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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

Riviera Nominees Limited
6 Britannia Place
Bath Street
St Helier
Jersey
JE2 4SU
Channel Islands

Registered office

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Bath Street
St Helier
Jersey
JE2 4SU
Channel Islands

Nominated adviser and broker

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London
EC3A 7QR

Bankers

Barclays Private Clients International Limited
P O Box 8
29-31 The Esplanade
St Helier
Jersey
JE4 8RN
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

CHAIRMAN'S STATEMENT

HIGHLIGHTS:

- Net Asset Value (NAV) increased 51.6% to 27.91p (2005: 18.4p restated.)
- Basic earnings per share increased 296% to 4.44p (2005: 1.19p restated.)
- Net unrealised gains £1,586,027 (2005: £1,046,797)
- Retained profits £1,013,294 (2005: £272,512 restated)
- Total number of investments at year end 15 (2005: 4)

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 very 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 three new investments and two 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 that 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 external to 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 the 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 through to the Beijing Olympics in 2008.

Garth Milne

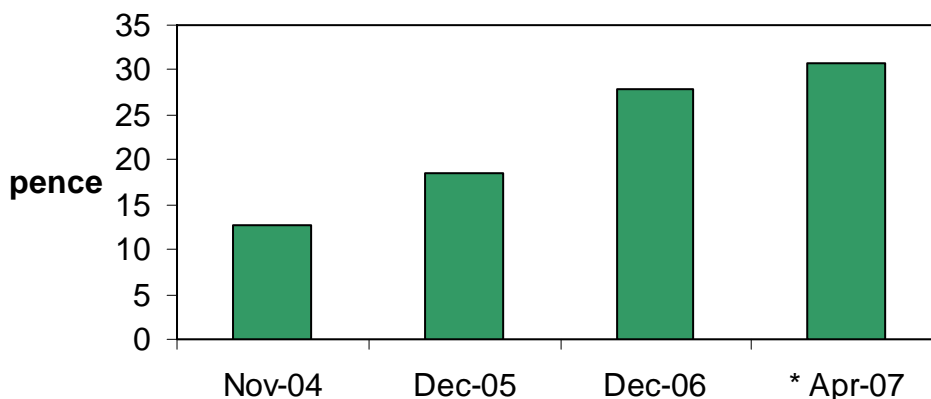
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

I am delighted that we are able to report a second year of strong results for the Company. Net asset value 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 our asset value has risen by 143%.

SovGEM NAV per share since inception.



* 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 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 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 (or an increase in value 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 their AIM IPO at a price of 79p and a cost of £191,524). SOLA is a Chinese based manufacturer of solar photovoltaic (PV) cells using recycled waste from the semiconductor industry. During 2006 we sold 43,902 SOLA shares realising £193,815 of sales proceeds. 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 PIPE (private investment in a public entity) 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 \$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 at 31st December, 2006..

In addition to these 4 continuing holdings, we now have a range of 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 to reduce risk of over exposure to any sector or company.

CHIEF EXECUTIVE OFFICER'S REPORT (contd)

New Accounting Policies

We have adopted a number of new accounting standards in the year. Further details about the impact on our financial statements are detailed in note 1 to the accounts.

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 and 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 that 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, have invested in considerably larger amounts in nearly all of our investments.

Finally

We are renewing our mandate to buy back shares if we so desire. However, with so many high growth opportunities presenting themselves to us we believe that capital is better spent being invested on your behalf. If we feel the discount to Net Asset Value continues to persist (despite the performance), we will consider measures to narrow it.

We started just over two years ago with £2.86m of assets, now we have just over £6.98m. 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

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 2006.

Principal activity

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.

Key risks and uncertainties

This business carries with it a substantial level of risk and uncertainty, although the rewards can be outstanding. The Company's focus of investment is in emerging markets, which can be more volatile than more mature markets. The relevant market is assessed before an investment is considered. Often there is a lack of liquidity in the Company's investments as some are quoted on Aim or PLUS, US Bulletin Board and Amex and some unquoted, such that the Company may have difficulty in realising the full value in a forced sale. Accordingly, an investment is only made after considerable research into the management of, and the business of, the investment target, both of which are monitored thereafter along with other key performance measures.

Furthermore, the Company limits the amount of each investment to spread the risk across the portfolio and regularly reviews the composition of the portfolio to limit this risk.

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 statement and the chief executive's report. The key performance indicators used by the business are growth in net asset value, profitability and maintaining a balanced and diversified portfolio of investments. These are reviewed within the chief executive's report.

