
Advance UK Trust plc
Annual report 2008



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Investment objective

To achieve returns for shareholders in excess of the Benchmark Index by investing usually at a discount to net asset value, in a portfolio of funds which themselves invest in the UK or other developed markets or which are generalist funds or funds with a considerable exposure to such markets.

Benchmark

The FTSE All-Share Index

Performance for the year ended 31 August 2008

	Capital return %	Total return %
Advance UK Trust net asset value per share	-23.6	-22.9
Advance UK Trust share price	-24.3	-23.6
FTSE All-Share Index	-12.0	-8.7

Since launch

	Capital return %	Total return %
Advance UK Trust net asset value per share*	83.2	108.4
Advance UK Trust share price	67.2	92.2
FTSE All-Share Index	22.3	71.5

*figures based on an opening net asset value of 97.6p per share (net of share issue expenses).

Financial calendar

Annual General Meeting	10 December 2008 145-157 St John Street London EC1V 4RU
Ex-Dividend Date	26 November 2008
Dividend Record Date	28 November 2008
Dividend Payment Date	17 December 2008

Chairman's statement

Our net asset value, excluding current year revenue, at the end of August 2008 was 178.9 pence per share. Our shares traded at 167.25 pence on 31 August, equivalent to a 6.5% discount, slightly wider than its average for the year. Our discount has narrowed since and as at 31 October 2008 was 4.9%.

The revenue return per ordinary share was 2.1 pence and the Directors are happy to recommend a maintained dividend of 2.4 pence per share which will entail a modest transfer from our revenue reserve.

The year to the end of August 2008 was one of considerable financial turmoil and, if anything, conditions have deteriorated since then. This is only the second year since the inception of the Company that we have underperformed our benchmark, the last time being the year to the end of August 2002. The FTSE All-Share Index, our benchmark, fell by 12.0% over the year. Advance UK's net asset value fell by 23.6% and the share price by 24.3%. The Manager's report on page 2 seeks to explain on a stock by stock basis what happened to your portfolio over the year.

We bought back 3.5m shares during the year, shrinking our issued capital by 10.9% and this added 1.5 pence to our net asset value per share. The Directors are mindful that the shrinkage of the Company, both through market moves and share repurchases, limits the usefulness of share repurchases as a discount narrowing tool in current market conditions.

In the light of our performance this year, the Board, in conjunction with the Manager and after consulting shareholders, has reviewed and intends to amend the Company's investment policy. The investment policy section in the Directors' report on page 7 explains the proposed changes to our investment policy and objective.

The amendment to the Company's investment policy has the effect of removing any geographical constraint on investment by the Manager. For a considerable part of the period the prohibition on investing in emerging markets held back our performance both relative to our peer group and to our benchmark, since the FTSE All-Share Index is heavily weighted to emerging market resource stocks. The Board and the Manager feel though that, whilst the lack of exposure to this area of the market was a major contributor to our underperformance this year, two other factors had a greater effect. One was the sale of our more liquid investments to fund share repurchases; in the current environment liquidity is at a premium and our portfolio has suffered disproportionately. The other was a lack of discount narrowing opportunities in the market conditions that prevailed until recently.

In common with other trusts we are seeking a return of VAT paid by the Company on management fees. HMRC has started to make repayments but we are yet to recover anything for Advance UK.

Market conditions now are more favourable to Advance UK's original remit. The average discount on the stocks in the portfolio as at 31 October 2008 exceeded 30%. We will retrench to our core competency of tackling funds trading at wide discounts to net asset value. Asset allocation and stock selection decisions will be driven by the availability of discount narrowing opportunities. We know that shareholders are keen to see a recovery in performance and we believe the decisions we have taken in recent months will achieve that goal.

I have been privileged to be Chairman of your Company since its inception. After eleven years in the post I intend to stand down as Chairman at the forthcoming Annual General Meeting. Philip Rowen has agreed to take over the role and I wish him all the best.

The Annual General Meeting will be held on Wednesday 10 December 2008 at 12:00 noon on the third floor of 145-157 St. John Street, London EC1V 4RU. I look forward to seeing you there.

EG Davis
6 November 2008

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

Manager's report

The year to the end of August 2008 ranks as the worst in Advance UK's history. There are lessons to be learned from this experience. We spent some time reviewing the investment strategy with the Board and we talked to our largest shareholders. We are including a more detailed breakdown than usual of the factors that affected our performance over the year in this report. Our conclusion was that we underestimated the severity of the credit crisis and the extent to which investors would shun illiquid investments. We had sold our more liquid investments to fund our share buy-backs and the new issues we bought a couple of years ago have disappointed and are now trading at wide discounts.

The FTSE All-Share Index fell by 12.0% over the year to the end of August 2008. This fall, while significant has been overshadowed by events since the end of the period with the index falling by 13.4% in September alone. The press is full of analysis of the unfolding crisis. Our outlook statements have been warning about over indebted US consumers for years and we were incorporating our fears about what we thought might be a US led global slowdown into the portfolio for some time. As events transpired though the problem has become one of a global lack of liquidity.

It has been an eventful year in the closed-end fund market. The first part of the year was dominated by booming commodity prices fuelled by growth of emerging markets. Commodity producing countries benefitted, importers began to worry about inflation. A number of funds were launched to take advantage of these trends. Hedge funds were much in demand and very large amounts of new capital were raised for funds invested in this area. The collapse in property funds went from bad to worse however. The market started to see-saw as fears grew about the solvency of the US investment banks. By the end of the period the crisis in the Western banking industry was starting to spread to the real economy and recessionary fears were impacting commodity prices and producers.

Discount widening had the greatest impact on our portfolio, costing us £8.4m or 12.5% of our opening net asset value. The ten largest moves, positive and negative attributable to changes in discount levels were:

Speymill Deutsche Immobilien	-£1.9m
Develica Deutschland	-£1.3m
LMS Capital	-£970k
O12 Estates	-£510k
New Star Private Equity	-£490k
Marwyn Value Investors	-£480k
Private Equity Investors	-£410k
Ingenious Media Active Capital	-£410k
Guinness Flight VCT	-£347k
Prelude Trust	+£254k

The underlying net asset values of our holdings fell by £7.7m or 11.4% of our opening net asset value at the start of the financial year. The ten largest moves, positive and negative attributable to changes in underlying net asset values were:

Framlington Innovative	-£1.1m
Strategic Equity Capital	-£687k
Strathdon	-£591k
Herald	-£588k
Prelude Trust	-£580k
LMS Capital	+£454k
Aberforth Smaller Companies	-£436k
Henderson Opportunities	-£428k
Ingenious Media Active Capital	-£360k
Equity Partnership Investment Capital	-£360k

There are a few obvious patterns in these numbers. Exposure to smaller companies, private equity and property detracted from performance. Funds holding illiquid investments have been punished harshly. The discount widening in the German property companies is overstated as declining net asset values were not reflected in published numbers until after our year end. The same may be true of some of the private equity companies but, we believe, to a lesser extent.

