

SovGEM Limited
Interim Financial Statements
Six Month Period Ended 30 June 2008

Chairman and Chief Executive Officers' Report

Highlights

- Net Asset Value (NAV) per ordinary share 28.8p (30 June 2007: 33p), from peak reported NAV of 34.4p (31 December 2007)
- Profit for period £213,849 (Loss (£283,309) 30th June 2007)
- Resilient performance relative to major Chinese indices (China's CSI 300 Index off 65% from peak October 2007)
- Portfolio companies continue to report strong earnings and operating profits

Highlight since the period

- Robust performance since period end, current NAV of 26.9p (as of 12th September 2008).

Report

The first half of 2008 has seen unprecedented volatility in global markets, despite these difficult conditions, we are satisfied that our underlying portfolio of investee companies continue to report excellent operating profits and increased levels of turnover and demand for their products.

The share prices of our investments have, of course, been impacted by the decline in share valuations globally. However, we are pleased that they continue to outperform relative to the markets in which they are listed. When stability returns to markets we are confident that we will be excellently placed to benefit from the correction that will follow in many of the share prices of our investee companies.

For the year to date the CSI 300 Index (the main Shanghai index) has fallen 61% and the Halter Index of Chinese stocks quoted in America has declined 38%. SovGEM's NAV over the same period is down 21.8%.

The Chinese Economy

The start of 2008 was characterised by the markets growing concerns that the Chinese economy was overheating. This was highlighted by the above trend growth of 11.8% reported in Chinese GDP for 2007. Fears were also growing as inflation in China started to rise above trend with, in particular, food, commodity and energy prices growing steeply. Worries were exacerbated with poor weather conditions and a major earthquake.

Conversely since June worries have switched directly from fears of overheating to fears that a US led global economic slowdown could lead to a stalling rather than a soft landing in Chinese economic growth. Indeed, Chinese economic growth has slowed to 10.4% for the first half of 2008 from 11.8% for the whole of 2007; this is partly because of a deceleration in export growth. Further, recent data has shown China's trade surplus declined 9.6% in the first seven months of 2008 compared to the same period last year. Meanwhile fears over domestic inflation are abating as food prices are beginning to fall, as are commodity and energy prices. The Economic Intelligence Unit (EIU) forecast consumer price inflation to average 6.6% in 2008. The annual rate of inflation is expected to slow in the second half of 2008, and average inflation will moderate to 4.4% in 2009.

In our opinion China will continue to grow at a level considerably faster than western economies (the EIU forecast real 9.8% GDP growth 2008 and 9% in 2009). Moreover the structural growth forces within China of massive urbanisation, moving up the value chain of industrialisation, growing consumer spending and credit penetration are all intact. Many commentators have concentrated on the pain being felt in the Chinese low value added export sectors (such as textiles and furniture); however, as an efficient producer of an increasing number of products, China may in fact be benefiting from the increasingly competitive global market. This is illustrated in the recent massive increase in Foreign Direct Investment (FDI) in China. Currently, foreign investments are flooding into China at more than 40% annually, a sign that multinationals are accelerating their capacity relocation to China to beef up their competitive edge.

SovGEM continues to concentrate its investments on companies which will benefit from the continuing growth in domestic demand for their products. We remain underweight to export related stocks.

The following review of our quoted company portfolio illustrates the very high growth rates that are being achieved by companies that are correctly positioned to take advantage of the continuing Chinese growth story.

Highlights of Investments News

Despite the extreme market volatility our quoted investment companies continue to report strong fundamentals. The following eight companies represent collectively just over 60% of our portfolio. All prices shown are as of close of business on 12 September 2008. Independent forecasts have been used to calculate prospective valuations for indicative purposes. These are clearly subject to change, and brokers' forecasts may have been revised without our knowledge.

