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OFFICERS AND PROFESSIONAL ADVISERS

Directors

Garth Milne	Non-Executive Chairman
Hugh de Lusignan	Chief Executive Officer
Douglas Kearney	Chief Financial Officer
Christopher Labrow	Non-Executive Director
Howard Bilton	Non-Executive Director
Allan Moloney	Non-Executive Director
Peter St George	Non-Executive Director

Secretary

Riviera Nominees Limited
6 Britannia Place
Bath Street
St Helier
Jersey
JE2 4SU
Channel Islands

Registered Office

6 Britannia Place
Bath Street
St Helier
Jersey
JE2 4SU
Channel Islands

Nominated Adviser and Broker

Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London
EC3A 7QR

Bankers

Barclays Private Clients International Limited
PO Box 82
39-41 Broad Street
St Helier
Jersey
JE4 8PU
Channel Islands

Independent Auditors

Grant Thornton UK LLP
95 Bothwell Street
Glasgow
G2 7JZ

Registrars

Computershare Investor Services (Channel Islands) Limited
Ordnance House
31 Pier Road
St Helier
Jersey
JE4 8PW
Channel Islands

CHAIRMAN'S STATEMENT

HIGHLIGHTS:

- Net Asset Value (NAV) increased 23.4% to 34.4p (2006: 27.9p)
- Three-year track record of consistent NAV growth established, compound annual growth rate (CAGR) of 39.9% since inception
- Total net assets of £7,844,707 (2006: £6,354,367), an almost tripling of our initial net asset value of £2,675,000
- Net unrealised gains of £1,937,043 (2006: £1,586,027)
- Total number of investments at year-end: 17 (2006: 15)
- Active year of investment
 - Number of new investments: 3 (2006: 9)
 - Follow-on investments: 5 (2006: 2)
 - Partial disposals: 7 (2006: 4)
 - Total disposals: 3 (2006: 1)
- Positive outlook for 2008, despite recent market falls, with all of our unquoted investments stating that they intend to float this year (subject to market conditions) and all our OTC Bulletin Board quoted stocks expecting to graduate to senior exchanges (NYSE, NASDAQ & AMEX) this year

CHAIRMAN AND CHIEF EXECUTIVE OFFICERS' REPORT

Review of 2007

We are delighted to be able to report another year of strong growth from SovGEM. We have reached a significant milestone with a three-year track record showing a CAGR of 39.9% since inception (after accounting for all expenses, performance bonuses or any other costs).

We remain committed to investing in privately owned Chinese companies, and companies from outside China that are positioned to benefit from Chinese domestic growth. We expect the Chinese economy to continue to grow strongly in 2008. According to forecasts from the Economist Intelligence Unit, real GDP growth is expected to slow from 11.4% in 2007 to 9.8% in 2008 and further to 9% in 2009, as export growth slows. Privately owned SMEs continue to be the prime generators of growth in the Chinese economy and we expect our investee companies to continue to grow sales and profits rapidly.

We are therefore happy to continue with our long-term policy of concentrating on stocks that will benefit from the growth of domestic demand consumption within China. Very little of our overall exposure is to the Chinese export sector.

While all of our holdings are either valued in US Dollars or Sterling the majority of our investee companies' earnings are in Renminbi (RMB). We expect the RMB to continue its long-term appreciation against both the US Dollar and Sterling, which will be beneficial to reported Net Asset Value (NAV).

Our Directors continue to see very many more opportunities presenting themselves to us than we could possibly invest in. We are also pleased to note that valuations for new deals are becoming more realistic and the quality hurdle continues to rise.

The Company's performance continues to be achieved with no gearing. We decided not to conclude a debt facility in the second half of 2007. Leverage will only be introduced once it is clear that markets have stabilised. We would also like to point out that 63% by value of the portfolio (12 out of 17 holdings) is quoted and that the majority of these quoted holdings are readily liquid. We continue to hold no equity position of more than 3% in any investee company.

We are committed to taking a positive stance with our investee companies and so have never sold short any of our investee companies.

The outlook for 2008 for your company is, we believe, positive. All of our unquoted investments have stated that they intend to float this year (subject to market conditions) and all our OTC Bulletin Board quoted stocks have indicated that they intend to graduate to senior exchanges (NASDAQ, NYSE or AMEX) this year.

During 2008 we anticipate that a secondary junior equity market may emerge in China to enable the domestic listing of Chinese private companies with a three-year or longer track record of profits and growth. If this does occur, we will ensure that our model is flexible enough so that we do not miss out on opportunities as they present themselves.

CHAIRMAN AND CHIEF EXECUTIVE OFFICERS' REPORT (continued)

With the Olympics in Beijing this year and the World Expo in Shanghai in 2010, the world's eyes will be on China. We expect this increased attention will focus investors' eyes on those companies which deliver superior returns.

Current Trading

Recent market turmoil has seriously affected valuations of small-cap, high-growth stocks (and indeed very many large-cap stocks too), which in turn has impacted on our net asset value since the year-end. This has occurred despite the extremely strong financial performance of our investee companies which have to date reported fiscal 2007 results. We remain of the view that valuations will recover when the current liquidity crisis subsides. Equally we believe that our portfolio which concentrates on strong domestic demand growth in China will prove resilient to the global economic downturn which is being priced into the market.

The ratings of high-growth, privately owned Chinese companies quoted in both the US and the UK are at historically very low levels and bear no relationship whatsoever to the valuations that are placed on companies quoted on the Chinese domestic exchanges. At the time of writing, the average prospective price earnings valuations of stocks we have invested in are considerably less than 10 times, despite forecast earnings growth rates that often exceed 25%. We believe that the operational performance and growth prospects of our investee companies will not be materially affected by the current global market turmoil.

