



Press Release

23 April 2007

SovGEM Limited

("SovGEM" or "the Company")

Preliminary Results

SovGEM Limited, the emerging market equity finance house, today reports its Preliminary Results for the year ended 31 December 2006. The Company was established principally for the purpose of making investments in Chinese and emerging market, small and mid-cap companies.

Highlights for financial year ending 31 December 2006

- Net Asset Value (NAV) increased 51.6% to 27.91p (2005: 18.4p restated)
- Basic earnings per share increased 296% to 4.44p (2005: 1.12p restated)
- Net unrealised gains £1,586,027 (2005: £1,046,797)
- Retained profits £1,013,294 (2005: restated £272,512)
- Total number of investments at year end 15 (2005: 4)

Subsequent Highlight

- The Directors' best estimate of NAV as at close of business 19th April 2007 is 30.67p

Hugh de Lusignan, Chief Executive Officer and co-founder of SovGEM, said: "I am delighted that we are able to report a second year of strong results for the Company. Net asset value growth of 46.1% in 2005 has been followed by further growth of 51.6% in 2006."

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CHAIRMAN'S STATEMENT

I am pleased to report another very strong year for our Company. Our focus remains on selecting high-quality growth companies from China and China-related markets from the many opportunities presented to us by our extensive network within and without China.

During 2006, our total number of investments rose from 4 to 15, with subsequently 3 new and 2 follow-on investments completed in the current year. It is pleasing that the Company's good performance is spread across the portfolio, with at least 5 of our investments showing gains of over 100%.

Our managers see and review up to 5 new projects weekly and this affords them a high degree of selectivity when investing. We continue to concentrate on profitable businesses with very high growth potential and which are predominately owned and operated by the managers of each respective business. SovGEM does not invest in State Owned Enterprises (SOEs) and only invests in companies that list, or intend to list, in markets outside China.

The Company's performance has been achieved with no gearing. Also, in no instance have we taken an equity position of greater than 3% in the overall capital of an underlying investment. Over 60% of our portfolio is quoted and some of the larger holdings are readily liquid.

The Company is committed to taking a very positive stance to the companies in which it invests and has a policy of never short-selling positions in investee companies. We believe that we have established an excellent reputation with our various intermediaries and introducers as a pro-active and professional investor of choice.

We remain bullish for China's economic growth prospects through to the Beijing Olympics in 2008.

Garth Milne

Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

I am delighted that we are able to report a second year of strong results for the Company. NAV growth of 46.1% in 2005 has been followed by further growth of 51.6% in 2006.

As at close of business on 19th April 2007, the Directors' best estimate of NAV was 30.67p. This means that since flotation in November 2004 the Company's NAV has risen by 143%.

SovGEM NAV per share since inception.

November 2004	December 2005	December 2006	April 2007*
12.6p	18.4p	27.91p	30.67p

* Unaudited – Directors' best estimate

Highlights

I would like to highlight a few of the investments that have significantly impacted on our portfolio in 2006.

Our first investee company, Bodisen Biotech (BBC), a Chinese fertilizer manufacturer, was completely exited by the end of August 2006. Prior to BBC's dual listing on AIM, the shares had risen from our purchase price of \$4.50 to over \$20. Whilst we supported the AIM IPO in only a minor way, we achieved a realised profit from our position in Bodisen of \$856,353 having started the year with 67,200 shares. We no longer maintain a position in BBC.

Our second investment was in Harbin Electric (HRBN), a Chinese linear motor manufacturer. We started 2006 with 196,700 shares remaining from the 500,000 purchased at a price of \$2 in 2005. During 2006 we sold 20,000 shares in HRBN, thus realising a gain of \$179,925. Since the year-end HRBN has achieved its expected NASDAQ listing and our remaining 161,700 shares are now priced at \$13.70 (19th April 2007), valuing our holding at \$2,215,290. This represents an unrealised gain of \$1,891,890, which is equivalent to an increase in value since purchase of 6.85 times. Since the year end we have sold 15,000 shares.

