, which also covers examples of engagement with investee company boards and summary profiles of the key holdings.

On 30 December 2010 the Company returned £0.9m to A shareholders, in the final pro-rata redemption of 2,380,891 A Shares at a price of 36.2278p per A Share. In total £11.6m was returned to A Class Fund shareholders, representing approximately 45% of the placing value of £25.5m.

On 30 December 2010 the Company returned £3.2m to B shareholders, in a pro-rata redemption of 2,888,862 B Shares at a price of 110.77p per B Share. On 31 March 2011 the Company returned £0.4m to B shareholders, being the final pro-rata redemption of 418,858 B Shares at a price of 94.0853p per B Share. In total £14.3m was returned to B Class Fund shareholders, representing approximately 110% of the placing value of £13.0m. This was undertaken in a record time of 25 months, compared with previous funds.

It is perhaps not fully appreciated just what the processes are by which your Investment Manager extracts the maximum value they can from the holdings in our portfolio.

Basically, they have been devoting their time and energies to a collection of stocks where underperformance and difficult marketability would require too great a resource of time and effort for our subscribing institutions to manage effectively themselves. This is because these stocks have become small distractions within the very much larger portfolios.

The realisation process of Brookwell is multi-faceted. It comprises attending formal and informal company meetings, engaging with management and sometimes invoking due legal and governance processes, introducing new director candidates, or helping with corporate value-enhancing activity. Inevitably, these actions often involve many hours of engagement, including travel to offices and factories, meetings, emails, telephone calls and document processing. It is not uncommon for a particular stock situation to generate 30 or 40 telephone calls before realisation can be achieved.

Nor should our Investment Manager's understanding of stock market investor and dealing processes be underestimated. This has been demonstrated in many instances where the ability to trade in very narrow markets has often looked an impossible situation, but our team has, nevertheless, completed a sale of a difficult holding, quite often on advantageous terms.

In the year to 30 June 2011, the Company has reported a net loss of £0.4m and therefore the Board will not be declaring a dividend.

The global recovery has not been sufficient for the UK to demonstrate the normal post recession economic bounce-back. The coalition Government is not finding easy the task of bringing order to the chaos of the public finances. The developing sovereign debt crisis in Europe and the last minute 'compromise' deal which only just enabled the US Government to avoid the embarrassment of defaulting, further demonstrates why the UK has to reassure international investors that the public finances can be brought under control. However, anaemic economic growth trends have resulted in the IMF casting doubt on the Chancellor's deficit reduction plan, warning that the margin of error is slim and therefore raising the risk of further spending cuts and/or tax increases.

Against this backdrop, we remain cautious about the outlook for the UK economy and therefore profitability trends of companies which are highly dependent on it. We believe UK small caps will continue to be highly illiquid and the current economic and market outlook suggests this trend is likely to remain the case for some time. It does, however, reinforce our belief that a flexible and pro-active approach is the best way to continue to realise the remaining investments in an orderly fashion.

The AGM will be held at 11 New Street, St Peter Port, Guernsey at 11.00 a.m. on 6 December 2011.

**Christopher Clark**
21 September 2011

# Investment Manager's report

Brookwell was launched in June 2008 with one class of shares which, following the launch of the B shares in February 2009, were re-designated as A shares. Following approval at the Extraordinary General Meeting on 7 February 2011, a further class of shares, named D shares, was also created.

**A Share portfolio**
When last year's Annual Report was published, the original portfolio of 84 stocks had been reduced to just 4. As flagged in the half-yearly report, all of these remaining holdings were sold by the end of December 2010. All the remaining A Shares were redeemed on 30 December 2010 and the final proceeds returned to A shareholders.

**B Share portfolio**
At 30 June 2010 the B portfolio had been reduced from an initial 62 investments to just 12. When the half-yearly report was published, all of the remaining holdings, apart from Sanderson Group, had been realised. On 15 March, following the sale of this holding, Brookwell informed shareholders of the redemption of the remaining B shares, which was completed on 31 March 2011.

**D Share portfolio**
In February 2011 Brookwell established a D class of shares which, combined with a small supplemental placing in March, resulted in the Company taking on a further 76 holdings. By 30 June 2011, the end of the Company's financial year, these initial holdings had been reduced to 39 as a result of our pro-active programme of engagement and £2.5m was returned to D shareholders.

As with previous work-out funds, the initial months of a new portfolio are particularly active as we try to understand and evaluate investments we have not seen before and re-open dialogue with familiar stocks that have appeared in our previous work-out funds. It is our policy to attend, where practical, all annual general meetings, to engage with the boards of investee companies and, where appropriate, to seek to identify potential buyers.

One early success was Burst Media, where we supported a paper offer from Blinkx which, when sold, represented a seven-fold return on the investment. Uniq produced an innovative deficit for equity swap to address its pension fund deficit and subsequently agreed a takeover bid from Greencore Group. Two other holdings, i-Design and Driver Group, have delivered encouraging statements.

On the down side, Trans Balkan left AIM, so with approval from the Board, the valuation was written down to zero.

Brookwell introduced a new chief executive and chairman to the board of Universe Group. They were appointed in May and June respectively.

Brookwell also requisitioned a general meeting at Northern Investors to request the board to put forward constructive proposals to address the lack of liquidity in the company's shares and the high discount to net asset value. The board's proposal to amend the Northern Investors' investment policy to achieve an orderly realisation of assets was approved by its shareholders on 21 July 2011.

Since 30 June 2011, 7 holdings have been sold in full and 6 partially sold.

**Five largest investments**

- Northern Investors: an investment trust mainly invested in unquoted companies;
- Cosalt: a supplier of marine safety products and services to the offshore oil and gas markets. Following the discovery of financial irregularities, the company undertook a refinancing and the sale of a significant part of its business. The company has arranged an 18 month standstill on contributions to its pension fund which has a significant deficit. The Company still has a substantial level of bank debt;
- Orchid Development: a Bulgarian property company. The current share price is on a substantial discount to stated net asset value;
- Ilika: a fast throughput materials testing company spun out of the University of Southampton;
- Squarestone Brasil: a Brazilian retail development company.

**Outlook**
As referred to in the Chairman's statement, the prospects for UK small cap companies and the liquidity in their shares are likely to remain poor for the foreseeable future. To date we have made good progress and believe that our active realisation process will continue to deliver value and liquidity to shareholders from the remaining holdings.

Progressive AIM Realisation Limited
21 September 2011

# Ten largest investments

**D Share portfolio**

| As at 30 June 2011<br>Company | Percentage of relevant capital owned | Current value £'000 | Percentage of portfolio (%) |
|---|---|---|---|
| Northern Investors Company | 6.9% | 3,119 | 24.2% |
| Cosalt | 10.3% | 1,140 | 8.9% |
| Orchid Developments | 8.7% | 1,116 | 8.7% |
| Ilika | 5.0% | 879 | 6.8% |
| Squarestone Brazil | 1.7% | 840 | 6.5% |
| Metalrax Group | 5.7% | 666 | 5.2% |
| Private & Commercial Finance Group | 19.9% | 633 | 4.9% |
| Publishing Technology | 8.3% | 476 | 3.7% |
| Syntopix Group | 6.8% | 471 | 3.7% |
| Hotel Corporation | 1.5% | 440 | 3.4% |
| **Top ten holdings** | | **9,780** | **76.0%** |
| Other holdings | | 3,097 | 24.0% |
| **Total holdings** | | **12,877** | **100.0%** |

# Directors' report

The directors present their report and accounts for the year ended 30 June 2011.

**Investment policy**

*Investment objective*

The objective of the Company is to realise value from its portfolios of securities admitted to trading on AIM ("AIM Securities"), securities admitted to the Official List and to trading on the Main Market of the London Stock Exchange ("Listed Securities"), and, in the case of the D Share Class Fund, securities admitted to PLUS markets ("PLUS Securities") and progressively to return cash to Shareholders.

Since formation the Company has established three portfolios:

1. the A Class Fund through a placing in June and July 2008 in which A Shares were issued to investors in exchange for AIM Securities or Listed Securities;

2. the B Class Fund through a placing in February and March 2009 in which B Shares were issued to investors in exchange for AIM Securities or Listed Securities.

3. the D Class Fund through a placing in February and March 2011 in which D Shares were issued to investors in exchange for AIM Securities or Listed Securities or PLUS Securities.

Once a portfolio is established the Company will not acquire any further equity securities for that Class Fund except that it may exchange existing investments for other Qualifying Securities (as defined below) if, in the opinion of the Investment Manager, this would provide a better prospect of value and liquidity for the Company. As at 30 June 2011 and the date of this report only the D Shares are in issue. The A Shares and B Shares were fully redeemed and cancelled during the financial year as their investment objectives were met and all available cash was returned to their respective Shareholders.

*Investment restrictions at the time of establishment of the Class Funds*

At the time of the D Share placing the Company adopted the following mandatory and discretionary criteria to determine whether securities are Qualifying Securities and these were applied by the Investment Manager in evaluating the securities offered to the Company in the placing.

Mandatory criteria

The Company will not accept:

(i) securities which are not either admitted to trading on AIM or admitted to the Official List or admitted to PLUS;

(ii) securities of companies in which any of the directors of the Company or of companies in the Investment Manager's Group is a director or has an interest (as defined in Schedule 1 of the UK Companies Act) in any class of securities of one per cent. or more;

(iii) securities the acquisition of which would or might oblige the Company to make a general offer under Rule 9 of the City Code or would or might cause the Company to be in breach of the City Code or the AIM Rules; or

(iv) securities in companies whose assets are managed, wholly or in part, by the Investment Manager or any member of the Investment Manager's Group.

Discretionary criteria

The Company will only accept securities within the following categories if, having taken advice from the Investment Manager, the Company so agrees. In giving such advice the Investment Manager may have regard to the materiality of the proposed holding in relation to overall size of the D Class Fund.

