



**SVM UK Emerging Fund plc**

Annual Report 31 March 2009

## Contents

*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*

<i>1</i>	<i>Highlights</i>
<i>2</i>	<i>Chairman's Statement</i>
<i>4</i>	<i>Managers' Review</i>
<i>6</i>	<i>Investment Portfolio</i>
<i>7</i>	<i>Board of Directors</i>
<i>8</i>	<i>Report of the Directors</i>
<i>14</i>	<i>Directors' Remuneration Report</i>
<i>16</i>	<i>Statement of Directors' Responsibilities and Independent Auditors' Report</i>
<i>18</i>	<i>Income Statement</i>
<i>20</i>	<i>Balance Sheet</i>
<i>21</i>	<i>Cash Flow Statement</i>
<i>22</i>	<i>Reconciliation of Movements in Shareholders' Funds</i>
<i>23</i>	<i>Accounting Policies</i>
<i>24</i>	<i>Notes to the Financial Statements</i>
<i>29</i>	<i>Notice of Annual General Meeting</i>
<i>31</i>	<i>Shareholder Information</i>

- Net asset value decreased by 31.7% compared to a fall of 56.3% in the FTSE AIM Index
- Discount widens as investors become risk averse
- Concentrated portfolio continues to target absolute performance

Financial Highlights	31 March 2009	31 March 2008	% Change
Net asset value	<b>44.73p</b>	65.50p	-31.7
Share price	<b>31.00p</b>	67.50p	-54.1
FTSE AIM Index	<b>414.52</b>	949.07	-56.3
(Discount)/Premium	<b>-30.7%</b>	3.1%	
Total expense ratio:			
Investment management fees	-	-	
Other operating expenses	<b>1.9%</b>	1.8%	

Historical record Year to 31 March	NAV per share (p)	Share price (p)	Total Return (p)
2003	55.65	37.00	(29.16)
2004	36.04	34.00	(19.16)
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
<b>2009</b>	<b>44.73</b>	<b>31.00</b>	<b>(20.77)</b>

Performance to 31 March, % change	1 Year	2 Years	3 Years	5 Years	Since Launch
Net Asset Value	-31.7	-29.6	-9.5	+24.1	-53.9
FTSE AIM Index	-56.3	-63.0	-64.3	-52.1	-72.9

## Chairman's Statement



Normally a fund reporting a near 25% benchmark outperformance would be a cause for celebration. Not this year as both the net asset value and share price declined materially, albeit not as much as the index. The net asset value per share decreased by 31.7% to 44.73 pence with the FTSE AIM Index falling 56.3%. This outperformance is also replicated over the longer term. Since the remit change in September 2004 and notwithstanding recent declines, the Fund's asset value has increased by 39.0% against a benchmark fall of 53.0%.

Following a flat first quarter of the financial year, both the second and third quarters saw benchmark index falls in excess of 35% with a small positive performance in the final quarter rounding off the year. The Fund performed in line with the benchmark in the first and fourth quarter and materially outperformed in the middle two quarters. The Fund's relatively defensive position through the year helped mitigate against the market falls. Since the year end, both the index and the Fund's asset value has rallied, with the asset value ending May at 56.18 pence per share.

After a long period of trading at a premium, the Fund's share price was caught up in the general stockmarket upheavals in the final two months of 2008 and was savagely marked down. In barely a few weeks, the share price virtually halved without any appreciable change in asset value and with little share selling pressure. The Fund was not alone as this has been repeated across the investment trust sector with discounts widening markedly. This is symptomatic of a situation where sentiment and fear overshadows fundamentals. Since the year end, the situation has improved and discounts have started to narrow.

### Review of the year

The year under review proved to be challenging for equity investors. Following more than four years of benign economic and favourable stockmarket conditions, this was brought to an abrupt halt by concerns principally associated with poor lending practices and recessionary pressures. Although initially the impact was seen as being a purely US problem, it was not long before the contagion spread to other markets.

