Advance UK Trust plc
Annual report 2006

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 year ended 31 August 2006

	Capital return %	Total return %
Advance UK Trust net asset value per share	+17.9	+19.0
Advance UK Trust share price	+17.9	+19.1
FTSE All-Share Index	+13.1	+16.8

Performance since launch

	Capital return %	Total return %
Advance UK Trust net asset value per share*	+114.4	+139.2
Advance UK Trust share price	+94.5	+119.1
FTSE All-Share Index	+28.3	+67.9

*figures based on the opening net asset value of 97.6p per share (net of share issue expenses) and investments valued on a bid price basis.

Financial calendar

Annual General Meeting	13 December 2006 145-157 St. John Street London EC1V 4RU
Ex-Dividend	22 November 2006
Dividend Record	24 November 2006
Dividend Payment	21 December 2006

Chairman's statement

I am pleased to present to you the Report & Accounts for the year ended 31 August 2006.

Performance
Over the year ended 31 August 2006, Advance UK's net asset value and share price both rose by 17.9% and the benchmark (the FTSE All-Share Index) rose by 13.1%. Since the launch of the trust the net asset value is up 114.4%, the share price is up 94.5% while the benchmark is only up 28.3%.

Discount
The discount of the share price relative to net asset value finished the year at 7.1%. The Board believes that, given the Company's long-term track record, the discount should continue to narrow and has appointed Winterflood Securities as brokers to the trust with the aim of broadening the share register and steadily reducing the discount over time.

Share buy-backs
No shares were bought back during the year. The Board remains committed to using the powers, granted by the shareholders, to buy back shares when appropriate. Any shares held in Treasury will not be sold at less than net asset value.

Dividend
The revenue return per ordinary share was 2.3p, compared to 2.5p last year, but investors are reminded that the investment manager does not target income returns at the expense of capital returns. In this light, the Directors are recommending a maintained dividend of 2.2p per share.

Retention of the investment manager
The Board has reviewed whether to retain Progressive European Markets Limited as the Manager of the Company and considers that, in the light of the excellent performance record, it is in shareholders' interests to retain their services.

Investment objective
As we reported at the interim stage, the Board has simplified the Company's investment objective by allowing it to invest in funds in addition to investment trusts and has extended the geographical coverage to include Japan.

Directors
The Board has felt for some time that the addition of a fourth director would aid its objective of meeting the highest standards of corporate governance. Accordingly the Board has appointed Keith Niven a director of the Company and resolution 5 asks you to ratify that appointment. Mr Niven was an analyst and investment manager, chiefly at Schroder Investment Management Limited. We welcome the perspective which he will bring to the Board.

Savings Plan
The Savings Plan continues to grow but is small in relation to the size of the Company. Regular investment into a well diversified and predominantly equity-oriented portfolio such as Advance UK's is an attractive way to save for the long-term. Application forms are available from the Scheme Administrator whose contact information is given on page 23 of this Report.

Accounting Standards
In common with other companies we were obliged to adopt new accounting standards during the year. Therefore there have been some changes to the format and content of our accounts since we last reported. From 31 December 2005 the Company's net asset value has been calculated valuing our stocks at bid prices, rather than mid-market prices, as before. The impact of this change is detailed on page 18 of this report; it was slightly negative, so that our performance on a like-for-like basis would have been even better. Also, the final dividend proposed for this accounting year is not reflected in these accounts as it does not become payable until you approve it at the Annual General Meeting.

Outlook
Discounts on the average conventional investment trust have narrowed in recent times and the Manager has moved more of the portfolio into specialised areas whilst retaining exposure to those sub-sectors and investment managers it feels will outperform the benchmark.
The Board is confident your Manager can continue to identify new opportunities to add value for the Company.

Continuation vote
When this Company was launched in November 1997 its Articles of Association included a requirement to hold a continuation vote at the fifth Annual General Meeting and a liquidation vote at the tenth (which will most probably be held in December 2007). Shareholders will recall that the continuation vote held in December 2002 was passed unanimously. Since then the Company has continued to deliver excellent returns to shareholders; the net asset value has risen by over 95% over the past four years, more than double the return on the benchmark. At the same time, your Directors believe this Company has done much to improve the health and strength of the investment trust industry.

The Board considers that the Company continues to offer shareholders a useful means of participating in a diversified low risk vehicle capable of outperforming the FTSE All-Share Index and shareholders are unlikely to support a liquidation vote. However the prospect of a liquidation creates uncertainty for new investors and dramatically shortens the Manager's investment time horizon which could have adverse consequences for investment performance. Therefore the Board is seeking your approval to amend the Articles to remove the requirement for a liquidation vote next year. Instead a continuation vote will be held this year and every three years thereafter. A separate circular on this subject has been sent to shareholders.

Meetings
An Extraordinary General Meeting to consider the change to the Articles and the continuation vote described above will be held at 12.00 noon on Wednesday 13 December 2006. The Annual General Meeting will follow at 12:15 p.m. on Wednesday 13 December 2006. Both will be held on the third floor of 145-157 St. John Street, London EC1V 4RU.
I look forward to seeing you there.

EG Davis
8 November 2006

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

Manager's report

Market conditions

With the exception of what proved to be a minor wobble in mid-October 2005, the market continued its upward march for the first seven months of the period reaching its high in the third week of April. It then fell sharply during May but resumed its climb over the summer and into the 2006/7 accounting year. Strong commodity and oil prices had the biggest influence early on but then the focus shifted somewhat to falling US house prices and speculation on the level and timing of the peak in interest rates.

Investment trust market

There was no let up in the pace of corporate activity within the investment trust market with a number of reconstructions, liquidations and even the occasional merger. 2005/6 also proved to be one of the best periods for new issues of closed-end funds that we have seen. Most money was raised for property funds; investors seem attracted by the high initial dividend yield that these funds offer. There were also quite a few esoteric new issues some of which will no doubt be fertile hunting ground for the Company in a couple of years time. The portfolio has changed quite a bit over the year as we took profits from our larger holdings and diversified the portfolio, reducing the proportion in the top ten. Comments on this year's and last year's top ten holdings follow. At the end we have also included comments on a few of the more interesting but smaller positions.

Investment activity

Scottish Investment Trust (11.4% 2005, nil 2006)

We sold all of our holding in a tender offer for 40% of the trust at a 9% discount during January. The trust has been using its buy-back powers to control its discount since then.

Alliance Trust (9.9% 2005, 9.6% 2006)

We were pleased to see Alliance and Second Alliance merged during the year. The combined trust will pay quarterly dividends, has already embraced a modest level of gearing and has taken powers to buy back shares. Unfortunately an arbitrageur targeted Second Alliance at the time of the merger and, although they only hold around 2% of the combined trust, this is seen as an overhang and the discount has not narrowed as much as we had hoped. The Board has not seen fit to use its buy-back powers and so we seem to have a stalemate situation. The Alliance team are keen to expand their financial services business, by launching open-ended funds for instance, and their expectation is that over time this business will grow and its presence will help to narrow the discount. We wish them every success but fear that this process will take too long and they will be forced to use their buy-back powers eventually and it would be less painful to do this now.

