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REPORT OF THE DIRECTORS AND

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

FOR

CASPIAN HOLDINGS Plc

CASPIAN HOLDINGS Plc
INDEX TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

CASPIAN HOLDINGS Plc
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2007

DIRECTORS:	M G Masterman	*Executive Chairman*
	D Greil	*Non-Executive Director*
	M V Garland	*Non-Executive Director*
	A Robinson	*Non-Executive Technical Director* (resigned September 2007)
	MSP Secretaries Limited	
REGISTRARS:	Share Registrars Limited Craven House, West Street Farnham Surrey, GU9 7EN	
REGISTERED OFFICE	22 Melton Street London, NW1 2BW	
REGISTERED NUMBER.	4782584 (England and Wales)	
AUDITORS·	Cook and Partners Limited Chartered Accountants Manufactory House Bell Lane, Hertford Herts, SG14 1BP	
NOMINATED ADVISER:	Grant Thornton Corporate Finance Melton Street London, NW1 2EP	
BROKER:	Hoodless Brennan & Partners Plc 40 Marsh Wall, Docklands London, E14 9TP	
PRINCIPAL BANKERS:	HSBC PO Box 260 46 The Broadway, Ealing London, W5 5JZ	
	Anglo Irish Bank Corporation Plc 10 Old Jewry London EC2R 8DN	
SOLICITORS:	Salans LLP 135 Abylai Khan Ave, Almaty 050000 Republic of Kazakhstan	
	Kerman & Co LLP No 7 Savoy Court Strand London, WC2R 0ER	

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2007

The directors present their annual report with the financial statements of the group and the company for the year ended 31 December 2007

PRINCIPAL ACTIVITY

The group's principal activity during the year under review was that of a holding company, and through its subsidiaries that of Oil Exploration

REVIEW OF BUSINESS

The results for the year and the financial position of the group and the company at the year end are as shown in the annexed financial statements

Detailed reviews of activities, business developments and projects are included within the Chairman's Statement and the review of operations

DIVIDENDS AND TRANSFERS TO RESERVES

No dividend will be distributed for the year

The retained loss transferred to reserves for the year will be £1,570,595

CHAIRMAN'S STATEMENT

2007 has proved to be a difficult year for Caspian Holdings Plc

On the operations front our objective was to achieve stable production without drilling new wells and to achieve a significant reduction in operating costs to put the Zhengeldy operation on a more secure financial footing Very significant progress has been made on streamlining costs and in reducing operating losses A very lean core operations base built on the operations team in Zhengeldy and a small office in Atyrau is now in place Production for the year 2007 decreased from 2006 reflecting the stabilization of production rates following the heavy new well drilling programs in 2005 and 2006

On the sales and marketing front the company was adversely affected by a suspension in exports in April 2007 This contributed to the reduction in revenue from £1 5m to £0 8m in 2007 The supervision on the Development Report required by the Ministry to restart production has now been submitted and we are working intensively to gain the necessary approvals to restart export To support exports a new export facility was completed at Karsak Given the slow progress in resolving some of the regulatory issues we deemed it prudent to suspend production from the field in early 2008

On the new project front good progress has been made and the objective of the company is to establish operations outside Kazakhstan in 2008

The 2007 Financials show a reduced loss after taxation of £1,570,595 compared to £3,412,588 in the previous year This includes a further write down of £326,998 in goodwill

In closing I would like to thank the Directors and the management for their efforts during the year in particular Mariyam Musrepova, Michael Garland and Dietmar Greil Andrew Robinson retired as a director in September 2007 and we thank him for his contribution

With record high oil prices, a solid cost base for Zhengeldy to restart production and exports and new growth opportunities we hope that 2008 will be a more rewarding year

EVENTS SINCE THE BALANCE SHEET DATE

The Company drew down an additional £100,000 from its Credit Facility Agreement An additional £200,000 is available for drawdown in a third tranche approved by noteholders

As noted below production from Zhengeldy was suspended in February 2008

The company completed a placement of 10 million ordinary shares at 2p per share on 3rd June 2008 These were acquired by Masterman Superannuation Fund, a company related to Michael Masterman, and of which Michael Masterman is a beneficiary and Trustee

Following this transaction Michael Masterman will be interested in 21,900,000 in the company representing 20 14% of the total voting rights of the company

FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

The Group uses various financial instruments These include cash and various items, such as trade debtors and trade creditors that arise directly from its operations The main purpose of these financial instruments is to raise finance for the company's operations

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below The directors review and agree policies for managing each of these risks and they are summarised below These policies have remained unchanged from previous years

Price Risk

The Directors, consider that the price of oil is an area of potential risk This is reviewed on a constant basis by the Board and Senior Management.

