CHARAAT GOLD HOLDINGS LTD ANNUAL REPORT AND ACCOUNTS 2007

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HIGHLIGHTS

The Company and its property

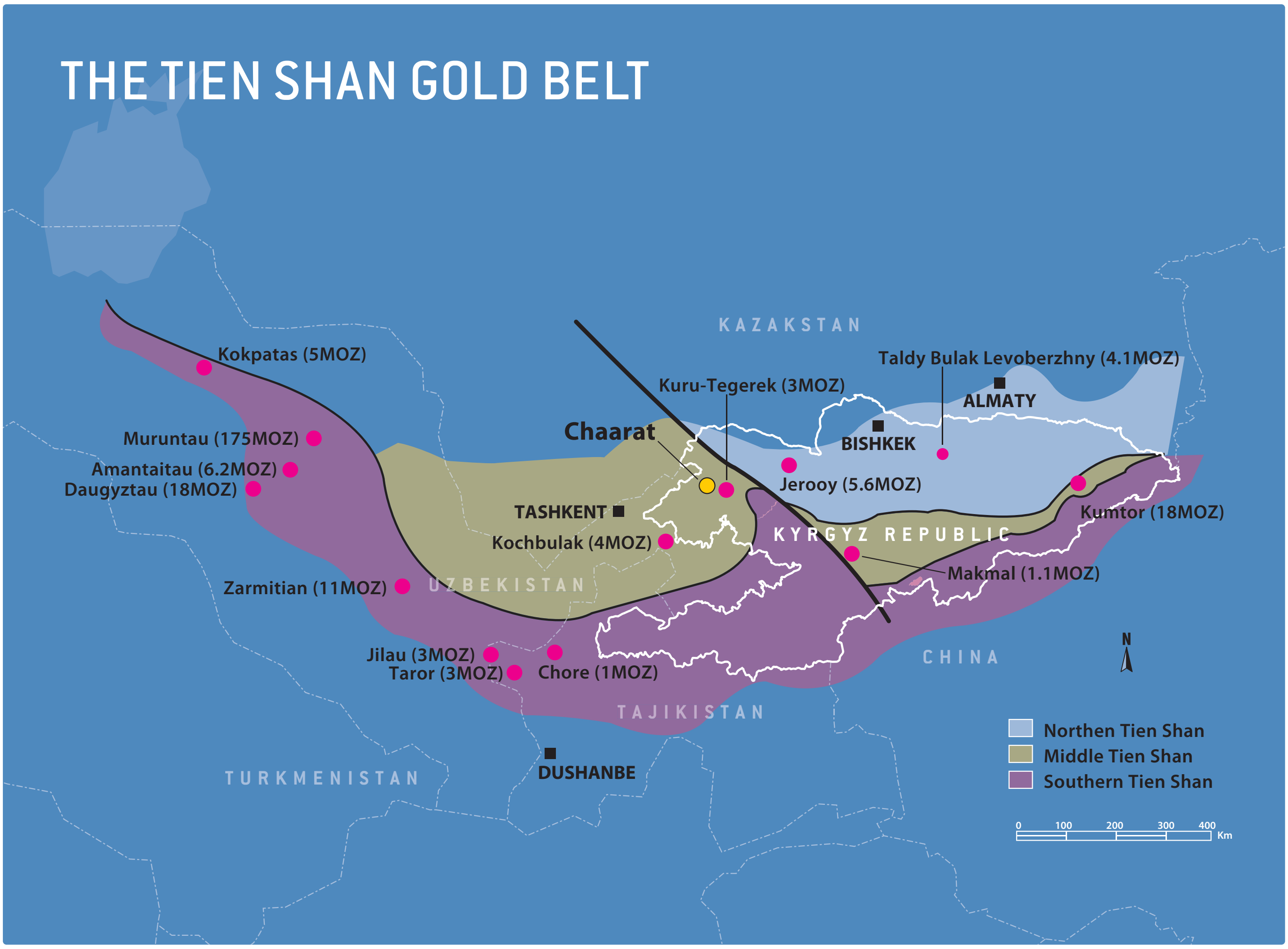
- Chaarat Gold Holdings has a 100% interest in a 604 square kilometre licence over a highly prospective gold district on the Tien Shan gold belt in Central Asia.
- At the Chaarat Project, drilling has focused on three mineralised zones, the Contact, Main and Tulkubash Zones on less than six kilometres of the 28 kilometres of strike.
- The sedimentary hosted, shear zone controlled mineralisation is developed in wide mineralised zones, with gold and associated silver and antimony.

Progress during 2007:

- The Company was admitted to trading on London's Alternative Investment Market on 8 November 2007 and raised US $16.4 million net.
- 53 diamond drill holes (10,200 metres of drilling) and 5,500 metres of trenches were completed and a number of mineralised outcrops exposed in bulldozer excavations.
- The recent drilling results have served to increase the JORC compliant (indicated and inferred) resource from 1.87 million ounces at 4.1 g/t Au (2006/2007) to 3.13 million ounces at a grade of 4.41g/t Au.
- The new resource estimate represents an increase in gold grade and a 68% increase in contained gold resource ounces.
- An exploration adit on the C5300 Project Area has intersected the wide Contact Zone (22.45 metres at 5.73g/t Au and 13.1 g/t Ag).
- Further metallurgical test work has been completed, indicating gold recoveries of up to 96%.
- For the first time, field exploration is now conducted throughout the year.
- The Company is well funded to complete its pre-feasibility study and commence a feasibility study.

The future holds more promise:

- Only a limited number of the many gold occurrences and gold anomalies known on the licence area have been drilled to date.
- Drilling will continue during 2008 to upgrade and expand the resources and exploration will extend to the remaining gold occurrences within the licence area.
- Significant progress has been made on a scoping study, to be completed during the 2nd Quarter of 2008. A pre-feasibility study is scheduled for 2008.



The Tien Shan Gold Belt is one of the major gold producing regions in the world. The principal gold deposits are developed in a number of districts within a regional metallogenic province, over a distance of 1,500 kilometres in Central Asia, extending through Uzbekistan, Tajikistan, the Kyrgyz Republic and Kazakhstan to western China. The metallogenic belt has provided the principal gold production within the Commonwealth of Independent States and is characterized by large deposits, including epithermal and sedimentary hosted gold deposits, porphyry copper deposits and skarn hosted copper-gold deposits. Fifteen such gold districts are known within the metallogenic belt, the latest of which to be discovered is the Chaarat gold district. Of the fifteen gold districts, many have principal deposits of over 1 million ounces and eleven gold districts have resources of over 3 million ounces. The largest is the well known and incomparable Muruntau deposit and surrounding district, with original resources of some 175 million ounces, followed by Kumtor and Daugyztau each with some 18 million ounces of resource and Zarmitan (11 m oz), Amantaitau (6.2 m oz) Jerooy (5.6 m oz), Kochbulak (4 m oz) Taror (3 m oz) and Jilau (3m oz). Chaarat is the latest district to be included on the list, with 3 million ounces delineated at a relatively early stage of exploration and with much of the district and licence area still to be prospected.

The gold mineralisation is developed in the central part of the Altaid Orogenic Collage and is classified either as porphyry and epithermal or as orogenic type deposits. The mineralisation is hosted in sedimentary, intrusive or skarn rocks that range between late Proterozoic and Palaeozoic in age and is associated with major crustal sutures and shear zones, related to a Palaeozoic magmatic arc. Locally diorite and granodiorite intrusives are associated, both spatially and genetically, with the gold mineralisation, which is associated with silver, antimony, tungsten and copper. Many of these features are found in the districts associated with the major gold deposits and are also found at Chaarat.

The geological history is one of Palaeozoic age subduction and accretion of island arcs and micro continents, similar to the conditions prevalent since the Mesozoic in the Cordilleran orogen in the west of the American continent. This has resulted in similar metallogenic processes and similar types of gold deposits in both regions, although the Tien Shan Belt and the gold deposits are about 200–300 million years older than those in the western United States of America.

CHAIRMAN'S REPORT

A Year of Progress

Our Company has achieved a new milestone in its development with the admission of its shares to trading on the Alternative Investment Market in London. For the first time, this provides investors with the ability to trade in our shares on the stock exchange.

New capital raised by the IPO amounted to US $16.4 million net, which was less than had been sought but sufficient, nevertheless, to fund the Company at planned levels of expenditure into 2009. The onset of the credit crisis at the time of the IPO undermined sentiment towards exploration investment. The Company and its strategy were, however, well received by the investment community.

The fall in our share price since the issue will, I regret, have been a disappointment to shareholders and in the view of the Board does not adequately value the prospects of your Company. To address this further, efforts are being made to raise the awareness of both the scale of the project and the progress that we are making towards the fulfilment of its potential.

In terms of exploration, 2007 was another productive year for work carried out and for the growth in our resource base. Over 10,000 metres of drilling was completed and alongside this, an active programme of surface work was undertaken.

Subsequent to the year end, and based on the drilling results to the end of the 2007 exploration season, the JORC compliant resource calculation shows 3.13 million ounces of gold in the indicated and inferred categories. This represents an increase of 68% over the 1.87 million ounce gold resource at the end of 2006. The value of the deposit is further enhanced by significant grades of silver and antimony associated with the gold. The value to be derived from these metals will surely enhance the potential viability of the project. Since the year end, work that has been underway on the adit, which has recently intersected the mineralisation in the Contact Zone, has given us important and encouraging confirmatory information on the width and gold grade of the zone. The adit itself, as planned, now allows us to carry out a year round drilling programme and to drill the Contact Zone at depth. Currently the mineralisation in the Contact Zone is open along strike and at depth. In summary, our exploration confirms that Chaarat's strategy of defining a resource capable of supporting a mine with an output of 200,000 ounces of gold production per year is well on course.

The focus of our metallurgical work has centred on laboratory testing of samples in a Denver laboratory and in the study of suitable processes for treating ore. We are still at an early stage in the examination of different processes suitable for the mineralisation. We are, however, encouraged that tests achieved a baseline gold recovery of 96%.

Aside from exploration, progress has been made on the environmental impact assessment study of the project. Regarding the sustainability aspects, the Company is well founded in its commitment to the sustainability of the region in which it operates. We have a strong team of professionals to oversee the social and environmental aspects of the project. As part of that commitment, much work is being done on programmes that support health, education and the cultural aims of the local community.

I am pleased to report that we have been successful in attracting new skilled recruits to our project. A new Project Manager has been appointed and will arrive in Bishkek shortly. A Geology Manager and an Exploration Manager have recently joined us and a Group Financial Controller has been recruited to be based in Bishkek, where he will arrive early in June.

Finally, I should like to thank our management and staff for their efforts in bringing our project further along the path to fruition. At a time when equipment and resources have been in tight supply throughout the industry, their achievements in 2007 are to their credit.

Christopher Palmer-Tomkinson

Chairman

GOLD AT CHAARAT

The widespread gold mineralisation at Chaarat is part of the regional Tien Shan Gold Belt of Central Asia and is hosted in late Proterozoic and early Palaeozoic sedimentary rocks, which have been faulted and folded and subsequently intruded by Permian age diorites.

The 604 square kilometre licence area, held by Chaarat, is situated in a mountainous area of the western Kyrgyz Republic and constitutes a gold district with widespread gold occurrences and numerous areas of gold in soil geochemical anomalies along the 28 kilometres of strike within the licence. The mineralised zones are mainly associated with areas of shearing and to some extent with areas of folding, or along the contacts of stratigraphic units of varying competencies. In some locations, the mineralisation is spatially, and possibly genetically, related to intrusive diorite bodies.