UK smaller companies should have been less affected as they are typically less financially leveraged than their larger peers and rely to a greater extent on equity as a means of providing funds rather than borrowing. However, small companies are perceived to be riskier and, as such, have been treated worse than larger companies. Although perverse, this is perhaps understandable as investors sought safe havens. Of the few portfolio changes in the year, most were driven by corporate activity and reconstructions. The Fund retains cash, having realised some holdings in early 2008, which can be deployed as and when the economic environment improves and investment opportunities become compelling.

### Portfolio

The Fund continues to be concentrated on a relatively small number of special situations. There are thirty five companies in the portfolio with more than 80% invested in AIM listed companies. The remainder is spread between selective unquoted investments and a 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 companies.

The Fund is managed on a more absolute basis and many of the holdings can be categorised as special situations. 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 favour the latter approach.

### Outlook

The Fund retains a concentrated portfolio of special situations and companies that exhibit higher than average growth potential but are considered to be modestly valued. These companies should benefit as the recessionary pressures moderate and economic growth resumes. In addition, a level of liquidity has been built up over the earlier part of the year which gives a cushion to weather the current storm. This liquidity and the Fund's gearing facilities will allow for further investments to be made as and when attractive opportunities are presented.

The Board and the Managers believe that the Fund should extend the recent relative out-performance. In time as markets recover confidence, it is well placed to deliver on its objective of long term capital growth, lower volatility and absolute returns.

### Peter Dicks

Chairman

12 June 2009

## Managers' Review

### Summary

2008 will be remembered as arguably the most challenging and difficult investment environment for a generation. Stockmarkets generally and small companies in particular suffered from extreme volatility and investor risk aversion. This can be 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%. While the Fund's asset value held up relatively well falling 32%, the share price was materially adversely affected by sentiment declining 54%. This resulted in the shares, having traded at a premium for much of the year, trading at a material discount to asset value at the year end.

This might have been understandable if there had been substantial selling pressure but this was not the case. The Fund retains a loyal shareholder register with few indicating a wish to sell. Indeed, over the period of the de-rating, fewer than 2% of the share capital was traded. The Fund retains the ability to buy back shares when it is in the best interest of shareholder so to do. At the time, we actively sought shares but none were available. Such is the nature of investing in and managing a smaller companies fund.

Although the FTSE AIM Index performed poorly over the year as a whole, there were opportunities to make money and over the year some share prices rose. With the flood of new issues on to AIM seen in 2006 and 2007 drying up, common sense appears to have returned. The quality in AIM is improving as the weaker companies fall by the wayside. This has to be positive for those that remain.

### Portfolio movements

We continue to remain comfortable with the portfolio and, as such, there were few changes in the year.

Indeed, last year was arguably the least active since the Fund's remit change in 2004. That is not to say that we were not active as shareholders, quite the reverse. We believe that institutional shareholders in particular should take an active role and have continuing dialogue with both executives and non-executive directors.

There were only two new investments made in the year and two follow on investments. New positions were made in Hydrodec and Norseman Gold Resources. The investment in Hydrodec was through an institutional placing of convertible loan stock. This form of investment pays an annual 8% coupon, is repayable at cost in 2012 or, if the company performs as expected, the convertible can be swapped for ordinary shares. The company has developed and is utilising a unique green focused technology for re-refining and purifying contaminated oil. Norseman is a small gold producer in western Australia, where a position was purchased in a secondary fund raising at an attractive level. The investment has performed well as production has increased with a reduction in production costs. A recent Australian fund raising has underpinned the share price.

Most of the realisations took place in the summer of 2008. Alltracel Pharmaceuticals was taken over in a cash bid while the holding in Borders & Southern was reduced at an attractive level. Finally, the small holdings in Alexander Mining and Petra Diamonds were realised to finance the Hydrodec purchase. While neither could be viewed as over valued, we believed that there were more attractive opportunities elsewhere.