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

Credit Risk

The Group's principal financial assets are cash and trade debtors, the principal risk arises therefore from its trade debtors The impact associated with the trade debtor risk is reduced through a significant management focus on aged debt

In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references Credit limits are reviewed by the credit control department on a regular basis in conjunction with debt ageing and collection history

Currency Risk

The group principally operates Euros and US Dollars It does not currently consider the risk of exposure to be material As such the directors do not currently consider it necessary to enter into forward exchange contracts This situation is monitored on a regular basis

GOING CONCERN

Based on a review of the operating program for the Zhengeldy Oil Field and the budgets and cash flow plans of the company and its subsidiaries, the Directors are satisfied that the group has sufficient resources to continue its operation and to meet its commitments for the foreseeable future The financial statements have therefore been prepared on the going concern basis

DIRECTORS

The directors during the year under review were

M G Masterman	-	*Executive Chairman*
D Greil	-	*Non-Executive Director/New Projects*
M V Garland	-	*Non-Executive Director*
A Robinson	-	*Non-Executive Director*

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Michael Masterman aged 45, Executive Chairman
Michael has a strong track record in establishing and building new resources companies and in raising project finance, having spent 9 years at McKinsey and Company serving major international resources companies principally in the area of strategy and development In 1996 he joined Anaconda Nickel (now Minara Resources), as Executive Director and Chief Financial Officer Michael and the rest of the executive team were responsible for transforming Anaconda into a major nickel producer with the (US)$1 billion Murrin Murrin project in Western Australia over a period of 3 years and growing a small team of 5 to over 400 people In 2002 he joined Northsun Italia SpA, a leading independent Italian oil and gas company, which is currently bringing into production three gas fields in the Po Valley of Italy In 2004 Northsun Italia and related companies were listed on the ASX as Po Valley Energy Ltd of which he is the Chief Executive Officer and a major shareholder Michael is a joint founder of the Company

Dietmar Greil aged 55, Non Executive Director
Dietmar is a highly experienced reservoir engineer with over 30 years experience in Exploration and Development in the oil industry He began his career in the oil industry with senior positions at Statoil ASA (Norway), Chevron Texaco Corporation (USA) and Preussag Energie GmbH (Germany) Following Preussag Dietmar worked in the FSU for 15 years and was responsible for drilling over 40 wells, as well as building the Rosscor Int BV equipment supply business He has extensive experience in the development of oil fields in Russia and other former Soviet republics as well as experience in structuring and managing Joint Ventures In 1997, Dietmar founded Northsun Italia SpA where he acted as Chief Executive Officer Under his leadership Northsun was successful in acquiring six medium sized gas fields in Italy, the most successful of the new companies entering Italy following deregulation of the ENI monopoly in 1998 Dietmar is a joint founder of the Company and is now the Non-Executive Director focused on new projects

Michael Garland aged 47, Non-Executive Director
Michael was a Commercial Manager for Tullow Oil Plc and Commercial Director at Star Energy Group Plc before becoming a Director of Caspian Holdings At Wood Gundy Inc Michael was involved in the early UK Government privatisations and set up the Australian desk to market the bank's products to Australian companies When Wood Gundy Inc was acquired by the Canadian Imperial Bank of Commerce he was involved in many aspects of the European and North American Capital Markets but primarily with the marketing of the bank's capital market products to government and semi-government organisations within Europe Michael is Chief Executive Officer of Dominion Petroleum Limited

Andrew Robinson aged 50, Non-Executive Technical Director (Resigned September 2007)
Andrew has a PhD in Geology and over 20 years experience working in the Oil and Gas industry including 10 years at BP, JKX Oil and Gas and Ramco For the last 6 years Dr Robinson has been a global exploration consultant to the major international oil and gas companies, including BP, Statoil, Shell and OMV and to the International Finance Corporation (World Bank) Andrew has significant experience in the Caspian and Black Sea region He has worked extensively in the former Soviet Union including work in Kazakhstan, Azerbaijan, Georgia and Russia and is author of 'Regional and Petroleum Geology of the Black Sea' (American Association of Petroleum Geologists 1998) Andrew is an Executive Director – Technical of Dominium Petroleum Limited

The beneficial interests of the directors holding office on 31 December 2007 in the issued share capital of the company were as follows

	Ordinary 0.1p Shares 31.12 07	Ordinary 0 1p Shares 01 01 07
M G Masterman	11,900 000	10,100,000
D Greil	10,000,000	10,000,000
M V Garland	-	-
A Robinson (resigned September 2007)	-	-

Director's Remuneration

The Company remunerates the Directors at a level commensurate with the size of the Company and the experience of its Directors The Remuneration Committee has reviewed the Director's remuneration and believes it upholds the objectives of the Company with regard to this issue The remuneration paid and accrued to the Directors for the year ended 31 December 2007 is detailed below

Director	Annual Salary per Contract	Annual Salary Paid in Year	Management Service Agreement per Contract	Paid in Year	Total Paid In Year	Total Accrued In Year
	£	£	£	£	£	£
M G Masterman	24,000	-	88,065	-	-	112,065
D Griel	24,000	11,750	88,065	115,897	127,647	-
M V Garland	24,000	-	-	-	-	24,000
A Robinson (resigned September 2007)	36,000	25,612	-	-	25,612	-