The mineralisation was discovered in the late 1980s by Soviet exploration teams, which undertook regional mapping, geochemical sampling and geophysical surveys, followed by limited trenching and drilling and the excavation of prospect adits. This work discovered 28 gold occurrences and numerous gold in soil anomalies throughout the district, which are now within the Chaarat licence area. The area was subsequently prospected by Apex Silver Mines Limited and by Newmont Mining Corporation in the late 1990s, which focused their exploration on the most accessible gold discoveries made by the Soviet team on the north west side of the Sandalash river valley.

A subsidiary of Chaarat Gold Holdings Ltd acquired the rights to the area and compiled and re-assessed all historical data before starting their field based exploration in 2004, again focusing on the immediately accessible areas. Exploration by Chaarat since 2004 has, until recently, only been conducted in the summer months and has included the drilling of 125 diamond drill holes (25,214 metres), some 25,000 metres of trench and bulldozer excavation sampling and the development of an exploration adit, as well as related geophysical surveys and metallurgical test-work.

Chaarat has made significant progress in delineating specific zones of mineralisation in the 10 kilometre strike length of the central area within the licence and has determined that the mineralisation here is in three specific zones, designated the Main Zone, on the lower slopes of the Sandalash river valley, the Contact Zone and the Tulkubash Zone on the upper slopes of the valley. To date, resources of 3.13 million ounces at a grade of 4.41g/t Au have been delineated in wide mineralised zones, down to depths, on the various projects, of between 100 metres to 460 metres down dip.

Specific areas of mineralisation, at outcrop, on any of the three zones have been designated as Project Areas, based on their distance in metres from the origin point of a 10 kilometre long regional survey grid, e.g. on the Contact Zone, C5300 Project Area and on the Main Zone, the M2400 Project Area.

Chaarat Mineral Resource Statement (as at 22 April 2008)

		Indicated Resources			Inferred Resources			Total Resources		
Zone	**Sub-zone**	Tonnage (kt)	Grade (g/t Au)	Contained Gold (koz)	Tonnage (kt)	Grade (g/t Au)	Contained Gold (koz)	Tonnage (kt)	Grade (g/t Au)	Contained Gold (koz)
Main Zone	M2400	2,514	4.29	347	866	2.98	83	**3,380**	**3.96**	**430**
	M3000	3,591	4.36	503	408	4.36	57	**3,999**	**4.36**	**560**
	M3400				1,096	4.71	166	**1,096**	**4.71**	**166**
	M3900	1,192	4.06	156	71	3.44	8	**1,264**	**4.03**	**164**
	M4400	274	4.26	38	26	3.15	3	**301**	**4.17**	**40**
	M5000	195	7.58	48	156	8.48	42	**350**	**7.98**	**90**
	M6000	679	4.68	102	140	3.37	15	**820**	**4.46**	**117**
Main Zone Total		8,446	4.39	1,193	2,762	4.22	374	**11,208**	**4.35**	**1,567**
Contact Zone	C4000	587	4.00	76	241	4.08	32	**829**	**4.02**	**107**
	C4600	1,090	4.52	158	486	4.55	71	**1,576**	**4.53**	**230**
	C5300	3,609	4.54	527	2,775	4.32	385	**6,384**	**4.44**	**912**
Contact Zone Total		5,286	4.48	761	3,503	4.33	488	**8,788**	**4.42**	**1,248**
Tulkubash Zone	T0700	1,642	4.70	248	473	4.66	71	**2,115**	**4.69**	**319**
TOTALS		15,374	4.45	2,202	6,738	4.31	933	**22,111**	**4.41**	**3,134**

The Main Zone has seven such project areas, extending over some five kilometres of strike and has resources of 1.57 million ounces at 4.35 g/t Au. The mineralisation is hosted in sheared Chaarat Formation greywackes and shales, with the mineralisation being between two metres and fifteen metres wide and dipping at 70–80 degrees to the north west.

The Contact Zone has three project areas, extending over some two kilometres of strike along the sheared contact between the Chaarat Formation shales and the Tulkubash Formation quartzites. The three project areas have a combined resource of 1.25 million ounces at a grade of 4.42 g/t Au. The mineralised zones are between 5 and 20 metres wide and dip at 45–55 degrees to the north west. An additional project along this zone is Ishakuldy, located 3 kilometres to the north of the C5300 Project Area, and is defined by geochemical soil sampling anomalies in excess of 1 g/t gold over a strike length of 2,500 metres.

The Tulkubash Zone is the latest discovery and is also structurally controlled, within the Tulkubash Formation quartzites and, at this stage, is the least drilled of the three zones, but is delineated by a geochemical soil sampling anomaly, some five kilometres long. The three zones thus have a cumulative strike length of some nineteen kilometres. The wide mineralised zones appear to be amenable to bulk mining methods and where possible, open pit mining is being considered. Although the relatively steep dip, into the mountain side, makes for difficult drilling in places and will also necessitate underground mining, most of the resources delineated to date are above the elevation level of the valley floor, making them amenable to low cost, bulk underground mining methods and ready access through adits from the valley floor.

The mineralisation is associated with sericitic and carbonate alteration zones, with lesser quartz veins and silicification. The gold is associated with sulphides, including pyrite and arsenopyrite and has associated silver and antimony mineralisation. Initial metallurgical test work indicates recoveries of 95–96% of the gold.

The work in the past four years by Chaarat has established this area as a significant gold district within the Tien Shan Gold Belt. With the initial scoping study nearing completion and the prefeasibility study to commence shortly, the continuing exploration and drilling aims to upgrade the confidence level in the resource and extend the known resources on the strike and down dip extensions. In addition, the numerous other gold occurrences in the district-wide licence area will be investigated and drilled. The aim is to extend the current 3.13 million ounce resource to support a 200,000 ounce per year mining operation.

General

The past year has been one of transition, from being a small private exploration company, we are now a public listed company. Furthermore, we have increased the scale of our operations and now operate on a year round basis, with our well established field base allowing us to avoid the winter close-down, which we had practised until recently. In addition, the Company commenced the preparation of a scoping study, which is scheduled for completion during the 2nd quarter of 2008.

With these developments, the skills base of the Company is being expanded by recruitment and training. The communication infrastructure and IT systems have been upgraded. Indeed, during the recent winter, we were able to continue with field operations in the development of the adit and the attendant underground drilling operations, which are ongoing.

Your Company is now well prepared to meet its objectives, namely the delineation of sufficient resources to support the development of a large scale gold mining operation at Chaarat.

Exploration

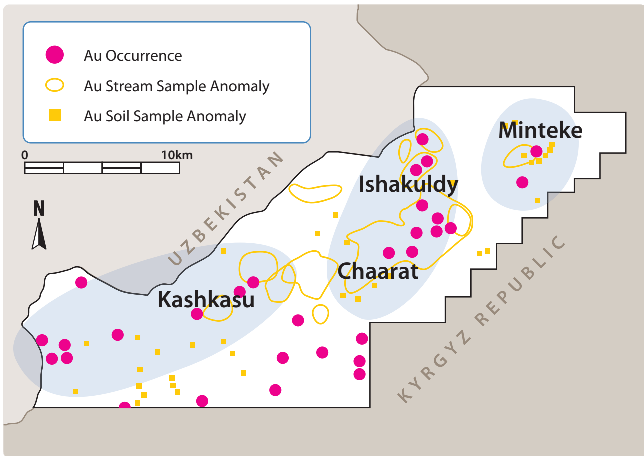
The 2007 field operations, conducted during the season which commenced in June, included a significant amount of surface work. We completed 53 diamond drill holes (10,200 metres), developed and sampled 5,500 metres of trenches and exposed a number of mineralised outcrops in bulldozer excavations which have proved to be a very useful surface exploration tool. Our understanding of the three mineralised zones at Chaarat; the Contact, Main and Tulkubash Zones, improved considerably. At the same time we continued to discover new mineralised targets in our regional prospecting and mapping programmes. The Chaarat licence continues to develop as a significant gold district in the Tien Shan Gold Belt.

As a result of this work, the mineral resource that has been delineated increased to 3.13 million ounces at the end of 2007 from 1.87 million ounces at the end of 2006 (in the JORC compliant, indicated and inferred categories). The Company has also commissioned Behre Dolbear International Ltd. ("Behre Dolbear"), an independent and internationally recognised engineering consulting firm, to prepare a scoping study on the economic viability of the Chaarat Project as well as setting out a recommended work programme to develop the project to the mining stage.

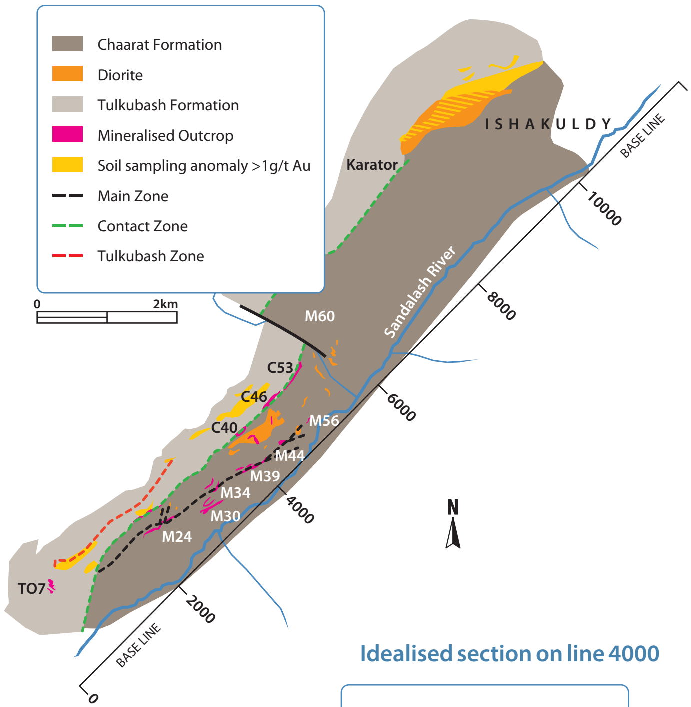
Contact Zone

Recent drilling continues to confirm the potential of this zone. Whereas the Contact Zone can be identified for a length of more than 10 kilometres, we have undertaken drilling and trenching on only 1.5 kilometres, in four targets or project areas. These were identified by the wide mineralised outcrops, with attractive gold grades. Three of these targets have been drilled and the fourth has been mapped and trenched and now awaits drilling. In the C5300 Project Area, the width of the mineralisation appears to increase

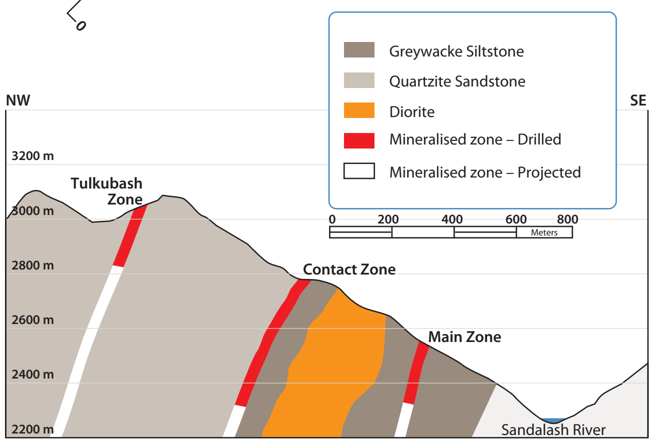
Chaarat Licence Area and Targets



Project Plan



Idealised section on line 4000



from some 5 to 6 metres at surface to over 20 metres at a vertical depth of about 300 metres below outcrop. Such widths are significant, both in terms of an increase in the resource potential and the probability that there could be a reduction in the unit costs of any future mining operation.

