Advance UK Trust plc
Half-yearly financial report 2009

Contents

Investment objective

To achieve returns for shareholders in excess of the Benchmark Index by investing, usually at a discount to net asset value, in a portfolio of funds.

Benchmark

The FTSE All-Share Index

Performance

For the six months ended 28 February 2009	%
Advance UK net asset value per share*	-39.1
Advance UK share price (mid market)	-40.8
FTSE All-Share Index	-32.7

*excluding current year revenue reserves

For the period since launch

24 November 1997 to 28 February 2009	%
Advance UK net asset value per share*#	+11.5
Advance UK share price (mid market)	-1.0
FTSE All-Share Index	-17.7

*using bid prices and excluding current year revenue reserves.

#Based on an opening net asset value of 97.6p.

Chairman's statement

The period under review (the six months ended 28 February 2009) was the worst six month period for markets in Advance UK's history. The FTSE All-Share Index fell by 32.7 per cent. Advance UK underperformed its benchmark; its net asset value fell by 39.1 per cent. and the share price fell by 40.8 per cent. On 28 February 2009 our shares stood at a 9.1 per cent. discount to net asset value. In line with our usual practice, we will not declare an interim dividend.

There has been much commentary on the causes of the current crisis and there seems little merit in adding to it. Suffice to say liquidity is everything in markets at the moment. We have observed that discounts on most conventional investment companies have narrowed over the past few months irrespective of often dramatic falls in asset values. It looks as though most retail investors are keeping faith with their investments. In past market crises selling pressure from institutional shareholders compounded market falls by driving discounts wider. We believe the share buy-backs, reconstructions and liquidations that we and others have encouraged have removed the loose shareholders in these companies.

This is not the case with the property, private equity and hedge fund investment companies launched during the boom times. Advance UK is well represented in these types of companies, in part as the Manager sold more liquid investments to fund our share repurchases but also because it is here where we can add most value for our shareholders. The Manager is working on a number of situations and has also been instructed to improve the liquidity of our portfolio over coming months.

We are pleased to report that Advance UK has so far recovered £893,375 from HMRC in respect of VAT paid on management fees since March 2001 together with interest of £108,403. Your Board has agreed to contribute a fixed sum towards funding a PricewaterhouseCoopers action against HMRC that seeks, amongst other things, to recover a further substantial sum of money in respect of VAT previously paid.

I believe I have taken over the Chairmanship of your Company at an exciting time. While equity markets may be set for a prolonged period of volatile but directionless trading, there is more opportunity for your Manager to add value by narrowing discounts than there has been for some time.

P Rowen
21 April 2009

Shareholders may contact the Chairman directly on ADUChairman@pro-asset.com

Manager's report

Markets have fallen further since we wrote our comment for the Annual Report last November. A year end rally quickly faded in January and we saw capitulation in a number of more obscure stocks as buyers withdrew.

Last year we spent a long time talking to our shareholders and our Board on the way forward for the Company and concluded that we should concentrate on our activist role with the aim of narrowing discounts and releasing funds from illiquid investments. Our actions are starting to bear fruit though the real evidence of this we think will be in the second half of this year.

The investment company market has polarised so that most conventional funds, even those that invest in emerging markets, are trading at narrow discounts while companies invested in property, private equity, hedge funds and, to some extent, smaller companies are very much out of favour. While asset values of some of these funds are questionable, we think there could be considerable value to unlock.

We have been selling down our holdings in the most expensive trusts, switching some of the money into FTSE 100 ishares which track the market, have no discount risk, no counterparty risk and are very liquid – this is what the investment trust market is up against. We will switch the money back into conventional trusts as opportunities arise.

Of the sectors on wide discounts, we have the greatest weighting in private equity. We should point out that, with the exceptions of New Star Private Equity and Princess, which are largely invested in leveraged buyouts, our exposure is to venture and growth capital funds. These, while hampered by a weak market for selling their investments, are at least not struggling with unwieldy debt. In the buyout funds area, however, there have already been some high profile casualties with 3i, SVG Capital and Candover scrabbling around desperately trying to shore up their balance sheets. Part of the problem is that these funds made legally binding commitments to invest in various limited partnership vehicles, which they now find themselves unable to meet. Both Princess and the New Star fund ought to be selling off some of their investments to eliminate all possibility of an unfunded commitment problem and free up cash to buy in their shares. New Star Private Equity is also far too small. Henderson, who bought New Star recently, will have to inject assets into the fund to give it critical mass or face up to the need to merge it with a larger fund. The market is not discriminating between the different types of private equity and we think a number of the stocks we hold are absurdly cheap.