The remuneration of M G Masterman, D Griel and M V Garland is in accordance with agreements effective from 4th November 2004 With effect from 1st April 2007, D Griel was paid by ENX Limited, a subsidiary of Caspian Holdings Plc, in the sum of £86,399 in consultancy payments which is included in the above

The remuneration of A Robinson is in accordance with an agreement effective 18 May 2006

Directors Service Contracts

All Directors' contracts run until 25 October 2008 or until the next Annual General Meeting (AGM) of the Company where all Directors are required to resign by rotation There is a 3 month notice period for all Directors Upon re-election at the AGM, a Director's contract automatically renews for a further 12 months period

Directors interests

The Director's who held office at the end of the financial year 31 December 2007, had the following interest in the ordinary shares of the Company according to the register of Director's interests

Director	Shares held at 31st December 2007
M G Masterman	11,900,000
D Greil	10,000,000
M V Garland	-
A Robinson	-

All shares were issued to the Directors on 18 December 2003 M G Masterman acquired additional 1,800,000 in October 2007 through a related company in which he has a beneficial interest In addition, M G Masterman is interested in 6,250,000 options over ordinary shares in the Company as follows -

Stock Options Held	Option Exercise Price	Expiry Date
5,000,000	£0 04	31 December 2010
1,250,000	£0 03	31 December 2010

SUBSTANTIAL SHAREHOLDERS

As at 6th May 2008 the following interests of 3% or more were held in the company's issued share capital

Shareholders	Shares	Percent
M Masterman	11,900,000	12 0%
D Greil	10,000,000	10 1%
Harbinger Capital Partners master Fund 1 Limited	7,900,000	8 0%
Beronia Investments Pty Limited	7,897,000	8 0%
Lauri Macri	7,097,000	7 2%
Rulegale Nominees Limited	4,290,000	4 3%
Acri Pty Limited	3,850,000	3 9%
TD Waterhouse Nominees (Europe) Limited	3,369,612	3 4%

CORPORATE GOVERNANCE

The Company is continually developing appropriate Corporate Governance procedures relevant to the size and stage of development of the Company The following description of Corporate Governance procedures reflects the Company's present policies in this area

CODE OF PRACTICE

The Listing Rules of the Financial Services Authority incorporate the Combined Code, which sets out the principles of Good Governance, and the Code of Best Practice for listed companies Whilst the Company is not required to comply with the Combined Code, the Company's corporate governance procedures take due regard of the principles of Good Governance set out in the Combined Code in relation to the size and the stage of development of the Company

THE BOARD OF DIRECTORS

The Board of Directors is currently composed of three members, one Executive Director and two Non-Executive Directors including the Chairman, Michael Masterman, (Executive Director), has a wealth of minerals exploration and development experience, the Non-Executive Directors similarly have a wealth of experience either in the minerals industry or in finance and corporate development

The structure of the Board ensures that no one individual or group dominates the decision-making process

BOARD MEETINGS

The Board ordinarily meets on a monthly basis, providing effective leadership and overall management of the Group's affairs through the schedule of matters reserved for its decision This includes the approval of the Company's forecast and budget, major capital expenditure, risk management policies and the approval of the financial statements Formal agendas, papers and reports are sent to the Directors in a timely manner, prior to Board meetings The Board delegates certain of its responsibilities to the Board committees which have clearly defined terms of reference, which is listed below

All Directors have access to the advice and services of the Company's solicitors and the Company Secretary who is responsible for ensuring that all Board procedures are followed Any Director may take independent professional advice at the Company's expense in the furtherance of his duties

RETIREMENT BY ROTATION

One third of the board of directors retires at every AGM of the Company and is automatically put forward for re-election, unless otherwise voted upon by shareholders

THE AUDIT COMMITTEE

The Audit Committee, which intends to meet no less than twice a year and considers the Group's financial reporting (including accounting policies) and internal financial controls, is chaired by Michael Garland, Non-Executive Director The Audit Committee will be responsible for ensuring that the financial performance of the Group is properly monitored and reported on The Committee intends to receive reports from management and the external auditors as required

THE REMUNERATION COMMITTEE

The Remuneration Committee, comprising the non-executive directors and chaired by Michael Garland, Non-Executive Director, meets at least once a year and is responsible for making recommendations to the Board of Directors, on senior executives remuneration Non-executive Directors remuneration and conditions of engagement are considered and agreed by the Board Financial packages for Executive Directors are established by reference to prevailing market conditions and performance of each executive director

INTERNAL CONTROLS

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing their effectiveness These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for external publication Since the Company was formed, the Directors are satisfied that, given the current size and activities of the Company, adequate internal controls have been established Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of increased activity and further development of the Company, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective

