Tau Capital plc

Annual Report and Accounts 2008

Corporate Statement

Tau Capital plc ("Tau") is a closed-end fund listed on the Alternative Investment Market ("AIM"). It seeks to support the strong growth prospects of Kazakhstan and its neighbouring countries through a mix of public and private equity, and special situations.

The Company invests primarily in the dynamic Kazakhstan economy but also in other countries in the region, including the Kyrgyz Republic, Uzbekistan, Turkmenistan, Tajikistan and Russia.

Company Overview

Tau Capital plc is an investment company established in 2007 to give investors the opportunity to participate in the wealth of investment opportunities in Kazakhstan and its neighbouring countries through a mix of public and private equity, and special situations.

Although focused primarily on Kazakhstan, the Company will also seek investment opportunities in the Kyrgyz Republic, Uzbekistan, Turkmenistan, Tajikistan and Russia. These investments will be made utilising the knowledge and skills of a highly connected and credible investment management team with a track record of successful investments in this region.

Spencer House Compass Capital Limited acts as Investment Manager to the Company and is responsible for identifying, structuring and monitoring investments. The Investment Manager delegates its responsibilities to Spencer House Capital Management LLP ("SHCM") and Compass Asset Management ("CAM"), the Investment Advisers. CAM has both public and private equity execution skills combined with a strong presence in Kazakhstan and the wider region since the mid-1990s, while SHCM has notable international asset management expertise.

The Investment Advisers target a broad range of sectors, including oil and gas exploration and production, metals and mining, transport and logistics, consumer-related, telecommunications, financial services and business services.

Chairman's Statement

"the Fund, through its Investment Managers, has focused on damage limitation on the public equity side at the same time still pursuing cautiously its original investment strategy."

The last year was an extremely challenging year for investors around the globe, shaking long-held beliefs as the financial crisis evolved. Investing in the emerging equity markets appeared to be a particularly hazardous task and Tau Capital plc (the "Fund") found itself fully exposed to the market forces whilst pursuing its objective to invest in the public and private equity markets in Kazakhstan and surrounding countries.

Under these circumstances the Fund, through its Investment Managers, has focused on damage limitation on the public equity side at the same time still pursuing cautiously its original investment strategy. Accordingly, the Investment Managers have continued to position the portfolio defensively and have held cash where appropriate.

On the private equity side, the consciously slow build-up of the portfolio has proved beneficial as better investment opportunities are emerging in the meantime. The Fund now holds two investments which have been made for a total amount of $38.0 million with another opportunity currently being explored. As announced on 25 March 2009, Tau's first investment in DTV, a cable network operator has been consolidated into a larger entity, Alem Communications, with more potential through combining forces with Midas Telecom. The second investment made was in Teniz Service, an operator in the oil services industry. The Board has endorsed the Investment Manager's view that both investments should be carried at cost as per year end.

Over the year, the Fund's (audited) Net Asset Value ("NAV") declined from $0.95 at the beginning of the year to $0.54 per share at the end, but fared better than the relevant market indices. While the Fund recorded a fall of 43.1% overall for the year, the KASE index posted a fall of 62.7%, and the MSCI Emerging Market index fell by 53.2%.

Although I realise that negative absolute returns are disappointing, the positive relative performance is a good basis for striving to create value for our shareholders once markets start to recover.

Philip Lambert
Chairman
30 March 2009

Investment Manager's Report

Public Equity

The overall NAV of the Company fell by 43.1% during the calendar year 2008. The public equity portfolio (the "Portfolio") held a net long position during the year, which meant it proved difficult to generate positive returns in falling markets. However, the Portfolio benefited from maintaining a relatively high average cash exposure of 25%, as well as an average short exposure of 30%. The Portfolio was limited in extending its short exposure beyond 35% of the Fund due to the Fund's focus on the Central Asian region, low liquidity of the universe of stocks and sector concentration among resource and banking stocks. Therefore the Fund held close to its maximum short exposure allowed over much of the period.

All sectors and stocks within the Portfolio posted negative returns over the year. Positive contributions came from the short index positions in the large capitalisation mining and oil and gas shares, as well as short index positions on the FTSE 100, S&P 500 and the Russian RDX index. The major negative contributors came from stocks where we held significant positions, such as BMB Munai, Dragon Oil, Uranium One and Bank CentreCredit.

The universe of investable stocks for the Portfolio fell by an average of 80% over the period. In a wider context, larger capitalisation natural resource companies fell by 66%, measured by the Dow Jones Basic Resources Index, whilst the smaller capitalisation companies fell by 79.8% as measured by the FTSE AIM Basic Resources index. On the other hand, large oil and gas companies fell by 42.1%, measured by the Dow Jones Oil and Gas Index, whereas the smaller oil and gas companies fell by 76.9% as measured by the FTSE AIM Basic Resources and Oil and Gas Index.

Portfolio activity

Over the year, we continued to reduce the Portfolio's exposure to financials, which as at the end of 2008 stood at only 4% of the Portfolio (versus about 17% at the beginning of 2008). Bank CentreCredit was the largest position we held in the banking sector. The company was acquired by the South Korean bank, Kookmin, which agreed to pay $634 million in March 2008 for a 30% stake, which it will increase over the next few years to 50.1%. The position was held with a view that we could exit the stock when Kookmin acquired its first tranche in August 2008. However, due to a special arrangement made by Bank CentreCredit which is specific to Kazakhstan regulations, we were unable to exit the stock as minority shareholders were not allowed to participate in the auction of the shares to Kookmin. Only the majority shareholders were able to sell their stake. The stock had performed well up until then and subsequently collapsed on low volume as minority shareholders had limited scope to reduce their positions in the bank. Overall, this has been the general story in the Kazakhstan financial sector, where the low liquidity of stocks made it very difficult to reduce or sell positions in the local market. We held a position in Bank Turanalem which took around six months to divest. This stock is one of two that has recently been nationalised by the Kazakh government.

With regards to the Portfolio's exposure to the oil sector, we decided to substantially reduce our position in KazMunaiGas on concerns about the introduction of a new Customs Tax duty

The table below outlines the monthly NAV of fees and expenses and performance of the Company from 1 January 2008 to 31 December 2008:

Reported Monthly NAV

	NAV	1 Month performance %
31 January 2008	**$0.99**	**3.12%**
29 February 2008	**$1.02**	**2.37%**
31 March 2008	**$0.98**	**(4.04%)**
30 April 2008	**$0.94**	**(4.06%)**
31 May 2008	**$0.96**	**2.55%**
30 June 2008	**$0.94**	**(1.93%)**
31 July 2008	**$0.86**	**(8.52%)**
31 August 2008	**$0.80**	**(7.46%)**
30 September 2008	**$0.69**	**(13.17%)**
31 October 2008	**$0.56**	**(18.64%)**
30 November 2008	**$0.55**	**(2.91%)**
31 December 2008	**$0.55***	**0.20%**

* The audited NAV of the Company as at 31 December 2008 was $0.54. Please refer to note 16 for further details.

Left: Almaty, Kazakhstan
Right: Republic Palace, Almaty, Kazakhstan

Public Equity (continued)

Portfolio activity (continued)

and the fact that the stock had performed very well in the second quarter of 2008. The new Customs Tax duty on oil was subsequently introduced in May 2008 whereby for every $1 increase in the price of oil above $120/bbl, KMG would only gain 20 cents. This made the stock less sensitive to further increases in the oil price. Other significant positions in the oil sector include BMB Munai and Dargon Oil. BMB Munai had been trading on very low valuations based on 2P (proven and probable) oil reserves; a measure used in the industry to gauge value for exploration stocks. As the oil price climbed to almost $150 bbl, BMB Munai was trading at below $2 a barrel of 2P reserves. The company also produces around 2,500 bbd of oil and we were expecting an increase in production from a new well being drilled. Unfortunately as the market dynamics changed for all small capitalisation resource stocks and BMB Munai was unable to increase production, the stock collapsed in line with small capitalisation resource stocks. Dragon Oil is a stock we viewed as attractive given its strong cash position, double digit growth in oil production from their high quality asset mix in Turkmenistan, and having a future option on their undeveloped large gas reserves which should grow in importance as Europe's need for alternative gas supplies intensifies. However, even with growing production the stock collapsed along with the rest of the markets. We did however limit the scope of the loss as the Portfolio held a put option on the stock which was exercised on expiry significantly in the money.

In the metals and mining sector, we maintained a significant exposure to gold to reflect our overall cautious stance on markets. However, gold stocks in the region generally have performed poorly relative to their large capitalisation international peers largely as a result of stock specific issues, the low capitalisation and exploration nature of the regions' gold stocks.

Uranium was another sector favoured in the Portfolio. We held a large position in Uranium One. Our view is that uranium is an increasingly important substitute for the world's relentless appetite for crude oil, particularly amidst the growing evidence of impending oil supply growth limitations and the fact that the lack of carbon emissions make it a green energy alternative. Kazakhstan, currently the third largest supplier of uranium for nuclear energy, is aiming to be the world's leading supplier in the next three years.

However, uranium prices followed oil's sharp correction and fell to $52/lb by year end from its highs above $80/lb at the beginning of the year. This was compounded by supply side problems at Uranium One's operations in South Africa affecting the future production profile of the company. Their Kazakhstan operation remains the only producer in its portfolio now.

Markets background

The calendar year of 2008 saw extremely turbulent market conditions around the world and perhaps the months of September to November will go down in history of capital markets as the worst equity market period since the 1930's Great Depression, as major indices tumbled throughout the world. The pain was felt in almost all asset classes, industries and geographies. For 2008, the MSCI World index for developed markets fell by 40.3% and the MSCI Emerging Markets index declined by 53.2%.

During the year the effects of the subprime crisis spread into the wider financial sector, leading to asset write-downs in many financial institutions and a sudden halt to the flow of cheap and available credit. As credit disappeared global economic activity slowed sharply, causing a severe correction in almost all commodity markets. The Reuters/Jefferies CRB index, which measures commodities, fell for the year by 36%. Leading the fall was the price of oil which saw a major reversal during the second half of the year, after peaking at an all-time high level of $147/bbl (as measured by WTI) in mid-July. At one point in mid-December oil prices reached a low of $31.4/ bbl on fears that the building worldwide recession is causing significant demand destruction among consumer nations, even as OPEC pledged and began to implement unprecedented production cuts of up to 4mn bbl/d. Oil finished the year down 55.2% at $44.6. Not surprisingly, oil shares followed the commodity's direction and also tumbled during the year.

