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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

STM Fiduciaire Limited
3rd Floor Windward House
La Route de la Liberation
St Helier
Jersey JE2 3BQ
Channel Islands

Registered Office

3rd Floor Windward House
La Route de la Liberation
St Helier
Jersey JE2 3BQ
Channel Islands

Nominated Adviser

Smith & Williamson Corporate Finance Limited
25 Moorgate
London EC2R 6AY

Broker

Hanson Westhouse Limited
1 Angel Court
London EC2R 7HJ

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

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

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 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

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 2008.

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 2008.

SovGEM Limited is incorporated and domiciled in Jersey. The address of SovGEM Limited's registered office is 3rd Floor Windward House, La Route de la Liberation, St Helier, Jersey, which is also its principal place of business. SovGEM Limited's shares are listed on the London Stock Exchange's AIM market.

The financial statements for the year ended 31 December 2008 (including comparatives for the year ended 31 December 2007) were approved by the Board of Directors on 19 May 2009

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 employ leverage in its activities, so an adverse change in interest rates would have no direct impact on the Company. 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 on the value of investments.

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 loss of £1,471,014 (2007: profit £92,689), which includes a provision for impairment of available-for sale assets of £1,524,717 (2007: Nil). This excludes net unrealised losses on the revaluation of available for sale investments of £2,221,349 (2007: gain £1,937,043). 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 2008 are as follows:

Director	At 31 December 2008 Ordinary shares Of 0.001 pence each	At 31 December 2007 Ordinary shares Of 0.001 pence each
Garth Milne	994,864	994,864
Hugh de Lusignan	1,836,950	1,824,450
Douglas Kearney	1,167,727	1,155,227
Christopher Labrow	211,104	161,104
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 19 May 2009 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of ordinary shares	Percentage held
Michael Milbourn (pension scheme)	2,874,807	12.6%
Hugh De Lusignan, CEO	1,836,950	8.06%
Antoine de Sejournet	1,660,000	7.79%
Ameriprise Financial, Inc (Threadneedle Emerging Debt Crescendo Fund)	1,519,961	6.67%
Paul Luke	1,336,568	5.87%
Douglas Kearney, FD	1,167,727	5.13%
Garth Milne, Chairman	994,864	4.37%

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 2008 were 6 days. (2007: 10 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

STM Fiduciaire Limited
Company Secretary
19 May 2009

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. Under that law the directors are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 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 2008 which comprise the income statement, the balance sheet, the statement of cash flow, the statement of recognised income and expense and notes 1 to 23. 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 that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 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.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SovGEM LIMITED (cont'd)

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.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
EDINBURGH
19 May 2009

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	6	124,547	-
Losses in fair value of assets held at fair value through profit or loss	6	(50,092)	(110,819)
Administrative expenses		<u>(416,349)</u>	<u>(623,649)</u>
Operating profit before impairment of available – for - sale financial assets		23,922	72,605
Impairment of available-for-sale financial assets	6	<u>(1,524,717)</u>	-
Operating (loss)/profit before interest and taxation		(1,500,795)	72,605
Finance income	13	4,133	13,079
Investment income	14	25,648	7,005
Results for the year before taxation		<u>(1,471,014)</u>	92,689
Tax expense, net		<u>-</u>	<u>-</u>
Net results for the year		<u>(1,471,014)</u>	92,689
Total and continuing			
Basic and diluted earnings per share	10	<u>(6.5) pence</u>	<u>0.41 pence</u>

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

BALANCE SHEET**As at 31 December 2008**

	Note	2008 £	2007 £
Assets			
Non current assets			
Long term financial assets- Available-for- sale	6	3,001,364	7,425,544
Fair value through profit and loss	6	374,885	300,430
Current assets			
Trade and other receivables	7	14,084	23,063
Cash and cash equivalents	8	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	9	228	228
Reserve in respect of share options	20	54,435	54,435
Share premium account	20	2,868,171	2,868,171
Revaluation reserve	20	562,246	3,543,378
Retained earnings	20	(92,519)	1,378,495
Total equity		<u>3,392,561</u>	<u>7,844,707</u>
Liabilities			
Current			
Trade and other payables	12	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>

Signed on behalf of the board of directors on 19 May 2009

Peter St George
Director

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

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	20	(3,746,066)	1,937,043
Impairment losses on available -for sale- financial assets	20	1,524,717	-
Derecognition of unrealised gains on disposals	20	<u>(759,783)</u>	<u>(564,484)</u>
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	1,524,717	-
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	702,581	1,812,763
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	<u>57,423</u>	<u>320,659</u>

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

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

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 on a going concern basis. The directors have assessed this from a review of the forecasts which show that the Company will dispose of quoted investments throughout the year to ensure that sufficient working capital is available to fund operational costs of the company.