### Contributors to performance

Although there has been a wide divergence in individual performances within the portfolio, the movements were more stock specific rather than sector

related. For example, the best performer in the year Norseman can be compared with the one of the worst, Mercator Gold. Both are gold producers in western Australia – in fact their mines are a few hundred miles apart. They both have similar size resources and comparable operations; the principal difference is one of cash resources – one good the other bad. This comparison is played out throughout all sectors and company sizes. This has changed substantially over the last couple of years. Previously gearing and leverage was good and cash drag bad . . . how times have changed! Also investment timing is important and we were far too early into Mercator. We are convinced both will be successful and profitable investments so both have been retained.

While positive contributions were out numbered by negative ones by approximately three to one, that does not mean that there were no successes. Positive share price movements came from Norseman, research company Toluna, medical devices company Dawmed Systems and gambling company AMZ Holdings. We have high hopes for AMZ as approval for them to develop their property into a casino is imminent.

We are hopeful that any share price disappointments are temporary although the current economic

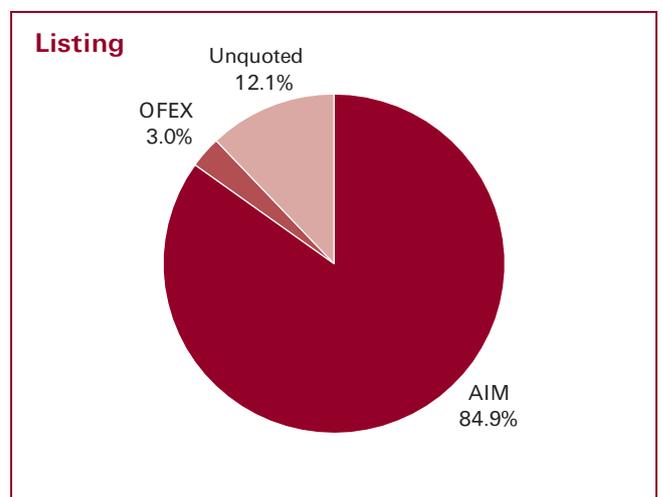
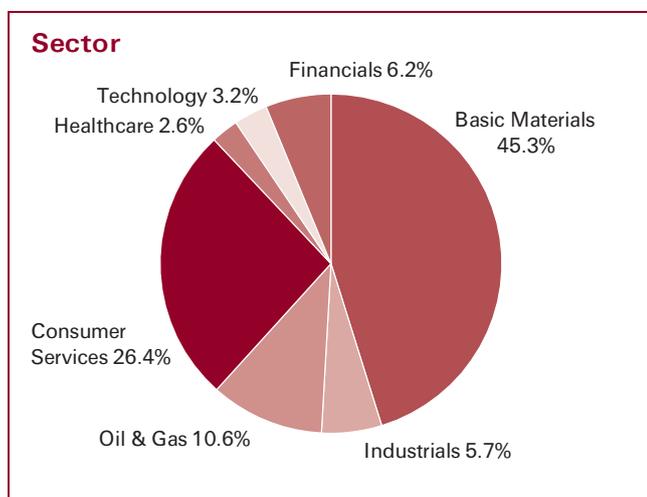
environment is certainly taking its toll. There have been a number of companies delisted off both AIM and PLUS markets and the Fund has held a few of these stocks. This is the principal reason that the unquoted weighting has increased in the year. Any delisting does not preclude deals being done and J4B, for example, received a cash bid in March.

### Outlook

Notwithstanding the current poor economic background, with interest rates at nominal levels, bonds and equities are looking increasingly attractive investments. As stockmarkets are by nature forward looking, at some point there will be a sustained rally which will be a precursor of an economic recovery. In the meantime, the Fund remains defensively positioned with cash balances.

The Fund continues to be focused on robust companies with strong market positions. The recent market falls have and will continue to uncover investment opportunities. We believe that the Fund is well positioned to continue to deliver superior performance both on an absolute and relative basis.