Harbin Electric (NASDAQ: HRBN)

On 11 August 2008 Harbin Electric (Harbin) announced strong second quarter (2Q) results. Total revenues were up 71% and net income up 37% year-on-year (YOY). Harbin is forecast to achieve earnings per share (eps) of \$1.43 in 2008 and \$2.90 in 2009, helped by an accretive acquisition of Weihai Hengda Electric Motor Co. Ltd. for \$54m in cash (announced 11 July 2008). Therefore Harbin is on a current year p/e of 9.1x, falling to 4.5x in 2008. (Source: Dutton Associates). SovGEM purchased its initial stake at \$2 per share in 2005; the current price of Harbin is \$13.06.

PureCircle (LSE:PURE)

PureCircle (PURE) is focused on the development and marketing of natural high-intensity sweeteners based on the stevia plant. Currently 80% of global supply of the stevia leaf is based in China. On 1 July 2008 PURE announced a \$103m strategic investment by Wilmar International and Olam International, both Singapore-listed companies. This development should allow PURE to increase substantially its stevia plantation and extraction capacity in Asia. On 31 July 2008 PURE announced "substantial long-term contracts" had been won with PepsiCo and Whole Earth Sweetener Co. SovGEM purchased PURE at IPO in December 2007 at 170p; the current share price is 238p.

Cadogan (LSE:CAD)

On 18 June 2008 Cadogan (CAD) announced it had raised £139m via an IPO at 230p and listed on the main London Stock Exchange. This compared favourably with SovGEM's investments between 2006 and 2007 at an average equivalent price of 86.1p. However, on 22 July 2008 CAD shares were temporarily suspended as the company announced rulings from a local Ukrainian court which appeared to question the validity of CAD's Pirkovskoe and Zagoryanska licences. At their interim results (29 August 2008) the Board of CAD stated: "we have taken measures to protect our interests in the [disputed] licences and we remain confident about the validity of these licences and CAD's future prospects." The current share price of CAD is 94p.

American Oriental (NYSE:AOB)

On 11 August 2008 American Oriental Bioengineering (AOB) reported 2Q 2008 results; Revenues increased 74% to \$59m and net income rose 43.4% to \$13.9m. During the subsequent earnings conference call, management announced they had signed a letter of intent to acquire a large pharmaceutical distribution company in China. The company to be acquired was said to have generated approximately \$550m in revenue last year, is profitable and has a nationwide footprint covering both urban and rural districts. AOB stated that they expected to acquire this company for \$110m. Broker CRT estimates AOB has approximately \$234m of cash on the balance sheet, and after the \$110m acquisition and working capital requirements has a further \$64m available for further acquisitions.

CRT estimates total revenues of \$248.7m for the full year of 2008 (2007: \$160.4), net income of \$62.9m (2007: \$43.3m) and eps of \$0.76. At \$7.02 AOB is on a p/e of 9.2x for the year to December 2008.

SinoEnergy (NASDAQ:SNEN)

SinoEnergy (SNEN) announced in July that it had completed a 1-for-2 share reverse split of its Common Stock and that subsequently its application to list its stock on The Nasdaq Capital Market was approved. Prior to its listing on NASDAQ SNEN traded through the OTC Bulletin Board.

On 15 August 2008 SNEN announced its third quarter results; highlights included net revenue of \$10.2m, up 65.1%, and net income of \$4.0m, up 106.4% compared with 2Q.

The current market price of \$6.64 compares to our purchase price of \$3.40 (allowing for the reverse split).

Renesola (LSE:SOLA; NYSE:SOL)

ReneSola (SOLA) reported strong 2Q 2008 results on 19 August 2008 driven by higher-than-expected production output of 82.5MW. Second quarter 2008 net revenues were \$173m, which was an increase of 289% over 2Q 2007 (\$44.5m).

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Broker Hanson Westhouse (HW) currently forecast revenues of \$669.5m for 2008, and \$1,450m for 2009 (2007: \$173m). Eps estimates are 32p for 2008 and 63.1p for 2009 (2007: 21.4p). At the current market price of 392p (SovGEM paid 79p) the implied p/e for 2008 is 12.25x and for 2009 is 6.2x.

Worldwide Energy & Manufacturing (OTCBB: WEMU)

On 24 June 2008 SovGEM purchased 72,222 shares in WEMU at \$4.50 (\$325,000) as part of a PIPE transaction that raised in total \$4.7m. SovGEM also received 46,944 Series A Warrants exercisable for 24 months at \$7, and 25,278 Series B warrants exercisable at \$9 for 36 months.