Foreign & Colonial (8.2% 2005, nil 2006)

We were very happy to see Foreign & Colonial adopt a discount control mechanism last November. Its Board has been resolute in defending its discount target since then and, although the fund has shrunk somewhat as a result, it now has a chance to improve its performance record (currently very much middle of the road, though this is an improvement on previous years).

JP Morgan Fleming Overseas (7.7% 2005, nil 2006)

Fleming Overseas held a tender for 50% of the trust at a 3.5% discount in March. We sold all of our holding. The shares have traded within a fairly narrow discount range since.

Gartmore Smaller Companies (5.0% 2005, 5.7% 2006)

This is one of our more disappointing investments. The discount remains one of the widest of the peer group and the sector and returns at the net asset value level are well below the benchmark and the peer group.

Scottish Mortgage (4.8% 2005, 5.4% 2006)

After a long run of very good performance the trust did not fare so well during the set-back in May. We were pleased to see a statement from the Board adopting a policy of controlling the discount on the trust through the use of buy-backs and with the aim of narrowing the discount both in absolute terms and relative to its peers.

JP Morgan Fleming Mercantile (3.7% 2005, 5.4% 2006)

The FTSE Mid 250 index had another very good year and this trust outperformed it. In recent months this impressive performance has started to be reflected in the trust's rating and since the year end we have trimmed our holding a little.

Platinum (4.9% 2005, 1.7% 2006)

The company lost its court case against the former investment manager and consequently had both to pass across a substantial sum and admit that further sums might be payable for future years. Unsurprisingly the majority of shareholders came to the conclusion that they would rather see the trust liquidated. However the former manager is currently refusing to allow a liquidation without compensation. It should be noted that over the time we have held this trust we have made an excellent return on our investment even taking into account the disappointments of late.

Framlington Innovative (nil 2005, 4.4% 2006)

Brian Watson, the manager of Framlington Innovative, can be relied upon not to chase the riskiest and most volatile smaller companies. From time to time he underperforms the market as a result and the discount on his trust widens. Fortunately when things turn round the discount narrows again and this has been the case over recent months.

Gartmore Global (4.3% 2005, 2.5% 2006)

Brian O'Neill, the manager of Gartmore Global, has had another good year. We reduced our holding but we are happy to hold onto the rest of our stock for the moment, taking comfort that their discount control mechanism appears to be working.

August Equity (2.7% 2005, 4.0% 2006)

Kleinwort Capital changed its name to August Equity during the year. A successful bout of profitable realisations from its portfolio left it with a substantial cash pile. We urged them to find some way of narrowing their discount and reducing the cash pile and after a strategic review they put forward a plan to buy in stock and invest in third party funds.

Keystone (nil 2005, 3.7% 2006)

Mark Barnett, the manager of Keystone, also manages Perpetual Income & Growth. Both trusts have similar portfolios but PIGIT trades at a narrower discount. We think the trusts should be merged but we're very happy to hold the cheaper one and see the discounts converge.

Invesco Income Growth (nil 2005, 3.2% 2006)

This is another trust in Perpetual's UK equity income stable. The manager is more risk averse than others in the team but this is still a stock-picking fund and one that must perform to justify its existence.

Hg Capital (2.6% 2005, 3.0% 2006)

The team at Hg have had a great year and have been redeploying their cash pile faster than others in the sector. We are happy to hold onto our holding for the time being.

TR Property (nil 2005, 2.9% 2006)
Chris Turner has a long track record of outperforming the UK property market and generates total returns well in excess of any of the offshore property trusts that are in vogue at the moment. Yet his fund trades at a discount while the others are on premiums. It seems as though the only reason is that TR Property's return comes chiefly in the form of capital rather than income. This seems illogical.

Asset Management (nil 2005, 1.7% 2006)
This trust has a chequered past. For many years it disappointed investors as the share price and asset value languished well shy of its launch price. We bought into the trust on a 45% discount after it had sold its largest holding and as it seemed likely to sell its second largest. By our year end the net asset value was over 22% higher and it is up another 20% at the time of writing. The discount has narrowed but there is more to go for. We have been able to persuade the Board that, after paying back its bank debt and repaying its zero preference shares it should start to return money to shareholders.

Develica Deutschland & Speymill Deutsche Immobilien (nil 2005, 4.4% 2006)
Some shareholders might be surprised that we made investments in two new issues during the period and both in the go-go area of property as well. These funds though, one housing related the other commercial, are focused on the German market which has underperformed other property markets by such a wide margin that property can be bought for less than its replacement cost.

Leo Capital & Inflexion (nil 2005, 2.4% 2006)
These two funds are / were AIM-listed venture capital funds. We alighted upon Inflexion as it was held by London Merchant Securities ('LMS') which in turn is a constituent of the Advance Focus Fund portfolio. Shortly after we had acquired our stake on a 13% discount it announced it was going to sell its portfolio and liquidate the fund. This deal was prompted by LMS's desire to reorganise its venture capital holdings. LMS then spun these out as Leo Capital. LMS aggressively wrote down the portfolio prior to the de-merger and the company has some mature and attractive assets.

Outlook
Our tenth year has started well with the Company's net asset value outpacing a rising market. As usual we are climbing a wall of worry as investors watch the US housing market nervously, trying to identify how prolonged the retrenchment will be and how much of an impact this will have on US consumer spending. There is no shortage of liquidity, especially amongst the venture capital community, and this will provide support to markets. Our portfolio is more diversified than in recent years, in part reflecting the changing nature of our investment universe, and there are still opportunities for us to narrow discounts.

Progressive European Markets Limited

8 November 2006

Details of individual holdings

Unless otherwise specified, all holdings were of ordinary shares in investment trusts or other closed end funds and all such investee companies were public companies listed on the London Stock Exchange.

At 31 August 2006 Company	Holding	Percentage of relevant capital owned	Book cost £'000	Current value £'000	Percentage of net assets
Alliance Trust	2,500,000	0.37%	6,949	8,550	9.64%
Gartmore Smaller Companies	965,000	6.82%	4,104	5,057	5.70%
Scottish Mortgage Investment Trust	1,000,000	0.35%	3,727	4,780	5.39%
JPM Fleming Mercantile Investment Trust	456,754	0.34%	3,315	4,750	5.36%
Framlington Innovative	1,050,000	3.12%	3,699	3,938	4.44%
August Equity Trust	1,350,000	4.93%	2,755	3,591	4.05%
Keystone Investment Trust	300,000	2.22%	2,863	3,246	3.66%
Invesco Income Growth Trust	1,400,000	2.50%	2,512	2,800	3.16%
HG Capital	400,000	1.59%	2,090	2,636	2.97%
TR Property Investment Trust	1,300,000	0.38%	2,188	2,616	2.95%
Top Ten Holdings			**34,202**	**41,964**	**47.32%**
Henderson Smaller Co.	1,000,000	0.98%	1,771	2,400	2.71%
SVM UK Active	1,250,000	2.98%	1,996	2,290	2.58%
Finsbury Technology Trust	1,100,000	4.41%	2,445	2,244	2.53%
Gartmore Global Trust	910,000	1.81%	1,679	2,207	2.49%
Eurovestech	12,525,000	4.01%	1,790	2,160	2.44%
F & C Private Equity					
– 'B' Shares	1,209,912	2.06%	1,598	1,839	2.07%
– 'C' Shares	335,542	3.97%	345	317	0.36%
			1,943	2,156	2.43%
Renaissance US Growth	750,000	3.88%	1,743	2,122	2.39%
Speymill Deutsche Immobilien	2,250,000	1.32%	2,250	2,115	2.38%
Leo Capital	3,000,000	0.91%	1,873	2,070	2.33%
Henderson Eurotrust	450,000	1.75%	1,667	2,016	2.27%
Edinburgh Smaller Co	2,000,000	2.97%	2,027	1,995	2.25%
Strategic Equity	2,250,000	3.10%	2,300	1,946	2.19%