The fund of hedge funds sector grew very rapidly over the past few years as many investment managers, quite presciently, began to worry about equity valuations and sought the less correlated and less volatile, absolute returns promised by the managers of these funds. As we know now, these promises were often empty ones. A number of hedge funds imploded as markets fell; scandals like Madoff and Weavering unnerved investors and currency hedging strategies proved unworkable when sterling fell sharply. We started to buy into the sector in November as discounts on these funds widened. We wrote to all the Boards of these companies, telling them they needed to act fast and decisively to regain investors' confidence. Needless to say the response was usually half hearted. By the end of December full-scale panic had set in and funds that had been trading on large premiums and tapping the market for hundreds of millions in extra capital were now on fifty per cent. discounts. Dexion Absolute, the sector leader, promised two large tenders to address their problem. The first in January allowed us to trade out of our holding at a reasonable profit. We bought back into the stock when the price collapsed again after they pulled the second tender. Once again the problem is liquidity. Discount control mechanisms were all the rage when these funds were launched so Boards made promises about buying in shares, holding tenders and holding continuation votes if their discounts widened. The implication was that their portfolios were liquid enough for them to make good on these promises. In reality the managers saw these vehicles as permanent capital that could be deployed into more illiquid investments than they were able to make with their open-ended funds. We do not think they ever envisaged that the investors that showered them with money in the good times might suddenly turn round and ask for it back. The currency hedging issue compounded the problem as many managers sold off their more liquid holdings to fund margin calls. Underlying hedge fund managers also found themselves holding assets that were less liquid than they thought. They began refusing redemption requests, "gating" funds. We think the upshot of all this is that many of the funds in the sector will disappear. There ought to be mergers though, as usual, Boards will be parochial and fight to keep their jobs rather than act in shareholders' best interests. There is plenty for us to do here and money to be made for Advance UK's shareholders.

At the end of February less than five per cent. of the portfolio was in property, principally in three German funds, Summit Germany, Develica Deutschland and Speymill Deutsche Immobilien. These were trading around the value of the cash on their balance sheets. Develica failed to sell property to reduce their gearing as promised and then used part of their cash pile to fund share repurchases. These would have substantially enhanced the net asset value had they been cancelled but in a bizarre move they were reissued to the Manager in exchange for a modest fee reduction. They are renegotiating their bank covenants and we expect an announcement shortly. As some shareholders in Summit began agitating for a return of some of its cash pile, its investment manager increased his stake in the Company to 29.9 per cent. alongside another, as yet unidentified, shareholder, forestalling a formal proposal. The positive aspect we drew from both situations was that the investment managers' shareholdings helped to align their interests with ours. Since the end of the period the manager of Summit has bid for the rest of the company and we have sold our shares at a substantial profit. Speymill recently announced its results. They have a higher vacancy rate than we would like but are working on this and we think they could and should have already recommenced dividend payments. Most UK property funds are over-leveraged and struggling. We are keeping a wary eye on the area but we are not ready to increase our exposure. The various goings on in the myriad emerging market property companies keep us entertained but there are serious question marks over valuations in many of these stocks.

Smaller company funds always suffer in market downturns, though UK funds have consolidated and shrunk over the past few years and many are trading on quite narrow discounts. There are a few exceptions and these provide us with opportunities. One of these is Marwyn where we now hold six per cent. of the fund. Its largest holding is in advanced stages of bid talks and could be sold, releasing cash equivalent to a multiple of Marwyn's market capitalisation. During the period we worked to frustrate a set of proposals put forward by the Board of Eaglet that we felt benefited some shareholders, including the investment manager, at the expense of others. We are pleased that the Board saw sense eventually. Any shareholder that wants a full cash exit will now be able to get it. Our US and European smaller company funds are doing as well as can be expected though the discount on Renaissance is wider than we would like. Japanese smaller company funds are really suffering. There needs to be consolidation in this area. The underlying companies are very cheap and ought to do well when Asian companies recover.

The weighted average discount on our portfolio is currently over 34 per cent, with around a tenth of the portfolio on a discount over 75 per cent. We acknowledge that some of the net asset values supporting these numbers will be revised downwards but the scope for us to add value is considerable. At the same time we appreciate that many of our shareholders may have holdings in investment companies, trading at wide discounts, that they cannot sell easily. Advance UK was set up to tackle these situations and we are happy to help.