Results and dividends

The Company generated a retained profit of £1,013,294 (2005 restated: £272,512) which excludes net unrealised gains on the revaluation of available for sale investments of £1,586,027 (2005: £1,046,797). 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 2006 are as follows:

Director	At 31 December 2006 Ordinary shares Of 0.001 pence each	At 31 December 2005 Ordinary shares Of 0.001 pence each
Garth Milne	994,864	936,839
Hugh de Lusignan	1,824,450	1,765,625
Douglas Kearney	1,155,227	1,066,992
Christopher Labrow	126,104	126,104
Howard Bilton	129,229	129,229
Allan Moloney	26,104	26,104
Peter St George	55,519	26,104

Warrants and share options

During the year, a share option scheme for the Directors was put in place. Further information is detailed in note 11 to the accounts.

DIRECTORS' REPORT (contd)

Substantial shareholdings

On 20th April 2007 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of ordinary shares	Percentage held
Convivo Capital Management Limited	3,794,961	16.66%
Hugh de Lusignan	1,824,450	8.01%
Archery Capital LP	1,255,000	5.51%
Antoine de Sejournet	1,500,000	6.59%
Douglas Kearney	1,155,227	5.07%
Garth Milne	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

While the Company is listed on the Alternative Investment Market, it is not required to comply with the provisions of the Combined Code.

The Board has appointed five Non-Executive Directors with relevant experience to complement the Executive Directors and to provide independence to the Board.

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 and employees. 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.

DIRECTORS' REPORT (contd)

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 2006 were 3 days (2005: 27 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.

Transition to International Financial Reporting Standards (IFRS)

The Board is committed to adopting International Financial Reporting Standards and is intending to pursue their adoption in the current financial year.

By order of the Board

Riviera Nominees Limited
Company Secretary
20th April 2007

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. 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 the Company's system of internal financial control, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SovGEM Limited

We have audited the financial statements of SovGEM Limited for the year ended 31 December 2006 which comprise the principal accounting policies, the profit and loss account, statement of recognised gains and losses, the balance sheet, the cash flow statement, and notes 1 to 20. 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. 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 Jersey law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 are 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. We also report to you if, in our opinion, the Company has not kept proper accounting records, if 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 audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive Officer's Report and the Corporate Governance Statement. We consider the implications for our Report and 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 judgements made by the Directors in 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. In forming our opinion we have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

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 2006 and of the profit for the year ended;
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991; and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 December 2006.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditor
20th April 2007

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	(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	6 <u>4.44 pence</u>	<u>1.19 pence</u>
Diluted earnings per share	6 <u>4.44 pence</u>	<u>1.19 pence</u>

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>	-
Total recognised gains and losses relating to the year	2,137,315	<u>1,319,309</u>
Prior year adjustment (as explained in note 2)	<u>(3,454)</u>	
Total gains and losses recognised since the last annual report	<u>2,133,861</u>	

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

BALANCE SHEET

As at 31 December 2006

	Note	2006 £	Restated 2005 £
Fixed assets			
Investments	7	5,423,678	2,613,302
Current assets			
Debtors	8	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	9	(277,617)	(76,712)
		<u>930,689</u>	<u>1,577,860</u>
Net current assets			
Total assets less current liabilities		<u>6,354,367</u>	<u>4,191,162</u>
Share capital and reserves			
Called up share capital	11	228	228
Reserve in respect of share options	12	29,343	3,454
Share premium account	12	2,868,171	2,868,171
Revaluation reserve	12	2,170,819	1,046,797
Profit and loss account	12	1,285,806	272,512
Equity shareholders' funds	13	<u>6,354,367</u>	<u>4,191,162</u>

These financial statements were approved by the board of directors on 20th April 2007.

Signed on behalf of the board of directors

Peter St George
Director

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

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	14	(376,589)	(302,547)
Returns on investments and servicing of finance	15	22,095	88,032
Capital expenditure and financial investment	15	723	(1,114,820)
		-----	-----
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)
		-----	-----
Net cash inflow from financing		-	2,868,395
		-----	-----
(Decrease) /increase in cash		(353,771)	1,539,060
		-----	-----
Reconciliation of net cash flow to movement in net funds			
(Decrease) /increase in cash in the year		(353,771)	1,539,060
		-----	-----
Movement in net funds during the year		(353,771)	1,539,060
Net funds at 31 December 2005		1,539,060	-
		-----	-----
Net funds at 31 December 2006	16	1,185,289	1,539,060
		-----	-----

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards.