At 31 August 2006 Company	Holding	Percentage of relevant capital owned	Book cost £'000	Current value £'000	Percentage of net assets
Finsbury Emerging BioTech	1,801,524	2.73%	1,849	1,892	2.13%
Herald Investment Trust	550,000	0.63%	1,898	1,867	2.11%
Develica Deutschland Limited	2,700,000	1.08%	1,836	1,853	2.09%
Montanaro European Smaller	500,000	2.86%	1,617	1,597	1.80%
DWS Global Commodities*	187,325	0.75%	1,717	1,579	1.78%
Strathdon Investment Trust	6,495,000	12.53%	1,876	1,559	1.76%
Asset Management Investment	1,900,000	8.81%	1,041	1,482	1.67%
Platinum Investment Trust	3,150,000	2.27%	902	1,481	1.67%
Principle Capital Investments	1,250,000	2.50%	1,250	1,288	1.45%
Manchester & London Investment Trust	373,559	0.01%	1,200	1,214	1.37%
I.F.I (Istit Industra)**	90,505	0.12%	985	1,137	1.28%
Aberdeen Development Capital	843,414	2.29%	377	278	0.31%
JP Morgan Fleming Smaller	40,000	0.17%	169	176	0.20%
Inflexion	7,000,000	3.86%	0	70	0.08%
Total Holdings in Companies			**74,403**	**85,158**	**96.01%**
Other net assets				3,537	3.99%
				88,695	**100%**

*Closed end fund listed on the New York Stock Exchange
** Closed end fund listed on the Milan Stock Exchange

Directors' report

The directors present their report and accounts for the year ended 31 August 2006.

Business review

Investment policy and objectives

The Company's objectives are pursued through investments in funds which themselves invest in the United Kingdom or other developed markets or in generalist funds. The Manager seeks to outperform the benchmark index by investing in funds that have exposure to those asset classes, countries and industrial sectors that it believes will do well over the medium term and by investing in funds trading at a discount to their net asset value, identifying why the discount exists and working with boards, investment managers, advisers and other shareholders to rectify the situation and narrow the discount for the benefit of all shareholders.

Objectives and key performance indicators (KPIs)

The Board measures the Company's success in attaining its objectives by reference to the following KPIs:

i) The Company's primary investment objective is to achieve capital growth with the aim of providing a capital return in excess of the FTSE All-Share Index (the 'Benchmark') over the medium term. This is the Company's principal KPI.

ii) The Company seeks to achieve an absolute total return over the medium term. This is deemed to be accomplished if the Company's return at least matches that obtainable from an investment held in cash at 12 month LIBOR.

Investment performance

The Chairman's Statement on Page 1 incorporates a review of the highlights of the year and reports on the change in the Net Asset Value ('NAV') of the Company. The Manager's Review on pages 2 to 3 describes in detail how that performance has been achieved.

The Company has continued to achieve its stated objectives:

The Benchmark Index has been outperformed by the Company's NAV per share by 4.8% in this financial year. This is the fourth successive financial year this has been achieved and the seventh year of nine since the launch of the Company. The Company has outperormed its benchmark by 86.1% since the Company's launch.

The absolute total return of 19.0% in the year exceeded the LIBOR rate of return of 4.50% for the same period. The absolute total return for the period from the Company's launch to 31 August 2006 was 139.2%. The LIBOR annually re-invested return over the same period was 62.71%.

Revenue result and dividend

The Company's revenue profit after tax for the period amounted to £961,773 (2005: £1,032,457).

At the Annual General Meeting on 13 December 2006 a resolution will be proposed to approve a final dividend of 2.2p (2005: 2.2p) per ordinary share, absorbing £922,123 (2005: £922,123) on the shares in issue at the date of this report. The amount transferred to distributable reserves will be £39,650 (2005: £110,334). The final dividend will be paid on 21 December 2006 to shareholders on the register at 22 November 2006. The ordinary shares will go ex-dividend on 24 November 2006.

Principal risks and uncertainties

The Board considers that the principal risks faced by the shareholder of the Company fall into two categories:

External Risks

Shareholders always face a risk of poor performance from stock markets. This may derive from poor performance in the UK and/or world economies, from poor corporate profits and dividends, or from market-specific factors such as the unwinding of excessive positions in particular sectors or in the market generally. However, the Board is focussed primarily on long-term performance and considers that short-term volatility is not a factor that should unduly influence the Company's management of risk.

Internal Risks

Poor allocation of the Company's assets to both markets and investee funds by the Manager, poor governance, compliance or administration, including the loss of investment trust status could potentially result in shareholders not making acceptable returns on their investment in the Company.

Risk controls

External Risks

An element of risk is an inherent consequence of investing on a selective basis. The Manager seeks to mitigate the degree of risk through the experience and knowledge of the management team and their selection skills and by spreading the Company's investments across a range of securities. The Company's policy is to concentrate upon investment in funds exposed to developed markets, which generally display a substantial degree of stability. The securities in which the Company invests are themselves diversified investment vehicles, which further spreads the risk across the underlying sectors of those economies.

Details of the financial risks to the Company are discussed in note 16 of the accounts on page 22.

Internal Risks

The control of risks related to the Company's business areas are dealt with in the report on Corporate Governance on pages 10 to 12.

Outlook

The outlook for the Company is discussed in the Chairman's Statement on page 1 and the Manager's Review on pages 2 to 3.

Other information

Legal and taxation status

In the opinion of the Directors, the Company has conducted its affairs so as to be able to seek approved investment trust status from the Inland Revenue under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 August 2006. The Company will seek such approval when these accounts are submitted. Approval has been received for all periods up to 31 August 2005. The Company is an investment company within the meaning of S266 of the Companies Act 1985.

Renewal of authority to purchase own shares

The authority granted to the Company to purchase its own shares will expire upon the anniversary of the passing of the relevant resolution at the last Annual General Meeting on 14 December 2005. No further purchases of the Company's own shares were made during the year ended 31 August 2006, but the Directors consider that it continues to be useful to have such power in reserve. The Directors therefore recommend that a new authority be granted and a resolution to that effect will be put to the Annual General Meeting (item 9 in the Notice of Meeting).