ENVIRONMENTAL RESPONSIBILITY

The Company recognises its role as a mining and exploration company and is aware of the potential impact that its subsidiary company may have on the environment The Company ensures that its subsidiary company complies with the local regulatory requirements with regard to the environment

RELATIONS WITH SHAREHOLDERS

The Board attaches great importance to maintaining good relationships with its shareholders Extensive information about the Company's activities is included in the Annual Report and accounts and the Interim report and future interim reports which will be sent to all shareholders Market sensitive information is regularly released to all shareholders concurrently in accordance with stock exchange rules The AGM will provide an opportunity for all shareholders to communicate with and to question the Board on any aspect of the Group's activities The Company maintains a corporate website www caspianoil co uk where information on the Company is regularly updated and all announcements are posted The Company welcomes communication from both its private and institutional shareholders

SUPPLIER PAYMENT POLICY

It is the Company's policy to settle the terms of payment with suppliers when agreeing terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them

The Notice of the Company's AGM will be distributed to shareholders together with the Annual Report Full details of the Resolutions proposed at that meeting can be found in the Notice

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2007

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group, and the company, and of the profit or loss of the group and company for that period In preparing those financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and company and to enable them to ensure that the financial statements comply with the Companies Act 1985 The directors are also responsible for safeguarding the assets of the group and the company and hence for taking steps for the prevention and detection of fraud and other irregularities

The maintenance and integrity of the Caspian Holdings Plc website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

AUDITORS

The auditors, Cook and Partners, will be proposed for re-appointment in accordance with section 385 of the Companies Act 1985

ON BEHALF OF THE BOARD.

M G Masterman – *Executive Chairman*

Dated 10/06/2008

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF CASPIAN HOLDINGS Plc

We have audited the group and company financial statements of Caspian Holdings Plc for the year ended 31 December 2007 on pages 10 to 27 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 235 of the Companies Act 1985 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 on page 8 the company's directors are responsible for the preparation of financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union

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 Act 1985 We also report to you if, in our opinion, the Report of the Directors 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' remuneration and other transactions is not disclosed

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it

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 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 group and company financial statements

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Report of the Directors is consistent with the financial statements

Cook & Partners Limited

Cook & Partners Limited
Chartered Accountants and
Registered Auditors
Manufactory House
Bell Lane
Hertford, Hertfordshire
SG14 1BP

Date 10/6/08

Note:

The maintenance and integrity of the Caspian Holdings Plc web site is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site

CASPIAN HOLDINGS Plc
GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007	2006
REVENUE	2	820,798	1,508,015
Cost of sales		(1,000,222)	(936,578)
GROSS PROFIT/(LOSS)		(179,424)	571,437
Administrative expenses	4	(1,708,922)	(3,289,610)
OPERATING LOSS		(1,888,346)	(2,718,173)
Exchange gains/(losses) in year		354,858	(595,594)
Adjustment in fair values of fixed assets		-	(52,864)
Provisions created in period		5,104	(88,795)
Finance income	5	16,689	57,648
Finance costs	5	(58,900)	(14,810)
LOSS BEFORE TAX	6	(1 570,595)	(3,412,588)
Tax	7	-	-
RETAINED LOSS FOR THE FINANCIAL YEAR	21	£(1,570,595)	£(3,412,588)
Basic and diluted loss per share	9	1 60p	3 60p

CASPIAN HOLDINGS Plc
GROUP BALANCE SHEET
31 DECEMBER 2007

	Notes	2007	2006
ASSETS			
NON-CURRENT ASSETS			
Goodwill	10	-	326,998
Intangible assets	11	195,138	528,327
Property, plant and equipment	12	3,209,092	3,196,870
		3,404,230	4,052,195
CURRENT ASSETS			
Inventories	13	197,021	296,268
Trade and other receivables	14	560,265	767,890
Cash and cash equivalents	15	83,254	200,652
		840,540	1,264,810
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	441,594	519,797
Financial liabilities – borrowings			
Interest bearing loans and borrowings	17	76,983	1,753
Provisions	18	61,439	108,186
		580,016	629,736
NET CURRENT ASSETS		260,524	635,074
NON CURRENT LIABILITIES			
Trade and other payables	16	93,913	98,728
Financial liabilities - borrowings			
Interest bearing loans and borrowings	17	699,976	-
		793,889	98,728
NET ASSETS		£2,870,865	£4,588,541
SHAREHOLDERS EQUITY			
Called up share capital	20	98,699	98,699
Share premium account	21	9,474,645	9,474,645
Revaluation reserve	21	26,334	24,945
Translation reserve	21	29,700	183,370
Profit and loss account	21	(6,705,371)	(5,193,118)
Minority Interest	22	(53,142)	-
		£2,870,865	£4,588,541

ON BEHALF OF THE BOARD.

