SC 211841

SVM UK Emerging Fund plc

Annual Report
31 March 2012

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

Contents

HIGHLIGHTS

- Net asset value decreased by 18.2% compared to a fall of 11.1% in the FTSE AIM Index
- Strong medium and long term outperformance
- Defensive position combining a number of special situations, no gearing with a modest cash position
- The Fund retains a concentrated portfolio targeted on absolute performance

Financial Highlights	**31 March 2012**	31 March 2011	% Change
Net asset value (p)	**71.47**	87.36	–18.2
Share price (p)	**55.00**	63.00	–12.7
FTSE AIM Index	**821.98**	925.02	–11.1
FTSE All-Share Index	**3,002.78**	3,067.70	–2.1
Discount	**23.0%**	27.9%	
Total expense ratio:			
Investment management fees	–	–	
Other operating expenses	**1.4%**	1.4%	

Historical record Year to 31 March	NAV per share (p)	Share price (p)	Total Return (p)
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
2011	87.36	63.00	18.83
2012	**71.47**	**55.00**	**(15.89)**

Performance to 31 March 2012 (%)	1 Year	3 Years	5 Years	Remit change 2004	Launch (2000)
Net Asset Value	–18.2	+59.8	+12.4	+122.2	–26.3
FTSE AIM Index	–11.1	+98.3	–26.5	–6.8	–45.6

CHAIRMAN'S STATEMENT

It is disappointing to have to report a down year both on a relative and absolute basis. Over the year to 31 March 2012, the net asset value decreased by 18.2% to 71.47 pence compared to falls of 11.1% and 2.1% in the benchmark, FTSE AIM Index and FTSE All Share Index respectively. The Fund's share price fell 12.7% to 55 pence as at the end of March with the discount narrowing from 27.9% down to 23%. Since the year end, the Fund has demonstrated its defensive characteristics and resumed its relative outperformance.

Notwithstanding this year's disappointing performance, it retains an impressive longer term track record. The net asset value and share price has returned 122% and 116% respectively against a decline of 7% in the benchmark since the remit change in September 2004. The FTSE All Share Index is up just 32% over this period, approximately a quarter of that generated by the Fund. It is interesting that, while smaller companies have materially underperformed larger companies over the intervening period, stock picking within smaller companies has proved to be extremely profitable. We believe that this amply demonstrates the validity of the investment remit and the ability of the Managers to deliver this.

Review of the year

The year can be divided comfortably in two – a negative first half followed by a recovery in the second. In the first half, investors avoided investments that were seen as being risky, preferring the perceived safety of higher yielding large companies and government bonds. Globally, this has led to emerging markets relatively underperforming and suffering greater falls than mature markets. Domestically, smaller companies underperformed larger ones. The falls registered in the September quarter rivalled those experienced in the height of the financial crisis in 2008, predominantly caused by the ongoing problems in Europe. The second half of the year saw a rebound although not sufficient to erase earlier losses. The recovery was led by larger companies and small companies continued to lag. This appears perverse given the superior growth prospects and debt dynamics within both smaller companies and emerging markets.

In terms of performance drivers, those sectors that outperformed in the previous year underperformed in this. Principally, resource companies, a large component of the FTSE AIM Index, showed weakness on lower underlying commodity prices. This is likely to be short lived as the supply demand imbalance still remains with China, notwithstanding its cooling economy, continuing to consume at a high rate.

Portfolio

There are in excess of forty companies in the portfolio with 87% invested in AIM listed companies. The balance 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 still retains its focus on basic materials (principally precious metals), oil & gas (mainly exploration) and in consumer services & healthcare. It has little exposure to some of the more challenged sectors such as banks and retailers.

Following on from the previous year, the year under review proved to be more active than historically. The opportunity was taken partially to realise three holdings with the residual positions being retained as further value is expected. This allowed for the introduction of four new holdings, the majority of which were acquired through the Manager's preferred investment route – secondary fundraising by existing listed companies. The new investments are covered in greater detail in the Managers' Review. In addition, further allocations were made to six existing investments at attractive levels.

The Fund retains a concentrated portfolio, many of which are special situations, and a modest cash position. The Managers believe that this approach gives the potential of both relative out-performance and absolute gains. While individual investment risk is higher, this is mitigated through a diversified portfolio. The trade off remains 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 which has served the Fund admirably over the longer term.