Market information
The Company's share capital is listed on the London Stock Exchange. The market price is shown daily in the Financial Times. The NAV per share is calculated weekly and released weekly to the London Stock Exchange and monthly to the Association of Investment Companies.

Custody
The Northern Trust Company was the Company's custodian throughout the year ended 31 August 2006. Lloyds TSB Bank plc was the Company's banker.

Directors' shareholdings
At 31 August 2006 and at the date of this report the directors' shareholdings in the Company, all of which were beneficially owned, were:

		2006	2005
EG Davis	Ordinary shares	**50,000**	50,000
GJ Barker	Ordinary shares	**36,507**	36,507
PJ Rowen	Ordinary shares	**–**	–
KM Niven	Ordinary shares	**–**	–

Management
Since its launch the management of the Company's investments has been contracted to Progressive European Markets Limited, which is authorised and regulated by the FSA. The individual primarily responsible for the management of the Company's investments is James Carthew.

The Manager is appointed under a contract subject to twelve months' notice and is entitled to remuneration comprising a basic fee and, in certain circumstances, a performance fee. The basic fee is calculated at a monthly rate of one-twelfth of one per cent of the Company's Adjusted Market Capitalisation. This is the aggregate closing mid market price of the Company's ordinary shares at the end of the relevant month or part month, adjusted as necessary to take account of any purchasing by the Company of its own shares during the previous two years.

The calculation of performance fees, if any, is made annually and outperformance is calculated by reference to a comparison between the Company's unadjusted NAV and the Benchmark. The performance fee is 10% of the outperformance, if any, provided that the NAV per share has increased since the end of the last period in respect of which a performance fee was payable. A cap of 2% of net assets applies to the total performance fee.

A performance fee of £414,536 (excluding VAT) was payable in respect of the year ended 31 August 2006 (2005: £642,133).

Company secretary and administrator
Cavendish Administration Limited ("Cavendish") was the secretary of the Company for the entire period under review, and remains so. Cavendish is also responsible for all administrative matters. Cavendish is appointed under a contract subject to 180 days' notice and receives a fee at an annual rate of £76,680 (excluding VAT).

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 from trade creditors outstanding at 31 August 2006.

Significant shareholdings
The directors have been notified of, or have identified, at the date of this report the following shareholdings comprising 3% or more of the issued share capital of the Company:

	Ordinary shares	%
East Riding of Yorkshire Pension Fund	4,500,000	10.74
Apollo Fund	4,000,000	9.54
BNP Paribas	2,550,000	6.08
British Empire Securities	2,507,872	5.98
Legal & General	2,500,000	5.96
Robert Fleming	2,250,000	5.37
SVM	1,966,562	4.69
Deutsche Bank	1,911,250	4.56
Universities Superannuation Scheme	1,500,000	3.58
West Midland Pension Fund	1,499,999	3.58

Lazard Asset Management has a non-beneficial interest in the Company of 11.61% in its capacity as a fund manager. Cayenne Asset Management Limited has a non-beneficial interest in the Company of 11.33% in its capacity as a fund manager. Asset Value Investors Limited has a non-beneficial interest in the Company of 9.32% in its capacity as a fund manager (some beneficial holdings shown above are included in these percentages).

Settlement of ordinary share transactions
Ordinary share transactions in the Company are settled by the CREST share settlement system.

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

Going concern
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
Each of the directors at the date of the approval of this report confirms that:

• So far as the director is aware, there is no relevant audit information (as defined in s234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and

• The director has taken all steps that he ought to have taken as director to make himself aware of any relevant information (as defined in s234A of the Companies Act 1985) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234A of the Companies Act 1985.

In accordance with section 385 of the Companies Act 1985, a resolution proposing that KPMG Audit Plc be re-appointed as auditor of the Company will be put to the Annual General Meeting.

8 November 2006

By order of the Board
Cavendish Administration Limited
Company Secretary

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The accounts are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the year.

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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 comply with the Companies Act 1985. 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.

Under applicable law and regulations, the directors are also responsible for preparing a Director's Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' remuneration report

This report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put forward at the forthcoming Annual General Meeting.

Information not subject to audit

Remuneration committee

The Company has four non-executive directors, all of whom are independent of the Manager. The Remuneration Committee therefore comprises the whole Board. It considers directors' fees and the remuneration of contracted service suppliers including the 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 Association and they are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits.

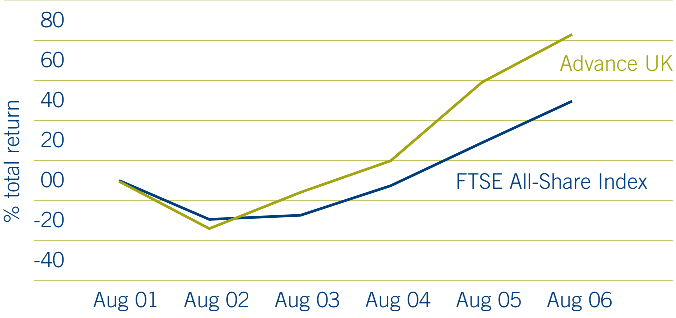
No services have been provided by, or fees paid to, advisers in respect of remuneration policy during the year ended 31 August 2006.

Directors' service contracts

The directors do not have service contracts. The directors have appointment letters which do not state any specific term. They are subject to re-election by shareholders at a maximum interval of three years. However, the directors have agreed, on a voluntary basis, to put themselves forward for election every year.

Performance

The following chart shows the performance of the Company's shares by comparison to the FTSE All-Share Index, both on a total return basis.



Information subject to audit

Directors' emoluments for the year

The following emoluments in the form of fees were payable to the directors who served during the year:

	2006 £	2005 £
Edward Davis	**27,500**	27,500
Graham Barker	**20,000**	20,000
Philip Rowen	**15,000**	7,500
Michael Taylor (resigned 1 March 2005)	–	7,500
Keith Niven (appointed 1 November 2006)	–	–

By order of the Board
Cavendish Administration Limited
Company Secretary

8 November 2006

Corporate governance

The Financial Reporting Council issued a revised Combined Code on Corporate Governance in July 2003 (the 'Combined Code') which is effective for financial years beginning on or after 1 November 2003. The Company has always been committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is appropriate for the Company and has updated this to enable it to comply with the Principles of Good Governance and Code of Best Practice of the Combined Code.

The Board

Composition

Mr Davis and Mr Barker became directors upon the incorporation of the Company on 18 September 1997 and have served during the entire period since that date. Mr Rowen was appointed a director on 1 March 2005. Mr Niven was appointed a director on 1 November 2006.

Edward George Davis (Chairman) (aged 67) retired in 1997 from the investment division of Legal & General Group, where he had served for 38 years. During the latter part of his time with Legal & General he concentrated on UK equities, particularly investment trusts, and was also closely involved in the introduction of Legal & General's index funds. He is a Fellow of the Chartered Insurance Institute and a Member of the Securities Institute.

