

# ADVANCE UK TRUST plc

## INTERIM REPORT

For the six months ended

28 February 2006



## KEY FEATURES

### 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

As a consequence of changes in accounting standards, there are two unusual factors that have, or potentially could have, affected the calculation of performance in the period ended 28 February 2006:

- 1) As at 28 February 2006 net asset values (NAVs) are calculated on the basis of market bid prices. Previously they were calculated from mid-market prices. For the Company's performance statistics we have adjusted the NAVs per share as at 31 August 2005 and 28 February 2005 to market bid prices.
- 2) Dividends are no longer reflected in the financial statements until a legal requirement to pay them has arisen. Consequently, the final dividend for the year ended 31 August 2005 is no longer deducted from the NAV in the balance sheet as at that date. However, the Company's performance and calculation of performance fees, if any, is consistently based upon the NAV excluding current year revenue reserves.

#### *Performance for the period 1 September 2005 to 28 February 2006*

|  |        |
|--|--------|
| Advance UK net asset value per share<br>(using bid prices and excluding current year revenue reserves) | +18.6% |
| Advance UK share price (mid-market)  | +18.3% |
| FTSE All-Share Index   | +11.2% |

#### *For the period since launch (24 November 1997) to 28 February 2006*

|  |          |
|--|----------|
| Advance UK net asset value per share<br>(using bid prices and excluding current year revenue reserves) | +114.3%* |
| Advance UK share price (mid-market)  | +95.2%   |
| FTSE All-Share Index   | +26.1%   |

\* based on an opening net asset value of 98.3 p

## TOP TEN HOLDINGS IN COMPANIES

AT 28 FEBRUARY 2006

All the top ten holdings are of ordinary shares in investment trusts

|   | <i>By valuation</i><br>£'000 | <i>Percentage of</i><br><i>Portfolio</i> |
|---|------------------------------|--|
| Scottish Mortgage                       | 5,628                        | 6.53%                                    |
| Alliance Trust                          | 5,195                        | 6.03%                                    |
| Foreign & Colonial Investment Trust     | 4,752                        | 5.51%                                    |
| Gartmore Smaller Companies Trust        | 4,615                        | 5.35%                                    |
| JPM Fleming Mercantile Investment Trust | 4,522                        | 5.25%                                    |
| Tribune Index Shares                    | 4,227                        | 4.90%                                    |
| Gartmore Global Trust                   | 3,636                        | 4.22%                                    |
| Framlington Innovative Growth Trust     | 3,474                        | 4.03%                                    |
| TR Property Investment Trust            | 3,091                        | 3.59%                                    |
| Second Alliance Trust                   | 3,085                        | 3.58%                                    |
| <b>Top ten holdings</b>                 | <b>42,225</b>                | <b>48.99%</b>                            |
| Other holdings                          | 43,980                       | 51.01%                                   |
| <b>Total investments</b>                | <b>86,205</b>                | <b>100.0%</b>                            |

## CHAIRMAN'S STATEMENT

These interim accounts cover the period from 1 September 2005 to 28 February 2006. This was another good period for markets and the FTSE All-Share Index rose by 11.2%. For the last six months our share price and the net asset value were 18.3% and 18.6% higher respectively. The FTSE All-Share is fast approaching the levels it reached in 2000. At the end of February it was 86% higher than at the low point on 12 March 2003, when the Index hit 1590. Shareholders in Advance UK have done even better, over the same period our shares have risen by 150%.

Our discount finished the period at 7.3%, narrower than its long-term average but wider than the Board would like and wider than we feel this trust deserves given its performance record. We remain ready to use our share buy-back powers should that prove necessary.

Shareholders will have spotted that we have simplified the description of the investment objective on page 1. We have replaced the reference to "investment trusts" with "funds" reflecting the changing nature of our universe where new issues tend to be listed on the AIM market or are domiciled offshore (the Association of Investment Trust Companies recently decided that it should change its name for the same reason). We have also removed the restriction on making investments in Japan which we imposed on the Manager at a time when much of the money invested in that country was in Pacific area trusts which included Japan. Those trusts fall outside our remit of investing in developed markets. However, direct investment in Japan funds is now more available.