Gold has been the best performing commodity during the year amidst the global sell-off, as it held its value relatively well and was up 5.1% for the year, finishing the year at $882/oz. The reason we believe gold has managed to stay strong during the crisis is partly because people gravitated to the precious metal for its perceived safety quality and store of value, as well as the possibility that investors are starting to worry about the unintended consequences of the global bailout plan, which

Altay Mountains, Kazakhstan

will be a manifestation of significant inflationary pressures in the years to come. Commodities that are directly linked to global industrial activity, like copper and iron ore, also posted strong returns during the first half of the year, reaching record highs (copper to $8730/tn. and spot iron ore to $190/tn.). However, these gains were sharply reversed in the second half of the year as they both fell to multi year lows. Copper fell by 54%, it finished the year at $3070/tn, while Chinese spot iron ore prices fell by 58% from their highs to finish the year at $79/tn.

As the global macro backdrop deteriorated sharply during the year, so did the economic conditions in Kazakhstan. GDP growth for 2008 slowed to 3.1% from 8-9% rates of previous years. The slowing growth became evident in the second half of the year, as the overall economic activity contracted sharply, leading to growth of just over 1% versus growth of 5.7% in the first half. The sharp drop in oil prices have led to a fall in oil revenue intake which is a major source of revenue and trade surplus for the country. This caused the Government to project a current account deficit of about $10bn for 2009e from a surplus of $5bn in 2008. Although, we would note that the country still has $40bn of FX reserves, which is still favourable compared to the balance in the beginning of the year of $33bn, and should be plenty of support if needed for monetary stability during 2009. On the positive side, the escalating inflationary threat during the first half of 2008 is no longer such an issue as consumer prices, as measured by the Government's official CPI index, retreated to below the annual target of 10% by year end; CPI was growing at 18% for the first half of the year. Furthermore, the uncertain state of affairs and the lack of traditional sources of capital are forcing many private businesses to seek the backing of financial sponsors or strategic partners, which should benefit our private equity efforts as we look for attractive investment opportunities in the non-listed sector.

The Kazakhstan Stock Exchange ("KASE") index posted a loss of 62.7% (in US dollar terms) over the year. Average trading volume over the year was relatively light with short periods of increased liquidity on the KASE. The worst performers were Halyk Bank (-82.3%), and Bank CenterCredit (-70%). Banks fell during the year largely due to concerns that the situation on NPLs was deteriorating rapidly and that the Government would have to step in to bail out those where loan-losses were threatening minimum capital adequacy levels. The smallest losses during the year came from Temirbank Bank (-28.6%) and Kazkommertsbank (-34.8.%) albeit on low volumes given their limited free float, as these banks staged a modest rally in late October/early November on news the Government will acquire up to 25% in the four largest banks through the National Welfare Fund, Samruk-Kazyna.

Outlook

Central Asian markets will continue to be dominated by global events, particularly those that influence the fate of commodity markets. Whilst a global economic recovery is not imminent, the wall of new liquidity entering the financial markets should eventually unlock credit markets and jump start the economy. However, as there is still considerable volatility and uncertainly regarding the depth and length of the recession, equities could easily get cheaper over the short to medium term. We remain cautious.

We continue to believe that gold remains an attractive asset class. There is a risk that the significant amounts of new liquidity created around the globe (e.g. the broadest measure of money creation, M3 growth in the US, has been in double digits for several months), can possibly manifest itself in rapid monetary inflation. Local gold assets are attractively priced now and we are reviewing these opportunities at the moment. However, there are limited large capitalisation gold assets in the region so we are looking at smaller capitalisation companies that are producing and that may benefit from consolidation.

Also, we are coming to the view that the oil sector is starting to look attractive. On the one hand we take comfort in data that the world's major oil fields, which contribute to the majority of the world's output: just 3% of the world's largest oilfields make up almost half of our current global output and these are ageing and depleting rapidly. A recent IEA study of 250 of the world's largest oil fields found depletion rates to be at an alarming 9.1%. On the other hand, there is growing evidence that the credit crunch is making capital expenditure financing extremely difficult for most producing companies who want to expand their production. This should create major bottlenecks in global supply when economic growth recovers. With this backdrop, we believe those oil companies who are well capitalised, have growing oil reserves and production, or provide vital exploration services are now attractively priced.

Private Equity

The overall NAV of the Company's private equity investments has increased to $38.0 million and consists of two private investments made to date. During 2008, the Company was engaged in a number of potential private investment situations and reviewed a number of investment proposals encompassing industry sectors such as consumer goods and retail services, agriculture, real estate, building materials, oil and gas and mining. Tau has performed extensive due diligence and analysis on several selected opportunities; however, with deteriorating economic and market environment in Kazakhstan, has postponed its investment in several investment opportunities and continues monitoring dynamics of business fundamentals and asset prices of selected investment situations.

Portfolio activity

Digital TV LLP

The Company increased its investment in Digital TV LLP ("DTV"), an Almaty-based cable TV operator, to $18.5 million through the acquisition (along with Compass Asset Management and its affiliates) of an additional 25% equity stake in DTV and provided additional funding to finance regional acquisitions, working capital and the repayment of certain loans of DTV. The capital increase transaction has been structured as a shareholder loan (as in the original investment structure) due to the specific legal requirements of the mass media law in Kazakhstan. Tau, along with Compass Asset Management and its affiliates, currently has an economic interest of 75% in DTV, comprising of shareholder loans and equity investment.

During the period, DTV has increased its subscriber base to approximately 74,000 through organic growth and regional acquisitions. DTV has expanded its coverage outside Almaty in Kazakhstan through acquisitions of regional operators in Aktau, Aktobe, Aktyubinsk, Zhana Uzen, Taraz and Uralsk. DTV is planning to launch its services in Astana as well as in several other cities in Kazakhstan during the second quarter of 2009. DTV is also in discussions with several regional cable TV operators to potentially acquire those companies. DTV estimates it currently has an estimated 24% market share (by number of subscribers) in Almaty and 11% market share in Kazakhstan.

During the period, the Company, Compass Asset Management and DTV's founder Erjan Tungushbaev entered into a preliminary agreement with Midas Telecom LLP, a Kazakh-based investment company, to form a joint telecom venture in order to create a platform to develop an alternative network operator in Kazakhstan. Preliminary transaction terms included a formation of a new telecom holding company, a contribution of DTV and its affiliates by DTV's shareholders, a contribution of an operator with nationwide Wimax licenses and additional equity capital by another investor group in order to make further regional acquisitions and launch cable and telecom services in several cities of Kazakhstan in the short to medium term. As announced on 25 March 2009, the Company, along with other DTV shareholders, has subsequently structured and implemented the joint venture transaction. Tau also announced the signing of a sale and purchase agreement with Alem Communications Holding LLP ("Alem Communications") to contribute DTV into Alem Communications in order to jointly manage and develop Alem Communications as part of the investors' strategy to establish an alternative telecom operator in the Republic of Kazakhstan. We believe the formation of a joint telecom venture with another investor group will allow us to expand DTV's operations and capitalize on cable TV and internet growth opportunities in Kazakhstan.

Teniz Service LLP

In October 2008, the Company announced that it had completed a private investment of US$19.5 million through a mezzanine-type loan instrument to Contour Caspian Ventures Ltd ("Contour"), a wholly-owned subsidiary of Visor Holding LLP ("Visor"). Contour is a 35% shareholder of Waterford International Holding Ltd ("Waterford"), a consortium owning a 51% controlling equity stake in Teniz Service LLP ("Teniz"). Teniz is an infrastructure development and services operator for the oil and gas industry in the Kazakh sector of the Caspian Sea. The proceeds of this investment, which were drawn down in one tranche, were used by Contour to fund Waterford's subscription in the equity capital of Teniz. Tau's investment in Contour, which is guaranteed and pledged by Visor, contains a conversion option in which the accruing interest of 18% per annum can be exchanged into equity shares in Waterford at a pre-determined price at the discretion of Tau. Tau's principal investment of US$19.5 million is not capable of conversion into equity securities in Waterford.

Teniz was originally founded as a subsidiary of KazMunaiGaz Exploration & Production ("KMG"), the Kazakh national oil and gas company, to support the Kazakhstan Government's plans to develop infrastructure off the Caspian Sea coastal area in preparation of planned exploration and development of the Kashagan oilfield. Teniz is based in Aktau in the western part of Kazakhstan on the Caspian shore. The company's operations and services include the planning, development, construction and deployment of infrastructure to support marine-based oil production and exploration operations, as well as the provision of logistics services and maintenance for oil and gas exploration companies operating in the Caspian Sea. Teniz has operations and facilities in four cities along the Caspian coast of Kazakhstan: Atyrau, Bautino (Fort Shevchenko), Aktau and Kuryk.

Transaction terms:

- Type of investment: mezzanine-type loan (guaranteed by Visor and pledged by Visor shares in Teniz) with a conversion option over accrued interest.
- Coupon: guaranteed accruing 18% per annum coupon, repayable on the maturity date of the loan if the conversion option is not exercised within 3 years.
- Conversion option: the accrued interest amount can be exchanged into equity shares in Waterford. The conversion option can be exercised at the discretion of Tau at any time within the term of 3 years at a pre-determined price, which would provide Tau with an equity interest of between 3.5% and 10% in Waterford (and an indirect equity interest of between 1.79% and 5.1% in Teniz). The principal is not capable of conversion into equity securities in Waterford.
- Term: 3 years; principal of US$19.5 million (and any accrued interest not otherwise converted) repayable in full on the maturity date.

The mezzanine-type structure of this investment provides the Company with the preservation of its principal investment and the opportunity to participate as an equity shareholder should the Company decide to convert the accumulated interest on the principal investment.