WEMU, headquartered in South San Francisco, California, with its production facilities based in and around Shanghai, is a 14-year-old engineering-oriented firm specializing in solar PV panel, mechanical, electronics and fibre optic products manufacturing.

On 19 August 2008 WEMU announced 2Q revenues of \$6.9m, up 166.7% YOY as a result of an increase in orders at WEMU's energy division. Moreover on 8 July 2008 WEMU had announced solar modular orders valued at approximately \$15m.

The current share price of WEMU is \$6.75.

Tianyin Pharmaceuticals (OTCBB: TYNP)

On 8 September August 2008 TYNP announced unaudited preliminary financial results for the years ended 30 June 2008. Revenue and net income are expected to be \$33 million and \$5.9 million respectively. The Company also issued financial guidance for fiscal 2009. In 2009 revenue and net income are estimated to increase at least 28% and 26% respectively from 2008

On 31 July 2008 TYNP announced it had received Chinese SFDA approval for Simvastatin tablets, a statin drug used to control hypercholesterolemia and coronary heart diseases.

The current share price of TYNP is \$2.30; SovGEM's effective purchase price was \$1.60 for 312,500 shares.

Business Outlook

We remain optimistic, despite the current market volatility, about the prospects both for our investee companies and growth in China over the foreseeable future.

Your Board is constantly considering ways to narrow the discount to net asset value at which our ordinary shares trade and continue to take the views of all shareholders and advisors into account. When market conditions allow we will look to expand the size of our funds under management.

Garth Milne (Chairman) & Hugh de Lusignan (Chief Executive Officer)

12th September, 2008

INCOME STATEMENT- UNAUDITED

Six month period ended 30 June 2008

	Note	Six months to 30 June 2008 £	Six months to 30 June 2007 £	Year ended 31 December 2007 £
Revenue		-	-	-
Gain on sale of non current assets		391,471	113,857	807,073
Gains in fair value of assets held at fair value through profit or loss		34,402	78,873	-
Losses in fair value of assets held at fair value through profit or loss		(10,000)	(135,323)	(110,819)
Administrative expenses		(213,857)	(351,023)	(623,649)
Operating profit/(loss)		202,016	(293,616)	72,605
Finance income		8,228	8,543	13,079
Investment income		3,605	1,764	7,005
Results for the period before taxation		213,849	(283,309)	92,689
Tax expense, net		-	-	-
Net results for the period		213,849	(283,309)	92,689
Total and continuing				
Basic and diluted earnings per share	2	0.93 pence	(1.24) pence	0.41 pence

BALANCE SHEET-UNAUDITED

As at 30 June 2008

	Note	30 June 2008 £	30 June 2007 £	31 December 2007 £
Assets				
Non current assets				
Long term financial assets	3	6,443,141	7,514,037	7,725,974
Current assets				
Trade and other receivables		16,103	9,977	23,063
Cash and cash equivalents	4	296,502	522,387	320,659
Total current assets		<u>312,605</u>	<u>532,364</u>	<u>343,722</u>
Total Assets		<u><u>6,755,746</u></u>	<u><u>8,046,401</u></u>	<u><u>8,069,696</u></u>
Equity				
Equity attributable to shareholders of SovGEM Limited				
Share capital	5	228	228	228
Reserve in respect of share options	5	54,435	29,343	54,435
Share premium account	5	2,868,171	2,868,171	2,868,171
Revaluation reserve	5	2,036,226	3,711,449	3,543,378
Retained earnings	5	1,592,342	1,002,497	1,378,495
Total equity		<u>6,551,402</u>	<u>7,611,688</u>	<u>7,844,707</u>
Liabilities				
Current				
Trade and other payables		204,344	434,713	224,989
Total liabilities		<u>204,344</u>	<u>434,713</u>	<u>224,989</u>
Total equity and liabilities		<u><u>6,755,746</u></u>	<u><u>8,046,401</u></u>	<u><u>8,069,696</u></u>

