

SovGEM Limited
Interim Financial Statements
Six Month Period Ended 30 June 2007

Chairman and Chief Executive Officers' Report

Highlights

- Net asset value (NAV) per ordinary share increased 18.24% in first six months of 2007 from 27.91p to 33p.
- NAV achieved annual rise of 52% (30 June 2006: 21.07p).
- Total net assets £7.6m (30 June 2006: £4.9m)
- Unrealised gains of £1.56m (30 June 2006: £0.6m)
- Share price rose 50% from 16p (31 December 2006) to 24p (30 June 2007).

Report

We are delighted to report further robust asset value growth for the period ending 30 June 2007. During the six months under review our asset value rose 18.4% to 33p per share (27.91p 31 December 2006). Compared to the same stage last year, our asset value has risen 52%. All of the gains in the first six months of 2007 came from the quoted portion of our portfolio. There were no revaluations in the unquoted portion of our investments.

It is particularly pleasing to note that unrealised gains in the portfolio at the period end were £1.6m compared to £0.6m at the same stage last year, underlining the prospective profits in the portfolio.

SovGEM has built a formidable track record over its first two and a half years. During that time, NAV per share has risen from 12.6p to 33p (up 162%) and assets have risen from £2.86m to £7.5m. All of this growth has been achieved from performance without either stock placings or borrowing. It is the view of your Board that SovGEM's model is proving to be both highly profitable and scalable.

We remain convinced that, despite recent market turmoil, Chinese economic growth will continue to outstrip that of the more developed Western markets. Our policy of predominantly investing in companies that benefit from the growth of domestic demand in China is reaping the benefits that come from identifying very high growth and profitable companies. The recent performance of our portfolio stocks will be outlined briefly in the review below.

We are also committed to maintaining our exposure to China by focusing on Chinese and Chinese-related companies that are regulated and listed on Western exchanges. This, we believe, gives a substantial quality control benefit to us, and therefore reduces many of the inherent risks of investing directly in China.

Much has been made of the so-called China bubble, which has been evidenced by the strong growth of the Shanghai and Shenzhen share indices and there is considerable debate whether domestically quoted Chinese companies are over-discounting their growth prospects. However, SovGEM's investment focus is on Chinese companies which are quoted either in Europe or in America which continue to trade at a considerable discount to similar growth companies in the West or in China. It is this opportunity that we hope to be able to continue to profitably exploit.

Highlights of Investment News

Given the recent market turmoil, we decided it may help our shareholders to review the results of our major quoted investments (which have reported) for either the first six months of 2007, or the second quarter of 2007, where appropriate.

Harbin Electric (NASDAQ:HRBN)

On 13 August 2007 Harbin reported its second quarter (2Q) results. Total revenues were up 44% and net income up 24% (YOY). Harbin is forecast to achieve EPS of \$0.89 in 2007 and \$1.62 in 2008 (Dutton Associates.) Therefore Harbin is on a current year P/E of 14.9x, dropping to 8.2x in 2008. Harbin also holds cash and cash equivalents of \$56.9m. Harbin's current market capitalisation is \$200m and its current market price is \$12. This compares to our purchase price of \$2.

American Oriental Bioengineering (NYSE:AOB)

On 8 August 2007 AOB reported its 2Q 2007 financial results. Revenues increased 49% to \$33.9m and net income increased 67% to \$9.7m. AOB provides its own financial outlook for 2H2007 and FY2007. For the FY to 2007, AOB forecast revenues of approximately \$158m (a 43% YOY increase) and EPS of approximately \$0.60 (an increase of 30% on FY2006 of \$0.46.) AOB is therefore on a P/E of 15.4x its 2007 earnings forecast. AOB has a market capitalisation of \$692m and cash of \$108m. The current market price of AOB is \$9.29 compared to our purchase price of \$4.80. (Note: 150,000 out of 250,000 shares initially purchased at \$4.80 were sold last year at an average price of \$12.50.)