Graham John Barker (aged 67) worked from 1968 until 1990 for N.M. Rothschild & Sons Limited, where he was responsible as a director for corporate finance and product development work for unit trusts, investment trusts and offshore funds. He was also chairman of Rothschild Asset Management (C.I.) Ltd. From 1990 to 1994 he was an executive director of Fidelity Investment Services Limited.

Philip Rowen (aged 58) has thirty years' experience in investment fund management, specialising in pension funds, charities and unit trusts. Formerly an assistant director of Schroder Wagg Ltd., a UK Merchant Bank, senior fund manager with Legal & General, and Lincoln Financial Group, both insurance companies. Currently a non-executive chairman of Onslow Resources, an oil explorations company, and Linton Finance, a personal credit company. Wide experience of analysing and investment in UK and overseas equities – both major and smaller companies.

Keith Niven (aged 58) Mr Niven retired from Schroder Investment Management Limited ('SIM') in October 2001. He joined Schroders in 1973 and was appointed a director of SIM, its fund management arm, in 1985. Mr Niven held a number of posts in SIM, becoming joint vice chairman in 2000. He is non-executive chairman of Matrix Income & Growth VCT PLC and Matrix Income & Growth 3 VCT PLC and a non-executive director of Schroder Income Growth Fund plc, Schroder UK Growth Fund plc and Impax Environmental Markets plc. Mr Niven is a trustee of the Charities Aid Foundation ('CAF'), chairman of CAF's Investment Advisory Committee and a non-executive director of CAF Bank Limited. He is also an investment adviser to the Rolls Royce Pension Fund.

All directors are entirely independent of the fund manager, Progressive European Markets 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.

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 six board meetings during the year ended 31 August 2006. Mr Davis, Mr Barker and Mr Rowen each attended all six meetings.

Re-election of directors

Mr Barker is due to retire by rotation at the Annual General Meeting. Being eligible, he offers himself for re-election. The Board has considered the performance of Mr Barker and agree that his re-appointment should be recommended.

Mr Niven, having been appointed by the directors of the Company, will put himself forward for election. The Board has recently considered the qualifications of Mr Niven to be a director when making his appointment and recommends that his re-appointment should proceed.

In addition, the Board has decided on a voluntary basis that all directors should henceforth stand for re-election each year. Therefore Mr Davis and Mr Rowen will also put themselves forward for re-election at the AGM on 13 December 2006. The Board considers that Mr Davis and Mr Rowen are well qualified to continue to act as directors of the Company and recommends that their re-appointments should proceed.

Board committees

The Board decides upon the membership and chairmanship of its committees. It is felt that, due to the structure of the Board and nature of the business of the Company, all members of the Board should be on the committees that the Company has presently formed. The Board periodically reviews the chairmanship of the committees. Only committee members are entitled to attend committee meetings although other advisors or persons may be invited by the committee to attend those meetings.

Audit Committee

The Audit Committee comprises all the members of the Board. It meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and remuneration of the auditor and to review the annual accounts and interim report.

Where non-audit services are provided by the auditor, the Audit Committee reviews the position and full consideration of the financial and other implications on the independence of the auditor arising from any such engagement are considered before proceeding. Such services have been, and are, limited to the provision of advice on tax compliance. The Committee considers that such advice can be more efficiently and economically provided by the same firm as that conducting the audit, particularly in view of the fact that the audit of an investment trust cannot be completed without a review of its tax status. The Committee is satisfied that the provision of such advice does not in any way prejudice the objectivity and independence of the auditor.

Mr Barker is the Chairman of the Audit Committee. The Audit Committee has formal terms of reference and copies of these are available on request from the Company Secretary of the Company.

There were two Audit Committee meetings during the year ended 31 August 2006. Mr Barker, Mr Rowen and Mr Davis attended both meetings.

Remuneration and Management Engagement Committee

The Remuneration and Management Engagement Committee comprises all the members of the Board and meets formally on at least an annual basis for the purpose, amongst other things, 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. Mr Davis is the chairman of the Remuneration and Management Engagement Committee. The Remuneration and Management Engagement Committee has formal terms of reference and copies of these are available on request from the Company Secretary of the Company.

A directors' remuneration report is included on page 9 of these financial statements.

There were two meetings of the Remuneration and Management Engagement Committee during the year ended 31 August 2006. Mr Davis, Mr Barker and Mr Rowen attended both meetings.

Nominations Committee
The Nominations Committee comprises all the members of the Board and was established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nominations Committee meets as and when it is required. New appointments to the Board are referred to the Nominations Committee. The Nominations Committee considers job specifications and assesses whether candidates have the necessary skills and time available to devote to the job.

There was one meeting of the Nominations Committee during the year ended 31 August 2006, which was attended by Mr Davis, Mr Barker and Mr Rowen.

Performance evaluation
A formal annual performance appraisal process is performed on the Board, the committees, the individual directors and its main service providers. The appraisal takes the form of both closed and open-ended questions which are answered by the directors. The results are sent to the Chairman and are then discussed with the Board so that any necessary action can be considered and undertaken. A separate appraisal of the Chairman is carried out and the results are reviewed by Mr Barker and reported back to the Chairman. The results of the performance appraisal carried out in 2006 demonstrated that the structure of the board and the diverse experience of the directors are appropriate to fulfil successfully the Company's requirements.

Internal control
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 guidance 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 and the administrator to provide reasonable assurance on the effectiveness of internal financial controls.

The key procedures include monthly production of management accounts and NAV calculations, monitoring of performance at regular board meetings, supervision 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 and administration 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 Auditors 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 and the administrator.

The manager reports in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary. The manager's compliance officer issues his own report directly to the Audit Committee concerning the internal controls applicable to the manager's dealing, investment and general office procedures.

Directors receive and consider regular monthly reports from the administrator, 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 reports separately in writing to the Board concerning risks and internal control matters within its 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 manager and the administrator 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 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. The investment manager has a programme of meetings with shareholders and reports back to the Board on its findings. The Board also welcome feedback from the shareholders directly to them.

Exercise of voting powers

The Company is committed to exercise diligently its rights as a shareholder and usually votes on its holdings. However, it does not automatically follow a fixed policy always to vote on its holdings, nor to vote normally in a particular direction, but treats each case strictly on its merits. The Company is strongly opposed to a mechanistic, 'box-ticking' adherence to voting or other corporate governance processes. In making a decision in each case, the Company takes into account all relevant factors, including the performance of the investee company, its corporate governance where this bears meaningfully upon the responsiveness of its management to shareholder needs and the readiness of its management to address any areas where improvements might be expected to strengthen its share price or otherwise create real benefit for shareholders. Further information regarding the activities of the Company in pursuing these issues may be found in the Manager's Report on pages 2 to 3.

Social and environmental policy

The Company has no staff, premises, manufacturing or other operations. The Company invests in other investment companies and does not have control over the policy of those companies nor over any activities of underlying investments that might have social or environmental impacts. However, the Manager discusses social and environmental issues with investee companies and encourages responsible policies in this area.

Compliance with the combined code

The Board considers that it has applied the 2003 Code appropriately to the Company's circumstances. Notwithstanding this, departures from the code together with reasons are detailed below.