SVM Asset Management Limited  
12 June 2009



## Investment Portfolio *as at 31 March 2009*

Company	Cost 2009 £000	Valuation 2009 £000	% of Net Assets	Valuation 2008 £000
1 China Pub Company	100	300	11.2	300
2 Norseman Gold	44	297	11.1	–
3 Hydrodec †	250	250	9.3	–
4 Kirkland Lake Gold	105	184	6.8	202
5 Mantle Diamonds †	100	166	6.2	167
6 AMZ Holdings	125	165	6.1	196
7 Toluna	50	157	5.8	132
8 Petrel Resources *	348	124	4.6	342
9 Hurlingham *	288	121	4.5	78
10 Fotolec Technologies †	200	90	3.4	90
<b>Ten largest investments</b>	<b>1,610</b>	<b>1,854</b>	<b>69.0</b>	
11 AT Communications	238	84	3.1	200
12 Archipelago Resources	75	83	3.1	218
13 GB Petroleum †	133	75	2.8	85
14 Dawmed Systems	51	66	2.5	66
15 Greystar Resources	42	54	2.0	70
16 Maghreb Minerals	250	54	2.0	125
17 Symphony Environmental Technology	129	49	1.8	49
18 Sprue Aegis	106	48	1.8	54
19 Borders & Southern Petroleum	34	46	1.7	202
20 Rambler Metals & Minerals	102	36	1.3	69
<b>Twenty largest investments</b>	<b>2,770</b>	<b>2,449</b>	<b>91.1</b>	
21 Rheochem	127	35	1.3	112
22 Dwyka Resources	76	30	1.1	141
23 J4B	75	29	1.1	57
24 Lisungwe	50	25	0.9	57
25 Chemistry Communications Group	150	24	0.9	20
26 Red 24	100	23	0.9	25
27 CareCapital	151	23	0.9	80
28 CI Research	–	14	0.5	–
29 Spectrum Technologies †	173	14	0.5	68
30 Van Dieman Mines	212	11	0.4	177
<b>Thirty largest investments</b>	<b>3,884</b>	<b>2,677</b>	<b>99.6</b>	
Other investments (inc CFD margin)	1,001	(156)	(5.7)	
<b>Total investments</b>	<b>4,885</b>	<b>2,521</b>	<b>93.9</b>	
<b>Net current assets</b>		<b>165</b>	<b>6.1</b>	
†Unlisted.		<b>2,686</b>	<b>100.0</b>	

Contracts for Differences are asterisked. Numbers shown represent economic interest.  
All portfolio investments are 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 in 2011.

### **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 in 2010.

### **Richard Bernstein**



Richard Bernstein, 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.

## Report of the Directors

The Directors submit their Report and Accounts for the year to 31 March 2009.

### Principal activity and status

The Fund is an Investment Fund 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 2008. 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.

### 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 (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 Contracts for Differences can involve counterparty 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 Contracts for Differences 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.

### 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 shown on page 1 and 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 deficit for the year of £1,247,000 (2008: return of £116,000) 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.

### Directors

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

	31 March 2009	1 April 2008
P F Dicks	150,000	150,000
R P Bernstein	100,000	100,000
A Puckridge	20,000	20,000

There have been no changes in the Directors' interests between 31 March 2009 and 12 June 2009.

## Report of the Directors

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

Mr R Bernstein, who is considered to be independent, retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting. He has considerable investment management experience both in financial services and in small companies. The Board recommends his 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 basis subject to a high water mark. In view of the size of the Fund, the Managers have waived their management fees for the year to 31 March 2008 and 2009. No incentive fee was paid or due in respect of the year to 31 March 2008 or 31 March 2009.

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 12 June 2009, 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.

### 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 is set out in Resolution 5 of the Notice of the Annual General Meeting. The Directors will only issue new 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 per cent of the issued ordinary shares expires on the conclusion of this year's Annual General Meeting. Resolution 6, as set out in the Notice of the Annual General Meeting, seeks renewal of this authority until the Annual General Meeting in 2010. The price paid for shares will not be less than the nominal value of 5 pence per share nor more than 5 per cent 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 be cancelled.

### 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 in 2010 and every five years thereafter, shareholders will be given the opportunity to decide on the future of the Fund.