(i) securities in companies which have a 30 per cent. controlling shareholder as defined below;

(ii) securities which are suspended from trading;

(iii) warrants, preference shares or debt securities;

(iv) securities of companies whose auditors' report on the latest published audited accounts contains a qualification or refers to a fundamental uncertainty;

(v) securities of companies which are known or believed to be the subject of existing, pending or threatened criminal, tax, customs, excise, competition or other regulatory investigation;

(vi) securities of companies which, in the opinion of the Investment Manager, do not have an established and sustainable business;

(vii) securities of split capital investment trusts or venture capital trusts;

(viii) securities of companies in respect of which, in the Investment Manager's opinion, a disproportionate expenditure of time and/or money would be required for the Investment Manager to gain a proper understanding of the business or investments or the ownership structure (for instance owing to features of the company concerned or of the industry or sector in which it operates);

(ix) securities of companies incorporated outside the United Kingdom or whose investments or operations are predominantly outside the United Kingdom;

(x) securities which would result in the Class Fund being significantly unbalanced;

(xi) securities the price of which is, or has been, in the view of the Investment Manager abnormally volatile or where the Investment Manager believes that the market bid price is substantially higher than the price at which such securities could realistically be realised in the context of the achievement by the Class Fund of the Company's objective; or

(xii) securities in companies which the Investment Manager believes may require the raising of funds for working capital within the next 18 months.

For the purposes of the discretionary criterion specified in paragraph (i) above, a 30 per cent. controlling shareholder of a company is any person or persons (including Associates) acting jointly or by agreement (whether formal or otherwise) who is entitled to exercise, or to control the exercise of, 30 per cent. or more of the rights to vote at general meetings.

Associates (as defined in the Listing Rules of the Financial Services Authority) will be presumed to be acting jointly or by agreement.

Where the Company has rejected a security under the discretionary criteria specified above and the potential transferor of such security proposes a lower price which satisfies the Investment Manager's concerns the Company may, on the advice of the Investment Manager, accept such security at such lower price.

*Investment restrictions following the establishment of the Class Fund*
The Directors have resolved that the Company adopt the following investment restrictions:

(i) the Company will not invest in securities carrying unlimited liability or deal short in securities or, to a significant extent, be a dealer in investments;

(ii) the Company will not exercise legal or management control of investments or control or seek to control, or be actively involved in the management of, investments;

(iii) the Company will not buy or sell commodities or commodity contracts or real estate or interests in real estate, although it may purchase and sell securities which are secured by real estate or commodities and securities in companies which invest in or deal in real estate or commodities;

(iv) dividends will not be paid unless they are covered by income received from underlying investments, and for this purpose a share of profit of an associated company is unavailable unless and until distributed to the Company;

(v) the Company's distributable income will be derived from investments and neither the Company nor any subsidiary company from time to time will conduct a trading activity which is significant in the context of the group as a whole;

(vi) the Company will not distribute as dividend surpluses arising from the realisation of investments;

(vii) the Company will not invest in the securities of any one company an amount that is more than 15 per cent. of the assets attributed to the D Class Fund (before deducting borrowed money, if any) including loans to or shares in any subsidiary of the Company at the time the investment or loan is made; and

(viii) not more than 10 per cent., in aggregate, of the value of the total assets attributed to the D class fund at the time of Admission will be invested in listed investment companies or listed investment trusts unless they have a stated investment policy to invest no more than 15 per cent. of their total assets in other listed investment companies or listed investment trusts.

None of the investment restrictions specified in (vii) and (viii) above will require the realisation of any assets of the Company where any investment restriction is breached as a result of an event beyond the control of the Company which occurs after the investment is acquired, but no further relevant assets of the kind giving rise to the breach may be acquired by the Company until it can again comply with the relevant restriction.

*Nature of investments*
Subject to the mandatory and discretionary criteria set out above, there are no restrictions on the geographical spread or business sector range of the portfolios. Moreover as investments are realised it is inevitable that the portfolios will become more concentrated and less balanced. An analysis of the major investments in the D Class Fund is shown on page 3.

When engaging with an investee company, the Investment Manager seeks to adopt a constructive approach in relation to such investee company's board and management so as to encourage them to be active in the pursuit of enhanced value and liquidity in the shares of such investee company. Neither the Company nor the Investment Manager engages in the management of investee companies but, if appropriate, they encourage the investee company to engage a suitably qualified person to fulfil such a role.

The Company does not seek to exercise legal or management control of investments or control or seek to control, or be actively involved in the management of investments.

*Gearing*
The Company does not intend to have any structural borrowings. The Company obtained loan facilities under which it may borrow up to £1.5 million from Progressive Asset Management Limited, a member of the Investment Manager's Group, to be utilised, if necessary, to defray the expenses of placings and to provide initial working capital in respect of each Class Fund. No amount has been drawn under any facility.

*Life of the Class Funds and the Company*
At a class meeting of the D Shareholders to be held in the third quarter of 2014, Shareholders will be invited to consider the future of the Class Fund and will be given an opportunity to initiate the winding up of the Class Fund by passing a resolution by a simple majority requesting the directors of the Company to wind up the relevant Class Fund. On any such resolution, every Shareholder will have one vote, for every share of which he is the registered holder.

**Business activities**
The Company is a closed-ended investment company incorporated and resident in Guernsey and quoted on AIM.

**Results and dividends**
The Company's loss on ordinary activities after taxation for the year was £383,000 (2010: profit £1,594,000). This consisted of a loss on ordinary activities relating to the A Shares of £222,000 (2010: profit £915,000), a loss relating to the B Shares of £62,000 (2010: profit £679,000) and a loss relating to the D Shares of £99,000 (2010: n/a).

The Company's revenue loss on ordinary activities after taxation for the year amounted to £286,000 (2010: £489,000). Therefore the directors do not recommend a final dividend.

**Investment report and outlook**
The Chairman's statement and Investment Manager's report incorporate reviews of the highlights of the year.

**Market information**
The Company's D Shares are quoted on AIM, a market of the London Stock Exchange. The net asset value per D Share is calculated weekly and published through a regulatory information service.

**Shares issued during the year**
On 24 February 2011 the Company issued 16,096,091 D Shares, all of which were issued for consideration in the form of investments received. The total consideration was £16,096,091. On 17 March 2011 a supplementary placing allotted a further 328,281 D Shares, all of which were issued for consideration in the form of investments received. The total consideration was £328,281.

**Redemptions and purchases of Shares**
*Redemption policy*
Pro-rata redemptions

In June and December each year the Company applies and intends to apply all available funds of each class of Shares to effect a redemption of that class of outstanding Shares at the NAV per Share as at that date less any costs that may be attributable to such redemption. For this purpose "all available funds" means the entirety of the cash balances received from disposals of investments less funds used or required to settle liabilities of the Company and funds used to pay any dividends on Shares and to repurchase and redeem Shares in the market at a discount to NAV per Share as described below. These redemptions are effected pro-rata to the number of Shares held by each Class Fund Shareholder of the Company giving not less than 14 days' notice.

Other redemptions of Shares

For any Class Fund Shares which trade at a sufficient discount to the NAV per Share, the Company intends to apply, on a rolling basis, up to 50 per cent. of the net cash proceeds of realisations since the placings to repurchase and redeem such Class Fund Shares in the market. Pursuant to the Articles (and as described in its Admission Documents dated 6 June 2008, 15 January 2009 and 21 January 2011) the Company has the authority to redeem the Shares. Although there may be occasions when the Board is precluded from making redemptions and repurchases of Shares because it is in possession of unpublished price sensitive information relating to the Company, in general the Board intends to repurchase and redeem Shares whenever the Shares are trading at a sufficient discount to their underlying Net Asset Value and the Company has funds available for that purpose. Such repurchases and redemptions will be made at a price agreed between the Company and the redeeming Class Fund Shareholder provided that price is less than NAV per Share. This will generally have the effect of increasing the Net Asset Value attributable to the remaining Shares and accelerating the return of funds to Shareholders.

*Redemptions in the year ended 30 June 2011*
The following pro-rata redemptions were carried out during the year:

| | A Share | B Share | D Share |
|---|---|---|---|
| **30 December 2010** | | | |
| Number of Shares | 2,380,891 | 2,888,862 | – |
| Price | 36.2278p | 110.77p | – |
| **31 March 2011** | | | |
| Number of Shares | – | 418,858 | – |
| Price | – | 94.0853p | – |
| **30 June 2011** | | | |
| Number of Shares | – | – | 2,594,422 |
| Price | – | – | 96.36p |
| **Shares in issue as at 30 June 2011** | **Nil** | **Nil** | **13,829,950** |

There were no other redemptions of Shares during the year.

**Custody**
Custody of the Company's investments was contracted to The Northern Trust Company throughout the year.

**Investment management**
Since its launch the management of the Company's investments has been contracted to Progressive AIM Realisation Limited, ("the Investment Manager") which is authorised and regulated by the FSA. The Company's investment portfolio and assets are managed by Robert Legget, Ross Courtier and Simon Toynbee.

The Investment Manager was entitled to receive the following fees in respect of the A Shares:

(i) a basic fee equivalent to one per cent. per annum of the aggregate value, at 100p, of the A Shares placed pursuant to the flotation for the period up to 30 June 2010, and thereafter one per cent. per annum of the NAV attributable to the A Shares as at 30 June 2010;

(ii) a capital return fee at the rate of one per cent. of A Share Capital Returns (up to 100p per A Share) made in any calendar month up to and including June 2010; and

(iii) an equity appreciation fee equal to ten per cent. of any value returned to A Shareholders in excess of 100p per A Share.

The Investment Manager was entitled to receive the following fees in respect of the B Shares:

(i) a basic fee equivalent to one per cent. per annum of the aggregate value, at the Placing Price, of the B Shares placed pursuant to the Placing for the period up to 31 March 2011, and thereafter one per cent. per annum of the NAV attributable to the B Shares as at 31 March 2011;

(ii) a capital return fee at the rate of one per cent. of B Share Capital Returns (up to 100p per Share) made in any calendar month up to and including March 2011; and

(iii) an equity appreciation fee equal to ten per cent. of any value returned to B Shareholders in excess of 100p per Share.

The entirety of any equity appreciation fee and 50 per cent. of basic fees and capital return fees were charged to capital.

The Investment Manager is entitled to receive the following fees in respect of the D Shares:

(i) a basic fee equivalent to one per cent. per annum of the aggregate value, at the Placing Price, of the D Shares placed pursuant to the Placing for the period up to 30 June 2013, and thereafter one per cent. per annum of the NAV attributable to the D Shares as at 30 June 2013;

(ii) a capital return fee at the rate of one per cent. of B Share Capital Returns (up to 100p per Share) made in any calendar month up to and including June 2013; and

(iii) an equity appreciation fee equal to ten per cent. of any value returned to D Shareholders in excess of 100p per Share.