Recent drilling results indicate that the mineralised zone may be continuous over the 1,800 metres of strike between the C4000, C4600 and C5300 Project Areas. Due to the steep terrain and the advantage of conducting underground work on a year round basis, the company developed an adit in the centre of the C5300 Project Area, at an elevation of 300 metres below the mineralised outcrop. Subsequent to the year end, the adit intersected the Contact Zone mineralisation and currently we are developing underground drilling chambers, as well as continuing to develop drifts parallel to the mineralised zone, towards both the south west and north east. The additional exposure of this zone will allow us to obtain a better understanding of the mineralisation controls and distribution, as well as providing further access for drilling and bulk metallurgical samples.

The recently updated resource estimate for the Contact Zone (as calculated by Behre Dolbear), which includes all the drill holes which were drilled during 2007 for the C 5300, C4600 and C4000 Project Areas and the initial adit sampling on the C5300 Project Area, is 1.25 million ounces at a grade of 4.42 g/t Au. The deepest drilling on these project areas is some 380 metres below outcrop (440m down dip) and the mineralisation remains open between the three project areas drilled, along strike and down dip. These extensions will be drilled in the coming year.

Main Zone

The Main Zone is developed within the siltstones of the Chaarat and Karator Formations, on the lower slopes of the Sandalash River valley and has been prospected over a limited distance of five kilometres. The Main Zone is sub parallel to the Contact Zone and outcrops some 400 metres to the south east of the Contact Zone. Some seven mineralised areas have been identified along the strike of outcrop on the Main Zone, which have been designated as the M2400, M3000, M3400, M3900, M4400, M5000 and M6000 Project Areas. All of these project areas have been drilled to date and resources of 1.56 million ounces of gold at a grade of 4.33 g/t have been delineated in the most recent resource estimate.

Drilling in the past year indicates that the mineralisation may be continuous between the two adjacent Project Areas, the M3400 and the M3900, which would result in a 660 metres long zone of mineralisation. The intervening area will be the focus of drilling during the next year.

Further along strike to the southwest, the M2400 Project Area has a resource estimated at 0.43 million ounces at a grade of 3.96 g/t Au. Drilling results in the past year were very positive, including drill hole

Selected Drilling Results

Project	Drill Hole	Drilled from (metres)	Drilled to (metres)	True width (metres)	Au g/t
C5300	DH44	206.50	249.60	18.83	5.67
C5300	DH46	209.60	222.80	9.48	5.08
C5300	DH56	182.00	199.50	8.55	3.75
C5300	DH86	436.50	469.50	21.25	3.22
C5300	DH117	415.00	435.00	10.42	3.51
C5300	DH135	211.50	244.50	11.63	4.72
C5300	DH139	185.00	214.50	10.50	3.65
C4600	DH80	31.50	43.50	4.77	4.93
C4600	DH81	238.00	257.00	6.29	4.12
C4600	DH82	4.50	22.00	7.86	4.12
C4600	DH83	27.00	61.50	5.40	5.76
C4600	DH158	194.00	216.50	18.47	3.15
M2400	DH22	68.50	85.00	13.17	3.35
M2400	DH101	136.50	169.50	16.67	5.63
M2400	DH105	45.00	60.00	9.58	3.74
M3000	DH24	148.50	189.00	25.17	3.61
M3000	DH28	105.00	121.00	15.39	6.05
M3000	DH29	151.00	176.00	23.78	4.32
T0700	DH61	86.80	102.00	14.29	4.95
T0700	DH62bis	197.50	226.00	27.28	6.38
T0700	DH93bis	39.00	69.00	12.67	4.42

DH101 at the south of the Project area, where mineralisation with a width of 33 metres (true width of 17 meters) and a gold grade of 5.67 g/t was intersected. The strike length of the M2400 Project Area has been increased through surface excavations and sampling by 50 metres (from 570 metres to 620 metres). Diamond drilling in the southern parts of this Project Area has been hindered by the unconsolidated surficial deposits and the Company intends to continue drilling this area by reverse circulation techniques, to probe the strike and down dip extensions to this mineralised area.

Tulkubash Zone

The Tulkubash Zone is the third mineralised zone, which outcrops near the southernmost outcrops of the Contact Zone. The mineralisation was initially identified by a prominent four kilometre long gold in soil geochemical anomaly, overlying the Tulkubash quartzites, parallel to the Contact Zone. Relatively limited drilling has been completed to date over much of this strike length and has focussed only on the southernmost five hundred metres, which has been designated the T0700 Project Area. Eleven drill holes completed in the past year brings the total number of drill holes here to sixteen, which have served to increase the resources delineated in this area from 56,000 ounces to 319,000 ounces at a grade of 4.69 g/t Au. The mineralisation on this Project Area, which is seen as a possible open pit target, remains open at depth and for most of the extensive strike length and will be subjected to further drilling in the coming year.

Metallurgy

Pursuant to the three metallurgical tests conducted during 2005 and 2006, a 200 kilogram metallurgical sample was subjected to further test work by Resource Development Inc. ("RDI") in Denver during 2007. Following the test work, RDI recommended a pressure oxidation treatment process on the whole ore, to be followed by either CIL or Merrill Crowe extraction process. RDI further determined that the proposed process should recover at least 94%–96% of the contained gold. RDI also believes that a significant portion of the silver and antimony associated with the gold mineralisation may be extracted. Notwithstanding the encouraging results, test work on all aspects of the proposed process will continue in 2008. In addition, the Company will study other processing methods, to ensure that we can select the optimal process for the deposit.

Scoping and pre-feasibility studies

During the 4th quarter of 2007, Behre Dolbear was requested to undertake a scoping study on the project, which is expected to be completed during May 2008. Furthermore, discussions have commenced with independent parties, with the aim of undertaking a pre-feasibility study. During May 2008 we expect to announce which company will undertake the pre-feasibility study.

Environmental work

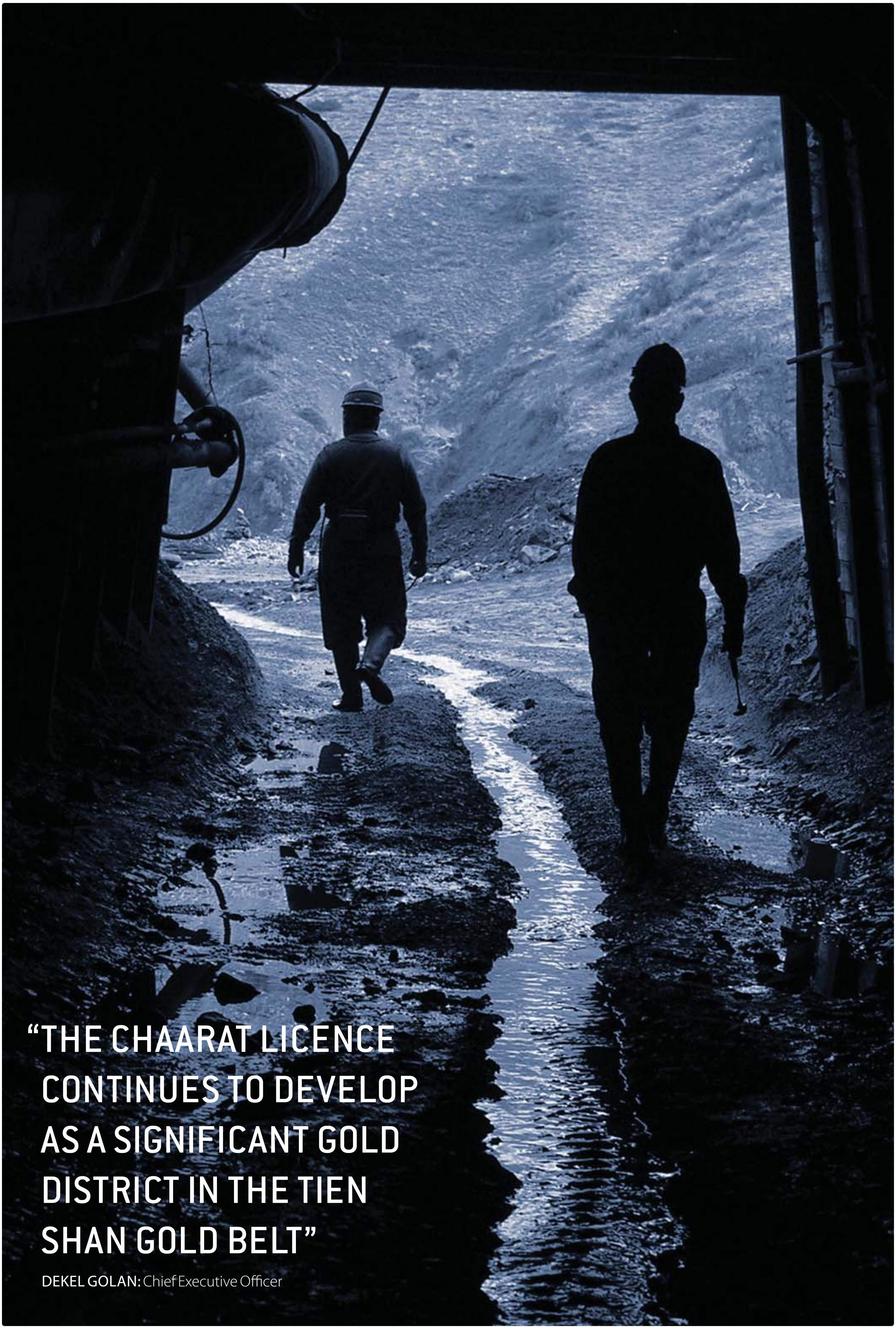
Work on the Baseline Environmental Study has commenced. The study is designed and supervised by Knight Piésold and Co. of the USA, who are independent of Chaarat and have commissioned a local consultant to undertake the on-site work. The study will comply with the standards of the World Bank (Equator Principles). A team of environmental specialists has commenced the work which is due to be completed in June 2009. At that time the results of this study and those of the pre-feasibility study will be available, thereby making it possible to initiate an Environmental Impact Study ("EIS") relating to the proposed development plan.

Sustainability

The Chaarat Project, in common with other similar large scale projects, has numerous interactions with the various elements of its environment, including the social, communal, biological and physical aspects. Management is determined to ensure that as a result of such interactions, the impact of the Project will be as positive as possible. It is important that the Project has support from the local population as well as the local, regional and national administrations who are the custodians of the long-term wellbeing of the nation. Chaarat has adopted a proactive and transparent process whereby such stakeholders understand the technologies to be used and the protection measures that will be adopted.

The Company, in concert with the local population, accordingly has developed a number of initiatives designed to facilitate a process of positive interaction. These initiatives include assistance in such aspects as healthcare, vocational training, management of the regional hunting reserve and the preservation of local culture and customs.

