SVM UK Emerging Fund plc

Annual Report 31 March 2010

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The investment objective of the Fund is long term capital growth from investments in smaller UK companies with a particular focus on the Alternative Investment Market

Highlights

- Net asset value increased by 53.2% compared to a rise of 72.8% in the FTSE AIM Index
- Excellent medium and long term outperformance
- Defensive position combining a number of special situations with a high cash weighting

Financial Highlights	31 March 2010	31 March 2009	% Change
Net asset value	**68.53p**	44.73p	+53.2
Share price	**50.00p**	31.00p	+61.3
FTSE AIM Index	**716.25**	414.52	+72.8
FTSE All-Share Index	**2,910.20**	1,984.20	+46.7
Discount	**27.0%**	30.7%	
Total expense ratio:			
Investment management fees	–	–	
Other operating expenses	**1.9%**	1.9%	

Historical record Year to 31 March	NAV per share (p)	Share price (p)	Total Return (p)
2005	37.02	33.50	0.64
2006	49.45	45.00	14.32
2007	63.57	62.50	14.12
2008	65.50	67.50	1.93
2009	44.73	31.00	(20.77)
2010	**68.53**	**50.00**	**23.80**

Performance to 31 March, % change	1 Year	2 Years	3 Years	5 Years	Since Launch
Net Asset Value	+53.2	+4.5	+7.7	+84.9	–29.4
FTSE AIM Index	+72.8	–24.5	–36.0	–31.6	–53.1

Chairman's Statement

I am pleased to be able to report a positive year for the Fund's asset value and share price. Over the year to 31 March 2010, the asset value increased by 53.2% to 68.53 pence compared to a surge of 72.8% in the benchmark, FTSE AIM Index. The Fund's share price rose 61.3% to 50 pence as at the end of March and the discount narrowed almost four percentage points to 27%.

It is interesting to note that over the last two years, which encapsulates the collapse and subsequent recovery in stockmarkets and investor sentiment, the Fund's asset value is up 5% against the benchmark which is down 24%. Indeed, this outperformance is sustained over the longer term with the Fund returning 113% against a decline of 19% in the benchmark index since the Fund's remit change in September 2004. Incidentally, the FTSE All Share Index is up just 55% over this period, less than half that generated by the Fund. We believe this amply demonstrates the validity of the investment remit and the ability of the Managers to deliver this. Since the year end, the Fund has resumed both its relative and absolute performance.

Review of the year

Although the year under review showed strong positive stockmarket returns, the environment remained challenging for investors with conflicting economic and company specific information. Undoubtedly, at the start of the financial year, stockmarkets in general and smaller companies in particular had been massively de-rated and were in heavily oversold territory. The subsequent rally, one of the strongest in a generation, has arguably taken markets ahead of the underlying economics. As the risk of financial collapse and prolonged recession has largely been avoided, the unprecedented stimulus provided by central banks globally has decreased and ultimately will have to be reversed. Only then will we know whether the recovery is sustainable and how strong it will be.

As many smaller companies tend to operate with limited financial leverage and in more niche areas, they should have been less impacted by economic collapse. However, smaller companies were perceived as being riskier than their larger counterparts and were treated savagely. In the subsequent rally, this was reversed and smaller companies resumed their outperformance. Barring a major reversal in the global economy, this trend should continue as their high growth potential is more fully recognised.

Portfolio

There are approximately forty companies in the portfolio with 84% invested in AIM listed companies. The balance is spread between selective unquoted investments and a very small number of residual positions quoted on the junior PLUS market. In terms of sectors, the Fund continues to retain an overweight exposure to resources, industrials and consumer services with little in financials and property. Five new companies were introduced into the portfolio in the year financed by the reduction in some of the larger holdings.

The Fund continues to be concentrated on a relatively small number of holdings, many of which are special situations. A number of these holdings offer defensive characteristics which substantially helped in 2008 and early 2009 but has led to the Fund lagging in the past year. In addition, the Fund maintains a healthy cash position which has and will be used opportunistically to take advantage of pricing anomalies. By being benchmark aware rather than attempting to replicate sector weightings, the Fund has demonstrated substantially less volatility than both the AIM Index or indeed the broader market, represented by the FTSE All-Share Index.

The Managers believe that this approach gives the potential of both relative out-performance and absolute gains. Although individual investment risk is higher, this can be mitigated through a diversified portfolio. There is always a trade off between holding a broadly diversified portfolio which will demonstrate benchmark type returns against holding relatively few large positions with the potential of strong performance. The Managers continue to favour the latter approach.

Annual General Meeting

The Annual General Meeting will be held on 16 July 2010 at SVM's offices in Edinburgh. As prescribed by the Articles of Association, an ordinary resolution will be proposed that the Fund should continue for a further five year period.

Outlook

The Fund retains a concentrated portfolio of special situations and companies that exhibit higher than average growth potential but remain modestly valued. These companies should benefit as the global recession ends and economic growth resumes, although many are not reliant on a strong sustained recovery for their growth potential. The Fund retains maximum flexibility with ample cash resources and the facility to borrow and take hedging positions.

The Board and the Managers believe that the Fund is well placed to outperform both relatively and absolutely. Its aim remains to deliver long term capital growth, lower volatility and absolute returns.

Peter Dicks
Chairman

14 June 2010

Managers' Review

Summary

What a difference a year makes. This time last year, investors were just beginning to resurface after the disasters of 2008. The subsequent rally has surprised many, ourselves included, by its strength and longevity especially in the face of what at best could be classed as an uninspiring economic backdrop.

The last two years have been challenging, possibly the most difficult investment environment for a generation. This can be most starkly demonstrated by the index performance numbers. In the year to 31 March 2009, the FTSE All-Share Index representing larger companies fell by 32% while FTSE AIM Index as a proxy for smaller companies fared much worse sinking 56%. In the year to 31 March 2010, the FTSE All-Share Index rose by 47% with the FTSE AIM Index rising 73%. The Fund demonstrated its defensive characteristics only falling by 32% in 2009 and subsequently rising by 53% in 2010. While it is disappointing to have to report an underperforming year on a relative basis, at least investors have made money absolutely and have outperformed both large and small company indices by 5% and 29% respectively over the last two years and since the change in remit in 2004.

Shareholders are rightly more interested in the share price performance and volatility of the discount. The share price rose by 61% over the year and the discount narrowed a little to 27%. Although wide in absolute terms, it is not materially different to other investment trusts specialising in smaller companies. The Board and Managers retain their resolve to buyback or indeed issue shares if it is the best interest of the Fund.

One would have thought that the return of investor confidence and the strong performance of markets would have led to an avalanche of new issues. Corporate finance departments would normally have been sharpening their knives to bring the unsuspecting public the latest 'good idea'. Happily, this has not happened and the quality of AIM companies has improved immeasurably as the weaker continue to fall by the wayside. Most of the corporate activity has been confined to secondary fund raisings from existing companies and generally these have been well supported. This has proved to be one of the major positives for the sector in general.

Portfolio movements

The past year has seen the introduction of a number of new holdings financed by the harvesting of gains in some of the more mature positions. Of the realisations, the reduction in the positions in gold producers Norseman Gold and Kirkland Lake Gold were the most material. In particular, Norseman proved to be a very profitable investment with substantial profits being booked in the year on acquisitions made at the lows registered in the first quarter of 2009.