Current market environment and outlook for private equity investments

The uncertain state of affairs and the lack of traditional sources of capital (such as bank loans) are forcing many businesses, particularly small and medium enterprises, to seek the backing of private financial sponsors or strategic partners. Furthermore, as the economic downturn in Kazakhstan is causing a correction in asset prices across various sectors, we believe that entry valuations for various investment opportunities should become more attractive in the short and medium term.

We are actively monitoring the market environment for a potential pipeline of investment opportunities due to potential forced company sales, potential asset disposals by banks or other companies, distressed asset sales or other special situations. We believe with the economic downturn and lack of financing alternatives, we will be able to review an increasing number of private equity investment opportunities. Tau has established a cautious and conservative approach in assessing potential investment opportunities and will continue to monitor the market environment and specific investment opportunities. In light of the current environment, the Company favours an investment approach with a protection mechanism of principal capital while retaining an upside via investment structures encompassing options for equity participation, warrants or other convertible structures.

Lastly, we wish to mention an important post year-end development. In early February 2009, the National Bank decided to let the Kazakh Tenge (KZT) devalue by 22% to 150 KZT/US dollar. At this stage they indicated they will keep the rate in a narrow range around this level. Fortunately, the level of KZT exposure in the Fund is limited. The public equity portfolio held less than 5% in local currency denominated positions. On the private equity side, the cable business, DTV, has merged with another entity and therefore has a value on the merged business. Revenues for this business are based in KZT and therefore will be affected when translating to US dollars in the future. Teniz Service LLP is a US dollar based business. The devaluation does have a positive impact of the exporting based companies in the minerals sector, reducing labour and some local input cost. However, this will be somewhat negated by higher capital equipment cost as they have to be imported. We have explored several options how to best hedge our KZT exposure prior to the devaluation and decided to enter into an 'indirect' hedging position using gold futures, as local currency forward contracts were too costly to undertake.

We believe the Company has a unique advantage through its partnership with Compass Asset Management and Visor Holding, which allows the Company to screen and review investment proposals across Central Asia.

Spencer House Compass Capital Limited
30 March 2009

Board of Directors

Philip Lambert

Chairman and Independent Non-executive Director

Philip is the Chairman of the investment committee of the ABP and a member of the supervisory Board of Robeco. Throughout his career he has been extensively involved in the European pension industry in Europe. Philip was a member of the pension managers' advisory committee to the Board of Directors of the New York Stock Exchange and a member of the investment committee of the National Association of Pension Funds in the UK. He was a member of the advisory committee to the ABN AMRO Investment Funds and is now a member of the investment committee of the ABN AMRO pension fund. In the past Philip has taken on several external appointments. He was Chairman of the Dutch National Association of Company Pension Funds and Chairman of the Dutch Real Estate Board. During the period 1991 to 1994 he was Chairman of the European Federation for Retirement Provision. Philip started his career with Unilever in 1975. In 1983 he was appointed Managing Director of the Dutch Unilever Pension Fund. In 1993 he was appointed Pension Officer and head of corporate pensions division of Unilever with responsibility for pension schemes and pension fund investments worldwide. Philip took a civil law degree at Leiden University in 1970.

Richard Horlick

Non-executive Director

Prior to co-founding Spencer House Capital Management LLP, Richard was a main Board Director of Schroders plc where he was Head of Investments and a member of the general management committee. From 1994 to 2002, Richard held a number of positions at Fidelity. He was President and Chief Executive Officer of Fidelity Management Trust Co, the institutional investment arm of Fidelity in the US and also the Trust Bank for the Fidelity mutual funds. Richard was previously responsible for the investment and development of Fidelity's institutional business outside the US, and was a member of the operating committee of Fidelity International. Between 1984 and 1994, he was a Director and Portfolio Manager at Newton Investment Management. Prior to this, he was a corporate finance executive specialising in M&A at Samuel Montagu & Co. Richard graduated from Cambridge University with a Masters degree in Modern History.

Michael Sauer

Non-executive Director (appointed 16 March 2009)

Michael joined VISOR Capital, Kazakhstan in 2005 as Chief Executive Officer, becoming President of VISOR Holding LLP in October 2008, having had some 14 years experience working in emerging markets. Prior to joining VISOR Capital, Michael was the founder and Chief Executive Officer of Continuum Information Technologies Pvt Ltd (now Kring Technologies a/s), an IT company with offices in Copenhagen, Kiev and Delhi. Prior to this, he lived for three years in Azerbaijan, where he wa the Director of Equity Trading for The Minaret Group, an emerging markets investment bank, and Managing Director of Kaliber Securities. Michael began his professional career with the Swiss Banking Corporation in London before working with Brunswick Brokerage in Moscow. Michael graduated from South Bank University with a B.A. (Hons) in Finance in 1993.

Robert Brown, III

Independent Non-executive Director

Robert has been involved in investment banking and private equity activities in the former Soviet Union since 1991. From 1995 to 1998, he was the Managing Director and Head of Corporate Finance for Creditanstalt International Advisers, a New York-based subsidiary of Creditanstalt Investment Bank. Robert established investment banking operations for CAIB in Russia through the acquisition of Grant Financial Group, a leading Russian securities broker. Prior to joining CAIB, Robert worked from 1978 to 1994 at Lehman Brothers in New York City. He was co-head of the bank's Public Finance Division between 1990 and 1994. He led development of Lehman Brothers' business in Russia during the period 1992 to 1994. Between 1973 and 1978, Robert was Chief Financial Officer of Virginia Housing Development Authority. Robert graduated with a B.S. in Economics from Carnegie-Mellon University in 1969 and a M.P.A from University of Michigan in 1971.

Almas Chukin

Non-executive Director (resigned 16 March 2009)

Almas is the Chairman of Compass Asset Management and a Partner of VISOR. He has been involved in the economic affairs of Central Asia for the last 20 years. Almas has held various government positions in the Kyrgyz Republic including his roles at the Ministry of Finance (head of the industrial department), Ministry of Foreign Affairs (ambassador to the United States), and the State Property Fund (Deputy Chairman) where he was responsible for various aspects of governmental strategy from internal policy issues to cooperation with the International Monetary Fund and the World Bank. Since leaving government and entering the private sector in 1996, Almas has worked primarily in the financial sector and has played a pivotal role in the development of this part of the economy. While his main focus has been on private equity transactions, Almas was also actively involved in the public securities market during his tenure as a Managing Director of a leading broker-dealer. His experience also includes being Deputy Chairman and Chief Financial Officer of Halyk Bank of Kazakhstan, the country's largest retail bank and Chairman of Temir Bank. Almas is a graduate of Moscow State University (Lomonosov) economic faculty with a B.A. in 1983 and a Ph.D. in 1986.

Philip Scales

Independent Non-executive Director

Philip is Managing Director of IOMA Fund and Investment Management Limited. Prior to this, Philip was the Managing Director of Northern Trust International Fund Administration Services (Isle of Man) Limited. Philip has over 30 years' experience of working offshore, primarily in corporate and mutual fund administration. A Director of a number of listed companies, Philip is a Fellow of the Institute of Chartered Secretaries and Administrators.

Audit and valuation committee

Philip Lambert (Chairman)
Robert Brown, III
Philip Scales

Remuneration committee

Richard Horlick (Chairman)
Almas Chukin
Philip Scales

Directors' Report

The Directors have pleasure in presenting their report and financial statements of the Group for the year ended 31 December 2008.

Principal activity and incorporation

The Company was incorporated in the Isle of Man on 3 April 2007 for the purpose of investing in public and private businesses that are established in, operating in or have exposure to Kazakhstan and neighbouring countries. It was admitted to the Alternative Investment Market of the London Stock Exchange on 3 May 2007.

Results and dividends

The Group's and the Company's results for the financial year ending 31 December 2008 are set out on the Consolidated Income Statement on page 13.

A review of the Group's activities are set out in the Chairman's statement and the Investment Manager's report on pages 2 to 7.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008, leaving a loss of US$101,439,663 to be transferred from reserves.

The Group's business activities, together with the factors likely to affect its future development, performance and positions are set out in the Investment Manager's Report on pages 3 to 7. Note 1 and note 11 to the financial statements include the Group's objectives and policies, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources and as a consequence the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and consolidated financial statements.

Directors

The Directors of the Company during the year and to the date of this report were as follows:

	Appointed	Resigned
Philip Scales	3 April 2007	—
Philip Lambert	11 April 2007	—
Richard Horlick	11 April 2007	—
Almas Chukin	11 April 2007	16 March 2009
Robert Brown, III	11 April 2007	—
Michael Sauer	16 March 2009	—

Directors' interests in the shares of the Company are detailed in note 10.

Company Secretary

The Secretary of the Company during the year ended 31 December 2008 and to the date of this report was Philip Scales.

Auditors

The auditors, Deloitte & Touche, were appointed during the year and being eligible, have expressed their willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

Approved on behalf of the Board of Directors

Philip Lambert
Director

Philip Scales
Director

1 April 2009

Statement of Directors' Responsibilities

As required by Isle of Man company law, the Directors have accepted responsibility for preparation of the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors accept responsibility for:

- selecting suitable accounting polices and then applying them consistently;
- making judgments and estimates that are reasonable and prudent; and
- preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors accept responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements are prepared properly and in accordance with any relevant enactment for the time being in force. They also accept responsibility for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the Members of Tau Capital PLC

We have audited the group and parent company financial statements (the "financial statements") of Tau Capital Plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 24. 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 section 15 of the Companies Act 1982. 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 auditors' 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 applicable law and International Financial Reporting Standards (IFRS) 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 Act 1931 to 2004. We also report to you if, in our opinion, the information given in the Directors' Report is not consistent with the financial statements, if 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' transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, Investment Manager's Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the financial statements.

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 Group's and 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 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 IFRSs, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1931 to 2004.

Emphasis of matter – valuation of private equity investments

Without qualifying our opinion we draw attention to the disclosures in Note 2 (c) concerning the valuation of investments. The Directors of the Group have estimated the total fair value of the private equity investments at $37,952,693 as of 31 December 2008 in accordance with the Group's accounting policy, as disclosed in note 2. This value has been estimated by the Directors following the opinions and advice of the Investment Manager in the absence of readily ascertainable market values. However, because of the inherent uncertainty of the valuations, the estimated values may differ materially from the values that would have been realised had disposals of the investments been made between a willing buyer and seller. It is not possible to quantify such uncertainty.