Garth Milne & Hugh de Lusignan
Chairman & CEO

17th March 2008

DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 December 2007.

Nature of Operations

The principal activity of the Company is making investments in small and mid cap companies, both quoted and unquoted, in emerging markets. The principal focus is on companies involved in China, but other emerging markets are also targeted.

After the completion of due diligence and the agreement of the Board, the Company may invest in a broad range of financial instruments however, the requirement is to achieve equity participation either directly, through ordinary shares or convertible shares, or indirectly, through options or warrants, in the growth of the target company. SovGEM Limited is a minority investor in each company that it invests in, and this is unlikely to alter.

Each investee company is actively monitored and its performance reviewed regularly.

Consideration to exit an investment, either in part or in whole or to maintain or increase an investment is constantly under review. The main considerations are likely future performance, maintaining a balanced portfolio, and alternative uses for the proceeds.

General Information

The Group is reporting under International Financial Reporting Standards (IFRS) as adopted by the EU for its results to 31 December 2007 and has restated the results to 31 December 2006 under IFRS. Further details of the impact of this change are shown in note 21.

SovGEM Limited is incorporated and domiciled in Jersey. The address of SovGEM Limited's registered office is 6 Britannia Place, Bath Street, St Helier, Jersey, which is also its principal place of business. SovGEM Limited's shares are listed on the London Stock Exchange's Alternative Investment Market (AIM).

The financial statements for the year ended 31 December 2007 (including comparatives for the year ended 31 December 2006) were approved by the Board of Directors on 17th March 2008

Key risks and uncertainties

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which arise from its investing activities.

The Company's risk management is managed by the Executive Directors in close co-operation with the Board of Directors, and focuses on actively securing the Company's short to medium term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

Many of SovGEM's investment transactions are carried out in US Dollars. However, as the amounts to be invested and realised are expected to largely offset one another, no hedging activity is undertaken.

The Directors continually review the portfolio to ensure that it is well balanced and not dominated by any single investment. The size of any new investment is considered in relation to its impact on the portfolio, and would tend not to be greater than 15% of the total portfolio. If any investment is viewed as being overly dominant, action is taken to reduce the exposure. The failure of any single stock would not put the company under threat.

SovGEM does not short any stocks, and so this risk does not exist.

SovGEM does not employ leverage in its activities, so an adverse change in interest rates would have no direct impact. If leverage were to be employed it would be at a level of around 30% of its net assets, and would not be a major component of the business's structure. Generally, the companies in which SovGEM invests are not highly leveraged, so adverse changes in interest rates would not have a significantly detrimental impact.

SovGEM is focused on investing in companies operating in emerging markets. This can be more volatile than investing in mature and established markets. However, the primary focus is the Chinese market which has a strong record of growth and offers continued opportunity, Although China continues to grow and develop rapidly it is set against a strong political establishment, which is keen to encourage economic prosperity. All our investments are made in companies domiciled in established and regulated financial jurisdictions, to reduce the risk of any local disruption that might arise.

Our strategy to mitigate risk is to invest across a wide range of industries, predominantly in companies that are servicing domestic growth and have little or no dependence on exporting. The portfolio is constantly reviewed to ensure that country risk and industry exposure is sensibly balanced.

DIRECTORS' REPORT (continued)

Business Review and Future Developments

A review of the results and development of the business for the period and of future developments in the business is contained within the Chairman's and Chief Executive's Statement. The key performance indicators used by the business are growth in net asset value, profitability and maintaining a balanced and diversified portfolio of investments.

Results and dividends

The Company generated a profit of £92,689 (2006: £1,013,294) which excludes net unrealised gains on the revaluation of available for sale investments of £1,937,043 (2006: £1,586,027). The Directors do not recommend the payment of a dividend.

Directors and their Interests

The Directors who served during the period, together with all their beneficial interests in the shares of the Company as at 31 December 2007 are as follows:

Director	At 31 December 2007 Ordinary shares Of 0.001 pence each	At 31 December 2006 Ordinary shares Of 0.001 pence each
Garth Milne	994,864	994,864
Hugh de Lusignan	1,824,450	1,824,450
Douglas Kearney	1,155,227	1,155,227
Christopher Labrow	161,104	126,104
Howard Bilton	129,229	129,229
Allan Moloney	26,104	26,104
Peter St George	55,519	55,519

Warrants and Share Options

A share option scheme for the Directors has been put in place. Further information is detailed in note 11.2 to the accounts.

Substantial Shareholdings

On 17th March, 2008 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of ordinary shares	Percentage held
Amerprise Financial Inc	3,794,961	16.66%
Hugh de Lusignan	1,824,450	8.01%
Antoine de Sejournet	1,775,000	7.79%
Douglas Kearney	1,155,227	5.07%
Garth Milne	994,864	4.37%
Michael Milbourne	964,352	4.23%
Paul Luke	708,430	3.11%

Share Capital

There has been no change in the issued share capital in the year.

Political and Charitable Donations

There were no political or charitable donations in the year.

Corporate Governance

The Board has appointed five Non-Executive Directors with relevant experience to complement the Executive Directors and to provide independence to the Board.

DIRECTORS' REPORT (continued)

Directors and the Board

The Board directs the Company's activities in an effective manner through regular Board Meetings and monitors performance through relevant reporting procedures.

The Board has established an Audit Committee and a Remuneration Committee (each comprising the Non-Executive Directors, who will invite other members of the Board to join meetings).