The proceeds have been used to introduce five new investments into the portfolio. In line with our preference to buy into existing businesses rather than new issues, each of these were secondary placings at attractive prices. Pan Pacific Aggregates is a turnaround situation of a company specialising in mining industrial minerals for the construction industry in Canada. The new management team successfully built up and ultimately profitably sold a similar business in the UK a few years ago. Henderson Morley is a pharmaceutical company with a number of compounds available to joint venture which should substantially create value. Nostra Terra Oil & Gas is an emerging oil and gas exploration and production company with recently acquired assets in established producing regions within the USA. North River Resources is a southern African focused multi-commodity resource play.

Contributors to performance

With the AIM Index and the portfolio dominated by resource companies, it is not surprising that the principal drivers of performance in the year came from this sub sector. Saying that, the best performer was Symphony Environmental Technologies, reversing the previous year's underperformance. The company tripled in value as it booked its maiden profit after successfully rolling out its biodegradable products. Share prices doubled in three other companies including the Fund's largest holding Norseman Gold. Even after these strong performances, we believe that there is still further share price appreciation possible and we intend to retain these holdings.

As is always the case, there were however some disappointments in the year although mercifully few. At this time last year, we had high hopes for AMZ Holdings, the real estate company in Taiwan with property earmarked for a casino development. Following an unsuccessful referendum, the company has been sold to an American investor at a low price. This highlights the pitfalls of investing in smaller companies where the outcome is largely binary. For a number of investments, either one makes a substantial return as the company succeeds in delivering its objective or it is virtually worthless if it fails. The secret is to identify problems at an early stage and purge them from the portfolio. We do this on a very regular basis and are comfortable with the portfolio holdings.

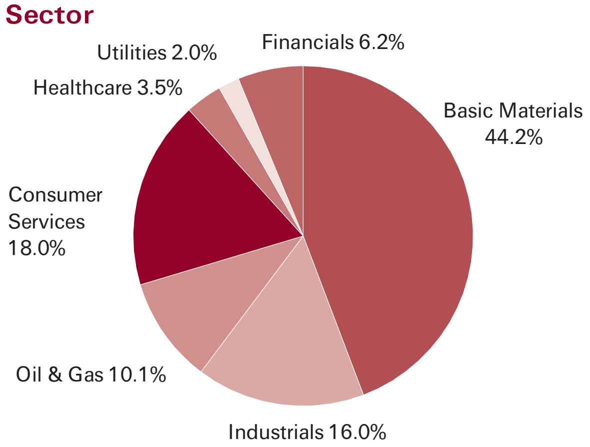
We continue to challenge management and directors to maximise value for us as shareholders. We believe that institutional shareholders in particular should take an active role and have championed the rights for minority shareholders. This has led to a number of liquidity events outwith the general buying and selling of investments.

Outlook

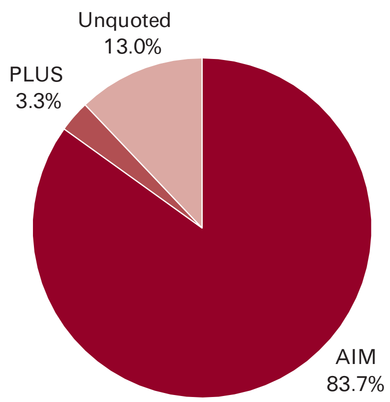
Even though markets have recovered their poise and the likelihood of re-testing the 2009 lows unlikely, the economic background still remains challenging. It will take some time for economics to catch up with markets and as such we remain cautious. We believe that the Fund is well positioned to make further progress and to continue to deliver on its objective of both superior absolute and relative performance.

SVM Asset Management Limited
14 June 2010

Sector



Listing



Investment Portfolio *as at 31 March 2010*

	Company	Cost 2010 £000	Valuation 2010 £000	% of Net Assets	Valuation 2009 £000
1	Norseman Resources	16	396	9.6	297
2	Pan Pacific Aggregates	200	320	7.8	–
3	China Pub Company	100	300	7.3	300
4	Archipelago Resources	75	270	6.6	83
5	Hydrodec †	250	250	6.1	250
6	Symphony Environmental Technology	129	215	5.2	49
7	ToLuna	50	188	4.6	157
8	Kirkland Lake Gold	81	168	4.1	184
9	Mantle Diamonds †	100	167	4.1	166
10	Hurlingham Properties (ord & CFD)	288	138	3.4	121
	Ten largest investments	**1,289**	**2,412**	**58.8**	
11	Adalta Real	50	128	3.1	66
12	Henderson Morley	114	124	3.0	–
13	Borders & Southern Petroleum	34	112	2.7	46
14	Nostra Terra Oil & Gas	125	106	2.6	–
15	Rambler Metals & Minerals	102	104	2.5	36
16	Greystar Resources	42	101	2.5	54
17	Sprue Aegis	106	96	2.3	48
18	North River Resources	100	92	2.2	–
19	Fotolec Technologies †	200	90	2.2	90
20	Red 24	100	85	2.1	23
	Twenty largest investments	**2,262**	**3,450**	**84.0**	
21	Rurelec	93	80	1.9	–
22	Petrel Resources (CFD)	348	70	1.7	124
23	Nyota Resources	76	66	1.6	30
24	Rheochem	127	56	1.4	35
25	Hurricane Exploration †	50	50	1.2	–
26	Chemistry Communications Group	150	39	1.0	24
27	AMZ Holdings	125	38	0.9	165
28	Maghreb Minerals	250	36	0.9	54
29	Spectrum Technologies †	173	34	0.8	14
30	CareCapital	151	23	0.5	23
	Thirty largest investments	**3,805**	**3,942**	**95.9**	
	Other investments (inc CFD margin)	911	(94)	(2.4)	
	Total investments	**4,716**	**3,848**	**93.5**	
	Net current assets		**267**	**6.5**	
†Unlisted.			**4,115**	**100.0**	

Numbers shown represent economic interest.

All portfolio investments are UK equity investments.

Peter Dicks (Chairman)

Peter Dicks was a founder and director of Abingworth plc which, between 1973 and 1992, specialised in making venture capital investments in the USA and the UK. He is currently a director of Gartmore Fledgling Trust plc, Graphite Enterprise Trust plc, Polar Technology Trust plc, Private Equity Investor plc, Foresight VCT range of funds and a number of other unquoted companies. He was appointed in 2000 and is due for re-election this year.

Richard Bernstein

Richard Bernstein, a chartered accountant, is the founder and Chief Executive of Eurovestech plc, an AIM listed investment fund, investing in technology and internet related businesses. Between 1994 and 1996, he ran his own specialist research house, Amber Analysis, which provided a risk management service for UK institutions. From 1996 until 1999, he was an equities analyst at Schroder Securities Limited. He has considerable investment experience with listed investments including a number of companies involved in internet infrastructure and e-commerce. He was appointed in 2000 and is due for re-election this year.

