Tau Capital plc

Annual Report and Accounts 2007

Company Information

Company Secretary
Philip Scales

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Investment Manager
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PO Box 309 GT, Ugland House, South Church Street, George Town,
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Investment Advisers
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Custodians
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Administrator and Registrar
IOMA Fund and Investment Management Ltd
IOMA House, Hope Street, Douglas IM1 1AP, Isle of Man

Sub-Administrator
PFPC International Ltd
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Independent Auditors
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51–59 Circular Road, Douglas IM1 1AZ, Isle of Man

UK Solicitors
White & Case LLC
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15–19 Athol Street, Douglas IM1 1LB, Isle of Man

Cayman Islands Counsel
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CREST Service Provider and UK Transfer Agent
Computershare Investor Services (Channel Islands) Limited
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Corporate Statement

Tau Capital plc ("Tau") is a closed-end investment fund registered in the Isle of Man and traded on the Alternative Investment Market ("AIM") of the London Stock Exchange.

Tau was established to allow 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 are proposed through the utilisation of 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, telecommunication, financial services and business services.

Tau aims to invest in the public equities of companies with assets in Kazakhstan or its neighbouring countries (or whose business has exposure to this region), that have securities listed on the KASE or any other stock exchange or are otherwise traded on over-the-counter markets in Kazakhstan, its neighbouring countries, or internationally.

Additionally, the Company will also provide equity and equity-related investment capital to private companies operating in or with business exposure to Kazakhstan and its neighbouring countries who are seeking capital for growth and development, consolidation or acquisition, or as a pre-IPO round of financing. Investments may also be made in special situations if the Investment Manager considers the investment to be of a type in keeping with the aims of the Fund.

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Chairman's Statement

In my first statement as Chairman of Tau Capital plc, I am delighted to be able to report that in spite of the fact that a substantial part of the period since inception in May 2007 to the end of 2007 has been very challenging, the Company has made encouraging progress in the execution of its investment strategy.

The Company floated on the Alternative Investment Market (AIM) of the London Stock Exchange on 9 May 2007, successfully placing 251 million ordinary shares at $1.00 per share and raising US$250 million before issue costs.

Upfront costs relating to the admission of the Company's ordinary shares to AIM, corresponding to approximately $0.04 per share, were deducted in calculating the monthly and end of year Net Asset Value ("NAV"). With this in mind, the audited NAV of $0.95 (please refer to note 16 for further details) as at 31 December 2007 represents a sound performance by the Company over the period. During the same period and amidst a turbulent investment environment, the MSCI World index gained 0.63% while the KASE index fell 1.05%.

Since admission, the Company has committed approximately 80% of the capital raised, predominately in publicly-listed securities, and has taken a cautious approach to private equity opportunities in the expectation that the parameters for these deals will improve. It remains well positioned to continue to invest in further opportunities that are expected to generate strong returns for its shareholders.

Philip Lambert
Chairman
25 March 2008

Investment Manager's Report

Reported Monthly Net Asset Value (NAV)

	NAV	One month performance %
31 May 2007	**$0.95**	**-4.53%***
30 June 2007	**$0.97**	**1.19%**
31 July 2007	**$0.93**	**-3.25%**
31 August 2007	**$0.92**	**-2.06%**
30 September 2007	**$0.94**	**2.24%**
31 October 2007	**$0.99**	**6.08%**
30 November 2007	**$0.94**	**-5.15%**
31 December 2007	**$0.96****	**2.45%**

***Admission date: 9 May 2007.**
****The audited NAV of the Company as at 31 December 2007 was $0.95. Please refer to note 16 for further details.**

Public Equity

The first few months following the Company's admission were focused on deploying the capital raised into public equities. Tau's public equity portfolio (the "Portfolio") can be characterised by two distinct segments: stocks listed on the Kazakhstan stock exchange, KASE, and stocks listed on international markets. The Kazakh listed stocks are dominated by banks in terms of liquidity and market capitalisation while the internationally listed stocks consist primarily of resource based companies. Over this initial period, we maintained a large exposure to metals and oil and gas companies while having a relatively low exposure to Kazakh banks. Performance of the Portfolio was primarily hampered by its exposure to Uranium stocks, whereby the spot Uranium price fell to $85 per pound by late August 2007 after reaching $135 per pound in June 2007.