The entirety of any equity appreciation fee and 50 per cent. of basic fees and capital return fees are charged to capital.

**Management engagement**
The investment management agreement is terminable by either party thereto on not less than twelve months' written notice expiring on 30 June or 31 December in any year, subject to immediate termination in certain circumstances, including, inter alia, material breaches of the agreement that have not been remedied or the insolvency of either party.

The Board has reviewed the excellent performance of the Investment Manager in difficult times and has concluded that the continuation of the existing contract is in the interest of shareholders.

**Company secretary and administrator**
Legis Fund Services Limited ("Legis") was appointed as Administrator and Secretary to the Company on 31 December 2010 as a result of the novation of the administration agreement between the Company and Legis Corporate Services Limited. Legis is also responsible for all administrative matters. Legis is appointed under a contract subject to 90 days' written notice. Cavendish Administration Limited was reappointed by Legis to act as administration agent in the United Kingdom when the change in administrator was approved. Cavendish is appointed under a contract subject to six months notice. The aggregate amount paid to Legis and Cavendish is detailed in note 3 to the accounts. Further detail on these agreements is provided in the Admission Documents.

**Payment of suppliers**
It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company contracts with its suppliers the terms on which business will take place and abides by such terms; a high proportion of expenses, including management and administration fees, are paid within the month when invoiced. There were no invoices outstanding for trade creditors at 30 June 2011.

**Reporting fund status**
The Company's D Shares have been accepted by HM Revenue and Customs ("HMRC") as a reporting fund under The Offshore Funds (Tax) Regulations 2009. The directors consider it is in the interests of the D Shareholders for the Company to hold such status. Under this regime, the general position is that gains realised by UK resident investors on the disposal of an interest in a reporting fund will be taxed under capital gains rather than income, although such investors will be taxable on any reportable income of the fund on an annual basis. The Company appointed Grant Thornton UK LLP to prepare its initial application and subsequent reporting income calculations to the HMRC. The Company will make an announcement by 31 December 2011, via a regulatory news service and its own website, stating its 'reporting income' for the period ending 30 June 2011 and also confirm that it remains a reporting fund at the time of this information being made available to the investors.

**Settlement of Share transactions**
Share transactions in the Company's D Shares can be settled by the CREST share settlement system.

**Donations**
The Company did not make any donations during the year under review.

**Going concern**
At a class meeting of the D Shareholders to be held in the third quarter of 2014, Shareholders will be invited to consider the future of the D class fund and will be given an opportunity to initiate the winding up of the Class Fund by passing a resolution by simple majority requesting the directors of the Company to wind up the Class Fund.

After making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going-concern basis in preparing the accounts.

**Auditor**
In accordance with The Companies (Guernsey) Laws 2008, a resolution for the re-appointment of Grant Thornton Limited as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

**Alasdair McLaren**

**Philip Soulsby**

21 September 2011

# Statement of directors' responsibilities

The directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the period and of the profit or loss for the period and are in accordance with The Companies (Guernsey) Law, 2008. In preparing these accounts, the directors are required to:

• Select suitable accounting policies and then apply them consistently;

• Make judgements and estimates which are reasonable and prudent;

• State whether applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the accounts; and

• Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts have been properly prepared in accordance with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with The Companies (Guernsey) Law, 2008, there is no relevant audit information of which the Company's auditor is unaware. Each director also confirms that he has taken all steps he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The financial statements are published on the Company's website (website address: www.brookwelllimited.com) and on the Investment Manager's website (website address: www.pro-asset.com). The maintenance and integrity of these websites, so far as it relates to the Company, is the responsibility of the Investment Manager. The work carried out by the auditors does not involve consideration of the maintenance and integrity of these websites and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on these websites. Visitors to the websites need to be aware that legislation in Guernsey governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

# Corporate governance

The Company is incorporated in Guernsey but has decided to apply the UK Corporate Governance Code (the "Combined Code") issued in June 2010 by the Financial Reporting Council ("FRC") rather than the corporate governance requirements of Guernsey. The Company is committed to high standards of corporate governance and the Board has established a framework which it believes is appropriate for the Company and which satisfies the Combined Code, though companies trading on AIM do not have to adopt the Combined Code.

**The Board**

*Composition*

All the directors were appointed with effect from 28 May 2008 and hold their office in accordance with the Company's Articles of Incorporation. In compliance with the Articles Mr CJ Clark and Mr CD Ferbrache will put themselves forward for re-election at the Annual General Meeting.

Christopher Clark, aged 69, is non-executive chairman of the Company. He became a partner in the stockbroking firm of Kemp-Gee & Co. in 1975. The firm subsequently merged with Scrimgeour and became Citicorp Scrimgeour Vickers following its acquisition by Citicorp. From 1986 to 1989 Christopher Clark was Head of Research at Citicorp Scrimgeour Vickers. In 1989 he joined Credit Lyonnais Laing, subsequently becoming Head of Research. For many years he was a top rated analyst, first in the Pharmaceutical Sector and subsequently in Quantitative Analysis. Christopher Clark was formerly a founder director and secretary of the Institute for Quantitative Investment Research (INQUIRE) and was a non-executive director of William Ransom & Son plc from 1998 to 2007. He was non-executive chairman of Advance Focus Fund Limited, a listed focus fund managed by a member of the Progressive Group, from 2002 until April 2008. He is a Fellow of the Chartered Institute of Secretaries, a Fellow of the Securities Institute and was an Associate of the UK Society of Investment Professionals. He is currently a non-executive director of Highcroft Investments plc, a listed real estate investment trust, and is a marketing consultant with the Monument Securities Limited and with Lehmann Communications plc.

Paul Clarke, aged 65, is a non-executive director of the Company. A chartered accountant, he qualified with Ernst & Young in London before moving to France. After working for an engineering company he joined Mitchell Cotts plc, a listed mini conglomerate, in 1976. He became group chief financial officer in 1986. In 1987 he was appointed finance director of Bellwinch plc, a listed housebuilder. In 1991 he was appointed group finance director of Fuller, Smith & Turner P.L.C. the listed brewer. He retired from the board in April 2008. Mr Clarke is deputy chairman of the Quoted Companies Alliance, until October 2011, which represents the interests of smaller quoted companies. He is an associate of Critical Eye – The Network of Leaders, providing senior executives with peer interaction across industry sectors, business functions and business issues.

Colin Ferbrache OBE, aged 62, is a non-executive director of the Company. He is a director of Hamilton Trustees Limited, an administration company in Guernsey which specialises in trust and company structures for international clients. He served for 25 years as an officer in the Royal Navy during which time he held a number of posts including command of the frigate HMS Alacrity. He worked for Coutts Private Bank in Guernsey from 1993 to 1997, advising personal clients on trust and company structures. He was managing director of an aircraft charter and management company from 1997 until joining Hamilton Trustees Limited in 1999.

Alasdair McLaren, aged 45, is a non-executive director of the Company. He is a director of Saffery Champness in Guernsey. He commenced his career as a chartered accountant in Aberdeen. After qualifying he worked for two years for KPMG in Guernsey, primarily in respect of funds and fund management companies before joining Havelet Trust Company where he was a manager in both its Guernsey and British Virgin Islands offices. In 1996 he joined Dixcart Trust Corporation, where he was a director and was responsible for a portfolio of clients and for the asset management and fund administration departments. In 2001 he was appointed managing director of Turcan Connell's Guernsey office. In 2006 he joined Saffery Champness in Guernsey. He is a director of a number of private companies. He is a Chartered Fellow of the Securities Institute.

Philip Soulsby, aged 46, is a non-executive director of the Company. A mathematics graduate, he qualified as a chartered accountant in London with BDO Binder Hamlyn, before transferring to KPMG in Guernsey in 1990. There he spent two years specialising in the audit of financial services companies and offshore mutual funds. In 1992 he joined Credit Suisse Fund Administration Limited in charge of finance and compliance, later moving to a role more involved in structuring and marketing mutual fund services, helping the business grow from 12 staff to over 130. During this time he acted as director to a number of funds and fund managers, and gained a broad knowledge of hedge funds, derivatives and risk control. In 2006, he left Credit Suisse to establish his own business, The Mundi Group, now the largest fair-trade business in the Channel Islands. He is a member of the Securities Institute.

All directors are entirely independent of the Investment Manager, Progressive AIM Realisation Limited. There were no contracts subsisting during or at the end of the year in which a director was or is materially interested.

A policy of insurance against directors' and officers' liabilities is maintained by the Company.

At 30 June 2011 and at the date of this report the directors had no shareholdings in the Company.

A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

There were five full Board meetings during the year ended 30 June 2011. All of the directors attended these meetings. There were five committee meetings to deal with the formal approval of documents and committee meetings to approve the pro-rata redemptions of shares in December 2010 and March 2011.

**Re-election of directors**
In accordance with the Company's Articles of Association, Mr Clark and Mr Ferbrache will retire and put themselves forward for re-appointment at the Annual General Meeting.

The Board has reviewed the contribution made by both directors and in accordance with the performance evaluation detailed below recommends that they should be re-elected.

**Board committees**
The Company has established three permanent committees, whose terms of reference are summarised below. Other committees of the Board may be formed from time to time to deal with specific matters.

*Audit Committee*
The Audit Committee comprises Alasdair McLaren, Paul Clarke, Colin Ferbrache and Philip Soulsby. It meets formally at least twice a year for the purpose of reviewing the internal controls of its main service providers, the appointment and remuneration of the auditor and to review the production of the annual accounts and the half-yearly report. Alasdair McLaren is Chairman of the Audit Committee.

The Company's external auditor also attends the Audit Committee meeting at its request and report on its work procedures, the quality and effectiveness of the Company's accounting records and its findings in relation to the Company's statutory audit. The Audit Committee reviews the need for non-audit services and authorises such on a case-by-case basis, having consideration to the cost effectiveness of the services and the independence and objectivity of the auditor.

There were two Audit Committee meetings during the year ended 30 June 2011. All of the committee members attended both meetings.

*Remuneration and Management Engagement Committee*
All of the directors are members of the Remuneration and Management Engagement Committee. The committee meets formally on at least an annual basis for the purpose of considering the appointment and remuneration of the Investment Manager and of suppliers of services to the Company, as well as the fees of non-executive directors. Colin Ferbrache is Chairman of the Remuneration and Management Engagement Committee.

