

SovGEM Limited

SovGEM Limited (“the Company”), the emerging market equity finance house, is pleased to announce its annual results for the year ended 31 December 2008.

HIGHLIGHTS:

- Net Asset Value (NAV) 14.9p (2007: 34.4p)
- Most portfolio companies continue to report strong earnings and operating profits
- Acquisition of Hanson Westhouse intended

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

Review of 2008

2008 was an unprecedented year in the financial markets globally. Despite the underlying strength of most of our investee companies their stock market valuations were dramatically hit as asset classes collapsed as a consequence of the collapse of the credit markets. The deleveraging that has resulted from the credit crunch has seen stock valuations fall to levels that we had not envisaged.

As a result of a significant fall in stock valuation, an impairment of available-for-sale assets of £1,524,717 has been recognised in the income statement (2007: Nil).

Chinese market in 2008

Chinese stock markets have been particularly hard hit in the global turmoil. From its peak in October 2007 (at 5,877) the CSI300 Index (the main index of leading Chinese shares in Shanghai) fell 73.1% to its trough of 1,627 in November 2008. During the calendar year 2008 the CSI300 fell 65.8%. The Halter Index of Chinese companies listed in America has fallen 56.6% during 2008. SovGEM's NAV over the same period has fallen 56.7%.

Chinese Economic Outlook

We remain convinced that China is suffering a severe cyclical slowdown in its growth rates but we do not believe that there has been a fundamental change in the long term structural growth outlook for China. In

particular we believe that our policy of investing in those companies exposed to domestic demand growth within China and eschewing export orientated companies is the correct policy.

Reasons for Optimism

- The Chinese government's fiscal position is superior to many globally and its debt burden is low. Total government debt is only 23% of GDP. Moreover China continues to have a huge current account surplus and foreign debt is negligible. This underpins the government's ability to deliver its announced massive capital investment programme which will add an additional 14% to GDP over the next two years.
- The banking system is conservative and strong with little exposure to international markets.
- The corporate sector has deleveraged over the past two years.
- Household bank deposits are 73% of GDP and total consumer loans are only 13% of GDP. In the long run there is plenty of pent up consumer demand.

SovGEM

Whilst the Board of SovGEM is unhappy that our investments have fallen so much over the year, we are solvent, we have announced a small operating profit and we are taking steps to ensure that our exposure to successful Chinese companies remain so that we may experience the recovery when it comes. We can take some comfort that since its low point of 1,627 in November 2008 the CSI300 has risen over 71% as at 15 May 2009. This rise has not to date been fully reflected in the valuation of UK and American quoted Chinese companies.

Acquisition of Hanson Westhouse Holdings Limited

On 6 May 2009 the Board announced the intention to acquire the entire issued share capital of Hanson Westhouse Holdings Limited and the simultaneous suspension of the Company's shares from trading pending the publication of an admission document in relation to the acquisition, which will constitute a reverse takeover under the AIM Rules. It is intended that an admission document is published on or around 20 May 2009 when the shares are expected to be re-admitted to trading.

Garth Milne - Chairman
Hugh de Lusignan - CEO
19 May 2009

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SovGEM LIMITED

The report of the independent auditor to the members of SovGEM Limited included in the financial statements of the Company for the year ended 31 December 2008 included wording to the following effect:

“Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us to confirm the valuation of one of the company's investments was limited because the information upon which the directors based their valuation upon could not be verified for audit purposes. As a result, and in the absence of any alternative evidence available to us, in particular the 2008 audited financial statements, we have been unable to form a view as to the accuracy of the valuation of

the investment which is included in the balance sheet at a value of £466,667. We are unable to quantify the effect on the financial statements as the valuation of the investment could be over or understated.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to valuation of one of the company's investments, in our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

In respect solely of the limitation on our work relating to the valuation of one of the investments:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we are unable to determine whether the investment valuation is accurate.