Outlook

While the worst of the global financial and ensuing economic crisis appears to be behind us, it would be foolish to believe that it is plain sailing from here on. The root causes of the crisis are still to be addressed and quantitative easing, helpful though it is in providing liquidity, simply delays the inevitable. Only when the various stimuli are removed and interest rates normalised will we know the true health of the world and in particular the highly indebted countries. The Managers remain cautious however and continue to adopt a defensive stance.

The Fund retains a concentrated portfolio of special situations and higher growth companies, many of which are modestly valued in comparison to their larger equivalents. Its aim remains to deliver long term capital growth, lower volatility and superior absolute and relative returns. The Board and the Managers believe that it is well placed to continue to deliver on these aims.

Peter Dicks

Chairman

18 June 2012

MANAGERS' REVIEW

Summary

As noted in the Chairman's Statement, we are disappointed to have presided over an underperforming year, both relatively and absolutely. This is particularly the case for the relative position as we were comfortably ahead at the half year stage, having successfully negotiated the negative September quarter. Subsequently, while markets rallied, smaller companies underperformed and our portfolio companies also lagged the benchmark index. However, we are confident that this will prove to be temporary as the underlying investments are performing well operationally.

The post 2008 financial crisis stockmarket rally came to an abrupt halt in the reporting year, principally due to growth concerns in China and the US, ongoing peripheral Europe debt distress and the downgrading of US credit ratings. As it turned out, markets subsequently rallied on relief that the global situation was not as bad as originally envisaged. Whether this is true remains to be seen and we remain sceptical. As such, we have not materially changed our stance and the portfolio remains defensively positioned with cash available for top-up or fresh investment should they be deemed appropriate.

Over the year, the asset value decreased by 18.2% with the benchmark FTSE AIM Index down 11.1%. Markets have continued to drift lower in the first couple of months of the current financial year and, with a more resiliant asset value, we have recovered some of last year's underperformance. Shareholders are rightly more interested in the share price performance and discount volatility. The share price fell by 12.7% over the year. Over the year, the discount narrowed to 23%, having remained in a narrow trading band for the majority of the year. Although still wide in absolute terms, the discount is in line with other investment trusts specialising in smaller companies and substantially narrower than those who have a private equity specialisation. The Board and Managers retain their ability to buyback or indeed issue shares if it is the best interest of the Fund and shareholders.

Portfolio movements

A couple of the larger holdings (Archipelago Resources and Kirkland Lake Gold) attained levels that in our view represented full value in the short term and the opportunity was taken to reduce them at attractive prices. We still retain both as they are now profitable and have further share price upside potential, albeit probably not at the rate seen over the last couple of years. They will likely be used as sources of funds as and when required. The Fund is not an actively traded fund but we did buy and profitably sell two companies within the year. This is rare and unlikely to be repeated on a regular basis but we remain opportunistic by nature.

Four fresh investments were made in the year with a further six existing holdings being increased. Three out of the four new positions came through secondary fundings of existing AIM listed companies while the fourth was in an unquoted company. New holdings in the portfolio were Beowulf Mining (Scandinavian iron ore exploitation), Chaarat Gold (Kyrgyzstan gold exploration) and Litebulb Group (marketing) while notable additions have been made to Silvermere Energy, Plethora Solutions, Digital Learning Marketplace and Nostra Terra Oil & Gas.

The Fund tends to concentrate on listed companies but every so often a private opportunity is compelling. Two years ago, a holding was acquired in North Sea oil explorer, Hurricane Exploration. In the intervening period, the share price has more than doubled following further funding rounds and we expect it to list on the London Stock Exchange in the next year. In the reporting year, we acquired a small holding in a further unquoted company, code named CR201 Limited. This company is involved in the gaming industry both in the US and the Far East and it has a stated intention to list on the AIM market later in the year.

Contributors to performance
With the AIM Index and the portfolio dominated by resource companies, one would have expected the major influences to be in this sector and, in a negative year, these should have been the largest performance laggards. As it was, three of the five highest positive contributors were resource companies – gold miners Archipelago & Kirkland Lake and oil & gas explorer Borders & Southern, the other two being junior biotech company, Plethora Solutions and home safety products supplier, Sprue Aegis. The major detractors from performance covered a wide spectrum although none we believe are irrecoverable price movements. The main fallers were aggregates company Pan Pacific Aggregates, environmental company Symphony, coal miner Oracle Coalfields and gold producer Norseman Gold. By way of example, since the year end, Silvermere Energy, the second worse performer in the year, has risen xx% since the year end.