Sinoenergy Corp. (OTCBB: SNEN)

On 14 August 2007 SNEN announced second quarter results. Sales increased 82.7% YOY to \$6.2m, gross profit rose 167.6% and operating income rose 279.5% YOY to \$2.2m. EPS was \$0.07. In its results SNEN gave guidance for revenues in 2007 to be in the range of \$25m to \$28m (2006: \$12.393m) and operating income to be between \$7.5m and \$8.5m (2006 \$4.195m). On 16 August 2007 SNEN provided additional guidance for 2008 and 2009. The Company expects revenues in FY2008 to be in the range of \$45m to \$48m and operating income to be between \$13 and \$15m. In FY2009 SNEN expects revenues to increase 70% over 2008 revenues. The current market price of SNEN of \$2.45 compares to our purchase price of \$1.70.

Infosmart Group (OTCBB: IFSG)

On 15 August 2007 IFSG announced quarterly revenue of \$19.6m which is an increase of 210% on its prior year and net income increased by 190% to \$3.2m. This was a significant quarter for IFSG since they had only shifted production from China to their new Brazilian facility in the first quarter of 2007. The Company's own guidance for FY2007 is revenue to be in the range of \$36m and \$38m and net income between \$8.5m and \$9m. For 2008, IFSG forecasts revenue of between \$48m-\$58m and net income of between \$11m and \$13m. The current 2007 P/E is less than 5x. SovGEM holds a bond convertible at 25 cents per share; the current price of IFSG is 28 cents.

China Natural Gas (OTCBB: CHNG)

On 15 August 2007 CHNG released its first half results. Highlights were revenues increasing 122% YOY to \$8.3m and income from operations increasing 191% YOY to \$2.7m. CHNG reiterated its revenue and net income guidance for 2007 and 2008. For the year 2007 CHNG expects revenues to increase 70% to \$32m (2006: \$18.8m.) and net income to increase 70% to 9.3m (2006: \$5.5m.) For the year to 2008, the Company anticipates revenue and income growth of 70%.

China GengSheng Minerals (OTCBB: CHGS)

On 14 August 2007 our most recent investment CHGS announced 2Q revenues of \$10m, which is an increase of 46.4% compared to \$6.8m for the same period last year. Net income was \$1.6m (Q2 2006: \$1.1m)

All US prices quoted were to close of business Monday 27 August 2007.

At the time of writing only one of our UK listed investments Renesola has reported

ReneSola (AIM: SOLA)

On 23 August 2007 Renesola reported disappointing output numbers with its second quarter earnings. Whilst ReneSola's production of wafers for the solar industry continued to grow quickly, profits were reduced due to margin erosion and increased costs. ReneSola blamed production difficulties for reducing their 2007 year-end production targets from 150 Megawatts (MW) to between 120-125MW. In the period reported production was 23MW, a 24% increase from the first quarter and a 166% increase YOY. 3Q production is forecast to be between 30-35MW.

SovGEM invested £200,000 in ReneSola in August 2006. To date we have received £193,815 net proceeds from sales and our current holding is valued at £522,000 (close of business 24 August 2007.) This represents a return over the first year of investment of over 260%.

Business Outlook

We remain optimistic, despite the current market volatility, about the prospects for our investee companies and growth in China over the foreseeable future. The Directors latest best estimate of NAV is 28.97p (to close of business 27 August 2007,) which represents 3.82% growth this year and which compares with the 0.37% fall in the FTSE All Share in the same period. In addition, we are optimistic that we will have further developments from our unquoted portfolio during the next quarter that should positively impact our NAV.

Your Board is constantly considering ways to narrow the discount with which our ordinary shares trade compared to their underlying NAV. We are also exploring the possibility of raising further funds (possibly involving the issue of redeemable ordinary shares).

Garth Milne, Chairman and Hugh de Lusignan, CEO

INCOME STATEMENT- UNAUDITED

Six month period ended 30 June 2007

	Note	Six months to 30 June 2007 £	Restated Six months to 30 June 2006 £	Year ended 31 December 2006 £
Revenue		-	-	-
Cost of sales		-	-	-
Administrative expenses		(351,023)	(224,242)	(695,877)
Operating (loss)/profit		(351,023)	(224,242)	(695,877)
Gain on sale of non current assets		113,857	774,881	1,496,525
Gains in fair value of assets held at fair value through profit or loss		78,873	66,964	324,341
Losses in fair value of assets held at fair value through profit or loss		(135,323)	(135,250)	(133,790)
Finance income		8,543	14,077	19,403
Investment income		1,764	-	2,692
Retained result for the period before taxation		(283,309)	496,430	1,013,294
Tax expense, net		-	-	-
Net result for the period		<u>(283,309)</u>	<u>496,430</u>	<u>1,013,294</u>
Basic and diluted (loss)/ earnings per share	2	<u>(1.24) pence</u>	<u>2.18 pence</u>	<u>4.44 pence</u>

STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Loss)/Profit for the financial period	(283,309)	496,430	1,013,294
Unrealised gain on revaluation of available for sale financial assets - taken direct to equity	1,620,633	604,215	1,586,028
Derecognition of unrealised gains on disposals	(80,003)	(411,005)	(462,007)
Total recognised income and expense attributable to equity holders	<u>1,257,321</u>	<u>689,640</u>	<u>2,137,315</u>

BALANCE SHEET-UNAUDITED

As at 30 June 2007

	Note	30 June 2007 £	Restated 30 June 2006 £	31 December 2006 £
Assets				
Non current assets				
Investments	3	7,514,037	4,483,467	5,423,678
Current assets				
Trade and other receivables		9,977	47,584	23,017
Cash and cash equivalents	4	522,387	374,093	1,185,289
Total current assets		<u>532,364</u>	<u>421,677</u>	<u>1,208,306</u>
Total Assets		8,046,401	4905,144	6,631,984
Liabilities				
Current Liabilities				
Trade and other payables		(17,504)	(24,342)	(5,536)
Accruals		(417,209)	-	(272,081)
		<u>(434,713)</u>	<u>(24,342)</u>	<u>(277,617)</u>
Net Current Assets		<u>97,651</u>	<u>397,335</u>	<u>930,689</u>
Net Assets		<u><u>7,611,688</u></u>	<u><u>4,880,802</u></u>	<u><u>6,354,367</u></u>
Total Equity				
Share capital	5	228	228	228
Reserve in respect of share options	5	29,343	3,454	29,343
Share premium account	5	2,868,171	2,868,171	2,868,171
Revaluation reserve	5	3,711,449	1,240,007	2,170,819
Profit and loss reserve	5	<u>1,002,497</u>	<u>768,942</u>	<u>1,285,806</u>
Equity shareholders' funds		<u><u>7,611,688</u></u>	<u><u>4,880,802</u></u>	<u><u>6,354,367</u></u>

CASH FLOW STATEMENT-UNAUDITED

Six Month Period Ended 30 June 2007

	Note	Six months to 30 June 2007 £	Six months to 30 June 2006 £	Year ended 31 December 2006 £
Operating loss		(351,023)	(224,242)	(695,877)
Adjustments for:				
Movement in receivables		13,040	67,927	92,494
Movement in payables		157,096	(52,370)	200,905
Share based payments		-	-	25,889
Net cash outflow from operating activities		(180,887)	(208,685)	(376,589)
Investing activities				
Interest received		8,543	14,077	19,403
Investment income		1,764	-	2,692
Purchase of investments		(1,297,455)	(1,966,945)	(2,522,349)
Proceeds from sale of investments		805,132	996,587	2,523,073
Net cash used in investing activities		(482,016)	(956,281)	22,819
Net decrease in cash and cash equivalents		(662,902)	(1,164,966)	(353,770)
Cash and cash equivalents at beginning of period		1,185,289	1,539,059	1,539,059
Cash and cash equivalents at end of period	5	<u>522,387</u>	<u>374,093</u>	<u>1,185,289</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

1. BASIS OF PREPARATION

These interim financial statements are for the six months ended 30 June 2007.

These interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' and the requirements of IFRS 1 'First Time Adoption of International Financial Reporting Standards' relevant to interim reports and were approved by the Directors on 28 August 2007.

The interim financial information has been prepared on the basis of the recognition and measurement of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2007 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2007, the Company's first annual reporting date at which it intends to use adopted IFRSs. Based on these adopted and unadopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS financial statements are prepared for the year ended 31 December 2007.

They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company for the year ended 31 December 2006.

They are prepared in accordance with the Company's accounting policies as set out at the end of this document.

The financial statements have been prepared under the historical cost convention, modified for financial assets held at held fair value. The measurement bases and principal accounting policies of the group are set out below.

The policies have changed from the previous year when the financial statements were prepared under applicable UK GAAP. The comparative information has been restated to reflect the changes arising from the adoption of IAS 34 'Interim Financial Reporting'. The changes to accounting policies are explained in the notes, together with the reconciliation of opening balances. The date of transition to IFRS was 1 January 2006.