Progressive European Markets Limited

21 April 2009

Holdings in companies

At 28 February 2009	By valuation £'000	Percentage of net assets
Henderson Eurotrust plc	2,118	6.8%
Eurovestech plc	1,722	5.5%
LMS Capital plc	1,590	5.1%
SVM UK Active Fund plc	1,434	4.6%
Framlington Innovative Growth Trust plc	1,363	4.3%
Herald Investment Trust plc	1,316	4.2%
Private Equity Investor plc	1,288	4.1%
Asset Management Investment Co. Limited	1,115	3.5%
Ingenious Media Active Capital Limited	1,046	3.3%
SR Europe Investment Trust plc	1,004	3.2%
Top ten holdings	**13,996**	**44.6%**
ishares plc - iFTSE 100 shares	959	3.1%
Melchior Japan Investment Trust plc	915	2.9%
Renaissance US Growth Investment Trust plc	903	2.9%
Montanaro European Smaller Companies Trust plc	900	2.9%
Baillie Gifford Japan Trust plc	806	2.6%
Keystone Investment Trust plc	739	2.4%
Electric & General Investment Trust plc	737	2.4%
Manchester & London Investment Trust plc	658	2.1%
Premier Energy & Water Trust plc	624	2.0%
Thames River Multi Hedge PCC Limited	562	1.8%
Top twenty holdings	**21,799**	**69.7%**
Other holdings	8,731	27.8%
Total holdings	**30,530**	**97.5%**
Other net assets	806	2.5%
Total net assets	**31,336**	**100.0%**

Directors' statement of responsibility for the half-yearly financial report

The Directors confirm to the best of their knowledge that:

• The condensed set of financial statements contained within the half-yearly financial report has been prepared under the guidance issued by the Accounting Standards Board on "Half-yearly financial reports".

• The interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the FSA's Disclosure and Transparency Rules.

Philip Rowen
Chairman

21 April 2009

Income statement

	Note	6 months to 28 February 2009 Revenue £'000	6 months to 28 February 2009 Capital £'000	6 months to 28 February 2009 Total £'000	*6 months to 29 February 2008 Revenue £'000*	*6 months to 29 February 2008 Capital £'000*	*6 months to 29 February 2008 Total £'000*
Gains/(losses) on investments							
– Disposal of Investments		–	(1,644)	(1,644)	*–*	*1,436*	*1,436*
– Investments held		–	(18,483)	(18,483)	*–*	*(9,207)*	*(9,207)*
Income	3	614	–	614	*664*	*–*	*664*
Investment management fees		(101)	(200)	(301)	*(151)*	*(302)*	*(453)*
VAT recovered on investment management fees		298	595	893	*–*	*–*	*–*
Other expenses		(171)	–	(171)	*(155)*	*–*	*(155)*
Return on ordinary activities before finance costs and tax		**640**	**(19,732)**	**(19,092)**	***358***	***(8,073)***	***(7,715)***
Finance costs		(2)	(4)	(6)	*–*	*–*	*–*
Return before tax		**638**	**(19,736)**	**(19,098)**	***358***	***(8,073)***	***(7,715)***
Taxation		–	–	–	*–*	*–*	*–*
Return on ordinary activities after taxation		**638**	**(19,736)**	**(19,098)**	***358***	***(8,073)***	***(7,715)***
Return per ordinary share	8	2.26p	(69.97p)	(67.71p)	*1.18p*	*(26.54p)*	*(25.36p)*

The total column of this statement is the profit and loss account 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.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

Balance sheet

	Note	At 28 February 2009 £'000	*At 29 February 2008 £'000*	*At 31 August 2008 £'000*
Fixed assets – investments at market value	4	**30,530**	***60,642***	***50,950***
Current assets		1,037	*1,738*	*1,580*
Creditors: amounts falling due within one year		(231)	*(1,089)*	*(536)*
Net current assets		**806**	***649***	***1,044***
Total net assets		**31,336**	***61,291***	***51,994***
Capital and reserves				
Share capital		311	*321*	*316*
Share premium account		33,814	*33,814*	*33,814*
Capital redemption reserve		190	*180*	*185*
Capital reserve		(3,993)	*26,191*	*16,627*
Revenue reserve		1,014	*785*	*1,052*
Equity shareholders' funds		**31,336**	***61,291***	***51,994***
Net asset value per ordinary share		111.17p	*210.05p*	*181.04p*
Net asset value per ordinary share (excluding current year revenue reserves)		108.91p	*208.82p*	*178.89p*
No. of ordinary shares in issue (excluding shares held in Treasury)		28,186,660	*29,179,660*	*28,719,660*
No. of ordinary shares held in Treasury		2,880,862	*2,880,862*	*2,880,862*