There was one meeting of the Remuneration and Management Engagement Committee during the year ended 30 June 2011. The meeting was attended by all the committee members.

*Nominations Committee*
All of the Directors are members of the Nominations Committee. It has been established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nominations Committee will meet as and when it is required. Philip Soulsby is Chairman of the Nominations Committee.

There were no meetings of the Nominations Committee during the year ended 30 June 2011.

Colin Ferbrache is the senior independent director.

**Performance evaluation**
A formal annual performance appraisal process is performed. The Chairman appraises the performance of the individual directors and the Board. The results are discussed so that any necessary action can be considered and undertaken. A separate appraisal of the Chairman is carried out by all the other board members and the results are reported back to the Chairman.

**Internal controls**
The Combined Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the aspects covered by the FRC guidance on internal controls and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the directors have kept under review the effectiveness of the internal control system throughout the year and up to the date of this report.

The Board has contractually delegated to external agencies, including the investment manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company.

*Financial aspects of internal control*
The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the investment manager, the administrator and the UK administration agent to provide reasonable assurance on the effectiveness of internal financial controls. The Board does not consider that an internal audit function would be appropriate to the nature and circumstances of the Company.

The key procedures include monthly production of management accounts and NAV calculations, monitoring of performance at regular board meetings, review by directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and of both from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, the Board keeps under its own direct control all material payments out of the Company other than for investment purposes. Payment of management fees is authorised only by directors after they have studied the financial data upon which those fees are based.

The Statement of Directors' Responsibilities in respect of the accounts is on page 8 and a statement of going concern is on page 7. The report of the independent auditor is on page 13.

*Other aspects of internal control*
The Board holds at least four regular meetings each year, plus additional meetings as required. Between these meetings there is regular contact with the Investment Manager, the administrator and the UK administration agent.

The Investment Manager reports in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary.

Directors receive and consider monthly reports from the UK administration agent, giving full details of all holdings in the portfolio and of all transactions and of all aspects of the financial position of the Company. The administrator and UK administration agent report separately in writing to the Board concerning risks and internal control matters within their purview, including internal financial control procedures and secretarial matters, highlighting any changes which have occurred. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the Investment Manager, administrator and UK administration agent enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. These matters are assessed on an ongoing basis through the year and again, formally, at the year end.

*Shareholder relations*
The Company welcomes all shareholders to attend the Annual General Meeting and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue.

*Meetings with shareholders*
The Investment Manager regularly meets with shareholders to discuss the performance of the Company, including its trading results. The Investment Manager reports at each Board meeting on contact with shareholders. If any shareholder wishes to raise matters directly with the Board he may do so by contacting Christopher Clark, the Company Chairman, or at the annual general meeting.

*Exercise of voting powers*
The Directors have instructed the Investment Manager to exercise the Company's voting power, as far as practicable, in respect of general meetings of investee companies. The Company considers shareholder voting to be an important issue in the pursuance of its investment objective. All investee company general meetings are reviewed by the Investment Manager and the Company takes action following the completion of this process.

*Social and environmental policy*
The Company has no staff, premises, manufacturing or other operations. However, the Company encourages responsible policies in this area by the appointed agents.

*Compliance with the Combined Code*
The Board considers that it has applied the principles of the Combined Code appropriately to the Company's circumstances.

*Directors' Remuneration*
A directors' remuneration report is included on page 12 of these financial statements.

# Directors' remuneration report

**Remuneration and Management Engagement committee**
The Company has five non-executive directors, all of whom are independent of the Investment Manager. The Remuneration and Management Engagement Committee therefore comprises the whole Board. It considers directors' fees and the remuneration of contracted service suppliers including the Investment Manager.

**Policy on directors' fees**
The Board's policy is that the remuneration of non-executive directors should be fair and should reflect the experience, work involved, responsibilities and potential liabilities of the Board as a whole. The non-executive directors' fees are determined within the limits set out in the Company's Articles of Incorporation and they are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits. It is intended that this policy will continue for the year ending 30 June 2012 and for subsequent years.

No services have been provided by, or fees paid to, advisers in respect of remuneration policy during the year ended 30 June 2011.

**Directors' service contracts**
The directors do not have service contracts. The directors have appointment letters which do not state any specific term. The directors are all subject to re-election by shareholders at a maximum interval of three years.

**Directors' emoluments for the year**
With effect from 1 January 2011, the fees of the Chairman have been £25,000 per annum, of Mr McLaren (Chairman of the Audit Committee) £20,000 per annum and to the other directors £17,500 per annum. Prior to this the fees for the Chairman were £32,500, Chairman of the Audit Committee £22,500 and £20,000 to all other directors.

The following emoluments in the form of fees were payable in the year ended 30 June 2011 to the directors who served during that year.

| | 2011<br>£'000 | *2010*<br>*£'000* |
|---|---|---|
| CJ Clark (Chairman) | 28.9 | *30.5* |
| PA Clarke | 18.7 | *19.0* |
| CD Ferbrache OBE | 18.7 | *19.0* |
| AR McLaren | 21.3 | *19.5* |
| PD Soulsby | 18.7 | *19.0* |
| **Total** | **106.3** | ***107.0*** |

# Independent auditor's report

**To the shareholders of Brookwell Limited**
We have audited the financial statements of Brookwell Limited for the year ended 30 June 2011 which comprise the Statements of Comprehensive Income, the Statements of Financial Position, the Statements of Changes in Shareholders' Funds, the Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. 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 auditor's 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**
As described in the Statement of Directors' Responsibilities on page 8 the Company's directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the other reports included in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on the financial statements**
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following:

Under The Companies (Guernsey) Law, 2008 we are required to report to you, if in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Grant Thornton Limited
Chartered Accountants
Lefebvre House, Lefebvre Street
St Peter Port, Guernsey
Channel Islands

21 September 2011

# Statements of comprehensive income

**Company**

| For the year ended 30 June 2011 | Notes | For the year ended 30 June 2011 Revenue £'000 | For the year ended 30 June 2011 Capital £'000 | For the year ended 30 June 2011 Total £'000 | *For the year ended 30 June 2010 Revenue £'000* | *For the year ended 30 June 2010 Capital £'000* | *For the year ended 30 June 2010 Total £'000* |
|---|---|---|---|---|---|---|---|
| Gains on investments designated at fair value through profit or loss | | – | 4 | 4 | *–* | *2,402* | *2,402* |
| Investment income | 2 | 148 | – | 148 | *129* | *–* | *129* |
| Investment management fees | 3 | (108) | (101) | (209) | *(255)* | *(319)* | *(574)* |
| Other expenses | 3 | (315) | – | (315) | *(352)* | *–* | *(352)* |
| **(Loss)/profit on ordinary activities before taxation** | | **(275)** | **(97)** | **(372)** | ***(478)*** | ***2,083*** | ***1,605*** |
| Taxation | 6 | (11) | – | (11) | *(11)* | *–* | *(11)* |
| **(Loss)/profit and total comprehensive income attributable to shareholders** | | **(286)** | **(97)** | **(383)** | ***(489)*** | ***2,083*** | ***1,594*** |
| **(Loss)/earnings per A Share** | 7 | **(1.35)p** | **(8.02)p** | **(9.37)p** | ***(2.45)p*** | ***11.36p*** | ***8.91p*** |
| **(Loss)/earnings per B Share** | 7 | **(8.90)p** | **6.26p** | **(2.64)p** | ***(2.88)p*** | ***11.09p*** | ***8.21p*** |
| **(Loss) per D Share** | 7 | **(0.27)p** | **(0.33)p** | **(0.60)p** | ***–*** | ***–*** | ***–*** |

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared under IFRS. The revenue and capital columns, including the revenue and capital (loss)/earnings per share data, are supplementary information prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

The Company was incorporated on 28 May 2008 and its A Shares were admitted to trading on AIM on 26 June 2008. The B Shares were admitted to trading on AIM on 19 February 2009. The D Shares were admitted to trading on AIM on 24 February 2011.

The notes on pages 20 to 27 form part of these accounts.

# Statements of comprehensive income

## A Share

| For the year ended 30 June 2011 | For the year ended 30 June 2011 Revenue £'000 | For the year ended 30 June 2011 Capital £'000 | For the year ended 30 June 2011 Total £'000 | *For the year ended 30 June 2010 Revenue £'000* | *For the year ended 30 June 2010 Capital £'000* | *For the year ended 30 June 2010 Total £'000* |
|---|---|---|---|---|---|---|
| (Losses)/gains on investments designated at fair value through profit or loss | – | (187) | (187) | *–* | *1,318* | *1,318* |
| Investment income | 27 | – | 27 | *40* | *–* | *40* |
| Investment management fees | (3) | (3) | (6) | *(152)* | *(152)* | *(304)* |
| Other expenses | (56) | – | (56) | *(135)* | *–* | *(135)* |
| **(Loss)/profit on ordinary activities before taxation** | **(32)** | **(190)** | **(222)** | ***(247)*** | ***1,166*** | ***919*** |
| Taxation | – | – | – | *(4)* | *–* | *(4)* |
| **(Loss)/profit and total comprehensive income attributable to shareholders** | **(32)** | **(190)** | **(222)** | ***(251)*** | ***1,166*** | ***915*** |
| **(Loss)/earnings per A Share** | **(1.35)p** | **(8.02)p** | **(9.37)p** | ***(2.45)p*** | ***11.36p*** | ***8.91p*** |

## B Share

| For the year ended 30 June 2011 | For the year ended 30 June 2011 Revenue £'000 | For the year ended 30 June 2011 Capital £'000 | For the year ended 30 June 2011 Total £'000 | *For the year ended 30 June 2010 Revenue £'000* | *For the year ended 30 June 2010 Capital £'000* | *For the year ended 30 June 2010 Total £'000* |
|---|---|---|---|---|---|---|
| Gains on investments designated at fair value through profit or loss | – | 202 | 202 | *–* | *1,084* | *1,084* |
| Investment income | 6 | – | 6 | *89* | *–* | *89* |
| Investment management fees | (62) | (55) | (117) | *(103)* | *(167)* | *(270)* |
| Other expenses | (153) | – | (153) | *(217)* | *–* | *(217)* |
| **(Loss)/profit on ordinary activities before taxation** | **(209)** | **147** | **(62)** | ***(231)*** | ***917*** | ***686*** |
| Taxation | – | – | – | *(7)* | *–* | *(7)* |
| **(Loss)/profit and total comprehensive income attributable to shareholders** | **(209)** | **147** | **(62)** | ***(238)*** | ***917*** | ***679*** |
| **(Loss)/earnings per B Share** | **(8.90)p** | **6.26p** | **(2.64)p** | ***(2.88)p*** | ***11.09p*** | ***8.21p*** |