Deloitte & Touche
Chartered Accountants
Douglas
Isle of Man

7 April 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Note	For the year ended 31 December 2008 US$	For the period ended 31 December 2007* US$
Investment income			
Interest income		**3,922,395**	2,392,119
Dividend income		**968,898**	1,395,630
Less: withholding tax		**(27,218)**	(139,783)
Net changes in fair value of financial assets and liabilities through profit or loss	3	**(98,868,991)**	(42,699)
Total operating (loss)/income		**(94,004,916)**	3,605,267
Expenses			
Operating expenses	8	**(7,434,747)**	(4,021,397)
Loss for the period		**(101,439,663)**	(416,130)
Loss per share	17	**($0.42)**	($0.00)

Approved on behalf of the Board of Directors.

PHILIP LAMBERT
DIRECTOR

PHILIP SCALES
DIRECTOR

1 APRIL 2009

*The comparative results relate to the period from 3 April 2007 (date of incorporation) to 31 December 2007.

The accompanying notes on pages 20 to 34 are an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 December 2008

	Note	As at 31 December 2008 US$	As at 31 December 2007 (restated) US$
Assets			
Cash and cash equivalents	7	**3,500,033**	13,212,430
Amounts due from brokers	6	**48,715,121**	29,264,592
Financial assets at fair value through profit or loss	3	**83,571,717**	221,348,495
Interest receivable		**1,219,538**	325,665
Dividends receivable		**8,303**	7,124
Other receivables		**68,349**	99,427
Total assets		**137,083,061**	264,257,733
Liabilities			
Financial liabilities at fair value through profit or loss	3	**(8,322,018)**	(24,042,603)
Accounts payable and accrued expenses	8	**(209,033)**	(622,707)
Total liabilities		**(8,531,051)**	(24,665,310)
Total net assets		**128,552,010**	239,592,423
Shareholders' equity			
Share capital		**4,752,070**	5,002,179
Share premium		**—**	235,006,374
Capital redemption reserve		**250,109**	—
Distributable reserves		**123,549,831**	(416,130)
Total shareholders' equity		**128,552,010**	239,592,423
Net Asset Value per share	**16**	**$0.54**	$0.95

Approved on behalf of the Board of Directors.

Philip Lambert
Director

Philip Scales
Director

1 April 2009

The accompanying notes on pages 20 to 34 are an integral part of these financial statements.

Company Balance Sheet

as at 31 December 2008

	Note	As at 31 December 2008 US$	As at 31 December 2007 US$
Assets			
Investment in subsidiaries	18	**128,552,010**	239,592,423
Total assets		**128,552,010**	239,592,423
Total net assets		**128,552,010**	239,592,423
Shareholders' equity			
Share capital		**4,752,070**	5,002,179
Share premium		**—**	235,006,374
Capital redemption reserve		**250,109**	—
Distributable reserves		**123,549,831**	(416,130)
Total shareholders' equity		**128,552,010**	239,592,423
Net Asset Value per share	16	**$0.54**	$0.95

Approved on behalf of the Board of Directors.

PHILIP LAMBERT
DIRECTOR

PHILIP SCALES
DIRECTOR

1 APRIL 2009

The accompanying notes on pages 20 to 34 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Capital redemption reserve US$	Share capital US$	Share premium US$	Distributable reserves US$	Total US$
For the year ended 31 December 2008					
Balance at 31 December 2007	—	5,002,179	235,006,374	(416,130)	239,592,423
Transfer to distributable reserves	—	—	(235,006,374)	235,006,374	—
Purchase of ordinary shares	—	(250,109)	—	(9,350,641)	(9,600,750)
Transfer to capital redemption reserve	250,109	—	—	(250,109)	—
Loss for the period	—	—	—	(101,439,663)	(101,439,66)
Balance at 31 December 2008	**250,109**	**4,752,070**	**—**	**123,549,831**	**128,552,010**
For the period ended 31 December 2007					
Balance at 3 April 2007*		—	—	—	—
Issue of ordinary shares		5,002,179	245,997,821	—	251,000,000
Share issue costs		—	(10,991,447)	—	(10,991,447)
Loss for the period		—	—	(416,130)	(416,130)
Balance at 31 December 2007		5,002,179	235,006,374	(416,130)	239,592,423

* The comparative results relate to the period from 3 April 2007 (date of incorporation) to 31 December 2007.

The accompanying notes on pages 20 to 34 are an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2008

	Capital redemption reserve US$	Share capital US$	Share premium US$	Distributable reserves US$	Total US$
Balance at 31 December 2007	—	5,002,179	235,006,374	(416,130)	239,592,423
Transfer to distributable reserves	—	—	(235,006,374)	235,006,374	—
Purchase of ordinary shares	—	(250,109)	—	(9,350,641)	(9,600,750)
Transfer to capital redemption reserve	250,109	—	—	(250,109)	—
Loss for the period	—	—	—	(101,439,663)	(101,439,663)
Balance at 31 December 2008	**250,109**	**4,752,070**	**—**	**123,549,831**	**128,552,010**
For the period ended 31 December 2007					
Balance at 3 April 2007*		—	—	—	—
Issue of ordinary shares		5,002,179	245,997,821	—	251,000,000
Share issue costs		—	(10,991,447)	—	(10,991,447)
Loss for the period		—	—	(416,130)	(416,130)
Balance at 31 December 2007		5,002,179	235,006,374	416,130	239,592,423

* The comparative results relate to the period from 3 April 2007 (date of incorporation) to 31 December 2007.

The accompanying notes on pages 20 to 34 are an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	For the year ended 31 December 2008 US$	For the period ended 31 December 2007* (restated) US$
Cash flows from operating activities		
Loss for the period	**(101,439,663)**	(416,130)
Adjustments to reconcile loss for the period to net cash (used in) operating activities		
Purchase of financial assets and settlement of financial liabilities	**(185,870,867)**	(510,378,900)
Sale of financial assets and settlement of financial liabilities	**180,705,393**	314,937,337
Realised gain on investments	**(4,679,656)**	(8,400,459)
Net change in unrealised loss on investments	**131,901,323**	6,536,130
Increase in amounts due from broker	**(19,450,529)**	(29,264,592)
Increase in interest receivable	**(893,873)**	(325,665)
Increase in dividends receivable	**(1,179)**	(7,124)
(Decrease)/increase in prepaid insurance	**99,427**	(99,427)
Increase in other receivables	**(68,349)**	—
(Decrease)/increase in accounts payable and accrued expenses	**(413,674)**	622,707
Net cash (used in) operating activities	**(111,647)**	(226,796,123)
Cash flows from financing activities		
Gross proceeds from issue of ordinary shares	**—**	250,000,000
Share issue costs	**—**	(9,991,447)
Payments for purchase of ordinary shares	**(9,600,750)**	—
Net cash (used in)/provided by financing activities	**(9,600,750)**	240,008,553
Net (decrease)/increase in cash and cash equivalents	**(9,712,397)**	13,212,430
Cash and cash equivalents at beginning of period	**13,212,430**	—
Cash and cash equivalents at end of period	**3,500,033**	13,212,430
Supplementary disclosure of cash flow information		
Dividends received	**940,501**	1,248,723
Interest received	**3,028,522**	2,066,454

* The comparative results relate to the period from 3 April 2007 (date of incorporation) to 31 December 2007.

The accompanying notes on pages 20 to 34 are an integral part of these financial statements.

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2008

	For the year ended 31 December 2008 US$	For the period ended 31 December 2007* (restated) US$
Cash flows from operating activities		
Loss for the period	**(101,439,663)**	(416,130)
Adjustments to reconcile loss for the period to net cash used in operating activities		
Net change in unrealised loss on investments	**101,439,663**	416,130
Net cash used in operating activities	**—**	—
Cash flows from investing activities		
Subscription for shares in subsidiary undertakings	**—**	(240,008,553)
Redemption of shares in subsidiary undertakings	**9,600,750**	—
Net cash provided by/(used in) investing activities	**9,600,750**	(240,008,553)
Cash flows from financing activities		
Gross proceeds from issue of ordinary shares	**—**	250,000,000
Share issue costs	**—**	(9,991,447)
Payment for purchase of ordinary shares	**(9,600,750)**	—
Net cash (used in)/provided by financing activities	**(9,600,750)**	240,008,553
Net change in cash and cash equivalents	**—**	—
Cash and cash equivalents at beginning of period	**—**	—
Cash and cash equivalents at end of period	**—**	—

* The comparative results relate to the period from 3 April 2007 (date of incorporation) to 31 December 2007.

The accompanying notes on pages 20 to 34 are an integral part of these financial statements.

1. General

Tau Capital plc (the "Company") is a closed-end investment fund incorporated and domiciled in the Isle of Man on 3 April 2007 and registered with number 119384C. The Company was established to allow investors the opportunity to realise returns through investing in both public and private businesses that are established in, operating in or have exposure to Kazakhstan. Although Kazakhstan focused, the Company will also seek investment opportunities in the Kyrgyz Republic, Uzbekistan, Turkmenistan, Tajikistan and Russia (the "Investment Countries").

The Company is listed on the Alternative Investment Market ("AIM") of the London Stock Exchange. The Company has no employees.

The Company's investments are held by an intermediate investment holding company, Tau Cayman LP. Hereinafter, Tau Cayman LP and Tau Capital plc will be referred to as the "Group".

The Group intends to invest in public companies with substantial operating assets in Kazakhstan or in the Investment Countries who have securities listed on the KASE or other stock exchanges or over-the-counter-markets. These investments may be in combination with additional debt or equity-related financings, and potentially in collaboration with other financial and/or strategic investors.

In addition, the Group aims to provide equity and equity-related investment capital to private companies operating in, or with business exposure to Kazakhstan and further in the Investment Countries who are seeking capital for growth and development, consolidation or acquisition, or as a pre-initial public offering round of financing. Investments may also be made in special situations if Spencer House Compass Capital Ltd considers the investment to be of a type in keeping with the aims of the Group.