The Audit Committee meets at least twice each year, ensuring that the financial performance of the Company is properly measured and reported on, meeting with the auditors and reviewing reports from the auditors relating to accounting and internal controls.

The Remuneration Committee reviews the performance of Executive Directors, sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the Company. The Remuneration Committee also makes recommendations to the Directors concerning the allocation of share options to Directors. No Director is permitted to participate in discussions or decisions concerning his own remuneration.

Accountability and Audit

The Board considers that the annual report presents a balanced and understandable assessment of the Company's performance and prospects.

The Audit Committee reviews the independence and objectivity of the external auditors. The Committee reviews the nature and amount of non-audit work undertaken by the auditors to satisfy itself that there is no effect on their independence. The Committee is satisfied that Grant Thornton UK LLP are independent.

Going Concern

On the basis of a review of resources available, the Directors have a reasonable expectation that the Company has adequate funding to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Relations with Shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, board membership and quality of management.

The AGM is used to communicate with all shareholders and they are encouraged to participate.

The Company's website, www.sovgem.com, is used as a further means of providing information to shareholders. The Company's annual report and accounts, interim reports and other relevant announcements are maintained on the website.

Payment Policy and Practice

It is the Company's policy to agree the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them. Trade creditor days of the Company as at 31 December 2007 were 10 (2006: 3 days).

Auditors

The Directors will place a resolution before the Annual General Meeting to reappoint Grant Thornton UK LLP as auditors for the coming year.

By order of the Board

Riviera Nominees Limited
Company Secretary
17th March 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law in Jersey requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 as amended. They are also responsible for the Company's system of internal financial control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The maintenance and integrity of the SovGEM Limited website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation governing the preparation and dissemination of these financial statements may differ from legislation in other jurisdictions.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SovGEM LIMITED

We have audited the financial statements of SovGEM Limited for the year ended 31 December 2007 which comprise the principal accounting policies, the income statement, the balance sheet, the cash flow statement, the statement of recognised income and expense and notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, and the financial statements in accordance with the Companies (Jersey) Law 1991 and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman and Chief Executives' Report and the Statement of Directors' Responsibilities that is cross referred from the Business Review section of the Directors' Report.

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 read other information contained in the Annual Report and consider whether it is consistent with the financial statements. The other information comprises only the Directors' Report, the Chairman and Chief Executives' Report, and the Statement of Directors' Responsibilities. 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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company financial statements 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 parent company financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991; and
- the information given in the Directors' Report is consistent with the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
EDINBURGH
17 March 2008

INCOME STATEMENT

Year ended 31 December 2007

	Note	Year ended 31 Dec 2007 £	Year ended 31 Dec 2006 £
Revenue		-	-
Gain on sale of non current assets		807,073	1,496,525
Gains in fair value of assets held at fair value through profit or loss		-	324,341
Losses in fair value of assets held at fair value through profit or loss	6	(110,819)	(133,790)
Administrative expenses		<u>(623,649)</u>	<u>(695,877)</u>
Operating profit		72,605	991,199
Finance income	13	13,079	19,403
Investment income		7,005	2,692
Results for the year before taxation		<u>92,689</u>	<u>1,013,294</u>
Tax expense, net		-	-
Net results for the year		<u>92,689</u>	<u>1,013,294</u>
Total and continuing			
Basic and diluted earnings per share	10	<u>0.41 pence</u>	<u>4.44 pence</u>

The accompanying notes and accounting policies form an integral part of these financial statements.

BALANCE SHEET**As at 31 December 2007**

	Note	2007 £	2006 £
Assets			
Non current assets			
Long term financial assets	6	7,725,974	5,423,678
Current assets			
Trade and other receivables	7	23,063	23,017
Cash and cash equivalents	8	320,659	1,185,289
		<u>343,722</u>	<u>1,208,306</u>
Total Assets		<u><u>8,069,696</u></u>	<u><u>6,631,984</u></u>
Equity			
Equity attributable to shareholders of SovGEM Limited			
Share capital	9	228	228
Reserve in respect of share options	11	54,435	29,343
Share premium account	19	2,868,171	2,868,171
Revaluation reserve	19	3,543,378	2,170,819
Retained earnings	19	1,378,495	1,285,806
Total equity		7,844,707	6,354,367
Liabilities			
Current			
Trade and other payables	12	224,989	277,617
Total liabilities		<u>224,989</u>	<u>277,617</u>
Total equity and liabilities		<u><u>8,069,696</u></u>	<u><u>6,631,984</u></u>

Signed on behalf of the board of directors on 17th March 2008

Peter St George
Director

The accompanying notes and accounting policies form an integral part of these financial statements.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2007 £	2006 £
Profit for the financial year	92,689	1,013,294
Gain on revaluation of available for sale financial assets- taken direct to equity	1,937,043	1,586,028
Derecognition of unrealised gains on disposals	<u>(564,484)</u>	<u>(462,006)</u>
Total recognised income and expense attributable to equity holders	<u><u>1,465,248</u></u>	<u><u>2,137,316</u></u>

STATEMENT OF CASH FLOWS

Year ended 31 December 2007

	Year ended 31 Dec 2007 £	Year ended 31 Dec 2006 £
Profit after tax	92,689	1,013,294
Adjustments for:		
Gain on sale of non current assets	(807,073)	(1,496,525)
Movements in fair value assets held at fair value	110,819	(190,551)
Income received from investing activities	(20,084)	(22,095)
(Increase)/Decrease in receivables	(46)	92,494
(Decrease)/Increase in payables	(52,628)	200,905
Share based payments	25,092	25,889
Net cash decrease from operating activities	<u>(651,231)</u>	<u>(376,589)</u>
Investing activities		
Interest received	13,080	19,403
Investment income	7,005	2,692
Purchase of investments	(2,046,246)	(2,522,349)
Proceeds from sale of investments	1,812,762	2,523,073
Net cash used in investing activities	<u>(213,399)</u>	<u>22,819</u>
Net decrease in cash and cash equivalents	<u>(864,630)</u>	<u>(353,770)</u>
Cash and cash equivalents at beginning of period	<u>1,185,289</u>	<u>1,539,059</u>
Cash and cash equivalents at end of period	<u><u>320,659</u></u>	<u><u>1,185,289</u></u>

The accompanying notes and accounting policies form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

1 CHANGES IN ACCOUNTING POLICIES

1.1 Overall considerations

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 21, together with the reconciliation of opening balances. The date of transition to IFRS was 1 January 2006.