Our holding in Russian Timber Group Limited (RTGL), formerly Tynda Forest Holdings, has been re-valued at £1,133,333 (up from £500,000). RTGL is an unquoted company operating a forestry business in Russia and a timber processing facility in China. This

revaluation follows corporate activity by the company which we expect to become listed in 2007.

On 7 August 2006 we purchased 243,902 shares in ReneSola plc (SOLA) on its AIM IPO at a price of 79p and at a cost of £191,524. SOLA is a Chinese based manufacturer of solar photovoltaic (PV) cells using recycled waste from the semi-conductor industry. During 2006 we sold 43,902 SOLA shares realising £193,815. Our remaining 200,000 shares are currently trading at £5.49 (19th April, 2007), representing a current valuation of £1,098,000.

In November 2005 we invested \$1,200,000 in a 'private investment in public entity' (PIPE) financing for American Oriental Bioengineering (AOB). AOB had recently moved from the US OTC Bulletin Board to AMEX. AOB is a Chinese pharmaceutical and nutraceutical manufacturer and distributor focusing primarily on women's health.

In December 2006 we were delighted that AOB was promoted to a full NYSE listing. Of our original 250,000 shares (purchase price of \$4.80 per share), 149,960 were sold, realising \$1,793,677 a gain on sale of \$1,073,869. We have sold 12,000 shares in the current year. Our remaining 88,040 shares are valued at \$924,420, equivalent to an unrealised gain of \$501,828. In addition, we still hold 75,000 warrants issued at the time of the PIPE. These 5-year warrants convert at \$6.50 and had no incremental cost. The fair value of the warrants was \$456,750 as at 31 December 2006.

In addition to these 5 holdings, we now have a further 13 investments and many of these are potential candidates for flotation or promotion from junior exchanges. We seek to maintain a diversified and balanced portfolio in order to reduce the risk of over exposure to any one sector or company.

New Accounting Policies

We have adopted a number of new accounting standards in the year. Further details regarding the impact these will have on our financial statements are detailed in note 1 to this announcement.

The significant points to note are that the accounts:

- show the full realised gain or loss on sales of investments on the face of the profit and loss account;
- our warrants and other derivative financial instruments are now included at fair value with any movements disclosed in the profit and loss account; and
- include a charge for the fair value of share options granted in the year.

Website & share price listing

During the year we launched our website, www.sovgem.com, and I would encourage all our investors to register for news on the site. The website gives details of our investee holdings and links to investee companies. Our share price now appears daily in the Financial Times.

Outlook

We remain extremely positive for the prospects of non state-owned companies in China. Growth will continue to characterise China's prospects led by domestic demand consumption. We are offered many more deals than we could possibly process. We could also, if we wished and had the resources to do so, have invested considerably larger amounts in nearly all of our investments.

Finally

At the Company's forthcoming annual general meeting we will be seeking to renew our mandate to buy back shares if considered appropriate by the Board. However, with so many high growth opportunities presenting themselves to us, we believe that capital is better spent being invested on your behalf. If the discount to NAV continues to persist despite the Company's good performance, we will consider measures to narrow it.

We started just over two years ago with £2.86m of assets and now Directors estimate this to be approximately £7m of assets (as at 19 April 2007). We now have a portfolio holding some mature investments, some investments where we see considerable scope for out-performance in 2007 and increasingly some longer-term plays for 2008 and beyond. We continue to manage the portfolio conservatively and hold a long-term view that returns from China-related small and medium sized companies will be substantial for the foreseeable future.

Hugh de Lusignan

Chief Executive Officer

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2006

	Year ended 31 Dec 2006	Restated Period ended 31 Dec 2005
Note	£	£
Turnover	-	-
Gross profit	-	-
Administrative expenses (Including executive directors' performance related bonuses of £240,356 (2005: £0) and foreign exchange losses of £66,147 (2005: gain £64,504))	(695,877)	(267,201)
Operating loss	3 (695,877)	(267,201)
Gain on sale of fixed asset investments	1,496,525	451,680
Gains in fair value of assets held at fair value through profit or loss	324,341	-
Losses in fair value of assets held at fair value through profit or loss	(133,790)	-
Interest receivable	19,403	87,235
Investment income	2,692	798
Retained profit for the year/period before taxation	1,013,294	272,512
Taxation	-	-
Retained profit for the year/period	<u>1,013,294</u>	<u>272,512</u>
Basic earnings per share	4 4.44 pence	1.19 pence
Diluted earnings per share	4 4.44 pence	1.19 pence

All operations are continuing.