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

Investors are more confident than they have been for some time and this is driving high levels of new issuance in the investment company sector and a general squeezing of discounts. While markets are nervous at present, they seem set fair for the medium term and there is no shortage of opportunities for us to add value.

E.G. Davis

15 May 2006

Shareholders may contact the Chairman directly on [ADUchairman@pro-asset.com](mailto:ADUchairman@pro-asset.com)

## MANAGER'S REPORT

|                            |   |
|----------------------------|---|
| <b>Performance</b>         | Advance UK had another good six months, driven both by out-performance by the funds we are invested in and by narrowing discounts.  |
| <b>Market Conditions</b>   | The UK market's climb has been driven chiefly by oil and mining stocks, which now make up a significant proportion of the Index, and by takeover activity. Good performance numbers from UK equity funds are attracting the attention of smaller investors and it looks as though this will have been the first ISA season for some while where equity based products sold well.  |
| <b>Sector</b>              | Discounts narrowed again during the period. The main feature was the increasing prevalence of discount control mechanisms.  |
| <b>Investment Activity</b> | <p><i>Scottish Investment Trust</i></p> <p>The trust succumbed to pressure from the arbitrageurs and implemented a tender for up to 40% of the trust at a 9% discount. We tendered all our shares and no longer have a holding. We felt that 9% was too wide but as the largest shareholder gave an irrevocable commitment to accept these terms there seemed to be little point in holding out for any more.</p> <p><i>Alliance &amp; Second Alliance</i></p> <p>During the period under review the two trusts traded in a fairly narrow range around a 13%-14% discount. Since the end of the period the previously unthinkable has happened and they have announced that the two trusts will merge. We were asking for this back in 2002 but then the Board argued that the costs of the merger outweighed the benefits. We suggested they find themselves cheaper advisers. They seem to have ignored this advice as the cost of implementing the merger of two identical trusts with the same board is estimated to be £4.5m. The more serious issue though is that they have failed to address their wider than average discount. We think they should use their new powers to repurchase shares to keep the discount below a pre-determined level as Witan and Foreign &amp; Colonial do.</p> <p><i>Foreign &amp; Colonial</i></p> <p>Foreign's announcement early in November that it would introduce a 10% (debt-adjusted) target ceiling for its discount was the trigger for a widespread re-rating of most other generalist trusts. The trust now has some breathing space in which to improve its performance record.</p> <p><i>JP Morgan Fleming Overseas</i></p> <p>After announcing a strategic review at the end of October, Fleming Overseas released details at the beginning of March of a tender offer for 50% of its shares at a 3.5% discount. We tendered our entire holding and, as just less than 50% of their shares were tendered, we no longer hold the shares.</p> <p><i>Scottish Mortgage</i></p> <p>Now our largest individual holding, this trust was one of the best performing generalist investment trusts over the period and a significant contributor to our performance.</p> <p><i>Gartmore Smaller Companies</i></p> <p>After a spell of poor performance the discount on this trust is one of the widest of its peer group. We have been adding to our holding.</p> |

## MANAGER'S REPORT

CONTINUED

### *JP Morgan Fleming Mercantile*

The FTSE Mid 250 Index continues to beat the FTSE All-Share Index and Fleming Mercantile has been beating the Mid 250. The trust has bought in a few shares and the discount has narrowed over the period. We added to our holding over the first half of the period but have let a few go since the New Year.

### *Platinum*

We are still waiting for a resolution of the dispute with the former manager. In the meantime the Board has promised to keep the discount narrower than 10%. We sold some shares in October at a 9% discount.

### *Tribune UK Index*

The first trust that Advance UK targeted after our launch was Baring Tribune. We suggested unitising the fund but its Board came up with a scheme to split the trust into a UK index-tracking pool and a global managed pool. The global managed pool underperformed for some time and shrank as investors switched into the index pool. The Board, seven years after we originally suggested it, put forward proposals to unitise the managed pool and introduce a 4% maximum discount target on the index pool. Our holding was built up at almost a 7% discount.

### *Gartmore Global*

This trust introduced a discount target of 8% (debt adjusted) in September last year. We have been trying to reduce our holding in response to demand from new investors (rather than selling to the share buy-back).