The company has taken advantage of certain exemptions available under IFRS 1 First-time adoption of International Financial Reporting Standards. Tangible fixed assets which were revalued under UK GAAP have been carried forward into IFRS at deemed cost.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2007.

1.2 New standards not applied

During the year, the IASB issued the following standard, which the Company has not adopted.

International accounting standards

IFRS 8 Operating Segments (effective date: 1 January 2009)

IFRS 8 Operational Segments sets out requirements for disclosures of information about an entity's operating segments and also about the entity's products and services, the geographical areas where the entity operates and where its major clients are located. This standard specifies how an entity should disclose its information in the annual financial statements. Each entity should also provide a description of the segmental information disclosed namely profit or loss and of segment assets, as well as a brief description of how the segmental information is produced. IFRS 8 is unlikely to have a material impact on how the Company reports its operating segments.

Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)

The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The directors believe that this amendment will not have a material impact on the share options that have been granted in SovGEM Limited.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

2 SUMMARY OF ACCOUNTING POLICIES

2.1 Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarised below:

Basis of preparation

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

All accounting estimates and assumptions that are used in preparing the financial statements are consistent with SovGEM's latest approved budget forecast where applicable. Judgements are based on the information available to management, actual results may ultimately differ from those estimates.

2.2 Foreign currency translation

SovGEM's financial statements are presented in Sterling, denoted by the symbol "£", which is the Company's functional and presentational currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary balance sheet items at year-end exchange rates are recognised in the income statement and are included in administrative expenses.

The Company holds financial assets held in foreign currencies that are remeasured at fair value at year end. At year end the fair value of these financial assets are translated into the functional currency using the appropriate closing exchange rate.

2.3 Income and expense recognition

Gains and losses are measured by reference to the fair value of consideration received or receivable by the Company for the sale of long term financial assets. Gains and losses are recognised upon completion of the transaction.

Gains and losses from the sale of long term financial assets are recognised when all of the following conditions have been satisfied:

- Sale documentation completed;
- Title of the long term financial asset has been transferred to the purchaser.

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin. Interest income is reported using the effective interest method. Dividends received are recognised at the time of their distribution.

2.4 Accounting for long term financial assets

Financial assets are divided into the following categories:

- Financial assets at fair value through profit or loss;
- Available-for-sale financial assets.

Financial assets accounted for at fair value through profit or loss includes warrants and convertible debt where the embedded derivative is not separable from the underlying instrument.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

2.4 Accounting for long term financial assets (continued)

Financial assets at fair value through profit or loss are initially recognised at fair value and are subsequently carried at fair value. Gains and losses arising from the changes in the fair value of financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Where investments have a separate embedded derivative, but it is not possible to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the company shall designate the entire hybrid (combined) investment as at fair value through profit or loss.

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are initially recognised at fair value and are subsequently carried at fair value net of transaction costs. Gains and losses arising from the changes in the fair value of available for sale financial assets are recognised directly to the revaluation reserve through the statement of total recognised income and expense, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) fair values are established by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and available financial information.

The principal area of critical judgement is establishing the fair value of the unquoted portfolio. However, in almost every unquoted investment that is held a transaction has occurred, or is proceeding that provides an independent assessment of fair value. Where this is not possible the Company uses the Directors' valuation, based on recent market information.

Impairments

Available-for-sale assets are reviewed for impairment by reference to current market prices and the latest financial information. In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment losses recognised previously on debt securities are reversed through the income statement when the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement.

An assessment for impairment is undertaken at least at each balance sheet date.

2.5 Income taxes

The Company is registered in Jersey and is out with the scope of UK taxation.

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash which are subject to insignificant risk of change in value.

2.7 Share based payments

Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserves".

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

2.7 Share based payments (continued)

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and, where appropriate, share premium.

Retained earnings include all current and prior period results as disclosed in the income statement.

No dividends have been paid since the Company's inception.

2.8 Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the group becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

2.9 Trade and other receivables

Trade receivables are initially measured at fair value and subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

2.10 Reserves

The company has the following reserves:

- Share capital;
- Reserve in respect of share options;
- Share premium account;
- Revaluation reserve;
- Retained earnings.

Share capital is determined using the nominal value of shares that have been issued.

Equity settled share-based employee remuneration is also credited to reserves in respect of share options unit related stock options are exercised.

Share premium reserves hold the excess amount over the nominal value of shares issued and price paid for shares, net of listing expenses.

Revaluation reserve includes gains and losses due to the revaluation of certain financial assets.

Retained earnings include all current and prior period results as disclosed in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 December 2007

2.11 Areas of critical judgement
Valuation of unquoted investments

The principal area of critical judgement is establishing the fair value of the unquoted portfolio. However, in almost every unquoted investment that is held a transaction has occurred, or is proceeding that provides an independent assessment of fair value. Where this is not possible the Company uses the Directors' valuation, which is based on recent market information.