Anthony Puckridge

Anthony Puckridge is a director of NW Brown and Company Limited, a broadly diversified financial business where he founded the investment management division. Prior to joining NW Brown, he was a director of Lazard Brothers & Co Limited where at various times he managed and advised pension funds, was in charge of both the US and smaller companies investments and was responsible for a series of funds involved in making venture capital investments. He is an Associate of UKSIP and a Member of the Securities Institute. He was appointed in 2000 and is due for re-election this year.

Report of the Directors

The Directors submit their Report and Accounts for the year to 31 March 2010.

Principal activity and status

The Fund, Registered Number 211841, is an Investment Company as defined in Section 833 of the Companies Act 2006. The Fund is not a close company for taxation purposes. The Fund has been approved by HM Revenue and Customs as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year to 31 March 2009. In the opinion of the Directors, the Fund has subsequently conducted its affairs so as to enable it to continue to obtain such approval and the Fund will continue to seek approval each year.

Investment objective

The investment objective of the Fund is long term capital growth from investments in smaller UK companies with a particular focus on the Alternative Investment Market (''AIM''). Its aim is to outperform the FTSE AIM Index on a total return basis. It is the current intention that this objective will continue for the foreseeable future.

Investment policy

The Fund aims to achieve its objective and to diversify risk by investing in shares and related instruments, controlled by a number of limits on exposures. Appropriate guidelines for the management of the investments, gearing and financial instruments have been established by the Board. Limits are expressed as percentages of shareholders' funds, measured at market value.

Although the Fund's benchmark is the FTSE AIM Index, the pursuit of the investment objective may involve exposure to companies on other exchanges and to unlisted investments. A high conviction investment approach is employed, which can involve strong sector or thematic positions. No individual investment will exceed 10% of the portfolio on acquisition. Total exposure to unlisted shares is also limited to a maximum of 25% of the portfolio and has historically been less.

The Fund has the ability to borrow money to enhance returns. This gearing can enhance benefits to shareholders but, if the market falls, losses may be greater. The level of gearing is closely monitored and the Board has set an upper limit of 30% of net assets. Borrowing is normally on a short term basis to ensure maximum flexibility but the Fund may also commit to longer term borrowing. The Fund may also sell parts of the share portfolio and hold cash or other securities when there may be a greater risk of falling stockmarkets.

The Board has granted the Managers a limited authority to invest in Contracts for Differences (''CFD's'') (long positions) and similar instruments as an alternative to holding actual stocks. This means that the gross cost of investment is not incurred. The total effect of such gearing (bank borrowings plus the gross exposure of long positions less any hedging) is limited to 30% of the Fund's net asset value. Additional limits have also been set on individual hedging to assist risk control. The use of CFD's can involve counterparty credit risk exposure.

The Fund may also make use of hedging as an additional investment tool. To help reduce the potential for stockmarket weakness to adversely impact the portfolio, the Board has granted the Managers limited authority to hedge risks, within specified limits and to a maximum of 15% of the total portfolio. Such hedging (short positions) may be conducted through CFD's or other index instruments. Hedging can be used to facilitate adjustment of the portfolio at a time of economic uncertainty or increased risk. It aids flexibility and can allow exposure to a sector to be reduced with less disruption to the underlying long term portfolio. However, in a rising stockmarket, this may impact performance.

The Fund does not normally invest in fixed rate securities other than securities that are convertible into equity.

Business review

A review of the business during the year is set out on pages 4 and 5.

The Fund is an investment trust quoted on the London Stock Exchange and is required to comply with the Companies Act, the UK Listing Rules and applicable accounting standards. In addition to the formal annual accounts, interim accounts and interim management statements, the Fund publishes monthly asset values and quarterly factsheets. Although the objective is for long term growth, the Managers believe that outperformance in the short term is also important for the control of the Fund's rating (premium/discount). The performance and the rating are the two primary key performance indicators for the Fund and the Board assesses these on a regular basis. Further information on these indicators are detailed on the Managers' website and in the quarterly factsheets.

Most of the Fund's investments are in small companies and may be seen as carrying a higher degree of risk. These risks are mitigated through portfolio diversification, in-depth analysis, the experience of the Managers and a rigorous internal control culture. Further information on the internal controls operated for the Fund is detailed in the Report of the Directors on page 13.

Results

The total return for the year of £1,429,000 (2009: loss of £1,247,000) has been transferred to reserves. No dividend has been declared.

Principal risks

The principal risks facing the Fund are market related and include market price, interest, liquidity and credit risk. An explanation of these risks and how they are mitigated is explained in Note 9 to the Accounts. Additional risks faced by the Fund are summarised below:

Investment strategy – The performance of the portfolio may not match the performance of the benchmark through inappropriate sector or stock selection, use of CFDs or gearing. In addition, the Fund may be affected by economic conditions. The Managers have a clearly defined investment philosophy and manage a broadly diversified portfolio to mitigate this risk.

Discount – The level of the discount varies depending upon performance, market sentiment and investor appetite. In addition, the Fund operates an active share re-purchase programme.

Regulatory/Operational – Failure to comply with applicable legal and regulatory requirements could lead to a suspension of the Fund's shares, fines or a qualified audit report. A breach of Section 842 could lead to the Fund being subject to capital gains tax. Failure of the Managers' or third party service providers could prevent accurate reporting and monitoring of the Fund's financial position. The Managers have many years of experience in managing investment trusts and comprehensive systems are in place to ensure that the Fund is not at risk.

The Board regularly considers the risks associated with the Fund and receives both formal and informal reports from the Managers and third part service providers addressing these risks.

The Board believes the Fund has a relatively low risk profile as it has a simple capital structure; invests principally in UK quoted companies; does not use derivatives other than CFDs and uses well established counterparties.

The Fund's capital structure comprises only ordinary shares that rank equally. Each share carries one vote at general meetings.

Directors

The Directors who held office during the year and their beneficial interests in the ordinary shares of the Fund were:

	31 March 2010	1 April 2009
P F Dicks	**160,000**	150,000
R P Bernstein	**120,000**	100,000
A Puckridge	**40,000**	20,000

There have been no changes in the Directors' interests between 31 March 2010 and 14 June 2010.

Each Director has a letter of appointment, details of which are noted on page 14.

Each Director, having served for more than nine years, will offer himself for re-election at the Annual General Meeting. The Board considers that each is independent, despite having served on the Board for more than nine years and have demonstrated their independence through integrity and a robust contribution. The Board is of the view that length of service does not necessarily compromise the independence or contribution of directors of an investment trust, where continuity and experience can add significantly to the strength of the Board. The Board considers the long service of the Directors as an asset and recommends their individual re-election to shareholders.

Management

SVM Asset Management Limited provides investment management and secretarial services to the Fund. These services can be terminated without compensation at any time by giving one year's notice or an immediate payment of a year's fees in lieu of notice. They are entitled to a fee for these services, payable quarterly in arrears, equivalent to 0.825 per cent per annum of the total assets of the Fund less current liabilities. In addition, SVM Asset Management Limited is entitled to an incentive fee of 15 per cent of achieved outperformance of the Fund's benchmark index, FTSE AIM Index, on a six monthly in arrears when the net asset value of the Fund exceeds 100p. In view of the size of the Fund, the Managers have waived their management fees for the year to 31 March 2009 and 2010. No incentive fee was paid or due in respect of the year to 31 March 2009 or 31 March 2010.