Reconciliation of movement in shareholders' funds

	Note	6 months to 28 February 2009 £'000	*6 months to 29 February 2008 £'000*	*Year ended 31 August 2008 £'000*
Opening shareholders' funds		**51,994**	***76,199***	***76,199***
Share repurchases		(884)	*(6,454)*	*(7,269)*
Loss for the financial period/year		(19,098)	*(7,715)*	*(16,197)*
Dividends paid	6	(676)	*(739)*	*(739)*
Closing shareholders' funds		**31,336**	***61,291***	***51,994***

Cash flow statement

	Note	6 months to 28 February 2009 £'000	*6 months to 29 February 2008 £'000*
Operating activities			
Cash inflow from investment income, bank interest and interest on VAT reclaim		607	*643*
VAT recovered on investment management fees		893	*–*
Cash outflow from management expenses		(506)	*(1,076)*
Cash inflow from disposal of investments		7,748	*21,413*
Cash outflow from purchase of investments		(7,327)	*(13,038)*
Interest paid		(6)	*–*
Net cash inflow from operating activities		**1,409**	***7,942***
Financing			
Share repurchases		(1,283)	*(6,454)*
Equity Dividends Paid	6	(676)	*(739)*
Net cash outflow from financing activities		**(1,959)**	***(7,193)***
Increase/(decrease) in Cash		**(550)**	***749***
Opening balance		1,475	*876*
Cash inflow/(outflow)		(550)	*749*
Closing balance		**925**	***1,625***

Notes to the accounts

1 Status of the Company
The Company manages its affairs to enable it to qualify as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988. The Company is an investment company under S833 of the Companies Act 2006.

2 Accounting policy
These accounts have been prepared in accordance with applicable UK GAAP and the Statement of Recommended Practice "Financial statements of investment trust companies" ("SORP") issued by the Association of Investment Companies in December 2005.

3 Income

	2009 £'000	*2008 £'000*
Income from investments		
Franked dividends from listed securities	493	*632*
Unfranked dividends from listed securities	8	–
Other income		
Bank interest receivable	5	*32*
Interest on VAT reclaim	108	–
Total income	**614**	***664***

4 Investments
Investments have been classified as "fair value through profit and loss". Securities of companies quoted on regulated stock exchanges have been valued by reference to their market bid quoted prices at the end of the period. Unquoted securities are valued at directors' best estimate of fair value.

5 Purchase of own shares
During the period ended 28 February 2009 533,000 shares were repurchased in the market at a cost of £884,000. These shares were cancelled. A total of 2,880,862 shares were held in Treasury at 28 February 2009 and are available for re-sale.

6 Dividend
In accordance with the Company's stated policy, the directors do not recommend an interim dividend. The final dividend for the year ended 31 August 2008 was paid on 17 December 2008 and the final dividend for the year ending 31 August 2009 is expected to be paid in December 2009.

7 Performance
Performance at the half-year stage is measured in terms of the net asset value excluding current year revenue profit. The exclusion of current year revenue profit reflects the fact that most of such profit is usually paid out as dividend following the year-end.

8 Return per ordinary share
Return per ordinary share for the period is stated by reference to the weighted average of 28,203,254 (2008: 30,417,847) shares in issue (excluding shares held in Treasury).

9 Performance Fee
The manager is entitled to an annual performance fee of 10% of any out performance over the Benchmark of the Company. The fee is conditional upon the NAV per share being greater than 100p and having increased since the end of the last period in which a performance fee was payable. The performance fee is capped at 2.0% of the Company's net assets, at the point at which the fee calculation is made. No performance fee provision was made at 28 February 2009 (2008: £nil).

10 Status of this report
The Half-yearly financial report is unaudited. It will be sent to shareholders and copies will be made available to the public at the registered office of the Company. The Half-yearly financial report is available in electronic format on the Manager's website www.pro-asset.com. The statutory accounts for the year ended 31 August 2008 received an unqualified audit report and have been filed with the Registrar of Companies at Companies House.

The Half-yearly financial report was approved by the Board on 21 April 2009.

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