By the end of August 2007, the Portfolio was 80% invested. While bank stocks constitute close to 60% of the KASE index, the Portfolio held only around 14% of such stocks due to our concerns about the rapid loan growth of the banks and the extent of dependence on foreign borrowing. The sub-prime scare in August crystallised our concerns. The Portfolio's large cash exposure also dampened the impact of August's market correction.

September and October 2007 both proved to be good months as financial markets were buoyed by the response of the monetary authorities to the sub-prime problem. However, Kazakh banks took a knock in October as the credit rating agencies cut the sovereign rating. The stocks fell sharply but staged a dramatic recovery once the central bank assured the market that it would take any necessary action to support the Kazakh financial system. The rating agencies had also put the banks on a watch list and downgraded the major banks' debt ratings at the end of October causing bank stocks to retreat to their earlier lows. Moreover, on 1 October 2007, the KASE introduced a new total return index. The previous measure was based on market capitalisation, resulting in new issues affecting index performance. The index is represented by twelve issues, mostly banks with representation from KazMunaiGas and Kazakhtelecom.

Global financial markets experienced another tumultuous month in November 2007. Concerns over the impact of the sub-prime crisis worsened as the major US banks announced significant write downs of their asset base. These worries hurt global markets and at one point the markets experienced significant declines, with the S&P 500 index down over 9% on the month, while the MSCI Emerging Markets index fell by 11% over the same period. There was some respite in the markets however, as investors were encouraged by the expectation that the US Federal Reserve would cut interest rates at its next meeting. The Kazakh market was unable to escape worries over sub-prime, especially as it is dominated by financials. The KASE finished the month down 5.2% in US dollar terms, while Tau's NAV fell by an equal amount.

December proved to be a turbulent end to 2007. The markets remained concerned about the extent of the prospective slowdown in the US economy, coupled with rising inflationary pressures. The US Federal Reserve's 25bp rate cut on 11 December 2007 injected liquidity into the markets in a coordinated action with the European Central Bank; however, this did little to stem the decline in the equity markets. The MSCI World index fell 1.3% while the MSCI Emerging Markets index managed a small positive return of 0.4%. The Kazakhstan stock market had a better month in December, largely due to increased trading at the end of the month which pushed the index up 2.9% in US dollar terms. Of the KASE index's twelve constituents, six were negative. The Portfolio performed well in the midst of the market turbulence, gaining 2.5% in the month. Gold stocks contributed strongly, as did oil stocks. Although the Portfolio had limited exposure to financials relative to the local market exposure, it was not immune to their poor performance. Most metals, especially copper, were weaker on the back of concerns of a weaker demand environment; however, gold was seen as a safe haven and climbed from $783.50 troy oz on 1 December 2007 to finish the year at $833.75 troy oz.

Investment Manager's Report (continued)

Public Equity (continued)

The Kazakh metals producer ENRC, one of the biggest producers of ferrochrome in the world, made its debut on the UK main market in December 2007. The IPO, one of the largest on the UK exchange in 2007, raised over US$3 billion which implied a market capitalisation of over US$15 billion for ENRC. The stock price rose 16% on the first day, giving a genuine endorsement to the value of resource based assets in Kazakhstan.

Our concerns of market volatility led us to reduce the market exposure of the Portfolio in the fourth quarter of 2007, leaving it predominantly exposed to stock specific risk. We introduced short positions in sector indices and some major stock indices at the end of November, and continued to increase these in the early part of December, giving us some comfort going into the normally thin Christmas trading period. Of the total Portfolio around 20% was hedged and 20% held in cash at the end of December 2007.