2. Accounting Policies

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB and applicable legal and regulatory requirements of the Isle of Man law and the AIM Rules of the London Stock Exchange.

b) Basis of presentation

The financial statements are presented in US dollars. The functional currency is also the US dollar.

In accordance with Section 3(5)(b)(iii) of the Isle of Man Companies Act 1982, no separate income statement has been presented for the Company. The amount of the Company's loss for the year recognised in the Consolidated Income Statement is US$101,439,663 (2007: US$416,130).

The Group's business activities, together with the factors likely to affect its future development, performance and positions are set out in the Investment Manager's Report on pages 3 to 8. Note 1 and note 11 to the financial statements include the Group's objectives and policies, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources and as a consequence the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and consolidated financial statements.

The Balance Sheet presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items. All of the Group's assets and liabilities are held for the purpose of being traded or are expected to be realised within one year.

All references to net assets throughout this document refer to net assets attributable to holders of Ordinary Shares unless otherwise stated.

c) Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires the Board of Directors to exercise its judgement in the process of applying the Group's accounting policies. Key estimates, assumptions and judgements that have significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

i) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the Balance Sheet cannot be derived from active markets, they are determined using a variety of valuation techniques. Where applicable, investments are valued according to the International Private Equity and Venture Capital Valuation Guidelines based on the opinions and advice of the Investment Manager. Valuation techniques may include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Further details concerning the uncertainties surrounding the valuation of private equity investments can be found in note 5.

2. Accounting Policies (continued)

d) Financial instruments

i) Classification

The Group designates its assets and liabilities into the category below in accordance with IAS 39 "Financial instruments: Recognition and Measurement".

Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through profit or loss is sub-divided into:

Financial assets and liabilities held for trading

These include equities, contracts for difference, money market instruments, OTC options and private equity investments. These instruments are acquired or incurred principally for the purpose of generating a profit from short-term fluctuation in price. Derivatives are categorised as held for trading, as the Group does not designate any derivatives as hedges for hedge accounting purposes as described under IAS 39.

ii) Recognition

All regular way purchases and sales of financial instruments are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the period generally established by regulation or convention in the market place. Realised gains and losses on disposals of financial instruments are calculated using the first-in-first-out ("FIFO") method.

iii) Initial measurement

Financial instruments categorised at fair value through profit or loss, are recognised initially at fair value, with transaction costs for such instruments being recognised directly in the Income Statement.

iv) Subsequent measurement

After initial measurement, the Group measures financial instruments which are classified as at fair value through profit or loss at their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments is based on their quoted market prices on a recognised exchange or sourced from a reputable broker/counterparty in the case of non-exchange traded instruments at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at their current bid prices, while financial liabilities are priced at their current offer prices.

If a quoted market price is not available on a recognised stock exchange or from a reputable broker/counterparty, the fair value of the financial instruments may be estimated by the Directors using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Unlisted investments are valued at the Directors' estimate of their fair value in accordance with the requirements of IAS 39 and guidelines issued by the International Private Equity and Venture Capital Association. In estimating fair value for an investment, the Directors will apply a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio and will use reasonable assumptions and estimations. An appropriate methodology will incorporate available information about all factors that are likely materially to affect the fair value of the investment. Valuation methodologies will be applied consistently from year to year, except where a change would result in a more accurate estimate of the fair value of the investment, which may be up or down.

When it proves impossible to obtain a market price, the Directors decide to value investments at fair value. The Directors will use their discretion and awareness of market conditions to evaluate the fair value of such investments.

v) De-recognition

The Group de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for de-recognition in accordance with IAS 39.

The Group de-recognises a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

An analysis of the fair value of financial instruments is set out in note 5.

e) Interest income and expense

Interest income and interest expense are recognised on an accruals basis, using the effective interest method, in line with contractual terms. Interest is accrued on a daily basis.

f) Dividend income and expense

Dividend income and expense are recognised in the Income Statement on the dates on which the relevant securities are listed as "ex-dividend". Dividend income is shown gross of any non-recoverable withholding taxes, which is disclosed separately in the Income Statement, and net of any tax credits.

2. Accounting Policies (continued)

g) Expenses

All expenses, including performance fees and management fees, are recognised in the Income Statement on an accruals basis.

h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

i) Foreign currency translation

i) Functional and presentation currency

Items included in the Group's financial statements are measured and presented using the currency of the primary economic environment in which it operates (the "functional currency"). This is the US dollar, which reflects the Group's primary activity of investing in US dollar securities and derivatives.

The above accounting policy has been updated to reflect the US dollar as the Group's functional currency as the Kazakhstan tenge was erroneously included as the functional currency in the annual financial statements for the period ended 31 December 2007. This change in accounting policy has had no impact on the financial statements as the Group's trading has been conducted in US dollars since inception.

ii) Foreign currency transactions

Monetary assets and liabilities and financial instruments categorised as at fair value through profit or loss, denominated in currencies other than the US dollar are translated into US dollars at the closing rates of exchange at each year end. Transactions during the year, including purchases and sales of securities, income and expenses are translated at the rate of exchange prevailing on the date of the transaction. Foreign currency transaction gains and losses are included in the Income Statement.

j) Cash and cash equivalents

Cash and cash equivalents comprise of cash balances with a maturity date of up to three months. They are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

The above accounting policy has been updated as a proportion of the amount due from brokers as disclosed in the annual financial statements for the period ended 31 December 2007 met the definition of cash under International Accounting Standards, as they could be withdrawn from the broker without penalty or notice. This reclassification increased the cash and cash equivalents as disclosed on the Consolidated Balance Sheet as at 31 December 2007 to US$13,212,430 where they were previously stated as US$257,890.

k) Amounts due from brokers

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the Balance Sheet date respectively.

l) Taxation

The Group is resident for tax purposes in the Isle of Man and will be subject to Isle of Man corporate income tax at the current rate of 0%.

The Group is exempt from all forms of taxation in the Cayman Islands, including income, capital gains and withholding taxes.

The Group is exempt from all forms of taxation in the Netherlands, including income, capital gains and withholding taxes.

m) Share capital

The Group's founder shares are classified as equity in accordance with the Group's Articles of Association.

n) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group (its subsidiaries and subsidiary undertakings). Control is achieved where the Group has the power to govern the financial and operating policies of a portfolio company so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

o) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The investment strategy of the Group is focused on entities that operate in or have an exposure to Kazakhstan. Accordingly, the Directors are of the opinion that the Group is engaged in a single segment of business being investment business in one geographical area being Kazakhstan.

2. Accounting Policies (continued)

p) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, from the date that they are issued. The equity-settled transactions were fully vested on the date of their issue.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

3. Financials Instruments at Fair Value through Profit or Loss

	As at 31 December 2008 US$	As at 31 December 2007 US$
Held for trading:		
Public equities	**43,529,814**	204,647,221
Private equity	**37,952,693**	3,776,000
Money market instrument	—	11,266,240
Debt instrument	**2,089,210**	—
Derivatives: options	—	837,511
Derivatives: contracts for difference	—	821,523
Total financial assets at fair value through profit or loss	**83,571,717**	221,348,495
Held for trading:		
Public equities	**(6,698,327)**	(13,047,889)
Derivatives: options	—	(10,667,335)
Derivatives: contracts for difference	**(1,623,691)**	(327,379)
Total financial liabilities at fair value through profit or loss	**(8,322,018)**	(24,042,603)
Net changes in fair value of financial assets and liabilities through profit or loss		
Net realised gain on investments and foreign exchange	**32,924,449**	6,554,878
Net unrealised loss on investments and foreign exchange	**(131,793,440)**	(6,597,577)
Total losses	**(98,868,991)**	(42,699)

4. Derivative Contracts

Typically, derivative contracts serve as components of the Group's investment strategy and are utilised primarily to structure and hedge investments to enhance performance and reduce risk to the Group (the Group does not designate any derivatives as hedges for hedge accounting purposes as described under IAS 39). The derivative contracts that the Group holds or issues are over-the-counter ("OTC") options and contracts for differences ("CFDs").

The Group records its derivative activities on a mark-to-market basis. Fair values are determined by using quoted market prices. For OTC contracts, the Group enters into master netting agreements with its counterparties, therefore, assets represent the Group's unrealised gains less unrealised losses for OTC contracts in which the Group has a master netting agreement. Similarly, liabilities represent net amounts owed to counterparties on OTC contracts.

A breakdown of the fair value of the derivatives held as at 31 December 2008 and 31 December 2007 can be found in note 3 to the financial statements above.

The primary difference in the risk associated with OTC contracts and exchange-traded contracts is credit risk. The Group has credit risk from OTC contracts when two conditions are present (i) the OTC contracts have unrealised gains, net of any collateral and (ii) the counterparty to the contract defaults. The credit risk related to exchange-traded contracts is minimal because the exchange ensures that their contracts are always honoured.

The Group purchases or sells put and call options through the OTC markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser of the option the opportunity to purchase from or sell to the Group the underlying asset at an agreed-upon value either on or before the expiration of the option.

Premiums received from writing options are marked to market in accordance with note 2 and the resulting gains or losses are recorded in the Income Statement.

4. Derivative Contracts (continued)

CFDs represent agreements that obligate two parties to exchange cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified amount of an underlying asset or otherwise deemed notional amount. The payment flows are usually netted against each other, with the difference being paid by one party to the other. Therefore amounts required for the future satisfaction of the CFD may be greater or less than the amount recorded. The ultimate gain or loss depends upon the prices at which the underlying financial instruments of the CFD is valued at the CFD's settlement date and is included in the Income Statement.

5. Fair Value of Financial Instruments

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market and those where the valuation technique involves the use of non-market observable inputs.

