Advance UK Trust plc
Interim report 2007

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 which themselves invest in the UK or other developed markets or which are generalist funds or funds with a considerable exposure to such markets.

Benchmark

The FTSE All-Share Index

Performance for the period

1 September 2006 to 28 February 2007	%
Advance UK net asset value per share*	+12.1
Advance UK share price (mid market)	+14.1
FTSE All-Share Index	+6.3

*excluding current year revenue reserves

For the period since launch

(24 November 1997) to 28 February 2007	%
Advance UK net asset value per share*	+140.2
Advance UK share price (mid market)	+122.0
FTSE All-Share Index	+36.4

*using bid prices and excluding current year revenue reserves based on an opening net asset value of 97.6p

Chairman's statement

I am pleased to be able to report another period of excellent performance for Advance UK as the shares returned more than twice the performance of the FTSE All-Share Index, rising by 14.1% against an increase of 6.3% for the Index. Our net asset value rose by 12.1%. Our discount finished the period at 5.3%.

As part of our commitment to discount control we authorised the repurchase of 3,265,000 shares during the period. These shares are being held in Treasury and will be reissued if there is demand for them at a premium to asset value. Since the end of the half year the Company has repurchased a further 1,930,000 shares; 1,631,835 of these were cancelled and the balance are being held in Treasury.

Some realignment of our share register followed the continuation vote. We are pleased that the Manager's outperformance of a rising benchmark has allowed the Company to increase its assets in absolute terms over the past six months notwithstanding the share buy-backs. We hope that, comforted by our commitment to maintain the discount, more investors will be attracted to what has been by any standard a very successful investment over the years – and one whose continuation was overwhelmingly supported by the existing shareholders last December.

In line with our usual practice, we will not declare an interim dividend.

The Financial Services Authority put out a Consultation Paper, CP06/21, during the period, which, inter alia, proposed that overseas investment entities be allowed to list in London under Chapter 14 rather than Chapter 15 of the Listing Rules. The impact of this proposal would have been to allow the listing of vehicles that looked like UK investment trusts but would not be subject to the swathes of regulation that govern them. At a stroke this would have undone all the hard work that this Company and others have done to improve investor protection and corporate governance. Both we and our Manager submitted a response to the Paper and we are pleased that, since the end of the period, the FSA has withdrawn the proposal.

After a period of strong upward momentum in markets and abnormally low volatility, the final few days of the period saw a healthy correction. Volatility has picked up but markets are rising once again. Discounts have widened a little and this should help our Manager in its search for outperformance in the months to come.

EG Davis
15 May 2007

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

Manager's report

Performance
We were happy to have achieved another period of good performance from the portfolio. Our internal performance attribution analysis showed that around two thirds of our outperformance came from picking good investment managers and getting our asset allocation right and the other third came from narrowing discounts.

Market conditions
It is fair to say that at the start of the period many investment managers were becoming increasingly nervous of the market. Despite this, for most of the six months to the end of February markets climbed steadily higher. Small and mid capitalisation stocks outperformed once again, property stocks were in vogue with the introduction of REITs to the UK market and most regions did well with the notable exception of Japan. Abundant and therefore cheap liquidity was the biggest driving force behind markets and it was only when problems began to emerge in the US sub-prime lending market that the upward march paused.

Sector
The ebullience in the wider market was felt in the closed-end world as well. New issue activity reached frenzied levels (to the detriment of secondary trading) and it was notable that the breadth of investment options available to investors in closed-end funds increased markedly. Not all of these investment propositions will still be in favour in a year or two's time and these will most likely prove a fertile hunting ground for us.

Portfolio commentary
Alliance
We have met Alliance's senior management team a couple of times during the period. They have moved further forward with the growth of their Financial Services business and they are still pinning their hopes on this as the catalyst for a re-rating of the Company. We continue to advise them to repurchase a modest number of shares to tighten their discount and enhance net asset value for ongoing shareholders. To date they seem deaf to our advice. They were one of the funds whose discount widened at the end of the period and their underlying performance is lacklustre by comparison with most other Global Generalists, even the widely criticised Witan. We do not think they can ignore the problem forever and, given that we think the directors are not acting in the best interests of shareholders, we will vote against their re-election at their next AGM.