One of the major challenges in fund management is when to realise an investment. For small companies, this goes hand in hand with stock volatility as it is not unusual to have daily share price movements of more than 10%. This was clearly demonstrated in the year with Nostra Terra, one of the poorest performers last year. In April and early May 2011, the share price has more than doubled and the opportunity was taken to sell the majority of the holding. Subsequently the share price fell by two thirds. Similarly, Borders & Southern doubled in April this year and we top sliced the holding.

The main reason for share price weakness among smaller companies tends to be delays in executing their business model and the fear that they will not have sufficient resources. We mitigate this funding risk by investing in companies that are on the cusp of profitability and as such relatively mature. This does not eliminate the risk but it becomes quantifiable.

Outlook
Smaller companies have materially underperformed in the period since the financial crisis. We believe that in time this will be reversed, given their superior growth potential. In particular, we think that there is substantial value within the underlying portfolio companies that should support higher share prices. While remaining cautious overall, we believe that the Fund is well positioned for further asset value progression.

INVESTMENT PORTFOLIO

as at 31 March 2012

Stock	Cost 2012 £000	Valuation 2012 £000	% of Net Assets	Valuation 2011 £000
1 Manroy (ord & CFD)	288	**293**	6.8	356
2 Hydrodec (CULS)*	250	**250**	5.8	250
3 Plethora Solutions	181	**235**	5.5	74
4 Kirkland Lake Gold	57	**209**	4.9	292
5 China Pub Company*	100	**200**	4.7	300
6 Silvermere Energy	327	**191**	4.4	191
7 Symphony Environmental Technologies	129	**190**	4.4	405
8 Archipelago Resources	30	**189**	4.4	394
9 Oracle Coalfields	105	**184**	4.3	359
10 Sprue Aegis	106	**164**	3.8	126
Ten largest investments	**1,573**	**2,105**	**49.0**	
11 Nautical Petroleum	63	**159**	3.7	203
12 Nostra Terra Oil & Gas	225	**154**	3.5	71
13 Borders & Southern Petroleum	34	**145**	3.4	132
14 Clontarf Energy	151	**127**	3.0	169
15 Red 24	100	**125**	2.9	118
16 CR 201 Limited*	125	**125**	2.9	–
17 Mantle Diamonds*	102	**117**	2.7	117
18 Ultimate Finance Group	90	**114**	2.7	116
19 Rambler Metals & Minerals	102	**112**	2.6	117
20 Digital Learning Marketplace	126	**111**	2.6	91
Twenty largest investments	**2,691**	**3,394**	**79.0**	
21 Hurricane Exploration*	50	**101**	2.4	84
22 Lochard Energy	127	**97**	2.3	128
23 Fotolec Technologies*	200	**90**	2.1	90
24 Rurelec	109	**65**	1.5	36
25 North River Resources	100	**53**	1.2	100
26 Fluormin	99	**50**	1.2	54
27 Chaarat Gold	53	**48**	1.1	–
28 Beowulf Mining	150	**43**	1.0	–
29 Pan Pacific Aggregates	350	**43**	1.0	128
30 Eco Oro Minerals	42	**41**	1.0	3
Thirty largest investments	**3,971**	**4,025**	**93.8**	
Other investments (inc CFD margin)	1,268	**39**	0.9	
Total investments	**5,239**	**4,064**	**94.7**	
Net current assets		**228**	**5.3**	
		4,292	**100.0**	

All investments are UK equity investments with the exception of Hydrodec. Those marked with an asterisk are unlisted.

Further information is given in note 5 on page 27.

A full portfolio listing as at 31 March 2012 is detailed on the website.

BOARD OF DIRECTORS

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 Henderson Fledgling Trust plc, Graphite Enterprise Trust plc, Polar Technology Trust plc, Private Equity Investor plc, Unicorn AIM VCT, 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 2012.

Principal activity and status

The Fund, Registered Number 211841, is an Investment Company as defined in Section 833 of the Companies Act 2006. It is not a close company for taxation purposes. It has been approved by HM Revenue & Customs as an investment trust under Section 1158 of Corporate Taxes Act 2010 for the year to 31 March 2011. 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 it 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 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, including the use of derivatives, 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 it may also commit to longer term borrowing. It 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 its 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. However, the Fund may invest in short dated Government Securities as an alternative to holding cash.