The structure of the Board is such that it is considered unnecessary to identify a senior non-executive director other than the Chairman. All other directors are, however, available to shareholders if they have concerns over issues that they feel have not been dealt with through the normal mode of communication with the Chairman.

The Board does not consider that an internal audit function would be appropriate to the nature and circumstances of the Company.

There is no formal schedule of matters reserved for the Board.

Report of the independent auditor

To the members of Advance UK Trust plc
We have audited the financial statements of Advance UK Trust plc for the year ended 31 August 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 8.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion
In our opinion:

• the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 August 2006 and of its income for the year then ended;

• the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and

• the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

8 November 2006

Income statement

	Notes	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Gains on investments realised by reference to revalued book costs		**–**	**7,392**	**7,392**	–	7,113	7,113
Transfer from unrealised capital reserve		**–**	**7,452**	**7,452**	–	865	865
Total realised gains		**–**	**14,844**	**14,844**	–	7,978	7,978
Revaluation of investments – listed		**–**	**6,489**	**6,489**	–	11,319	11,319
Transfer to realised capital reserve		**–**	**(7,452)**	**(7,452)**		(865)	(865)
Total unrealised gains/(losses)		**–**	**(963)**	**(963)**	–	10,454	10,454
Income	3	**1,552**	**–**	**1,552**	1,535	–	1,535
Investment management fees	4	**(309)**	**(1,106)**	**(1,415)**	(243)	(1,240)	(1,483)
Other expenses	4	**(276)**	**–**	**(276)**	(260)	–	(260)
Return before finance costs and tax		**967**	**12,775**	**13,742**	1,032	17,192	18,224
Finance costs		**(4)**	**(8)**	**(12)**	–	–	–
Return before tax		**963**	**12,767**	**13,730**	1,032	17,192	18,224
Taxation	6	**(1)**	**–**	**(1)**	–	–	–
Return on ordinary activities after taxation		**962**	**12,767**	**13,729**	1,032	17,192	18,224
Return per ordinary share	8	**2.30p**	**30.46p**	**32.76p**	2.46p	41.02p	43.48p

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

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued during the year.

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.

The notes on pages 18 to 22 form part of these accounts.

Balance sheet

At 31 August 2006	Notes	2006 £'000	2005 £'000 Restated
Fixed assets			
Investments at market value	9	**85,158**	75,092
Current assets			
Sales for future settlement		**752**	–
Other debtors		**62**	172
Cash at bank and in hand		**4,712**	1,511
		5,526	1,683
Creditors: amounts falling due within one year			
Purchases for future settlement		**1,371**	31
Accrued liabilities		**618**	856
		1,989	887
Net current assets		**3,537**	796
Total net assets		**88,695**	75,888
Capital and reserves			
Share capital	10	**419**	419
Share premium account		**33,814**	33,814
Share purchase reserve		**5,936**	5,936
Capital redemption reserve		**82**	82
Realised capital reserve	11	**36,386**	22,656
Unrealised capital reserve	12	**10,755**	11,718
Revenue reserve		**1,303**	1,263
Equity shareholders' funds		**88,695**	75,888
Net assets per ordinary share	13	**211.61p**	181.05p

Approved by the Board of Directors on 8 November 2006
and signed on their behalf by:

Edward Davis

Graham Barker

The notes on pages 18 to 22 form part of these accounts.

Reconciliation of movements in shareholders' funds

For the year ended 31 August 2006	Notes	Share Capital £'000	Share Premium Account £'000	Share Purchase Reserve £'000	Capital Redemption Reserve £'000	Realised Capital Reserve £'000	Unrealised Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Opening shareholders' funds (as previously stated)		**419**	**33,814**	**5,936**	**82**	**22,656**	**11,718**	**341**	**74,966**
Change in accounting policy	2	**–**	**–**	**–**	**–**	**–**	**–**	**922**	**922**
Opening shareholders' funds (as restated)		**419**	**33,814**	**5,936**	**82**	**22,656**	**11,718**	**1,263**	**75,888**
Profit for the year		**–**	**–**	**–**	**–**	**13,730**	**(963)**	**962**	**13,729**
Dividend paid (Dec 2005)	7	**–**	**–**	**–**	**–**	**–**	**–**	**(922)**	**(922)**
Closing shareholders' funds		**419**	**33,814**	**5,936**	**82**	**36,386**	**10,755**	**1,303**	**88,695**

For the year ended 31 August 2005	Notes	Share Capital £'000	Share Premium Account £'000	Share Purchase Reserve £'000	Capital Redemption Reserve £'000	Realised Capital Reserve £'000	Unrealised Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Opening shareholders' funds		419	33,814	5,936	82	15,918	1,264	231	57,664
Profit for the year		–	–	–	–	6,738	10,454	1,032	18,224
Proposed dividend	7	–	–	–	–	–	–	(922)	(922)
Closing shareholders' funds		419	33,814	5,936	82	22,656	11,718	341	74,966
Change in accounting policy	2	–	–	–	–	–	–	922	922
Closing shareholders' funds (as restated)		419	33,814	5,936	82	22,656	11,718	1,263	75,888

The notes on pages 18 to 22 form part of these accounts.

Cash flow statement

For the year ended 31 August 2006

	Notes	2006 £'000	2005 £'000 re-stated
Operating activities			
Cash inflow from investment income and bank interest		**1,661**	1,069
Cash outflow from management expenses		**(1,932)**	(698)
Cash inflow from disposal of investments		**68,647**	54,723
Cash outflow from purchase of investments		**(64,242)**	(53,836)
Interest paid		**(11)**	–
Net cash inflow from operating activities	14	**4,123**	1,258
Financing			
Equity dividends paid		**(922)**	(838)
Increase in cash		**3,201**	420

	2006 £'000	2005 £'000
Opening balance	**1,511**	1,091
Cash inflow	**3,201**	420
Balance at 31 August	**4,712**	1,511

The notes on pages 18 to 22 form part of these accounts.

Notes to the accounts

1 Accounting policies
The accounts have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below:

(a) Basis of accounting
The accounts are prepared under the historical cost convention as modified by the revaluation of investments and in accordance with applicable accounting standards and the Statement of Recommended Practice 'Financial statements of investment trust companies' ('SORP') issued by the Association of Investment Companies (December 2005) except where the SORP has been superseded by UK Accounting Standards.

(b) 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 close of the year. Unquoted securities are valued at directors' best estimate of fair value.

Changes in fair value are included in the Income Statement as capital items.

Transaction costs incurred on the acquisition and disposal of investments are charged to the Income Statement as a capital item.

(c) Income from investments
Investment income from ordinary shares is accounted for on the basis of ex-dividend dates. Income from preference shares is accounted for on an accruals basis. Unfranked dividend income is grossed up at the appropriate rate of tax credit, but franked income is not grossed up, since no element of withholding tax is involved.

Special Dividends are assessed on their individual merits and may be credited to capital reserve if considered to be closely linked to reconstructions of the investee company or other capital transactions; with this exception all investment income is taken to revenue account. Income from gilts and bank interest receivable is accounted for on an accruals basis.