### *Framlington Innovative*

We have been adding to our holding in this trust over the period. As with Gartmore Smaller Companies, after a long period of decent performance, the trust has been going through a sticky patch and the discount is wider than the peer group.

### *TR Property*

Although we have only held this trust for a short time, we are already sitting on a handsome profit. The other trusts in the property sub-sector are trading at substantial premiums yet this trust, which on a total return basis is streets ahead of any of its competitors, was trading on a reasonable discount. We think that the more sensible holders of the inflated trusts will switch into this Company.

## **Outlook**

We warned in the last interim report that markets could be weak over the summer months. In the event the FTSE All-Share Index rose by over 14% from the start of May to the end of August. We have to say again that we are cautious and for the same old reasons. Discounts are tight but a sizeable proportion of the portfolio is in trusts with discount control mechanisms or in trusts whose assets ought to have a low correlation with the UK market. There are still some opportunities for us to add value in the mainstream investment trust arena and we have made some successful investments in AIM listed and offshore funds.

PROGRESSIVE EUROPEAN MARKETS LIMITED  
15 May 2006

## INCOME STATEMENT

|   | 6 months to<br>28 February<br>2006<br>Revenue<br>£'000 | 6 months to<br>28 February<br>2006<br>Capital<br>£'000 | 6 months to<br>28 February<br>2006<br>Total<br>£'000 | <i>6 months to<br/>28 February<br/>2005<br/>Revenue<br/>£'000</i> | <i>6 months to<br/>28 February<br/>2005<br/>Capital<br/>£'000</i> | <i>6 months to<br/>28 February<br/>2005<br/>Total<br/>£'000</i> |
|---|--|--|--|---|---|---|
| Gains on investments                                |  |  |  |   |   |   |
| Realised  | –  | 8,641  | 8,641  | –   | 4,089   | 4,089   |
| Unrealised  | –  | 5,732  | 5,732  | –   | 8,173   | 8,173   |
| Income  |  |  |  |   |   |   |
| – from investments                                  | 645  | –  | 645  | 517   | –   | 517   |
| – bank interest                                     | 26   | –  | 26   | 37  | –   | 37  |
| Investment management                               |  |  |  |   |   |   |
| fees  | (149)  | (297)  | (446)  | (117)   | (234)   | (351)   |
| Performance fee                                     | –  | (751)  | (751)  | –   | (553)   | (553)   |
| Other expenses                                      | (147)  | –  | (147)  | (126)   | –   | (126)   |
| <b>Return on ordinary<br/>activities before tax</b> | <b>375</b>   | <b>13,325</b>  | <b>13,700</b>  | <b>311</b>  | <b>11,475</b>   | <b>11,786</b>   |
| Return per ordinary<br>share                        | 0.89p  | 31.79p   | 32.68p   | 0.74p   | 27.38p  | 28.12p  |

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<br>28 February<br>2006<br>£'000 | At<br>28 February<br>2005<br>£'000 | At<br>31 August<br>2005<br>£'000<br><i>restated</i> |
|--|------------------------------------|------------------------------------|---|
| <b>Fixed assets – Investments at market value</b>  | 86,205                             | 67,544                             | 75,092  |
| Current assets   | 3,853                              | 2,946                              | 1,683   |
| Current liabilities  | (641)                              | (487)                              | (132)   |
| <b>Net current assets</b>  | 3,212                              | 2,459                              | 1,551   |
| Performance fee provision  | (751)                              | (553)                              | (755)   |
| <b>Total net assets</b>  | 88,666                             | 69,450                             | 75,888  |
| 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                              | 5,936   |
| Capital reserves   | 47,781                             | 28,739                             | 34,456  |
| Revenue reserve  | 716                                | 542                                | 1,263   |
| <b>Equity shareholders' funds</b>  | 88,666                             | 69,450                             | 75,888  |
| <br>   |                                    |                                    |   |
| Net asset value per ordinary share<br>(bid price valuation current period,<br>mid price valuation previously)                  | 211.54p                            | 165.69p                            | 181.05p   |
| Net asset value per ordinary share, on a<br>portfolio bid price valuation basis and<br>excluding current year revenue reserves | 210.64p                            | 163.94p                            | 177.63p   |
| No. of ordinary shares in issue  | 41,914,660                         | 41,914,660                         | 41,914,660  |