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, it 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 NAV and share price 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 in the 'Highlights' on page 1, 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 than their larger counterparts. 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 pages 14 and 15.

Results

The total loss for the year of £954,000 (2011: return of £1,131,000) 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 it 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 and discount volatility varies depending upon performance, market sentiment and investor appetite. In addition, the Fund can operate a 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 1158 could lead it to being subject to capital gains tax. Failure of the Managers' or third party service providers could prevent accurate reporting and monitoring of its financial position. The Managers have many years of experience in managing investment trusts and comprehensive systems are in place to ensure that it 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 party 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 and creditworthy counterparties.

The 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 2012	1 April 2011
P F Dicks	**150,000**	150,000
R P Bernstein	**120,000**	120,000
A Puckridge	**40,000**	40,000

There have been no changes in the Directors' interests between 31 March 2012 and 18 June 2012.

Each Director has a letter of appointment, details of which are noted on page 16.

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 Director 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 basis 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 2011 and 2012. No incentive fee was paid or due in respect of the year to 31 March 2011 or 31 March 2012.

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 the Fund's 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 Auditor

Each Director of the Company confirms that:

- so far as each Director is aware, there is no information needed by its Auditor in connection with preparing their report of which the Auditor is 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 Auditor is aware of that information.

Substantial shareholdings

As at 18 June 2012, 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%
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. It does and will continue to operate this policy. It 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.

Auditor

Ernst & Young LLP have expressed their willingness to continue in office as the Fund's Auditor and a resolution proposing its 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 the authority 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 2013. 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 to be convened in 2015 and every five years thereafter, shareholders will be given the opportunity to decide on the future of the Fund. In assessing whether it is a going concern, the Board has reviewed the cash flow forecasts for the foreseeable future. In addition, the Board has considered the current cash position and the overall financial position of the Fund.

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 its profit or lossd 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 its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the website maintained for the Fund is the responsibility of the Directors; the work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of the knowledge of each Director, 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's Combined Code on Corporate Governance ("the Code") except as noted below. In addition, the Fund has complied throughout the year with the provisions of the Association of Investment Companies Corporate Governance Guide and Code for Investment Companies. 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 documents.

The Directors confirm that the Fund has complied with the requirement to be headed by an effective Board to lead and control it. 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 Code, all the Directors must submit themselves for re-election by the shareholders annually 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 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. It 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.

Each Director has a statutory duty to avoid a situation where they (and connected persons) have, or could have, a direct or indirect interest which conflicts, or may conflict, with the interests of the Fund. The Board has in place procedures for identifying and dealing with conflicts or potential conflicts. No actual or potential conflicts were identified during the year.

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 Auditor. The Committee must also satisfy itself that the published financial statements represent a true and fair view of the position. The Auditor is invited to attend such meetings and report on the results of the audit. The Auditor does not provide any non-audit services to the Fund other than tax compliance services, for which they are paid £3,000 per annum. Notwithstanding these, the Committee has concluded that the Auditor is 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 documentation 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 its 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, administration, 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 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

18 June 2012

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 Auditor to audit certain aspects of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 18 and 19.

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, administration and secretarial 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. Directors' Remuneration is likely to remain unchanged for the coming year. 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, compensation for loss of office 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.

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 2012 £	Fees 2011 £
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

18 June 2012

Donald W Roberts

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 2012, which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement, 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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 12 and 13, the Directors are responsible for the preparation of the Annual Report and the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 and of its loss 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 12, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Fund's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Ernst & Young LLP

Susan Dawe
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Edinburgh

18 June 2012

INCOME STATEMENT

for the year to 31 March 2012

	Notes	Revenue £000	Capital £000	Total £000
Net losses on investments at fair value through profit or loss	5	–	(922)	(922)
Income	1	39	–	39
Investment management fees		–	–	–
Other expenses	2	(67)	(1)	(68)
Loss before finance costs and taxation		(28)	(923)	(951)
Finance costs		(3)	–	(3)
Loss on ordinary activities before taxation		(31)	(923)	(954)
Taxation	3	–	–	–
Transfer from reserves		(31)	(923)	(954)
Loss per Ordinary Share	4	(0.52p)	(15.37p)	(15.89p)