M G Masterman – *Executive Chairman*

Approved by the Board on 10/06/2008

The notes form part of these financial statements

CASPIAN HOLDINGS Plc
COMPANY BALANCE SHEET
31 DECEMBER 2007

	Notes	2007	2006
ASSETS			
NON CURRENT ASSETS			
Investments	10	4,800	1,145,146
CURRENT ASSETS			
Trade and other receivables	14	5,232,665	7,023,985
Cash and cash equivalents	15	54,834	106,964
		5,287,499	7,130,949
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	265,287	120,336
Financial liabilities – borrowings, interest bearing loans and borrowings	17	-	-
		265,287	120,336
NET CURRENT ASSETS		5,022,212	7,010,613
NET CURRENT LIABILITIES			
Financial liabilities – borrowings	17	699,976	-
NET ASSETS		£4,327,036	£8,155,759
SHAREHOLDERS' EQUITY			
Called up share capital	20	98,699	98,699
Share premium account	21	9,474,645	9,474,645
Profit and loss account	21	(5,246,308)	(1,417,585)
TOTAL EQUITY		£4,327,036	£8,155,759

ON BEHALF OF THE BOARD:

M G Masterman – *Executive Chairman*

Approved by the Board on 10/06/2008

CASPIAN HOLDINGS Plc
GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007	2006
Cash flows from operating activities			
Cash generated from operations	1	(393,769)	(1,232,898)
Finance cost		(58,900)	(14,810)
Net cash from operating activities		(452,669)	(1,247,708)
Cash flows from investing activities			
Proceeds from disposal of fixed assets		-	1,345
Purchase of intangible fixed assets		(241,451)	(312,123)
Purchase of tangible fixed assets		(220,373)	(2,024,468)
Finance income		16,689	57,648
Net cash from investing activities		(445,135)	(2,277,598)
Cash flows from financing activities			
Share issue		-	3,261,407
Net Loans		776,959	-
Repayment of financial liabilities – borrowings		(1,753)	(13,196)
Interest bearing loans and borrowings			
		775,206	3,248,211
Net cash from financing activities			
Cash Flow from Acquisitions and Disposals			
Acquisition of Subsidiary		(4,800)	-
New Assets acquired with Subsidiary		10,000	-
		£5,200	£-
(Decrease)/Increase in cash and cash equivalents		(117,398)	(277,095)
Cash and cash equivalents at beginning of year	2	200,652	477,747
Cash and cash equivalents at end of year	2	£83,254	£200,652

The notes form part of these financial statements

CASPIAN HOLDINGS Plc
NOTES TO THE GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2007	2006
Operating loss	(1,888,346)	(2,718,173)
Exchange gains/(losses) in period	354,858	(648,986)
Provisions in Year	5,104	-
Translation adjustments	(152,281)	183,370
Translation adjustments relating to fixed assets	(207,370)	215,294
Loss on disposal of tangible assets	-	738
Depreciation charges	990,161	604,513
Impairment losses	326,998	1,587,164
(Increase)/decrease in inventories	99,247	(279,919)
Increase in trade and other receivables	207,625	(342,722)
Increase/(decrease) in trade and other payables	(83,018)	169,951
(Decrease)/increase in other provisions	(46,747)	(4,128)
Net cash outflow from operating activities	£(393,769)	£(1,232,898)

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the cash flow in respect of cash and cash equivalents are in respect of these balance sheet amounts

Year ended 31 December 2007

	31 12.07	01 01.07
Cash and cash equivalents	£83,254	£200,652

Year ended 31 December 2006

	31 12 06	01.01.06
Cash and cash equivalents	£200,652	£477,747

1 ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention

Basis of consolidation

The consolidated financial statements include the accounts of its subsidiary made up to 31 December 2007, in accordance with IFRS 3 and IAS 21

No income statement is presented for the company as permitted by S230 (4) of the Companies Act 1985

Goodwill

Goodwill arising on consolidation, which represents the excess of the purchase price over the fair value of net assets acquired, is shown in the balance sheet as an asset and will be subject to an annual impairment review in accordance with IFRS 3, IAS 36 and IAS 38

Intangible assets

All intangible assets are subject to annual impairment and fair value review

Amortisation is calculated and provided in order to write off each asset over its estimated useful economic life, such amortisation to commence when the asset concerned is initially used within the business

Royalty	3 – 20 years
Software	3 – 20 years

Royalty

Royalty costs represent payments to the Republic of Kazakhstan, which are paid quarterly until 25 January 2020

The associated liability is shown within current and non current trade and other payables and has been discounted at the rate of 9%

Exploration and evaluation costs

The group has adopted IFRS 6 "Exploration for and evaluation of mineral resources"

The group follows the successful efforts method of accounting for exploration and evaluation costs All licence, acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by field pending determination of the commerciality of the relevant field Directly attributable costs not specific to any particular licence or prospect are expensed as incurred

An exploration and evaluation asset is assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount Such triggering events are defined in IFRS 6 and include the point at which a determination is made as to whether commercial reserves exist.