STATEMENT OF RECOGNISED GAINS AND LOSSES

Profit for the financial period	1,013,294	272,512
Unrealised gain on revaluation of available for sale financial assets	1,586,027	1,046,797
Derecognition of unrealised gains on disposals	<u>(462,006)</u>	<u>-</u>
Total recognised gains and losses relating to the year	2,137,315	<u>1,319,309</u>
Prior year adjustment (as explained in note 1)	<u>(3,454)</u>	
Total gains and losses recognised since the last annual report	<u>2,133,861</u>	

BALANCE SHEET**As at 31 December 2006**

	Note	2006 £	Restated 2005 £
Fixed assets			
Investments	5	5,423,678	2,613,302
Current assets			
Debtors	6	23,017	115,512
Cash at bank and in hand		1,185,289	1,539,060
		<u>1,208,306</u>	<u>1,654,572</u>
Creditors: amounts falling due within one year	7	(277,617)	(76,712)
		<u>930,689</u>	<u>1,577,860</u>
Net current assets			
		<u>930,689</u>	<u>1,577,860</u>
Total assets less current liabilities		<u>6,354,367</u>	<u>4,191,162</u>
Share capital and reserves			
Called up share capital	8	228	228
Reserve in respect of share options	9	29,343	3,454
Share premium account	9	2,868,171	2,868,171
Revaluation reserve	9	2,170,819	1,046,797
Profit and loss account	9	1,285,806	272,512
Equity shareholders' funds	10	<u>6,354,367</u>	<u>4,191,162</u>

Cash flow statement

Year ended 31 December 2006

	Note	Year Ended 31 Dec 2006 £	Period ended 31 Dec 2005 £
Net cash outflow from operating activities	11	(376,589)	(302,547)
Returns on investments and servicing of finance	12	22,095	88,032
Capital expenditure and financial investment	12	723	(1,114,820)
		<hr/>	<hr/>
Net cash outflow before financing		(353,771)	(1,329,335)
Financing			
Issue of shares		-	3,408,042
Expenses paid in connection with share issue		-	(539,647)
		<hr/>	<hr/>
Net cash inflow from financing		-	2,868,395
		<hr/>	<hr/>
(Decrease) /increase in cash		(353,771)	1,539,060
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds			
(Decrease) /increase in cash in the period		(353,771)	1,539,060
		<hr/>	<hr/>
Movement in net funds during the period		(353,771)	1,539,060
Net funds at 31 December 2005		<u>1,539,060</u>	<u>-</u>
Net funds at 31 December 2006	13	<u>1,185,289</u>	<u>1,539,060</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

1. ACCOUNTING POLICIES

Basis of Preparation

The financial information set out above does not constitute the Company's statutory financial statements for the year ended 31 December 2006 but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2006 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The financial statements are prepared in accordance with applicable United Kingdom accounting standards.

The statutory accounts for the year ended 31 December 2006 will be posted on the Company's website (www.sovgem.com).

Changes in accounting policies

The Company adopted the following new accounting standards:

- FRS 20 Share based payments
- FRS 21 Events after the balance sheet date
- FRS 22 Earnings per share
- FRS23 The effect of changes in foreign exchange rates
- FRS25 Financial instruments: disclosure and presentation
- FRS26 Financial instruments: measurement
- FRS28 Corresponding amounts

The adoption of these standards has resulted in some changes to the Company's accounting policies. In summary:

- FRS 21,FRS22,FRS 24 and FRS 25 had no material effect on the Company's policies;
- FRS 20 resulted in a charge in the current year for share options issued to directors of the Company.
- FRS 23 had no material effect on the Company's policy. The functional currency of the Company has been re-evaluated based on the guidance in the revised standard and is still considered appropriate;
- FRS 26 has required the classification of financial assets and financial instruments as financial assets or financial liabilities as described below in the Company's new accounting policy.

