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Brookwell Limited  
Half-yearly report 2008



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## Investment objective

To realise value from a portfolio of AIM securities and Listed Securities and progressively return cash to shareholders.

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## Financial highlights

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**£25.5** million raised in the placing of the Company's A Shares.

**£3.6** million returned to shareholders in the period from the Company's launch to 31 December 2008.

The number of securities held on the portfolio reduced from **84** to **43** during the period.

Following shareholder approval of the issue of a new separate class of B Shares in January 2009, a placing of B Shares raised a total of **£12.96** million in February/March 2009.

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# Chairman's statement

Brookwell Limited ("Brookwell" or "the Company") was incorporated on 28 May 2008 to provide a service for institutions wishing to rationalise their portfolios of AIM quoted and smaller UK listed company shares.

Brookwell is managed by Progressive AIM Realisation Limited ("PARL") a subsidiary of Progressive Value Management Limited ("PVML"), which has expertise in achieving value and liquidity from such stocks. PVML was formerly the manager of Advance Value Realisation Company ("ADVARC") Second Advance Value Realisation Company ("SAVR") and Third Advance Value Realisation Company ("TAVR"). PARL is manager of Advance AIM Value Realisation Company ("AIMVARC").

Brookwell, like AIMVARC, continues to develop the concept established by ADVARC, SAVR and TAVR, but with a different structure to reflect the focus on AIM shares. The objective of these companies is to realise value from the portfolio and progressively return cash to shareholders. Brookwell was launched by means of a "stock swap" whereby the Company issued Shares of no par value as consideration for the acquisition of holdings in 84 companies. The Company's shares were admitted to AIM on 26 June 2008, with further shares issued pursuant to a supplemental placing being admitted on 17 July 2008. At launch, the portfolio of qualifying securities established in this way was valued at £25.5m.

I am pleased to report that during our first reporting period to 31 December 2008, the Manager has been active, reducing the number of holdings to 43 and realising £5.1m. On 31 December 2008 the Company returned £3.6m to shareholders through the *pro rata* redemption of 8,356,533 Shares at a price of 43.08p per Share.

The net revenue loss per Share for the period to 31 December 2008 was 0.23p. As stated in the AIM admission document, the Company seeks to achieve capital growth rather than to provide dividend income and it is unlikely that the Company will pay any significant dividends.

The NAV at the period end was 43.0 pence per Share, down from the opening NAV, net of expenses of the flotation, of 97.0 pence per Share. The first six months of the Company's existence saw a period of considerable financial uncertainty. This extremely difficult economic background has caused distress in a number of major international banks and developed economies. AIM, with its mixture of relatively immature businesses, has been particularly vulnerable and during this period the AIM All Share index is down approximately 60%. Against this backdrop, the fall in the NAV, whilst disappointing, is understandable.

Many companies in the portfolio have suffered setbacks during the deteriorating economic backdrop which has exposed weaknesses in a number of market and product segments. However, your Company was established in order to help deal with such investment situations and the Manager is using the experiences gained from the previous workout funds actively to engage with a number of the remaining investee companies to help improve the underlying performance of these businesses.

Towards the end of 2008 the Board concluded that the Company would benefit, particularly in terms of its expenses ratios, if the Company's portfolio of investments were to be enlarged in a way which would protect and not prejudice the original Shareholders. Accordingly, the Board sought shareholder approval for a placing of a new and separate class of shares to be known as B Shares and the designation of the original Shares as A Shares. At an Extraordinary General Meeting on the 29 January 2009 Shareholders overwhelmingly supported the proposals. On 19 February 2009 12,372,932 B shares were issued in an initial placing and a further 587,912 B shares in a supplemental placing on 12 March 2009, providing a separate asset pool valued at approximately £13 million and 62 extra holdings – (see note 9 to the accounts). All investors will benefit from the spreading of fixed overheads over a larger asset base.

The NAV per A Share at 13 March 2009 was 38.45p and the number of holdings in the A Class Fund had been reduced further to 33. The Company currently holds £0.9m in cash and the Board anticipates that, after allowing for working capital requirements, a further distribution in the next *pro rata* redemption of A Shares will take place at the end of June 2009. This redemption is almost certain to be significantly lower than the first redemption in December 2008.