Property

We reasoned that, as German property both residential (*Speymill Deutsche Immobilien*) and commercial (*Develica Deutschland*) had not participated in the property bull market elsewhere in Europe, it would prove defensive in the event of a slowdown. The high gearing on these companies has unnerved investors however. We advised Speymill to stop investing the proceeds of their "C" share issue and merge the "Ordinary" and "C" share portfolios early to reduce the overall leverage on the portfolio. They announced they would do this early in the summer. We suggested to Develica that they should sell property to reduce their gearing and they announced they were in negotiations to sell c10% of their portfolio in September.

O12 Estates was set up to exploit the regeneration of the east of London in advance of the 2012 Olympics. The investment theory may be sound but the combination of high gearing and falling property values generally has hit the fund. They sold one property during the year to shore up their balance sheet and may have to make further disposals.

UK smaller companies

Although we had reduced our UK smaller company exposure last year in anticipation of a slowing economy, we were still overweight. It seems to us that the UK economy could be one of the worst affected by the current slowdown and so we have continued to cut holdings in this area. We sold a large part of our *Framlington Innovative* holding during the year. This trust performed in-line with its peer group and has been fairly good at keeping its discount in-line as well.

Gartmore Smaller Companies was our second largest holding at the start of the year. We are pleased that we sold our holding last October as, in share price terms, this was one of the worst performing funds in the peer group over the year, falling by 30%. *Henderson Opportunities* fell by 37%. Its continuation vote came quite soon after its mandate change and we asked the Board to hold another one a year later so that investors could assess whether the change had worked. On current form it seems unlikely that it will survive. *Equity Partnership* also faces a continuation vote and again, its performance record would suggest that it will fail to get it passed.

We traded in and out of *Aberforth Smaller Companies*, selling our stock on a tighter discount but being hit by the net asset value fall. *Standard Life UK Smaller Companies* turned out to be the best performing fund in its peer group and this generated buyers of the trust. While we were disappointed that they abandoned their 5% discount objective, we had to accept that, given its small size, the fund could not aggressively buy in shares. We would like them to grow the fund and they are exploring how they might accomplish this. We had hoped they would be awarded the management contract for Throgmorton Trust (not one we held). Black Rock was awarded the contract with a mandate that includes an element of short-selling.

Strategic Equity Capital pointed to the poor performance of UK smaller companies to explain its dire returns. On launch though it billed itself as a different kind of fund, one which would deliver outperformance by influencing the strategic direction of the companies it invested in without going as far as taking them private. We are no longer convinced that this investment approach works. Its discount control mechanism should have triggered during the year as it traded wider than 10% discount for more than six months. It was unable to tackle the problem however. We think they should be thinking about beginning the process of winding up the fund now. The Board has introduced a continuation vote in 2010 as a sop to investors. We do not believe this goes far enough.

In contrast to *Strategic Equity Capital*, we do like the investment approach adopted by *Marwyn Value Investors*. They are using a buy and build strategy in a range of industries utilising companies quoted on the AIM market. They have far more influence over the management of these companies and have built up some successful businesses. We asked them to simplify their capital structure and they did so during the year. Their last set of results also acknowledged their wide discount and promised to address the problem.

Private equity

Our thinking on private equity was that venture portfolios constructed some time ago were probably ready to begin making profitable disposals. Large Cap. buy-out funds were probably paying too much for their investments and immature funds should be avoided. Cash rich funds would start to de-rate.

LMS Capital sold their largest investment, Energy Cranes, for a decent profit. This left them with a substantial cash pile and we and other investors expected them to use this to reduce their discount. Their management are more interested in growing the size of the Company over the long term. After several conversations with the Board and the managers they seem to have accepted that they cannot ignore the independent shareholders desire to see the near 50% discount on the shares narrow.

Ingenious Media Active Capital experienced a modest decline in its net asset value during the year. The share price fell sharply on very little volume around the time of their results announcement at the beginning of July. We talked to the management and they agreed to set aside some of their cash reserve to fund a buy-back programme. The implementation of this has been erratic however and the shares have given up most of their initial gain.

Strathdon's portfolio proved to be of very poor quality. The new fund managers are doing their best to salvage what they can. Our thinking on *Guinness Flight VCT* was that the net asset value had already been aggressively written down and we should take a stake and encourage the Board to address their discount. The Company is cash poor however and, while the net asset value is holding up well to date, there is not enough free cash to fund a buy-back; we may have to be patient. *Prelude's* managers told investors in February 2007 that the net asset value had been cut to a base from which it ought to grow but after two further net asset value write-downs investors decided enough was enough and we and others told the Board to wind up the fund. *Private Equity Investor* is generating cash from profitable disposals. The discount widening it has experienced seems odd when it has already told investors it intends to return more cash to shareholders.

New Star Private Equity disappointed us by failing to keep to its discount target. Unfortunately this has prevented it doing another deal to diversify its portfolio and increase its market capitalisation. The new managers are doing a decent job but *New Star* has not managed to attract new investors to the fund and there must be a question mark over its future.

Asset Management is gradually realising its portfolio and returning the proceeds to shareholders. It announced another cash distribution since our year end. *Eurovestech's* portfolio seems to be doing well. Depending on market conditions, we should not be too far away from a disposal of one or two of its largest investments.

Global generalists

The Board of *Alliance Trust* still seems to be set against share buy-backs to narrow its discount. We sold out of our holding early in the period. It was the worst performing of the large generalist trusts over the year. Since our year end the Chief Executive has left. We felt uncomfortable having so little invested in large cap. companies however and so reinvested some money in *Electric & General*.

Other UK

F&C UK Select is too small and did not have a good year; it may not survive much longer. *SVM UK Active* performed in line with its peer group. Its discount was too wide at the end of our period but has narrowed since. The income & growth funds tended to have the highest weightings in bank stocks and so had a poor year. *Invesco Income Growth* and *Schroder Income & Growth* fell into the middle of their peer group. *Keystone* though has had no exposure to the bank sector for some time and so outperformed.

Europe

Henderson Eurotrust did well over the year but *SR Europe* underperformed the peer group and its discount was quite wide at the period end. Sterling depreciated against the euro as we had anticipated.

Japan

We thought Japan, having endured a long period of quite painful deleveraging, might do relatively well. We seem to be right in that the yen is strengthening but its equity market has performed quite badly. Our large cap. exposure is through *Baillie Gifford Japan* which had an uncharacteristically poor year. In the small cap. area we hold *Baillie Gifford Shin Nippon* and *Melchior Japan*. *Melchior* had a dreadful time as its manager took a major bet on financials in the spring and then rapidly reversed that position having taken a big hit to its net asset value. Fortunately we had a small weighting in the Company at the time. We feel that this trust is too small now to continue as an independent entity and we have been adding to our position since the period end.