The Company's accounting policies, taking into account the changes required as a result of adopting the new accounting standards referred to above, are documented below:

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards.

Accounting convention

The financial statements are prepared under the historical cost convention, except for the revaluation of investments.

Financial assets

Financial assets are classified in the following categories:

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

Management determine the classification of investments at initial recognition.

Financial assets at fair value through profit or loss

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

Purchases and sales of financial assets at fair value through profit or loss are recognised on the settlement date.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from the changes in the fair value of financial assets at fair value through profit or loss category are included in the profit and loss account in the period in which they arise.

Available for sale financial assets

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

Purchases and sales of financial assets for available for sale assets are recognised on the settlement date.

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

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

Share-based payment - equity-settled share-based payment

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

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account 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.

Foreign currency transactions

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

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

Taxation

The Company is a registered Jersey Company and is outwith the scope of UK taxation.

2. Prior year adjustment

In line with the adoption of FRS 20 (Share based payments) the company has restated the prior year balances. The effect of the restatement was to include the cost of issue of share options to Directors of £3,454. There was no change to the prior year balances as a result of adopting FRS 26 (Financial instruments: measurement).

3. Operating loss

	Year ended 31 Dec 2006 £	Period ended 31 Dec 2005 £
Operating loss is after charging/(crediting):		
Auditor's remuneration – audit	18,000	17,500
Foreign exchange loss/(gain)	66,147	(64,504)
	<u> </u>	<u> </u>

4. 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.

	Year Ended 31 Dec 2006 £	Restated Period ended 31 Dec 2005 £
Profit for the year/period	<u>1,013,294</u>	<u>272,512</u>
Weighted average of ordinary shares of 0.001p in issue	22,775,000	22,775,000
Net asset value	27.91p	18.4p
Earnings per share – basic and diluted	<u>4.44 pence</u>	<u>1.19 pence</u>

5. Fixed asset investments

	2006 £	2005 £
Financial assets at fair value through profit or loss	456,281	-
Available for sale financial assets	<u>4,967,397</u>	<u>2,613,302</u>
	<u>5,423,678</u>	<u>2,613,302</u>

5a. Financial assets at fair value through profit or loss

	2006 £	2005 £
Convertible debt	131,939	-
Stock warrants	324,342	-
	<u>456,281</u>	<u>-</u>

Movements in the year

	2006 £	2005 £
Opening cost as at 1 January 2006	-	-
Gains as at 1 January 2006	-	-
Opening fair value as at 1 January 2006	-	-
Purchases at cost	265,730	-
Gains in changes in fair value	324,341	-
Losses in changes in fair value	(133,790)	-
Closing fair value as at 31 December 2006	<u>456,281</u>	<u>-</u>
Closing cost as at 31 December 2006	265,730	-
Gain as at 31 December 2006	190,551	-
	<u>456,281</u>	<u>-</u>

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

Warrants have been valued using an appropriate option pricing model at the time of acquisition and as at 31 December 2006.

5b. Available for sale financial assets

	2006 £	2005 £
Listed financial assets	3,135,730	2,113,302
Unlisted financial assets	1,831,667	500,000
	<u>4,967,397</u>	<u>2,613,302</u>

Movements in the year

	2006 Listed £	2006 Unlisted £	2006 Total £	2005 Total £
Opening fair value as at 1 January 2006	2,113,302	500,000	2,613,302	-
Purchases at cost	1,580,992	675,628	2,256,620	2,224,027
Disposals in the year	(1,488,553)	-	(1,488,553)	(657,522)
Movement from changes in fair value	929,989	656,039	1,586,028	1,046,797
Closing fair value as at 31 December 2006	<u>3,135,730</u>	<u>1,831,667</u>	<u>4,967,397</u>	<u>2,613,302</u>
Closing cost as at 31 December 2006	1,620,951	1,175,628	2,796,579	1,566,505
Gain as at 31 December 2006	<u>1,514,779</u>	<u>656,039</u>	<u>2,170,818</u>	<u>1,046,797</u>
	<u>3,135,730</u>	<u>1,831,667</u>	<u>4,967,397</u>	<u>2,613,302</u>