2007 was a year in which the Kazakhstan financial markets hit their first real hurdle after some very good years. We anticipated some degree of correction with the Kazakh banks, as we felt they had over-extended their borrowings and valuations were unsustainable. The change in recent fortunes will be positive overall for the development of the Kazakh equity market. Firstly, Kazakh banks will need to adjust their business models and be more inventive with sourcing of funds locally. Secondly, Kazakh domestic companies have historically favoured debt financing and a much tighter financing environment should encourage them to raise equity instead.

Financial markets have begun 2008 on a rather depressed note. Fears of a recession in the US and the consequences of global economic growth had a negative impact on the markets and at one stage during January 2008 major markets across the globe were down between 15–20%. The US Federal Reserve reacted with a sharp rate cut to stem the market turmoil and markets responded positively, retracing about half of the drop. During the first quarter of 2008, the Portfolio has been insulated to a degree with its short and cash position. Additionally, individual stock positions have held up reasonably well under the circumstances and portfolio volatility has been limited.

Outlook – public equity

In terms of the Kazakhstan economy for 2008, we expect GDP growth of between 6% and 8%. This should be supported by the strong oil price and demand for basic materials – there is no indication that demand from China and India will decline in the near future. Inflation however, is a concern as PPI has been rising in recent months. The Kazakh government has recently announced a special working group with a mandate to introduce measures to stabilise the price of food and vegetable oil, which represents 38% of CPI. There is no indication that the Kazakh Central Bank will raise interest rates further from current levels. With an estimated combined $40 billion in Kazakhstan National Bank FX reserves and in the Kazakhstan National Fund (Future Generations fund), there is also strong support in case of any further fallout in the banking sector.

On a risk-reward basis we believe Kazakhstan is well placed amongst other emerging markets. It has a strong resource base with a stable political environment and increasingly market-friendly regulation. Asset prices remain very favourable compared to other resource-based markets and there is still further potential for significant discoveries in the region.

In the short-term we remain cautious about the overall market as major movements in global markets will impact Kazakh stocks. However, we will act on opportunities to build positions in companies at attractive prices. Our positive long-term view on the potential of the Kazakhstan and Central Asia investment environment remains unchanged.

Private Equity

Since admission, we have seen significant positive changes in the market for private equity deals in Kazakhstan driven by macroeconomic developments. In the second and third quarters of 2007, vendors demanded relatively high prices as we faced strong competition from the private equity funds sponsored by the Kazakh banks. As the credit crunch gathered pace in the fourth quarter forcing local banks to withdraw from private equity activities and concentrate on active management of their existing credit portfolios, we came across more attractively priced investment opportunities.

In October 2007, the Company made its first private equity investment in Kazakhstan. The Company acquired a substantial minority stake in DTV, an Almaty-based cable TV operator, funded in two tranches and structured as a shareholder loan. We believe that the cable TV market in Kazakhstan is poised for strong growth and consolidation as consumers migrate from analogue to digital service offerings and take up of broadband internet accelerates. DTV has a strong management team and a depth of service offering enabling them to be one of the market leaders. The proceeds from the investment were used to pay down the existing debt, undertake an acquisition of an incumbent telecom operator in Western Kazakhstan and to fund capital expenditures and operating expenses. The Company continues to actively look for additional acquisition opportunities.

Outlook – private equity

Tau is well positioned to take advantage of the attractive private equity environment in Kazakhstan following the impact of the credit crunch. We are actively pursuing a number of private equity opportunities in the telecom, media, and natural resources sectors. Our efforts are focused on core investment opportunities in Kazakhstan with potential add-on acquisitions in Uzbekistan and the Kyrgyz Republic.

Spencer House Compass Capital Limited
25 March 2008

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.

Robert Brown, III

Independent Non-executive Director

Robert is the Chairman of Rambler Media Ltd., the largest Internet portal in Russia, capitalised at approximately US$0.04 billion on AIM. 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

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 period ended 31 December 2007.

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, operating or have exposure to Kazakhstan and neighbouring countries. It was admitted to the Alternative Investment Market of the London Stock Exchange on 9 May 2007.

Results and Dividends

The Group and the Company's results for the financial period ending 31 December 2007 are set out on the Consolidated Income Statement on page 11.