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

The Accounting Policies and the Notes on pages 25 to 31 form part of these Financial Statements

INCOME STATEMENT

for the year to 31 March 2011

	Notes	Revenue £000	Capital £000	Total £000
Net gains on investments at fair value through profit or loss	*5*	–	1,174	1,174
Income	*1*	26	–	26
Investment management fees		–	–	–
Other expenses	*2*	(66)	(1)	(67)
Return before finance costs and taxation		(40)	1,173	1,133
Finance costs		(2)	–	(2)
Return on ordinary activities before taxation		(42)	1,173	1,131
Taxation	*3*	–	–	–
Transfer (from)/to reserves		(42)	1,173	1,131
Return per Ordinary Share	*4*	(0.70p)	19.53p	18.83p

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

The Accounting Policies and the Notes on pages 25 to 31 form part of these Financial Statements

BALANCE SHEET

as at 31 March 2012

	Notes	2012 £000	2011 £000
Fixed Assets			
Investments at fair value through profit or loss	5	**4,064**	4,973
Current Assets			
Debtors	6	**15**	9
Cash at bank and on deposit		**846**	850
Total current assets		**861**	859
Creditors: amounts falling due within one year	7	**(633)**	(586)
Net current assets		**228**	273
Total assets less current liabilities		**4,292**	5,246
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		**(924)**	(1)
Revenue reserve		**(569)**	(538)
Equity shareholders' funds		**4,292**	5,246
Net asset value per Ordinary Share	4	**71.47p**	87.36p

Approved and authorised for issue by the Board of Directors on 18 June 2012 and signed on its behalf by Peter Dicks, Chairman.

The Accounting Policies and the Notes on pages 25 to 31 form part of these Financial Statements

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year to 31 March 2012

	Share capital £000	**Share premium £000**	**Special reserve £000**	**Capital redemption reserve £000**	**Capital reserve £000**	**Revenue reserve £000**
As at 1 April 2011	**300**	**314**	**5,144**	**27**	**(1)**	**(538)**
Loss attributable to shareholders	–	–	–	–	**(923)**	**(31)**
As at 31 March 2012	**300**	**314**	**5,144**	**27**	**(924)**	**(569)**

For the year to 31 March 2011

	Share capital £000	Share premium £000	Special reserve £000	Capital redemption reserve £000	Capital reserve £000	Revenue reserve £000
As at 1 April 2010	300	314	5,144	27	(1,174)	(496)
Return/(loss) attributable to shareholders	–	–	–	–	1,173	(42)
As at 31 March 2011	300	314	5,144	27	(1)	(538)

The Accounting Policies and the Notes on pages 25 to 31 form part of these Financial Statements

CASH FLOW STATEMENT

for the year to 31 March 2012

	2012 £000	2011 £000
Reconciliation of loss before finance costs and taxation to net operating cash flows		
(Loss)/return before finance costs and taxation	**(951)**	1,133
Losses/(gains) on investments	**922**	(1,174)
Transaction costs	**1**	1
Movement in debtors	**(2)**	–
Movement in creditors	**2**	2
Net cash outflow from operating activities	**(28)**	(38)
Taxation		
Taxation paid	**(4)**	–
Loss on investment and servicing of finance		
Finance costs	**(3)**	(2)
Capital expenditure and financial investment		
Purchases of fixed asset investments	**(1,165)**	(529)
Sales of fixed asset investments	**1,196**	550
	31	21
Movement in cash	**(4)**	(19)
Reconciliation of net cash flow to movement in net cash		
Movement in cash in the year	**(4)**	(19)
Net cash as at start of the year	**850**	869
Net cash as at end of the year	**846**	850

The Accounting Policies and the Notes on pages 25 to 31 form part of these Financial Statements

ACCOUNTING POLICIES

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 2012. 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 ACCOUNTS

	2012 £000	2011 £000
1. Income		
Income from UK listed shares and securities		
– dividends	**19**	6
– interest	**20**	20
	39	26

	2012 £000	2011 £000
2. Other expenses		
Revenue		
General expenses	**29**	28
Directors' fees	**18**	18
Auditor's remuneration – audit services	**17**	17
– taxation services	**3**	3
	67	66
Capital		
Transaction costs – acquisitions	**–**	–
– disposals	**1**	1
	1	1