### Corporate governance

The Board of Directors has had in place throughout the year the procedures necessary to ensure compliance with the 2006 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 Accounts.

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. 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 Fund's 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.

### **VAT on investment management fees**

In relation to the action raised against HM Revenue and Customs regarding the charging of VAT on investment management fees. The Managers duly recovered the VAT from HMRC. Subsequently, the Managers paid the Fund £7,000 which represented VAT due plus accrued interest.

By Order of the Board,

**SVM Asset Management Limited**

Secretaries

12 June 2009

## Directors' Remuneration Report

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

The law requires the Fund's 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' 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. To date, all Directors have been on the Board for less than nine years.

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.

## Directors' Remuneration Report

### 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 2009 £	Fees 2008 £
P F Dicks	7,500	7,500
R Bernstein	5,000	5,000
A Puckridge	5,000	5,000
	<b>17,500</b>	<b>17,500</b>

By Order of the Board,  
**SVM Asset Management Limited**  
 Secretaries

12 June 2009

## Statement of Directors' Responsibilities and Independent Auditors' Report

### Directors' Responsibilities in relation to the Financial Statements

The Directors are responsible for preparing 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). The financial statements are required by law to give a true and fair view of the state of affairs of the Fund at the end of the financial year and of the net return of the Fund for that year. In preparing these statements, the Directors are required to: (a) select suitable accounting policies and then apply them consistently; (b) make judgements and estimates that are reasonable and prudent; and (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are also responsible for the maintenance of proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for preparing a Report of the Directors, a Directors Remuneration Report and a Corporate Governance Statement.

The Directors confirm to the best of their knowledge, 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, performance of the business and the position of the Fund together with a description of the principal risks and uncertainties that it faces.

By Order of the Board  
**Peter Dicks**  
Chairman  
12 June 2009

### Independent Auditors' 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 2009 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Reconciliation of Movements in Shareholders' Funds, Accounting Policies and the related notes 1 to 9. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, and

## Statement of Directors' Responsibilities and Independent Auditors' Report

whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Highlights, Chairman's Statement, Managers' Review, Investment Portfolio, Board of Directors, Report of the Directors, unaudited part of Directors' Remuneration Report, Notice of Annual General Meeting and Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland)

issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009 and of its loss for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

### **Ernst & Young LLP**

Registered Auditor  
London

16 June 2009

## Income Statement *for the year to 31 March 2009*

	<i>Notes</i>	<b>Revenue £000</b>	<b>Capital £000</b>	<b>Total £000</b>
Loss 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)
<b>Return before finance costs and taxation</b>		<b>(24)</b>	<b>(1,197)</b>	<b>(1,221)</b>
Finance costs		(26)	–	(26)
<b>Return on ordinary activities before taxation</b>		<b>(50)</b>	<b>(1,197)</b>	<b>(1,247)</b>
Taxation	3	–	–	–
<b>Transfer from reserves</b>		<b>(50)</b>	<b>(1,197)</b>	<b>(1,247)</b>
<b>Return per Ordinary Share</b>	4	<b>(0.84p)</b>	<b>(19.93p)</b>	<b>(20.77p)</b>

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 2008*

	<i>Notes</i>	Revenue £000	Capital £000	Total £000
Gain on investments at fair value through profit or loss	5	–	222	222
Income	1	19	–	19
Investment management fees		–	–	–
Other expenses	2	(69)	(5)	(74)
<b>Return before finance costs and taxation</b>		(50)	217	167
Finance costs		(51)	–	(51)
<b>Return on ordinary activities before taxation</b>		(101)	217	116
Taxation	3	–	–	–
<b>Transfer (from)/to reserves</b>		(101)	217	116
<b>Return per Ordinary Share</b>	4	(1.68p)	3.61p	1.93p