The future

At the moment most investors seem to be mesmerised by the credit crunch. There are some downright peculiar ratings being applied to some holdings, absurd premia as well as wide discounts. We will endeavour to exploit anomalies where we can. The main emphasis though will be on working our way through the portfolio, assisting other investors to narrow discounts, improve liquidity and replace underperforming managers. There are plenty of opportunities out there to make money. Our strategic review concluded that we should become a global trust. This expands our potential universe but we will only utilise this increased freedom where a discount narrowing opportunity exists.

Progressive European Markets Limited

6 November 2008

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 2008	Holding	Percentage of voting rights	Book cost £'000	Value as at £'000	Percentage of total net assets
Ingenious Media Active Capital	4,400,000	3.1%	3,662	3,036	5.8%
Henderson Eurotrust plc	600,000	2.6%	2,511	2,844	5.5%
Asset Management Investment Company	2,450,000	12.7%	1,607	2,548	4.9%
Framlington Innovative Growth Trust	650,000	2.6%	2,321	2,132	4.1%
LMS Capital plc	3,750,000	1.3%	2,399	2,128	4.1%
Electric & General IT	550,000	0.8%	2,376	2,118	4.1%
Herald Investment Trust	700,000	0.8%	2,457	2,100	4.0%
Eurovestech plc	12,525,000	4.0%	1,790	2,098	4.0%
New Star Private Equity Investment Trust	810,000	4.1%	1,653	2,041	3.9%
SVM UK Active Fund	1,200,000	3.3%	1,980	1,968	3.8%
Top Ten Holdings			22,756	23,013	44.2%

At 31 August 2008	Holding	Percentage of voting rights	Book cost £'000	Value as at £'000	Percentage of total net assets
Private Equity	1,350,000	3.2%	2,137	1,795	3.5%
Manchester & London IT	500,000	3.6%	1,652	1,615	3.1%
Standard Life UK Smaller	1,375,000	4.2%	1,396	1,554	3.0%
SR Europe Investment Trust	800,000	2.7%	1,824	1,496	2.9%
Montanaro European Smaller	450,000	2.6%	1,455	1,481	2.8%
Strategic Equity	2,550,000	3.5%	2,375	1,377	2.6%
T2 Income Fund+	1,700,000	4.0%	1,601	1,343	2.6%
Marwyn Value Investors+	2,140,673	2.6%	2,050	1,327	2.6%
Renaissance US Growth	525,000	2.7%	1,220	1,197	2.3%
Equity Partnership Investment	1,250,000	3.6%	1,390	1,075	2.1%
Princess Private Equity Holding>	185,880	0.3%	1,008	996	1.9%
Baillie Gifford Japan Trust	600,000	1.0%	1,179	948	1.8%
Northern Atlantic Smaller Comp IT	105,000	0.7%	956	892	1.7%
Keystone Investment Trust	85,000	0.6%	811	871	1.7%
Witan Investment Trust	200,000	0.1%	925	860	1.7%

At 31 August 2008	Holding	Percentage of voting rights	Book cost £'000	Value as at £'000	Percentage of total net assets
Schroder Income Growth Trust	500,000	0.7%	1,034	855	1.6%
Premier Energy & Water Trust	469,000	2.6%	930	825	1.6%
Henderson Opportunities Trust	200,000	2.4%	1,295	810	1.6%
Speymill Deutsche Immobilien Company	2,475,000	1.5%	2,179	782	1.5%
ACP Mezzanine Limited	1,391,402	1.4%	797	695	1.3%
JP Morgan Fleming European Fledgling	100,000	0.2%	623	645	1.2%
Baillie Gifford Shin Nippon	575,000	1.9%	857	621	1.2%
F & C UK Select Trust	750,000	1.3%	720	585	1.1%
Invesco Income Growth Trust	312,269	0.5%	690	578	1.1%
Develica Deutschland	4,000,000	1.6%	1,674	548	1.1%
Guinness Flight Venture Capital Trust	2,025,000	7.5%	702	405	0.8%
I.F.I (Istit Industra)*	31,808	0.1%	346	377	0.7%
O Twelve Estates+	1,750,000	1.4%	1,186	332	0.6%
Investor Capital A Shares	330,000	0.1%	269	264	0.5%
Strathdon Investment Trust+	6,495,000	12.5%	1,876	260	0.5%
Real Estate Opportunities (CULS)	250,000	n/a	236	213	0.4%
Melchior Japan IT	600,000	0.7%	259	185	0.4%
Investor Capital B Shares	110,000	0.0%	90	88	0.2%
Inflexion<	7,000,000	3.9%	–	42	0.1%
Total Holdings in Companies			60,498	50,950	98.0%
Other net assets				1,044	2.0%
Total net assets				51,994	100.0%

* Closed end fund listed on the Milan Stock Exchange

> Closed end fund listed on the German Stock Exchange

+ AIM quoted investments

< Unquoted (in liquidation)

Directors' report

The directors present their report and accounts for the year ended 31 August 2008.

Business review

Investment policy

During the year under review and currently the Company's investment objective and policy is:-

"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."

Subject to the passing of resolution number 9 at the Company's annual general meeting, the Company's investment objective and policy will be:-

"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."

The change has the effect of bringing funds that invest in emerging markets within the remit. By our estimate, these funds account for between a fifth and a quarter of the funds traded in London by market capitalisation.

Distribution of the portfolio relative to the benchmark

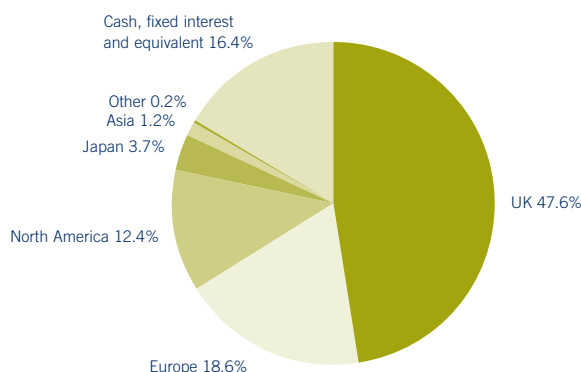
The benchmark is the FTSE All-Share Index which, as an index of over 700 of the largest stocks quoted on the London market, is often taken to be representative of the UK economy. However, it should be noted that the London Stock Exchange has become the stock market of choice for many of the emerging world's largest companies and the largest stocks mainly consist of multinational companies with the majority of their revenues derived outside the UK. Despite this the Board believes that the FTSE All-Share Index is an appropriate benchmark. Nevertheless, the underlying portfolio tends to be more diversified than the FTSE All-Share Index and on a look through basis usually differs markedly from it.

A performance fee is only payable to the Manager if the benchmark is beaten and a NAV is achieved which is greater than the NAV at the time that the previous performance fee was paid. This means that the Manager should be focused on not losing money for shareholders as well as beating the Benchmark.

