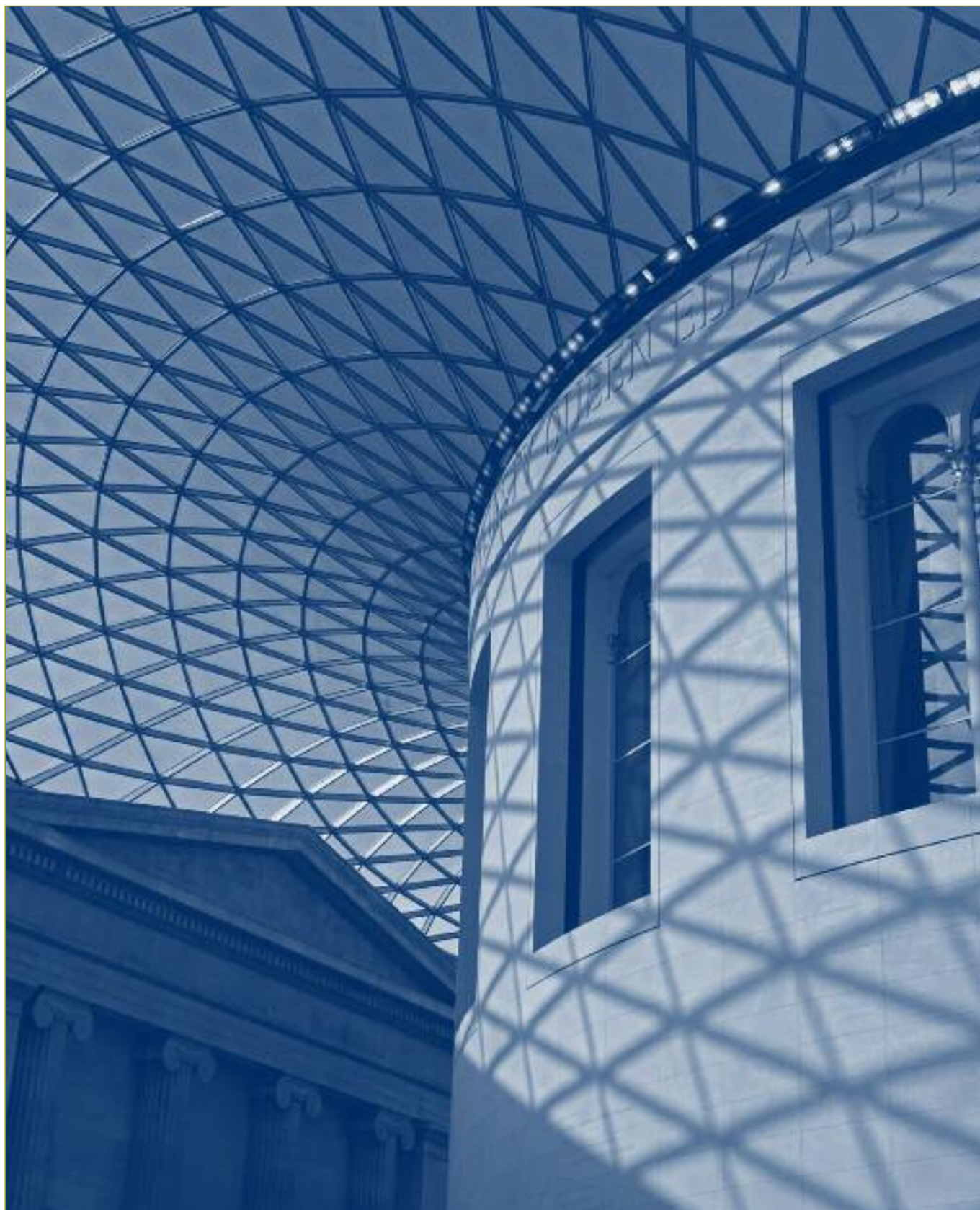


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Advance UK Trust plc  
Annual report 2009



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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.

## Benchmark

The FTSE All-Share Index

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### Performance for the year ended 31 August 2009

|   | Capital return<br>% | Total return<br>% |
|---|---------------------|-------------------|
| Advance UK Trust net asset value<br>per share | -12.4               | -11.0             |
| Advance UK Trust share price                  | -18.1               | -16.5             |
| FTSE All-Share Index                          | -12.1               | -8.2              |

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### Performance since launch

|   | Capital return<br>% | Total return<br>% |
|---|---------------------|-------------------|
| Advance UK Trust net asset value<br>per share | 60.4                | 85.6              |
| Advance UK Trust share price                  | 37.0                | 60.5              |
| FTSE All-Share Index                          | 7.5                 | 57.4              |

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## Financial calendar

|                        |   |
|------------------------|---|
| Annual General Meeting | 16 December 2009<br>145-157 St John Street<br>London EC1V 4RU |
| Ex-Dividend Date       | 25 November 2009  |
| Dividend Record Date   | 27 November 2009  |
| Dividend Payment Date  | 23 December 2009  |

# Chairman's statement

At 31 August 2009 our net asset value was 156.6 pence per share and our shares traded at a price of 137.0 pence, equivalent to a 12.5% discount to net asset value.

The revenue return per ordinary share was 2.3 pence and the Directors recommend a maintained dividend of 2.4 pence per share.

As we reported at the interim stage, we recovered just over £1m from HMRC in respect of VAT paid on management fees since 2001 and simple interest thereon. We believe we should be entitled to VAT paid in earlier years and to compound interest and therefore have, for a modest fixed payment, joined with PricewaterhouseCoopers in a class action against HMRC that will attempt to recover a further sum.

We are reporting a 12.4% fall in the net asset value over the year, marginally behind the 12.1% fall in the FTSE All-Share Index. While we are not happy to record any decline in the asset value, this represents a remarkable recovery in our fortunes over the second half of the year and I am pleased to tell you that the asset value has since moved higher outpacing the index.

Over the year the Manager has worked on a number of corporate actions alongside some of our major institutional shareholders. This has always been a core part of our strategy, it means we punch well above our weight and we add value for our investors far beyond just the delivery of increases in our share price. Advance UK is happy to take the lead in tackling wide discounts and corporate governance disputes on behalf of shareholders. A glut of new issues in previous years and volatile markets are creating plenty of new investment opportunities for Advance UK.

Your Board felt that our share repurchases were hampering the Manager's ability to make potentially rewarding investments and therefore, after buying back 533,000 shares in September 2008, we suspended our share repurchase programme. Inevitably our discount widened as a result but, as improved performance has come through, our discount has narrowed and we expect that process to continue.

The Annual General Meeting will be held on Wednesday 16 December 2009 at 12.00 noon on the third floor of 145-157 St John Street, London EC1V 4RU. One item of business is our triennial continuation vote. The Board is strongly of the opinion that market conditions are ideally suited to our remit and, with the underlying discount of the companies in our portfolio against their market values standing at 23%, there are good reasons to anticipate positive future performance. The directors therefore recommend that shareholders vote in favour of the continuation as they propose to do in respect of their own holdings.

The Board is conscious of the impact the share repurchase programme has had on the liquidity of our shares and recognises the importance of increasing the size of the Company. In line with this objective, subject to the passing of the continuation resolution, the directors will put forward, early in the New Year, proposals for a bonus issue of subscription shares.

**Philip Rowen**  
10 November 2009

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

# Manager's report

We write this report a few weeks after the end of the relevant accounting period. When we wrote last year's Annual Report the economic and market turmoil associated with the credit crunch had yet to peak. Lehman's collapse jolted the market in the first month of our accounting year and that was reflected in our report but it was probably the Madoff scandal, which broke around the time of our AGM, that finally caused capitulation in the closed-end fund market. By the end of December panicking sellers were selling shares at unrealistic prices.

The Advance UK Board had concluded in September 2008 that our share repurchases were damaging our ability to manage the portfolio and suspended our buy-back programme. We were in the fortunate position therefore to have some cash to take advantage of the distressed selling. This was augmented by us utilising £1million of our banking facility to produce a moderate element of gearing which at the end of this period was invested in Mid 250 iShares. Since the year end these have been sold at a profit and the borrowing repaid. Though our relative performance had not yet started to improve at the half year, we were very confident about the latent value in the portfolio and this was already manifesting itself by the time we wrote the interim report. The second half of our accounting year was the best period the fund has ever had with plenty of corporate activity to keep us busy and a substantial rebound in our asset value.