Gartmore Smaller Companies
We are disappointed that we have made little progress with this investment. Over the period Gartmore Smaller was the worst performing UK smaller company trust that we follow and the discount remains one of the widest. By contrast its sister trust, Gartmore Growth Opportunities was able to raise fresh capital at asset value. The main problem seems to be the trust's AIM exposure. AIM has been growing too fast (there are now more companies listed on AIM than on the main market). We, like many others in the sector, believe investors will eventually be attracted to the value that is emerging in this market.

Scottish Mortgage
Following a commitment by Scottish Mortgage's Board to keep its discount in line with its peer group, we felt able to reduce our holding and no longer have an investment.

JPMorgan Fleming Mercantile
The very impressive performance generated by Fleming Mercantile created enough interest in the shares for us to be able to reduce our holding at a reasonably low discount. The fund is concentrated on stocks in the Mid 250 Index, which now trade at significant premiums to those within the FTSE 100. We have sold the last of our holding since the end of the period.

Framlington Innovative
In a return to form, this was one of the best performing UK smaller company trusts over the period. It was a shame however that this did not encourage the discount to narrow. The company is buying in shares from time to time.

Throgmorton Trust
This UK smaller company trust sits in the same stable as Framlington Innovative. Over the longer term its performance has been acceptable but in recent times, like Gartmore Smaller, it has been caught out by its AIM exposure. Again the trust is buying in shares but it may have to be more aggressive in this.

August Equity
We bought this private equity trust (then called Kleinwort Capital) after it had been through a dull performance patch. We did very well as the company started to sell its investments. They were slow to reinvest however and before long the trust had built up a substantial cash position. We advised them to take some action to address this and narrow their discount. The outcome of their first strategic review was rejected by shareholders and, since the end of the period, they have announced they will merge with another trust, conduct a 40% tender and become a fund of funds. The managers will continue to run a separate limited partnership vehicle and the merged trust will make a sizeable commitment to this.

Other portfolio developments
We sold our TR Property for a decent profit when the REIT excitement was reaching its peak. It is interesting to note that some of the UK direct property funds are now trading at a discount. Investors' attention is being drawn to overseas property instead. Some of our more esoteric investments have been amongst our best performers. Asset Management and Eurovestech net asset values are climbing but there is still some way to go on narrowing their discounts. IFI, which is the holding company for the Agnelli family, was our first foray into the European holding company arena. Again its underlying investments have been very strong but we have not seen much discount narrowing so far. T2 Income fund is now generating nigh on an annualised 10 per cent. yield. We hope that the shares will trade at a higher premium in coming months.

Outlook
We have been weighing up whether to make our first investments in Japan. To date we have held off and this has been the right decision. One factor we have had to take into account is the artificial weakness of the yen – the result of the carry trade where investors borrow cheaply in yen to invest in higher yielding assets. This is just one of a number of global imbalances that have been building up over the past couple of years. These, the problems in the Middle East, the faltering US housing market and the other worries that constantly plague fund managers must be set against the huge impact of growing domestic demand in emerging markets, especially in China and India, which is underpinning global GDP growth.

We have always run the portfolio fairly fully invested and we will continue to do so. The recent widening of discounts presents us with some opportunities and we will continue to look for investments that are less correlated to equity markets.

Progressive European Markets Limited

15 May 2007

Top ten holdings in companies

At 28 February 2007	By valuation £'000	Percentage of Portfolio
Alliance Trust	9,000	9.9
Gartmore Smaller Companies	5,780	6.4
Framlington Innovative	4,862	5.4
Throgmorton	4,129	4.5
Herald Investment Trust	3,950	4.3
August Equity Trust	3,888	4.3
Keystone Investment Trust	3,094	3.4
Leo Capital	2,719	3.0
Eurovestech	2,630	2.9
Finsbury Technology	2,583	2.8
Top ten holdings	42,635	46.9
Other holdings	48,252	53.1
Total investments	90,887	100.0

Income statement

	6 months to 28 February 2007 Revenue £'000	6 months to 28 February 2007 Capital £'000	6 months to 28 February 2007 Total £'000	*6 months to 28 February 2006 Revenue £'000*	*6 months to 28 February 2006 Capital £'000*	*6 months to 28 February 2006 Total £'000*
Gains on investments						
Realised	–	7,303	7,303	–	*8,641*	*8,641*
Unrealised	–	3,750	3,750	–	*5,732*	*5,732*
Income from investments	743	–	743	*645*	–	*645*
bank interest	29	–	29	*26*	–	*26*
Investment management fees	(175)	(350)	(525)	*(149)*	*(297)*	*(446)*
Performance fee	–	(685)	(685)	–	*(751)*	*(751)*
Other expenses	(163)	–	(163)	*(147)*	–	*(147)*
Return on ordinary activities before tax	**434**	**10,018**	**10,452**	***375***	***13,325***	***13,700***
Taxation	(10)	–	(10)	–	–	–
Return on ordinary activities	**424**	**10,018**	**10,442**	***375***	***13,325***	***13,700***
Return per ordinary share	1.04p	24.56p	25.60p	*0.89p*	*31.79p*	*32.68p*

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.