In our opinion the information given in the Directors' Report is consistent with the financial statements and the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991."

INCOME STATEMENT

Year ended 31 December 2008

	Note	Year ended 31 Dec 2008 £	Year ended 31 Dec 2007 £
Revenue		-	-
Gain on sale of non current assets		426,029	807,073
Loss on sale of non current assets		(60,213)	-
Gains in fair value of assets held at fair value through profit or loss	5	124,547	-
Losses in fair value of assets held at fair value through profit or loss	5	(50,092)	(110,819)
Administrative expenses		(416,349)	(623,649)
Operating profit before impairment of available – for - sale financial assets		<u>23,922</u>	<u>72,605</u>
Impairment of available-for-sale financial assets	5	(1,524,717)	-
Operating (loss)/profit before interest and taxation		(1,500,795)	72,605
Finance income		4,133	13,079
Investment income		<u>25,648</u>	<u>7,005</u>
Results for the year before taxation		(1,471,014)	92,689
Tax expense, net		-	-
Net results for the year		<u>(1,471,014)</u>	<u>92,689</u>

Total and continuing			
Basic and diluted earnings per share	6	<u>(6.5) pence</u>	<u>0.41 pence</u>

BALANCE SHEET
As at 31 December 2008

	Note	2008	2007
		£	£
Assets			
Non current assets			
Long term financial assets- Available-for- sale	5	3,001,364	7,425,544
Fair value through profit and loss	5	374,885	300,430
Current assets			
Trade and other receivables		14,084	23,063
Cash and cash equivalents		57,423	320,659
		<u>71,507</u>	<u>343,722</u>
Total Assets		<u><u>3,447,756</u></u>	<u><u>8,069,696</u></u>
Equity			
Equity attributable to shareholders of SovGEM Limited			
Share capital		228	228
Reserve in respect of share options	8	54,435	54,435
Share premium account	8	2,868,171	2,868,171
Revaluation reserve	8	562,246	3,543,378
Retained earnings	8	(92,519)	1,378,495
Total equity		<u><u>3,392,561</u></u>	<u><u>7,844,707</u></u>
Liabilities			
Current			
Trade and other payables		55,195	224,989
Total liabilities		<u>55,195</u>	<u>224,989</u>
Total equity and liabilities		<u><u>3,447,756</u></u>	<u><u>8,069,696</u></u>

STATEMENT OF RECOGNISED INCOME AND EXPENSE

		2008 £	2007 £
(Loss)/profit for the financial year		(1,471,014)	92,689
(Losses)/gains on revaluation taken from equity	8	(3,746,066)	1,937,043
Impairment losses on available -for sale- financial assets	8	1,524,717	-
Derecognition of unrealised gains on disposals	8	(759,783)	(564,484)
Total recognised income and expense attributable to equity holders		<u>(4,452,146)</u>	<u>1,465,248</u>

STATEMENT OF CASH FLOWS Year ended 31 December 2008

	Year ended 31 Dec 2008 £	Year ended 31 Dec 2007 £
(Loss)/profit after tax	(1,471,014)	92,689
Adjustments for:		
Gain on sale of non current assets	(426,029)	(807,073)
Loss on sale of non current assets	60,213	-
Movements in fair value assets held at fair value	(74,455)	110,819
Income received from investing activities	(29,781)	(20,084)
Decrease/(Increase) in receivables	8,979	(46)
Decrease in payables	(169,794)	(52,628)
Share based payments	-	25,092
Impairment of available-for-sale financial assets	<u>1,524,717</u>	<u>-</u>
Net cash decrease from operating activities	(577,164)	(651,231)
Investing activities		
Interest received	4,133	13,079
Investment income	25,648	7,005
Purchase of investments	(418,434)	(2,046,246)
Proceeds from sale of investments	<u>702,581</u>	<u>1,812,763</u>
Net cash used in investing activities	313,928	(213,399)
Net decrease in cash and cash equivalents	(263,236)	(864,630)

Cash and cash equivalents at beginning of period	320,659	1,185,289
Cash and cash equivalents at end of period	57,423	320,659

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

1 BASIS OF PREPARATION

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

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 2008.