Risk diversification

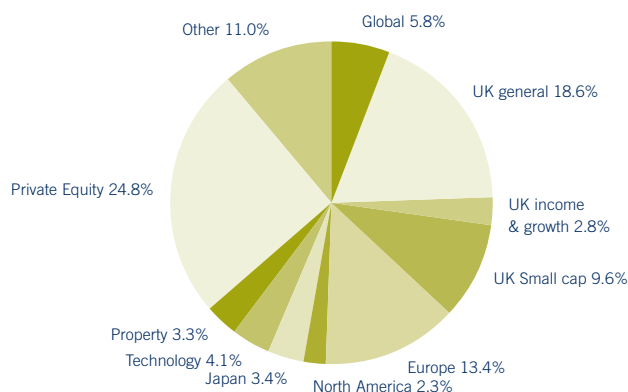
At the end of August 2008 the geographic distribution of the portfolio on a look through basis was estimated to be:

Geographic distribution chart



At the end of August 2008 the distribution of the portfolio by type of fund was:

Portfolio distribution chart by type of fund



The Board does not believe that it should impose prescriptive limits on the Manager for the geographic breakdown and distribution by type of fund as this could have a negative impact on the Company's performance. The geographic spread is an approximation by the Manager which is based on brokers' estimates of each fund's underlying asset allocation. The weighting in cash, fixed interest and equivalent investments can appear high because a number of the Company's investments hold cash to offset gearing (at 31 August 2008, if the gearing had been offset against cash then the weighting in this area would have been reduced by 14.1%). In addition the Company holds a number of private equity funds that have high cash weightings. Although the current investment objective prohibits investment in Asia (apart from in Japan) and emerging markets, the Company has had some modest exposure in these regions through holdings in global funds.

The Company can and has held very large positions in certain funds. However, the Company, as an investment trust, is prohibited from holding more than 15% of the portfolio in any company that is not itself an investment trust. The Company has not held many assets which have represented greater than 15% of the portfolio. The diversification within investee funds is taken into account when deciding on the size of each investment so the Company's exposure to any one underlying company should never be excessive. As at 31 August 2008, the Company's largest holding, Ingenious Media Active Capital, represented 6.0% of the Company's total portfolio, Ingenious Media Active Capital held 16 holdings at 31 August 2008.

Tracking

If it is the risk of underperforming the benchmark that is being considered (rather than the more fundamental and pertinent risk of losing money), the Company is sometimes very underweight the largest stocks in the Benchmark Index. Though the Board believes it has little relevance, for those who are interested, over the five year period to the end of August 2008 the Company's tracking error was approximately 7.3%.

Hedging

The Manager does not hedge market and currency exposure. Instead the prospects for markets and currencies are factored into the Manager's stock selection decisions.

Gearing

The Company does not use gearing because many of the underlying funds are geared.

Portfolio beta

Portfolio gearing and discount movements can amplify market moves and the directors believe that this is the most likely reason why the Company's beta (a measure of how fast the portfolio moves in response to a given move in the Benchmark Index) has historically been close to or above 1.

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 a positive absolute capital 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 4 describes in detail how that performance has been achieved.

The Company's NAV per share underperformed the Benchmark by 11.6% in this financial year. The Company has outperformed its benchmark by 60.9% since the Company's launch.

The NAV total return was -22.9% in the year. The LIBOR rate of return was 6.0% for the same period. The NAV total return for the period from the Company's launch to 31 August 2008 was 108.4%. The LIBOR annually re-invested return over the same period was 76.9%.

Revenue result and dividend

The Company's revenue profit after tax for the period amounted to £625,535 (2007: £784,984).

At the Annual General Meeting on 10 December 2008 a resolution will be proposed to approve a final dividend of 2.4p (2007: 2.4p) per ordinary share, absorbing £676,480 (2007: £739,192) based on the shares in issue at the date of this report. The amount transferred from distributable reserves will be £50,945 (2007: transferred to reserves £45,792). The final dividend will be paid on 17 December 2008 to shareholders on the register at 28 November 2008. The ordinary shares will go ex-dividend on 26 November 2008.

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 15 of the accounts on page 25.

Internal risks

The control of risks related to the Company's business areas are dealt with in the report on Corporate Governance on page 15.

Outlook

The outlook for the Company is discussed in the Chairman's Statement on page 1 and the Manager's Report on pages 2 to 4.

Other information

Capital structure

At the year end the Company's issued share capital comprised of 31,600,522 Ordinary Shares, each of 1p nominal value. Of these 2,880,862 were held in Treasury. Therefore the number of shares with voting rights in issue was 28,719,660. Each Ordinary Share held entitles the holder to one vote. All shares hold equal voting rights and there are no restrictions on voting rights. Voting deadlines are stated in the Notice of Meeting and Form of Proxy and are in accordance with the Companies Act 2006.

There are no restrictions on the transfer of Shares, nor are there any limitations or special rights associated with the Ordinary Shares.

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 2008. The Company will seek such approval when these accounts are submitted. Approval has been received for all periods up to 31 August 2007. The Company is an investment company within the meaning of S833 of the Companies Act 2006.

Renewal of authority to purchase own shares

The authority granted to the Company to purchase its own shares will expire, unless renewed, at the conclusion of the Annual General Meeting to be held on 10 December 2008. During the year ended 31 August 2008, 3,500,000 shares were purchased for cancellation at an aggregate cost of £7,269,000. As at 31 August 2008, 2,880,862 shares were held in Treasury.

Since the year end, a further 533,000 shares have been purchased at an aggregate cost of £882,027. These shares have been cancelled.

The Directors will continue to seek to protect shareholders from excessive discounts and discount volatility. The Directors therefore recommend that the authority be renewed and a resolution to that effect will be put to the Annual General Meeting (item 11 in the Notice of Meeting).

Articles of association

It is proposed in resolution 10 to adopt new articles of association (the "New Articles") in order to update the Company's current articles of association (the "Current Articles") primarily to take account of changes in English company law brought about by the Companies Act 2006.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more changes which merely reflect changes made by the Companies Act 2006 have not been noted below. The New Articles showing all of the changes to the Current Articles are available for inspection at the registered office of the Company.

1 Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 (the "2006 Act") are in the main amended to bring them into line with the 2006 Act. Certain examples of such provisions include provisions as to the variation of class rights and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

2 Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended, as the concept of extraordinary resolutions has not been retained under the 2006 Act.

The Current Articles enable members to act by written resolution. Under the Companies Act 2006 public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

3 Variation of class rights

The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the 2006 Act. The relevant provisions have therefore been amended in the New Articles.

4 Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the 2006 Act. In particular, an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

5 Votes of members

Under the 2006 Act, proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The 2006 Act also entitles proxies to speak. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may be appointed. The New Articles reflect these new provisions.

6 Age of directors on appointment

The Current Articles contain a provision limiting the age at which a director can be appointed. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

7 Electronic and web communications

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with shareholders by electronic and/or website communications. The New Articles continue to allow communications to shareholders in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a shareholder by means of website communication, the relevant shareholder must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the shareholder (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a shareholder can always request a hard copy version of the document or information.