Dekel Golan
Chief Executive Officer


"THE CHAARAT LICENCE CONTINUES TO DEVELOP AS A SIGNIFICANT GOLD DISTRICT IN THE TIEN SHAN GOLD BELT"
DEKEL GOLAN: Chief Executive Officer

DIRECTORS' BIOGRAPHIES

Mr Dekel Golan
Chief Executive Officer, age 51
Dekel Golan is a graduate of Tel Aviv University. Mr Golan, formerly president of Apex Asia LDC, a subsidiary of Apex Silver Mines Limited, has extensive experience in promoting and developing businesses both in emerging economies as well as the developed world. Dekel was the founder and Executive Chairman of African Plantations Corporation Limited. In addition, he has advised a number of international and Israeli companies on business development and competitive intelligence. Prior to those activities Dekel was Vice President of Business Development of Supersol, the largest retail operator in Israel and established and managed the unit for competitive intelligence for Dead Sea Bromine Group, the world's largest bromine producer.

Mr Terence Arthur Cross
Finance Director, age 60
Terry Cross is an MBA graduate of the University of the Witwatersrand, Johannesburg and a member of the South African Institute of Professional Accountants. His working experience has been gained primarily in mining and related industries. Terry worked for four years as a Projects and Financial Control Manager for Barclays Bank and subsequently for six years as Group Financial Controller for a number of AIM listed mining exploration companies. Prior to moving to the UK he was, for six years, General Manager of a specialist equipment and consumables supplier to the mining industry in South Africa. He was a director of Johannesburg Stock Exchange listed companies, Consolidated Modderfontein Mines Ltd and South Roodepoort Main Reef Areas Ltd, from 1988 to 1992 and was Group Financial Controller and subsequently a director of the mining management company, Golden Dumps (Pty) Ltd, through the period from 1986 until 1989. Terry was previously employed in financial management positions for eleven years with Celanese Corporation of New York and for seven years with the Barlow Rand Group, of South Africa.

Mr Alexander Novak
Executive Director, age 52
Alex Novak is a graduate of the Kazakh Polytechnic Institute (M.Sc). Alex has assisted several companies investing in Kyrgyzstan in various aspects of finance, administration and representation vis a vis the local authorities since 2000. Alex has more than 25 years experience in various aspects of business management in Central Asia including negotiations with governmental institutions, contractors, preparation of development plans, monitoring of operations and public relations. He was instrumental in drafting and signing investment agreements between the government of the Kyrgyz Republic and two extraction companies, Textonic and Kumushtak, a subsidiary of Apex Silver Mines Limited. From 1992 to 1995, Alex was a founding partner and a director of Maya Elev Diamond Limited, a diamond processing plant in Russia. From 1978 through to 1990, Alex held several positions at numerous construction companies in Kazakhstan, including Director of KazStroiMontajAvtomatika.

Mr Christopher David Palmer-Tomkinson
Non-Executive Chairman, age 66
Christopher Palmer-Tomkinson graduated from Oxford University with a degree in jurisprudence and joined Cazenove in 1963. He served as a partner from 1972 until 2001 and as Managing Director international corporate finance until May 2002. He was responsible at various times for Cazenove's African and Australian business which enabled him to focus on the resource sector. Christopher is a director of Highland Gold Mining Limited.

Mr Stuart Robert Comline
Non-Executive Director, age 58
Stuart Comline is a graduate of the University of Natal South Africa (B.Sc Hons.Geology) and University of Western Ontario (M.Sc Geology). Stuart was Chairman, and formerly President and Chief Operating Officer, of AfriOre Limited, a TSX and AIM listed company until January 2007, when the company was purchased by Lonmin Plc. He has 35 years of experience in the international exploration and mining industry mostly in Africa and Canada. He spent 20 years with JCI Limited, in a number of senior management positions including General Manager of Exploration. In the mid-nineties he was an independent consultant and worked with merchant banks and major and junior exploration companies within the mining and exploration field until joining AfriOre Limited in 1997. Stuart has experience in various commodities including gold, platinum, base metals, diamonds and coal. He is currently an independent advisor to several mineral exploration companies and serves Talon Metals Corporation, a TSX listed mining and mineral exploration company, as the interim CEO and President.

Mr Oliver Raymond Greene
Non-Executive Director, age 64
Oliver Greene is a graduate in Politics, Philosophy and Economics from Oxford University. A career banker, he has over forty years experience as a practitioner in international corporate finance, credit and corporate recovery in the US and Central and Eastern Europe. He has held senior positions at Citibank, Bankers Trust, Chase Manhattan Bank and UBS. In 1998, following the Russian crisis, he accepted an invitation to join the European Bank for Reconstruction & Development (EBRD) as Director of Corporate Recovery and on his retirement in 2003 he became a consultant to the EBRD, an appointment that continues. He was a member of the Supervisory Board and Chairman of the Remuneration Committee of Banca Comerciala Romana S. A. in Bucharest from 2004 to 2006. Since 2004 he has been a member of the Supervisory Board and Chairman of the Audit Committee of Bank Pekao S.A. Warsaw (a publicly listed Unicredito Group subsidiary) and is a member of the Supervisory Board of Korado AS in the Czech Republic.

The Directors present their report and audited financial statements for the year ended 31 December 2007.

Principal Activities and Business Review

The principal activity of the Group is exploration for gold in the Kyrgyz Republic. The principal activities of the Company are those of a holding, management and finance company.

In common with many exploration groups, the Group raises finance for its exploration and appraisal activities in discreet tranches which finance its activities for limited periods. Further fundraising is undertaken as and when required. The Initial Public Offering of November 2007 raised USD 16.4 million net.

Reviews of operations and business developments are reported on in the Chairman's Report, the Chief Executive's Operations Report and within the details of the Financial Statements. The Financial Statements set out the financial position of the Group.

Dividends and Profit Retention

The results for the period are set out in the Consolidated Income Statement on page 14. No dividend is proposed in respect of the period (2006: nil). The retained loss for the period of USD6,540,346 (2006: USD 3,138,442) has been taken to reserves.

Directors

The Directors who served during the period were:

D Golan	(appointed 20 July 2007)
T A Cross	(appointed 20 July 2007)
C D Palmer-Tomkinson	(appointed 7 September 2007)
A Novak	(appointed 7 September 2007)
S R Comline	(appointed 7 September 2007)
O R Greene	(appointed 2 November 2007)

In accordance with the Company's Articles of Association at least one third of the directors must retire by rotation at each Annual General Meeting and may stand for re-appointment at the Meeting. Accordingly, the longest serving directors retiring by rotation are Dekel Golan and Terence Cross. Both, being eligible, offer themselves for re-appointment.

Directors' Interests

Share Interests

The directors of the Company who held office at 31 December 2007 held the following beneficial interests, either directly or indirectly, (including interests held by spouses, minor children or associated parties) in the ordinary shares of the Company:

	Number of Shares	Number of Options over Shares
D Golan	9,470,700	2,400,000
A Novak	8,960,400	1,500,000
C D Palmer-Tomkinson	4,335,200	300,000
T A Cross	–	540,000
S R Comline	–	300,000
O R Greene	–	300,000
	22,766,300	**5,340,000**

Share capital and Substantial Share Interests

Details of the Company's share capital are disclosed in note 13 of the financial statements.

On 29 April 2008, the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

	Number of Shares	%
D Golan	9,470,000	13.18
A Novak	8,960,400	12.47
Scarborough Minerals Plc	6,801,300	9.46
Serra Choa Management Limited	6,241,800	8.68
Cazenove Capital Management *	5,633,750	7.84
First State Investment Management	4,337,000	6.03
C Palmer-Tomkinson *	4,335,200	6.03
Collins Stewart Plc	4,011,300	5.58
Rab Capital Limited	3,330,700	4.64
J A Diner	2,676,900	3.72
New Star Asset Management	2,627,394	3.66

*Note: Cazenove Capital Management held a total of 9,968,950 shares of which 4,335,200 represented the holdings of C Palmer-Tomkinson, shown separately above.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable company law and International Financial Reporting Standards. Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgments and estimates that are reasonable and prudent.
- State whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- 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 enable them to ensure that the financial statements comply with the BVI Business Companies Act 2004. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Corporate Governance

The directors seek, as far as is considered appropriate having regard to the size and nature of activities of the Company, to comply with the Combined Code on Corporate Governance applicable to listed companies. The board is assisted in this regard by the remuneration and audit committees:

The Remuneration Committee

The remuneration committee comprises Stuart Comline as Chairman, Christopher Palmer-Tomkinson and Dekel Golan. The committee meets as required during each financial year. It is responsible for reviewing the performance of the executive Directors and for setting the scale and structure of their remuneration, having due regard to the interests of Shareholders as a whole and the performance of the Group. The remuneration committee also administers the Company's share option arrangements. The remuneration of the non-executive Directors is reviewed by the Board.

Directors' emoluments are disclosed in note 5 to the financial statements. Directors' share options are disclosed under 'Directors' Interests' above.

The Audit Committee

The audit committee comprises Oliver Greene as Chairman, Christopher Palmer-Tomkinson and Terence Cross. Commencing 2008, the committee will meet on at least two occasions each financial year. It reviews the Company's interim and annual financial statements before submission to the Board for approval, as well as regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the audit committee monitors the progress of action taken in relation to such matters. The audit committee also recommends the appointment of, and reviews the fees of, the external auditors.

Going concern

Based on a review of the Company's budgets and cash flow plans, the directors are satisfied that the Company has sufficient resources to continue its operations and to meet its commitments for the foreseeable future.

Provision of information to auditors

In the case of each of the directors who are directors of the Company at the date when this report is approved:

- So far as they are individually aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

Auditors

A resolution for the reappointment of Grant Thornton UK LLP will be proposed at the forthcoming annual general meeting. Grant Thornton UK LLP have expressed their willingness to continue as auditors of the Company.

Dekel Golan
Chief Executive Officer

Terence Cross
Finance Director

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CHAARAT GOLD HOLDINGS LTD

We have audited the group (consolidated) financial statements of Chaarat Gold Holdings Ltd for the year ended 31 December 2007 which comprise the principal accounting policies, the group income statement, the group balance sheet, the group cash flow statement, the group statement of changes in shareholders' equity and notes 1 to 23. These group 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 the BVI Business Companies Act 2004. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group (consolidated) financial statements in accordance with BVI law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the BVI Business Companies Act 2004. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Report and the Chief Executive's Operations Report that is cross referred from the Principal Activities and Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group (consolidated) financial statements. The other information comprises only the Directors' Report, the Chairman's Report and the Chief Executive's Operations Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group 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 group 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 group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the BVI Business Companies Act 2004; and
- the information given in the Directors' Report is consistent with the financial statements.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

London
15 May 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER

	Note	2007 USD	2006 USD
Exploration expenses		(5,298,560)	(2,695,571)
Administrative expenses		(1,623,792)	(513,656)
Other operating income/(expense)		(2,852)	21,268
Operating loss	3	(6,925,204)	(3,187,959)
Financial expense	6	–	(82,264)
Financial income	6	384,858	131,781
Loss for the year, attributable to equity shareholders of the Company		(6,540,346)	(3,138,442)
Loss per share (basic and diluted) – USD cents	14	(11.21)c	(6.04)c

All amounts relate to continuing activities.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

	Note	2007 USD	2006 USD
Assets			
Non-current assets			
Intangible assets	7	4,797	–
Property, plant and equipment	8	1,215,273	126,217
Other receivables	9	37,740	16,308
		1,257,810	142,525
Current assets			
Inventories	10	475,846	–
Trade and other receivables	11	742,433	110,178
Cash and cash equivalents	12	13,128,822	846,573
		14,347,101	956,751
Total assets		15,604,911	1,099,276
Liabilities and equity			
Equity attributable to shareholders			
Share capital	13	718,834	3,431
Share premium	13	15,665,928	6,454,707
Other reserves		11,048,357	–
Foreign currency reserve		(408,059)	11,801
Retained losses		(11,995,860)	(5,455,514)
		15,029,200	1,014,425
Current liabilities			
Trade payables	15	401,253	42,171
Accrued liabilities	16	174,458	42,680
		575,711	84,851
Total liabilities and equity		15,604,911	1,099,276

The financial statements were approved and authorised for issue by the Board of Directors on 15 May 2008.