Impairments

Available-for-sale assets are reviewed for impairment by reference to current market prices and the latest financial information. The Directors monitor the Company's portfolio on a daily basis. If a financial asset falls significantly in value the directors will review the available financial information on the financial assets in order to determine whether the asset is impaired.

An assessment for impairment is undertaken at least at each balance sheet date.

Designation of financial assets as fair value through profit or loss

The Directors will consider whether the embedded derivative in a financial instrument can be separately valued. Where the Directors are unable to separately value the embedded derivative the financial assets will be designated at fair value through profit or loss. All warrants that are held by the Company are held for trade at fair value through profit or loss.

3 GAIN ON SALE OF NON CURRENT ASSETS

Net gains from the sale of non current assets are set out below.

	2007	2006
	£	£
Available-for-sale financial assets	690,002	1,496,525
Financial assets designated at fair value through profit or loss	117,071	-
	<u>807,073</u>	<u>1,496,525</u>

4 OPERATING PROFIT

	2007	2006
	£	£
Operating profit is stated after charging:		
Auditors remuneration	23,000	18,000
Foreign exchange loss	15,128	66,147
	<u>38,128</u>	<u>84,147</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

5 SEGMENT REPORTING

The Company's internal organisation and management structure and its system of financial reporting are based neither on investment type nor business segments, but rather on an individual investment basis, on the underlying requirement that the company has exposure to China. The Company is focused on investing in companies that are involved in servicing the Chinese market. Although the domicile of the investee companies has been in many jurisdictions across the world, it is their involvement with China that is important and not their domicile. Equally, the Company does not seek to specialise in any particular industry or sector, but seeks to identify high growth companies servicing Chinese domestic demand. The Directors consider that the Company has only one business segment, and to identify industry sectors or investment types would be an artificial analysis and not reflect the actuality of the Company's activity.

However, set out below is an analysis of the investments:

	2007 £	2006 £
Total assets		
Listed investments	5,326,593	3,135,730
Unlisted investments	2,098,951	1,831,667
Warrants and Options	50,092	324,342
Convertible debt	250,338	131,939
	<u>7,725,974</u>	<u>5,423,678</u>
	2007 £	2006 £
Gain on sale of non current assets		
Listed investments	690,002	1,496,525
Unlisted investments	-	-
Warrants and Options	117,071	-
Convertible debt	-	-
	<u>807,073</u>	<u>1,496,525</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

6 LONG TERM FINANCIAL ASSETS

The amount recognised in the balance sheet relate to the following investment types:

	2007 £	2006 £
Long term available-for-sale financial assets	7,425,544	4,967,397
Financial assets at fair value through profit or loss	300,430	456,281
	<u>7,725,974</u>	<u>5,423,678</u>

6.1 Long term available-for-sale financial assets

	2007 £	2006 £
Listed equity securities	5,326,593	3,135,730
Unlisted financial assets	2,098,951	1,831,667
	<u>7,425,544</u>	<u>4,967,397</u>

The listed financial assets have been stated at fair value. Fair value is determined by valuing the financial assets at the appropriate closing bid price on 31 December 2007.

The unlisted financial assets have been stated at fair value. Fair value is determined by using recent arms length transactions and valuation models where a recent arms length transaction does not exist. Where this is not possible the company uses the Directors' valuation.

	2007 Listed £	2007 Unlisted £	2007 Total £	2006 Total £
Opening fair value as at 1 January 2007	3,135,730	1,831,667	4,967,397	2,613,302
Purchases at cost	1,463,809	455,487	1,919,296	2,256,620
Disposals in the year	(1,005,690)	-	(1,005,690)	(1,488,553)
Transfers	122,849	(122,849)	-	-
Transfers as a result of exercising of warrants	171,982	-	171,982	
Movement from changes in fair value	1,437,913	(65,354)	1,372,559	1,586,028
Closing fair value as at 31 December 2007	<u>5,326,593</u>	<u>2,098,951</u>	<u>7,425,544</u>	<u>4,967,397</u>
Closing cost as at 31 December 2007	2,447,878	1,396,097	3,843,975	2,796,579
Gain as at 31 December 2007	2,878,715	702,854	3,581,569	2,170,818
	<u>5,326,593</u>	<u>2,098,951</u>	<u>7,425,544</u>	<u>4,967,397</u>

Unlisted investments are valued on the most recent transaction value that has occurred during the period, or failing that Directors' best estimate, based on the most recent financial information available.

All the listed equity securities have been issued by publicly traded companies

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

6.2 Financial assets at fair value through profit or loss

	2007 £	2006 £
Financial assets at fair value through profit or loss		
Designated at fair value through profit or loss - Convertible debt	250,338	131,939
Held for trade at fair value through profit or loss - Stock warrants	50,092	324,342
	<u>300,430</u>	<u>456,281</u>

Movements in the year

	2007 Designated £	2007 Held for trade £	2007 Total £	2006 Total £
Opening fair value as at 1 January 2007	131,940	324,341	456,281	-
Purchases at cost	126,950	-	126,950	265,730
Gains in changes in fair value	-	-	-	324,341
Transfers as a result of exercising of warrants	-	(171,982)	(171,982)	-
Losses in changes in fair value	(8,551)	(102,268)	(110,819)	(133,790)
Closing fair value as at 31 December 2007	<u>250,338</u>	<u>50,092</u>	<u>300,430</u>	<u>456,281</u>
Closing cost as at 31 December 2007	258,889	-	258,889	265,730
Gain/(loss) as at 31 December 2007	(8,551)	50,092	41,541	190,551
	<u>250,338</u>	<u>50,092</u>	<u>300,430</u>	<u>456,281</u>

Convertible debt has been designated as fair value through profit or loss where it has not been possible to separately value the embedded derivative. The financial instrument has been included at its fair value.