The accounting policies that have been applied in the opening balance sheet have also been consistently applied throughout all periods presented in these interim financial statements.

2. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue during the period. Diluted earnings per share takes into account the dilutive effect of the share options outstanding under the Company's share option scheme.

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

	Six months to 30 June 2007	Six months to 30 June 2006 Restated	Year ended 31 December 2006
	£	£	£
Earnings for the purposes of basic and diluted earnings per share	(283,309)	496,430	1,013,294
Weighted average number of shares	22,775,000	22,775,000	22,775,000
Basic and diluted earnings per share	(1.24) pence	2.18 pence	4.44 pence

3. Non current assets - investments

	30 June 2007 £	Restated 30 June 2006 £	31 December 2006 £
Financial assets at fair value through profit or loss	526,779	66,964	456,281
Available for sale financial assets	6,987,258	4,416,503	4,967,397
	<u>7,514,037</u>	<u>4,483,467</u>	<u>5,423,678</u>

3a Financial assets at fair value through profit or loss

	30 June 2007 £	Restated 30 June 2006 £	31 December 2006 £
Convertible debt	258,889	-	131,939
Stock warrants	267,890	66,964	324,342
	<u>526,779</u>	<u>66,964</u>	<u>456,281</u>

Movements in the year

	30 June 2007 £	Restated 30 June 2006 £	31 December 2006 £
Opening fair value as at 1 January 2007	456,281	-	-
Purchases at cost	126,949	133,790	265,730
Gains in changes in fair value	78,873	66,964	324,341
Losses in changes in fair value	(135,324)	(133,790)	(133,790)
Closing fair value as at 30 June 2007	<u>526,779</u>	<u>66,964</u>	<u>456,281</u>
Closing cost as at 30 June 2007	392,679	133,790	265,730
Gain as at 30 June 2007	134,100	(66,816)	190,551
	<u>526,779</u>	<u>66,974</u>	<u>456,281</u>

Convertible debt has been classed 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 have been valued using an appropriate option pricing model at the time of acquisition and as at 30 June 2007.

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3b Available for sale financial assets

	30 June 2007 £	Restated 30 June 2006 £	31 December 2006 £
Listed financial assets	5,043,773	3,565,557	3,135,730
Unlisted financial assets	1,943,485	850,946	1,831,667
	<u>6,987,258</u>	<u>4,416,503</u>	<u>4,967,397</u>

Movements in the year

	30 June 2007 Listed £	30 June 2007 Unlisted £	30 June 2007 Total £	30 June 2006 Total £	31 December 2006 Total £
Opening fair value as at 1 January 2007	3,135,728	1,831,669	4,967,397	2,613,302	2,613,302
Transfers in period	125,521	(125,521)	-	-	-
Purchases at cost	968,975	201,531	1,170,506	1,833,155	2,256,620
Disposals in the year	(771,278)	-	(771,278)	(634,169)	(1,488,553)
Movement from changes in fair value	1,584,826	35,807	1,620,633	604,215	1,586,028
	<u>5,043,772</u>	<u>1,943,486</u>	<u>6,987,258</u>	<u>4,416,503</u>	<u>4,967,397</u>
Closing fair value as at 30 June 2007	<u>5,043,772</u>	<u>1,943,486</u>	<u>6,987,258</u>	<u>4,416,503</u>	<u>4,967,397</u>
Closing cost as at 30 June 2007	2,142,106	1,133,705	3,275,811	3,176,495	2,796,579
Gain as at 30 June 2007	2,901,666	809,781	3,711,447	1,240,008	2,170,818
	<u>5,043,772</u>	<u>1,943,486</u>	<u>6,987,258</u>	<u>4,416,503</u>	<u>4,967,397</u>

4. Cash and cash equivalents

	At 1 January 2007 £	Cash flow £	At 30 June 2007 £
Cash at bank and in hand	269,727	(114,990)	154,737
Cash held on deposit	915,562	(547,912)	367,650
Cash and cash equivalents	<u>1,185,289</u>	<u>(662,902)</u>	<u>522,387</u>