## D Share

| For the year ended 30 June 2011 | For the year ended 30 June 2011 Revenue £'000 | For the year ended 30 June 2011 Capital £'000 | For the year ended 30 June 2011 Total £'000 |
|---|---|---|---|
| (Losses) on investments designated at fair value through profit or loss | – | (11) | (11) |
| Investment income | 115 | – | 115 |
| Investment management fees | (43) | (43) | (86) |
| Other expenses | (106) | – | (106) |
| **(Loss) on ordinary activities before taxation** | **(34)** | **(54)** | **(88)** |
| Taxation | (11) | – | (11) |
| **(Loss) and total comprehensive income attributable to shareholders** | **(45)** | **(54)** | **(99)** |
| **(Loss) per D Share** | **(0.27)p** | **(0.33)p** | **(0.60)p** |

# Statements of financial position

| 30 June 2011 | Notes | Company* 30 June 2011 £'000 | *A Share 30 June 2010 £'000* | *B Share 30 June 2010 £'000* | *Company 30 June 2010 £'000* |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investments designated at fair value through profit or loss | 8 | 12,877 | *869* | *3,243* | *4,112* |
| **Current assets** | | | | | |
| Sales for future settlement | | 123 | *–* | *22* | *22* |
| Other receivables | | 90 | *10* | *13* | *23* |
| Cash and cash equivalents | | 297 | *275* | *502* | *777* |
| | | 510 | *285* | *537* | *822* |
| **Total assets** | | **13,387** | ***1,154*** | ***3,780*** | ***4,934*** |
| **Current liabilities** | | | | | |
| Other payables | | 87 | *69* | *124* | *193* |
| | | 87 | *69* | *124* | *193* |
| **Total assets less current liabilities** | | **13,300** | ***1,085*** | ***3,656*** | ***4,741*** |
| **Capital and reserves attributable to shareholders** | | | | | |
| Share capital and share premium | 9 | 13,399 | *14,060* | *1,820* | *15,880* |
| Capital reserve | 10 | (54) | *(12,551)* | *2,108* | *(10,443)* |
| Revenue reserve | | (45) | *(424)* | *(272)* | *(696)* |
| **Total shareholders' funds** | | **13,300** | ***1,085*** | ***3,656*** | ***4,741*** |
| Net assets per Share | 11 | 96.17p | *45.57p* | *110.53p* | *n/a* |

*As at 30 June 2011, the Company's net assets were solely attributable to the D Shares. The final redemption of the A Shares was completed on 30 December 2010 when all attributable assets were returned to A Shareholders and all the outstanding A Shares were redeemed. The final redemption of the B Shares was completed on 31 March 2011 when all attributable assets were returned to B Shareholders and the outstanding B Shares were redeemed.

Approved and authorised for issue by the Board of Directors on 21 September 2011 and signed on their behalf by:

**Alasdair McLaren**

**Philip Soulsby**

The notes on pages 20 to 27 form part of these accounts.

# Statements of changes in shareholders' funds

**Company**

| | Share premium account £,000 | Capital reserve £,000 | Revenue reserve £,000 | Total £,000 |
|---|---|---|---|---|
| **For the year ended 30 June 2010** | | | | |
| Opening shareholders' funds | *29,380* | *(12,526)* | *(207)* | *16,647* |
| Purchases and redemptions of shares | *(13,500)* | – | – | *(13,500)* |
| Profit/(loss) for the year | – | *2,083* | *(489)* | *1,594* |
| **Closing shareholders' funds as at 30 June 2010** | ***15,880*** | ***(10,443)*** | ***(696)*** | ***4,741*** |
| **For the year ended 30 June 2011** | | | | |
| Issue of shares | 16,424 | – | – | 16,424 |
| Share issue expenses | (525) | – | – | (525) |
| Purchases and redemptions of shares | (5,183) | (1,774) | – | (6,957) |
| (Loss) for the year | – | (97) | (286) | (383) |
| Balance on reserves released on final redemption of A Shares and B Shares | (13,197) | 12,260 | 937 | – |
| **Closing shareholders' funds as at 30 June 2011** | **13,399** | **(54)** | **(45)** | **13,300** |

# Statements of changes in shareholders' funds

**A Share**

| | Share premium account £,000 | Capital reserve £,000 | Revenue reserve £,000 | Total £,000 |
|---|---|---|---|---|
| **For the year ended 30 June 2010** | | | | |
| Opening shareholders' funds | *19,260* | *(13,717)* | *(173)* | *5,370* |
| Purchases and redemptions of shares | *(5,200)* | – | – | *(5,200)* |
| Profit/(loss) for the year | – | *1,166* | *(251)* | *915* |
| **Closing shareholders' funds as at 30 June 2010** | ***14,060*** | ***(12,551)*** | ***(424)*** | ***1,085*** |
| **For the year ended 30 June 2011** | | | | |
| Purchases and redemption of shares | (863) | – | – | (863) |
| (Loss) for the year | – | (190) | (32) | (222) |
| Balance on reserves released on final redemption of A Shares | (13,197) | 12,741 | 456 | – |
| **Closing shareholders' funds as at 30 June 2011** | **–** | **–** | **–** | **–** |

**B Share**

| | Share premium account £,000 | Capital reserve £,000 | Revenue reserve £,000 | Total £,000 |
|---|---|---|---|---|
| **For the year ended 30 June 2010** | | | | |
| Opening shareholders' funds | *10,120* | *1,191* | *(34)* | *11,277* |
| Purchases and redemptions of shares | *(8,300)* | – | – | *(8,300)* |
| Profit/(loss) for the year | – | *917* | *(238)* | *679* |
| **Closing shareholders' funds as at 30 June 2010** | ***1,820*** | ***2,108*** | ***(272)*** | ***3,656*** |
| **For the year ended 30 June 2011** | | | | |
| Purchases and redemptions of shares | (1,820) | (1,774) | – | (3,594) |
| Profit/(loss) for the year | – | 147 | (209) | (62) |
| Balance on reserves released on final redemption of B Shares | – | (481) | 481 | – |
| **Closing shareholders' funds as at 30 June 2011** | **–** | **–** | **–** | **–** |

**D Share**

| | Share premium account £,000 | Capital reserve £,000 | Revenue reserve £,000 | Total £,000 |
|---|---|---|---|---|
| **For the period from 24 February 2011 to 30 June 2011** | | | | |
| Issue of shares | 16,424 | – | – | 16,424 |
| Share issue expenses | (525) | – | – | (525) |
| Purchases and redemption of shares | (2,500) | – | – | (2,500) |
| (Loss) for the period | – | (54) | (45) | (99) |
| **Closing shareholders' funds as at 30 June 2011** | **13,399** | **(54)** | **(45)** | **13,300** |

# Statements of cash flows

| For the year ended 30 June 2011 | Notes | A Shares For the year ended 30 June 2011 £'000 | B Shares For the year ended 30 June 2011 £'000 | D Shares For the year ended 30 June 2011 £'000 | Company For the year ended 30 June 2011 £'000 | *A Shares For the year ended 30 June 2010 £'000* | *B Shares For the year ended 30 June 2010 £'000* | *Company For the year ended 30 June 2010 £'000* |
|---|---|---|---|---|---|---|---|---|
| **Operating activities** | | | | | | | | |
| Cash inflow from investment income and interest | | 27 | 6 | 36 | 69 | *70* | *96* | *166* |
| Cash outflow from management and other expenses | | (121) | (379) | (130) | (630) | *(448)* | *(508)* | *(956)* |
| Cash inflow from disposal of investments | | 682 | 3,465 | 3,414 | 7,561 | *5,539* | *8,872* | *14,411* |
| **Net cash inflow from operating activities** | 12 | **588** | **3,092** | **3,320** | **7,000** | ***5,161*** | ***8,460*** | ***13,621*** |
| **Financing** | | | | | | | | |
| Expenses of issue of share capital | | – | – | (523) | (523) | *–* | *–* | *–* |
| Payments to purchase own shares | | (863) | (3,594) | (2,500) | (6,957) | *(5,200)* | *(8,300)* | *(13,500)* |
| **Net cash outflow from financing activities** | | **(863)** | **(3,594)** | **(3,023)** | **(7,480)** | ***(5,200)*** | ***(8,300)*** | ***(13,500)*** |
| **(Decrease)/increase in cash and cash equivalents** | | **(275)** | **(502)** | **297** | **(480)** | ***(39)*** | ***160*** | ***121*** |
| Opening balance | | 275 | 502 | – | 777 | *314* | *342* | *656* |
| Cash flow | | (275) | (502) | 297 | (480) | *(39)* | *160* | *121* |
| **Closing balance** | | **–** | **–** | **297** | **297** | ***275*** | ***502*** | ***777*** |

The notes on pages 20 to 27 form part of these accounts.

# Notes to the Company's financial statements

## 1 Accounting policies

The Company is a closed-ended investment company incorporated and resident in Guernsey.

*Basis of accounting*
The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect at the date of this document. The financial statements are presented in accordance with IAS 1 Presentation of Financial Statements (Revised 2007). The Company has elected to present the 'Statements of Comprehensive Income' as one statement.

Under IFRS, the Statement of Recommended Practice (SORP) issued by the Association of Investment Companies in January 2009 has no formal status, but the Company has taken the guidance of the SORP and information contained in the Company's Admission Document into account to the extent that is appropriate and compatible with IFRS as adopted by the European Union.

The particular accounting policies adopted are described below:

### (a) Accounting convention

The accounts are prepared under the historical cost convention, except for the measurement at fair value of investments.

### (b) Going concern

The directors have adopted the going concern basis in preparing the accounts. The following is a summary of the directors' assessment of the going concern status of the Company:

The directors have considered the Company's working capital position including its cash levels and the liquidity of its investments and following that consideration have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

### (c) Financial assets and financial liabilities

*Financial assets*
As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as fair value through profit or loss on initial recognition in accordance with IAS 39. At this time, fair value is the consideration given, excluding material transaction or other dealing costs associated with the investment.