Given the dramatic backdrop, the actual performance numbers for the year are surprisingly unexciting. The net asset value fell by 12.4% while the FTSE All-Share Index fell by 12.1%. The FTSE 350 investment companies index was 15.6% lower. The contribution from discount moves was a significant negative in the first half but for the year as a whole this added c1% to our performance. VAT recovery added about another 1%. Asset value moves were negative overall with stocks with high leverage and/or illiquid assets amongst the biggest fallers. The most significant positive and negative contributors to performance were:

### Positive contributions to performance

|                             |       |
|-----------------------------|-------|
| Spazio                      | +1.4% |
| Marwyn                      | +1.0% |
| Dexion Absolute             | +0.9% |
| Directors' Dealing (Eaglet) | +0.8% |
| Summit Germany              | +0.7% |

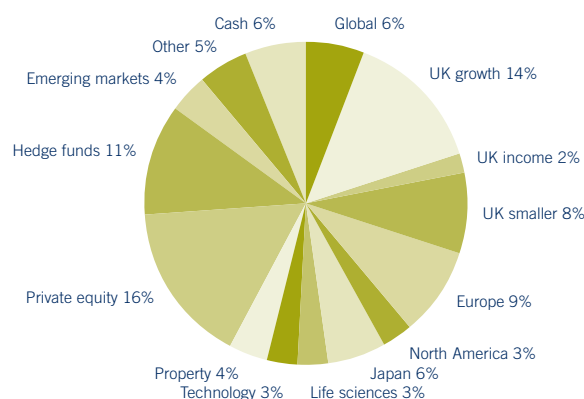
### Negative contributions to performance

|                                   |       |
|-----------------------------------|-------|
| Ingenious Media Active Capital    | -3.2% |
| Henderson Private Equity          | -2.2% |
| Equity Partnership Capital shares | -1.5% |
| T2 Income Fund                    | -1.3% |
| Princess Private Equity           | -1.1% |

Four of the top performing companies were either new purchases or existing holdings we had increased significantly when things seemed to be falling apart in December. Of the major negative contributors, we have reduced or sold out of some positions and have high hopes of recovering some or all of our money in others – they are all covered below.

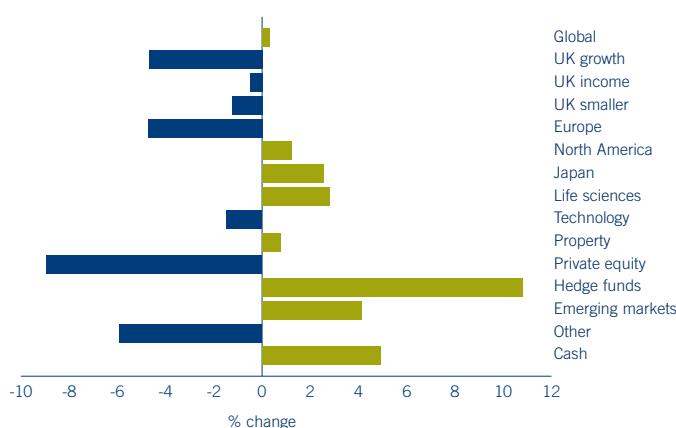
At the end of August 2009 the portfolio was split as follows:

### Distribution of the portfolio by type of fund



The major changes to the split of the portfolio over the year are shown below:

### Major changes to the split of the portfolio over the year



**Private equity**

This remains the largest segment on the pie chart but it is much reduced over the past year. Private Equity funds have been attracting negative headlines as leveraged buy-out funds struggle with the lack of available credit and many funds of funds, that had made legal commitments to invest in new issues, found they did not have the resources to make good those commitments. Henderson (formerly New Star) Private Equity and Princess Private Equity were the only two holdings in our portfolio exposed to the leveraged buyout market. Henderson Private Equity has stated that it does not have an over commitment problem. However it is one of the smallest quoted investors in this area and, at the end of our accounting year, it was on one of the widest discounts. We have told them they should seek a merger partner. We quite liked Princess until, for reasons that were never explained to us, its independent directors resigned en masse and the former investment manager became Chairman. We sold our shares; as cheap as they may be, we do not think the stock has high enough corporate governance standards to merit a listing in London. The vast bulk of our private equity investments are in venture and development capital funds. Ingenious Media Active Capital had to write down its asset value quite aggressively during the year but is still sitting on a substantial cash pile. We had hoped to persuade them to return this to shareholders but the investment manager has been building his stake and this reduces the attraction of the stock. Ingenious' share price dived unaccountably at our year end but this has bounced since and we have substantially reduced our position. Eurovestech's portfolio had a good year and we are optimistic that this will be better reflected in its share price in the future.

**UK growth**

The star here was Marwyn. Its valuation reached ridiculous levels in January and we bought a large block of shares on an 85% discount. They succeeded in selling their largest investment and they have restructured the company to help re-rate their shares. We have taken some profits but believe there is still substantial upside in this stock. We tried to get the Board of Strategic Equity to address its discount and liquidity problems but they dug their heels in and hid behind the large stake owned by the investment manager. They even succeeded in forcing through a deal that compromised the continuation vote they have pencilled in for 2010. We want to sort out this situation for the benefit of their independent shareholders but we are worried their portfolio has bounced too far and, since our year end, have reduced our exposure for the time being. Equity Partnership is a split capital company. We bought capital shares at a big discount some time ago. The asset value has been disappointing, hardly participating in the summer rally. The company is being managed now with a view to repaying the zeros and income shares in 2011.

**Hedge funds**

The funds of hedge funds did not feature in the portfolio last year but disappointing NAV performance, Madoff and other scandals, breakdowns in currency hedging and the realisation that their portfolios could be quite illiquid caused discounts to widen. We talked to all the major shareholders and many of the managers. We believe that funds that set out to deliver absolute returns cannot ignore discount volatility and many disillusioned shareholders will, if they can, switch to investing in open-ended funds. Quite a few funds made it into our portfolio. Over the year we traded in, out and back into Dexion Absolute. We bought into Gottex Market Neutral and sold just before its continuation vote – the manager bought enough shares to force through the continuation vote and allowed the price to collapse afterwards – which we regarded as questionable. We bought Bramdean Alternatives and helped replace the Board, which we felt was overly supportive of the investment manager. The new Board is taking its time but we hope it will soon announce plans to narrow Bramdean's discount and provide an exit for those who want it.

**UK smaller**

We worked with the independent shareholders of Directors' Dealing Trust, which used to be called Eaglet, to improve the terms of proposals for a cash exit from the company. They held one tender last year and more are planned. Framlington Innovative did not have a great year as it lagged rising markets over the summer. This is a reflection of the fund manager's natural cautiousness and a similar story played out for a number of well respected fund managers. If, as we suspect, it turns out that markets have rallied too fast, the stock should prove relatively resilient.

**Europe**

SR Europe was the best performing European trust over the year. Henderson Eurotrust also did well and we sold out of our position at a narrow discount. The euro's appreciation relative to sterling has benefited our net asset value.

**Japan**

The Japanese smaller company trusts did well over the year; Melchior, in particular, which had a terrible 2008, achieved a good asset value return and narrowed its discount. We are now more comfortable with its size but can still see some merit in mergers between the various Japanese small cap. funds. Japan remains unloved by investors and we have taken advantage of this, adding to our weighting over the year.

**Property**

Develica's net asset value declined again. We were particularly disappointed when their Board handed the investment manager 10% of the company in exchange for a modest fee reduction. It has ensured its survival for now by renegotiating its banking facilities but the shares are little more than a warrant on German property prices. Speymill Deutsche has fared better and its shares have been one of the stars of the summer but it needs to reduce vacancies in its portfolio if it is to thrive and reinstate its dividend, we have sold our shares since the year end. We made decent profits on two new holdings Spazio, a fund of Italian property, and Summit Germany, when both companies were at the receiving end of a bid. We more than doubled our money on Spazio and made c70% on our holding in Summit Germany though both, in our opinion, were sold at prices well below true value. In the case of Spazio we were able to buy shares in the bidder, Terra Catalyst, at a discount and hope to make more money from this investment.