The Management and Nomination Committee assesses the Managers' performance on an ongoing basis and meets each year to conduct a formal evaluation of the Managers. It assesses the resources made available by the Managers, the results and investment performance in relation to objectives and also the additional services provided by the Managers to the Fund.

The Committee has reviewed the Managers' contract. In carrying out its review, it considered the past investment performance and the Managers' capability and resources to deliver superior future performance. It also considered the length of the notice period of the investment management contract and the fees payable together with the standard of other services provided which include secretarial, accounting, marketing and risk monitoring.

Following this review, it is the Directors' opinion that the continuing appointment of the Managers on the terms agreed is in the best interests of the shareholders.

Disclosure of information to the Auditors

Each Director of the Fund confirms that:

- so far as each Director is aware, there is no information needed by the Auditors in connection with preparing their report of which the Auditors are unaware; and
- the Director has taken all the steps that he ought to have taken to make himself aware of any such information and to establish that the Auditors are aware of that information.

Substantial shareholdings

As at 14 June 2010, the following interests in excess of 3 per cent of the issued ordinary shares of the Fund had been reported:

Name	Number of Shares	Percentage of Capital
SVM Asset Management	1,585,000	26.4%
Jupiter Asset Management	544,000	9.1%
Landsbanki Securities	260,000	4.3%
C W McLean	184,968	3.1%

Creditors payment policy

The Fund's policy is to agree and make suppliers aware of payment terms prior to the transacting of business. The Fund has and will continue to operate this policy. The Fund does not have any trade creditors outstanding at the year end or at the previous year end.

Financial instruments

The Fund's financial instruments comprise the investment portfolio (including the use of Contracts for Differences), cash at bank and on deposit, bank overdrafts and debtors and creditors that arise directly from operations. The main risks that the Fund faces from its financial instruments are disclosed in Note 9 to the financial statements.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as the Fund's Auditors and a resolution proposing their reappointment will be put to the forthcoming Annual General Meeting.

Directors' authority to issue shares

The Directors are currently authorised to allot ordinary shares up to an aggregate nominal amount of £300,000 and renewal of this authority and to sell shares held in treasury is set out in Resolutions 7 and 8 of the Notice of the Annual General Meeting. The Directors will only issue shares pursuant to this authority if they believe it is advantageous to the Fund's existing shareholders to do so.

Directors' authority to buy back shares

The current authority of the Fund to make market purchases of up to 15% of the issued ordinary shares expires on the conclusion of this year's Annual General Meeting. Resolution 9, as set out in the Notice of the Annual General Meeting, seeks renewal of this authority until the Annual General Meeting in 2011. The price paid for shares will not be less than the nominal value of 5 pence per share nor more than 5% above the average of the market values of these shares for the five business days before the shares are purchased. This power will only be exercised if, in the opinion of the Directors, a repurchase would be in the best interests of the shareholders as a whole. Any shares purchased under this authority will either be cancelled or held in treasury for future re-sale in appropriate market conditions.

Going concern

The Board, having made appropriate enquiries, has a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the financial statements. At the Annual General Meeting convened this year and every five years thereafter, shareholders will be given the opportunity to decide on the future of the Fund. The Directors have consulted with a cross section of the larger shareholders and believe that the continuation resolution at this year's Annual General Meeting will be passed and as such continue to adopt a going concern basis.

Statement of directors' responsibilities

The Directors are responsible for preparing the Directors' 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, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Fund and of the profit or loss of the Fund 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 accounting 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.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the best of the knowledge of the Board the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Fund and the Report of the Directors includes a fair review of the development and performance and the position of the Fund together with a description of the principal risks and uncertainties that it faces.

Corporate governance

The Board of Directors has had in place throughout the year the procedures necessary to ensure compliance with the Financial Reporting Council

Combined Code of Best Practice (''the Combined Code'') except as noted below. In addition, the Fund has complied throughout the year with the provisions of the Association of Investment Companies Code of Corporate Governance (''AIC Code''). Therefore, those issues on which the Fund does not report in detail are excluded because the Board deems them to be irrelevant to the Fund as explained in the AIC Code.

The Directors confirm that the Fund has complied with the requirement to be headed by an effective Board to lead and control the Fund. The Fund is an investment trust and not a trading company and, as such, there is no requirement for a Chief Executive Officer (Code A.2.1). Mr A Puckridge has acted as the Senior Independent Director throughout the year. As detailed on page 7, the Board comprises the three non-executive Directors, all of whom are independent of the Managers and free from all business or other relationships that could interfere with the exercise of their independent judgement. Whilst the Directors are not appointed for specific terms, as required by the Combined Code, all the Directors must submit themselves for re-election by the shareholders every three years and are not entitled to compensation if they are not re-elected to office.

Since all Directors are non-executive, the Fund is not required to comply with the principles of the Combined Code in respect of executive Directors' remuneration. Directors may seek independent advice at the expense of the Fund.

The Directors conduct an annual self-assessment by discussion of their collective and individual performances on a range of issues in order to ensure that they are acting in the best interests of the Fund and its shareholders. Having reviewed this assessment, each Director continues to be regarded as effective and committed to the Fund.

During the year there were four Board and four Committee meetings (two Audit and two Management and Nomination). All Directors attended all of the meetings.

The Managers maintain regular contact with the Fund's shareholders, particularly institutional shareholders, and report regularly to the Board on shareholder relations. In addition, the Board uses the Annual General Meeting as a forum for shareholders to meet and discuss issues with the Board and the Managers.

The Board has defined the scope of the Managers' responsibilities including the principal operating issues such as hedging, gearing, share issuance and buy backs. Details of the limits set on the key areas are set out in the Financial Instruments disclosures in note 9 to the financial statements.

The Fund usually exercises its voting powers at general meetings of investee companies. The Fund does not operate a fixed policy when voting but treats each case on merit. The Managers have adopted the statement of principles set out by the Institutional Shareholders' Committee on The Responsibilities of Institutional Shareholders and Agents.

The Board recognises that corporate, social, environmental and ethical responsibility enables good sustainable business growth and can have positive implications for shareholder value. The Board believes that encouraging companies to recognise these responsibilities is best achieved with dialogue and actively aiming to encourage best practice.

Committees

The Board has adopted a formal schedule of matters specifically reserved to itself for decision and, in relation to certain matters, two committees have been established. Both committees are chaired by the Senior Independent Director. The terms of reference of both committees are available from the Managers upon request.

Management and Nomination Committee

The Management and Nomination Committee, which comprises all of the independent Directors and for which a quorum is any two of the independent Directors, meets at least once a year. Its remit includes such matters as reviewing all contracts for services delivered to the Fund, reviewing and recommending new appointments to the Board and fixing the remuneration of the Directors.

Audit Committee

The Audit Committee, which comprises all of the independent Directors and for which a quorum is any two of the independent Directors, meets at least twice a year. All Directors have the requisite financial experience to sit on this committee. Its remit is to review the Fund's financial position, internal controls, scope and results of the audit, its cost effectiveness and the independence and objectivity of the Auditors. The Committee must also satisfy itself that the Fund's published financial statements represent a true and fair view of the position. The Auditors are invited to attend such meetings and report on the results of the audit. The Auditors do not provide any non-audit services to the Fund other than tax compliance services, for which they are paid £3,000. Notwithstanding these, the Committee has concluded that the Auditors are independent.