8 Directors' indemnities and loans to fund expenditure

The 2006 Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

9 Joint Holders

In order to make the flow of information more efficient between the Company and our joint shareholders, the Articles are being amended so that where there are joint shareholders, anything agreed or specified with the Company by any one joint shareholder will have been deemed to have been agreed or specified with the Company by all the joint shareholders.

10 Conflicts of interest

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

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 2008.

Bank and overdraft facility

Lloyds TSB Bank plc was the Company's banker. The Company has an overdraft facility of up to £1m with Lloyds TSB. The facility is repayable on demand and was renewed on 31 March 2008.

Directors' shareholdings

At 31 August 2008 and at the date of this report the directors' shareholdings in the Company, all of which were beneficially owned, were:

		2008	2007
EG Davis	Ordinary shares	50,000	50,000
GJ Barker	Ordinary shares	42,603	42,603
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.

No performance fee of was payable in respect of the year ended 31 August 2008 (2007: £361,724 excluding VAT).

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 2008.

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 total voting rights of the Company:

	Ordinary Shares	%
East Riding of Yorkshire Council	5,300,000	18.80
Lazard Asset Management LLC	4,278,999	15.18
Legal & General Group plc	2,500,000	8.87
JPMorgan Chase & Co.	2,250,000	7.98
British Empire Securities and General Trust plc	2,114,546	7.50
SVM Asset Management Limited	2,066,562	7.33
Universities Superannuation Scheme Limited	1,500,000	5.32
West Midland Pension Fund	1,499,999	5.32

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.

By order of the Board
Cavendish Administration Limited
Company Secretary

6 November 2008

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements 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 of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' 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.

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company; and
- The directors' Report includes a fair view of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties they face.

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 2008.

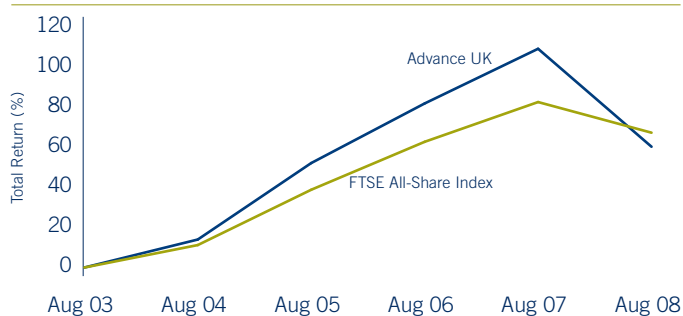
Directors' service contracts

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 re-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.

Performance chart



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:

	2008 £	2007 £
Edward Davis	27,500	27,500
Graham Barker	20,000	20,000
Philip Rowen	15,000	15,000
Keith Niven (appointed 1 November 2006)	15,000	12,500

By order of the Board
Cavendish Administration Limited
Company Secretary

6 November 2008

Corporate governance

The Financial Reporting Council has issued a Combined Code on Corporate Governance (the "Combined Code"). 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 enables it to comply with 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 69) 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 69) 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. From 1990 to 1994 he was an executive director of Fidelity Investment Services Limited.

Philip Rowen (aged 60) 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 60) 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 a 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 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 2008. Mr Davis and Mr Rowen attended all of the meetings and Mr Barker and Mr Niven attended five meetings.

Re-election of directors

The Board has decided on a voluntary basis that all directors should stand for re-election each year. The Board considers that all the directors are well qualified to continue to act as directors of the Company and recommends that their re-appointments should proceed at the forthcoming Annual General Meeting.

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 2008. All the committee members attended both meetings.

Remuneration and Management Engagement Committee

The Remuneration and Management Engagement Committee comprises all the members of the Board and meets formally each year 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 13 of these financial statements.

There was one meeting of the Remuneration and Management Engagement Committee during the year ended 31 August 2008 and all the committee members attended that meeting.

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 will assess whether candidates have the necessary skills and time available to devote to the job.

There were no meetings of the Nominations Committee during the year ended 31 August 2008.

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 the year 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 12 and a Statement of Going Concern is on page 11. The Report of the Independent Auditors is on page 17.

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 4.

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 Combined 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

Independent auditors' report 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 2008 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 12.

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.

In addition we 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 2006 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 2008 and of its loss 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

6 November 2008

Income statement

For the year ended 31 August 2008	Note	Revenue £'000	Capital £'000	2008 Total £'000	Revenue £'000	Capital £'000	2007 Total £'000
Gains on investments							
Realised by reference to revalued book costs		–	(3,734)	(3,734)	–	6,492	6,492
Transfer from capital reserve – investments held		–	4,620	4,620	–	7,344	7,344
Total gains on disposal of investments		–	886	886	–	13,836	13,836
Revaluation of investments		–	(12,505)	(12,505)	–	4,166	4,166
Transfer to capital reserve – disposal of investments		–	(4,620)	(4,620)	–	(7,344)	(7,344)
Total losses on investments held		–	(17,125)	(17,125)	–	(3,178)	(3,178)
Income							
Income	2	1,231	–	1,231	1,472	–	1,472
Investment management fees	3	(287)	(574)	(861)	(363)	(1,153)	(1,516)
Other expenses	3	(315)	–	(315)	(310)	–	(310)
Return before finance costs and tax		629	(16,813)	(16,184)	799	9,505	10,304
Finance costs		(4)	(9)	(13)	(2)	(3)	(5)
Return before tax		625	(16,822)	(16,197)	797	9,502	10,299
Taxation	5	–	–	–	(12)	–	(12)
Return on ordinary activities after taxation		625	(16,822)	(16,197)	785	9,502	10,287
Return per ordinary share	7	2.10p	(56.57)p	(54.47)p	2.04p	24.68p	26.72p

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 22 to 26 form part of these accounts.

Balance sheet

At 31 August 2008	Notes	2008 £'000	2007 £'000
Fixed assets			
Investments at market value	8	50,950	76,284
Current assets			
Sales for future settlement		–	379
Other debtors		106	87
Cash at bank and in hand		1,475	876
		1,581	1,342
Creditors: amounts falling due within one year			
Purchases for future settlement		414	871
Accrued liabilities		123	556
		537	1,427
Net current assets/(liabilities)		1044	(85)
Total net assets		51,994	76,199
Capital and reserves			
Share capital	9	316	356
Share premium account		33,814	33,814
Capital redemption reserve		185	145
Capital reserve – disposal of investments	10	26,175	33,141
Capital reserve – investments held	11	(9,548)	7,577
Revenue reserve		1,052	1,166
Equity shareholders' funds		51,994	76,199
Net assets per ordinary share	12	181.04p	236.50p

Approved by the Board of Directors on 6 November 2008 and signed on their behalf by:

Edward Davis

Graham Barker

The notes on pages 22 to 26 form part of these accounts.