**Emerging markets**

Our one emerging market holding at the year end was Vision Opportunity China, a fund investing in Chinese companies whose shares trade on US exchanges. This is proving to be an early winner in the new accounting year. A number of other funds are being considered for the portfolio. As with any investment, we will factor in the risk from adverse moves in asset values as well as the potential upside from discount narrowing.

**Others**

T2 Income Fund holds a portfolio of mostly senior secured loans financed by a Collateralised Loan Obligation ("CLO"). Caught up by the collapse of credit last autumn, the asset value dived as holders of loans sold at distressed prices and the company was forced to suspend its dividend. Our net asset value was impacted as a result. Now though we think this fund may prove a winner. In March we added to our holding at just 3 pence per share. We worked with other shareholders to change the Chairman, replace the broker and improve understanding of the fund. Recently money has been raised to safeguard the future of the Company. Dividend payments have resumed and, by the end of the period, the shares were 27.5 pence – still a very large discount to asset value.

**The future**

Central banks have pumped enormous amounts of liquidity into their sagging economies but with mixed results. Many emerging markets are showing signs of life but in the developed world the recovery is patchy at best. Markets have bounced a long way off the lows of March and we would not be surprised if they paused for breath here.

We have been selling into recent strength and redeploying the proceeds into new holdings on wide discounts. There is no shortage of investment opportunities. We also have a number of investments where the battle to convince them to release value for shareholders has already been won and where we can reasonably expect to receive cash for our holding in excess of current market values. This gives us some confidence that our recent run of strong performance can continue.

Progressive European Markets Limited

10 November 2009

# 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 2009                   | Holding    | Percentage of voting rights | Book cost £'000 | Value as at £'000 | Percentage of total net assets |
|-------------------------------------|------------|-----------------------------|-----------------|-------------------|--------------------------------|
| Herald Investment Trust             | 693,000    | 0.8%                        | 2,433           | 2,010             | 4.5%                           |
| Marwyn Value Investors+             | 4,000,000  | 4.9%                        | 1,950           | 1,920             | 4.3%                           |
| Framlington Innovative Growth Trust | 725,000    | 2.9%                        | 2,520           | 1,820             | 4.1%                           |
| Eurovestech+                        | 12,525,000 | 4.0%                        | 1,790           | 1,753             | 3.9%                           |
| Renaissance US Growth               | 700,000    | 3.7%                        | 1,577           | 1,617             | 3.6%                           |
| Witan Investment Trust              | 400,000    | 0.2%                        | 1,361           | 1,574             | 3.5%                           |
| Dexion Absolute                     | 1,250,000  | 0.2%                        | 1,269           | 1,552             | 3.5%                           |
| Strategic Equity Capital            | 3,543,000  | 5.1%                        | 2,692           | 1,541             | 3.4%                           |
| iShares FTSE 250*                   | 175,000    | 0.0%                        | 1,248           | 1,528             | 3.4%                           |
| SR Europe Investment Trust          | 800,000    | 2.7%                        | 1,824           | 1,496             | 3.3%                           |
| <b>Top Ten Holdings</b>             |            |                             | <b>18,664</b>   | <b>16,811</b>     | <b>37.5%</b>                   |

| At 31 August 2009                                 | Holding   | Percentage of voting rights | Book cost £'000 | Value as at £'000 | Percentage of total net assets |
|---|-----------|-----------------------------|-----------------|-------------------|--------------------------------|
| Asset Management Investment Company               | 2,450,000 | 12.7%                       | 945             | 1,421             | 3.2%                           |
| Baillie Gifford Japan Trust                       | 900,000   | 1.5%                        | 1,562           | 1,372             | 3.1%                           |
| Montanaro European Smaller                        | 450,000   | 2.6%                        | 1,455           | 1,283             | 2.9%                           |
| Finsbury Worldwide Pharmaceutical Trust           | 225,000   | 0.6%                        | 1,156           | 1,274             | 2.8%                           |
| Directors' Dealing Investment Trust               | 440,418   | 5.0%                        | 960             | 1,268             | 2.8%                           |
| Ingenious Media Active Capital+                   | 4,185,000 | 2.9%                        | 3,483           | 1,256             | 2.8%                           |
| Private Equity Investor                           | 1,091,299 | 3.1%                        | 1,727           | 1,244             | 2.8%                           |
| SVM UK Active Fund                                | 880,000   | 2.4%                        | 1,336           | 1,214             | 2.7%                           |
| LMS Capital                                       | 2,262,305 | 0.8%                        | 1,447           | 1,029             | 2.3%                           |
| Glasgow Income Trust                              | 2,650,000 | 2.2%                        | 946             | 1,020             | 2.3%                           |
| Blackrock Absolute Return Strategies              | 140,000   | 1.2%                        | 862             | 977               | 2.2%                           |
| Electric & General Investment Trust               | 275,000   | 0.4%                        | 1,188           | 976               | 2.2%                           |
| Quorum Oil and Gas Technology Fund                | 165,000   | 2.7%                        | 917             | 963               | 2.2%                           |
| JP Morgan Fleming European Fledgling              | 150,000   | 0.3%                        | 899             | 920               | 2.1%                           |
| Henderson Private Equity Investment Trust         | 810,000   | 4.1%                        | 1,653           | 883               | 2.0%                           |
| F & C UK Select Trust                             | 1,220,000 | 2.1%                        | 1,001           | 866               | 1.9%                           |
| North Atlantic Smaller Companies Investment Trust | 105,000   | 0.7%                        | 956             | 857               | 1.9%                           |
| Terra Catalyst Fund                               | 1,750,000 | 1.7%                        | 802             | 801               | 1.8%                           |
| Keystone Investment Trust                         | 80,000    | 0.6%                        | 763             | 772               | 1.7%                           |
| Thames River Multi Hedge                          | 615,770   | 0.3%                        | 590             | 745               | 1.7%                           |

| At 31 August 2009                               | Holding   | Percentage of voting rights | Book cost £'000 | Value as at £'000 | Percentage of total net assets |
|---|-----------|-----------------------------|-----------------|-------------------|--------------------------------|
| Baillie Gifford Shin Nippon                     | 640,000   | 2.1%                        | 930             | 742               | 1.7%                           |
| Manchester & London Investment Trust            | 250,000   | 1.8%                        | 826             | 738               | 1.6%                           |
| Vision Opportunities China                      | 1,425,000 | 2.2%                        | 562             | 718               | 1.6%                           |
| T2 Income Fund+                                 | 2,525,000 | 5.9%                        | 1,626           | 694               | 1.6%                           |
| Bramdean Alternatives – USD                     | 2,431,560 | 0.9%                        | 903             | 672               | 1.5%                           |
| Bramdean Alternatives – GBP                     | 75,000    | 0.1%                        | 42              | 34                | 0.1%                           |
|   |           |                             | 945             | 706               | 1.6%                           |
| Henderson Opportunities Trust                   | 200,000   | 2.4%                        | 1,295           | 658               | 1.5%                           |
| Melchior Japan Investment Trust                 | 1,660,000 | 1.9%                        | 537             | 639               | 1.4%                           |
| Signet Global Fixed Income Strategies           | 725,000   | 0.6%                        | 447             | 504               | 1.1%                           |
| Speymill Deutsche Immobilien Company            | 1,750,000 | 1.0%                        | 917             | 469               | 1.0%                           |
| Equity Partnership Investment                   | 1,250,000 | 3.6%                        | 1,390           | 325               | 0.7%                           |
| Ortus VCT plc                                   | 2,025,000 | 7.5%                        | 702             | 284               | 0.6%                           |
| Develica Deutschland+                           | 5,600,000 | 2.2%                        | 1,534           | 283               | 0.6%                           |
| ACP Mezzanine                                   | 2,150,000 | 2.1%                        | 649             | 227               | 0.5%                           |
| Goldman Sachs Dynamic Opportunities Tender Pool | 254,607   | 0.0%                        | 170             | 225               | 0.5%                           |
| Henderson Smaller Companies Investment Trust    | 75,000    | 0.1%                        | 134             | 143               | 0.3%                           |
| Strathdon Investment Trust+                     | 6,495,000 | 12.5%                       | 1,876           | 130               | 0.3%                           |
| Real Estate Opportunities (CULS)                | 250,000   | 0.0%                        | 236             | 100               | 0.2%                           |
| Inflexion<                                      | 7,000,000 | 3.9%                        | 0               | 42                | 0.1%                           |
| Prelude Trust<                                  | 1,300,000 | 3.8%                        | 0               | 10                | 0.0%                           |
| <b>Total Holdings in Company</b>                |           |                             | <b>58,088</b>   | <b>45,589</b>     | <b>101.8%</b>                  |
| Other net liabilities                           |           |                             |                 | -800              | -1.8%                          |
| <b>Total net assets</b>                         |           |                             |                 | <b>44,789</b>     | <b>100.0%</b>                  |

+ AIM quoted investments

< Unquoted (in liquidation)

\* Open ended collective investment scheme

# Directors' report

The directors present their report and accounts for the year ended 31 August 2009.