The NAV per B Share at 13 March 2009 was 92.11p and the number of holdings in the B Class Fund was 55. The Manager has recently begun the realisation of the investments in the B Class Fund. As stated in the admission document dated 15 January 2009, the first *pro rata* redemption of B Shares is scheduled to take place at the end of June 2009. The amount to be returned, if any, will depend on the level of available funds after making provision for costs incurred and for working capital requirements.

**Christopher Clark**  
19 March 2009

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# Manager's report

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The Company's portfolio was established by way of a "stock swap" in a placing and supplemental placing in June and July 2008. In aggregate the Company acquired at that time holdings in 84 companies from 19 investment institutions. We are pleased that a number of these investors had participated in earlier funds managed by us whilst others participated for the first time. The launch of our work-out fund provides institutions with an opportunity to rationalise their portfolios and enhance investment efficiency. Prior to acceptance in the placing, each holding was screened to ensure that securities offered met the criteria for inclusion in the portfolio set out in the AIM admission document.

We spend considerable time in the initial period evaluating each holding to decide the most appropriate exit strategy and to assess target timing and price levels. This includes meeting the management of many of the larger holdings and talking to relevant third parties about the industry context in which investee companies operate.

Brookwell's portfolio on launch provided a spread of holdings. The fund's largest sector weightings were in Support Services, Real Estate, Travel & Leisure, Electronic & Electrical Equipment and Media. There were 23 holdings which represented more than 3% of the underlying company's equity and 25 which were between 1.0% and 2.99%.

The Company benefited from the takeover of SPI Lasers and the bid approach for 1st Dental Laboratories. In both cases the holdings were sold in the market during the bid process, which proved to be particularly helpful in the case of 1st Dental Laboratories as the Offer Talks were subsequently terminated.

Poorer performers in the portfolio have included SDI Group, Inland, Shieldtech, Frontier Mining and Block Shield. In addition, the fund was badly hit by a profits warning from Claimar Care soon after we acquired the holding. This warning was particularly disappointing given the previous update from the company, in May 2008, which indicated it expected full year results to be broadly in line with market expectations and the group viewed "its prospects with every confidence". Sadly, it now appears that confidence was misplaced.

In common with the AIM market in general, the portfolio has experienced first hand the increased difficulties UK smaller companies are experiencing in refinancing debt facilities. Five companies – Greatfleet, International Medical Devices, Vividas, Microemissive and Landround – were suspended and full provision was made against their book values.

The Company's NAV has suffered from the above setbacks, reflecting the difficulties being experienced across both the AIM and fully listed smaller company markets, rather than issues specific to Brookwell. In spite of the AIM liquidity problems, the total number of holdings in the A Class Fund was reduced from 84 to 43 at 31 December 2008 and 33 at 13 March 2009.

Progressive AIM Realisation Limited

19 March 2009

# Top ten holdings in companies\*

At 31 December 2008	By valuation £'000	Percentage of portfolio (%)
Hotel Corporation	1,400	20.6
Fortune Oil	639	9.4
Inland	554	8.1
Claimar Care Group	411	6.0
The Mission Marketing	392	5.8
Shieldtech	327	4.8
DCD Media	309	4.6
A & J Mucklow Group	265	3.9
SDI Group	213	3.1
Dawson International	200	2.9
	<b>4,710</b>	<b>69.2</b>
Other holdings	2,094	30.8
	<b>6,804</b>	<b>100.0</b>

\*In the A Class Fund as redesignated

# Income statement

	28 May 2008 to 31 December 2008 Revenue £'000	28 May 2008 to 31 December 2008 Capital £'000	28 May 2008 to 31 December 2008 Total £'000
<b>Gains/(losses) on investments</b>			
Realised	–	(1,792)	<b>(1,792)</b>
Unrealised	–	(11,835)	<b>(11,835)</b>
	–	<b>(13,627)</b>	<b>(13,627)</b>
<b>Income</b>			
Investments	148	–	<b>148</b>
Bank interest	37	–	<b>37</b>
	<b>185</b>	–	<b>185</b>
Investment management fees	(86)	(86)	<b>(172)</b>
Other expenses	(158)	–	<b>(158)</b>
<b>Loss on ordinary activities</b>	<b>(59)</b>	<b>(13,713)</b>	<b>(13,772)</b>
<b>Earnings per Share</b>	<b>(0.23)p</b>	<b>(53.80)p</b>	<b>(54.03)p</b>

The Company was incorporated on 28 May 2008. The above figures relate to the period from commencement of operations on 26 June 2008, when the Company's Shares were admitted to trading on AIM, to 31 December 2008. There are no comparatives as this is the Company's first period of operations.