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
- FRS 23 The effect of changes in foreign exchange rates
- FRS 25 Financial instruments: disclosure and presentation
- FRS 26 Financial instruments: measurement
- FRS 28 Corresponding amounts

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

- FRS 21, FRS 22, 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

1. ACCOUNTING POLICIES (contd)

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

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. Information regarding directors

	Year ended 31 Dec 2006 £	Period ended 31 Dec 2005 £
Directors' emoluments		
Executive directors - salary	150,000	89,902
Executive directors - bonus	240,356	-
	<u> </u>	<u> </u>
	390,356	89,902
	<u> </u>	<u> </u>
Non executive directors	26,000	30,336
	<u> </u>	<u> </u>

No pension benefits are provided for any director.

	Salary £	Bonus £	Fees £	2006 Total £	2005 Total £
G Milne (Non Executive)	-	-	6,000	6,000	7,000
H de Lusignan	75,000	120,178	-	195,178	44,951
D Kearney	75,000	120,178	-	195,178	44,951
C Labrow (Non Executive)	-	-	5,000	5,000	5,834
H Bilton (Non Executive)	-	-	5,000	5,000	5,834
A Moloney (Non Executive)	-	-	5,000	5,000	5,834
P St George (Non Executive)	-	-	5,000	5,000	5,834
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	150,000	240,356	26,000	416,356	120,238
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Amounts paid to third parties

The services of the some of the non-executives are provided by third parties as follows:

H Bilton (Non Executive)	Sovereign Trust (Hong Kong) Ltd of which H Bilton is a director
A Moloney and P St George (Non Executive)	St George Financial Services Limited of which A Moloney and P St George are directors

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

4. Information regarding directors (contd)

Director share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted or held by the Directors. During the year two directors were issued with share options with a fair value (calculated using the Black-Scholes model) at the date of grant totalling £25,889 (2005: restated £3,454). The options vested immediately on issue.

Details of share options held by the Directors are set out in Note 11.

5. Staff costs

Excluding the directors the Company had no employees during the year (2005: Nil).

6. 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.

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

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

7. Fixed asset investments

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

7a. 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 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)	-
	<u>456,281</u>	<u>-</u>
Closing fair value as at 31 December 2006	456,281	-
	<u>265,730</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 profit or loss where it has not been possible to separately value the embedded derivative. The financial instrument has been included at its fair value.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

7b. 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	1,514,779	656,039	2,170,818	1,046,797
	<u>3,135,730</u>	<u>1,831,667</u>	<u>4,967,397</u>	<u>2,613,302</u>

8. Debtors

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

9. 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>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

10. Financial instruments

The Company uses financial instruments comprising cash, investments, debtors and trade creditors, which arises directly from its operations. The main purpose of these instruments is to further the Company's operations.

Fair values

Except for the investments disclosed in note 7 to the financial statements, the fair value of the company's financial risks and liabilities is not materially different to book value.

Risk profile and financial assets

The majority of the Company's assets are equity shares in portfolio companies with no stated maturity date and accrued income from such investments.

Interest rate risk

The Company finances its operations through retained profits and funds raised. Currently the Company does not borrow funds. The Board utilises short term floating interest rate bearing accounts to ensure adequate working capital is available whilst maximising returns on deposits.

Liquidity risk

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets appropriately and profitably.

Currency risk

The Company invests in overseas companies and is subject to currency exposures on transactions undertaken in the period. The Company does not hedge any transactions, and foreign exchange differences on retranslation of foreign assets and liabilities are taken to the profit and loss account. The Company does not consider there to be a significant currency risk from its investments.

11. 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 options have vested on issue and as such are all exercisable as at the year end.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

12. 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 2)	3,454	-	-	(3,454)
	<hr/>	<hr/>	<hr/>	<hr/>
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	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2006	<u>29,343</u>	<u>2,868,171</u>	<u>2,170,819</u>	<u>1,285,806</u>

13. 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	-	2,868,396
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
	<hr/>	<hr/>
Closing shareholders' funds	<u>6,354,367</u>	<u>4,191,162</u>

14. 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
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(376,589)</u>	<u>(302,547)</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2006

15. 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>

16. ANALYSIS OF CHANGE IN NET FUNDS

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

17. RELATED PARTY TRANSACTIONS

During the year, St George Financial Services Limited provided administration and secretarial services to the Company amounting to £22,880 (2005: £31,583). The balance outstanding at the year end was (£2,763) (2005: £3,986). Peter St George and Allan Moloney, both directors of the Company, are also directors of St George Financial Services Limited.

18. CAPITAL COMMITMENTS

As at 31 December 2006, there were no capital commitments (2005: Commitment to purchase 357,143 of China Natural Gas Inc Common Stock at a price of \$2.80 per share with warrants attached).

19. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2006 (2005: Nil).

20. CONTROLLING RELATED PARTY

As at 31 December 2006 there was no overall controlling party.