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 2009*

	<i>Notes</i>	<b>2009 £000</b>	2008 £000
<b>Fixed Assets</b>			
Investments at fair value through profit or loss	5	<b>2,521</b>	3,692
<b>Current Assets</b>			
Debtors	6	<b>9</b>	–
Cash at bank and on deposit		<b>721</b>	353
Total current assets		<b>730</b>	353
<b>Creditors: amounts falling due within one year</b>	7	<b>(565)</b>	(112)
<b>Net current assets</b>		<b>165</b>	241
<b>Total assets less current liabilities</b>		<b>2,686</b>	3,933
<b>Capital and Reserves</b>			
Share capital	8	<b>300</b>	300
Share premium		<b>314</b>	314
Special reserve		<b>5,144</b>	5,144
Capital redemption reserve		<b>27</b>	27
Capital reserve		<b>(2,646)</b>	(1,449)
Revenue reserve		<b>(453)</b>	(403)
<b>Equity shareholders' funds</b>		<b>2,686</b>	3,933
<b>Net asset value per Ordinary Share</b>	4	<b>44.73p</b>	65.50p

Approved and authorised for issue by the Board of Directors on 12 June 2009 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 2009*

	2009 £000	2008 £000
<b>Reconciliation of return before finance costs and taxation to net operating cash flows</b>		
Return before finance costs and taxation	(1,221)	167
Losses/(gains) on investments	1,202	(222)
Transaction costs	2	5
Movement in debtors	(5)	–
<b>Net cash outflow from operating activities</b>	(22)	(50)
<b>Taxation</b>		
Taxation paid	(4)	–
<b>Returns on investment and servicing of finance</b>		
Finance costs	(26)	(51)
<b>Capital expenditure and financial investment</b>		
Purchases of fixed asset investments	(578)	(1,391)
Sales of fixed asset investments	998	1,839
	420	448
<b>Increase in cash</b>	368	347
<b>Reconciliation of net cash flow to movements in net funds</b>		
Movement in cash in the year	368	347
Net funds as at start of year	353	6
<b>Net funds as at end of the year</b>	721	353

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 2009*

### 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)
Net gain on sale of investments	–	–	–	–	47	–
Transaction costs	–	–	–	–	(2)	–
VAT on investment management fees	–	–	–	–	7	–
Movement in investment holding gains	–	–	–	–	(1,249)	–
Loss attributable to shareholders	–	–	–	–	–	(50)
As at 31 March 2009	300	314	5,144	27	(2,646)	(453)

### For the year to 31 March 2008

	Share capital £000	Share premium £000	Special reserve £000	Capital redemption reserve £000	Capital reserve £000	Revenue reserve £000
As at 1 April 2007	300	314	5,144	27	(1,666)	(302)
Net gain on sale of investments	–	–	–	–	567	–
Transaction costs	–	–	–	–	(5)	–
Movement in investment holding gains	–	–	–	–	(345)	–
Loss attributable to shareholders	–	–	–	–	–	(101)
As at 31 March 2008	300	314	5,144	27	(1,449)	(403)

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 2005 Statement of Recommended Practice "Financial Statements of Investment Trust Companies" ("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. The VAT refund on investment management fees has been fully allocated to capital.

### **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 Fund's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

### **Investments**

The Fund's 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 2009. 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.

## Notes to the Financial Statements

	2009 £000	2008 £000
<b>1. Income</b>		
Income from UK listed shares and securities	40	19
<b>2. Other Expenses</b>		
Revenue		
General expenses	27	33
Directors' fees	18	18
Auditors' remuneration – audit services	16	14
– taxation services	3	4
	<b>64</b>	<b>69</b>
Capital Transaction costs	2	5
<b>3. Taxation</b>		
Current taxation	–	–
Deferred taxation	–	–
Total taxation for the year	–	–
Revenue loss on ordinary activities before taxation	<b>(50)</b>	<b>(101)</b>
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.		
Corporation tax (21%, 2008 – 20%)	<b>(10)</b>	<b>(20)</b>
Non-taxable UK dividends	<b>(3)</b>	<b>(4)</b>
Current period excess expenses	<b>13</b>	<b>24</b>
Current taxation charge for the year	–	–

At 31 March 2009, the Fund had unutilised management expenses of £623,000 (2008 – £567,000). 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.