Reconciliation of movements in shareholders' funds

For the year ended 31 August 2008	Notes	Share Capital £'000	Share Premium Account £'000	Share Purchase Reserve £'000	Capital Redemption Reserve £'000	Capital Reserve – disposal of investments £'000	Capital Reserve – investments held £'000	Revenue Reserve £'000	Total £'000
Opening shareholders' funds		356	33,814	–	145	33,141	7,577	1,166	76,199
Shares repurchased during the year		(40)	–	–	40	(7,269)	–	–	(7,269)
Profit for the year		–	–	–	–	303	(17,125)	625	(16,197)
Dividend paid (Dec 2007)	6	–	–	–	–	–	–	(739)	(739)
Closing shareholders' funds		316	33,814	–	185	26,175	(9,548)	1,052	51,994

For the year ended 31 August 2007	Notes	Share Capital £'000	Share Premium Account £'000	Share Purchase Reserve £'000	Capital Redemption Reserve £'000	Capital Reserve – disposal of investments £'000	Capital Reserve – investments held £'000	Revenue Reserve £'000	Total £'000
Opening shareholders' funds		419	33,814	5,936	82	36,386	10,755	1,303	88,695
Shares repurchased during the year		(63)	–	(5,936)	63	(15,925)	–	–	(21,861)
Profit for the year		–	–	–	–	12,680	(3,178)	785	10,287
Dividend paid (Dec 2006)	6	–	–	–	–	–	–	(922)	(922)
Closing shareholders' funds		356	33,814	–	145	33,141	7,577	1,166	76,199

The notes on pages 22 to 26 form part of these accounts.

Cash flow statement

For the year ended 31 August 2008	Notes	2008 £'000	2007 £'000
Operating activities			
Cash inflow from investment income and bank interest		1,213	1,441
Cash outflow from management expenses		(1,610)	(1,895)
Cash inflow from disposal of investments		28,708	64,557
Cash outflow from purchase of investments		(19,871)	(45,370)
Interest paid		(13)	(5)
Net cash inflow from operating activities	13	8,427	18,728
Financing			
Share repurchases		(7,089)	(21,642)
Equity dividends paid		(739)	(922)
Increase/(decrease) in cash		599	(3,836)
Opening balance		876	4,712
Cash inflow/(outflow)		599	(3,836)
Balance at 31 August		1,475	876

The notes on pages 22 to 26 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 except where the SORP has been superseded by 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 capital reserve designated for disposal of investments.

Changes in fair value are included in the Income Statement as capital items. In accordance with Tech 01/08 guidance issued by the Institute of Chartered Accountants of England and Wales, changes in fair value of investments that can be readily convertible into cash are classified as realised gains/losses and those that cannot be readily convertible to cash are classified as unrealised gains/losses (see notes 10,11).

(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.

(f) Foreign currencies

Income and expenditure in foreign currencies are translated into Sterling at the rate of exchange ruling at the time of such expenditure or income recognition. Assets and liabilities in foreign currencies are translated into Sterling at market rates of exchange ruling at the balance sheet date. Transaction gains and losses on retranslating investments are recorded as capital items.

2 Income

	2008 £'000	2007 £'000
Income from investments:		
Franked dividends from listed securities	941	1,352
Unfranked dividends from listed securities	234	42
Other income:		
Interest receivable	49	72
Bond interest income	2	6
Other	5	–
Total income	1,231	1,472

3 Administration expenses

	Revenue £'000	Capital £'000	2008 Total £'000
Investment management fees			
– monthly	287	574	861
– performance fee	–	–	–
	287	574	861
Administration fees	90	–	90
Custodian's fees	16	–	16
Directors' fees	86	–	86
Auditors' fees – audit	24	–	24
– other services	12	–	12
Brokers' consultancy fees	29	–	29
Miscellaneous expenses	58	–	58
	315	–	315
Total administration expenses	602	574	1,176

3 Administration expenses continued

	Revenue £'000	Capital £'000	2007 Total £'000
Investment management fees			
– monthly	363	728	1,091
– performance fee	–	425	425
	363	1,153	1,516
Administration fees	90	–	90
Custodian's fees	18	–	18
Directors' fees	83	–	83
Auditors' fees – audit	22	–	22
– other services	7	–	7
Brokers' consultancy fees	29	–	29
Miscellaneous expenses	61	–	61
	310	–	310
Total administration expenses	673	1,153	1,826

The total of expenses represented 2.26% (2007: 2.40%) of the total net asset value at the end of the year.

As a consequence of a legal test case, VAT on management fees which was paid in the current year and previous years may become recoverable. The Company has not paid any VAT on management fees since October 2007. From 1 March 2001 until October 2007 (when VAT ceased to be payable on management fees) the Company suffered £1,089,000 of VAT on management fees. Agreement has not yet been reached as to how much will be recovered and therefore no amount in respect of this contingent asset has been recognised in these accounts.

4 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 3.

5 Taxation

	Revenue £'000	Capital £'000	2008 Total £'000
Tax on foreign dividends	–	–	–
	–	–	–
	Revenue £'000	Capital £'000	2007 Total £'000
Tax on foreign dividends	12	–	12
	12	–	12

The Company was subject to UK corporation tax at 30% until 31 March 2008, and is subject to UK corporation tax at 28% from 1 April 2008 onwards. 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 29.17% (pro rata 7 months at 30%, 5 months at 28%, due to change in corporation tax rate reducing to 28% for the year commencing April 2008) (2007: 30%). The differences are explained below:

	2008 £'000	2007 £'000
Revenue on ordinary activities before taxation	625	797
Theoretical tax at UK corporation tax rate of 29.17%	182	239
Effects of:		
UK dividends which are not taxable	(274)	(418)
Excess management expenses	262	525
Overseas taxation	–	12
Expenses charged to capital account for which a deduction is claimed	(170)	(346)
Actual current charge	–	12

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

At 31 August 2008, the Company had surplus management expenses of £11,473,000 (2007: £10,575,000). 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.

6 Ordinary dividends

	2008 £'000	2007 £'000
Dividends reflected in the financial statements:		
Final dividend paid for the year ended 31 August 2007 of 2.4p (2006: 2.2p) per share	739	922
Dividends not reflected in the financial statements:		
Recommended ordinary dividend of 2.4p (2007: 2.4p) per share	676	739

7 Return per ordinary share

Basic revenue return per share is based on the net revenue return on ordinary activities after taxation of £625,535 (2007: £784,984) attributable to the weighted average of 29,737,149 (2007: 38,503,126) ordinary shares of 1p in issue.

Basic capital return per share is based on the net capital loss for the financial year of £16,822,000 (2007: net gain of £9,502,000) attributable to the weighted average of 29,737,149 (2007: 38,503,126) ordinary shares of 1p in issue.