	2012 £000	2011 £000
3. Taxation		
Current taxation	**–**	–
Deferred taxation	**–**	–
Total taxation for the year	**–**	–
Loss on ordinary activities before taxation	**(954)**	1,131
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 (20%, 2011 – 21%)	**(191)**	238
Non taxable UK dividends	**(4)**	(1)
Non taxable investment losses/(gains) in capital	**185**	(246)
Movement in unutilised management expenses	**10**	9
Total taxation charge for the year	**–**	–

At 31 March 2012, the Fund had unutilised management expenses of £767,000 (2011 – £713,000). A deferred tax asset of £153,000 has not 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 (2011 – 6,005,000) ordinary shares in issue during the year.

Total return per share is based on the total loss for the year of £954,000 (2011 – return of £1,131,000).

Capital return per share is based on net capital loss during the year of £923,000 (2011 – return of £1,173,000).

Revenue return per share is based on the revenue loss after taxation for the year of £31,000 (2011 – £42,000).

The net asset values per share are based on the net assets of the Fund of £4,292,000 (2011 – £5,246,000) divided by the number of shares in issue at the year end as shown in Note 8.

			2012 £000	2011 £000
5. Investments at fair value through profit or loss				
Listed investments			**3,180**	4,432
Unlisted investments			**884**	541
Valuation as at end of year			**4,064**	4,973
	Listed £000	**Unlisted £000**		
Valuation as at start of year	**4,432**	**541**	**4,973**	3,848
Investment holding gains/(losses) as at start of year	**621**	**(120)**	**501**	(868)
Cost as at start of year	**3,811**	**661**	**4,472**	4,716
Purchases of investments at cost	**1,085**	**125**	**1,210**	497
Proceeds from sale of investments	**(1,197)**	**–**	**(1,197)**	(546)
Transfers	**(200)**	**200**	**–**	–
Net gain/(loss) on sale of investments	**754**	**–**	**754**	(195)
Cost as at end of year	**4,253**	**986**	**5,239**	4,472
Investment holding gains/(losses) as at end of year	**(1,073)**	**(102)**	**(1,175)**	501
Valuation as at end of year	**3,180**	**884**	**4,064**	4,973
Net gain/(loss) on sale of investments			**754**	(195)
Movement in investment holding gains			**(1,676)**	1,369
Total (losses)/gains on investments			**(922)**	1,174

6. Debtors

Dividends due but not received	**7**	5
Taxation	**8**	4
	15	9

	2012 £000	2011 £000
7. Creditors: amounts falling due within one year		
Amounts due under CFD's	**609**	564
Other creditors	**24**	22
	633	586

8. Share capital		
Authorised		
100,000,000 ordinary 5p shares (2011 – same)	**5,000**	5,000
Allotted, issued and fully paid 6,005,000 ordinary 5p shares (2011 – 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. It does not invest in short dated fixed rate securities other than where it has substantial cash resources. Fixed rate securities held at 31 March 2012 were valued at £250,000 (2011 – £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 2012 (2011 – 0.5%). 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 7 and in note 5 on page 27.

9. Financial instruments (continued)

	2012 £000	2011 £000
Classification of financial instruments		
Level 1	**3,178**	4,282
Level 2	**103**	233
Level 3 – 8 investments (2011 – 7)	**783**	458

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 (2012 – £101,000, 2011 – £83,000) 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.

The movements within level 3 investments were as follows:

	2012 £000	2011 £000
Balance as at start of year	**458**	541
Purchases of investments at cost	**125**	10
Proceeds from sale of investments	**–**	(40)
Net losses on sale of investments	**–**	(132)
Transfers from level 1	**200**	–
Movement in investment holding gains	**–**	79
Balance as at end of year	**783**	458

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:

	2012 £000	2011 £000
Number of holdings (2012 – 4; 2011 – 4)		
Net exposure (all long positions)	**165**	150
Unrealised losses	**743**	662

Risk management
The major risks inherent within the Fund are market price risk, liquidity risk, interest rate risk and credit risk. It has an established environment for the management of these risks which are continually monitored by the Managers. Appropriate guidelines for the management of its financial instruments and gearing have been established by the Board of Directors. It has no foreign currency assets and therefore does not use currency hedging. It does not use derivatives within the portfolio with the exception of CFD's.