Warrants are held for trade and have been valued using an appropriate option pricing model at the time of acquisition and as at 31 December 2007.

7 TRADE AND OTHER RECEIVABLES

	2007 £	2006 £
Prepayments	20,624	20,255
Accrued investment income	1,763	1,797
Accrued finance income	676	964
	<u>23,063</u>	<u>23,016</u>

All trade and other receivables are short-term. The carrying amount is deemed to be a reasonable approximation of fair value as all the trade and other receivables are short-term.

8 CASH AND CASH EQUIVALENTS

	2007 £	2006 £
Cash at bank and in hand	215,113	269,728
Short term deposits	105,546	915,561
	<u>320,659</u>	<u>1,185,289</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

9. EQUITY

9.1 Share capital

The share capital of SovGEM Limited consists only of ordinary shares with a par value of 0.001 pence. All shares are eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of SovGEM Limited.

	2007 No	2006 No
Shares issued in issue at 1 January 2007	22,775,000	22,775,000
Shares issued	-	-
Shares issued and fully paid at 31 December 2007	<u>22,775,000</u>	<u>22,775,000</u>
Total equity shares authorised at 1 January 2007 and 31 December 2007	<u>25,792,250</u>	<u>25,792,250</u>
	2007 £	2006 £
Authorised 25,792,250 ordinary shares of 0.001 pence each (2006: 25,792,250 shares of 0.001 pence each)	258	258
Issued 22,775,000 ordinary shares of 0.001 pence each	228	228

Options issued in December 2005, totalling 569,375 are exercisable at a price of 20p with an option period of five years. Options issued in December 2006, totalling 583,609 are exercisable at a price of 19.2p with an option period of five years. Options issued in December 2007, totalling 598,200 are exercisable at a price of 26.1p with an option period of five years. No options have been exercised as at 31 December 2007. Further details are included in note 11.2.

The shares authorised for share based payments have not yet been issued and have been authorised solely for the use of SovGEM's share-based remuneration program.

10 EARNINGS PER SHARE

The basic earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

	2007 £	2006 £
Net results for the year	92,689	1,013,294
Weighted average of ordinary shares of 0.001p in issue	<u>22,775,000</u>	<u>22,775,000</u>
Net asset value per share	35.43p	27.91p
Earnings per share – basic and diluted	<u>0.41p</u>	<u>4.44p</u>

The options in issue are currently "out of the money" and as such do not have a dilutive effect on the earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

11 EMPLOYEE REMUNERATION

11.1 Employee benefits expense

Expense recognised for employee benefits, including Directors, is analysed below:

	2007 £	2006 £
Salaries	180,000	150,000
Bonuses	165,593	240,356
Share based payments	25,092	25,889
Employee benefit expense	<u>370,685</u>	<u>416,245</u>

11.2 Share-based employee remuneration

The Company operates a Directors' Share Option Scheme whereby the Directors are eligible to subscribe, and the Company will be obliged to issue and allot, a maximum of 2.5% of the issued share capital per annum. The options must be exercised within 5 years of granting.

The Directors will be eligible to exercise options at the lower of either:

- the option price;
- the average mid-market price for the preceding three calendar months, should the company be subject to sale or merger.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2007 Number	2007 Weighted average exercise price £	2006 Number	2006 Weighted average exercise price £
Outstanding 1 January	1,152,984	0.196	569,375	0.200
Granted	598,200	0.261	583,609	0.192
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding 31 December	<u>1,751,184</u>	<u>0.218</u>	<u>1,152,984</u>	<u>0.196</u>
Thereof exercisable	<u>1,751,184</u>	<u>0.218</u>	<u>1,152,984</u>	<u>0.196</u>

The fair values of options granted were determined using the Black-Sholes valuation model. Significant input into the calculation including a weighted average share price of 21.75p and exercise prices as noted above. Furthermore the calculation takes into account a volatility rate of 20% based on expected share price. No future dividends are assumed in the calculation. Risk free interest rate was determined at 4.444%. It is assumed that options granted have an average remaining life of 36 months. (2006: 48 months).

In total £25,092, of employee remuneration expense has been included in the income statement for 2007. (2006: £25,889). No liabilities were recognised due to share-based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

12 TRADE AND OTHER PAYABLES

	2007 £	2006 £
Trade payables	17,896	5,536
Accrued expenses	207,093	272,081
	<u>224,989</u>	<u>277,617</u>

All trade and other payables are short term. The carrying amount is deemed to be a reasonable approximation of fair value as all the trade and other receivables are short-term.

13 FINANCE INCOME

	2007 £	2006 £
Interest income on short term deposits.	<u>13,079</u>	<u>19,403</u>

14 OTHER FINANCIAL RESULTS

	2007 £	2006 £
(Losses)/Gains from fair value through profit and loss financial assets-classified as held for trading	(110,819)	190,551
Gain/(loss) from exchange differences	<u>(15,128)</u>	<u>(66,146)</u>
	<u>(125,947)</u>	<u>124,405</u>

15 RELATED PARTY TRANSACTIONS

15.1 Transactions with related parties

During the year, St George Financial Services Limited provided administration and secretarial services to the Company amounting to £20,595 (2006: £22,880). The balance outstanding at year end was £707 (2006: £2,763). Peter St George and Allan Moloney, both directors of the Company, are also directors of St George Financial Services Limited.