Dekel Golan
Chief Executive Officer

Terence Cross
Finance Director

15 May 2008

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER

	Note	Share capital USD	Share premium USD	Retained losses USD	Other reserves USD	Translation reserve USD	Total USD
Balance at 31 December 2005		3,156	3,431,063	(2,317,072)	–	–	1,117,147
Currency translation		–	–	–	–	11,801	11,801
Net income recognised directly in equity		–	–	–	–	11,801	11,801
Loss for the year ended 31 December 2006		–	–	(3,138,442)	–	–	(3,138,442)
Total recognised income and expense for the year		–	–	(3,138,442)	–	11,801	(3,126,641)
Issuance of shares		275	3,303,850	–	–	–	3,304,125
Share issue costs		–	(280,206)	–	–	–	(280,206)
Balance at 31 December 2006	13(b)	3,431	6,454,707	(5,455,514)	–	11,801	1,014,425
Currency translation		–	–	–	–	(419,860)	(419,860)
Net loss recognised directly in equity		–	–	–	–	(419,860)	(419,860)
Loss for the year ended 31 December 2007		–	–	(6,540,346)	–	–	(6,540,346)
Total recognised income and expense for the year attributable to equity shareholders of the Company		–	–	(6,540,346)	–	(419,860)	(6,960,206)
Issuance of shares and options for cash, pre reverse acquisition		308	4,750,232	–	248,509	–	4,999,049
Transfer to reserves – reverse acquisition *		(3,739)	(11,204,939)	–	11,208,678	–	–
Share for share exchange – reverse acquisition *		572,136	–	–	(572,136)	–	–
Share options expense		–	–	–	163,306	–	163,306
Issuance of shares for cash		146,698	18,119,004	–	–	–	18,265,702
Share issue costs		–	(2,453,076)	–	–	–	(2,453,076)
Balance at 31 December 2007		718,834	15,665,928	(11,995,860)	11,048,357	(408,059)	15,029,200

* The transfers to reserves during 2007 represent the issued share capital and share premium of subsidiary Chaarat Gold Limited prior to its reverse acquisition of Chaarat Gold Holdings Ltd.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEARS ENDED 31 DECEMBER

	Note	2007 USD	2006 USD
Operating activities			
Result for the period before and after tax		**(6,540,346)**	**(3,138,442)**
Adjustments:			
Amortisation expense intangible assets	7	430	–
Depreciation expense property, plant and equipment	8	200,415	21,486
Loss on disposal of property, plant and equipment	3	3,541	19,782
Loan discounting	6	–	82,264
Interest income	6	(263,558)	(131,781)
Share based payments		163,306	–
Foreign exchange		87,875	(7,145)
(Increase)/decrease in inventories		(475,846)	–
(Increase)/decrease in accounts receivable		(633,208)	(29,344)
Increase/(decrease) in accounts payable		490,859	45,454
Net cash flow used in operations		**(6,966,532)**	**(3,137,726)**
Investing activities			
Purchase of computer software	7	(5,227)	–
Purchase of property plant and equipment	8	(1,297,372)	(123,689)
Proceeds from sale of equipment		13,750	26,707
Loans issued	9	–	(160,000)
Loans repaid	9	40,000	40,000
Interest received		203,079	105,825
Net cash used in investing activities		**(1,045,770)**	**(111,157)**
Financing activities			
Proceeds from issue of share capital	13	23,264,751	3,304,125
Issue costs		(2,453,076)	(280,206)
Net cash from financing activities		**20,811,675**	**3,023,919**
Net change in cash and cash equivalents		**12,799,373**	**(224,964)**
Cash and cash equivalents at beginning of the year		**846,573**	**1,059,977**
Effect of changes in foreign exchange rates		(517,124)	11,560
Cash and cash equivalents at end of the year	**12**	**13,128,822**	**846,573**

1 General information

The Group consists of Chaarat Gold Holdings Ltd (the Company), registered in British Virgin Islands, together with its subsidiaries Chaarat Gold Limited, registered in Guernsey, and Closed Joint-Stock Company Chaarat Zaav CJSC, registered in the Kyrgyz Republic (collectively the "Group").

The Company was incorporated on 20 July 2007 (registration number 1420336) in British Virgin Islands, and acts as the ultimate holding company for the Group. The Company is listed on the Alternative Investment Market of the London Stock Exchange.

The legal address of the Company is: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands, VG1110. The Group's principal place of business is at: Chokmorova Street, 127, 720040, Bishkek, Kyrgyzstan.

Chaarat Gold Limited, registered in Guernsey, acts as an intermediate holding company.

The principal activity of Chaarat Zaav CJSC, the Kyrgyz Subsidiary, is the exploration of the Chaarat Licence Area (the "Resource") under a licence for geological exploration (the "Licence") issued by the State Agency on Geology and Mineral Resources under the Government of the Kyrgyz Republic. The licence is due for renewal on 31 December 2008. Negotiation of the licence's renewal is expected to commence during the third quarter of 2008. The provisions of the licence require its renewal every two years, as is standard for exploration licences in the region. Renewal is subject to evidence of meeting minimum reporting and expenditure requirements, all of which the directors believe are being and will continue to be met. The licence has previously been renewed on four similar occasions and the directors expect routine renewal for the two years commencing 1 January 2009.

2 Accounting policies

Overall considerations

The significant accounting policies, areas of judgement and significant estimates that have been used in the preparation of these consolidated financial statements are summarised below:

- During the exploration phase of operations, all exploration costs are expensed in the Income Statement as incurred. 'The Mining exploration and development costs' accounting policy below provides further detail. The key judgement implicit in this policy will be the determination of the future date upon which development of the property is judged to be commercially viable and development commenced.
- A provision of 100% is made against VAT recoverable, in view of the uncertainty of the timing or ultimate recoverability of these amounts. Note 9 provides further detail. The key to any re-assessment of this policy would be the first successful claims for refund of VAT input taxes. This possibility is judged to be some years into the future.
- Depreciation rates detailed below are considered by management to fairly reflect the expected useful lives of the respective asset categories. 'The Property, plant and equipment' accounting policy below provides further detail.
- No deferred tax assets are recognised in view of the uncertainty of the timing or ultimate recoverability of such amounts. Note 17 provides further detail. This is a key judgement in that the amounts potentially involved are not capable of reasonably accurate computation and are uncertain of recovery. The key point at which this policy is expected to be capable of review will be at the time when the project is proven to be commercially viable.
- As detailed in note 13, the directors have accounted for the Company's acquisition as a reverse acquisition by way of a share exchange, by its operating subsidiary, Chaarat Gold Limited. At the time of the share exchange on 7 September 2007, the Company was recently incorporated, had no business and had nil net asset value. The Group's consolidated financial statements are presented as a continuation of the financial statements of its subsidiary, Chaarat Gold Limited.

Basis of accounting

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union. As detailed under 'Basis of consolidation' below, the acquisition of the Company has been treated as a reverse acquisition by its operating subsidiary, without the presence of goodwill. The principal accounting policies adopted in the preparation of the historical financial information are set out below. The policies have been consistently applied.

New Accounting Standards adopted during the year

IFRS 7 Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective 1 January 2007). IFRS 7 introduces disclosures to improve information about financial instruments. It requires disclosure of quantitative and qualitative information about risk exposure arising from financial instruments, including minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Accounting Standards and Interpretations not yet applied
The directors together with their advisers are in the process of evaluating the impact of standards and/or interpretations that have not yet become effective. Listed below are those standards and/or interpretations most likely to impact the Group:

IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009)
IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
IFRS 8 Operating Segments (effective 1 January 2009)
IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective 1 March 2007)

Based on the Group's current business model and accounting policies it is felt that these standards and/or interpretations are unlikely to have a material impact on the Group's earnings or shareholders' funds.

The amendment to IAS 1 Financial statement presentation released in September 2007 redefines the primary statements and expands on certain disclosures within these. Once adopted the Group's primary statements will be amended to reflect the presentation required.

Measurement convention
The financial statements are prepared on the historical cost basis.

Basis of consolidation
Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, that entity or business is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

On 7 September 2007, the Company became the legal parent company of Chaarat Gold Limited in a share for share exchange transaction. The substance of the transaction was effectively that Chaarat Gold Limited acquired Chaarat Gold Holdings Ltd by way of reverse acquisition. Chaarat Gold Limited was the acquirer in the transaction in that Chaarat Gold Holdings Ltd at the time of acquisition was a shell with no net assets, compared with the more substantial value of its acquiror subsidiary, Chaarat Gold Limited. Furthermore, the subsidiary's management determined the selection of the management team of the combined entity.

The consolidated income statement for the year ended 31 December 2007 consolidates the results of Chaarat Gold Limited for the whole year and those of Chaarat Gold Holdings Ltd from 7 September 2007, the date of the reverse acquisition.

Cash and cash equivalents
Cash includes petty cash and cash held in current bank accounts. Cash equivalents include short-term investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Interest
Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Property, plant and equipment
Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less any subsequent accumulated depreciation and impairment losses. The historical cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Cost includes professional fees but borrowing costs are not capitalised. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged on each part of an item of property, plant and equipment so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method. Depreciation is charged to the income statement. Land is not depreciated. The estimated useful lives are as follows:

Buildings	5 years
Office equipment	2.5 to 3 years
Machinery and equipment	3 years
Motor vehicles	5 years
Furniture and facilities	3 to 5 years
Leasehold improvements	3 years

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishments and improvements expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Intangible assets – Computer software
Computer software is initially capitalized at cost and amortization is provided on a straight line basis over a period of 3 years. The carrying value is regularly reviewed and a provision made in the year that impairment or obsolescence is determined by management to have occurred.

Inventories
Inventories consist of equipment spares and consumables which are stated at the lower of cost or net realisable value. Net realisable value is the estimated value in use for the exploration work for which inventories are acquired.

Impairment testing
Individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its fair value or value in use. Any such excess of carrying value over fair value or value in use is taken as a debit to the income statement.

Leased assets
In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date the asset is initially recognised or the date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Mining exploration and development costs
During the exploration phase of operations, all costs are expensed in the Income Statement as incurred.

A subsequent decision to develop a mine property within an area of interest is based on the exploration results, an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, exploration, development and other expenditures relating to the project are capitalised and carried at cost with the intention that these will be depreciated by charges against earnings from future mining operations over the relevant life of mine on a units of production basis. Expenditure is only capitalised provided it meets the following recognition requirements:

completion of the project is technically feasible and the company has the ability to and intends to complete it;
the project is expected to generate future economic benefits;
there are adequate technical, financial and other resources to complete the project; and
the expenditure attributable to the development can be measured reliably.