The Committee considers annually the need for an internal audit function. It believes such a function is unnecessary as the Fund has no employees and subcontracts its business to third parties, the principal one of which is SVM Asset Management Limited.

Internal control and financial reporting

The Board, in conjunction with the Managers, has established a process for identifying, evaluating and managing the significant risks faced by the Fund. This process, which accords with the Turnbull guidance, has been in place for the whole year and up to the date of approval of the financial statements. The Board is responsible for establishing and maintaining the Fund's system of internal control and reviewing its effectiveness. Internal control systems are designed to meet the particular needs of the Fund and the risks to which it is exposed and, by their nature, can provide reasonable but not absolute assurance against material misstatement or loss.

The principal elements of the Fund's system of internal controls and the process applied by the Board in reviewing its effectiveness are:

- Clearly documented contractual arrangements with service providers.
- Annual review by the Board of the reports of service providers.
- Consideration by the Board of the latest Review of Internal Controls every six months.
- Quarterly Board meetings to review performance, investment policy, strategy and shareholder relations.
- Regular updating by the Managers on key risks and control developments.

The Board meets every quarter to review the overall business of the Fund and to consider the matters specifically reserved for it to decide upon. At these meetings, the Directors review investment performance of the Fund compared to its benchmark index and in relation to comparable investment trusts. The Directors also review the Fund's activities over the preceding quarter to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change to that policy. The Board is satisfied that it is supplied in a timely manner with information to enable it to discharge its duties.

The Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Fund. There are clearly documented contractual arrangements between the Fund and these organisations which define the areas where the Board has delegated authority to them. The Board receives reports on at least an annual basis detailing the internal control objectives and procedures adopted by each organisation. Each report has been reviewed by the respective organisation's auditors. The Board's review of these reports allows it to assess the effectiveness of the internal systems of financial control which affect the Fund.

Compliance statement

Except as noted above, the Fund has complied with the applicable provisions of the Combined Code during the year and up to the date of the approval of the financial statements.

By Order of the Board,
SVM Asset Management Limited
Secretaries

14 June 2010

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Auditors to audit certain aspects of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 16 and 17.

Remuneration Committee

The Fund has three non-executive Directors as detailed on page 7, all of whom are independent. The Management and Nomination Committee, comprising of all the Directors, fulfils the function of a Remuneration Committee in addition to its nominations functions. The Board has appointed SVM Asset Management Limited as Company Secretaries to provide advice when the Management and Nomination Committee considers the level of Directors' fees. The Management and Nomination Committee carries out a review of the level of Directors' fees on an annual basis. In addition, SVM Asset Management Limited provides investment management and administration services to the Fund.

Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure, and have similar investment objectives. It is the intention that this policy will continue in this and subsequent years. Due to the size of the Fund, the Managers have waived their management fee and the Directors have waived their entitlement to half their fees until further notice.

The fees for the non-executive Directors are determined within the limits set out in the Fund's Articles of Association. The current limit is £75,000 in aggregate per annum and shareholder approval in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. Directors' Remuneration is likely to remain unchanged for the coming year.

Directors' appointment and tenure

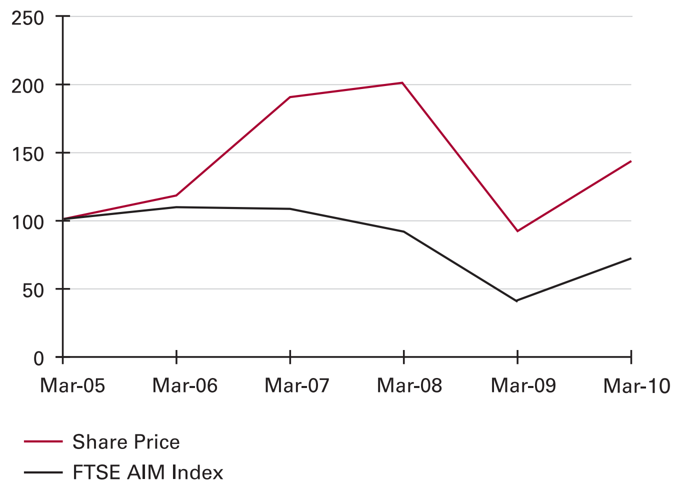
All Directors were originally appointed at the Fund's inception in 2000 and all Directors have a letter of appointment. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting following their appointment. Directors are thereafter obliged to retire by rotation, and, if they wish, to offer themselves for re-election, at least every three years thereafter. There is a 3 month notice period and the Fund reserves the right to make a payment in lieu of notice on early termination of appointment.

The Board's policy of tenure is to review actively whether Directors with service of nine years or more should be re-nominated, whilst ensuring that the process of refreshing the Board does not compromise a balance of experience, age, length of service and skills.

The Management and Nomination Committee recommends to the Board candidates for nomination as Directors. The Committee seeks candidates with the aim of ensuring that the Board comprises a broad spread of experience and knowledge and, where appropriate, actively searches for candidates.

Fund performance

The graph below compares the share price total return (assuming all dividends are reinvested) to Ordinary Shareholders for the last five years to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE AIM Index is calculated. The Index has been chosen as it represents the Fund's benchmark.



Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees 2010 £	Fees 2009 £
P F Dicks	**7,500**	7,500
R Bernstein	**5,000**	5,000
A Puckridge	**5,000**	5,000
	17,500	17,500

By Order of the Board,
SVM Asset Management Limited
Secretaries

14 June 2010

Independent Auditor's Report to the members of SVM UK Emerging Fund plc

We have audited the financial statements of SVM UK Emerging Fund plc for the year ended 31 March 2010, which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Reconciliation of Movements in Shareholders Funds, Accounting Policies and related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Fund's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund'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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 March 2010 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom 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 Report of the Directors 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 11, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Fund's compliance with the nine provisions of the 2008 Combined Code specified for our review.