9. Financial instruments (continued)

Market price 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 it 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 broker organisations authorised by the Financial Services Authority.

Sensitivity analysis

The following table details the impact on net asset value and return 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.

	2012	2011
Investment portfolio		
5% increase	**+3.4p**	+4.1p
5% decrease	**–3.4p**	–4.1p

Other assets/liabilities		
Interest rate 0.5%	**–**	–
Interest rate 0.5%	–	–

Maximum credit risk analysis

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

	2012 £000	2011 £000
Bank	**846**	850
Dividends due but not received	**7**	5
Taxation	**8**	4
	861	859

9. Financial instruments (continued)

Contractual maturity analysis

	Due not later than 1 month £000	**Due between 3 and 12 months £000**	**2012 Total £000**
Bank	**846**	**–**	**846**
Debtors	**11**	**4**	**15**
Creditors	**(633)**	**–**	**(633)**
Net liquidity	**224**	**4**	**228**

	Due not later than 1 month £000	Due between 3 and 12 months £000	2011 Total £000
Bank	850	–	850
Debtors	5	4	9
Creditors	(586)	–	(586)
Net liquidity	269	4	273

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.

	2012 £000	2011 £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	**(924)**	(1)
Revenue reserve	**(569)**	(538)
Total shareholders' funds	**4,292**	5,246

The Fund's objectives for managing capital are detailed in the Report of the Directors and have been complied with throughout the year. It 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 loss
Hydrodec	Oil recycling	31.12.11	0.06%	£20,000	£14.4m	£7.7m

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 Wednesday, 18 July 2012 at 9.30 am for the following purposes:

Ordinary Business – Ordinary Resolutions

1. That the financial statements for the year to 31 March 2012, the Directors' Report and the Directors' Remuneration Report and the Independent Auditor's Report be received.
2. That the Directors' Remuneration Report for the year to 31 March 2012 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 Auditor 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 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 2013, 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.

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 2013 annual general meeting of the Fund, or 18 October 2013 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.

By order of the Board
SVM Asset Management Limited
Secretaries

18 June 2012

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 its accounts, including the auditor's report and the conduct of the audit. It 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 18 June 2012, 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

The SVM website remains the best source of information about the Company. Over recent years, there have been a number of initiatives which have been added to improve shareholder access and the quality of reporting and marketing. These initiatives attract new investors and keep existing shareholders informed.

The Company webpage is easy to access within the Manager's website www.svmonline.co.uk and provides detailed information on the Company.

The Company's latest share price is updated daily and gives access to historical share price data since launch.

An interactive charting tool allows investors to view the performance record over fixed time periods or dates of their choice.

There is no longer any requirement to post the Company's half yearly report to shareholders. It is made available on the website together with all other information we publish for the Company.

Comprehensive quarterly factsheets are produced with the Managers' commentary, portfolio analysis, featured stock, fund performance, sector breakdowns and current hedging and gearing status.

The Company distributes quarterly updates by email to a number of intermediaries. It is also possible for shareholders and other interested parties to subscribe to this. To do so, please email your request to info@svmonline.co.uk

At SVM, we aim to achieve superior investment performance through careful stockpicking and analysis. Whether we are researching for our long or long/short funds we undertake proprietary, in-depth analysis in order to identify the true value of a company or fund. This strategy has ensured that we have achieved superior investment returns for a broad range of clients – both institutional and private investors. As pure equity specialists, we focus our expertise on investing in UK and European companies as well as global investment funds.

Investing in SVM UK Emerging Fund

There are a variety of ways to invest in the Company. Shares can be easily traded on the London Stock Exchange. However, regular savings and tax free wrappers are also available;

- SVM Investment Trust Savings Scheme accepts minimum lump sum investment from £200 and monthly savings from £50. Investments can be made as gifts for children or other adults. Dividends can be reinvested at no dealing cost.
- SVM ISA allows investors to save tax free up to £10,680 per annum. The minimum lump sum investment is £1,000 or regular savings from £50 per month.
- SVM Saving Scheme for Children is a low cost option available to any adult who wants to invest for children. The minimum lump sum accepted is £200 and monthly savings start from as little as £25.

For more information or brochures call 0131 226 7660. Alternatively, application packs can be downloaded from www.svmonline.co.uk

CORPORATE INFORMATION

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