A review of the Group's activities are set out in the Chairman's Statement and Investment Manager's Report on pages 2 to 5.

The Directors do not recommend the payment of a final dividend for the period ended 31 December 2007 leaving a loss of US$416,130 to be transferred from reserves.

Directors

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

	Appointed	Resigned
Philip Scales	3 April 2007	
Andrew Dawson	3 April 2007	11 April 2007
Philip Lambert	11 April 2007	
Richard Horlick	11 April 2007	
Almas Chukin	11 April 2007	
Robert Brown, III	11 April 2007	

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

Company Secretary

The Secretary of the Company during the period from incorporation and to the date of this report was Philip Scales.

Auditors

The auditors, Ernst & Young LLC, were appointed during the period 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.

On behalf of the Board

Philip Lambert
Director

Philip Scales
Director

25 March 2008

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 period 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 period. In preparing those financial statements, the Directors accept responsibility for:

- selecting suitable accounting polices and then applying them consistently;
- making judgements 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 shareholders and Board of Directors of Tau Capital plc

We have audited the Group and parent company financial statements (the "financial statements") of Tau Capital plc for the period ended 31 December 2007 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Cash Flow Statement, Schedule of Investments and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, pursuant to 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

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable Isle of Man law and appropriate accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts 1931 to 2004. We also report if, in our opinion, the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements, This other information comprises the Chairman's Statement, the Investment Manager's Report, Directors' Report and the Statement of Directors' Responsibilities. We consider the implications for our audit report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 International Financial Reporting Standards, of the state of affairs of the Company and of the Group as at 31 December 2007 and of the profit of the Group for the period from 3 April 2007 (date of incorporation) to 31 December 2007, and have been properly prepared in accordance with the Companies Acts 1931 to 2004.

Ernst & Young LLC
Chartered Accountants
Isle of Man
25 March 2008

Consolidated Income Statement

for the period from 3 April 2007* to 31 December 2007

	Notes	Group 2007 US$
Investment income		
Interest income		2,392,119
Dividend income		1,395,630
Less: withholding tax		(139,783)
Net trading income	3	31,129
Total operating income		**3,679,095**
Expenses		
Operating expenses	8	(4,095,225)
Loss for the period		**(416,130)**
Earnings per share	17	(0.00)

Approved on behalf of the Board of Directors

Philip Lambert
Director

Philip Scales
Director

25 March 2008

**Date of incorporation.*

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

Consolidated and Company Balance Sheets

as at 31 December 2007

	Notes	Group 2007 US$	Company 2007 US$
Assets			
Cash and cash equivalents	7	257,890	—
Amounts due from brokers	6	42,219,132	—
Financial assets at fair value through profit or loss	3	221,348,495	—
Investment in subsidiaries	18	—	239,592,423
Interest receivable		325,665	—
Dividends receivable		7,124	—
Prepaid insurance		99,427	—
Total assets		**264,257,733**	**239,592,423**
Liabilities			
Financial liabilities at fair value through profit or loss	3	(24,042,603)	—
Accounts payable and accrued expenses	8	(622,707)	—
Total liabilities		**(24,665,310)**	**—**
Total net assets		**239,592,423**	**239,592,423**
Shareholders' equity			
Share capital		5,002,179	5,002,179
Share premium		235,006,374	235,006,374
Retained deficit		(416,130)	(416,130)
Total shareholders' equity		**239,592,423**	**239,592,423**
Net Asset Value per share		**$0.95**	**$0.95**

Approved on behalf of the Board of Directors

Philip Lambert
Director

Philip Scales
Director

25 March 2008

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

Consolidated and Company Statement of Changes in equity

for the period from 3 April 2007* to 31 December 2007

	Group			
	2007 Share capital US$	2007 Share premium US$	2007 Retained deficit US$	2007 Total US$
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**

	Company			
	2007 Share capital US$	2007 Share premium US$	2007 Retained deficit US$	2007 Total US$
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**