If prospects are deemed to be impaired ("unsuccessful") on completion of evaluation, the associated costs are charged to the income statement If the field is determined to be commercially viable, the attributable costs are transferred to property, plant and equipment in single field cost centres These costs are then depreciated on a unit of production basis

1. ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

All fixed assets are subject to annual impairment and fair value review

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under finance lease, over the lease term, whichever is the shorter

Bore holes	10 years
Motor vehicles	5 – 10 years
Plant and equipment	3 – 10 years
Furniture and other equipment	3 – 10 years

Deferred Tax

The tax charge is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, in the future In particular

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate All differences are taken to the income statement

1. ACCOUNTING POLICIES (cont'd)

Hire purchase and leasing commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet The interest elements of the rental obligations are charged in the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital payments outstanding

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term.

2. REVENUE

Revenue represents income derived from the extraction and sale of oil by the company's subsidiary undertaking Taraz LLP

3. EMPLOYEES AND DIRECTORS

	2007	2006
Wages and salaries	516,696	501,667
Social security costs	57,388	40,721
	£574,034	£542,388

The average monthly number of employees during the year was as follows

Management & administration	13	17
Production, technical & operations	13	25
	26	42

Of these employees, all the Production, Technical and Operations Staff are employed in Kazakhstan

Directors' Emoluments	£289,324	£282,441

	£	£
Directors' Emoluments are as follows		
D Greil	127,647	112,623
M Masterman	112,065	112,623
M Garland	24,000	24,000
A Robinson	25,612	24,000
M R S James	-	9,195

4 EXCEPTIONAL ITEMS

During the year, the company undertook an impairment review of the carrying value of Goodwill arising on the acquisition of Taraz LLP in 2004 This resulted in the reduction of Goodwill to zero, a write off of £326,998 during the year

The Company also undertook a review of the intercompany loan from Caspian Holdings Plc to Taraz LLP In view of the market value of the zhengeldy oil field, the Directors have taken a prudent approach and have made a non-specific provision of £2,503,380 against the loan in the financial statements of the holding company

	2007 £	2006 £
5. NET FINANCE INCOME		
Finance income		
Bank interest received	£16,689	£57,648
Finance costs		
Other interest	8,280	11,708
Interest on Loans	50,620	-
Hire purchase	-	3,102
	£58,900	£14,810
Net finance income/(costs)	£(42,211)	£42,838

6 LOSS BEFORE TAX

The loss before tax is stated after charging

	2007	2006
Cost of inventories recognised as expense	1,000,222	936,578
Depreciation – owned assets	1,277,656	604,513
Depreciation – assets held under finance leases and hire purchase contracts	-	-
Loss on disposal of tangible assets	-	738
Auditors remuneration	16,722	12,967
Auditors remuneration for non audit work	-	20,396

7. TAXATION

Analysis of the tax charge
No liability to corporation tax arose on ordinary activities for the year ended 31 December 2007 nor for the year ended 31 December 2006

The difference between the effective provision for tax and the statutory tax provision at the statutory rate is reconciled as follows

		2007 £	2006 £
Loss on ordinary activities before tax		(1,570,595)	(3,412,588)
Corporation Tax at 30%		(471,179)	(1,023,776)
Permanent differences	Non-deductible income	(312,101)	727,085
	Adjustment prior year	-	2,854
	Exchange difference	58,941	1,979
Timing differences	losses brought forward	(854,403)	(562,545)
	tax losses carried forward	1,578,742	854,403
Current tax on ordinary activities		-	-
Deferred tax		-	-
		£-	£-

As at 31 December 2007, the Group had unrecognised tax losses arising in Kazakhstan of £3,045,299 (2006 £1,956,175) and United Kingdom of £2,217,176 (2006 £891,834) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose, subject to the conditions of deductibility under the relevant legislation

Deferred tax assets have not been recognised in respect of these losses These assets will be recognised should it become more likely than not that taxable profits or timing differences, against which they may be deducted, arise

8. LOSS OF THE PARENT UNDERTAKING

The parent undertaking's loss for the financial year before and after taxation amounted to £3,828,722 (2006 £865,863) This included Amortisation of the investments in subsidiary of £1,145,146

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period

Diluted earnings per share is calculated using the weighed average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares

		2007	
	Earnings £	Weighted average number of shares	Per share amount pence
Reconciliations are set out below			
Basic EPS			
Earnings attributable to ordinary shareholders	(1,570,595)	98,698,685	1 60p
Effect of dilutive securities	-	-	-
Diluted EPS			
Adjusted earnings	(1,570,595)	98,698,685	1.60p

		2006	
	Earnings £	Weighted average number of shares	Per share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders			
Effect of dilutive securities			
	(3,412,588)	95,747,517	3 60p
	-	-	-
Diluted EPS			
Adjusted earnings	(3,412,588)	95,747,517	3.60p