1.1 New standards not applied

New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 January 2008 are:

- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements - Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009)
- Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating Segments (effective 1 January 2009)
- IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effectively prospectively for transfers on offers 1 July 2009).

The adoption of IAS 1 will impact disclosure within the financial statements, the adoption of IFRS 3 will impact the basis of accounting for any future acquisitions. The adoption of IFRS 8 could have a significant impact on the disclosure of segments. The full effects of the remaining standards and interpretations on accounts are not known at this time.

2 SUMMARY OF ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial information set out in this announcement are set out in the full financial statements for the year ended 31 December 2008 (the "Financial Statements").

3 GAIN ON SALE OF NON CURRENT ASSETS

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

	2008	2007
	£	£
Available-for-sale financial assets	365,816	690,002
Financial assets designated at fair value through profit or loss	-	117,071
	<u>365,816</u>	<u>807,073</u>

4 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. The Directors consider that the company has only one secondary reporting segment.

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

	2008	2007
	£	£
Total assets		
Listed investments	2,339,311	5,326,593
Unlisted investments	662,053	2,098,951
Warrants and Options	-	50,092
Convertible debt	374,885	250,338
	<u>3,376,249</u>	<u>7,725,974</u>

	2008	2007
	£	£
Gain on sale of non current assets		
Listed investments	365,816	690,002
Unlisted investments	-	-
Warrants and Options	-	117,071
Convertible debt	-	-
	<u>365,816</u>	<u>807,073</u>

	2008	2007
	£	£
Impairment of available-for-sale financial assets	<u>(1,524,717)</u>	<u>-</u>

5 LONG TERM FINANCIAL ASSETS

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

	2008	2007
	£	£
Long term available-for-sale financial assets	3,001,364	7,425,544
Financial assets at fair value through profit or loss	374,885	300,430
	<u>3,376,249</u>	<u>7,725,974</u>

5.1 Long term available-for-sale financial assets

	2008	2007
	£	£
Listed equity securities	2,339,311	5,326,593
Unlisted financial assets	662,053	2,098,951
	<u>3,001,364</u>	<u>7,425,544</u>

The listed financial assets have been stated at fair value. Fair value is determined by valuing the financial assets at the appropriate closing mid price on 31 December 2008.

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.

	2008	2008	2008	2007
	Listed	Unlisted	Total	Total
	£	£	£	£
Opening fair value as at 1 January 2008	5,326,593	2,098,951	7,425,544	4,967,397
Purchases at cost	418,434	-	418,434	1,919,296
Disposals in the year	(336,765)	-	(336,765)	(1,005,690)
Transfers	93,417	(93,417)	-	-
Transfers as a result of exercising of warrants	-	-	-	171,982
Movement from changes in fair value:				
Movement from changes in fair value recognised in equity	(2,153,368)	(827,764)	(2,981,132)	1,372,559
Impairment of available-for-sale financial assets recognised in the income statement	(1,009,000)	(515,717)	(1,524,717)	-
	<u>(3,162,368)</u>	<u>(1,343,481)</u>	<u>(4,505,849)</u>	<u>1,372,559</u>
Closing fair value as at 31 December 2008	<u>2,339,311</u>	<u>662,053</u>	<u>3,001,364</u>	<u>7,425,544</u>
Closing cost as at 31 December 2008	2,989,155	936,489	3,925,644	3,843,975
(Loss)/Gain as at 31 December 2008	(649,844)	(274,436)	(924,280)	3,581,569
	<u>2,339,311</u>	<u>662,053</u>	<u>3,001,364</u>	<u>7,425,544</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