As at 31 December 2008, the breakdown was as follows:

	Quoted market price US$	Market observable inputs US$	Non-market observable inputs US$	Total US$
Financial assets				
Held for trading	**43,529,814**	**2,089,210**	**37,952,693**	**83,571,717**
Financial liabilities				
Held for trading	**(8,322,018)**	**—**	**—**	**(8,322,018)**
	35,207,796	**2,089,210**	**37,952,693**	**75,249,699**

As at 31 December 2007, the breakdown was as follows:

	Quoted market price US$	Market observable inputs US$	Non-market observable Inputs US$	Total US$
Financial assets				
Held for trading	216,734,984	837,511	3,776,000	221,348,495
Financial liabilities				
Held for trading	(13,375,268)	(10,667,335)	—	(24,042,603)
	203,359,716	(9,829,824)	3,776,000	197,305,892

Financial instruments included in each category are as follows for which accounting policies can be found in note 2 to the Financial Statements:

Quoted market price:	Public equities, money market instruments, debt instruments and contracts for difference
Market observable inputs:	Options
Non-market observable inputs:	Private equities

As stated in note 2(c), where the valuation is dependent on non-market observable inputs, a degree of judgement is required in establishing fair values. Accordingly, the valuation of the private equity financial assets is subject to inherent uncertainty. The adverse conditions and major market developments which impact these valuations include a fall on the Kazakh stock exchange of 63% in US dollar terms in 2008 and the financial crises in Kazakhstan after the year-end which led to the nationalisation of two banks and the devaluation of the Kazakhstan tenge by 22% against the US dollar.

6. Amounts Due from Brokers

	As at 31 December 2008 US$	As at 31 December 2007 US$
Cash held with broker	**48,715,121**	29,264,592

7. Cash and cash equivalents

	As at 31 December 2008 US$	As at 31 December 2007 US$
Cash	**3,500,033**	13,212,430

8. Fees and Expenses

Management fees

The Investment Manager is entitled to receive from the Group a management fee equal to 2% per annum of the net asset value of the Group. The Group will pay the management fee semi-annually in advance.

In addition to the above, the Group bears the third party and other out-of-pocket expenses reasonably incurred in the performance of the duties of the Investment Manager, provided that, the amount of the expenses shall not exceed the annual cap of US$500,000.

The investment management fee for the year was US$4,675,895 (2007: US$3,120,798) of which US$Nil was outstanding as at 31 December 2008.

Performance fees

The Investment Manager is also entitled to receive a performance fee if the net asset value of the Group as at 31 December in the relevant year is greater than or equal to the Group's high water mark.

No performance fees were earned for the year ended 31 December 2008 or 31 December 2007.

Administrator and sub-administrator fees

The Administrator is entitled to receive a fixed fee of £6,250 each calendar quarter.

The Sub-administrator is entitled to receive a monthly fee for the provision of administration and accounting services of US$3,000 plus an additional fee at the following rates:

a) 0.08% of the first US$100 million of average net assets;

b) 0.06% of the next US$100 million of average net assets;

c) 0.04% of the next US$100 million of average net assets; and

d) 0.03% of the average net assets in excess of US$300 million.

The Sub-administrator is also entitled to receive a monthly fee for its trade support and middle office services at the following rates:

a) 0.06% of the first US$100 million of average net assets;

b) 0.04% of the next US$100 million of average net assets; and

c) 0.03% of the average net assets in excess of US$200 million.

Fees paid to the Administrator and Sub-administrator for the year ended 31 December 2008 were US$59,711 (2007: US$31,108) and US$272,383 (2007: US$ 197,139), respectively.

Directors' remuneration

The Directors are entitled to receive by way of fees for their services as Directors, such sum as the Board may determine (not exceeding £400,000 per annum or such other sum as the Group in General Meeting shall determine). Each Director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as a Director.

The Directors' remuneration expense for the year amounted to US$272,423 (2007: US$65,206).

Operating expenses

The Group meets all its own costs and expenses including the costs and expenses of advisors, consultants and other agents engaged on its behalf, commissions, banking fees, legal expenses, auditors, listing costs and the costs of distribution of reports and accounts and similar documentation to shareholders. Costs incurred by the Group in connection with the placing were met by the Group.

8. FEES AND EXPENSES (CONTINUED)

Operating expenses (continued)

The following table shows the breakdown of accounts payable and accrued expenses as at 31 December 2008 and 31 December 2007:

	As at 31 December 2008 US$	As at 31 December 2007 US$
Administration fees payable	**(27,981)**	(78,294)
Dividends payable	**(53,843)**	(57,163)
Audit fees payable	**(67,754)**	(32,603)
Other accounts payable and accrued expenses	**(59,455)**	(454,647)
	(209,033)	(622,707)

The following table shows the breakdown of operating expenses incurred for the year ended 31 December 2008 and 31 December 2007:

	For the year ended 31 December 2008 US$	For the period ended 31 December 2007 US$
Management fees	**(4,675,895)**	(3,120,798)
Administration fees	**(332,094)**	(228,247)
Directors' remuneration expense	**(272,423)**	(65,206)
Audit fees	**(134,309)**	(32,603)
Other operating expenses	**(2,020,026)**	(574,543)
	(7,434,747)	(4,021,397)

The 2007 Report and Accounts incorrectly did not account for $87,722 of Directors' fees unpaid at December 31, 2007 but paid in 2008, leading to an understatement in 2007 but an offsetting additional charge in 2008. Consequently the Directors' remuneration expense in the above table would have recorded $184,701 in 2008 and $152,928 in 2007 if this incorrect period allocation had not occurred.

9. SHARE CAPITAL AND SHARE PREMIUM

The authorised share capital of the Group is £3,502,000 comprising 350,199,998 Ordinary Shares of £0.01 each and two founder shares of £0.01 each. The founder shares carry identical rights and privileges to the Ordinary Shares of the Group. The share capital of the Group has been allocated, called up and fully paid. The shares issued during the year were as follows:

	For the year ended 31 December 2008 shares	For the period ended 31 December 2007 shares
Balance at the beginning of the period	**251,000,002**	—
Issue of ordinary shares during the period	**—**	251,000,002
Purchase of ordinary shares during the period	**(12,550,000)**	—
Balance at the end of the period	**238,450,002**	251,000,002

The share premium which arose on the placing of shares in 2007 was cancelled and reclassified as a distributable reserve with permission from the High Court on 26 March 2008.

On 19 June 2008, Tau Capital plc acquired 12,550,000 of its own Ordinary Shares of 1p each at a price of US$0.765 per share, representing 5% of its issued share capital. Following the purchase 238,450,002 Ordinary Shares were in issue.

10. Related Party Transactions

Richard Horlick, a Director of the Group as listed on page 10, is a founding partner of Spencer House Capital Management, LLP.

Michael Sauer, a Director of the Group as listed on page 10, is the Chief Executive Officer of Visor Holdings LLP.

Almas Chukin, a Director of the Group as listed on page 10, is the Chairman of Compass Asset Management Ltd.

Philip Scales, a Director of the Group as listed on page 10, is the Managing Director of IOMA Fund and Investment Management Ltd.

Details of Directors' remuneration can be found in note 8.

As at 31 December 2008 and 31 December 2007 Philip Lambert and Robert Brown, III each held 500,000 Ordinary Shares. These shares were granted in consideration for the provision of services pursuant to their letters of appointment as Non-executive Directors.

As at 31 December 2008 and 31 December 2007, Richard Horlick held 5,000,000 Ordinary Shares.

As at 31 December 2008 and 31 December 2007, both Spencer House Capital Management, LLP and Compass Asset Management Ltd held one founder share each.

11. Financial Instruments and Associated Risks

Introduction

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability. The Group is exposed to market risk (which includes currency risk, interest rate risk and other price risk), credit risk and liquidity risk arising from the financial instruments it holds.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks. However, it is the Investment Manager who manages and monitors risks on an ongoing basis.

Risk measurement and reporting system

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The model makes use of the probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks are primarily performed based on limits established by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Risk mitigation

The Group has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy and have established processes to monitor and control economic hedging transactions in a timely and accurate manner. The Group uses derivatives and other instruments for trading purposes and in connection with its risk management activities.

Excessive risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risks are controlled and managed accordingly.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes interest rate risk, foreign currency risk and "other price risks", such as equity and commodity risk.

The Group's strategy on the management of investment risk is driven by its investment objective as outlined in note 1 to the financial statements. Details of the Group's financial instruments outstanding at the balance sheet date can be seen in the Schedule of Investments on pages 35 to 36.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The trading equity price risk exposure arises from the Group's investment portfolio. The Group manages this risk by investing on different stock exchanges.

Price movements are influenced by, among other things, changing supply and demand relationships, monetary and exchange control programs, policies of governments, political and economic events, and policies and emotions of the marketplace.

11. Financial Instruments and Associated Risks (continued)

Market risk (continued)

Equity price risk (continued)

The Investment Manager considers the asset allocation of the portfolio in order to minimise the risks associated whilst achieving the Group's investment objectives. The Group maintains a diversified portfolio both in terms of the number of positions, their geographic location (as detailed in the Schedule of Investments on pages 35 to 36) and industry sector.

The following table shows the breakdown by industry sector as at 31 December 2008:

	Financial assets at fair value through profit or loss US$	Financial liabilities at fair value through profit or loss US$
Commercial banks (non US)	**5,254,544**	**—**
Financial	**2,119,306**	**(8,322,018)**
Gold mining	**8,403,507**	**—**
Metals diversified	**12,207,929**	**—**
Oil exploration	**14,630,494**	**—**
Oil services and infrastructure	**19,500,000**	**—**
Paper and related products	**352,000**	**—**
Telecom services	**21,103,937**	**—**
	83,571,717	**(8,322,018)**

The following table shows the breakdown by industry sector as at 31 December 2007:

	Financial assets at fair value through profit or loss US$	Financial liabilities at fair value through profit or loss US$
Building products	—	(2,269,289)
Commercial banks (non US)	52,401,678	—
Financial	821,523	(11,105,979)
Gold mining	28,480,500	(667,335)
Investment companies	11,927,478	—
Metals diversified	35,545,631	—
Oil exploration	73,047,954	(10,000,000)
Paper and related products	8,320,000	—
Telecom services	10,803,731	—
	221,348,495	(24,042,603)

The Investment Manager manages market positions on a daily basis and seeks to mitigate this risk by applying the following restrictions to the portfolio of investments:

(i) the Group acquires only minority stakes in public investments;

(ii) where the Group secures a substantial minority stake or a controlling stake in a private company, it obtains appropriate board representation;

(iii) the Group will not invest more than 15% of the net asset value of the Group in a single company or single affiliated group of companies; and

(iv) the Group will not invest more than 30% of the net asset value of the Group in any one sector.