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

|                                      | 6 months to<br>28 February<br>2006<br>£'000 | 6 months to<br>28 February<br>2005<br>£'000 | Year ended<br>31 August<br>2005<br>£'000 |
|--------------------------------------|---|---|--|
| Profit for the financial period/year | 13,700                                      | 11,786                                      | 18,224                                   |
| Dividends paid                       | (922)                                       | (838)                                       | (838)                                    |
|                                      | 12,778                                      | 10,948                                      | 17,386                                   |
| <br>                                 |   |   |  |
| Opening shareholders' funds          | 75,888                                      | 58,502                                      | 58,502                                   |
| Closing shareholders' funds          | 88,666                                      | 69,450                                      | 75,888                                   |

## CASH FLOW STATEMENT

|  | 6 months to<br>28 February<br>2006<br>£'000 | 6 months to<br>28 February<br>2005<br>£'000 |
|--|---|---|
| <b>Operating Activities</b>                          |   |   |
| Cash inflow from investment income and bank interest | 774   | 736   |
| Cash outflow from management expenses                | (1,319)                                     | (678)                                       |
| Cash outflow from purchase of investments            | (33,034)                                    | (27,535)                                    |
| Cash inflow from disposal of investments             | 36,496                                      | 30,143                                      |
| <b>Net Cash Inflow from Investing Activities</b>     | <u>2,917</u>                                | <u>2,666</u>                                |
| <b>Financing</b>                                     |   |   |
| Equity Dividends Paid                                | (922)                                       | (838)                                       |
| <b>Increase in Cash</b>                              | <u>1,995</u>                                | <u>1,828</u>                                |

## NOTES

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. They have been modified since the last reporting period, as a result of changes to UK accounting standards to harmonise with International Financial Reporting Standards (IFRS). Investments have been valued on a bid price basis with effect from the start of the Company's current financial year, commencing 1 September 2005. In prior periods securities were valued at their mid-market prices. The difference between bid and mid price valuations represented 0.73% of the portfolio at 28 February 2005 and 0.72% at 31 August 2005. Prior periods have not been restated.

In accordance with FRS 21, dividends payable are no longer recorded as liabilities until a legal requirement to pay them has arisen, which in the case of a final dividend is when declared by the AGM. The payment of the final dividend for the year ended 31 August 2005 did not become a legal obligation until the following year. Therefore this dividend is added back to the net assets and shareholders' funds shown in the statutory accounts as at 31 August 2005.

The restatement made as a result of this change in accounting policy was as follows:

|                                     | Year ended<br>31 August<br>2005<br>£'000 |
|-------------------------------------|--|
| Net assets                          |  |
| Net assets, as previously published | 74,966                                   |
| Proposed dividends written back     | 922                                      |
| As restated                         | <u>75,888</u>                            |

### *Purchase of own shares*

No shares were purchased for cancellation during the six months ended 28 February 2006.

### *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 2006 is expected to be paid in December 2006.

### *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 2006 are stated by reference to the 41,914,660 shares in issue during the period.

Bid price data for the comparative periods in this report are actual. For statistical data published from month to month at points occurring before 1 January 2006, the Company uses a standard conversion ratio to convert mid price valuations to bid, in accordance with the recommendations of the AITC.

## NOTES

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### *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 2005 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 2006.

## DIRECTORS AND ADVISERS

### DIRECTORS

Edward Davis (Chairman)  
Graham Barker  
Philip Rowen

### STOCKBROKER

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

### SOLICITOR

Freshfields Bruckhaus Deringer  
65 Fleet Street  
London EC4Y 1HS

### CUSTODIAN

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

### AUDITORS

KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB

### INVESTMENT MANAGER

Progressive European Markets Limited  
145-157 St John Street  
London EC1V 4RU

### SECRETARY & REGISTERED OFFICE

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

### BANKER

Lloyds Bank Plc  
34 Moorgate  
London EC2R 6PL

### REGISTRAR

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





**Progressive Asset Management Ltd**

145-157 St John Street

London

EC1V 4RU

+44 (0)20 7566 5580

info@pro-asset.com

**[www.pro-asset.com](http://www.pro-asset.com)**