5.2 Impairment of available-for-sale financial assets

Investments have been assessed for impairment in line with IAS 39 Financial Instruments: Recognition and Measurement. As a result, the difference between fair value and book cost as at 31 December 2008 of £1,524,717 (2007: Nil) has been taken directly to the income statement

5.3 Financial assets at fair value through profit or loss

	2008	2007
	£	£
Financial assets at fair value through profit or loss		
Designated at fair value through profit or loss - Convertible debt	374,885	250,338
Held for trade at fair value through profit or loss - Stock warrants	-	50,092
	<u>374,885</u>	<u>300,430</u>

Movements in the year

	2008	2008	2008	2007
	Designated	Held for trade	Total	Total
	£	£	£	£
Opening fair value as at 1 January 2008	250,338	50,092	300,430	456,281
Purchases at cost	-	-	-	126,950
Transfers as a result of exercising of warrants	-	-	-	(171,982)
Gains/(Losses) in changes in fair value	124,547	(50,092)	74,455	(110,819)
Closing fair value as at 31 December 2008	<u>374,885</u>	<u>-</u>	<u>374,885</u>	<u>300,430</u>
Closing cost as at 31 December 2008	258,889	-	258,889	258,889
Gain/(loss) as at 31 December 2008	115,996	-	115,996	41,541
	<u>374,885</u>	<u>-</u>	<u>374,885</u>	<u>300,430</u>

Convertible debt has been designated as fair value through profit or loss.

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 2008.

6 EARNINGS PER SHARE

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

2008	2007
£	£

Net results for the year	(1,471,014)	92,689
Weighted average of ordinary shares of 0.001p in issue	22,775,000	22,775,000
Net asset value per share	14.9p	34.4p
Earnings per share – basic and diluted	(6.5)p	0.41p

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

7 OTHER FINANCIAL RESULTS

	2008	2007
	£	£
Gains/(Losses) from fair value through profit and loss financial assets-classified as held for trading	74,455	(110,819)
Gain/(loss) from exchange differences recognised in administrative expenses	8,657	(15,128)
	<u>83,112</u>	<u>(125,947)</u>

8 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 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
As at 1 January 2008	228	2,868,171	3,543,378	54,435	1,378,495	7,844,707
Available for sale securities						
-Unrealised loss on revaluation of	-	-	(3,746,066)	-	-	(3,746,066)

available for sale financial assets – taken direct to equity						
Impairment losses on available -for sale- financial assets taken to income statement	-	-	1,524,717	-	-	1,524,717
-Derecognition of unrealised gains on disposals	-	-	(759,783)	-	-	(759,783)
Net income recognised directly in equity	-	-	(2,981,132)	-	-	(2,981,132)
Net results for the year ended 31 December 2008	-	-	-	-	(1,471,014)	(1,471,014)
Total recognised income and expense for the period	-	-	(2,981,132)	-	(1,471,014)	(4,452,146)
Employee share based transactions	-	-	-	-	-	-
As at 31 December 2008	228	2,868,171	562,246	54,435	(92,519)	3,392,561

9 ACQUISITION OF HANSON WESTHOUSE HOLDINGS LIMITED

On 6 May 2009 the Board announced the intention to acquire the entire issued share capital of Hanson Westhouse Holdings Limited and the simultaneous suspension of the Company's shares from trading pending the publication of an admission document in relation to the acquisition, which will constitute a reverse takeover under the AIM Rules. It is intended that an admission document is published on or around 20 May 2009 when the shares are expected to be re-admitted to trading.

10 FINANCIAL STATEMENTS

The financial information set out in this announcement does not constitute the Company's statutory financial statements but has been derived from those financial statements, which will be delivered to the registrar of companies following the Company's annual general meeting. The Company's annual report and financial statements will be posted to shareholders today. Further copies will be available from the Company's registered office, 3rd Floor Windward House, La Route de la Liberation, St Helier, Jersey JE2 3BQ, Channel Islands and a copy will be published on the Company's website, www.sovgem.co.uk