Caroline Gulliver
(Senior statutory auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
London

14 June 2010

Income Statement *for the year to 31 March 2010*

	Notes	Revenue £000	Capital £000	Total £000
Net gains on investments at fair value through profit or loss	*5*	–	1,474	1,474
Income	*1*	23	–	23
Investment management fees		–	–	–
Other expenses	*2*	(63)	(2)	(65)
Return before finance costs and taxation		(40)	1,472	1,432
Finance costs		(3)	–	(3)
Return on ordinary activities before taxation		(43)	1,472	1,429
Taxation	*3*	–	–	–
Transfer to/(from) reserves		(43)	1,472	1,429
Return per Ordinary Share	*4*	(0.72p)	24.52p	23.80p

The Total column of this statement is the Profit and Loss Account of the Fund. All revenue and capital items are derived from continuing operations. No operations were acquired or discontinued in the year. A Statement of Recognised Gains and Losses is not required as all gains and losses of the Fund have been reflected in the above statement

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

Income Statement *for the year to 31 March 2009*

	Notes	Revenue £000	Capital £000	Total £000
Net losses on investments at fair value through profit or loss	*5*	–	(1,202)	(1,202)
Income	*1*	40	–	40
Investment management fees		–	–	–
VAT on investment management fee		–	7	7
Other expenses	*2*	(64)	(2)	(66)
Return before finance costs and taxation		(24)	(1,197)	(1,221)
Finance costs		(26)	–	(26)
Return on ordinary activities before taxation		(50)	(1,197)	(1,247)
Taxation	*3*	–	–	–
Transfer from reserves		(50)	(1,197)	(1,247)
Return per Ordinary Share	*4*	(0.84p)	(19.93p)	(20.77p)

The Total column of this statement is the Profit and Loss Account of the Fund. All revenue and capital items are derived from continuing operations. No operations were acquired or discontinued in the year. A Statement of Recognised Gains and Losses is not required as all gains and losses of the Fund have been reflected in the above statement

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

Balance Sheet *as at 31 March 2010*

	Notes	2010 £000	2009 £000
Fixed Assets			
Investments at fair value through profit or loss	*5*	**3,848**	2,521
Current Assets			
Debtors	*6*	**14**	9
Cash at bank and on deposit		**869**	721
Total current assets		**883**	730
Creditors: amounts falling due within one year	*7*	**(616)**	(565)
Net current assets		**267**	165
Total assets less current liabilities		**4,115**	2,686
Capital and Reserves			
Share capital	*8*	**300**	300
Share premium		**314**	314
Special reserve		**5,144**	5,144
Capital redemption reserve		**27**	27
Capital reserve		**(1,174)**	(2,646)
Revenue reserve		**(496)**	(453)
Equity shareholders' funds		**4,115**	2,686
Net asset value per Ordinary Share	*4*	**68.53p**	44.73p

Approved and authorised for issue by the Board of Directors on 14 June 2010
and signed on its behalf by Peter Dicks, Chairman

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

Cash Flow Statement *for the year to 31 March 2010*

	2010 £000	2009 £000
Reconciliation of return before finance costs and taxation to net operating cash flows		
Return before finance costs and taxation	**1,432**	(1,221)
(Gains)/losses on investments	**(1,474)**	1,202
Transaction costs	**2**	2
Movement in debtors	**–**	(5)
Net cash outflow from operating activities	**(40)**	(22)
Taxation		
Taxation received/(paid)	**–**	(4)
Returns on investment and servicing of finance		
Finance costs	**(3)**	(26)
Capital expenditure and financial investment		
Purchases of fixed asset investments	**(683)**	(578)
Sales of fixed asset investments	**874**	998
	191	420
Increase in cash	**148**	368
Reconciliation of net cash flow to movements in net cash		
Movement in cash in the year	**148**	368
Net cash as at start of year	**721**	353
Net cash as at end of the year	**869**	721

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

Reconciliation of Movements in Shareholders' Funds *for the year to 31 March 2010*

For the year to 31 March 2010

	Share capital £000	Share premium £000	Special reserve £000	Capital redemption reserve £000	Capital reserve £000	Revenue reserve £000
As at 1 April 2009	**300**	**314**	**5,144**	**27**	**(2,646)**	**(453)**
Return/(loss) attributable to shareholders	–	–	–	–	**1,472**	**(43)**
As at 31 March 2010	**300**	**314**	**5,144**	**27**	**(1,174)**	**(496)**

For the year to 31 March 2009

	Share capital £000	Share premium £000	Special reserve £000	Capital redemption reserve £000	Capital reserve £000	Revenue reserve £000
As at 1 April 2008	300	314	5,144	27	(1,449)	(403)
Loss attributable to shareholders	–	–	–	–	(1,197)	(50)
As at 31 March 2009	300	314	5,144	27	(2,646)	(453)

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

Basis of Preparation

The financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (''GAAP'') and with the 2009 Statement of Recommended Practice ''Financial Statements of Investment Trust Companies and Venture Capital Trusts'' (''SORP'').

Income

Income is included in the Income Statement on an ex-dividend basis. Income on fixed interest securities is included on an effective interest rate basis. Deposit interest is included on an accruals basis.

Expenses and interest

Expenses and interest payable are dealt with on an accruals basis.

Investment management fees

Investment management fees, if any, are allocated 100 per cent to capital. The allocation is in line with the Board's expected long-term return from the investment portfolio. Due to the size of the Fund, the Managers have waived their management fee. The terms of the investment management agreement are detailed in the Report of the Directors on page 10.

Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the taxable profits and the results as stated in the accounts which are capable of reversal in one or more subsequent periods.

Investments

The investments have been categorised as ''fair value through profit or loss''.

All investments are held at fair value. For listed investments this is deemed to be at bid prices as at 31 March 2010. Contracts for Differences are synthetic equities and are valued with reference to the investment's underlying bid prices. Unlisted investments are valued at fair value based on the latest available information and with reference to International Private Equity and Venture Capital Valuation Guidelines.

All changes in fair value and transaction costs on the acquisition and disposal of portfolio investments are included in the Income Statement as a capital item.

Purchases and sales of investments are accounted for on trade date.

Capital reserve

Gains and losses on realisations of fixed asset investments, and transactions costs, together with appropriate exchange differences, are dealt with in this reserve. All incentive fees and investment management fees, together with any tax relief, is also taken to this reserve. Increases and decreases in the valuation of fixed asset investments are dealt with in this reserve.

	2010 £000	2009 £000
1. Income		
Income from UK listed shares and securities		
– dividends	**3**	20
– interest	**20**	20
	23	40

	2010 £000	2009 £000
2. Other Expenses		
Revenue		
General expenses	**26**	27
Directors' fees	**18**	18
Auditors' remuneration – audit services	**16**	16
– taxation services	**3**	3
	63	64
Capital		
Transaction costs – acquisitions	**1**	1
– disposals	**1**	1
	2	2

	2010 £000	2009 £000
3. Taxation		
Current taxation	**–**	–
Deferred taxation	**–**	–
Total taxation for the year	**–**	–
Return on ordinary activities before taxation	**1,429**	(1,247)

The tax assessed for the year is different from the standard small company rate of corporation tax in the UK. The differences are noted below.

	2010 £000	2009 £000
Corporation tax (21%, 2009 – same)	**300**	(262)
Non taxable UK dividends	**(1)**	(3)
Non taxable investment (gains)/losses in capital	**(309)**	252
Movement in unutilised management expenses	**10**	13
Total taxation charge for the year	**–**	–

At 31 March 2010, the Fund had unutilised management expenses of £636,000 (2009 – £623,000). No deferred tax asset has been recognised on the unutilised management expenses as it is unlikely that there would be suitable taxable profits from which the future reversal of the deferred tax asset could be deducted.

4. Returns per Share

Returns per share are based on a weighted average of 6,005,000 (2009 – 6,005,000) ordinary shares in issue during the year.

Total return per share is based on the total return for the year of £1,429,000 (2009 – loss of £1,247,000).

Capital return per share is based on net capital return during the year of £1,472,000 (2009 – loss of £1,197,000).

Revenue return per share is based on the revenue loss after taxation for the year of £43,000 (2009 – £50,000).