Summarised balance sheet

	At 28 February 2007 £'000	At 28 February 2006 £'000	*At 31 August 2006 £'000*
Fixed assets – investments at market value	**90,887**	**86,205**	***85,158***
Current assets	1,222	3,853	*5,526*
Current liabilities	(351)	(641)	*(1,502)*
Net current assets	**871**	**3,212**	***4,024***
Performance fee provision	(685)	(751)	*(487)*
Total net assets	**91,073**	**88,666**	***88,695***
Share capital	419	419	*419*
Share premium account	33,814	33,814	*33,814*
Special reserve for purchase of own shares	-	5,936	*5,936*
Capital reserves	56,036	47,781	*47,223*
Revenue reserve	804	716	*1,303*
Equity shareholders' funds	**91,073**	**88,666**	***88,695***
Net asset value per ordinary share (bid price valuation)	235.64p	211.54p	*211.61p*
Net asset value per ordinary share (bid price valuation basis, excluding current year revenue reserves)	234.54p	210.64p	*209.31p*
No. of ordinary shares in issue (excluding shares held in Treasury)	38,649,660	41,914,660	*41,914,660*
No. of ordinary shares held in Treasury	3,265,000	–	–

Reconciliation of movement in shareholders' funds

	6 months to 28 February 2007 £'000	*6 months to 28 February 2006 £'000*	*Year ended 31 August 2006 £'000*
Profit for the financial period/year	10,442	*13,700*	*13,729*
Share repurchases	(7,142)	–	–
Dividends paid	(922)	*(922)*	*(922)*
	2,378	*12,778*	*12,807*
Opening shareholders' funds	88,695	*75,888*	*75,888*
Closing shareholders' funds	91,073	*88,666*	*88,695*

Cash flow statement

	6 months to 28 February 2007 £'000	*6 months to 28 February 2006 £'000*
Operating activities		
Cash inflow from investment income and bank interest	635	*774*
Cash outflow from management expenses	(1,173)	*(1,319)*
Cash outflow from purchase of investments	(26,293)	*(33,034)*
Cash inflow from disposal of investments	31,217	*36,496*
Tax paid	(10)	*–*
Net cash inflow from operating activities	**4,376**	***2,917***
Financing		
Equity dividends paid	(922)	*(922)*
Purchases of own shares	(7,142)	*–*
Net cash outflow from financing activities	**(8,064)**	***(922)***
(Decrease)/increase in cash	**(3,688)**	***1,995***

Notes to the accounts

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 therefore presents its accounts in accordance with the Statement of Recommended Practice for Investment Trust Companies. The Company is an investment company under S266 of the Companies Act 1985.

Accounting policy
These financial statements have been presented using UK GAAP.

Purchase of own shares
During the period ended 28 February 2007, a total of 3,265,000 shares were repurchased in the market at a cost of £7,142,000. These shares are being held in Treasury and are available for re-sale.

Since 28 February 2007, a further 1,930,000 shares have been repurchased. Of these, 1,631,835 have been cancelled and 298,165 held in Treasury. The total number of shares held in Treasury as at the date of this report is 3,563,165.

Dividend
In accordance with the Company's stated policy, the directors do not recommend an interim dividend. The final dividend for the year to 31 August 2007 is expected to be paid in December 2007.

Performance
Performance at the interim 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.

Revenue and capital returns for the period ended on 28 February 2007 are stated by reference to the weighted average of 40,781,732 shares in issue during the period, excluding shares held in Treasury (2006:41,914,660 shares in issue).

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.

Status of this report
These financial statements are not the Company's statutory accounts for the purposes of Section 240 of the Companies Act 1985. They are unaudited. The interim report will be sent to shareholders and copies will be made available to the public at the registered office of the Company. The statutory accounts for the year ended 31 August 2006 received an unqualified audit report and have been filed with the Registrar of Companies at Companies House.

This interim report was approved by the Board on 15 May 2007.

Directors and advisers

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Graham Barker
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