## Business review

### Investment policy

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."

#### *Distribution of the portfolio relative to the benchmark*

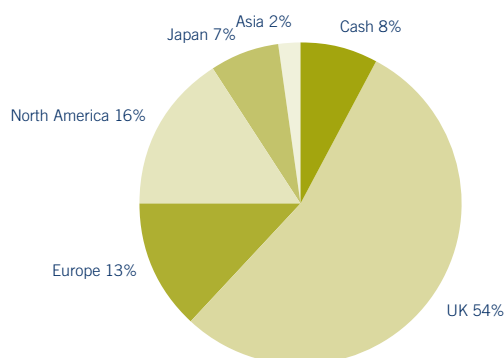
The benchmark is the FTSE All-Share Index which, as an index of over 700 of the largest stocks quoted on the London market, is often taken to be representative of the UK economy. However, it should be noted that the London Stock Exchange has become the stock market of choice for many of the emerging 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 2009 the geographic distribution of the portfolio on a look through basis was estimated to be:

### Geographic distribution chart



A pie chart showing the distribution of the portfolio by type of fund as at 31 August 2009 is shown on page 2.

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 2009, if the gearing had been offset against cash then the weighting in this area would have been reduced by 1.1%).

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 2009, the Company's largest holding Herald, represented 4.5% of the Company's total portfolio and Herald had 231 holdings at 31 August 2009.

#### *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. Over the five year period to the end of August 2009 the Company's tracking error was approximately 8.9%.

#### *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*

In general the Company does not use gearing because many of the underlying funds are geared. However, in the second quarter of 2009 when the UK Stock Market was looking particularly depressed the Manager, with the agreement of the Directors, borrowed £1m on a bank overdraft which was invested in the UK market and was subsequently repaid after the financial year end when the market had rallied and a substantial profit had been accrued.

#### *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 0.3% in this financial year. The Company has outperformed its benchmark by 52.9% since the Company's launch.

The NAV total return was -11.0% in the year. The LIBOR rate of return was 3.0% for the same period. The NAV total return for the period from the Company's launch to 31 August 2009 was 85.6%. The LIBOR annually re-invested return over the same period was 82.2%.

### Revenue result and dividend

The Company's revenue profit after tax for the period amounted to £648,266 (2008: £625,535).

At the Annual General Meeting on 16 December 2009 a resolution will be proposed to approve a final dividend of 2.4p (2008: 2.4p) per ordinary share, absorbing £676,480 (2008: £676,480) based on the shares in issue at the date of this report. The amount transferred from distributable reserves will be £28,214 (2008: transferred from reserves £50,945). The final dividend will be paid on 23 December 2009 to shareholders on the register at 27 November 2009. The ordinary shares will go ex-dividend on 25 November 2009.

### 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.

Details of the financial risks to the Company are discussed in note 15 of the accounts on page 24.

#### 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.

#### Internal risks

The control of risks related to the Company's business areas are dealt with in the report on Corporate Governance on page 13.

### 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

#### 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 2009. The Company will apply for such approval when the corporation tax return and computation are submitted to HMRC for the year. Approval has been received for all periods up to 31 August 2008. The Company is an investment company within the meaning of S833 of the Companies Act 2006.

#### Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 of the Companies Act 2006.

##### (i) Capital structure and voting rights

At the year end the Company's issued share capital comprised of 31,067,522 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 28,186,660. 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.

**(ii) Significant shareholders**

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<br>Shares | %   |
|---|--------------------|-----|
| Lazard Asset Management LLC                     | 6,040,594          | 21% |
| East Riding of Yorkshire Council                | 5,300,000          | 19% |
| British Empire Securities and General Trust plc | 2,114,546          | 8%  |
| SVM Asset Management Limited                    | 2,066,562          | 7%  |
| CG Asset Management Limited                     | 1,975,000          | 7%  |
| West Midland Pension Fund                       | 1,499,999          | 5%  |
| JPMorgan Asset Management (UK) Limited          | 900,000            | 3%  |

**Continuation vote**

The Company's Articles of Association state that at the ninth annual general meeting of the Company and at each third annual general meeting thereafter, the Board shall propose an ordinary resolution that the Company should continue as an investment trust for a further three year period. If such ordinary resolution is not passed, the Directors shall convene an extraordinary general meeting for a date not more than three months after the date of the meeting at which such ordinary resolution was not passed and shall propose a special resolution that the Company be wound up voluntarily.

A continuation vote will be proposed at the forthcoming Annual General Meeting to be held on 16 December 2009. The Directors consider that the continuation of the Company as an investment trust is in the best interests of shareholders as a whole and unanimously recommend that shareholders vote in favour of the resolution.

**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 16 December 2009. During the year ended 31 August 2009, 533,000 shares were purchased for cancellation at an aggregate cost of £883,783. As at 31 August 2009, 2,880,862 shares were held in Treasury.

The Directors recommend that the authority to buy back shares be renewed and a resolution to that effect will be put to the Annual General Meeting (item 10 in the Notice of Meeting).

**Authority to issue new shares**

The authority to issue new Ordinary Shares for cash granted at the last Annual General Meeting held on 10 December 2008 will expire at the conclusion of the forthcoming Annual General Meeting.

The Board recommends that the Company is granted a new authority to issue up to a maximum of 1,409,300 shares (representing approximately 5% of the shares in issue excluding treasury shares at the date of this document) and to disapply pre-emption rights when issuing those shares. Resolutions to this effect will be put to shareholders at the Annual General Meeting (items 11 and 12 in the Notice of Meeting).

Under the terms of the Listing Rules of the Financial Services Authority relating to investment trust companies, the Company, being a closed-end investment trust, cannot make an issue of shares for cash in this way unless the price per share at which such shares are issued is not less than the net asset value of such shares.

**Policy on sale of treasury shares**

Any shares held in Treasury will not be sold at less than net asset value.

**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 2009.

**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 is renewable on 31 March 2010.

**Directors' shareholdings**

At 31 August 2009 and at the date of this report the directors' shareholdings in the Company, all of which were beneficially owned, were:

|           |                 | 2009   | 2008   |
|-----------|-----------------|--------|--------|
| 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 2009 (2008: £nil).

**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 2009.

**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**

In accordance with the Company's Articles of Association, the Board will propose a resolution at the Annual General Meeting to be held on 16 December 2009 for the Company to continue as an investment trust. If such ordinary resolution is not passed, the Directors shall convene an extraordinary general meeting for a date not more than three months after the date of the meeting at which such ordinary resolution was not passed and shall propose a special resolution that the Company be wound up voluntarily. The directors have unanimously recommended that shareholders vote in favour of the continuation of the Company.

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 and disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board  
Cavendish Administration Limited  
Company Secretary

10 November 2009

Advance UK Trust plc is incorporated in England with registered number 3438739

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# Statement of directors' responsibilities

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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).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. 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 our 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 or loss of the Company; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that it faces.

# Directors' remuneration report

This report has been prepared in accordance with the requirements of sections 420-422 of the Companies Act 2006. 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.

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.