The net asset values per share are based on the net assets of the Fund of £4,115,000 (2009 – £2,686,000) divided by the number of shares in issue at the year end as shown in Note 8.

			2010 £000	2009 £000
5. Investments at fair value through profit or loss				
Listed investments			**3,257**	1,926
Unlisted investments			**591**	595
Valuation as at end of year			**3,848**	2,521
	Listed £000	**Unlisted £000**		
Valuation as at start of year	**1,926**	**595**	**2,521**	3,692
Investment holding losses as at start of year	**(2,017)**	**(347)**	**(2,364)**	(1,115)
Cost as at start of year	**3,943**	**942**	**4,885**	4,807
Purchase of investments at cost	**683**	**50**	**733**	1,029
Proceeds from sale of investments	**(852)**	**(28)**	**(880)**	(998)
Net gain/(loss) on sale of investments	**119**	**(141)**	**(22)**	47
Cost as at end of year	**3,893**	**823**	**4,716**	4,885
Investment holding losses as at end of year	**(636)**	**(232)**	**(868)**	(2,364)
Valuation as at end of year	**3,257**	**591**	**3,848**	2,521
Net (loss)/gain on sale of investments			**(22)**	47
Movement in investment holding losses			**1,496**	(1,249)
Total gains/(losses) on investments			**1,474**	(1,202)

6. Debtors

Dividends due but not received	**5**	5
Due from brokers	**5**	–
Taxation	**4**	4
	14	9

7. Creditors: amounts falling due within one year

Amounts due under CFD's	**596**	545
Other creditors	**20**	20
	616	565

	2010 £000	2009 £000
8. Share capital		
Authorised		
100,000,000 ordinary 5p shares (2009 – same)	**5,000**	5,000
Allotted, issued and fully paid		
6,005,000 ordinary 5p shares (2009 – same)	**300**	300

As at the date of publication of this document, there was no change in the issued share capital and each ordinary share carries one vote.

9. Financial instruments

Financial instruments

The Fund's investment policy is to hold investments, CFD's and cash balances with gearing being provided by a bank overdraft. All financial instruments are denominated in Sterling and are carried at fair value. The fair value is the same as the carrying value of all financial assets and liabilities. Where appropriate, gearing can be utilised in order to enhance net asset value. The Fund does not invest in fixed rate securities other than where it has substantial cash resources. Fixed rate securities held at 31 March 2010 were valued at £250,000 (2009 – £250,000). Investments, which comprise principally equity investments, are valued as detailed in the accounting policies. Any cash balances are held on a variable rate call account generally yielding a higher rate of interest than that available for fixed interest securities.

The Fund only operates short term gearing, which is limited to 30 per cent of gross assets, and is undertaken through an unsecured variable rate bank overdraft and the use of CFD's. The benchmark rate which determines the interest received on Sterling cash balances or paid on bank overdrafts is the bank base rate which was 0.5% as at 31 March 2010 (2009 – 0.5%). The Fund has a £400,000 bank overdraft facility with Bank of New York, renewed in May 2010, at a rate of 1% above LIBOR. There are no undrawn committed borrowing facilities. Short-term debtors and creditors are excluded from disclosure.

The Fund does not have any foreign currency exposure and is consequently not currency hedged. Financial information on the investment portfolio is detailed on page 6 and in note 5 on page 25.

	2010 £000	2009 £000
Classification of financial instruments		
Level 1	**3,163**	1,926
Level 2	**144**	145
Level 3 – 7 investments (2009 – 7)	**541**	595

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets. The CFD positions and Hurricane Exploration (£50,000) are the sole Level 2 investments.

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data. Further details on the movements are shown in note 5.

The Board has granted the Managers a limited authority to invest in CFD's to achieve some degree of gearing and/or hedging without incurring the gross cost of investment. The Board requires the Managers to operate within certain risk limits, as detailed in the Report of the Directors. The following table details the CFD positions:

	2010 £000	2009 £000
Number of holdings (2010 – 4; 2009 – 4)		
Net exposure (all long positions)	**94**	145
Unrealised losses	**717**	667

Risk management

The major risks inherent within the Fund are market risk, liquidity risk, interest rate risk and credit risk. The Fund has an established environment for the management of these risks which are continually monitored by the Managers. Appropriate guidelines for the management of the Fund's financial instruments and gearing have been established by the Board of Directors. The Fund does not have any non Sterling assets and therefore does not use currency hedging. The Fund does not use derivatives within the portfolio with the exception of CFD's.

Market risk exists where there are changes in share prices, equity valuations, interest rates and the liquidity of financial instruments. The Fund addresses this risk by owning a diversified portfolio of investments covering a range of sectors and geographic regions. Market price risk management is part of the fund management process and is typical of equity related investment. The portfolio is managed so as to minimise the effects of adverse price movements and results from detailed and continuing analysis with an objective of maximising overall returns to shareholders.

Liquidity risk exists where the Fund is a forced seller of its investments at times where there may not be sufficient demand for these assets. Shares traded on AIM and PLUS markets tend to be in companies that are smaller in size and by their nature less liquid than larger companies. However, the Fund maintains an overdraft facility to ensure that the Fund is not a forced seller of its investments.

Interest rate risk exists where the returns generated from the investments are less than the cost of borrowing. This risk has been mitigated by operating with a relatively small level of gearing at most times. The level has and will only be increased where an opportunity exists substantially to add to net asset value performance.

Credit risk exists where a counterparty fails to discharge an obligation or commitment entered into with the Fund. The Managers monitor counterparty risk as part of the overall investment management process. This risk is reduced by using counterparties that are substantial, well financed organisations. The Fund's principal bankers are Bank of New York Mellon, CFD provider UBS and execution brokers organisations authorised by the Financial Services Authority.

Sensitivity analysis

The following table details the impact on net asset value per share of the Fund to changes in the two principal drivers of performance, namely investment returns and interest rates. The calculations are based on the balances at the respective balance sheet dates and are not representative of the year as a whole.

	2010	2009
Investment portfolio		
5% increase	**+3.2p**	+2.1p
5% decrease	**–3.2p**	–2.1p
Other assets/liabilities		
Interest rate +2%	**+0.1p**	+0.5%
Interest rate –2%	**–0.1p**	–0.5%

Maximum credit risk analysis

As at the year end, the Fund's maximum credit risk exposure was as follows:

	2010 £000	2009 £000
Bank	**869**	721
Dividends due but not received	**4**	5
Due from brokers	**5**	–
Taxation	**5**	4
	883	730

9. Financial instruments (continued)

Contractual maturity analysis

	Due not later than 1 month £000	Due between 1 and 3 months £000	Due between 3 and 12 months £000	2010 Total £000
Bank	869	–	–	869
Debtors	10	–	4	14
Creditors	(616)	–	–	(616)
Net liquidity	**263**	**–**	**4**	**267**

	Due not later than 1 month £000	Due between 1 and 3 months £000	Due between 3 and 12 months £000	2009 Total £000
Bank	721	–	–	721
Debtors	5	–	4	9
Creditors	(565)	–	–	(565)
Net liquidity	**161**	**–**	**4**	**165**

Cash flows payable under financial liabilities by remaining contractual liabilities are as stated above.