8 Investments at market value

	2008 £'000	2007 £'000
Analysis of closing balance:		
UK quoted securities	49,535	73,892
UK unquoted securities	42	70
Overseas quoted securities	1,373	2,322
Total fixed asset investments	50,950	76,284
Movements during the year:		
Opening balance of investments, at cost	68,707	74,403
Additions, at cost	19,233	45,370
Disposals, at cost	(27,442)	(51,066)
Cost of investments at 31 August	60,498	68,707
Revaluation of investments to market value:		
Opening balance of capital reserve – investments held	7,577	10,755
Transfer to capital reserve – disposal of investments gains previously recognised as capital reserves – investments held at previous balance sheet date	(4,620)	(7,344)
(Decrease)/increase in appreciation on investments held	(12,505)	4,166
Balance at 31 August	(9,548)	7,577
Market value of investments at 31 August	50,950	76,284

During the year, the Company incurred transaction costs on purchases totalling in aggregate £106,000 (2007: £220,000) and on disposals totalling in aggregate £50,000 (2007: £120,000).

9 Share capital

		2008	2007
At 31 August			
Authorised			
Ordinary shares of 1p	Number	150,000,000	150,000,000
	£'000	1,500	1,500
Allotted, issued and fully paid			
Ordinary shares of 1p	Number	28,719,660	32,219,600
	£'000	287	322

In addition to the above, the Company held 2,880,862 (2007: 3,388,088) Ordinary Shares in Treasury.

10 Capital reserve – disposal of investments

	2008 £'000	2007 £'000
Opening balance	33,141	36,386
Gains on disposal of investments by reference to revalued book costs	(3,732)	6,492
Gains on disposals recognised as capital reserves – investments held in the previous year	4,620	7,344
Net realised foreign exchange loss	(2)	(1)
Total gains on disposal of investments	886	13,835
Investment management fees charged to capital	(574)	(724)
Accrued performance fee charged to capital	–	(429)
Shares repurchased	(7,269)	(15,924)
Interest charged to capital	(9)	(3)
Total decrease in capital reserve – disposal of investments	(6,966)	(3,245)
Balance at 31 August	26,175	33,141

The capital reserve – disposal of investments (previously called realised capital reserve) represents those realised profits and losses arising on the disposal of investments.

11 Capital reserve – investments held

	2008 £'000	2007 £'000
Opening balance	7,577	10,755
Revaluation of investments	(12,505)	4,166
Transfer capital reserve – disposal of investments	(4,620)	(7,344)
Balance at 31 August	(9,548)	7,577

The capital reserve – investments held (previously called unrealised capital reserve) represents those realised and unrealised profits and losses arising on the revaluation of investments held.

The Company has chosen not to restate comparative reserves for the Tech 01/08 change in realised and unrealised reserves.

12 Net assets per ordinary share

The figure for net assets per ordinary share is based on £51,994,000 (2007: £76,199,000) divided by 28,719,660 (2007: 32,219,660)

Ordinary Shares in issue at the Balance Sheet date.

The net assets per ordinary share figure excluding current year revenue was 178.89p at the year end (2007: 234.06p).

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

	2008 £'000	2007 £'000
Operating profit	(16,184)	10,304
Less: interest payable	(13)	(5)
Less: taxation	–	(12)
Realisation of investments at book cost	27,441	51,067
Purchase of investments	(19,233)	(45,370)
Decrease/(increase) in debtors	362	347
Increase/(decrease) in creditors	(1,071)	(781)
Adjustment for losses on investments held	17,125	3,178
Net cash flow from operating activities	8,427	18,728

14 Related party transactions

Details of the management contract and the administration and secretarial contract can be found in the Directors' Report on pages 10 and 11. Fees payable to the investment manager and to the administrator/company secretary are detailed in note 3 on page 22; the relevant amounts outstanding as accruals comprised a monthly management fee of £64,293 (2007: £90,912) a performance fee of £nil (2007: £425,025) and an administration fee of £7,508 (2007: £7,508) all figures including VAT.

15 Risk profile

The investment policy and objectives of the Company are stated on page 7.

Market risks

(i) Other price risks

The Company's portfolio comprises investments in listed closed-end investment companies. These companies invest in turn in a wide variety of equities, bonds, property, unlisted securities (private equity), derivatives and cash. The mechanisms that drive the market valuations of these assets vary from market to market, from country to country and from industrial sector to industrial sector. The spread of investments within the portfolio should mitigate the degree of risk in the portfolio. An analysis of the portfolio by reference to the type of fund is given on page 7.

Listed investment companies frequently trade at a substantial and fluctuating discount to their net asset value. Changes in discount levels can have a marked impact on our portfolio. To mitigate this, the Company has a policy of buying the majority of its holdings at high discounts at the time of investment and has a pro-active policy toward encouraging the narrowing of discounts.

(ii) Foreign currency risks

The Company's investments are predominantly priced in sterling although the underlying holdings in investee funds may be denominated in foreign currencies and stocks traded in one market are frequently influenced by exchange rate moves in other markets. Details of the Company's holdings are shown on pages 5 and 6 and include notes of the holdings listed outside the United Kingdom. An analysis of the funds by reference to the currency in which they are priced is given at the end of this note. An analysis of the funds by reference to their geographic focus is given on page 7.

(iii) Interest rate risk

With the exception of cash, no interest rate risks arise in respect of other current assets. Cash at bank at 31 August 2008 included £1,454,041 (2007: £815,000) held by the custodian, The Northern Trust Company. All cash at bank is sterling and receives interest at the variable interest rates of the bank or custodian.

To some extent all of the funds the Company invests in are sensitive to movements in interest rates in their home markets. Funds that invest in bonds and other fixed interest securities are most likely to react to interest rate changes and funds that invest in property are particularly sensitive to movements in long-term rates.

Some of the funds the Company holds have gearing. The way in which the gearing is achieved varies from fund to fund and from time to time. Some have fixed their interest rates others are exposed to fluctuations in base rates or reference rates such as LIBOR. The funds may be free to change the amount and type of gearing without informing shareholders (though usually within parameters set by their Boards) and, for that reason, the effect of interest rate changes on the Company's portfolio cannot be estimated with any certainty.

(iv) Gearing and Derivatives

The Company has an overdraft facility with Lloyds TSB Bank which is used occasionally, most usually to maintain portfolio exposure to markets at times when the Manager is aware of a prospective return of capital from an investment. The Board has mandated that the Company will not use gearing in other circumstances. The Board has also prohibited the Manager from using derivatives to enhance or reduce market exposure within the portfolio.

(v) Sensitivity analysis

The Company had cash in the portfolio at the year end and no borrowing. Therefore a 5% increase or decrease in the valuation of the investment portfolio at the end of August 2008 would have resulted in a 4.9% corresponding increase or decrease in the Company's net asset value, all other things being equal.

The effect of changes in the valuations of various indices and currencies is not easily quantifiable. Recent market moves suggest that most asset classes and markets are highly correlated (as they almost all share in the same investor base) so any analysis of the sensitivity of our asset value to a move in any index in isolation could be misleading. A strengthening of sterling relative to all other currencies would be detrimental to the valuation of the Company and vice versa.