No depreciation is charged against the property until commercial production commences. After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programmes, which will be deferred and depreciated over the remaining life of the related assets.

The carrying values of exploration and development expenditures in respect of each area of interest which has not yet reached commercial production are periodically assessed by management and where it is determined that such expenditures cannot be recovered through successful development of the area of interest, or by sale, the expenditures are written off to the income statement.

Taxation
Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

Equity

Equity comprises the following:

"Share capital" represents the nominal value of equity shares.

"Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

"Other reserves" represent the issued share capital and share premium of subsidiary Chaarat Gold Limited, plus the equity component of share options issued.

"Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.

"Retained losses" include all current and prior period results as disclosed in the income statement.

Foreign currency

In accordance with International Accounting Standard 21, transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement. The presentational currency for the historical financial information is the US dollar. This is also the functional currency of the Company and is considered by the Board also to be appropriate for the purposes of preparing the Group financial statements.

On consolidation, the results of overseas operations are translated into US dollars, the presentational currency, at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at the actual rate are recognised directly in equity.

The exchange rates at year-end used by the Group in the preparation of the historical financial information are as follows:

	2007	2006
KGS to 1 US dollar (USD)	35.4988	38.1238
KGS to 1 UK pound (GBP)	70.9017	74.7627
USD to 1 UK pound (GBP)	1.9973	1.9611

Share-based employee remuneration

The Company operates equity-settled share-based remuneration plans for remuneration of some of its employees. The Company awards share options to certain Company Directors and employees to acquire shares of the Company.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee.

The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserves".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

Retirement and other benefit obligations
The Group does not offer any pension arrangements other than the State pension system of the Kyrgyz Republic, which requires current contributions by the employer, calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Group does not have any obligations in respect of post-retirement or other significant compensation benefits.

Financial instruments
The Group's financial assets comprise cash and cash equivalents and loans and receivables. Financial assets are assigned to the respective categories on initial recognition, depending on the purpose for which they were acquired. This designation is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

The Group's loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at fair value on initial recognition. After initial recognition they are measured at amortised cost using the effective interest rate method, less any provision for impairment. Any change in their value is recognised in profit or loss. The Group's trade and most other receivables fall into this category of financial instruments. Discounting is omitted where the effect of discounting is immaterial. All receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Any instrument that includes a repayment obligation is classified as a liability.

Where the contractual liabilities of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities, and are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any features meeting the definition of a financial liability then such capital is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

3 Operating loss

The operating loss is stated after charging:

	2007 USD	2006 USD
Depreciation of property, plant and equipment	200,415	21,486
Operating lease expenses	50,642	6,358
Share based payments	163,306	–
Loss on sale of fixed assets	3,541	19,782
(Gain) / loss on foreign exchange	(121,300)	7,145
Auditors' remuneration for:		
Audit services	53,927	40,200
Interim financial statements review	15,450	–
Reporting Accountant's fees for Initial Public Offering	193,114	–

4 Staff numbers and costs

	2007 Number	2006 Number
Management and administration	16	8
Operations	32	25
Total	48	33

The aggregate payroll costs of these persons were as follows:

	2007 USD	2006 USD
Staff wages and salaries	292,931	239,364
Social security and other pension costs	3,792	1,087
Directors remuneration as detailed in note 5	722,967	326,799
	1,019,690	567,250

The Company employed 6 Directors during 2007 (2006: 3 directors), as detailed in note 5. The related party consultancy service costs of these key personnel are detailed in note 19.

5 Directors' remuneration

The costs of certain directors' services were charged to the Company via consultancy companies, as separately detailed below and in related parties note 19, rather than directly as short-term employment costs. During 2007 no bonus was paid to any of the directors (2006: USD30,000 was paid indirectly to one of the directors).

	2007 USD	2006 USD
Wages and salaries (including bonus)		
Paid directly	94,155	30,000
Paid via related party consultancy companies	508,605	296,799
Share based payment expense	120,207	–
Total	722,967	326,799
The emoluments of the highest paid director were:	239,407	156,129

Details of individual directors' remuneration are shown below:

	2007 USD	2006 USD
Dekel Golan (paid via related party, Mada Consulting Pte Limited)	239,407	156,129
Alexander Novak (paid via related party, Vetan Limited)	162,161	140,670
Terence Cross (paid via related party, Central Asia Services Limited)	107,037	–
Terence Cross (paid directly)	22,346	–
Christopher Palmer-Tomkinson (paid directly)	22,773	30,000
Stuart Comline (director's and consulting fees, paid directly)	41,834	–
Oliver Greene (paid directly)	7,202	–

Details of each directors' share options and interests in the Company's shares are shown in the Directors' Report on page 11.

6 Finance income and expenses

Finance expenses	Note	2007 USD	2006 USD
Loan discounting at 3.41%	9	–	82,264

Finance income	Note	2007 USD	2006 USD
Interest on cash and cash equivalents		203,079	105,825
Foreign exchange gain		121,300	–
Unwinding of discount on loan	9	60,479	25,956
		384,858	131,781

7 Intangible assets

	Computer software USD
Cost	
At 31 December 2006	–
Additions	5,227
At 31 December 2007	5,227
Depreciation	**USD**
At 31 December 2006	–
Charge for the year	430
At 31 December 2007	430
Net book value	
At 31 December 2007	4,797
At 31 December 2006	–

8 Property, plant and equipment

Cost	Buildings USD	Machinery & equipment USD	Office equipment USD	Furniture & facilities USD	Motor vehicles USD	Lease improvements USD	Total USD
At 31 December 2005	–	3,743	10,649	2,829	58,838	528	76,587
Additions	40,834	14,058	9,171	673	58,746	207	123,689
Disposals	–	–	(1,328)	–	(47,723)	–	(49,051)
Exchange differences	1,728	900	782	168	3,399	31	7,008
At 31 December 2006	42,562	18,701	19,274	3,670	73,260	766	158,233
Additions	10,569	1,099,757	33,722	13,071	133,332	6,921	1,297,372
Disposals	–	–	–	–	(34,407)	(1,104)	(35,511)
Exchange differences	3,281	1,500	2,751	411	7,111	74	15,128
At 31 December 2007	56,412	1,119,958	55,747	17,152	179,296	6,657	1,435,222
Depreciation							
At 31 December 2005	–	923	2,806	604	9,104	33	13,470
Charge for the year	2,342	3,675	4,422	854	10,009	184	21,486
Disposals	–	–	(600)	–	(5,840)	–	(6,440)
Exchange differences	380	612	810	61	1,628	9	3,500
At 31 December 2006	2,722	5,210	7,438	1,519	14,901	226	32,016
Charge for the year	9,482	145,994	12,183	3,648	26,719	2,389	200,415
Disposals	–	–	–	–	(17,874)	(346)	(18,220)
Exchange differences	333	777	1,531	251	2,810	36	5,738
At 31 December 2007	12,537	151,981	21,152	5,418	26,556	2,305	219,949
Net book value							
At 31 December 2007	43,875	967,977	34,595	11,734	152,740	4,352	1,215,273
At 31 December 2006	39,840	13,491	11,836	2,151	58,359	540	126,217

The Group's property, plant and equipment are free from any mortgage or charge.

9 Other receivables

Long term receivables	Note	2007 USD	2006 USD
VAT balance at 31 December		1,105,817	451,038
Less provision		(1,105,817)	(451,038)
VAT recoverable amount		–	–
Long term portion of Alaurum loan		37,740	16,308
Long term receivables		37,740	16,308

VAT Recoverable

The Group's subsidiary is a registered value added tax payer in the Kyrgyz Republic and therefore has a right to be reimbursed for value added tax paid on purchased goods and services. The Group's management believes that the subsidiary would be able to recover the value added tax through the sale of the antimony by-products of gold and antimony production.

Consequently, the recovery of this asset is dependent on the successful development of the Resource and commercial production. In accordance with Kyrgyz Republic tax laws, the Group would only be able to recover that portion of VAT paid which was accumulated only for the purpose of antimony production. The Group's management has provided in full against this asset as at 31 December 2007 and 31 December 2006 due to uncertainty regarding the timing of recovery.

Non-current portion of long term loan

This balance comprises the non-current portion of a non-interest bearing loan of USD 160,000 granted during 2006 to CJSC "Alaurum", a drilling contractor used by the Group. The loan was granted in connection with a drilling contract entered into with "Alaurum" whereby the loan provided working capital for that company. The loan is to be repaid by way of deductions of USD 40,000 per annum from future drilling service invoices submitted by the contractor.

The loan was initially recorded at its fair value, estimated at USD 77,736. This amount reflected the net present value of the future cash flows receivable by the Group using an effective discount rate of 3.41% per annum. A reconciliation of the movements in this loan balance is set out in the following table.

	Note	2007 USD	2006 USD
Balance at beginning of year		56,308	-
Loan granted		-	160,000
Discounted at 3.41%	6	-	(82,264)
Fair value of loan		56,308	77,736
Repaid in year		(40,000)	(40,000)
Discount unwinding	6	26,539	25,956
Other	6	33,940	(7,384)
Balance due at end of year		76,787	56,308
Of which:			
recorded as current other asset	11	39,047	40,000
recorded as non-current other receivable		37,740	16,308

The loan balances recorded above are unsecured.

10 Inventories

	Note	2007 USD	2006 USD
Equipment spares and consumables		475,846	–

Inventories of spare parts and consumables are recorded at the lower of cost price or estimated value in future use. They are not held for re-sale but are transferred to profit and loss as and when used in the Company's exploration activities. No write-downs or reversals thereof have occurred during the respective periods.

No inventories are pledged against payables or other obligations.

11 Trade and other receivables

	Note	2007 USD	2006 USD
Advance payments to sub-contractors		648,919	69,238
Loan to sub-contractor	9	39,047	40,000
Prepayments		54,467	940
		742,433	110,178

The above listed assets are unsecured.

Advance payments to sub-contractors
The advance payments were made in relation to contracts entered into with service sub-contractors to provide working capital for those companies. The advance payments are to be repaid by way of deductions from future service invoices of the sub-contractors.

The short-term carrying values are considered to be a reasonable approximation of the fair value.

12 Cash and cash equivalents
Cash and cash equivalents at 31 December consisted of the following:

	Note	2007 USD	2006 USD
Deposits at Investec Bank, Guernsey		72,706	708,530
Deposits at Demir Kyrgyz International Bank, Kyrgyz Republic		92,163	68,888
Deposits at Royal Bank, Guernsey		12,958,226	64,930
Cash on hand		5,727	4,225
		13,128,822	846,573

13 Share capital and share premium accounts
The share capital of Chaarat Gold Holdings Ltd consists of ordinary shares of a single class. All shares have equal rights to receive dividends or capital repayments and all shares represent one vote at meetings of Chaarat Gold Holdings Ltd.