Capital management policies

The Fund's management objectives are to provide shareholders with long term capital growth.

The Fund's capital comprises:	**2010 £000**	2009 £000
Capital and reserves:		
Share capital	**300**	300
Share premium	**314**	314
Special reserve	**5,144**	5,144
Capital redemption reserve	**27**	27
Capital reserve	**(1,174)**	(2,646)
Revenue reserve	**(496)**	(453)
Total shareholders' funds	**4,115**	2,686

The Fund's objectives for managing capital are detailed in the Report of the Directors and have been complied with throughout the year. The Fund normally restricts gearing to 30% of net assets, maintaining a minimum share capital of £50,000 (as a public company) and adheres to the capital restrictions imposed by relevant company and tax legislation.

10. Financial information on significant unlisted investments

Company	Business	Year end	Percentage owned	Income received	Revenue	Pre-tax profits
Hydrodec	Oil recycling	31.12.08	0.4%	£20,000	£6.7m	(£8.9m)
Mantle Diamonds	Diamond exploration	31.12.08	1.1%	–	–	(£2.9m)

Notice is hereby given that an Annual General Meeting of SVM UK Emerging Fund plc will be held at 7 Castle Street, Edinburgh EH2 3AH on Friday, 16 July 2010 at 9.30 am for the following purposes:

Ordinary Business – Ordinary Resolutions

1. That the financial statements for the year to 31 March 2010, the Directors' Report and the Directors' Remuneration Report and the Independent Auditors' Report be received.

2. That the Directors' Remuneration Report for the year to 31 March 2010 be approved.

3. That Mr P Dicks be re-appointed as a Director.

4. That Mr R Bernstein be re-appointed as a Director.

5. That Mr A Puckridge be re-appointed as a Director.

6. That Ernst & Young LLP be re-appointed as Auditors of the Fund to hold office until the conclusion of the next AGM and that their remuneration be fixed by the Directors.

7. That, in substitution for any existing authority under the Companies Act 1985 or the Companies Act 2006 (the ''Act'') but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with section 551 of the Act to exercise all the powers of the Fund to allot shares in the Fund and to grant rights to subscribe for shares up to an aggregate nominal amount of £300,000 representing approximately 100% of the nominal value of the initial share capital of the Fund. This authority is to expire 15 months from the date on which this resolution is passed or, if earlier, at the conclusion of the annual general meeting of the Fund to be held in 2011, unless previously revoked, varied or extended by the Fund in general meeting, save that the Fund may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require shares to be allotted after the expiry of such authority and the Directors may allot shares in pursuance of such an offer or agreement as if such authority had not expired.

Ordinary Business – Special Resolutions

8. That, the Directors be given the general power to allot shares in the Fund for cash either pursuant to the authority conferred by Resolution 7 or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to such allotment provided that the power shall be limited to the allotment of shares up to an aggregate nominal amount of £300,000 representing approximately 100% of the nominal value of the issued share capital of the Fund. This power:

   (a) expires at the conclusion of the next Annual General Meeting of the Fund after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Fund may, before such expiry, make an offer or agreement which would or might require shares to be allotted after such expiry and the Directors may allot shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

   (b) revokes and replaces all unexercised powers previously granted to the Directors to allot shares as if section 561 of the Act did not apply but without prejudice to any allotment of shares already made or agreed to be made pursuant to such authorities.

Notice of Annual General Meeting

9. That in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Fund be generally and unconditionally authorised in accordance with section 701 of the Act to make market purchases (within the meaning of section 693 of the Act) of shares of the Fund provided that:

    (a) the maximum aggregate number of shares hereby authorised to be purchased is less than 15% of the issued share capital as at the date this resolution is passed;

    (b) the minimum price which may be paid for a share shall be 5 pence;

    (c) the maximum price (excluding expenses) which may be paid for a share shall be not more than the higher of:

        (i) 5% above the average closing price on the London Stock Exchange for the shares over the five business days immediately preceding the date of purchase;

        (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and

    (d) unless renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the 2011 annual general meeting of the Fund, or 16 October 2011 if earlier, save that the Fund may, prior to such expiry, enter into a contract to purchase shares under such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of shares pursuant to any such contract.

Special Business – Ordinary Resolution

10. To approve the continuation of the Fund for a further five years.

By Order of the Board
SVM Asset Management Limited
Secretaries

14 June 2010

Notes:

1. Under Section 324 of the Companies Act 2006, a member of the Fund is entitled to appoint one or more persons as his proxy to exercise all or any of his rights to attend, speak and vote at a meeting of the Fund, provided that each proxy is appointed to exercise the rights attached to different shares held by him.

2. A form of proxy for use by shareholders (or a form of direction for use by investors in the Savings Scheme or ISA products) is enclosed with this document. Proxies must be lodged with the Fund's registrars, Computershare Investor Services plc at the address noted on the form, not less than 48 hours before the time appointed for the meeting, together with any Power of Attorney or other authority under which the proxy is signed. Completion of the form of proxy will not prevent a shareholder from attending the meeting and voting in person.

3. No Director has a service contract with the Fund.

4. To facilitate voting by corporate representatives at the meeting, arrangements will be put in place so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

5. The members of the Fund may require the Fund to publish, on its website, a statement setting out any matter relating to the audit of the Fund's accounts, including the auditors report and the conduct of the audit. The Fund will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Fund or at least 100 members who have a relevant right to vote and hold shares in the Fund on which there has been paid up an average sum per member of at least £100.

6. As at 11 June 2010, the latest practicable date prior to the publication of this document, the Fund's issued share capital was 6,005,000 Ordinary Shares each carrying one vote per share.

7. Any person holding 3% of the total voting rights in the Fund who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

8. Information regarding the Annual General Meeting, including information required by Section 311A of the Act is available on our website on www.svmonline.co.uk

9. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:

   (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

   (b) the answer has already been given on a website in the form of an answer to a question; or

   (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Shareholder Information

Annual General Meeting
The Annual General Meeting of SVM UK Emerging Fund will be held at 7 Castle Street, Edinburgh EH2 3AH on 16 July 2010 at 9.30 am in order to receive the Report and Accounts and pass the resolutions as set out in the Notice calling the Meeting.

Duration of the Fund
An ordinary resolution will be proposed at the Annual General Meeting in 2010, and at every fifth subsequent Annual General Meeting, that the Fund should continue as an investment trust. If any such resolution is not approved, the Directors will convene an EGM to propose a special resolution for the unitisation or other reconstruction of the Fund.

Investor Information
Regularly updated information, including the Fund's share price, net asset value and quarterly factsheets is available on a dedicated page on the SVM website at www.svmonline.co.uk The latest annual reports are also available on the website. As there is no longer a requirement to post the interim report to shareholders, it will also be made available on the website.

If you own shares in your own name, the Registrars' website at www.computershare.co.uk allows you to check your holding, display its current value and amend your details. If you have any questions about your holding, you can contact the Registrars whose details are noted opposite.

If you have purchased shares through the SVM Savings Scheme or ISA products and have any questions about your holding then you should contact the Administrator, whose details are noted opposite, quoting your investor reference number if possible.

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