10. FIXED ASSET INVESTMENTS

Held by parent undertaking

The company holds more than 10% of the equity of the following companies

Name of Company	Country of Registration	Proportion Held	Nature of Business
Taraz LLP	Kazakhstan	100%	Oil Exploration
Enx Limited	England & Wales	48%	Oil Exploration

	Subsidiary Undertakings
Company	
COST	
At 1 January 2007	1,145,146
Addition	4,800
At 31st December 2007	£1,149,946
Amortisation	
At 1st January 2007	-
Provision in Year	1,145,146
At 31st December 2007	£1,145,146
Net Book Value	
31st December 2007	£4,800
31st December 2006	£1,145,146
Group	
COST	
At 1 January 2007	1,307,985
Addition	-
At 31st December 2007	£1,307,985
Amortisation	
At 1 January 2007	980,987
Provision in year	326,998
At 31 December 2007	£1,307,985
NET BOOK VALUE	
31 December 2007	£ -
31 December 2006	£326,998

Pre acquisition losses of Taraz LLP were £162,839 giving rise to goodwill on acquisition of £1,307,985

There were no pre acquisition losses or profits of Enx Limited Goodwill arising on acquisition was £Nil

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
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11. INTANGIBLE FIXED ASSETS

Group	Royalty	Software	Exploration and evaluation Costs	Total
COST				
At 1 January 2007	155,104	15,660	1,091,867	1,262,631
Translation adjustments	8,634	872	60,780	70,286
Additions	-	558	240,892	241,451
Adjustments in fair values of fixed assets	-	-	-	-
At 31 December 2007	163,738	17,090	1,393,540	1,574,368
DEPRECIATION				
At 1 January 2007	66,323	773	667,208	734,304
Translation Adjustments	3,692	41	37,141	40,874
Charge for the year	8,039	1,032	594,982	604,053
Adjustments in fair values of fixed assets	-	-	-	-
At 31 December 2007	78,054	1,848	1,299,331	1,379,232
NET BOOK VALUE				
At 31 December 2007	£85,684	£15,244	£94,209	£195,136
At 31 December 2006	£88,781	£14,887	£424,659	£528,327

12 PROPERTY, PLANT AND EQUIPMENT

Group	Bore Holes	Motor Vehicles	Plant and Equipment	Furniture & Other Equipment	Total
COST					
At 1 January 2007	3,678,630	16,036	376,828	39,749	4,111,243
Translation adjustments	204,776	893	20,977	2,213	228,859
Additions	179,656	-	37,477	3,239	220,373
Disposals	-	-	-	-	-
Adjustments in fair values of fixed assets	-	-	-	-	-
At 31 December 2007	4,063,063	16,929	435,282	45,201	4,560,475
DEPRECIATION					
At 1 January 2007	844,854	2,240	57,073	10,206	914,373
Translation adjustments	47,030	125	3,177	568	50,900
Charge for year	298,356	1,675	39,254	7,320	346,605
Eliminated on Disposals	-	-	-	-	-
Adjustments in fair values of fixed assets	39,503	-	-	-	39,503
Impairment Losses	-	-	-	-	-
At 31 December 2007	1,229,743	4,039	99,504	18,095	1,351,381
NET BOOK VALUE					
At 31 December 2007	£2,833,320	£12,889	£335,778	£27,107	£3,209,094
At 31 December 2006	£2,833,776	£13,796	£319,755	£29,543	£3,196,870

12. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Property, plant and equipment, included in the above, which are held under hire purchase contracts or finance leases are as follows

	Motor Vehicles
Group	
COST	
At 1 January 2007	6,630
Translation Adjustments	369
Adjustments in fair values of fixed assets	-
Disposals	-
At 31 December 2007	6,999
DEPRECIATION	
At 1 January 2007	1,719
Translation Adjustments	96
Charge for the year	-
Adjustments in fair values of fixed assets	-
Eliminated on Disposals	-
At 31 December 2007	1,815
NET BOOK VALUE	
At 31 December 2007	£5,184
At 31 December 2006	£4,911

13. INVENTORIES

	Group		Company	
	2007	2006	2007	2006
Stock	£197,021	£296,268	£ -	£ -

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14. TRADE AND OTHER RECEIVABLES

	Group 2007	Group 2006	Company 2007	Company 2006
Current:				
Trade Debtors	61,638	129,622	-	-
Amounts due from subsidiary undertakings	-	-	5,218,307	6,856,314
Other debtors	485,554	539,859	1,286	69,262
Prepayments and accrued income	13,073	98,409	13,072	98,409
	£560,265	£767,890	£5,232,665	£7,023,985

15. CASH AND CASH EQUIVALENTS

	Group 2007	Group 2006	Company 2007	Company 2006
Cash in hand	1,017	3,047	1,000	1,000
Bank accounts	82,237	197,605	53,834	105,964
	£83,254	£200,652	£54,834	£106,964