The Group's share capital history over the period under review is shown below. This includes the reverse acquisition of Chaarat Gold Holdings Ltd by Chaarat Gold Limited, by way of a share exchange arrangement on 7 September 2007:

(a) Authorised share capital	Number of Shares	Nominal Value
Chaarat Gold Limited - ordinary shares of £0.01 each		
31 December 2006 and 2007	1,000,000	GBP 10,000
Chaarat Gold Holdings Ltd - ordinary shares of USD 0.01 each		
20 July 2007, upon incorporation	5,000,000	USD 50,000
3 August 2007, increase in authorised share capital	495,000,000	USD 4,950,000
31 December 2007	500,000,000	USD 5,000,000

(b) Changes in issued share capital and share premium:

Chaarat Gold Limited ordinary shares of £0.01 each	Number of Shares	Nominal Value USD	Share Premium USD	Total USD
1 January 2006	165,473	3,156	3,431,063	3,434,219
Share placing 15 March 2006	9,568	275	3,303,850	3,304,125
Share issue costs charged to share premium	–	–	(280,206)	(280,206)
1 January 2007	175,041	3,431	6,454,707	6,458,138
Shares issued 21 March 2007	15,671	308	4,750,232	4,750,540
31 December 2007	190,712	3,739	11,204,939	11,208,678

On 7 September 2007, the shareholders of Chaarat Gold Limited exchanged each share in that Company for 300 shares in Chaarat Gold Holdings Ltd. The share capital and share premium of Chaarat Gold Limited were transferred to 'Other reserves' in the consolidated balance sheet of the new Group.

Chaarat Gold Holdings Ltd ordinary shares of USD0.01 each	Number of Shares	Nominal Value USD	Share Premium USD	Total USD
20 July 2007, issued upon incorporation – ordinary shares of USD0.01 each	1	–	–	–
7 September 2007, shares issued in exchange for Chaarat Gold Limited shares	57,213,599	572,136	–	572,136
Shares issued at GBP0.60 each – Initial Public Offering on 8 November 2007	14,669,833	146,698	18,119,004	18,265,702
Share issue costs charged to share premium			(2,453,076)	(2,453,076)
Balance at 31 December 2007	71,883,433	718,834	15,665,928	16,384,762

Shares issued on 7 September 2007 were issued in terms of a Share Exchange Agreement whereby Chaarat Gold Holdings Ltd issued, to Chaarat Gold Limited shareholders, 300 shares in exchange for each one share held in Chaarat Gold Limited. Shares issued on 8 November 2007 in the Initial Public Offering were issued for cash.

(c) Potential issue of ordinary shares

Share options

At 31 December 2007 the Company had 6,540,000 options (2006: nil) outstanding for the issue of ordinary shares, as follows:

Grant dates	Exercisable from	Exercisable to	Exercise price	No. granted 2007	No. forfeited 2007	Balance 2007
16 Oct 2007	4 June 2008	4 June 2016	GBP 0.54	540,000	(540,000)	–
16 Oct 2007	4 June 2009	4 June 2017	GBP 0.54	540,000	(540,000)	–
16 Oct 2007	4 June 2010	4 June 2018	GBP 0.54	540,000	(540,000)	–
16 Oct 2007	1 July 2008	1 July 2016	GBP 0.54	180,000	–	180,000
16 Oct 2007	1 July 2009	1 July 2017	GBP 0.54	180,000	–	180,000
16 Oct 2007	1 July 2010	1 July 2018	GBP 0.54	180,000	–	180,000
16 Oct 2007	16 Oct 2007	16 Oct 2017	USD 1.0633	300,000	–	300,000
16 Oct 2007	16 Oct 2007	16 Oct 2015	USD 1.0633	300,000	–	300,000
16 Oct 2007	8 Nov 2007	16 Oct 2017	USD 0.9166	5,100,000	–	5,100,000
2 Nov 2007	2 Nov 2008	2 Nov 2016	USD 1.0633	100,000	–	100,000
2 Nov 2007	2 Nov 2009	2 Nov 2017	USD 1.0633	100,000	–	100,000
2 Nov 2007	2 Nov 2010	2 Nov 2018	USD 1.0633	100,000	–	100,000
Total options outstanding at 31 December 2007				**8,160,000**	**(1,620,000)**	**6,540,000**
Weighted average exercise price				USD 1.067	USD 1.079	USD 1.065

The number of options exercisable at 31 December 2007 amounted to: 5,700,000 (2006: nil)

On 4 June 2007, 5,400 options at a price of the lesser of USD 450 or the listing price less 10% were granted to Mr. M Dorman. 1,620,000 options were re-issued at a price of 54 pence per share on 16 October 2007 by Chaarat Gold Holdings Ltd following the 300:1 share exchange. These were subsequently relinquished upon Mr. Dorman's resignation from the Company on 25 November 2007.

Costs associated with share options issued during the year

No options were exercised during the year. The fair value of options granted during the year has been assessed by using the Black-Scholes Option Valuation Model, using the following inputs:

	Issue date 16 Oct	**Issue date 2 Nov**
Share price when issued, based on most recent share placing	USD 1.0633	USD 1.0633
Exercise prices	£0.54; USD0.9166; USD1.0633	USD1.0633
Expected volatility	37.09%	35.22%
Expected life	3.5 years	3.5 years
Risk free rate (US Federal Funds Rate)	4.75%	4.5%
Expected dividends	nil	nil

At the date of the option issues, the Company had no share trading history from which to assess its expected volatility. The expected volatility used in the Valuation Model has been derived from the average volatility of a proxy of nine AIM listed gold exploration companies for whom trading data was available over the relevant periods.

A total of USD 163,306 (2006: nil) of employee remuneration expense has been included in the consolidated income statement.

14 Loss per share

Lossper share is calculated by reference to the loss for the year of USD 6,540,346 (2006: USD 3,138,442) and the weighted number of shares in issue during the year of 58,366,390 (2006: 51,938,220). The numbers of shares used in all calculations have been adjusted for the 300:1 share exchange of 7 September 2007.

There is no dilutive effect of share options.

15 Trade payables

Trade payables at 31 December consisted of the following:

	2007 USD	**2006 USD**
Trade payables	395,348	42,171
Social security and employee taxes	5,905	–
	401,253	42,171

The above listed payables were all unsecured.

Trade payables at 31 December 2007 included amounts owed to related parties as follows:

USD 12,790 (2006: nil) owed to Jed (Yehuda) Diner, consulting geologist and shareholder of the Company,
USD 6,069 (2006: nil) owed to director, Mr Stuart Comline,
USD 25,861 (2006: nil) owed to Mada Consulting Pte Limited, a company controlled by director Dekel Golan.

16 Other payables and accrued liabilities

Other current liabilities at 31 December consisted of the following:

	2007 USD	2006 USD
Accrued audit fee	53,927	40,200
Advances received	–	1,196
Other accruals	120,531	1,284
	174,458	42,680

17 Deferred taxation

Due to the uncertainty surrounding taxation regulations and their implementation, as described in taxation note 18, there can be no accurate assessment of deferred tax assets and liabilities. The current legislation permits generally that the losses of the Kyrgyz subsidiary, Chaarat Zaav, can be carried forward and offset against future profits for a period of five years after the losses are incurred. However, the portion of the subsidiary's taxable losses disclosed in note 18 that qualify for carry-forward is subject to sufficient uncertainty such that no calculation of the potential deferred tax asset has been made.

18 Income tax expense

Tax expense relates only to the Company's Kyrgyz subsidiary, Chaarat Zaav, because the Company is not subject to corporate income tax and withholding tax in Guernsey or British Virgin Islands.

The relationship between the expected tax expense based on the standard tax rate for Chaarat Zaav of 10% for the year to 31 December 2007 (2006: 10%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2007 USD 000's	2006 USD 000's
Group loss for the year before tax	(6,540)	(3,138)
Add: Chaarat Gold Holdings tax free result	1,865	1,594
Result of Kyrgyz subsidiary for the year before tax	(4,675)	(1,544)
Tax rate	10%	10%
Expected tax loss carried forward	(468)	(154)
Deferred tax not recognised	468	154
Current tax expense, net	–	–

Legal entities of the Kyrgyz Republic must individually report taxable income and remit profit taxes thereon to the appropriate authorities. The profit tax rate for legal entities was 20% in 2005 and 2004. Pursuant to the law dated 1 February 2006 the profit rate for legal entities is 10% effective from 1 January 2006.

The Kyrgyz Republic currently has a number of laws related to various taxes imposed. Applicable taxes include value added tax, profit tax, a number of turnover based taxes, and retail sales tax, together with others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within Government ministries and organisations (for example, Ministry of Finance and its various inspectorates); thus creating uncertainties and conflicts. Tax declarations, together with other legal compliance areas (for example, customs matters) are subject to review and investigation by authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in the Kyrgyz Republic substantially more significant than typically found in countries with more developed tax systems.

At the balance sheet date the Group has received no tax claims and the management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues.

As the Group's operations are at a development stage, the Group has no income tax expense for the years ended 31 December 2007 or 2006. The Group did not recognise any deferred tax assets or liabilities at 31 December 2007 or 2006.

19 Related party transactions

Key management personnel
Key management personnel who were remunerated by the Group during the periods under review were Messrs. Dekel Golan, Alexander Novak and Terence Cross. Messr's Golan and Novak charged for their services via entities under their control, being Mada Consulting Pte Limited and Vetan Investments Limited, respectively. A portion of Mr. Cross's remuneration was paid by Central Asia Services Limited, a company controlled by Mr. Golan and contracted to provide management services to the Group.

The costs charged by Mada Consulting Pte Limited and Vetan Investments Limited were in respect of remuneration for Messr's Golan and Novak's professional services. Costs charged by Central Asia Services Limited include the remuneration of Mr. Cross. The remuneration of these directors of the Company is included in the income statement, detailed in note 5, for the periods ended 31 December 2007 and 2006. The remuneration of Central Asia Services Limited, in addition to the salary of Mr. Cross, has been charged to administration expenses in the income statement.

	2007 USD	**2006 USD**
Expenses charged:		
Mada Consulting Pte Limited (in respect of D Golan)	239,407	156,129
Vetan Limited (in respect of A Novak)	162,161	140,670
Central Asia Services Limited (in respect of T Cross's salary)	107,037	–
Central Asia Services Limited (for other management services)	94,571	–
	603,176	296,799
Amounts payable at 31 December	25,861	–

Transactions with other related parties
Mr. Diner, a shareholder of the Company, was engaged in material transactions with the Group for the periods under review.

The costs charged by the Mr. Diner were primarily in respect of remuneration for geology services provided to the Group.

	2007 USD	**2006 USD**
Expenses charged:		
Geological consulting	102,050	74,372
Amounts payable at 31 December	12,790	–

20 Commitments and contingencies

Capital expenditure commitment
The Company had a commitment of USD208,003 at 31 December 2007 (2006: nil) in respect of capital expenditure contracted for but not provided for in these financial statements.

Operating lease commitments
Details of operating lease commitments are set out in note 21 below.

Tax issues
The Kyrgyz Republic currently has a number of laws related to various taxes imposed by both state and regional governmental authorities, which are subject to review and investigation by a number of authorities which have the right by law to impose significant fines, penalties and interest charges. These facts create tax risks in Kyrgyzstan substantially more significant than typically found in countries with more developed tax systems.

Current economic environment
The Kyrgyz Republic continues to undergo substantial political, economic and social changes. As an emerging market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Furthermore, the Kyrgyz Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. Although in recent years inflation has not been significant, certain risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, certain currency controls, and immature debt and equity markets.

The Group could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or meet its obligations as they mature. The historical financial information does not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Company's financial statements in the period when they become known and estimable.

Licence agreements
According to a licence agreement dated 20 November 2006 which is an integral part of the Licence for geological exploration of the Resource, valid until 31 December 2008, the Subsidiary is required to invest in the exploration process not less than USD 500,000 annually during 2007 and 2008.