6. Debtors

	2006 £	2005 £
Prepayments and accrued income	23,016	19,799
Other debtors	-	95,713
	<u>23,016</u>	<u>115,512</u>

7. Creditors: amounts falling due within one year

	2006	2005
	£	£
Trade creditors	5,536	49,488
Accruals and deferred income	272,081	27,224
	<u>277,617</u>	<u>76,712</u>

8. Share capital

Ordinary shares of 0.001p each

	Number of shares	£
Authorised		
At 31 December 2006 and 31 December 2005	<u>25,792,250</u>	<u>258</u>
Called up, allotted and fully paid		
At 31 December 2006 and 31 December 2005	<u>22,775,000</u>	<u>228</u>

The market value of shares at 31 December 2006 was 16.0p (2005: 9.5p) and the range during the period was 9.4p – 20.0p. The average throughout the period was 15.07p.

The following share options were granted

	2006	2005
0.001p ordinary shares number granted	583,609	569,375
Fair value	£25,889	£3,454

The 2005 Options are exercisable at a price of 20p, with an option period of five years from 31 December 2005. The 2006 Options are exercisable at a price of 19.2p, with an option period of five years from 31 December 2006. The 2006 options have vested on issue and as such are all exercisable as at the year end.

9. STATEMENT OF MOVEMENT OF RESERVES

	Other reserve £	Share premium account £	Revaluation reserve £	Profit and loss account £
As at 1 January 2006	-	2,868,171	1,046,797	275,966
Prior year adjustment (as explained in note 1)	3,454	-	-	(3,454)
As at 1 January 2006 restated	3,454	2,868,171	1,046,797	272,512
Profit for the financial period	-	-	-	1,013,294
Revaluation of available for sale financial assets	-	-	1,586,028	-
Derecognition of unrealised gains on disposals	-	-	(462,006)	-
Issue of share options in the year	25,889	-	-	-
As at 31 December 2006	<u>29,343</u>	<u>2,868,171</u>	<u>2,170,819</u>	<u>1,285,806</u>

10. MOVEMENT IN SHAREHOLDERS' FUNDS

	2006 £	Restated 2005 £
Opening shareholders' funds (including prior year adjustment)	4,191,162	-
Profit for the financial period	1,013,294	272,512
Net proceeds of shares issued	-	2,868,399
Revaluation of available for sale financial assets	1,586,028	1,046,797
Derecognition of unrealised gains on disposals	(462,006)	-
Amounts relating to share options	25,889	3,454
Closing shareholders' funds	<u>6,354,367</u>	<u>4,191,162</u>

11. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW

FROM OPERATING ACTIVITIES

	2006 £	2005 £
Operating loss	(695,877)	(267,201)
Decrease/(increase) in debtors	92,494	(115,512)
Increase in creditors	200,905	76,712
Share based payments	25,889	3,454
Net cash outflow from operating activities	<u>(376,589)</u>	<u>(302,547)</u>

12. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2006 £	2005 £
Returns on investments and servicing of finance		
Investment income	2,692	798
Interest received on cash placed on deposit	19,403	87,234
	<u>22,095</u>	<u>88,032</u>
Capital expenditure and financial investment		
Purchase of fixed asset investments	(2,522,349)	(2,224,027)
Sale of fixed asset investments (net of selling costs of £16,871)	2,523,072	1,109,207
	<u>723</u>	<u>(1,114,820)</u>

13 ANALYSIS OF CHANGE IN NET FUNDS

	As at 31 December 2005 £	Cash flow £	As at 31 Dec 2006 £
Cash at bank and in hand at 31 December 2006	1,539,060	(353,771)	1,185,289
	<u>1,539,060</u>	<u>(353,771)</u>	<u>1,185,289</u>