After initial recognition such investments are valued at fair value. For quoted investments this is established by reference to market bid price. For quoted investments that are not actively traded, an alternative valuation technique is used that makes use of market inputs which the directors believe better reflect the fair value of the investment. The valuation of suspended or delisted securities requires significant judgment. Suspended or delisted securities are valued at directors' best estimate of fair value after taking into account conditions that led to that investment's delisting or suspension and in particular the financial health and business outlook for the investee company concerned. Investments are derecognised when realised. Gains or losses are recognised in the capital column of the Statements of Comprehensive Income. All purchases and sales of investments are accounted for on a trade date basis.

The Company derecognises a financial asset when the contractual rights to the cash flow from the financial asset expires. Derecognition of an investment from a Class Fund portfolio occurs on the date the investment is sold. On derecognition the difference between the carrying amount of the asset and the consideration received is recognised in the Statement of Comprehensive Income.

*Financial liabilities*
The Company's financial liabilities are solely its other payables, which consist of the expense payments required to cover day to day operations.

### (d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

### (e) Income from investments

Investment income from ordinary shares is accounted for on the basis of ex-dividend dates. Special dividends are assessed on their individual merits and are credited to the capital column of the Statements of Comprehensive Income if the substance of the payment is a return of capital; with this exception all other investment income is taken to the revenue column of the Statements of Comprehensive Income. Bank interest receivable is accounted for on an accruals basis.

### (f) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes amounts relating to sales of future settlements and other receivables in this category.

Significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment in the Company's sales for future settlement is extremely unlikely as listed equities are settled on a delivery verses payment basis.

### (g) Shareholders funds

*Share capital and Share premium*

On incorporation two Founder Shares were issued, each at £1.00 fully paid up. They form the entirely of the Company's share capital as the issued redeemable preference shares have no nominal value and are recognised in share premium.

*Capital reserves*

Profits and losses achieved in cash by selling investments and changes in fair value arising upon the revaluation of investments that remain in the portfolio are dealt with through the capital reserve.

*Revenue reserves*

Investment income and bank interest income are allocated to the revenue column of the Statements of Comprehensive Income. Administration expenses and one half of basic investment management fees and capital return fees are charged to the revenue column of the Statements of Comprehensive Income.

### (h) Investment management fees

One half of the basic investment management fees and capital return fees are allocated to the capital column of the Statements of Comprehensive Income. The entirety of the equity appreciation fee is allocated to the capital column of the Statements of Comprehensive Income. Fees allocated to the capital column are taken to the capital reserves. This is in accordance with the Company's stated intention in its Admission Document.

### (i) Functional and presentational currency

The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("Sterling"), which is also the presentational currency of the Company.

### (j) Cash and cash equivalents

Cash and Cash Equivalents in the Statements of Cash Flows comprises cash held at the bank or by the custodian which are subject to an insignificant risk of changes in value and does not include loans, long term debt or bank overdrafts that are akin to long term debt.

### (k) Operating segments

The Company has adopted IFRS 8, 'Operating segments'. This standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The Board has considered the requirements of the standard and is of the view that the Company is engaged in a single segment of business, which is to realise value from its portfolios of AIM securities and listed securities and, in the case of the D Share Class Fund, PLUS securities and progressively return cash to shareholders.

The Board of directors is responsible for ensuring that the Company's investment objective is followed. The day-to-day implementation of this has been delegated to the Investment Manager but the Board retains responsibility for the overall direction of the Company. The Board reviews the investment decisions of the Investment Manager at regular Board meetings. The Investment Manager has been given full authority to make investment decisions on behalf of the Company in accordance with the investment objective.

### (l) New standards

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but do not have an impact on the preparation of the accounts of the Company.

The completion of IFRS 9 has been deferred until 2015. Management have yet to assess the impact the new standard is likely to have on the financial statements of the Company. However they do not expect to implement the amendments until all chapters of the replacement to IAS 39 have been published and they can comprehensively assess the impact of all changes.

IFRS 13 Fair Value Measurement is not due to become effective until reporting periods commencing 1 January 2013. It is intended to increase transparency of fair value measurements and enhanced disclosures. Its impact on the Company has not yet been determined.

## 2 Investment income

| | 2011 £'000 | *2010 £'000* |
|---|---|---|
| **Income from investments** | | |
| Dividends from UK listed or UK quoted investments | 145 | *122* |
| | **145** | ***122*** |
| **Other income** | | |
| Interest receivable | 3 | *7* |
| | **3** | ***7*** |
| **Total investment income** | **148** | ***129*** |

### 3 Investment management fees and other expenses

| | 2011 Revenue £'000 | 2011 Capital £'000 | 2011 Total £'000 |
|---|---|---|---|
| Investment management fees | | | |
| – basic | 80 | 80 | 160 |
| – capital return fee | 28 | 28 | 56 |
| – equity appreciation fee* | – | (7) | (7) |
| | **108** | **101** | **209** |
| Administration fees | 98 | – | 98 |
| Custodian's fees | 8 | – | 8 |
| Registrar's fees | 10 | – | 10 |
| Directors' fees | 106 | – | 106 |
| Auditor's fees | 16 | – | 16 |
| Taxation compliance fee | 2 | – | 2 |
| Nominated Adviser fees | 25 | – | 25 |
| Miscellaneous expenses | 50 | – | 50 |
| **Total other expenses** | **315** | **–** | **315** |
| **Total expenses** | **423** | **101** | **524** |

| | *2010 Revenue £'000* | *2010 Capital £'000* | *2010 Total £'000* |
|---|---|---|---|
| Investment management fees | | | |
| – basic | *190* | *190* | *380* |
| – capital return fee | *65* | *65* | *130* |
| – equity appreciation fee* | *–* | *64* | *64* |
| | ***255*** | ***319*** | ***574*** |
| Administration fees | *134* | – | *134* |
| Custodian's fees | *12* | – | *12* |
| Registrar's fees | *9* | – | *9* |
| Directors' fees | *107* | – | *107* |
| Auditor's fees | *16* | – | *16* |
| Taxation compliance fee | – | – | – |
| Nominated Adviser fees | *25* | – | *25* |
| Miscellaneous expenses | *49* | – | *49* |
| **Total other expenses** | ***352*** | **–** | ***352*** |
| **Total expenses** | ***607*** | ***319*** | ***926*** |

*A provision of £38,000 was made at 30 June 2010 for equity appreciation fees. An equity appreciation fee of £31,114 was paid in respect of the B Share redemption on 30 December 2010. The over accrual has been reversed in the current year.

Further details on the management agreement are provided on pages 6 and 7 of the Directors' Report.

### 4 Directors' fees

The fees paid or accrued were £106,322 (2010: £106,934). There were no other emoluments. Full details of the fees of each director are given in the Directors' Remuneration Report on page 12.

### 5 Transaction charges

| | 2011 £'000 | *2010 £'000* |
|---|---|---|
| Transaction costs on sales of investments | 8 | *17* |
| **Total transaction costs included in gains on investments at fair value through profit or loss** | **8** | ***17*** |

### 6 Taxation

The Company is resident for tax purposes in Guernsey.

The Company applies for exempt status under the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 and 1992 and is charged an annual exemption fee of £600.

The tax charges shown in the Statements of Comprehensive Income relate to overseas withholding tax on dividend income.

The Directors manage the affairs of the Company so that the annual requirements relating to "reporting fund" status under the United Kingdom Offshore Reporting Rules are, and continue to be, met in relation to the D Shares.

### 7 (Loss)/earnings per share

*A Shares*

Loss per A Share is based on the loss of £222,000 (2010: profit £915,000) attributable to the weighted average of 2,367,951 (2010: 10,262,575) A Shares of no par value in issue during the year ended 30 June 2011.

Supplementary information is provided as follows: revenue earnings per A Share is based on the revenue loss of £32,000 (2010: loss £251,000) and capital loss per A Share is based on the net capital loss of £190,000 (2010: loss £1,166,000) attributable to 2,367,951 (2010: 10,262,575) A Shares of no par value.

*B Shares*

Loss per B Share is based on the loss of £62,000 (2010: profit £679,000) attributable to the weighted average of 2,348,280 (2010: 8,269,707) B Shares of no par value in issue during the year ended 30 June 2011.

Supplementary information is provided as follows: revenue loss per B Share is based on the revenue loss of £209,000, (2010: loss £238,000) and capital loss per B Share is based on the net capital profit of £147,000 (2010: profit £917,000) attributable to 2,348,280 (2010: 8,269,707) B Shares of no par value.

*D Shares*

Loss per D Share is based on the loss of £99,000 attributable to the weighted average of 16,370,089 D Shares of no par value in issue from the issue of the D Shares to 30 June 2011.

Supplementary information is provided as follows: revenue loss per D Share is based on the revenue loss of £45,000 and capital loss per D Share is based on the net capital loss of £54,000 attributable to 16,370,089 D Shares of no par value.

## 8 Investments

| | 2011 £'000 | *2010 £'000* |
|---|---|---|
| **Investments at cost** | | |
| Opening balance | 7,031 | *21,359* |
| Additions, at cost | 16,424 | – |
| Disposals, at cost | (9,134) | *(14,328)* |
| **Cost of investments at 30 June** | **14,321** | ***7,031*** |
| **Revaluation of investments to fair value** | | |
| Opening balance | (2,919) | *(5,247)* |
| Transfer to disposal of investments | 2,919 | 3,232 |
| Revaluation of investments | (1,444) | (904) |
| **Balance at 30 June** | **(1,444)** | ***(2,919)*** |
| **Fair value of investments at 30 June*** | **12,877** | ***4,112*** |
| | | |
| AIM quoted shares | 8,268 | *4,112* |
| PLUS quoted shares | 27 | – |
| UK listed shares | 4,582 | – |
| **Total fixed asset investments at fair value*** | **12,877** | ***4,112*** |

*The total value of suspended and delisted securities included in investments at 30 June 2011 was nil (2010: nil). Trans Balkan Investments Limited was delisted from AIM on 23 March 2011 and valued at nil at the year end.