The Group's overall market positions are monitored on a quarterly basis by the Board of Directors during Board meetings.

Given the market volatility since the end of the year, the Group was well insulated to the overall market gyrations. With 20% of the portfolio in cash and another 20% in short exposures we believe this helped reduce the impact of market volatility on the Group's financial assets since the end of the year.

11. Financial Instruments and Associated Risks (continued)

Market risk (continued)

Equity price risk (continued)

Management's best estimate of the effect on net assets and profit due to a reasonably possible change in significant equity indices, with all other variables held constant as at 31 December 2008 is as follows:

Market Indices	Change in equity price	Effect on profit and net assets US$
FT-AIM (AXX)	**10% decrease**	**(817,756)**
Toronto (SPTSX)	**10% decrease**	**(1,377,641)**
KZKAK	**50% decrease**	**(5,779,782)**

Management's best estimate of the effect on net assets and profit due to a reasonably possible change in significant equity indices, with all other variables held constant as at 31 December 2007 was as follows:

Market Indices	Change in equity price	Effect on profit and net assets US$
FT-AIM (AXX)	0.1% increase	40,274
Toronto (SPTSX)	4.0% increase	1,702,725
KZKAK	9.0% increase	7,718,685

Management's best estimate of the effect on net assets and profit due to a reasonably possible change in private equities of 10%, with all other variables held constant as at 31 December 2008 is US$3,795,269 (31 December 2007: immaterial).

(In practice the actual trading results may differ from this change and the difference could be material).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group invests in assets denominated in currencies other than its presentation currency, the US dollar. Consequently, the Group is exposed to risks that the exchange rate of the US dollar, relative to other currencies, may change in a manner which has an adverse effect on the reported value of that portion of the Group's assets which is denominated in currencies other than the US dollar.

The Group's currency risk is managed on a daily basis by the Investment Manager through a review of the portfolio. The Group's overall currency risk is monitored on a quarterly basis by the Board of Directors during Board meetings.

At 31 December 2008 the Group's exposure to foreign currency was as follows:

	Financial assets US$	Financial liabilities US$	Cash and cash equivalents US$	Other assets and liabilities US$	Total US$
Canadian dollar	11,803,874	—	36,762	76,652	11,917,288
Euro	—	—	633	—	633
Kazakhstan tenge	6,086,444	—	10,197	1,381	6,098,022
Pound sterling	12,269,362	—	1,420,612	—	13,689,974
US dollar	53,412,037	(8,322,018)	2,031,829	49,724,245	96,846,093
	83,571,717	**(8,322,018)**	**3,500,033**	**49,802,278**	**128,552,010**

11. Financial Instruments and Associated Risks (continued)

Market risk (continued)

Currency risk (continued)

At 31 December 2007 the Group's exposure to foreign currency was as follows:

	Financial assets US$	Financial liabilities US$	Cash and cash equivalents US$	Other assets and liabilities US$	Total US$
Canadian dollar	36,969,638	—	—	7,124	36,976,762
Euro	458,257	(327,379)	—	64,969	195,847
Kazakhstan tenge	41,802,529	—	—	15,808	41,818,337
Pound sterling	54,526,369	(2,269,289)	—	5,604,608	57,861,688
US dollar	87,591,702	(21,445,935)	13,212,430	23,381,592	102,739,789
	221,348,495	(24,042,603)	13,212,430	29,074,101	239,592,423

The analysis below discloses management's best estimate of the effect of a reasonably possible movement in currency rates against the US dollar, with all other variables held constant on the Income Statement (due to the fair value of currency sensitive trading monetary assets and liabilities) and net assets (due to the change in fair value of currency swaps and forward foreign exchange contracts). A negative amount in the table reflects a potential net reduction in Income Statement or net assets, while a positive amount reflects a net potential increase as at 31 December 2008.

	% change	**Financial assets US$**	**Cash and cash equivalents US$**	**Other assets US$**	**Effect on profit and net assets US$**
Canadian dollar	**10% increase**	**(1,180,387)**	**(3,676)**	**(7,665)**	**(1,191,728)**
Euro	**10% increase**	**—**	**(63)**	**—**	**(63)**
Kazakhstan tenge	**25% increase**	**(1,521,611)**	**(2,549)**	**(345)**	**(1,524,505)**
Pound sterling	**10% increase**	**(1,226,936)**	**(142,061)**	**—**	**(1,368,997)**
		(3,928,934)	**(148,349)**	**(8,010)**	**(4,085,293)**

(In practice the actual trading results may differ from this change and the difference could be material.)

The analysis below discloses management's best estimate of the effect of a reasonably possible movement in currency rates against the US dollar, with all other variables held constant on the Income Statement (due to the fair value of currency sensitive trading monetary assets and liabilities) and net assets (due to the change in fair value of currency swaps and forward foreign exchange contracts). A negative amount in the table reflects a potential net reduction in Income Statement or net assets, while a positive amount reflects a net potential increase as at 31 December 2007.

	% change	Financial assets US$	Financial liabilities US$	Other assets and liabilities US$	Effect on profit and net assets US$
Canadian dollar	8% increase	(2,957,571)	—	(570)	(2,958,141)
Euro	10% increase	(45,826)	32,738	(6,497)	(19,585)
Kazakhstan tenge	7% increase	(2,926,177)	—	(1,107)	(2,927,284)
Pound sterling	5% increase	(2,726,318)	113,464	(280,230)	(2,893,084)
		(8,655,892)	146,202	(288,404)	(8,798,094)

Interest rate risk

The majority of the Group's financial assets and liabilities are non-interest bearing. As a result, the Group is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

The Group's interest rate risk is managed on a daily basis by the Investment Manager and is monitored on a quarterly basis by the Board of Directors during Board meetings.

11. Financial Instruments and Associated Risks (continued)

Market risk (continued)

Liquidity risk

Kazakhstan and the Investment Countries have less liquid and developed securities markets than the United States of America and Western Europe. The public equities which are listed on KASE or a stock market in the Investment Countries may be less liquid and may carry a higher risk than an investment in shares listed on markets in the United States of America and Western Europe.

Given that organised securities markets in Kazakhstan and the investment countries have been established relatively recently, the procedures for settlement, clearing and registration of securities transactions may be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan and the Investment Countries. In particular, legal protections against market manipulation and insider trading are less well developed in Kazakhstan and the Investment Countries, and less strictly enforced, than in the United States of America and Western European countries, and existing laws and regulations may be applied inconsistently with consequent irregularities in enforcement. In addition, less information relating to the proposed target entities and certain of the investments may be publicly available to investors in securities issued or guaranteed by such entities than is available to investors in entities organised in the United States of America or Western European countries.

The Group's liquidity is managed on a daily basis by the Investment Manager. The objective of the Group is to establish portfolio positions on the merits of the investment case for the stock. The Investment Manager takes care to note the liquidity of a company before investing. The Investment Manager builds significant positions where it sees significant upside potential, sometimes in cases where there is limited liquidity, believing that the liquidity will improve as the market perceives better value in the company. The portfolio has a spread of investments in both semi-liquid and very liquid companies which diversifies its exposure across sectors and markets.

As at 31 December 2008, the Group held private equity investments with an estimated total fair value of US$37,952,693 which represents 29.52% of the Group's net assets. These investments are considered to be illiquid as there is no active market for the purchase and sale of these investments.

The table below analyses the Group's financial liabilities as at 31 December 2008 into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 month US$	1–6 months US$	Payable on demand US$
Financial liabilities at fair value through profit or loss	—	—	(8,322,018)
Accounts payable and other expenses	(141,279)	(67,754)	—
	(141,279)	**(67,754)**	**(8,322,018)**

The table below analyses the Group's financial liabilities as at 31 December 2007 into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 month US$	1–6 months US$	Payable on demand US$
Financial liabilities at fair value through profit or loss	—	(10,667,335)	(13,375,268)
Accounts payable and other expenses	(590,104)	(32,603)	—
	(590,104)	(10,699,938)	(13,375,268)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. It is the Group's policy to enter into financial instruments with a range of reputable counterparties. Therefore, the Group does not expect to incur material credit losses on its financial instruments.

Financial assets, which potentially expose the Group to credit risk, consists principally of cash due from brokers. The Group's cash balances are primarily with high credit quality, well-established financial institutions. The extent of the Group's exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Group's Balance Sheet.

With respect to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

11. Financial Instruments and Associated Risks (continued)

Market risk (continued)

Credit risk (continued)

The Group invests in financial assets which are principally equity in nature and listed. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Transactions are only concluded with counterparties which have an investment grade as rated by a well known rating agency. All publicly held assets are held under a Prime Brokerage relationship with either Morgan Stanley & Co International plc, operating as a subsidiary of Morgan Stanley Plc, or Subsidiary Bank HSBC Kazakhstan Joint Stock Company operating as a subsidiary of HSBC Plc.

At 31 December 2008 the brokers had the following ratings:

	Standard & Poors	Moody's	Fitch
Morgan Stanley Plc	**A**	**A2**	**A**
HSBC Plc	**AA**	**AA1**	**not rated**

The following table shows the value of net assets held with each Prime Broker as at 31 December 2008:

	Financial assets US$	Financial liabilities US$	Amounts due from brokers US$
Morgan Stanley International Plc	**77,485,273**	**(8,322,018)**	**48,715,121**
Subsidiary Bank HSBC Kazakhstan Joint Stock Company	**6,086,444**	**—**	**—**
	83,571,717	**(8,322,018)**	**48,715,121**

The following table shows the value of net assets held with each Prime Broker as at 31 December 2007:

	Financial assets US$	Financial liabilities US$	Amounts due from brokers US$
Morgan Stanley International Plc	175,769,966	(24,042,603)	29,263,627
Subsidiary Bank HSBC Kazakhstan Joint Stock Company	41,802,529	—	965
	217,572,495	(24,042,603)	29,264,592

The Group may be adversely impacted by an increase in its credit exposure related to investing, financing and other activities. The Group is exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honour its contractual obligations. These credit exposures exist within financing relationships, commitments, derivatives and other transactions. These exposures may arise, for example, from a decline in the financial condition of a counterparty, from entering into derivative contracts under which counterparties have obligations to make payments to us, from a decrease in the value of securities of third parties that the Group holds as collateral, or from extending credit through guarantees or other arrangements. As the Group's credit exposure increases, it could have an adverse effect on the Group's business and profitability if material unexpected credit losses occur. The Investment Manager manages the Group's credit risk through regular monitoring of the counterparty's creditworthiness, with particular reference to ratings checks, third party research and the counterparty's reputation in the market. The Group's credit risk is monitored on a quarterly basis by the Board of Directors.