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STATEMENT OF RECOGNISED INCOME AND EXPENSE - UNAUDITED

	Six months to 30 June 2008	Six months to 30 June 2007	Year ended 31 December 2007
	£	£	£
Profit/(loss) for the financial period	213,849	(283,309)	92,689
(Loss)/gain on revaluation of available for sale financial assets- taken direct to equity	(1,064,389)	1,620,633	1,937,043
Derecognition of unrealised gains on disposals	<u>(442,763)</u>	<u>(80,003)</u>	<u>(564,484)</u>
Total recognised income and expense attributable to equity holders	<u>(1,293,303)</u>	<u>1,257,321</u>	<u>1,465,248</u>

STATEMENT OF CASH FLOWS- UNAUDITED

Six Month Period Ended 30 June 2008

	Note	Six months to 30 June 2008 £	Six months to 30 June 2007 £	Year ended 31 December 2007 £
Profit after tax		213,849	(283,309)	92,689
Adjustments for:				
Gain on sale of non current assets		(391,471)	(113,857)	(807,073)
Movements in fair value assets held at fair value		(24,402)	56,450	110,819
Income received from investing activities		(11,833)	(10,307)	(20,084)
Decrease/(Increase) in receivables		6,960	13,040	(46)
(Decrease)/Increase in payables		(20,645)	157,096	(52,628)
Share based payments		-	-	25,092
Net cash decrease from operating activities		<u>(227,542)</u>	<u>(180,887)</u>	<u>(651,231)</u>
Investing activities				
Interest received		8,228	8,543	13,080
Investment income		3,605	1,764	7,005
Purchase of investments		(418,433)	(1,297,455)	(2,046,246)
Proceeds from sale of investments		609,985	805,133	1,812,762
Net cash generated/(used) in investing activities		<u>203,385</u>	<u>(482,015)</u>	<u>(213,399)</u>
Net decrease in cash and cash equivalents		<u>(24,157)</u>	<u>(662,902)</u>	<u>(864,630)</u>
Cash and cash equivalents at beginning of period		320,659	1,185,289	1,185,289
Cash and cash equivalents at end of period	4	<u>296,502</u>	<u>522,387</u>	<u>320,659</u>

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These interim financial statements are for the six months ended 30 June 2008.

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

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

2. 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 issued during the period.

	Six months to 30 June 2008 £	Six months to 30 June 2007 £	Year ended 31 December 2007 £
Net results for the period	213,849	(283,309)	92,689
Weighted average number of ordinary shares of 0.001p in issue	22,775,000	22,775,000	22,775,000
Net asset value per share	28.77p	33.42p	35.43p
Earnings/(loss) per share – basic and diluted	0.93p	(1.24)p	0.41p

3 LONG TERM FINANCIAL ASSETS

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

	30 June 2008 £	30 June 2007 £	31 December 2007 £
Long term available-for-sale financial assets	6,118,310	6,987,258	7,425,544
Financial assets at fair value through profit or loss	324,831	526,779	300,430
	<u>6,443,141</u>	<u>7,514,037</u>	<u>7,725,974</u>

3.1 Long term available-for-sale financial assets

	30 June 2008 £	30 June 2007 £	31 December 2007 £
Listed equity securities	4,680,131	5,043,773	5,326,593
Unlisted financial assets	1,438,179	1,943,485	2,098,951
	<u>6,118,310</u>	<u>6,987,258</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 bid price on 30 June 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. Where this is not possible the company uses the Directors' valuation.

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3.1 Long term available-for-sale financial assets (cont'd)

	2008 Listed £	2008 Unlisted £	2008 Total £	2007 Total £
Opening fair value as at 1 January 2008	5,326,593	2,098,951	7,425,544	4,967,397
Purchases at cost	418,433	-	418,433	1,919,296
Disposals in the period – at cost	(218,515)	-	(218,515)	(1,005,690)
Transfers	459,608	(459,608)	-	-
Transfers as a result of exercising of warrants	-	-	-	171,982
Movement from changes in fair value	(1,305,988)	(201,164)	(1,507,152)	1,372,559
Closing fair value as at 30 June 2008	<u>4,680,131</u>	<u>1,438,179</u>	<u>6,118,310</u>	<u>7,425,544</u>
Closing cost as at 30 June 2008	2,973,614	936,488	3,910,102	3,843,975
Gain as at 30 June 2008	1,706,517	501,691	2,208,208	3,581,569
	<u>4,680,131</u>	<u>1,438,179</u>	<u>6,118,310</u>	<u>7,425,544</u>