**Date of incorporation.*

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

Consolidated and Company Cash Flow Statement

for the period from 3 April 2007* to 31 December 2007

	Group 2007 US$	Company 2007 US$
Cash flows from operating activities		
Loss for the period	(416,130)	(416,130)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Amounts due from brokers	(42,219,132)	—
Purchase of financial assets and settlement of financial liabilities	(510,378,900)	—
Sale of financial assets and settlement of financial liabilities	314,937,337	—
Realised gain on investments	(8,400,459)	—
Net change in unrealised loss on investments	6,536,130	416,130
Increase in interest receivable	(325,665)	—
Increase in dividends receivable	(7,124)	—
Increase in prepaid insurance	(99,427)	—
Increase in accounts payable and accrued expenses	622,707	—
Net cash used in operating activities	**(239,750,663)**	**—**
Cash flows from investing activities		
Subscription for shares in subsidiary undertakings	—	(240,008,553)
Net cash used in investing activities	**—**	**(240,008,553)**
Cash flows from financing activities		
Gross proceeds from issue of ordinary shares	250,000,000	250,000,000
Share issue costs	(9,991,447)	(9,991,447)
Net cash provided by financing activities	**240,008,553**	**240,008,553**
Net increase in cash and cash equivalents	257,890	—
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of period	**257,890**	**—**
Supplementary disclosure of cash flow information		
Dividends received	1,248,723	—
Dividends paid	—	—
Interest received	2,066,454	—
Interest paid	(16,665)	—

**Date of incorporation.*

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

Notes to the 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 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 that have securities listed on the KASE or other stock exchanges or over-the-counter ("OTC") 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 (the "Investment Manager") 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 the Kazakhstan Tenge.

This is the first period of operation for the Group and therefore no comparatives are presented.

In accordance with Section 3 (5) (6) (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 period recognised in the Consolidated Income Statement is US$416,130.

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:

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 that 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. The judgements include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives. Changes in assumption about these factors could affect the reported fair value of financial instruments.

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 fluctuations 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.

2. ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

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 period to period, 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.

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

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.

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.

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 Kazakhstan Tenge, which reflects the Group's primary activity of investing in Kazakhstan securities and derivatives.

2. Accounting Policies (continued)

i) Foreign currency translation (continued)

i) Functional and presentation currency (continued)

The Group has adopted the US dollar as its presentation currency (the "presentation currency"). The Group's results and financial position are translated from its functional currency to its presentation currency, as follows:

a) assets and liabilities, including net assets attributable to holders of ordinary shares, are translated at the closing rate at each Balance Sheet date; and

b) income and expenses are translated at the rates prevailing on the transaction dates.

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 period end. Transactions during the period, 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.

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 period 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.

(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.

Notes to the Financial Statements (continued)

3. Financial Instruments at Fair Value through Profit or Loss

	US$
Held for trading:	
Public equities	204,647,221
Private equity	3,776,000
Money market instrument	11,266,240
Derivatives: options	837,511
Derivatives: contracts for difference	821,523
Total financial assets at fair value through profit or loss	**221,348,495**

	US$
Held for trading:	
Public equities	(13,047,889)
Derivatives: options	(10,667,335)
Derivatives: contracts for difference	(327,379)
Total financial liabilities at fair value through profit or loss	**(24,042,603)**

	US$
Net changes in fair value of financial assets and liabilities through profit or loss	
Net realised gain on investments and foreign exchange	6,628,706
Net unrealised loss on investments and foreign exchange	(6,597,577)
Total gains	**31,129**

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 OTC options and contracts for difference ("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 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.

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:

		Valuation techniques		
	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 and contracts for difference
Market observable inputs:	Options
Non-market observable inputs:	Private equities

6. Amounts Due from Brokers

	US$
Cash held with broker	42,219,132
	42,219,132

7. Cash and cash equivalents

	US$
Cash	257,890
	257,890

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 NAV of the Group. The Group paid the first management fee on the business day following admission (pro rata) to cover the period from admission to 31 December 2007. Thereafter the Group will pay the management fee semi-annually in advance.

In addition to the above, the Group will bear 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 period was US$3,120,798 of which US$Nil was outstanding as at 31 December 2007.