## Notes to the Financial Statements

### 4. Returns per Share

Returns per share are based on a weighted average of 6,005,000 (2008 – 6,005,000) ordinary shares in issue during the year. Total return per share is based on the total loss for the year of £1,247,000 (2008 – return of £116,000).

Capital return per share is based on net capital loss during the year of £1,197,000 (2008 – return of £217,000).

Revenue return per share is based on the revenue loss after taxation for the year of £50,000 (2008 – £101,000).

The net asset values per share are based on the net assets of the Fund of £2,686,000 (2008 – £3,933,000) divided by the number of shares in issue at the year end as shown in Note 8.

			2009 £000	2008 £000
<b>5. Investments at fair value through profit or loss</b>				
Listed investments			1,926	3,350
Unlisted investments			595	342
Valuation as at end of year			<u>2,521</u>	<u>3,692</u>
	<b>Listed</b>	<b>Unlisted</b>	<b>Total</b>	
Valuation as at start of year	3,350	342	3,692	3,712
Investment holding gains/(losses) as at start of year	(986)	(129)	(1,115)	770
Cost as at start of year	4,336	471	4,807	4,482
Purchase of investments at cost	558	471	1,029	1,471
Proceeds from sale of investments	(998)	–	(998)	(1,713)
Net gain on sale of investments	47	–	47	567
Cost as at end of year	3,943	942	4,885	4,807
Investment holding losses as at end of year	(2,017)	(347)	(2,364)	(1,115)
<b>Valuation as at end of year</b>	<u>1,926</u>	<u>595</u>	<u>2,521</u>	<u>3,692</u>
Net gain on sale of investments			47	567
Investment holding losses			(1,249)	(345)
<b>Total (losses)/gains on investments</b>			<u>(1,202)</u>	<u>222</u>
<b>6. Debtors</b>				
Dividends due but not received			5	–
Taxation			4	–
			<u>9</u>	<u>–</u>
<b>7. Creditors: amounts falling due within one year</b>				
Amounts due under CFD's			545	92
Other creditors			20	20
			<u>565</u>	<u>112</u>

## Notes to the Financial Statements

	2009 £000	2008 £000
<b>8. Share Capital</b>		
<b>Authorised</b>		
100,000,000 ordinary 5p shares (2008 – same)	5,000	5,000
<b>Allotted, issued and fully paid</b>		
6,005,000 ordinary 5p shares (2008 – 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 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 the Fund has substantial cash resources. In this situation, the Fund has typically held short dated UK Government Securities. Fixed rate securities held at 31 March 2009 were valued at £250,000 (2008 – nil). Investments, which comprise principally equity investments, are valued as detailed in the Fund's 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. 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 2009 (2008 – 5.25%). The Fund has a £400,000 bank overdraft facility with Bank of New York, renewable in May each year, at a rate of 1% above bank base rate. 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.

The Board has granted the Managers a limited authority to invest in Contracts for Differences ("CFD") 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:

	2009	2008
Number of holdings	4	5
Net exposure	£145,000	£765,000
Unrealised losses	£667,000	£165,000

## 9. Financial Instruments (continued)

### *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 Contracts for Differences.

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.

	2009	2008
Investment portfolio		
5% increase	<b>+2.1p</b>	+3.1p
5% decrease	<b>-2.1p</b>	-3.1p
Other assets/liabilities		
Interest rate +2%	<b>+0.5p</b>	+0.1p
Interest rate -2%	<b>-0.5p</b>	-0.1p

### *Maximum credit risk analysis*

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

	2009 £000	2008 £000
Bank	<b>721</b>	353
Dividends due but not received	<b>5</b>	-
Taxation	<b>4</b>	-
	<b>730</b>	353

## Notes to the Financial Statements

### 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	2009 Total £000
Bank	721	–	–	721
Debtors	9	–	–	9
Creditors	(565)	–	–	(565)
<b>Net liquidity</b>	<b>165</b>	<b>–</b>	<b>–</b>	<b>165</b>