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. Foreign exchange gains and losses resulting from the translation of non-monetary items are included within the fair value measurement in the available-for-sale reserve in equity.

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 Investment income

Dividends receivable from long term financial assets are included in investment income.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.5 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 held for trade 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 excluding transaction costs. 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 in 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 mid 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 and where, in the directors judgement, the impairment is considered significant or prolonged the asset is treated as impaired. 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.

2.6 Income taxes

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

2.7 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.8 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.

2.9 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.

2.10 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.

2.11 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.

NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 December 2008

2.11 Reserves (continued)

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.

2.12 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. The valuation of unquoted investments represents an estimation uncertainty.

Impairments

Available-for-sale assets are reviewed for impairment by reference to current market prices and the latest financial information. Impairment represents a significant judgement and 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.

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 though profit or loss	-	117,071
	<u>365,816</u>	<u>807,073</u>

4 OPERATING PROFIT

	2008	2007
	£	£
Operating profit is stated after charging:		
Auditors remuneration	22,500	23,000
Foreign exchange (gain)/loss	(8,657)	15,128
Directors remuneration	200,000	180,000
Directors fees	36,000	32,917
	<u>249,843</u>	<u>251,045</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

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. 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>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

6 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>

6.1 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	<u>(649,844)</u>	<u>(274,436)</u>	<u>(924,280)</u>	<u>3,581,569</u>
	<u>2,339,311</u>	<u>662,053</u>	<u>3,001,364</u>	<u>7,425,544</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

6.1 Long term available-for-sale financial assets (continued)

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

6.2 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

6.3 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 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
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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

7 TRADE AND OTHER RECEIVABLES

	2008 £	2007 £
Prepayments	13,684	20,624
Accrued investment income	-	1,763
Accrued finance income	400	676
	<u>14,084</u>	<u>23,063</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

	2008 £	2007 £
Cash at bank and in hand	55,136	215,113
Short term deposits	2,287	105,546
	<u>57,423</u>	<u>320,659</u>

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.

	2008 No	2007 No
Shares issued in issue at 1 January 2008	22,775,000	22,775,000
Shares issued	-	-
Shares issued and fully paid at 31 December 2008	<u>22,775,000</u>	<u>22,775,000</u>
Total equity shares authorised at 1 January 2008 and 31 December 2008	<u>25,792,250</u>	<u>25,792,250</u>
	2008 £	2007 £
Authorised		
25,792,250 ordinary shares of 0.001 pence each (2007: 25,792,250 shares of 0.001 pence each)	258	258
Issued		
22,775,000 ordinary shares of 0.001 pence each (2007: 22,775,000 shares of 0.001 pence each)	228	228

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

10 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.

11 EMPLOYEE REMUNERATION

11.1 Employee benefits expense

Expense recognised for Directors benefits is analysed below:

	2008 £	2007 £
Salaries	200,000	180,000
Bonuses	-	165,593
Fees	36,000	32,917
Share based payments	-	25,092
Employee benefit expense	236,000	403,602

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

11.2 Share-based employee remuneration (continued)

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

	2008 Number	2008 Weighted average exercise price £	2007 Number	2007 Weighted average exercise price £
Outstanding 1 January	1,751,184	0.218	1,152,984	0.196
Granted	-	-	598,200	0.261
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding 31 December	<u>1,751,184</u>	<u>0.218</u>	<u>1,751,184</u>	<u>0.218</u>
Thereof exercisable	<u>1,751,184</u>	<u>0.218</u>	<u>1,751,184</u>	<u>0.218</u>

In the current financial year no employee remuneration expense has been included in the income statement as no share options have been granted in 2008. (2007: charge £25,092).

12 TRADE AND OTHER PAYABLES

	2008 £	2007 £
Trade payables	9,381	17,896
Accrued expenses	45,814	207,093
	<u>55,195</u>	<u>224,989</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

	2008 £	2007 £
Interest income on short term deposits.	<u>4,133</u>	<u>13,079</u>

14 INVESTMENT INCOME

	2008 £	2007 £
Dividends received	<u>25,648</u>	<u>7,005</u>

15 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>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

16 RELATED PARTY TRANSACTIONS**16.1 Transactions with related parties**

During the year, STM Fiduciaire Limited provided administration and secretarial services to the Company amounting to £21,398 (2007: £20,595). The balance outstanding at year end was £2,652 (2007: £707). Peter St George and Allan Moloney, both directors of the Company, are also directors of STM Fiduciaire Limited .