Liquidity

All investments of the Company with the exception of Inflexion plc are made into quoted securities. 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.

The Manager has estimated the percentages of the portfolio that could be liquidated within various timescales. The results, which are based on average daily volumes for the six months until the start of October 2008, are shown below.

Less than one month	40.1%
Between one and three months	31.4%
Between three months and one year	21.9%
Between one year and three years	6.1%
More than three years	0.5%

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:

	Interest bearing £'000	Non-interest bearing £'000	2008 Total £'000
Equity investments:			
– £ sterling	–	47,552	47,552
– € Euro	–	3,398	3,398
Total investments	–	50,950	50,950
Cash at bank			
Floating rate – £ sterling	1,475	–	1,475
Short term debtors – £ sterling	–	106	106
Short term creditors – £ sterling	–	(537)	(537)
	1,475	50,519	51,994

The Company's financial assets comprised: continued

	Interest bearing £'000	Non-interest bearing £'000	2007 Total £'000
Equity investments:			
– £ sterling	–	70,030	70,030
– € Euro	–	6,254	6,254
Total investments	–	76,284	76,284
Cash at bank			
Floating rate – £ sterling	876	–	876
Short term debtors – £ sterling	–	466	466
Short term creditors – £ sterling	–	(1,427)	(1,427)
	876	75,323	76,199

Directors, manager and advisers

Directors

EG Davis (chairman)
GJ Barker
PJ Rowen
KM Niven

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
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Registered office*

145-157 St John Street
London EC1V 4RU

Investment manager

Progressive European Markets Limited
145-157 St John Street
London EC1V 4RU
Telephone: 020 7566 5530
www.pro-asset.com

Secretary and administrator

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

Auditor

KPMG Audit plc
8 Salisbury Square
London EC4Y 8BB

Custodian

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

Savings plan administrators

Jarvis Investment Management plc
Telephone: 0870 224 1112

*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, 145-157 St John Street, London EC1V 4RU on Wednesday 10 December 2008 at 12.00 noon for the following purposes:

Ordinary Business

- 1 To receive and adopt the financial statements for the year ended 31 August 2008, 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 Niven as a director of the Company.
- 5 To re-elect Mr Rowen 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 2.4p per ordinary share in respect of the year ended 31 August 2008.
- 8 To approve the Directors' Remuneration Report.

Special Business

- 9 To amend the Company's investment objective and policy to:

"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."

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

10 THAT the Articles of Association produced to the Meeting and initialled by the Chairman for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

11 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 4,225,180 (subject to a maximum of 14.99% of the Ordinary Shares in issue (excluding Shares held in Treasury) on the date of the Annual General Meeting);

(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 2009 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.

12 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 £14,093 (being 5% of the aggregate nominal value of the issued share capital (excluding Shares held in Treasury) as at the date of the notice of this meeting) 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.

13 THAT 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 and make offers or agreements to allot equity securities (within the meaning of Section 94(2) of the Act) and/or sell equity securities held as treasury shares pursuant to section 162D of that Act, in each case for cash pursuant to the authority and for the period conferred by resolution 12, up to an aggregate nominal amount of £14,093, as if Section 89(1) of the Act did not apply to such allotment.

By order of the Board
Cavendish Administration Limited
Company Secretary

6 November 2008

Registered Office:
145-157 St John Street
London EC1V 4RU

Notes

1 Proxies

A member is entitled to appoint another person as his proxy to exercise all or any of his rights to attend to speak and to vote at the meeting. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. A proxy need not be a member of the Company. Forms of proxy need to be deposited with the Company's registrar, Capita Registrars at 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of the meeting.

Completion of a form of proxy will not preclude a member attending and voting in person at the meeting. CREST members may utilise the CREST proxy appointment service by following the directions set out in the Form of Proxy.

2 Documents on display

Copies of the terms and conditions of appointment of non-executive directors, a copy of the proposed new articles of association of the Company, and a copy of the existing memorandum and articles of association are available for inspection at the Company's registered office (and the current and proposed new articles of association will also be available at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA) during normal business hours from the date of this notice until the close of the annual general meeting (Saturdays, Sundays and public holidays excepted) and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.

3 Right to attend and vote

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company at 6.00 p.m. on 8 December 2008 or, in the event of any adjournment, at 6.00 p.m. on the date which is two days before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4 Corporate members

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – <http://www.icsa.org.uk> – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

5 Nominated persons

Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may have a right, under an agreement between him/her and the member by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the member as to the exercise of voting rights.

The statement of the above rights of the members in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.

6 Total number of shares and voting rights

As at 5 November 2008 (being the last practicable business day prior to the publication of this notice) the Company's issued share capital consists of 28,186,660 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at that date are 28,186,660.

Form of proxy

I/We _____ of _____ (BLOCK CAPITALS PLEASE)

being (a) member(s) of the Advance UK Trust plc appoint the chairman of the meeting, or (see note 1)

_____ of _____

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 145-157 St John Street, London EC1V 4RU on 10 December 2008 at 12.00 noon and at any adjournment thereof.

Please indicate with an X in the spaces provided how you wish your votes to be cast on the resolutions specified.

Resolution	For	Against	Discretionary	Abstain
1 To receive and adopt the directors' report, the annual accounts and the auditors' report for the year ended 31 August 2008.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To re-elect Mr Davis as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Mr Barker as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect Mr Niven as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect Mr Rowen as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 To re-appoint KPMG Audit Plc as auditors to the Company and to authorise the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 To approve a dividend of 2.4p per ordinary share in respect of the period ended 31 August 2008.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 To approve the directors' remuneration report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 To amend the Company's investment objective and policy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 To adopt new Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 To authorise the Company to purchase its own shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 To authorise the directors to allot shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 To authorise the directors to allot shares free from pre-emption rights.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature _____ Dated this _____ day of _____ 2008

Notes

1 If you so desire you may delete the words 'chairman of the meeting' and insert the name of your own choice of proxy, who need not be a member of the Company but must attend the meeting in person to represent you. Please initial such alteration.

2 The proxy form must be lodged at the Company's UK Registration Agent, Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid.

3 Alternatively, in the case of CREST members, voting may be effected by using the CREST electronic proxy appointment service. CREST members who wish to utilise the CREST service may do so by following the procedures described in the CREST manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Capita Registrars (whose CREST ID is RA10) by the specified latest time for receipt of proxy appointments. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed.

4 A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.

5 If this proxy form is executed under a power of attorney or other authority, such power of attorney or other authority or a notarially certified copy thereof must be lodged with the Registrars with the proxy form.

6 In the case of joint holders the vote of the senior shall be accepted to the exclusion of the other joint holders, seniority being determined by the order in which the names stand in the register in respect of the joint holding.

Second fold

Business Reply
Licence Number
MB122



Capita Registrars
Proxy Department
PO Box 25
Beckenham
Kent
BR3 4BR

First fold

Cut along dotted rule

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