(d) Capital reserves
The Company is precluded by its Articles from distributing as dividend surpluses arising upon the realisation of investments. Realised profits and losses on disposals of investments are dealt with in the realised capital reserve. Unrealised revaluation movements are dealt with through the unrealised capital reserve.

(e) Investment management fees and finance costs
Two thirds of investment management fees and of finance costs, net of attributable tax, are charged to the realised capital reserve. Performance-related fees, if any, are charged net of attributable tax to the realised capital reserve.

2 Changes to accounting policy
(i) Dividends payable
Dividends payable are no longer treated as liabilities until a legal obligation to pay them has arisen, which is deemed to be when the dividend is approved. The comparative year has been restated. Final dividends, which are approved by the Company in the general meeting, are not therefore reflected in the financial statements until the time of the Annual General Meeting. The Company does not pay interim dividends and therefore no restatement is necessary in respect of interim dividends.

(ii) Valuation of investments
In prior periods and including the comparative figures for the year ended 31 August 2005, securities were valued at their mid market prices. The impact of valuing the portfolio at market bid price as at 31 August 2005 would have resulted in a £550,185 downward adjustment, equivalent to 1.31p per ordinary share. The adjustment has not been reflected in the comparative period as the directors do not feel it is required as there is no material impact.

3 Income

	2006 £'000	2005 £'000
Income from investments		
Franked dividends from listed securities	**1,418**	1,465
Unfranked dividends from listed securities	**84**	–
Other income		
Interest receivable	**50**	70
Total income	**1,552**	1,535

4 Administration expenses

	Revenue £'000	Capital £'000	2006 Total £'000	Revenue £'000	Capita £'000	2005 Total £'000
Investment management fees	**309**	**1,106**	**1,415**	243	1,240	1,483
Administration fees	**90**	**–**	**90**	90	–	90
Custodian's fees	**12**	**–**	**12**	12	–	12
Directors' fees	**69**	**–**	**69**	61	–	61
Auditors' fees – audit	**20**	**–**	**20**	20	–	20
– other services	**7**	**–**	**7**	5	–	5
Brokers' consultancy fees	**29**	**–**	**29**	29	–	29
Miscellaneous expenses	**49**	**–**	**49**	43	–	43
	276	**–**	**276**	260	–	260
Total administration expenses	**585**	**1,106**	**1,691**	503	1,240	1,743

The total of expenses represented 1.91% (2005: 2.30%) of the total net asset value at the end of the year.

5 Directors' fees

The fees of the Chairman are £27,500 per year, the chairman of the audit committee £20,000 per year and those of the other directors £15,000 per year. There were no other emoluments. Employers' National Insurance or VAT upon the fees are included as appropriate in the total shown as directors' fees under note 4.

6 Taxation

	Revenue £,000	Capital £,000	2006 Total £'000	Revenue £'000	Capital £'000	2005 Total £'000
Tax on foreign dividends	**1**	**–**	**1**	–	–	–
	1	–	1	–	–	–

The Company is subject to UK corporation tax at 30%. However, UK dividends are not liable to corporation tax. Accordingly, the tax deductible expenses substantially exceed the taxable income of the Company and, as a result, there is no tax charge.

Current taxation

The current taxation charge for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006 £'000	2005 £'000
Revenue on ordinary activities before taxation	**963**	1,032
Theoretical tax at UK corporation tax rate of 30%	**289**	310
Effects of:		
UK dividends which are not taxable	**(425)**	(440)
Tax losses unused and carried forward	**470**	502
Overseas taxation	**1**	–
Expenses charged to capital account for which a deduction is claimed	**(334)**	(372)
Actual current charge	**1**	–

The Company is an investment trust and therefore is not taxable on capital gains

At 31 August 2006, the Company had surplus management expenses of £8,855,000 (2005: £7,288,000). The Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and therefore no deferred tax asset has been recognised.

7 Ordinary dividends

	2006 £'000	2005 £'000
Dividends reflected in the financial statements		
Final dividend paid for the year ended 31 August 2005 of 2.2p (2004: 2.0p) per share	**922**	838
Dividends not reflected in the financial statements		
Recommended ordinary dividend of 2.2p (2005: 2.2p) per share	**922**	922

8 Return per ordinary share

Basic revenue return per share is based on the net revenue return on ordinary activities after taxation of £961,773 (2005: £1,032,457) attributable to the weighted average of 41,914,660 (2005:41,914,660) ordinary shares of 1p in issue.

Basic capital return per share is based on the net capital gains for the financial year of £12,767,258 (2005: £17,192,005) attributable to the weighted average of 41,914,660 (2005: 41,914,660) ordinary shares of 1p in issue.

9 Investments at market value

	2006 £'000	2005 £'000
Analysis of closing balance		
UK listed shares	**85,158**	75,092
Total fixed asset investments	**85,158**	75,092
Movements during the year		
Opening balance of investments, at cost	**63,374**	56,325
Additions, at cost	**65,581**	53,793
Disposals, at cost	**(54,552)**	(46,744)
Cost of investments at 31 August	**74,403**	63,374
Revaluation of investments to market value		
Opening balance of revaluation account	**11,718**	1,264
Transfer to realised capital reserve – realised gains recognised as unrealised at previous Balance Sheet date	**(7,452)**	(865)
Increase in unrealised appreciation, credited to capital reserve	**6,489**	11,319
Balance at 31 August	**10,755**	11,718
Market value of investments at 31 August	**85,158**	75,092

During the year, the Company incurred transaction costs on purchases totalling in aggregate £346,000 and on disposals totalling in aggregate £99,000.

10 Share capital

At 31 August		2006	2005
Authorised			
Ordinary shares of 1p	Number £'000	**150,000,000** **1,500**	150,000,000 1,500
Allotted, issued and fully paid			
Ordinary shares of 1p	Number	**41,914,660**	41,914,660
	£'000	**419**	419

11 Realised capital reserve

	2006 £'000	2005 £'000
Opening balance	**22,656**	15,918
Realised gains by reference to revalued book costs	**7,392**	7,113
Realised gains recognised as unrealised in the previous year	**7,452**	865
Total realised gains	**14,844**	7,978
Investment management fees charged to capital	**(619)**	(485)
Accrued performance fee charged to capital	**(487)**	(755)
Interest charged to capital	**(8)**	–
Total transfer to realised capital reserve	**13,730**	6,738
Balance of realised capital reserve at 31 August	**36,386**	22,656

12 Unrealised capital reserve

	2006 £'000	2005 £'000
Opening balance	**11,718**	1,264
Revaluation of investments – listed	**6,489**	11,319
Transfer to realised capital reserve	**(7,452)**	(865)
Balance of unrealised capital reserve at 31 August	**10,755**	11,718

13 Net assets per ordinary share

The figure for net assets per ordinary share is based on £88,695,000 (2005: £75,888,000) divided by 41,914,660 (2005:41,914,660) Ordinary Shares in issue at the Balance Sheet date.