16. TRADE AND OTHER PAYABLES

	Group 2007	Group 2006	Company 2007	Company 2006
Current				
Trade creditors	256,939	100,735	199,763	53,681
Royalty lease payments	43,542	44,134	-	-
Social security and other taxes	26,245	13,504	-	-
Other creditors and accruals	114,868	361,424	65,524	66,655
	£441,594	£519,797	£265,287	£120,336
Non Current:				
Royalty lease payments	£93,913	£98,728	£ -	£ -

17. FINANCIAL LIABILITIES – BORROWINGS

	Group 2007	Group 2006	Company 2007	Company 2006
Current:				
Finance leases	-	1,753	-	-
Loans	76,983	-	-	-
	£76,983	£1,753	£ -	£ -

	Group 2007	Group 2006	Company 2007	Company 2006
Non Current				
Credit facility agreement				
Loans	£699,976	£-	£699,976	£-

Terms and debt repayment schedule	1 Year or less	1-5 Years	After 5 Years
Loans	£ -	£699,976	£ -
Credit facility agreement	£76,983	£ -	£ -

18. PROVISIONS

	Group 2007	Group 2006	Company 2007	Company 2006
B/fwd	108,186	29,859	-	-
Created in year	-	82,455	-	-
Movement in year	(46,747)	(4,128)	-	-
C/fwd	£61,439	£108,186	£ -	£ -

Represented by:

	Group 2007	Group 2006	Company 2007	Company 2006
Current consequences of liquidation	32,052	18,179	-	-
Professional training	8,796	7,552	-	-
Holiday Provision	4,597	10,223	-	-
Deferred Expenses	15,994	72,232	-	-
	£61,439	£108,186	£ -	£ -

19. LEASING AGREEMENTS

Minimum lease payments under finance leases fall due as follows

	Group 2007	Group 2006	Company 2007	Company 2006
Gross obligations repayable				
within one year	£ -	3,413	-	-
between one and five years	-	-	-	-
	£ -	£3,413	£ -	£ -
Finance charges repayable				
within one year	-	1,660	-	-
between one and five years	-	-	-	-
	£ -	£1,660	£ -	£ -
Net obligations				
within one year	-	1,753	-	-
between one and five years	-	-	-	-
	£ -	£1,753	£ -	£ -

20. SHARE CAPITAL

	2007	2006
Authorised		
150,000,000 Ordinary shares of 0 1p each	£150,000	£150,000
Allotted, issued and fully paid		
98,698,685 (2006 98,698,685) Ordinary shares of 0 1p each	£98,699	£98,699

21. RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	Share Capital	Revaluation Reserve	Translation Reserve	Share Premium	Profit and Loss Account	Total Shareholders Fund
Loss for the financial year	-	-	-	-	(1,570,595)	(1,216,164)
Adjustment in fair values of fixed assets	-	-	-	-	-	-
Translation Adjustment	-	-	(153,670)	-	-	(153,670)
Exchange differences	-	1,389	-	-	-	-
Minority Interest	-	-	-	-	58,342	58,342
Net reductions to shareholders' funds	£ -	£1,389	£(153,670)	£ -	£(1,512,253)	£(1,717,676)
Opening shareholders' funds	£98,699	£24,945	£183,370	£9,474,645	£(5,193,118)	£4,588,541
Closing shareholders' funds	£98,699	£26,334	£29,700	£9,474,645	£(6,705,371)	£2,870,865
Company						
Loss for the financial year	-	-	-	-	(180,197)	(180,197)
Adjustment in fair values of fixed assets	-	-	-	-	(1,145,146)	(1,145,146)
Loan Write Off	-	-	-	-	(2,503,380)	(2,503,380)
Net reductions to shareholders' funds	£ -	£ -	£ -	£ -	£(3,828,723)	£(3,828,723)
Opening shareholders' funds	£98,699	£ -	£ -	£9,474,645	£(1,417,585)	£8,155,759
Closing shareholders' funds	£98,699	£ -	£ -	£9,474,645	£(5,246,308)	£4,327,036

22 MINORITY INTERESTS

Share of Share Capital in Subsidiary	5,200
Share of losses in subsidiary for the Year	(58,342)
Balance carried forward at 31st December 2007	£(53,142)

23. EVENTS SINCE THE BALANCE SHEET DATE

The company completed a placement of 10 million ordinary shares at 2p per share on 3rd June 2008 These were acquired by Masterman Superannuation Fund, a company related to Michael Masterman, and of which Michael Masterman is a beneficiary and Trustee

Following this transaction Michael Masterman will be interested in 21,900,000 in the company representing 20 14% of the total voting rights of the company

The Company drew down an additional £100,000 from its Credit Facility Agreement An additional £200,000 is available for drawdown in a third tranche approved by noteholders

As noted above production from Zhengeldy was suspended in February 2008

24. RELATED PARTY TRANSACTIONS

During the year, Masterman Investments Limited, a company of which Michael Masterman is a director and sole shareholder, lent the company £200,000 and received 5,000,000 options at an exercise price of 4p, expiring on 31st December 2010