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

3.2 Financial assets at fair value through profit or loss

	30 June 2008 £	30 June 2007 £	31 December 2007 £
Financial assets at fair value through profit or loss			
Designated at fair value through profit or loss - Convertible debt	250,702	258,889	250,338
Held for trade at fair value through profit or loss - Stock warrants	74,129	267,890	50,092
	<u>324,831</u>	<u>526,779</u>	<u>300,430</u>

3.2 Financial assets at fair value through profit or loss (cont'd)

Movements in the period

	2008 Designated £	2008 Held for trade £	2008 Total £	2007 Total £
Opening fair value as at 1 January 2008	250,338	50,092	300,430	456,281
Purchases at cost	-	-	-	126,950
Gains in changes in fair value	364	65,464	65,828	-
Transfers as a result of exercising of warrants	-	-	-	(171,982)
Losses in changes in fair value	-	(41,427)	(41,427)	(110,819)
Closing fair value as at 30 June 2008	<u>250,702</u>	<u>74,129</u>	<u>324,831</u>	<u>300,430</u>
Closing cost as at 30 June 2008	392,679	-	392,679	258,889
Gain/(loss) as at 30 June 2008	(141,977)	74,129	(67,848)	41,541
	<u>250,702</u>	<u>74,129</u>	<u>324,831</u>	<u>300,430</u>

Convertible debt has been designated at 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 30 June 2008.

4. Cash and cash equivalents

	30 June 2008 £	30 June 2007 £	31 December 2007 £
Cash at bank and in hand	137,823	154,737	215,113
Short term deposits	158,679	367,650	105,546
	<u>296,502</u>	<u>522,387</u>	<u>320,659</u>

5. 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	-	-	1,620,634	-	-	1,620,634
-Derecognition of unrealised gains on disposals	-	-	(80,004)	-	-	(80,004)
Net income recognised directly in equity	-	-	1,540,630	-	-	1,540,630
Net results for the period ended 30 June 2007	-	-	-	-	(283,309)	(283,309)
Total recognised income and expense for the period	-	-	1,540,630	-	(283,309)	1,257,321
Employee share based transactions	-	-	-	-	-	-
As at 30 June 2007	228	2,868,171	3,711,449	29,343	1,002,497	7,611,688
As at 1 January 2008	228	2,868,171	3,543,378	54,435	1,378,493	7,844,705
Available for sale securities						
-Unrealised loss on revaluation of available for sale financial assets – taken direct to equity	-	-	(1,064,389)	-	-	(1,064,389)
-Derecognition of unrealised gains on disposals	-	-	(442,763)	-	-	(442,763)
Net income recognised directly in equity	-	-	(1,507,152)	-	-	(1,507,152)
Net results for the period ended 30 June 2008	-	-	-	-	213,849	213,849
Total recognised income and expense for the period	-	-	(1,507,152)	-	213,849	(1,293,303)
Employee share based transactions	-	-	-	-	-	-
As at 30 June 2008	228	2,868,171	2,036,226	54,435	1,592,342	6,551,402

6. Statutory Accounts

These financial statements do not constitute statutory accounts.

7. Accounting policies

7.1 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.

7.2 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.

7.3 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.

7.4 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.

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.

7.5 Income taxes

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

7.6 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.

7.7 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".

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.

7.8 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.

7.9 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.

7.10 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 until 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.

7.11 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.

8. Availability of Interim Report

The Company's Interim Report will be available for one month from the Company's registered office at 6 Britannia Place Bath Street, St Helier, Jersey, JE2 4SU, Channel Islands and also pursuant to Rule 26 of the AIM Rules for Companies on the investor relations section of the Company's website; www.sovgem.com