	Due not later than 1 month £000	Due between 1 and 3 months £000	Due between 3 and 12 months £000	2008 Total £000
Bank	353	–	–	353
Debtors	–	–	–	–
Creditors	(112)	–	–	(112)
<b>Net liquidity</b>	<b>241</b>	<b>–</b>	<b>–</b>	<b>241</b>

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:	2009 £000	2008 £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	(2,646)	(1,449)
Revenue reserve	(453)	(403)
<b>Total shareholders' funds</b>	<b>2,686</b>	<b>3,933</b>

The Fund's objectives for managing capital are the same as the previous year and have been complied with throughout the year. The Fund is subject to a number of capital requirements including restricting gearing to 30% of net assets, maintaining a minimum share capital of £50,000 (as a public company) and all capital restrictions imposed by relevant company and tax legislation.

## Notice of Annual General Meeting

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, 17 July 2009 at 9.30 am for the following purposes:

### Ordinary Resolutions

1. To receive the financial statements for the period to 31 March 2009 together with the Directors' and Auditors' Reports thereon.
2. To re-appoint Mr R P Bernstein, who retires by rotation, as a Director.
3. To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.
4. To approve the Directors' Remuneration Report for the year to 31 March 2009.

### Special Resolutions

5. That:
  - (a) the Directors be and they are hereby:
    - (i) generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (as defined in the section) up to an aggregate nominal amount of £300,000 during the period commencing on the date of passing of this Resolution and expiring on 17 October 2010, unless previously revoked, varied or extended by the Fund in general meeting; and
    - (ii) empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority referred to in paragraph (a) (i) of this Resolution as if section 89 of the Act did not apply to such allotment but so that this authority shall allow the Fund to make offers or

agreements before the expiry of this authority and power and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offer or agreement; and

- (b) all authorities and powers previously conferred under section 80 or 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.
6. To authorise the Fund generally and unconditionally pursuant to section 166 of the Act to make market purchases (within the meaning of section 163 of the Act) on the London Stock Exchange of any of its ordinary shares provided that:
    - (a) the maximum number of shares hereby authorised to be purchased is less than 15 per cent of the issued share capital of the Fund as at the date of this resolution;
    - (b) the minimum price (exclusive of expenses) which may be paid for a share shall be 5 pence;
    - (c) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5 per cent above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and
    - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 17 October 2010 or at the conclusion of the next Annual General Meeting of the Fund (whichever is the earlier) save that the Fund may, prior to such expiry, enter into a contract

## Notice of Annual General Meeting

to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By Order of the Board

**SVM Asset Management Limited**

Secretaries

12 June 2009

### Notes:

1. Under Section 324 of the Companies Act 2006, a member of the Company 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 Company, 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 Company'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 Company.
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 Company may require the company to publish, on its website, a statement setting out any matter relating to the audit of the company's accounts, including the auditors report and the conduct of the audit. The Company 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 Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100.

### Annual General Meeting

The Annual General Meeting of SVM UK Emerging Fund will be held at 7 Castle Street, Edinburgh EH2 3AH on 17 July 2009 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](http://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](http://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.

### Investment Managers, Secretaries and Registered Office

SVM Asset Management Limited  
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### Administrators of Savings Scheme/ISA

SVM Asset Management Limited  
Block C, Western House  
Peterborough Business Park  
Lynchwood  
Peterborough PE2 6BP  
Tel: 0845 358 1108

### Registrars

Computershare Investor Services plc  
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7 Lochside Avenue  
Edinburgh Park  
Edinburgh EH12 9DJ  
Telephone: +44 (0)870 707 1328

### Auditors

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

### Bankers

Bank of New York Mellon

### Stockbrokers

Daniel Stewart & Company

### Registered Number

211841

**0800 0199 440**

[www.svmonline.co.uk](http://www.svmonline.co.uk)

SVM Asset Management  
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