### 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 2009.

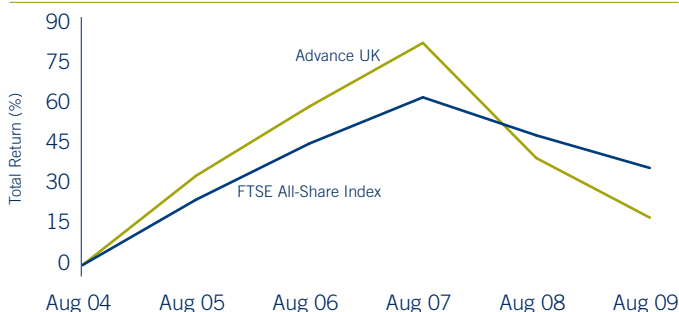
### Directors' service contracts

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:

|               | 2009<br>£ | 2008<br>£ |
|---------------|-----------|-----------|
| Philip Rowen  | 24,041    | 15,000    |
| Graham Barker | 20,000    | 20,000    |
| Edward Davis  | 18,459    | 27,500    |
| Keith Niven   | 15,000    | 15,000    |

Edward Davis resigned as Chairman of the Company on 10 December 2008 and Philip Rowen was appointed as Chairman of the Company immediately upon the resignation of Edward Davis.

By order of the Board  
Cavendish Administration Limited  
Company Secretary

10 November 2009

# 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.

*Philip Rowen* (Chairman) (aged 61) 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 Linton Finance, a personal credit company. Wide experience of analysing and investment in UK and overseas equities – both major and smaller companies.

*Graham Barker* (aged 70) 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.

*Edward Davis* (aged 70) 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.

*Keith Niven* (aged 61) 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 2009. Mr Davis, Mr Niven and Mr Rowen attended six meetings and Mr Barker 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 2009. Mr Niven and Mr Rowen attended both meetings and Mr Davis attended one meeting.

### 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 12 of these financial statements.

There was one meeting of the Remuneration and Management Engagement Committee during the year ended 31 August 2009 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 2009.

#### **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 11 and a Statement of Going Concern is on page 10. The Report of the Independent Auditors is on page 16.

#### *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.

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**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.

**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.

# 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 2009 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 10, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

## N Palmer

Senior Statutory Auditor

for and on behalf of

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

10 November 2009

# Income statement

| For the year ended 31 August 2009                                       | Note | Revenue<br>£'000 | Capital<br>£'000 | 2009<br>Total<br>£'000 | Revenue<br>£'000 | Capital<br>£'000 | 2008<br>Total<br>£'000 |
|---|------|------------------|------------------|------------------------|------------------|------------------|------------------------|
| <b>Gains/(losses) on investments</b>                                    |      |                  |                  |                        |                  |                  |                        |
| (Losses) on disposal of investments by reference to revalued book costs |      | –                | (2,486)          | (2,486)                | –                | (3,734)          | (3,734)                |
| Transfer from capital reserve – investments held                        |      | –                | (1,169)          | (1,169)                | –                | 4,620            | 4,620                  |
| <b>Total (losses)/gains on disposal of investments</b>                  |      | –                | <b>(3,655)</b>   | <b>(3,655)</b>         | –                | <b>886</b>       | <b>886</b>             |
| Revaluation of investments  |      | –                | (4,119)          | (4,119)                | –                | (12,505)         | (12,505)               |
| Transfer to capital reserve – disposal of investments                   |      | –                | 1,169            | 1,169                  | –                | (4,620)          | (4,620)                |
| <b>Total losses on investments held</b>                                 |      | –                | <b>(2,950)</b>   | <b>(2,950)</b>         | –                | <b>(17,125)</b>  | <b>(17,125)</b>        |
| Income  | 2    | 953              | –                | 953                    | 1,231            | –                | 1,231                  |
| Investment management fees  | 3    | (183)            | (367)            | (550)                  | (287)            | (574)            | (861)                  |
| VAT recovered on investment management fees                             | 3    | 202              | 691              | 893                    | –                | –                | –                      |
| Other expenses  | 3    | (320)            | –                | (320)                  | (315)            | –                | (315)                  |
| <b>Return before finance costs and tax</b>                              |      | <b>652</b>       | <b>(6,281)</b>   | <b>(5,629)</b>         | <b>629</b>       | <b>(16,813)</b>  | <b>(16,184)</b>        |
| Finance costs   |      | (4)              | (8)              | (12)                   | (4)              | (9)              | (13)                   |
| <b>Return before tax</b>  |      | <b>648</b>       | <b>(6,289)</b>   | <b>(5,641)</b>         | <b>625</b>       | <b>(16,822)</b>  | <b>(16,197)</b>        |
| Taxation  | 5    | –                | –                | –                      | –                | –                | –                      |
| <b>Return on ordinary activities after taxation</b>                     |      | <b>648</b>       | <b>(6,289)</b>   | <b>(5,641)</b>         | <b>625</b>       | <b>(16,822)</b>  | <b>(16,197)</b>        |
| Return per ordinary share   | 7    | 2.30p            | (22.31)p         | (20.01)p               | 2.10p            | (56.57)p         | (54.47)p               |

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 21 to 25 form part of these accounts.

# Balance sheet

| At 31 August 2009                                     | Notes | 2009<br>£'000 | 2008<br>£'000 |
|---|-------|---------------|---------------|
| <b>Fixed assets</b>                                   |       |               |               |
| <b>Investments at market value</b>                    | 8     | <b>45,589</b> | <b>50,950</b> |
| <b>Current assets</b>                                 |       |               |               |
| Sales for future settlement                           |       | 360           | –             |
| Other debtors   |       | 62            | 106           |
| Cash at bank and in hand                              |       | 186           | 1,475         |
|   |       | <b>608</b>    | <b>1,581</b>  |
| <b>Creditors: amounts falling due within one year</b> |       |               |               |
| Purchases for future settlement                       |       | 320           | 414           |
| Accrued liabilities                                   |       | 103           | 123           |
| Bank Overdraft  |       | 985           | –             |
|   |       | <b>1,408</b>  | <b>537</b>    |
| <b>Net current (liabilities)/assets</b>               |       | <b>(800)</b>  | <b>1,044</b>  |
| <b>Total net assets</b>                               |       | <b>44,789</b> | <b>51,994</b> |
| <b>Capital and reserves</b>                           |       |               |               |
| Share capital   | 9     | 311           | 316           |
| Share premium account                                 |       | 33,814        | 33,814        |
| Capital redemption reserve                            |       | 190           | 185           |
| Capital reserve – disposal of investments             | 10    | 21,948        | 26,175        |
| Capital reserve – investments held                    | 11    | (12,498)      | (9,548)       |
| Revenue reserve                                       |       | 1,024         | 1,052         |
| <b>Equity shareholders' funds</b>                     |       | <b>44,789</b> | <b>51,994</b> |
| Net assets per ordinary share                         | 12    | 158.90p       | 181.04p       |

Approved by the Board of Directors on 10 November 2009 and signed on their behalf by:

**Philip Rowen**

**Graham Barker**

The notes on pages 21 to 25 form part of these accounts.

# Reconciliation of movements in shareholders' funds

|                                    | Notes | Share capital<br>£'000 | Share premium<br>account<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserve –<br>disposal of<br>investments<br>£'000 | Capital<br>reserve –<br>investments<br>held<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|------------------------------------|-------|------------------------|-----------------------------------|---|---|--|-----------------------------|----------------|
| For the year ended 31 August 2009  |       |                        |                                   |   |   |  |                             |                |
| Opening shareholders' funds        |       | 316                    | 33,814                            | 185                                       | 26,175  | (9,548)  | 1,052                       | 51,994         |
| Shares repurchased during the year |       | (5)                    | –                                 | 5   | (888)   | –  | –                           | (888)          |
| Profit for the year                |       | –                      | –                                 | –   | (3,339)   | (2,950)  | 648                         | (5,641)        |
| Dividend paid (Dec 2008)           | 6     | –                      | –                                 | –   | –   | –  | (676)                       | (676)          |
| <b>Closing shareholders' funds</b> |       | <b>311</b>             | <b>33,814</b>                     | <b>190</b>                                | <b>21,948</b>   | <b>(12,498)</b>                                      | <b>1,024</b>                | <b>44,789</b>  |

|                                    | Notes | Share capital<br>£'000 | Share premium<br>account<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserve –<br>disposal of<br>investments<br>£'000 | Capital<br>reserve –<br>investments<br>held<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|------------------------------------|-------|------------------------|-----------------------------------|---|---|--|-----------------------------|----------------|
| For the year ended 31 August 2008  |       |                        |                                   |   |   |  |                             |                |
| 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)          |
| <b>Closing shareholders' funds</b> |       | <b>316</b>             | <b>33,814</b>                     | <b>185</b>                                | <b>26,175</b>   | <b>(9,548)</b>                                       | <b>1,052</b>                | <b>51,994</b>  |

The notes on pages 21 to 25 form part of these accounts.