As at 31 August 2006 the figure for net assets less current year revenue per ordinary share was 209.31p. The figure for net assets per ordinary share as previously stated as at 31 August 2005 adjusted for bid price valuation of investments was 177.54p.

14 Reconciliation of net revenue before taxation to net cash flow from operating activities

	2006 £'000	2005 £'000
Operating profit	**13,742**	18,224
Less: interest payable	**(12)**	–
Less: taxation	**(1)**	–
Less: increase in fixed operating assets	**(10,066)**	(17,503)
Decrease/(increase) in debtors	**(642)**	36
Increase in creditors	**1,102**	501
Net cash flow from operating activities	**4,123**	1,258

15 Related party transactions

Details of the management contract and the administration and secretarial contract can be found in the Directors' Report on page 7. Fees payable to the investment manager and to the administrator/company secretary are detailed in note 4 on page 19; the relevant amounts outstanding as accruals comprised a monthly management fee of £79,826 (2005: £67,718) a performance fee of £487,080 (2005: £754,506) and an administration fee of £7,508 (2005: £7,508) all figures including VAT.

The Company discontinued its consultancy arrangement with Marshall Securities Limited ("Marshall"), formerly its Stock Exchange sponsor, on 31 December 2005. A consultancy fee of £9,792 including VAT was payable in respect of the period up to that date (2005: £29,375). Marshall is associated with the investment manager by virtue of shareholding interests common to the two companies. Marshall undertook share dealing on behalf of the Company and was paid broking commission of £448 (2005: £7,214).

16 Financial assets and liabilities

The investment policy and objectives of the Company are stated on page 6.

Market risks

The Company invests principally in investment trusts listed on the London Stock Exchange, whose market valuation is frequently at a substantial and fluctuating discount to their net asset value. Aspects of the Company's policy which are intended to mitigate the degree of risk are the spread of investments, the fact that holdings are already at high discounts at the time of investment, the pro-active policy of the Company toward encouraging the narrowing of discounts and the absence of gearing. No use was made of derivatives during the year ended 31 August 2006.

Currency risks

The Company held no cash, financial instruments or portfolio securities in any foreign currency at 31 August 2006.

Liquidity

All investments of the Company are made into quoted securities, which normally are listed on the London Stock Exchange. Transactions in these investments may be subject to a modest degree of short-term liquidity constraint, in common with other smaller and medium-sized listed securities, but subject to that they are considered to be reasonably realisable.

Financial assets and liabilities

For the purposes of the disclosures that follow, short-term debtors and creditors (including purchases and sales for future settlement) have been excluded.

All assets and liabilities are included at fair value.

The Company's financial assets comprised:

			2006			2005
	Interest bearing £'000	**Non-interest bearing £'000**	**Total £'000**	Interest bearing £'000	Non-interest bearing £'000	Total £'000
Equity investments						
£ sterling	**–**	**85,158**	**85,158**	–	75,092	75,092
Total investments	**–**	**85,158**	**85,158**	–	75,092	75,092
Cash at bank						
Floating rate						
£ sterling	**4,712**	**–**	**4,712**	1,511	–	1,511
	4,712	**85,158**	**89,870**	1,511	75,092	76,603

Cash at bank at 31 August 2006 included £4,702,000 (2005: £1,490,000) held by the custodian, The Northern Trust Company.
All cash at bank is sterling at the variable interest rates of the bank or custodian.

Directors and advisors

Directors
EG Davis (chairman)
GJ Barker
PJ Rowen
KM Niven (appointed 1 November 2006)
www.pro-asset.com

Stockbroker
Winterflood Investment Trusts
The Atrium Building, Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Banker
Lloyds TSB Bank plc
34 Moorgate
London EC2R 6PL

Registrar
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

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

Savings plan administrators
Jarvis Investment Management plc
Jarvis House
Mount Ephraim Road
Tunbridge Wells
Kent TN1 1EE

Investment manager
Progressive European Markets Limited
145-157 St John Street
London EC1V 4RU
Telephone: 020 7566 5530

Secretary & registered office*
Cavendish Administration Limited
145-157 St John Street
London EC1V 4RU

Administrator
Cavendish Administration Limited
145-157 St John Street
London EC1V 4RU

Auditor
KPMG Audit plc
8 Salisbury Square
London EC4Y 8BB

Solicitor
Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

*Registered in England no. 3438739

A member of The Association of Investment Companies

Notice of meeting

Notice is hereby given that the Annual General Meeting of Advance UK Trust plc will be held on the third floor, Crusader House, 145-157 St John Street, London EC1V 4RU on Wednesday 13 December 2006 at 12.15pm for the following purposes:

Ordinary Business
1 To receive and adopt the financial statements for the year ended 31 August 2006, with the reports of the directors and auditors thereon.

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

3 To re-elect Mr Barker as a director of the Company.

4 To re-elect Mr Rowen as a director of the Company.

5 To re-elect Mr Niven as a director of the Company.

6 To re-appoint KPMG Audit Plc as auditors to the Company and to authorise the directors to fix their remuneration.

7 To approve a dividend of 2.2p per ordinary share in respect of the year ended 31 August 2006.

Special Business
To consider and if thought fit pass the following resolution as an ordinary resolution.

8 To approve the Directors' Remuneration Report.

To consider and if thought fit pass the following resolutions as special resolutions.

9 THAT the Company be and is hereby generally authorised in accordance with section 166 of the Companies Act 1985 ('the Act') to make market purchases (within the meaning of section 163 of the Act) of Ordinary Shares of 1p each in the capital of the Company ('Ordinary Shares'), provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 6,283,007;

(b) the minimum price which may be paid for an Ordinary Share is 1p;

(c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the Ordinary Share is purchased;

(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2007 or, if earlier, on the expiry of 12 months from the passing of this Resolution, unless such authority is renewed prior to such time;

(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract, and

(f) any Ordinary Shares so purchased shall be cancelled or, if the directors so determine and subject to the provisions of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 and any applicable regulations of the United Kingdom listing Authority, held as Treasury Shares.

10 THAT, in substitution for any existing power under section 80 of the Companies Act 1985 ('the Act') but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £20,957 (being 5% of the aggregate nominal value of the issued share capital as at the date of this document) PROVIDED THAT this authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, whichever should first occur, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

11 THAT, subject to the passing of resolution 10 and in substitution for any existing power under Section 95 of the Companies Act 1985 ('the Act') but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) pursuant to the authority and during the period of the authority conferred by resolution 10, wholly for cash up to an aggregate nominal amount of £20,957, as if Section 89(1) of the Act did not apply to such allotment.

Registered Office:	By order of the Board
Crusader House	Cavendish administration Limited
145-157 St John Street	Company Secretary
London EC1V 4RU	8 November 2006

Notes
1 A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a member of the Company.

2 A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting. CREST members may utilise the CREST proxy appointment service by following the directions set out in the Form of proxy.

3 The register of interests of directors kept by the company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the meeting.

4 No director has a contract of service with the Company.

5 If the dividend recommended by the Directors is approved, it will be payable on 21 December 2006 to shareholders on the register at 24 November 2006.

progressive

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