Performance fees

The Investment Manager is also entitled to receive a performance fee if the NAV 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 period ended 31 December 2007.

Notes to the Financial Statements (continued)

8. Fees and Expenses (continued)

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 received a monthly fee for 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 period ended 31 December 2007 were US$31,108 and 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 period amounted to US$65,206 of which US$Nil was outstanding as at 31 December 2007.

Operating expenses

The Group will meet all its own costs and expenses including the costs and expenses of advisers, 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 shall be met by the Group.

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

	US$
Administration fees payable	(78,294)
Dividends payable	(57,163)
Audit fees payable	(32,603)
Other accounts payable and accrued expenses	(454,647)
	(622,707)

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

	US$
Management fees	(3,120,798)
Administration fees	(228,247)
Directors' remuneration expense	(65,206)
Dividend expense	(57,163)
Audit fees	(32,603)
Interest expense	(16,665)
Other operating expenses	574,543
	(4,095,225)

9. Share Capital

The authorised share capital of the Group is £3,502,000 comprising 350,200,000 ordinary shares of £0.01 each. The shares issued during the period were as follows:

	Shares
Balance at the beginning of the period	—
Issue of ordinary shares during the period	251,000,002
Redemption of ordinary shares during the period	—
Balance at the end of the period	**251,000,002**

10. Related Party Transactions

Richard Horlick, a Director of the Group as listed on page 6, is the Chief Executive Officer and founding partner of Spencer House Capital Management LLP.

Almas Chukin, a Director of the Group as listed on page 7, is the Chairman of Compass Asset Management Ltd.

Philip Scales, a Director of the Group as listed on page 7, 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 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 2007, Richard Horlick held 5,000,000 ordinary shares.

As at 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 is 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.

Notes to the Financial Statements (continued)

11. Financial Instruments and Associated Risks (continued)

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 27 to 28.

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 programmes, policies of governments, political and economic events, and policies and emotions of the marketplace.

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 27 to 28) and industry sector:

	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	—
Gold mining	28,480,500	(667,335)
Financials	821,523	(11,105,979)
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 NAV 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 NAV 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 period, 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 period.

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 is 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

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

11. Financial Instruments and Associated Risks (continued)

Market risk (continued)

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

	Financial assets US$	Financial liabilities US$	Cash and cash equivalents US$	Other assets US$	Other 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)	257,890	36,958,840	(622,707)	102,739,790
	221,348,495	**(24,042,603)**	**257,890**	**42,651,348**	**(622,707)**	**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.

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

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

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.

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.

Notes to the Financial Statements (continued)

11. Financial Instruments and Associated Risks (continued)

Liquidity risk (continued)

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.

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 twelve 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.

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 2007 the brokers had the following ratings:

	Standard & Poors	Moody's	Fitch
Morgan Stanley Plc	AA-	Aa3	AA-
HSBC Plc	AA-	Aa2	AA

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)	42,218,167
Subsidiary Bank HSBC Kazakhstan Joint Stock Company	41,802,529	—	965
	217,572,495	**(24,042,603)**	**42,219,132**

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 2007:

Canadian dollar	1.013223
euro	1.462052
Kazakhstan tenge	0.008284
Pound sterling	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 period ended 31 December 2007.

14. Soft Commissions

During the period, 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 2007, the Group did not have any significant commitments or contingent liabilities.

16. Valuation of the Group

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

	US$
Net Asset Value for trading purposes	241,720,127
Adjustment to last traded prices	(2,127,704)
Net Asset Value per financial statements	**239,592,423**
Reported Net Asset Value per share	$0.96
Adjusted Net Asset Value per share	$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 period.

Net loss attributable to shareholders	$(416,130)
Weighted average number of ordinary shares is issue	251,000,002
Basic Earnings per Share	$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 and 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 3 Cooperatief	The Netherlands	Investment holding	100%

Notes to the Financial Statements (continued)

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 issued during the period which are not effective 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 or 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 in 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.

21. Share-based payments

Philip Lambert and Robert Brown, III were each granted 500,000 ordinary shares in consideration for the provison of services pursuant to their letters of appointment as Non-executive Directors.