# Cash flow statement

| For the year ended 31 August 2009  | Notes | 2009<br>£'000  | 2008<br>£'000 |
|--|-------|----------------|---------------|
| <b>Operating activities</b>  |       |                |               |
| Cash inflow from investment income and bank interest and interest on VAT reclaim |       | 995            | 1,213         |
| Cash outflow from management expenses  |       | (896)          | (1,610)       |
| Cash inflow from VAT on management fees  |       | 893            | –             |
| Cash inflow from disposal of investments   |       | 23,718         | 28,708        |
| Cash outflow from purchase of investments  |       | (25,008)       | (19,871)      |
| Interest paid  |       | (13)           | (13)          |
| <b>Net cash (outflow)/inflow from operating activities</b>                       | 13    | <b>(311)</b>   | <b>8,427</b>  |
| <b>Financing</b>   |       |                |               |
| Share repurchases  |       | (1,287)        | (7,089)       |
| Equity dividends paid  |       | (676)          | (739)         |
| <b>(Decrease)/increase in cash</b>   |       | <b>(2,274)</b> | <b>599</b>    |
| Opening balance  |       | 1,475          | 876           |
| Cash (outflow)/inflow  |       | (2,274)        | 599           |
| Bank overdraft   |       | 985            | –             |
| <b>Balance at 31 August</b>  |       | <b>186</b>     | <b>1,475</b>  |

The notes on pages 21 to 25 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 in December 2005 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

|  | 2009<br>£'000 | 2008<br>£'000 |
|--|---------------|---------------|
| <b>Income from investments</b>             |               |               |
| Franked dividends from listed securities   | 729           | 941           |
| Unfranked dividends from listed securities | 92            | 234           |
|  | <b>821</b>    | <b>1,175</b>  |
| <b>Other income</b>                        |               |               |
| Interest receivable                        | 5             | 49            |
| Bond interest income                       | 19            | 2             |
| Interest on VAT reclaim                    | 108           | 5             |
| <b>Total income</b>                        | <b>953</b>    | <b>1,231</b>  |

Franked dividend income in 2009 included £69,695 of special dividends, all of which was credited to revenue.

**3 Administration expenses**

|                                      | Revenue<br>£'000 | Capital<br>£'000 | 2009<br>Total<br>£'000 |
|--------------------------------------|------------------|------------------|------------------------|
| Investment management fees           |                  |                  |                        |
| – basic                              | 183              | 367              | 550                    |
| – vat recovered                      | (202)            | (691)            | (893)                  |
|                                      | <b>(19)</b>      | <b>(324)</b>     | <b>(343)</b>           |
| Administration fees                  | 89               | –                | 89                     |
| Custodian's fees                     | 10               | –                | 10                     |
| Directors' fees                      | 87               | –                | 87                     |
| Auditors' fees                       |                  |                  |                        |
| – audit                              | 29               | –                | 29                     |
| – other services                     | 8                | –                | 8                      |
| Broker retainer fees                 | 22               | –                | 22                     |
| Miscellaneous expenses               | 75               | –                | 75                     |
|                                      | <b>320</b>       | <b>–</b>         | <b>320</b>             |
| <b>Total administration expenses</b> | <b>301</b>       | <b>(324)</b>     | <b>(23)</b>            |

|                                      | Revenue<br>£'000 | Capital<br>£'000 | 2008<br>Total<br>£'000 |
|--------------------------------------|------------------|------------------|------------------------|
| Investment management fees           |                  |                  |                        |
| – basic                              | 287              | 574              | 861                    |
| – vat recovered                      | –                | –                | –                      |
|                                      | <b>287</b>       | <b>574</b>       | <b>861</b>             |
| Administration fees                  | 90               | –                | 90                     |
| Custodian's fees                     | 16               | –                | 16                     |
| Directors' fees                      | 86               | –                | 86                     |
| Auditors' fees                       |                  |                  |                        |
| – audit                              | 24               | –                | 24                     |
| – other services                     | 12               | –                | 12                     |
| Broker retainer fees                 | 29               | –                | 29                     |
| Miscellaneous expenses               | 58               | –                | 58                     |
|                                      | <b>315</b>       | <b>–</b>         | <b>315</b>             |
| <b>Total administration expenses</b> | <b>602</b>       | <b>574</b>       | <b>1,176</b>           |

The total of expenses (excluding VAT recovered) represented 1.94% (2008: 2.26%) of the total net asset value at the end of the year.

As a result of the decision of the court in the legal test case on VAT on management fees, an amount of £893,375 in respect of VAT previously paid in the period from 1 March 2001 to 30 September 2007 was received from the Manager during the year ended 31 August 2009. The element of the VAT repayment related to basic fees has been credited one third to the revenue column and two thirds to the capital column of the Income Statement. The element of the VAT repayment related to performance fees has been credited entirely to the capital column of the Income Statement. This is in accordance with the Company's policy for the apportionment of management fees.

A further amount of interest on the VAT recovered of £108,403 was also received during the year. This amount has been credited to the revenue column of the Income Statement.

**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**

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. The Company was subject to UK corporation tax at 28% during the year. 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 of 28% (2008: lower than the standard rate of 29.17%).

|  | 2009<br>£'000 | 2008<br>£'000 |
|--|---------------|---------------|
| Revenue on ordinary activities before taxation                   | 648           | 625           |
| Theoretical tax at UK corporation tax rate of 28% (2008: 29.17%) | 181           | 182           |
| Effects of:  |               |               |
| UK dividends which are not taxable                               | (204)         | (274)         |
| Excess management expenses                                       | (65)          | 262           |
| Expenses charged to capital account                              | 88            | (170)         |
| Actual current charge  | –             | –             |

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

At 31 August 2009, the Company had surplus management expenses of £11,238,000 (2008: £11,473,000). 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**

|   | 2009<br>£'000 | 2008<br>£'000 |
|---|---------------|---------------|
| Dividends reflected in the financial statements:  |               |               |
| <b>Final dividend paid for the year ended 31 August 2008 of 2.4p (2007: 2.4p) per share</b> | <b>676</b>    | <b>739</b>    |
| Dividends not reflected in the financial statements:  |               |               |
| <b>Recommended ordinary dividend of 2.4p (2008: 2.4p) per share</b>                         | <b>676</b>    | <b>676</b>    |

**7 Return per ordinary share**

Basic revenue return per share is based on the net revenue return on ordinary activities after taxation of £648,266 (2008: £625,535) attributable to the weighted average of 28,194,844 (2008: 29,737,149) ordinary shares of 1p in issue.

Basic capital return per share is based on the net capital loss for the financial year of £6,289,000 (2008: net loss of £16,822,000) attributable to the weighted average of 28,194,844 (2008: 29,737,149) ordinary shares of 1p in issue.

**8 Investments at market value**

|  | 2009<br>£'000   | 2008<br>£'000  |
|--|-----------------|----------------|
| <i>Analysis of closing balance:</i>  |                 |                |
| UK quoted securities   | 45,537          | 49,535         |
| UK unquoted securities   | 52              | 42             |
| Overseas quoted securities   | –               | 1,373          |
| <b>Total fixed asset investments</b>   | <b>45,589</b>   | <b>50,950</b>  |
| <i>Movements during the year:</i>  |                 |                |
| Opening balance of investments, at cost  | 60,498          | 68,707         |
| Additions, at cost   | 25,314          | 19,233         |
| Disposals, at cost   | (27,725)        | (27,442)       |
| <b>Cost of investments at 31 August</b>  | <b>58,087</b>   | <b>60,498</b>  |
| <i>Revaluation of investments to market value:</i>   |                 |                |
| Opening balance of capital reserve – investments held  | (9,548)         | 7,577          |
| Transfer to capital reserve – disposal of investments losses/(gains) previously recognised as capital reserves – investments held at previous balance sheet date | 1,169           | (4,620)        |
| Decrease in appreciation on investments held   | (4,119)         | (12,505)       |
| <b>Balance at 31 August</b>  | <b>(12,498)</b> | <b>(9,548)</b> |
| <b>Market value of investments at 31 August</b>  | <b>45,589</b>   | <b>50,950</b>  |

During the year, the Company incurred transaction costs on purchases totalling in aggregate £95,000 (2008: £106,000) and on disposals totalling in aggregate £37,000 (2008: £50,000).