5. Statement in changes in equity

	Share capital £	Reserve in respect of share options £	Share premium account £	Revaluation reserve £	Profit and loss reserve £	Total £
As at 1 January 2007	228	29,343	2,868,171	2,170,819	1,285,806	6,354,367
Net result for the period	-	-	-	-	(283,309)	(283,309)
Movements in change in fair value of available for sale financial assets:						
Listed	-	-	-	1,504,823	-	1,504,823
Unlisted	-	-	-	35,807	-	35,807
As at 30 June 2007	<u>228</u>	<u>29,343</u>	<u>2,868,171</u>	<u>3,711,449</u>	<u>1,002,497</u>	<u>7,611,688</u>

	Share capital £	Reserve in respect of share options £	Share premium account £	Revaluation reserve £	Profit and loss reserve £	Total £
As at 1 January 2006	228	3,454	2,868,171	1,046,797	272,512	4,191,162
Net result for the period	-	-	-	-	496,430	496,430
Movements in change in fair value of available for sale financial assets:						
Listed	-	-	-	142,497	-	142,497
Unlisted	-	-	-	50,713	-	50,713
As at 30 June 2006	<u>228</u>	<u>3,454</u>	<u>2,868,171</u>	<u>1,240,007</u>	<u>768,942</u>	<u>4,880,802</u>

5. Statement in changes in equity (continued)

	Share capital £	Reserve in respect of share options £	Share premium account £	Revaluation reserve £	Profit and loss reserve £	Total £
As at 1 January 2006	228	3,454	2,868,171	1,046,797	272,512	4,191,162
Net result for the period	-		-	-	1,013,294	1,013,294
Issue of share options in the year		25,889	-	-	-	25,889
Movements in change in fair value of available for sale financial assets:						
Listed	-		-	857,123	-	857,123
Unlisted	-		-	266,899	-	266,899
As at 31 December 2006	<u>228</u>	<u>29,343</u>	<u>2,868,171</u>	<u>2,170,819</u>	<u>1,285,806</u>	<u>6,354,367</u>

6. Availability of Interim Report

Copies of these results are being sent to shareholders and will also be available from the Company's registered office at 6 Britannia Place Bath Street, St Helier, Jersey, JE2 4SU Channel Islands.

7. Statutory Accounts

These financial statements do not constitute statutory accounts.

The comparative figures for the year ended 31 December 2006 which are now presented under IFRS are unaudited as they are not statutory accounts for that year. The statutory accounts for the year ended 31 December 2006 were presented under UK GAAP, contained an unqualified audit report and are filed with the Registrar of Companies.

Accounting policies

a) Accounting convention

The financial statements are prepared under the historical cost convention, modified for financial assets held at held fair value.

b) Gain on sale of non current assets

Purchases and sales of non current assets, which comprise available for sale financial assets and financial assets at fair value through the income statement, are recognised on the settlement date and are calculated by deducting the original cost and related selling costs from the selling price.

c) Non current assets - Investments

Financial assets at fair value through profit or loss

This category refers to assets designated as fair value through profit or loss, and includes warrants and convertible debt where the embedded derivative is not separable from the underlying instrument.

Financial assets at fair value through profit or loss 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.

Available for sale financial assets

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 and subsequently carried at fair value. 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 should be 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 other valuation techniques commonly used by market participants.

Interest and dividend income is recognised as it is earned.

d) Share-based payment - equity-settled share-based payment

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".

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.

e) Foreign currency transactions

The financial statements are presented in sterling, denoted by the symbol “£”, which is the Company’s functional and presentation currency.

At the balance sheet date, each monetary asset and liability denominated in a foreign currency is translated using the exchange rate prevailing at that date.

f) Taxation

The Company is a registered Jersey Company with tax exempt status, and is outwith the scope of UK taxation.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

h) Summary of critical judgements and estimates

Management consider the valuation of unlisted to be an area where critical judgements and estimates are applied. Details of the unlisted investments are included in the notes to these financial statements.

New Accounting Policies

As noted in the Chairman’s Statement, as a result of the adoption of IFRS for these financial statements the results for the period to 30 June 2006 are required to be restated.

A reconciliation of net assets as at 30 June 2006 as shown in this document to that previously shown is detailed below:

	£
Net Assets at 30 June 2006 before restatement	5,003,064
Adjustment to revalue financial assets at fair value through profit or loss	(68,285)
Adjustment to revalue available for sale financial assets	(53,974)

As reported in these financial statements	4,880,805
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The restatement only applies to the six months to June 2006 as no further changes were required as part of the adoption of IFRS in respect of the year to 31 December 2006.