## 9 Share capital

| | At 30 June 2011 Authorised | At 30 June 2011 Allotted, issued and fully paid | *At 30 June 2010 Authorised* | *At 30 June 2010 Allotted, issued and fully paid* |
|---|---|---|---|---|
| Founder shares | | | | |
| Number | 100 | 2 | *100* | *2* |
| Nominal value | £100 | £2 | *£100* | *£2* |
| A Shares (no par value) | | | | |
| Number | – | – | *110,000,000** | *2,380,891* |
| B Shares (no par value) | | | | |
| Number | – | – | *110,000,000** | *3,307,720* |
| D Shares (no par value) | | | | |
| Number | 110,000,000* | 13,829,950 | – | – |

*The authorised share capital of the Company does not distinguish between Class Funds.

### (i) Capital structure and life of the Company

The Company's issued share capital consists entirely of D Shares and two Founder Shares. The Founder Shares have negligible rights. The D Shares are participating redeemable preference shares of no par value and are admitted to trading on AIM. Further detail on the share issues and redemptions for each of the A Share, B Share and D Shares classes are set out below.

*Class Funds*

The assets and liabilities of the Company (other than the Founder Shares) are attributed to each Class Fund that has been established. Liabilities not attributable solely to a particular Class Fund will be allocated to each Class Fund pro-rata based on the NAVs attributable to the shares on the preceding Reference Date, except where the Directors determine that it would be inequitable to do so. In such instances the allocation of such liabilities is determined by the Directors. The final redemption of the B Shares in March 2011 resulted in all annual expenses falling on the D Shares until such time, if any, that a new Class Fund is established.

As described in the Directors' Report, the Company may redeem the D Shares. These shares are not redeemable at the request of Shareholders.

The D Shares carry the exclusive right to any dividend distributed by the Company, any such dividend being paid in respect of a class of Shares solely out of the returns or assets of the Class Fund attributed to that class of Shares.

On a winding up of a Class Fund, any surplus assets available for distribution will be distributed solely to Shareholders who hold shares of the relevant class pro-rata based on the number of Shares of that class held by each Shareholder. On a winding up of the Company, any surplus assets of a Class Fund available for distribution will be distributed to Shareholders who hold Shares of the relevant class pro-rata based on the number of Shares of the relevant class held by each Shareholder.

Any assets not attributed to a Class Fund will be returned to the holders of the Founder Shares pro-rata based on the number of Founder Shares held by each holder of the Founder Shares.

At a class meeting of the D Shareholders to be held in the third quarter of 2014, Shareholders will be invited to consider the future of the Class Fund and will be given an opportunity to initiate the winding up of the Class Fund by passing a resolution by a simple majority requesting the directors of the Company to wind up the relevant Class Fund.

### (ii) Authorised share capital

The authorised share capital of the Company on incorporation was 100 Founder Shares of £1.00 each and 100,000,000 Shares of no par value. The authorised number of Shares was increased to 110,000,000 upon adoption of new Articles of Association of the Company on 29 January 2009 and amended by special resolution on 7 February 2011.

### (iii) Founder Shares

On incorporation two Founder Shares were issued at £1.00 per share. Founder Shares are not redeemable and do not carry any rights to a dividend. The Founder Shares do not have any rights to vote at general meetings of the Company.

### (iv) A Shares

*Issue of A Shares*
Pursuant to the AIM Admission Document dated 6 June 2008 the Company:

a) On 26 June 2008, allotted 25,226,853 A Shares, all of which were issued for consideration in the form of investments received. The total consideration was £25,226,853.

b) On 17 July 2008 allotted a further 297,890 A Shares, all of which were issued for consideration in the form of investments received. The total consideration was £297,890.

During the year, the Company applied, in accordance with the Admission Document dated 6 June 2008, all available funds to effect pro-rata redemptions of outstanding A Shares.

*Redemption of A Shares*
Pro-rata redemptions of A Shares

| Date | Number of shares redeemed | Price per share |
|---|---|---|
| 30 December 2010 | 2,380,891 | 36.2278p |
| 30 June 2010 | 5,502,959 | 45.43p |
| 30 December 2009 | 4,774,523 | 56.55p |
| 30 June 2009 | 4,509,837 | 42.13p |
| 31 December 2008 | 8,356,533 | 43.08p |

These redemptions were effected pro-rata to the number of A Shares held by each holder at the time of redemption.

*Other redemptions of shares*
There were no other redemptions of A Shares during the year.

### (v) B Shares

*Issue of B Shares*
Pursuant to the AIM Admission Document dated 15 January 2009 the Company:

c) On 17 February 2009, allotted 12,372,932 B Shares, all of which were issued for consideration in the form of investments received. The total consideration was £12,372,932.

d) On 12 March 2009 allotted a further 587,912 B Shares, all of which were issued for consideration in the form of investments received. The total consideration was £587,912.

During the year, the Company applied, in accordance with the Admission Document dated 15 January 2009, all available funds to effect pro-rata redemptions of outstanding B Shares.

*Redemption of B Shares*
Pro-rata redemptions of shares

| Date | Number of shares redeemed | Price per share |
|---|---|---|
| 31 March 2011 | 418,858 | 94.0853p |
| 30 December 2010 | 2,888,862 | 110.77p |
| 30 June 2010 | 2,554,972 | 109.59p |
| 30 December 2009 | 4,814,839 | 114.23p |
| 30 June 2009 | 2,283,313 | 105.11p |

*Other redemptions of Shares*
There were no other redemptions of B Shares during the year.

### (vi) D Shares

*Issue of D Shares*
Pursuant to the AIM Admission Document dated 21 January 2011 the Company:

e) On 24 February 2011, allotted 16,096,091 D Shares, all of which were issued for consideration in the form of investments received. The total consideration was £16,096,091.

f) On 17 March 2011 allotted a further 328,281 D Shares, all of which were issued for consideration in the form of investments received. The total consideration was £328,281.

During the year, the Company applied, in accordance with the Admission Document dated 21 January 2011, all available funds to effect pro-rata redemptions of outstanding D Shares.

*Redemption of D Shares*
Pro-rata redemptions of shares

| Date | Number of shares redeemed | Price per share |
|---|---|---|
| 30 June 2011 | 2,594,422 | 96.36p |

*Other redemptions of Shares*
There were no other redemptions of D Shares during the year.

*Voting rights of D Shares*
At General Meetings of the Company every member present in person or proxy shall have one vote for every D Share of which they are the registered holder.

### 10 Capital reserve

| | 2011 £'000 | *2010 £'000* |
|---|---|---|
| **Disposal of investments** | | |
| Opening balance | (7,524) | *(7,279)* |
| Transfer from investments held | (2,919) | *(3,232)* |
| Gains on disposal of investments by reference to revalued book costs | 1,448 | *3,306* |
| Investment management fees charged to capital | (101) | *(319)* |
| Redemption of Shares | (1,774) | – |
| Balance on reserve released at final redemption of A Shares and B Shares | 12,260 | – |
| **Balance at 30 June** | **1,390** | ***(7,524)*** |

| | 2011 £'000 | *2010 £'000* |
|---|---|---|
| **Investments held** | | |
| Opening balance | (2,919) | *(5,247)* |
| Transfer to disposal of investments | 2,919 | *3,232* |
| Revaluation of investments | (1,444) | *(904)* |
| **Balance at 30 June** | **(1,444)** | ***(2,919)*** |
| **Capital reserve balance at 30 June** | **(54)** | ***(10,443)*** |

### 11 Net assets per share
The figure for net assets per D Share is based on £13,300,000 divided by 13,829,950 D Shares in issue at the year end.

### 12 Reconciliation of profit/(loss) before taxation to net cash flow from operating activities

| | 2011 £'000 | *2010 £'000* |
|---|---|---|
| Net (loss)/profit after taxation | (383) | *1,594* |
| (Increase)/decrease in receivables | (168) | *33* |
| (Decrease) in payables | (106) | *(6)* |
| Realisation of investments at book cost | 9,135 | *14,328* |
| Adjustment for unrealised (gains) on investments | (1,478) | *(2,328)* |
| **Net cash inflow from operating activities** | **7,000** | ***13,621*** |

During the placing of the Company's shares in the year ended 30 June 2011, the Company received investments with an aggregate value of £16,424,372 through a stock swap in exchange for Shares in the Company. No cash consideration was received for shares issued by the Company pursuant to the placing.

### 13 Related party transactions
Details of the management and UK administration contracts can be found in the Directors' Report. Fees payable to the Investment Manager are detailed in note 3. Other payables include accruals of a monthly management fee of £13,687 (2010: £32,070) capital return fee accruals of £25,000 (2010: £55,550), an equity appreciation fee accrual of nil (2010: £62,503) and UK administration fees of £6,667 (2010: £11,349).

### 14 Fair value hierarchy
Under IFRS 7 investment companies are required to disclose the fair value hierarchy that classifies financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair values.

| Classification | Input |
|---|---|
| Level 1 | Valued using quoted prices in active markets for identical assets |
| Level 2 | Valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1 |
| Level 3 | Valued by reference to valuation techniques using inputs that are not based on observable market data |

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

The valuation techniques used by the Company are explained in the Accounting Policies Note 1(c) on page 20. All investments held by the Company as at 30 June 2011 are considered to fall within Level 1 and Level 2.

The classification of the Company's investments held at fair value as at 30 June 2011 is detailed in the table below:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Investments designated at fair value through profit or loss | 5,976 | 6,901 | – | 12,877 |

Investments classified as Level 2 at 30 June 2011 were all quoted securities but have been classified as Level 2 investments due to their underlying trading volumes.

The classification of the Company's investments held at fair value as at 30 June 2010 is detailed in the table below:

| | *Level 1 £'000* | *Level 2 £'000* | *Level 3 £'000* | *Total £'000* |
|---|---|---|---|---|
| Investments designated at fair value through profit or loss | *3,612* | *500* | – | *4,112* |

## 15 Risk profile and financial assets/liabilities

The investment objective of the Company is stated on page 4.

### Market risks

*(i) Investments*

All the securities listed on page 3 are quoted on AIM or listed on the London Stock Exchange or quoted on PLUS.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than the risk attached to larger or more established companies. AIM securities are not admitted to the Official List of the London Stock Exchange. The Investment Manager applies its skills and experience to ensure the portfolio valuations are reasonable.