**9 Share capital**

| At 31 August                    |        | 2009        | 2008        |
|---------------------------------|--------|-------------|-------------|
| 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 | 28,186,660  | 28,719,660  |
|                                 | £'000  | 282         | 287         |

In addition to the above, the Company held 2,880,862 (2008: 2,880,862) Ordinary Shares in Treasury.

**10 Capital reserve – disposal of investments**

|  | 2009<br>£'000  | 2008<br>£'000  |
|--|----------------|----------------|
| Opening balance  | 26,175         | 33,141         |
| Losses on disposal of investments by reference to revalued book costs                              | (2,478)        | (3,732)        |
| (Losses)/gains on disposals recognised as capital reserves – investments held in the previous year | (1,169)        | 4,620          |
| Net realised foreign exchange loss   | (8)            | (2)            |
| <b>Total (losses)/gains on disposal of investments</b>   | <b>(3,655)</b> | <b>886</b>     |
| Investment management fees charged to capital  | (367)          | (574)          |
| VAT on management fees recovered   | 691            | –              |
| Accrued performance fee charged to capital   | –              | –              |
| Shares repurchased   | (888)          | (7,269)        |
| Interest charged to capital  | (8)            | (9)            |
| <b>Total decrease in capital reserve – disposal of investments</b>                                 | <b>(4,227)</b> | <b>(6,966)</b> |
| <b>Balance at 31 August</b>  | <b>21,948</b>  | <b>26,175</b>  |

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

**11 Capital reserve – investments held**

|  | 2009<br>£'000   | 2008<br>£'000  |
|--|-----------------|----------------|
| Opening balance                                    | (9,548)         | 7,577          |
| Revaluation of investments                         | (4,119)         | (12,505)       |
| Transfer capital reserve – disposal of investments | 1,169           | (4,620)        |
| <b>Balance at 31 August</b>                        | <b>(12,498)</b> | <b>(9,548)</b> |

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

**12 Net assets per ordinary share**

The figure for net assets per ordinary share is based on £44,789,000 (2008: £51,994,000) divided by 28,186,660 (2008: 28,719,660)

Ordinary Shares in issue at the Balance Sheet date.

The net assets per ordinary share figure excluding current year revenue was 156.60p at the year end (2008: 178.89p).

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

|  | 2009<br>£'000 | 2008<br>£'000 |
|--|---------------|---------------|
| Operating profit                               | (5,629)       | (16,184)      |
| Less: interest payable                         | (12)          | (13)          |
| Less: taxation                                 | –             | –             |
| Realisation of investments at book cost        | 27,725        | 27,441        |
| Purchase of investments                        | (25,314)      | (19,233)      |
| (Increase)/decrease in debtors                 | (317)         | 362           |
| Increase/(decrease) in creditors               | 286           | (1,071)       |
| Adjustment for losses on investments held      | 2,950         | 17,125        |
| <b>Net cash flow from operating activities</b> | <b>(311)</b>  | <b>8,427</b>  |

**14 Related party transactions**

Details of the management contract and the administration and secretarial contract can be found in the Directors' Report on page 10. 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 £38,963 (2008: £64,293) and an administration fee of £7,348 (2008: £7,508) all figures including VAT where applicable.

**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 mainly comprises of investments in quoted 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 2.

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. 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 2009 included £124,057 (2008: £1,454,041) 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 generally use gearing. The Board has also prohibited the Manager from using derivatives to enhance or reduce market exposure within the portfolio.

**(v) Sensitivity analysis**

In addition to its investments, the Company had other net current liabilities of £800,000 at the year end. Therefore a 5% increase or decrease in the valuation of the investment portfolio at the end of August 2009 would have resulted in a 5.1% 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 and Prelude Trust plc are quoted securities. Transactions in quoted 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 November 2009, are shown below:

|                                   |       |
|-----------------------------------|-------|
| Less than one month               | 59.8% |
| Between one and three months      | 31.1% |
| Between three months and one year | 7.7%  |
| Between one year and three years  | nil   |
| More than three years             | 1.4%  |

**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<br>£'000 | Non-interest bearing<br>£'000 | 2009<br>Total<br>£'000 |
|-----------------------------------|---------------------------|-------------------------------|------------------------|
| <b>Equity investments:</b>        |                           |                               |                        |
| – £ sterling                      | –                         | 42,256                        | 42,256                 |
| – € Euro                          | –                         | 979                           | 979                    |
| – \$ USD                          | –                         | 2,354                         | 2,354                  |
| <b>Total investments</b>          | <b>–</b>                  | <b>45,589</b>                 | <b>45,589</b>          |
| <b>Cash at bank</b>               |                           |                               |                        |
| Floating rate – £ sterling        | 186                       | –                             | 186                    |
| Short term debtors – £ sterling   | –                         | 422                           | 422                    |
| Short term creditors – £ sterling | –                         | (423)                         | (423)                  |
| Bank Overdraft – £ sterling       | (985)                     | –                             | (985)                  |
|                                   | <b>(799)</b>              | <b>45,588</b>                 | <b>44,789</b>          |
| <b>2008</b>                       |                           |                               |                        |
|                                   | Interest bearing<br>£'000 | Non-interest bearing<br>£'000 | Total<br>£'000         |
| <b>Equity investments:</b>        |                           |                               |                        |
| – £ sterling                      | –                         | 47,552                        | 47,552                 |
| – € Euro                          | –                         | 3,398                         | 3,398                  |
| <b>Total investments</b>          | <b>–</b>                  | <b>50,950</b>                 | <b>50,950</b>          |
| <b>Cash at bank</b>               |                           |                               |                        |
| Floating rate – £ sterling        | 1,475                     | –                             | 1,475                  |
| Short term debtors – £ sterling   | –                         | 106                           | 106                    |
| Short term creditors – £ sterling | –                         | (537)                         | (537)                  |
| Bank Overdraft – £ sterling       | –                         | –                             | –                      |
|                                   | <b>1,475</b>              | <b>50,519</b>                 | <b>51,994</b>          |

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# Directors, manager and advisers

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**Directors**

PJ Rowen (Chairman)  
GJ Barker  
EG Davis  
KM Niven

**Stockbroker**

Singer Capital Markets Limited  
One Hanover Street  
London W1S 1YZ

**Banker**

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**Registrar**

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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 16 December 2009 at 12.00 noon for the following purposes:

## Ordinary business

- 1 To receive and adopt the financial statements for the year ended 31 August 2009, with the reports of the directors and auditors thereon.
- 2 To re-elect Mr Rowen as a director of the Company.
- 3 To re-elect Mr Barker as a director of the Company.
- 4 To re-elect Mr Davis as a director of the Company.
- 5 To re-elect Mr Niven as a director of the Company.
- 6 To re-appoint KPMG Audit Plc as auditors to the Company and to authorise the directors to fix their remuneration.
- 7 To approve a dividend of 2.4p per ordinary share in respect of the year ended 31 August 2009.
- 8 To approve the Directors' Remuneration Report.

## Special business

Resolutions 9 and 11 will be proposed as ordinary resolutions and resolutions 10 and 12 will be proposed as special resolutions.

9 That the Company be continued as an investment trust for a further three year period.

10 THAT the Company be and is hereby generally authorised in accordance with section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of section 693(4) 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 (representing 14.99 per cent. of the Company's issued Ordinary Share capital at the date of the notice of this meeting);

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

(c) the maximum price (excluding expenses) which may be paid for an Ordinary Share is not more than the higher of (i) 5 per cent above the average of the middle market quotations for the Ordinary Shares for the five business days immediately before the day on which it purchases that share and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC 2273/2003);

(d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company in 2010 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(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.