The total column is the income statement of the Company.

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

Earnings per Share is based on the weighted average number of 25,491,644 Shares in issue from the admission of the Company's Shares to trading on AIM on 26 June 2008 to 31 December 2008.

# Balance sheet

	At 31 December 2008 £'000
<b>Non current assets</b>	
Investments at fair value	<b>6,804</b>
<b>Current assets</b>	
Other receivables	25
Cash and cash equivalents	652
	<b>677</b>
<b>Current liabilities</b>	
Other payables	94
	<b>94</b>
<b>Net current assets</b>	<b>583</b>
<b>Total net assets</b>	<b>7,387</b>
<b>Capital and reserves</b>	
Share capital and share premium	21,925
Share issue expenses	(766)
Realised capital reserve	(1,878)
Revaluation reserve	(11,835)
Revenue reserve	(59)
<b>Total equity</b>	<b>7,387</b>
Net asset value per Share	43.03p
No. of Shares in issue	17,168,210

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# Statement of changes in equity

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	28 May 2008 to 31 December 2008 £'000
Placing of Company's shares*	24,759
Purchase and redemption of Company's shares	(3,600)
Loss for financial period	(13,772)
<b>Closing equity</b>	<b>7,387</b>

\*net of share issue expenses

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# Cash flow statement

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28 May 2008 to  
31 December  
2008  
£'000

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**Operating activities**

Cash inflow from investment income and bank interest	165
Cash outflow from management expenses	(241)
Cash inflow from disposal of investments	5,094
<b>Net cash inflow from operating activities</b>	<b>5,018</b>

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**Financing**

Expenses of issue of share capital	(766)
Payments to purchase own shares	(3,600)
<b>Net cash outflow from financing</b>	<b>(4,366)</b>
<b>Increase in cash and cash equivalents</b>	<b>652</b>

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# Notes to the accounts

## 1 Status

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

## 2 Accounting policies

The Company presents its accounts in accordance with applicable International Financial Reporting Standards ("IFRS"). The Company has also taken the guidance of Statement of Recommended Practice issued by the Association of Investment Companies into account to the extent that it is appropriate and compatible with IFRS.

## 3 Comparatives

There are no comparatives as this is the Company's first reporting period. The Company was incorporated on 28 May 2008 and was admitted to trading on AIM on 26 June 2008.

## 4 Investments

Investments are listed on the London Stock Exchange or quoted on AIM. All investments have been classified at "fair value through profit and loss". At the period end all listed and quoted investments have been valued at market bid prices at that time. Securities, whose listings have been suspended, have been valued at fair value as determined by the directors.

## 5 Investment management fees

In accordance with the policy stated in the Company's admission document of June 2008 one half of basic and capital return fees have been charged to capital.

## 6 Share capital and share premium

Upon incorporation, the Company issued 2 founders' shares of £1 nominal value each.

Pursuant to the Placing, the Company issued 25,524,743 participating redeemable preference shares ("Shares") of no par value in the Company. The Shares were issued at £1 each.

## 7 Redemption of Shares

### *Pro-rata redemptions*

On 31 December 2008 the first redemption of Shares took place and 8,356,533 Shares were redeemed at an aggregate cost of £3,599,994, reducing the number of Shares to 17,168,210.

## 8 Net assets per Share

Net assets per Share is based on the number of Shares in issue at the end of the period.

## 9 Post balance sheet events

As fully detailed in the Chairman's statement, in January 2009 shareholders approved the designation of the Shares as A Shares and the issue of a separate class of shares – B Shares. A placing of B Shares at £1 per share raised a total £12,960,844 in two tranches, the first on 19 February 2009 and the second on 12 March 2009.

## 10 Taxation

The Company is resident for tax purposes in Guernsey. The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) ordinances 1989 and 1992 and is charged an annual exemption fee of £600.

## 11 Status of this report

These unaudited financial statements are not the Company's statutory accounts. The half-yearly report will be sent to shareholders and copies will be made available to the public at the registered office of the Company and at the address of the UK Administration Agent and at the Company's website: [www.brookwellimited.com](http://www.brookwellimited.com). The first statutory accounts for the period to 30 June 2009 will be filed with the GFSC in the autumn of 2009.

The half-yearly report was approved by the Board of directors on 19 March 2009.

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# Directors, manager and advisers

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**Directors**

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CD Ferbrache OBE  
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