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

Options	Number	Grant date	Expiry date	Exercise price USD	Fair value at grant date USD
Issued 3 May 2007	2,510,000	03/05/2007	03/05/2012	1.00	0.95

In accordance with the terms of the share-based arrangement, options issued during the period ended 31 December 2007, vest at the date of their issue.

22. 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.

23. Approval of Financial Statements

The Annual Report and financial statements were approved by the Directors on 25 March 2008.

Schedule of Investments
as at 31 December 2007

Investment name	Shares	Fair value	% of net assets
Financial assets at fair value through profit or loss			
Equities – public			
Canada			
Gold Mining			
Centerra Gold Inc.	1,372,500	7,257,949	7.20%
Other		3,928,590	1.64%
Non-Ferrous Metals			
Uranium One Inc.	1,662,620	14,841,369	6.19%
Other		5,598,480	2.34%
Oil Exploration		941,730	0.39%
		42,568,118	**17.76%**
Kazakhstan			
Commercial Banks (non-US)		41,135,437	17.18%
Oil Exploration			
KazMunaiGas Exploration Production	960,000	29,280,000	12.22%
Paper and Related Products		8,320,000	3.47%
Telecom Services		7,027,731	2.93%
		85,763,168	**35.80%**
Ireland			
Oil Exploration			
Dragon Oil Plc	2,019,506	13,889,227	5.80%
		13,889,227	**5.80%**
Jersey			
Gold Mining		6,576,450	2.74%
		6,576,450	**2.74%**
United Kingdom			
Investment Companies		11,927,478	4.98%
Metals Diversified		15,105,783	6.30%
Oil Exploration		13,240,615	5.53%
		40,273,876	**16.81%**
United States of America			
Oil Exploration			
BMB Munai Inc.	2,496,215	15,576,382	6.50%
		15,576,382	**6.50%**
Equities – private			
Kazakhstan			
Telecom Services		3,776,000	1.58%
		3,776,000	**1.58%**
Total equities		**208,423,221**	**86.99%**
Money market instrument			
Kazakhstan			
Commercial Banks (non-US)		11,266,240	4.70%
		11,266,240	**4.70%**
Total money market instrument		**11,266,240**	**4.70%**

Schedule of Investments (continued)

as at 31 December 2007

Investment name	Fair value	% of net assets
Financial assets at fair value through profit or loss (continued)		
Options		
United States of America		
Gold Mining	717,511	0.30%
Oil Exploration	120,000	0.05%
	837,511	**0.35%**
Total options	**837,511**	**0.35%**
Contracts for difference		
Europe		
Financials	458,257	0.19%
	458,257	**0.19%**
United Kingdom		
Financials	363,266	0.15%
	363,266	**0.15%**
Total contracts for difference	**821,523**	**0.34%**
Total financial assets at fair value through profit or loss	**221,348,495**	**92.38%**
Financial liabilities at fair value through profit or loss		
Equities – public		
Malaysia		
Building Products	(2,269,288)	(0.95%)
	(2,269,288)	**(0.95%)**
United States of America		
Financials	(10,778,601)	(4.49%)
	(10,778,601)	**(4.49%)**
Total equities	**(13,047,889)**	**(5.44%)**
Options		
United States of America		
Gold Mining	(667,335)	(0.28%)
Oil Exploration	(10,000,000)	(4.17%)
	(10,667,335)	**(4.45%)**
Total options	**(10,667,335)**	**(4.45%)**
Contracts for difference		
Europe		
Financials	(327,379)	(0.14%)
	(327,379)	**(0.14%)**
Total contracts for difference	**(327,379)**	**(0.14%)**
Total financial liabilities at fair value through profit or loss	**(24,042,603)**	**(10.03%)**
Total financial assets and liabilities at fair value through profit or loss	**197,305,892**	**82.35%**
Cash and cash equivalents	257,890	0.11%
Other assets in excess of liabilities	42,028,641	17.54%
Total net assets	**239,592,423**	**100.00%**

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