11 THAT, in substitution for any existing power under section 551 of the Companies Act 2006 ("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 551 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.

12 THAT, in substitution for any existing power under Section 570 of the Companies Act 2006 ("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 570 of the Act to allot and make offers or agreements to allot equity securities (within the meaning of Section 560 of the Act) and/or sell equity securities held as treasury shares pursuant to section 573 of that Act, in each case for cash pursuant to the authority and for the period conferred by resolution 11, up to an aggregate nominal amount of £14,093, as if Section 561(1) of the Act did not apply to such allotment.

By order of the Board  
Cavendish Administration Limited  
Company Secretary

10 November 2009

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

## Notes

### Website address

1 Information regarding the meeting, including the information required by section 311A of the Companies Act 2006, is available from [pro-asset.com](http://pro-asset.com).

### Entitlement to attend and vote

2 Only those holders of Ordinary Shares registered on the Company's register of members at 6.00 pm on 14 December 2009; or, if this meeting is adjourned, at 6.00 pm on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting.

### Appointment of proxies

3 Members entitled to attend, speak and vote at the meeting (in accordance with Note 2 above) are entitled to appoint one or more proxies to attend, speak and vote in their place. If you wish to appoint a proxy please use the Form of Proxy enclosed with this document or follow the instructions at note 7 below if you wish to appoint a proxy through the CREST electronic proxy appointment service. In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding. The completion and return of the Form of Proxy will not stop you attending and voting in person at the meeting should you wish to do so. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. If you choose to appoint multiple proxies use a separate copy of this form (which you may photocopy) for each proxy, and indicate after the proxy's name the number of shares in relation to which they are authorised to act (which, in aggregate, should not exceed the number of Ordinary Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.

4 You can appoint the Chairman of the Meeting, or any other person, as your proxy. If you wish to appoint someone other than the Chairman, cross out the words "the Chairman of the Meeting" on the Form of Proxy and insert the full name of your appointee.

5 You can instruct your proxy how to vote on each resolution by ticking the "For" and "Against" boxes as appropriate (or entering the number of shares which you are entitled to vote). If you wish to abstain from voting on any resolution please tick the box which is marked "Vote Withheld". It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you do not indicate on the Form of Proxy how your proxy should vote, he/she can exercise his/her discretion as to whether, and if how so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the meeting.

A company incorporated in England and Wales or Northern Ireland should execute the Form of Proxy under its common seal or otherwise in accordance with Section 44 of the Companies Act 2006 or by signature on its behalf by a duly authorised officer or attorney whose power of attorney or other authority should be enclosed with the Form of Proxy.

### Appointment of proxy using hard copy form

6 The Form of Proxy and any power of attorney (or a notarially certified copy or office copy thereof) under which it is executed must be received by Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU at 12.00 noon on 14 December 2009 in respect of the meeting. Any Forms of Proxy received before such time will be deemed to have been received at such time. In the case of an adjournment, the Form of Proxy must be received by Capita Registrars no later than 48 hours before the rescheduled meeting.

On completing the Form of Proxy, sign it and return it to Capita Registrars at the address shown on the reverse of the Form of Proxy. As postage has been pre-paid no stamp is required. You may, if you prefer, return the Form of Proxy in a sealed envelope to the address shown above.

### Appointment of proxies through CREST

7 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting to be held on the above date and any adjournment(s) thereof by using 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(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. 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 by CREST. After this time any change of instructions to proxies appointee through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy, which are to be transmitted through CREST, must be lodged at 12.00 noon on 14 December 2009 in respect of the meeting. Any such messages received before such time will be deemed to have been received at such time. In the case of an adjournment, all messages must be lodged with Capita Registrars no later than 48 hours before the rescheduled meeting.

#### *Termination of proxy appointments*

8 In order to revoke a proxy instruction you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

In the case of a member which is a company, the revocation notice must be executed under its common seal or otherwise in accordance with section 44 of the Companies Act 2006 or by signature on its behalf by an officer or attorney whose power of attorney or other authority should be included with the revocation notice.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified in note 2 above then, subject to the paragraph directly below, your proxy will remain valid.

If you submit more than one valid proxy appointment in respect of the same Ordinary Shares, the appointment received last before the latest time for receipt of proxies will take precedence.

Completion of a Form of Proxy will not preclude a member from attending and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.

#### *Nominated persons*

9 If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting.
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in the notes to the form of proxy.

#### *Questions at the meeting*

10 Under section 319A of the Companies Act 2006, the Company must answer any question you ask relating to the business being dealt with at the meeting unless:

- answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

#### *Issued shares and total voting rights*

11 The total number of shares in issue in the Company is 31,067,522 Ordinary Shares of 1p each. Of these 2,880,862 are held in Treasury. Therefore the total number of Ordinary Shares with voting rights is 28,186,660. On a vote by a show of hands, every holder of Ordinary Shares who (being an individual) is present by a person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for every Ordinary Share held by him.

#### *Communication*

12 Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted):

- calling Capita Registrar's shareholder helpline (lines are open from 9.00am to 5.30pm Monday to Friday, excluding public holidays):
  - (i) From UK: 0871 664 0300 (calls cost 10p per minute plus network extras);
  - (ii) From Overseas: +44 208 639 3399 (calls from outside the UK are charged at applicable international rates); or
- in writing to Capita Registrars.

You may not use any electronic address provided either:

- in this notice of meeting; or
- any related documents (including the Form of Proxy for this meeting)

to communicate with the Company for any purposes other than those expressly stated.



# Form of proxy

For use at the Annual General Meeting of the Company to be held at 145-157 St John Street, London EC1V 4RU on 16 December 2009 at 12.00 noon.

I/We \_\_\_\_\_ of \_\_\_\_\_ (BLOCK CAPITALS PLEASE)

being a shareholder(s) of the above-named Company, appoint the Chairman of the Meeting or \_\_\_\_\_

to act as my/our proxy to vote for me/us and 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 16 December 2009 at 12.00 noon and at every adjournment thereof and to vote for me/us on my/our behalf as directed below.

Please indicate with an 'X' in the spaces below how you wish your vote to be cast. If no indication is given your proxy will vote for or against the resolutions or abstain from voting as he thinks fit.

| Resolutions   | For                      | Against                  | Withheld                 | Discretionary            |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 1 To receive and adopt the directors' report, the annual accounts and the auditors' report for the year ended 31 August 2009. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 To re-elect Mr Rowen 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 Davis as a director.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 To re-elect Mr Niven 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 2009.                             | <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 approve the continuation of the Company for a further three year period.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10 To authorise the Company to purchase its own shares.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11 To authorise the directors to allot shares.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 12 To authorise the directors to allot shares free from pre-emption rights.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Please tick here if this proxy appointment is one of multiple appointments being made (See note 5 below)

Signed \_\_\_\_\_ Dated \_\_\_\_\_ 2009

## Notes

1 If any other proxy is preferred, strike out the words "Chairman of the Meeting" and add the name and address of the proxy you wish to appoint and initial the alteration. The proxy need not be a member.

2 If the appointer is a corporation this form must be completed under its common seal or under the hand of some officer or attorney duly authorised in writing.

3 A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against a resolution.

4 The signature of any one of joint holders will be sufficient, but the names of all the joint holders should be stated.

5 To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

6 To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power must reach the registrars of the Company Capita Registrars, The Registry, Proxies Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than forty-eight hours before the time appointed for holding the General Meeting or adjournment as the case may be.

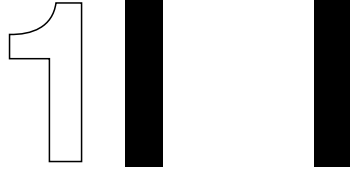
7 The completion of this form will not preclude a member from attending the Meeting and voting in person.

8 Any alteration of this form must be initialled.



Third fold and tuck in

BUSINESS REPLY SERVICE  
Licence No MB122



**Capita Registrars  
Proxy Dept.  
PO Box 25  
Beckenham  
Kent  
BR3 4BR**

First Fold

Second fold



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**Progressive European Markets Limited**

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