PLUS is a London based stock exchange providing UK and international companies with access to European capital. It offers cost effective access to capital for businesses seeking their first step onto a public market.

*(ii) Foreign currency risks*

As at 30 June 2011 all investments were denominated in sterling. Some of the Company's underlying holdings may have exposure to foreign currency risk but this is not considered significant in the context of the Company.

*(iii) Interest rate risk*

With the exception of cash, the Company holds equity investments and does not therefore suffer significant direct interest rate risk on those investments. The Company's underlying holdings are subject to interest rate risk but this is not considered significant in the context of the Company.

The Company realises its investments and holds cash pending the return of capital to shareholders. Interest is received depending on prevailing money market rates. The Bank of England base rate at 30 June 2011 was 0.5% per annum.

*(iv) Management of market risks*

The objective is to realise value from a portfolio of AIM, listed securities and PLUS securities and progressively return cash to shareholders. Due to the nature of the Company the policy is to minimise risks as it is unable to eliminate them. Once the Company completed its stock swaps the Investment Manager has been restricted to achieving value and liquidity from the portfolio provided.

The Investment Manager focuses on a continuous review of the portfolio, keeping up to date with announcements and market information on a daily basis. Stocks are prioritised depending on the risk profile with specific regard to the company's debt levels, underlying trading in the stock and dependency on single customers and markets. The team have regular contact with the brokers to the securities in the Company's portfolio for updates and realisation opportunities.

On a macro level the Investment Manager constantly reviews market conditions. The directors also provide support to the Investment Manager, with their knowledge and advice.

*(v) Quantitative analysis*

The Company's financial assets and liabilities as at 30 June 2011 were as follows:

| | 2011 Cash flow interest rate risk £'000 | 2011 No interest rate risk £'000 | 2011 Total £'000 |
|---|---|---|---|
| Non-current investments at fair value | – | 12,877 | 12,877 |
| Cash at bank | | | |
| Floating rate – £ sterling | 297 | – | 297 |
| Short term debtors | – | 213 | 213 |
| Short term creditors | – | (87) | (87) |
| **Total** | **297** | **13,003** | **13,300** |

| | *2010 Cash flow interest rate risk £'000* | *2010 No interest rate risk £'000* | *2010 Total £'000* |
|---|---|---|---|
| Non-current investments at fair value | – | *4,112* | *4,112* |
| Cash at bank | | | |
| Floating rate – £ sterling | *777* | – | *777* |
| Short term debtors | – | *45* | *45* |
| Short term creditors | – | *(193)* | *(193)* |
| **Total** | ***777*** | ***3,964*** | ***4,741*** |

*(vi) Sensitivity analysis*

The Company had cash in the portfolio at the year end and no borrowings. Therefore, for illustrative purposes only, a 10% increase or decrease in the valuation of the D Share portfolio at the end of 30 June 2011 would have resulted in a £1,287,700 corresponding increase or decrease in the D Share Statement of Comprehensive Income, all other things being equal.

Foreign exchange risk and interest rate risk are not considered significant, therefore no sensitivity analysis has been presented.

### Credit risks

The Company's credit risk is limited to risk of default on cash held at the bank. Cash at bank at 30 June 2011 included £284,972 (2010: £760,514) held at the Company's custodian, The Northern Trust Company. Interest receivable is based on the prevailing money market rate.

All of the assets of the fund are held by The Northern Trust Company. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Company monitors the credit quality of the custodian.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be low as trading is almost always done on a delivery versus payment basis.

### Liquidity risks

Many of the stocks in the Company's portfolio are less liquid than the mid and large cap UK companies. The ability of the Investment Manager to dispose of investments may be affected if levels of market liquidity deteriorate.

Based on average daily volumes for the three months to 22 August 2011, it is estimated that the portfolio at that date could be liquidated on the following timescales:

| | D Share Class Fund |
|---|---|
| Less than one month | 3.0% |
| Less than three months | 16.9% |
| Less than one year | 19.7% |
| More than one year | 60.4% |

### Capital Management

The Company's authorised share capital consists of 110 million D Shares of no par value and 100 Founder Shares of £1.00 nominal value per share. At 30 June 2011 the number of shares in issue was:

| | 2011 | *2010* |
|---|---|---|
| A Shares | nil | *2,380,891* |
| B Shares | nil | *3,307,720* |
| D Shares | 13,829,950 | *n/a* |
| Founder Shares | 2 | *2* |

The Company's investment objective is to realise value from a portfolio of AIM, listed securities and PLUS securities and progressively return cash to shareholders. The return of capital is achieved through the redemption of the Company's shares which is described in the Directors' Report.

The Company has not and does not intend to incur borrowings and does not therefore have any externally imposed capital requirements.

# Directors, Investment Manager and advisers

**Directors**
CJ Clark (Chairman)
PA Clarke
CD Ferbrache OBE
AR McLaren
PD Soulsby

**Broker**
Marshall Securities Limited
145-157 St John Street
London EC1V 4RE

**Auditor**
Grant Thornton Limited
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
Guernsey GY1 3TF

**Custodian**
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

**Advisers as to Guernsey law**
Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey GY1 4HP

**Solicitors**
Debevoise & Plimpton LLP
Tower 42
Old Broad Street
London EC2N 1HQ

**Investment Manager**
Progressive AIM Realisation Limited
145-157 St John Street
London EC1V 4RU

**Nominated adviser**
Deloitte Corporate Finance
Deloitte LLP
2 New Street Square
London EC4A 3BZ

**Secretary and administrator**
Legis Fund Services Limited
PO Box 91
Legis House
11 New Street
St Peter Port
Guernsey GY1 3EG

**UK administration agent**
Cavendish Administration Limited
145-157 St John Street
London EC1V 4RU

**Registrar**
Capita Registrars (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey GY2 4LH

**Registered office***
11 New Street
St Peter Port
Guernsey GY1 2PF

*Registered in Guernsey No. 48958

# Notice of meeting

## Notice is hereby given that the Annual General Meeting of Brookwell Limited will be held at 11 New Street, St Peter Port, Guernsey at 11.00 a.m. on Tuesday 6 December 2011.

**Ordinary Business**

1 To receive and adopt the financial statements for the year ended 30 June 2011, with the reports of the directors and auditor thereon.

2 To re-elect Mr CJ Clark as a director of the Company.

3 To re-elect Mr CD Ferbrache OBE as a director of the Company.

4 To re-appoint Grant Thornton Limited as auditor to the Company and to authorise the directors to fix their remuneration.

5 In accordance with Section 315 of the Companies (Guernsey) Law, 2008, the authority for market acquisitions set forth in Article 72(1)(b) of the Company's Articles of Incorporation be approved and restated on the basis that:

(a) the amount that may be paid per Share shall be the price agreed by the Company with the selling shareholder provided such price is less than the NAV per Share in accordance with the Articles and the minimum amount shall be 1 pence per Share; and

(b) this authority shall expire on the date falling eighteen (18) months after the date of this resolution or such later date as the Companies (Guernsey) Law, 2008 may from time to time permit.

**Notes**

1 A Shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of him or her. A proxy need not be a member of the Company. A form of proxy accompanies this Notice. Completion and return of the form of proxy will not preclude members from attending or voting at the meeting, if they so wish. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. A member may appoint more than one proxy provided each proxy is appointed to exercise voting rights in respect of a different share or shares held by him.

2 To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is executed (or a notarially certified copy of such power of attorney) must be deposited at the UK office of the Company's Registrar, Capita Registrars, at PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time for holding the Meeting.

3 CREST members may utilise the CREST proxy appointment service by following the directions set out on the form of proxy. Completion and return of the form of proxy will not prevent a Shareholder from subsequently attending the meeting and voting in person if he so wishes.

4 A holder of Shares must first have his or her name entered on the register of members not later than 11.00 a.m. on 4 December 2011. Changes to entries in that register after that time shall be disregarded in determining the rights of any holders to attend and vote at such meeting.

5 As at 21 September 2011 (being the last practicable date prior to the posting of this notice) the Company's share capital consists of 13,829,950 D Shares, carrying one voting right each. No Shares were held in Treasury. Therefore, the total voting rights in the Company as at that date are 13,829,950.

# Form of proxy

I/We ____________________ of ____________________ (BLOCK CAPITALS PLEASE)

being (a) member(s) of Brookwell Limited appoint the chairman of the meeting or (see note 1)

____________________ of ____________________

as my/our proxy to attend and vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at 11 New Street, St Peter Port, Guernsey on 6 December 2011 at 11.00 a.m. and at any adjournment thereof.

*Please indicate with an X in the spaces provided how you wish your votes to be cast on the resolutions specified.*

| Resolution | For | Against | Withheld |
|---|---|---|---|
| 1 To receive and adopt the directors' report, the annual accounts and the auditor's report for the year ended 30 June 2011 | ☐ | ☐ | ☐ |
| 2 To re-elect Mr CJ Clark as a director. | ☐ | ☐ | ☐ |
| 3 To re-elect Mr CD Ferbrache OBE as a director. | ☐ | ☐ | ☐ |
| 4 To reappoint Grant Thornton Limited as auditor to the Company and the authorise the directors to fix their remuneration. | ☐ | ☐ | ☐ |
| 5 To authorise market acquisitions of Shares. | ☐ | ☐ | ☐ |

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature ____________________ Dated this __________ day of ____________2011

**Notes**

1 If you so desire you may delete the words 'chairman of the meeting' and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.

2 The proxy form must be lodged at the Company's registrars, Capita Registrars, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid.

3 Alternatively, in the case of CREST members, voting may be effected by using the CREST electronic proxy appointment service. CREST members who wish to utilise the CREST service may do so by following the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Capita Registrars (whose CREST ID is RA10) by the specified latest time for receipt of proxy appointments. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed.

4 To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

5 A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.

6 If this proxy form is executed under a power of attorney or other authority, such power of attorney or other authority or a notarially certified copy thereof must be lodged with the Registrars with the proxy form.

7 In the case of joint holders the vote of the senior shall be accepted to the exclusion of the other joint holders, seniority being determined by the order in which the names stand in the register in respect of the joint holding.

Your completed and signed proxy form should be posted, in the enclosed reply paid envelope, to the Company's Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU, so as to arrive before 11.00 a.m. on 4 December 2011.

Cut along dotted rule

**Progressive AIM Realisation Limited**
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