An amount of £6,000 (2006: £6,000) was invoiced by Sovereign Trust (Gibraltar) Limited to the company for professional services provided in the year. Accrued costs in relation to these services at the year end were nil (2006:£3,000). H Bilton is also a Director of Sovereign Trust (Gibraltar) Limited.

The services of some of the non-executives are provided by third parties as follows:

H Bilton (Non-Executive)	Sovereign Trust (Hong Kong) Limited of which H Bilton is a director
A Moloney and P St George (Non-Executive)	St George Financial Services Limited of which A Moloney and P St George are directors

Key management personnel remuneration includes the following expenses:

	2007 £	2006 £
Short-term employee benefits		
Salaries	180,000	150,000
Bonuses	165,593	240,356
Fees	<u>32,916</u>	<u>26,000</u>
	378,509	416,356
Share based payments	<u>25,092</u>	<u>25,889</u>
	<u>403,601</u>	<u>442,245</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

16 CONTINGENT ASSET AND OTHER CONTINGENT LIABILITIES

There were no contingent assets or other contingent liabilities as at 31 December 2007 (2006: Nil).

17 RISK MANAGEMENT OBJECTIVES AND POLICIES

SovGEM is exposed to market risk through its use of financial instruments and specifically to currency risk, liquidity risk, credit risk and, to a lesser extent, interest rate risk. The Company's risk management is coordinated at its principal place of business in Jersey by the Board.

17.1 Foreign currency sensitivity

A number of SovGEM's long term financial asset transactions are carried out in US Dollars. Exposure to currency exchange rates arises both from the settlement of these transactions and the restatement of foreign currency denominated financial assets and cash deposits at the year end exchange rate.

The company does not purchase any financial products to protect currency exposure, as the Board do not consider it appropriate due to the uncertainty over the timing of investments or realisations. The Company tends to operate with its resources fully invested, and any new Dollar investment tends to be matched against a realisation of a Dollar investment, either in whole or in part, which reduces the exposure to this risk.

Foreign currency denominated financial assets, translated into sterling at the closing exchange rate, are as follows:

	2007 USD \$	2007 CAD \$	2006 USD \$	2006 CAD \$
Long term financial assets	8,207,379	-	4,364,401	640,000

The following table illustrates the sensitivity of the net results for the year and equity in regards to SovGEM's financial assets and the US Dollar-Sterling exchange rate and Canadian Dollar-Sterling exchange rate.

It assumes a +/- 10% change in the Sterling/US Dollar exchange rate for the year ended 31 December 2007 (2006:15%). A +/- 15% change is considered for the Sterling/Canadian Dollar exchange rate for 2006. Both of these percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on SovGEM's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the US Dollar by 10% (2006: 15% for both US Dollar and Canadian Dollar) then this would have the following impact:

Increase/(decrease)	2007 USD £	2007 CAD £	2007 Total £	2006 USD £	2006 CAD £	2006 Total £
Net results for the year	(55,361)	-	(55,361)	(174,003)	-	(174,003)
Equity	(387,206)	-	(387,206)	(424,619)	(36,525)	(461,144)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

17.1 Foreign currency sensitivity (continued)

If Sterling had weakened against the US Dollar by 10% (2006: 15% for both US Dollar and Canadian Dollar) then this would have the following impact:

Increase/(decrease)	2007 USD £	2007 CAD £	2007 Total £	2006 USD £	2006 CAD £	2006 Total £
Net results for the year	<u>67,700</u>	<u>-</u>	<u>67,700</u>	<u>235,494</u>	<u>-</u>	<u>235,494</u>
Equity	<u>473,594</u>	<u>-</u>	<u>473,594</u>	<u>574,673</u>	<u>49,431</u>	<u>624,104</u>

Exposure to foreign exchange rates vary during the year depends upon the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of SovGEM's exposure to currency risk.

17.2 Liquidity risk

The Company seeks to manage liquidity risk by maintaining a minimal level of cash and cash equivalent assets and to monitor the long term financial assets portfolio to ensure that a suitable mix of listed investment is maintained and that no one investment represents a significant percentage of the portfolio.

17.3 Credit risk

SovGEM's exposure to credit risk is limited to the carrying about of financial assets recognised at the balance sheet date, as summarised below:

	2007 £	2006 £
Classes of financial assets- carrying amounts		
Long term available- for- sale financial assets	7,425,544	4,967,397
Financial assets at fair value through profit or loss	300,430	456,281
Cash and cash equivalents	320,659	1,185,289
Trade and other receivables	<u>23,063</u>	<u>23,016</u>
	<u>8,069,696</u>	<u>6,631,983</u>

When the Company disposes of long term financial assets, transfer of title of the financial assets does not pass, until proceeds of the sale have been deposited in the brokers' account, all of whom are creditworthy organisations.

None of the financial assets are secured by collateral or other credit enhancements.

The credit risk of liquid funds and other short term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Trade and other receivables relate to the prepayment of services with reputable companies and, as a result, the Board considers that the Company is not exposed to any significant credit risk.

17.4 Interest rate sensitivity

Currently the Company does not borrow any bank funds and utilises short term floating interest rate bearing accounts to ensure adequate working capital is available whilst maximising returns on deposits. The Company holds Cumulative Convertible Preference Shares with a dividend of 4% and thus is not affected by interest rate risk. As a result, the Board do not consider interest rate risk to be significant

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

17.5 Other price risk sensitivity

SovGEM Limited is exposed to other price risk in respect of its listed equity securities and unlisted equity securities.

If equity securities fell by 10% during 2007 (2006: 10%), the equity would have reduced by £772,597 (2006: £542,368). A movement of 10% on equity securities would not have a direct effect on the net results for the year as the results for the year are determined by the Board's decisions to realise equity securities.