An amount of £6,000 (2007: £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 (2007:Nil). H Bilton, a director of the Company, 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)	STM Fiduciaire Limited of which A Moloney and P St George are directors

Key management personnel remuneration includes the following expenses:

	2008	2007
	£	£
Short-term employee benefits		
Salaries	200,000	180,000
Bonuses	-	165,593
Fees	36,000	32,917
	<u>236,000</u>	<u>378,510</u>
Share based payments	-	25,092
	<u>236,000</u>	<u>403,602</u>
	<u><u>236,000</u></u>	<u><u>403,602</u></u>

17 CONTINGENT ASSET AND OTHER CONTINGENT LIABILITIES

There were no contingent assets or other contingent liabilities as at 31 December 2008 (2007: Nil).

18 RISK MANAGEMENT OBJECTIVES AND POLICIES

SovGEM is exposed to market risk through its use of financial instruments and specifically to currency risk, price 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.

18.1 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

18.1 Foreign currency sensitivity (continued)

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

	2008	2007
	USD \$	USD \$
Long term financial assets	3,289,319	8,207,379
	<u> </u>	<u> </u>

Prevailing exchange rates at the year end will affect the profit/(loss) of the company for that year and equity value at the year end as follows:

- the movement in the sterling value at the year end of fair value assets is included in the income statement;
- the movement in the year end sterling value of available-for-sale assets is included in the available-for-sale equity reserve.

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.

It assumes a +/- 20% change in the Sterling/US Dollar exchange rate for the year ended 31 December 2008 (2007:10%). This percentage has 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 20% (2007: 10%) then this would have the following impact:

Increase/(decrease)	2008	2007
	USD	USD
	£	£
Net results for the year	(96,394)	(55,361)
	<u> </u>	<u> </u>
Equity	(382,047)	(387,206)
	<u> </u>	<u> </u>

If Sterling had weakened against the US Dollar by 20% (2007: 10%) then this would have the following impact:

Increase/(decrease)	2008	2007
	USD	USD
	£	£
Net results for the year	144,591	67,700
	<u> </u>	<u> </u>
Equity	573,071	473,594
	<u> </u>	<u> </u>

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

18.2 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.

18.3 Credit risk

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

	2008	2007
	£	£
Classes of financial assets- carrying amounts		
Cash and cash equivalents	57,423	320,659
Trade and other receivables	400	7,100
	<u>57,823</u>	<u>327,759</u>

The investments in equity instruments does not expose the company to credit risk.

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.

18.4 Interest rate sensitivity

Interest rate risk is not considered material.

18.5 Other price risk sensitivity

SovGEM Limited is exposed to other price risk in respect of its listed equity securities and unlisted equity securities. There is a concentration of risk in investments in China.

If equity securities fell by 20% during 2008 (2007: 10%), the equity would have reduced by £675,250 (2007: £772,597). This effect is due to the remeasurement being included within the available-for-sale equity reserve, and fair value through profit or loss remeasurement being included in the income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

18.6 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 2.5 for explanations about how the category of financial instruments affects their subsequent measurement.

	2008 £	2007 £
Non current assets		
Long term available- for- sale financial assets	3,001,364	7,425,544
Financial assets at fair value through profit or loss:		
- Designated at fair value through profit or loss	374,885	250,338
- Held for trade at fair value through profit or loss	-	50,092
	<u>3,376,249</u>	<u>7,725,974</u>
Loans and receivables		
Cash and cash equivalents	57,423	320,659
Trade and other receivables	400	7,100
	<u>57,823</u>	<u>327,759</u>
Financial liabilities at amortized cost		
Trade payables	55,195	224,989
	<u>55,195</u>	<u>224,989</u>

19 CAPITAL INVESTMENT POLICIES AND PROCEDURES

SovGEM's investment 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 2008

20 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 available for sale financial assets – taken direct to equity	-	-	(3,746,066)	-	-	(3,746,066)
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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

21 AUTHORISATION OF FINANCIAL STATEMENTS

No adjusting or significant non-adjusting events, except as detailed in noted 22 below, have occurred between the balance sheet date and the date of authorisation on 19 May 2009 by the Board.

22 ACQUISITION OF HANSON WESTHOUSE 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.

23 ULTIMATE CONTROLLING PARTY

The company has no controlling party.