12. Exchange Rates

The following exchange rates were used to translate assets and liabilities into US dollars at 31 December 2008 and 31 December 2007:

	31 December 2008	31 December 2007
Canadian dollar	**1.234499**	1.013223
Euro	**1.390047**	1.462052
Kazakhstan tenge	**0.008273**	0.008284
Pound sterling	**1.437753**	1.990604

13. Distributions

Subject to the provisions of the Articles, the Group may by ordinary resolution, declare that out of profits available for distribution, in accordance with Isle of Man law, dividends be paid to members according to their respective rights and interests in the profits of the Group. However, no dividend shall exceed the amount recommended by the Board. There is no fixed date on which an entitlement to dividend arises.

No dividends were paid during the year ended 31 December 2008 and 31 December 2007.

14. Soft Commissions

During the year, the Investment Manager and connected persons have not entered into soft commission arrangements with brokers in respect of which certain goods and services used to support investment decision making were received.

15. Commitments and Contingent Liabilities

As at 31 December 2008 and 31 December 2007, the Group did not have any significant commitments or contingent liabilities.

16. Valuation of the Group

The Net Asset Value of the Group as at 31 December 2008 and 31 December 2007, as reported at the time, differs from the financial statements. In accordance with IAS 39, long positions in the financial statements are valued at bid prices and short positions at offer prices.

	As at 31 December 2008 US$	As at 31 December 2007 US$
Net Asset Value for reporting purposes	**130,206,722**	241,720,127
Adjustment to last traded prices	**(1,654,712)**	(2,127,704)
Net Asset Value per financial statements	**128,552,010**	239,592,423
Reported Net Asset Value per share	**$0.55**	$0.96
Adjusted Net Asset Value per share	**$0.54**	$0.95

17. Earnings per Share

Basic earnings per share is calculated by dividing the net profit or loss attributable to shareholders by the weighted average number of ordinary share outstanding during the year.

	For the year ended 31 December 2008	For the period ended 31 December 2007
Net loss attributable to shareholders	**($101,439,663)**	($416,130)
Weighted average number of ordinary shares in issue	**243,679,169**	251,000,002
Basic earnings per share	**($0.42)**	($0.00)

There is no difference between the fully diluted earnings per share and basic earnings per share.

18. Investments in Subsidiaries

The subsidiaries of Tau Capital plc are recorded at cost less any diminution in value in the accounts of the Company.

Name	Country of incorporation	Principal investment activity	Proportion of ownership interest
Tau Cayman Limited	Cayman Islands	Business administration	100%
Tau Capital (Public Investments) Limited	Cayman Islands	Investment holding	100%
Tau Cayman LP	Cayman Islands	Investment holding	100%
Tau SPV 1 Cooperatief	The Netherlands	Investment holding	100%
Tau SPV 2 Cooperatief	The Netherlands	Investment holding	100%

19. Off Balance Sheet Risk

Securities sold short and options written represent obligations of the Group to deliver the specified security at the contracted price, and thereby create a liability to repurchase the security in the market at prevailing prices. Accordingly, these securities may result in off balance sheet risk as the Group's satisfaction of the obligations may exceed the amount recognised in the Balance Sheet.

20. Changes in Accounting Standards

The following are the standards, amendments and interpretations were in issue during the year but which were not yet adopted at the reporting date:

IAS 1 "Presentation of Financial Statements" is effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The standard will replace IAS 1 "Presentation of Financial Statements" (revised in 2003) as amended in 2005. The main objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. The revision is intended to improve users' ability to analyse and compare the information given in financial statements. The Group will consider the implications of IAS 1 and will apply IAS 1 from 1 January 2009 (or early if appropriate).

IFRS 8 "Operating Segments" was issued in November 2006 and is effective for annual periods beginning on or after 1 January 2009. IFRS 8 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The Group has determined that the operating segments disclosed in IFRS 8 will be the same as the business segments disclosed under IAS 14. The impact of this standard on the other segment disclosures is still to be determined. As this is a disclosure standard, it will have no impact on the financial position of financial performance of the Group when implemented in 2009.

IAS 27 "Consolidated and Separate Financial Statements" issued in January 2008 will supersede IAS 27 "Consolidated and Separate Financial Statements" (revised in 2003). IAS 27 is effective for accounting periods beginning on or after 1 July 2009 with early adoption permitted. The main change from the previous version is the reduction of alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. The Group will consider the implications of IAS 27 and apply from 1 July 2009, if deemed applicable at the time.

IFRS 2 "Share-Based Payment-Vesting Conditions and Cancellations" issued on 17 January 2008 will supercede IFRS 2 "Share-Based Payment-Vesting Conditions and Cancellations" (revised in 2003). IFRS 2 is effective for accounting periods beginning on or after 1 January 2009 with early adoption permitted. The amendment clarifies that vesting conditions are service conditions and performance conditions only. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will consider the implications of IFRS 2 and apply from 1 January 2009, if deemed applicable at the time.

IFRIC 15 "Agreements for the Construction of Real Estate" and IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" were also in issue during the year but not yet adopted at the reporting date however these aren't considered to have any material impact on the accounts in future periods.

21. Share-Based Payments

The following share-based payment arrangement was in existence with Numis Securities Limited, the Company's Nominated Adviser and Broker, at 31 December 2008 and 31 December 2007. This arrangement was conditional upon admission of the ordinary share capital of the Company to AIM operated by the London Stock Exchange:

Options	Number	Grant date	Expiry date	Exercise price US$
Issued 3 May 2007	2,510,000	3 May 2007	3 May 2012	1.00

The Directors have determined that the fair value of the options granted (which were fully vested at the date of grant) could not be reliably measured at the measurement date (the date of grant). Therefore in accordance with IFRS 2 "Share Based Payments", the intrinsic value method has been used to determine the value of the share-based payment transaction. As at the measurement date and the current financial year-end, the intrinsic value is nil as the exercise price is greater than the market price.

22. Significant Events during the Year

During the year ended 31 December 2008, Ernst & Young resigned and Deloitte & Touche were appointed as independent auditors to the Group.

23. Events After the Balance Sheet Date

There were no material events after the balance sheet date, which have a material bearing on the understanding of these financial statements.

24. Approval of Financial Statements

The Annual Report and financial statements were approved by the Directors on 1 April 2009.

Schedule of Investments

as at 31 December 2008

Investment name	Fair value US$	% of net assets
Financial assets at fair value through profit or loss		
Equities – public		
Canada		
Gold mining	5,705,811	4.44%
Metals diversified	7,331,557	5.70%
Oil exploration	739,041	0.58%
	13,776,409	**10.72%**
Kazakhstan		
Commercial banks (non US)	5,254,544	4.09%
Gold mining	95,000	0.07%
Oil exploration	3,206,776	2.49%
Paper and related products	352,000	0.27%
Telecom services	2,651,244	2.06%
	11,559,564	**8.98%**
Ireland		
Oil exploration	5,062,671	3.94%
	5,062,671	**3.94%**
Jersey		
Gold mining	513,486	0.40%
	513,486	**0.40%**
United Kingdom		
Financial	2,119,306	1.65%
Metals diversified	4,876,372	3.79%
Oil exploration	1,181,880	0.92%
	8,117,558	**6.36%**
United States of America		
Oil exploration	4,440,126	3.45%
	4,440,126	**3.45%**
Equities – private		
Kazakhstan		
Oil services and infrastructure	19,500,000	15.18%
Telecom services	18,452,693	14.35%
	37,952,693	29.53%
Total equities	**81,482,507**	**63.38%**
Debt instrument		
Uzbekistan		
Gold mining	2,089,210	1.63%
	2,089,210	**1.63%**
Total debt instrument	2,089,210	1.63%
Total financial assets at fair value through profit or loss	**83,571,717**	**65.01%**

Schedule of Investments (continued)

as at 31 December 2008

Investment name	Fair value US$	% of net assets
Financial liabilities at fair value through profit or loss		
Equities – public		
United States of America		
Financial		
(74,850) SPDR Trust Series 1	(6,698,327)	(5.21%)
	(6,698,327)	(5.21%)
Total equities	**(6,698,327)**	**(5.21%)**
Contracts for difference		
United Kingdom		
Financial	(227,291)	(0.18%)
	(227,291)	**(0.18%)**
United States of America		
Financial	(1,396,400)	(1.09%)
	(1,396,400)	**(1.09%)**
Total contracts for difference	**(1,623,691)**	**(1.27%)**
Total financial liabilities at fair value through profit or loss	**(8,322,018)**	**(6.48%)**
Financial assets and liabilities at fair value through profit or loss	**75,249,699**	58.53%
Cash and cash equivalents	3,500,033	2.72%
Other assets in excess of liabilities	49,802,278	38.75%
Total net assets	**128,552,010**	**100.00%**

Company Information

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IOMA House
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Investment Manager
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George Town
Grand Cayman
Cayman Islands

Administrator and Registrar
IOMA Fund and Investment Management Ltd
IOMA House
Hope Street
Douglas IM1 1AP
Isle of Man

Nominated Adviser and Broker
Numis Securities Ltd
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UK Solicitors
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United Kingdom

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Sub-Administrator
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Isle of Man Advocates
Cains Advocates Ltd
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CREST Service Provider and UK Transfer Agent
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Custodians
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*Effective from 17 July 2008, PFPC International Ltd changed name to PNC Global Investment Servicing (Europe) Ltd.

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