SovGEM's sensitivity to price risk with regards to the unlisted equity securities cannot reliably be determined due to numerous uncertainties regarding the future development of the companies in which investments are held. The unlisted financial assets have been stated at fair value. Fair value is determined by using recent arms length transactions and valuation models where a recent arms length transaction does not exist.

The investments in listed equity securities and in unlisted securities are considered long-term, strategic investments. In accordance with SovGEM's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in SovGEM's favour.

17.6 Summary of financial assets by category

The carrying amounts of SovGEM's financial assets as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See notes 2.4 and 2.6 for explanations about how the category of financial instruments affects their subsequent measurement.

	2007 £	2006 £
Non current assets		
Long term available- for- sale financial assets	7,425,544	4,967,397
Financial assets at fair value through profit or loss:		
- Designated at fair value through profit or loss	250,338	131,939
- Held for trade at fair value through profit or loss	50,092	324,342
	<u>7,725,974</u>	<u>5,423,678</u>
Current assets		
Cash and cash equivalents	320,659	1,185,289
Trade and other receivables	23,063	23,016
	<u>343,722</u>	<u>1,208,305</u>
Current liabilities		
Trade payables	<u>224,989</u>	<u>277,617</u>

18 CAPITAL MANAGEMENT POLICIES AND PROCEDURES

SovGEM's capital management objectives are:

- to ensure the Company's ability to continue as a going concern;
- to ensure a sufficient cash balance is maintained;
- to maximise returns to shareholders.

The Board assess in detail investment opportunities and their associated risks, and closely monitor performance of existing long term financial assets to identify the optimum time to exit in order to maximise returns.

The Company maintains enough cash to cover a minimum of one months administration expenses. If the Company cash balance becomes too low the Company will realise a small number of the investments held. The majority of investments held by the company are traded on quoted markets and thus it is possible for the company to sell investments if required.

The Company is not subject to any external capital management requirements.

There have been no changes in capital management policies and procedures from the previous year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

19 STATEMENT OF MOVEMENT OF RESERVES

	Share Capital £	Share premium account £	Revaluation Reserve £	Reserve in respect of share options £	Retained earnings £	Total Equity £
As at 1 January 2006	228	2,868,171	1,046,797	3,454	272,512	4,191,162
Available for sale securities						
-Unrealised gain on revaluation of available for sale financial assets – taken direct to equity	-	-	1,586,028	-	-	1,586,028
-Derecognition of unrealised gains on disposals	-	-	(462,006)	-	-	(462,006)
Net income recognised directly in equity	-	-	1,124,022	-	-	1,124,022
Net results for the year ended 31 December 2006	-	-	-	-	1,013,294	1,013,294
Total recognised income and expense for the period	-	-	1,124,022	-	1,013,294	2,137,316
Employee share based transactions	-	-	-	25,889	-	25,889
As at 31 December 2006	228	2,868,171	2,170,819	29,343	1,285,806	6,354,367
As at 1 January 2007	228	2,868,171	2,170,819	29,343	1,285,806	6,354,367
Available for sale securities						
-Unrealised gain on revaluation of available for sale financial assets – taken direct to equity	-	-	1,937,043	-	-	1,937,043
-Derecognition of unrealised gains on disposals	-	-	(564,484)	-	-	(564,484)
Net income recognised directly in equity	-	-	1,372,559	-	-	1,372,559
Net results for the year ended 31 December 2007	-	-	-	-	92,689	92,689
Total recognised income and expense for the period	-	-	1,372,559	-	92,689	1,465,248
Employee share based transactions	-	-	-	25,092	-	25,092
As at 31 December 2007	228	2,868,171	3,543,378	54,435	1,378,495	7,844,707

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

20 AUTHORISATION OF FINANCIAL STATEMENTS

No adjusting or significant non-adjusting events have occurred between the balance sheet date and the date of authorisation on 17 March 2008 by the Board.

21 RESTATEMENT OF FINANCIAL INFORMATION UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Adoption of IFRS did not result in any changes or restatement of the net result or equity previously reported. There have been no restatements from the adoption of IFRS as the company adopted Financial Reporting Standard 26 Financial Instruments: Recognition and Measurement under UK GAAP in 2006, which shares the same principles as IAS 39 Financial Instruments: Recognition and Measurement.

As part of the adoption of IFRS the following items are now included in the calculation of operating profit:

- Gain on sale of non current assets
- Gains in fair value of assets held at fair value through profit or loss
- Losses in fair value of assets held at fair value through profit or loss

In the prior year these items were shown below operating profit on the face of the Income Statement. There has been no impact on the reported net results for the prior year.

	UK GAAP Year ended 31 Dec 2006 £	IFRS Year ended 31 Dec 2006 £
Revenue	-	-
Gain on sale of non current assets	-	1,496,525
Gains in fair value of assets held at fair value through profit or loss	-	324,341
Losses in fair value of assets held at fair value through profit or loss	-	(133,790)
Administrative expenses	(695,877)	(695,877)
Operating (loss)/profit	(695,877)	991,199
Gain on sale of non current assets	1,496,525	-
Gains in fair value of assets held at fair value through profit or loss	324,341	-
Losses in fair value of assets held at fair value through profit or loss	(133,790)	-
Finance income	19,403	19,403
Investment income	2,692	2,692
Results for the year before taxation	1,013,294	1,013,294
Tax expense, net	-	-
Net results for the year	1,013,294	1,013,294

The company has taken advantage of certain exemptions available under IFRS 1 First-time adoption of International Financial Reporting Standards. These are explained in note 1.1.