According to a licence agreement dated 22 November 2004 which is the integral part of the Licence for geological exploration of the Resource, the Subsidiary was required to invest not less than USD 250,000 in the year ended 31 December 2006.

Site restoration liability
According to Kyrgyz legislation and a licence agreement signed between the Subsidiary and State Agency on Minerals, the Subsidiary committed to restore working areas on the deposit. The restoration is only required to be made if the subsidiary ceases its (exploration) operations on the deposit. At 31 December 2007, management did not make an estimate of restoration liability because there was no intention to cease operations and the cost of restoration was deemed immaterial by management.

21 Operating leases

Non-cancellable operating lease liabilities of the Group are as follows:

	2007 USD	2006 USD
Less than one year	66,000	–
Between one and two years	66,000	–
Between three and five years	46,750	–
	178,750	–

22 Risk management objectives and policies

The Group is exposed to a variety of financial risks which result from its operating activities. The Group's risk management is coordinated by the executive directors, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Credit risk
The Group's only significant credit risk is on cash at bank, held principally at an independently 'A' rated bank. No significant cash amounts are held at banks rated less than 'B'. Cash is held either on current account or on short-term deposit at floating rates of interest determined by the relevant prevailing base rate. The fair value of cash and cash equivalents at 31 December 2007 and 2006 did not differ materially from its carrying value. The Group has no material exposure to receivables risk as it currently has no sales revenues.

Market risk
The Group's financial instruments affected by market risk include bank deposits, trade receivables and trade payables. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's financial instruments (as at year end) to changes in market variables, being exchange rates and interest rates.

The sensitivity analysis has been prepared on the basis that the components of financial instruments in foreign currencies are all constant, as in place at 31 December. As a consequence, this sensitivity analysis relates to the position as at 31 December.

The following assumptions were made in calculating the sensitivity analysis:
All income statement sensitivities also impact equity.
The majority of debt and other deposits are carried at amortised cost and therefore carrying value does not change as interest rates move.
Translation of foreign subsidiaries and operations into the Group's presentation currency have been excluded from the sensitivity.

Using the above assumptions, the following tables show the illustrative effect on the income statement and equity that would result from possible changes in the foreign currency or interest rates:

US$000's	**Income statement**	**Equity**
2008 projection:		**Profit/(loss)**
1% fall in US interest rates	(1)	(1)
1% fall in UK interest rates	(69)	(69)
1% increase in US interest rates	1	1
1% increase in UK interest rates	69	69
5% fall in value of GBP vs USD	(640)	(640)
5% increase in value of GBP vs USD	640	640

Interest rate risk
The Group holds short term bank deposits on which short term fluctuations in the interest rate receivable are to be expected.

Foreign currency risk
The Group carries out expenditure transactions substantially in US dollars, with a lesser amount in GBP pounds. Fund-raising has taken place mainly in GBP pounds. Any resulting gains or losses are recognised in the income statement.

Exchange rate exposure arises principally from the Group's holdings of cash in GBP pounds, from the Kyrgyz subsidiary's inter-company loan exposure and from the foreign currency translation risk arising on exposure to the local currency denominated net assets of the Kyrgyz operating subsidiary.

To mitigate the Group's exposure to foreign currency risk, cash holdings have recently been adjusted to more closely represent the expected short term profile of expenditure by currency. Apart from these resultant offsets, no further hedging activity is undertaken.

Foreign currency denominated financial assets and liabilities, translated into US dollars at the closing rate were as follows:

		2007 USD'000's			**2006 USD'000's**	
Nominal amounts	**GBP**	**KGS**	**Other**	**GBP**	**KGS**	**Other**
Financial assets	12,916	383	41	–	70	–
Financial liabilities	(196)	(11,315)	(37)	–	(4)	(17)
Short term exposure	12,720	(10,932)	4	–	66	(17)

Fair value of financial instruments
The fair values of the Group's financial instruments at 31 December 2007 and 2006 did not differ materially from their carrying values.

The Group does not have any long term borrowings, nor does it hold any derivative financial instruments.

Liquidity risk
The Group, at its present stage of development, has no sales revenues. It therefore finances its operations through the issue of equity share capital and debt in order to ensure sufficient cash resources are maintained to meet short-term liabilities. Management monitors availability of funds in relation to forecast expenditures in order to ensure timely fundraising. Funds are raised in discreet tranches to finance activities for limited periods. Funds surplus to immediate requirements are placed in liquid, low risk investments.

The Group's ability to raise finance is partially subject to the price of gold, from which eventual sales revenues are to be derived. While the gold price has recently increased substantially, there can be no certainty as to the future price.

23 Post balance sheet events

There were no material post balance sheet events.

NOTICE OF ANNUAL GENERAL MEETING

Chaarat Gold Holdings Ltd ("the Company")

Notice is hereby given that the first Annual General Meeting of the Company will be held on 3 July 2008 at 4:00pm local time, at Chokmorova Street 127, Bishkek, 720040, Kyrgyz Republic to consider and, if thought fit, pass the following resolutions:

Ordinary Resolutions

1. To receive, consider and approve the audited financial statements of the Company for the year ended 31 December 2007.
2. To re-appoint Grant Thornton UK LLP, of Grant Thornton House, Melton Street, London NW1 2EP as auditors of the Company.
3. To authorise the directors to determine the remuneration of the auditors.
4. To re-elect as a director Dekel Golan who is retiring in accordance with Regulation 12.7 of the Company's Articles of Association and who, being eligible, offers himself for re-election.
5. To re-elect as a director Terence Arthur Cross who is retiring in accordance with Regulation 12.7 of the Company's Articles of Association and who, being eligible, offers himself for re-election.

Special Resolution

6. That the directors of the Company be and they are hereby generally and unconditionally authorised, in terms of Regulation 5 of the Company's Articles of Association, to allot equity securities (within the meaning of Regulation 3 of the Articles of Association) up to an aggregate number of 50% of the shares outstanding at the time of the Company's Admission to AIM, pursuant to the general authority conferred by Regulation 3 of the Articles of Association, for cash, by way of modifying Regulation 4.7 (a) (iii) of the Company's Articles of Association to read 50 (fifty) percent, in place of 30 (thirty) percent, provided that the power conferred by this resolution shall be limited to cumulative allotments of equity securities for the period from the date of the Annual General Meeting until 31 December 2009. This authority shall expire on 31 December 2009 and thereafter the standard provisions of Regulation 4 of the Articles of Association shall re-apply, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

By Order of the Board
Registered Office:
Palm Grove House, PO Box 438, Road Town, Tortola,
British Virgin Islands, VG1110

T A Cross
Director
15 May 2008

Notes:

1. This document is important and requires your immediate attention. If you are in any doubt as to what action to take you are advised to consult an independent advisor.
2. If you have sold or transferred all of your shares, please pass this document and accompanying form to the purchaser, or transferee, or to the agent through whom the transfer was effected for transmission to the transferor or the transferee.
3. Copies of the Annual Report 2007 are posted on the Company's website (www.chaarat.com) and will also be available for inspection at the offices of Central Asia Services Limited, 4th Floor, 5 Conduit Street, London W1S 2XD during normal business hours on any weekday (Saturdays and public holidays excepted) and at the registered office of the Company from the date of this notice until the conclusion of the Annual General Meeting.

Explanatory notes on Special Resolution 6:

This resolution grants an authority for the directors to allot, until 31 December 2009, up to a cumulative 50% of the number of shares outstanding at the date of this notice, without regard to pre-emption rights in relation to future offers of securities by means of a rights issue, placing and open offer, or similar issue in which new shares are offered. This authority is granted for the period from the date of this notice until expiry on 31 December 2009 and is in substitution for the annual 30% authority granted in Regulation 4.7.(a) (iii) of the Company's Articles of Association.

The directors recommend the adoption of this resolution for the following reason:

The resolution, if adopted, will permit the directors to raise sufficient funds to complete the exploration program proposed in the Company's Admission Document at the time of the Company's Initial Public Offering (the "IPO"). The modification of fund raising ability to a cumulative 50% of issued shares for the period to end 2009, while effectively reducing the 30% per year presently permitted by the Articles of Association, will permit the Company, if circumstances are deemed favourable, to raise a larger sum during 2008. This flexibility is deemed prudent and desirable in the light of the Company having raised approximately US$ 10 million less in the IPO than had been anticipated. The Company's total fund raising requirements for 2008 and 2009 remain as projected at the time of the IPO.

The amount to be paid to the Company, in respect of shares that may be offered, will be the best price obtainable at the time of allotment, with a target price of at least GBP £0.60 per share, which is believed justified by the recent issue of shares in the IPO at that price. Should prevailing market conditions indicate that a lower issue price is necessary this will be considered at that time in relation to the Company's projected exploration expenditure requirements.

Notes for holders of Ordinary Shares

1. You are entitled to attend and vote at the meeting.
2. Holders of more than one Ordinary Share may appoint in writing one or two proxies to attend and, on a poll, to vote in their stead. A proxy need not be a member of the Company.
3. Members (and any proxies or representatives they appoint) agree, by attending the meeting, that they are expressly requesting and that they are willing to receive any communications (including any communications relating to the Company's securities) made at the meeting.
4. A form of proxy is enclosed with this document. The form of proxy (together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof) should be sent to Capita Registrars Limited at:

Capita Registrars Limited
The Registry, 34 Beckenham Road
Beckenham, Kent, BR3 4TU

so as to arrive by 11:00am on 1 July 2008, i.e. 48 hours before the time of the meeting.

5. Members who have returned forms of proxy are not thereby precluded from attending the meeting and voting in person if they so wish.
6. Only those holders of Ordinary Shares registered in the relevant register of securities of the Company as at 11:00am on 1 July 2008 (or, in the event that the meeting is adjourned, in the register of relevant securities as at 6:00 p.m. on the day which is two days before the day of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of Ordinary Shares registered in their names at that time. Changes to entries on the relevant register of securities after 11:00am on 1 July 2008 (or, in the event that the meeting is adjourned, in the relevant register of securities after 11:00am on the day which is two days before the day of the adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.
7. Should the meeting be adjourned, then the deadline for revised voting instructions will be 48 hours before the time that the adjourned meeting recommences.

Notes for holders of Depositary Interests:

1. Holders of Depositary Interests ("DIs") may vote by directing Capita IRG Trustees Limited ("CITL", the Custodian in respect of the DIs) to cast proxy votes in the manner directed in the DI voting Form of Direction enclosed. Holders wishing to attend and vote at the meeting in person should use that form to request the relevant authorisation from CITL.
2. The DI voting Form of Direction (together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof) should be sent to Capita Registrars Limited at:

Capita Registrars Limited
The Registry, 34 Beckenham Road
Beckenham, Kent, BR3 4TU

so as to arrive by 11:00am on 30 June 2008, i.e. to allow CITL sufficient time to lodge the combined proxies in the UK 48 hours before the time of the meeting.

3. Instructions for completing and lodging the DI voting Form of Direction are appended to it.
4. You must be registered as the holder of DIs as at 11:00am on 30 June 2008 for your DI voting instruction to be valid.
5. Should the meeting be adjourned, then the deadline for revised voting instructions will be 72 hours before the time that the adjourned meeting recommences.

CHAARAT GOLD HOLDINGS LTD

(THE "COMPANY")

FORM OF PROXY

(FOR COMPLETION BY HOLDERS OF ORDINARY SHARES IN THE GUERNSEY REGISTER)

For use at the First Annual General Meeting of the Company to be held at
Chokmorova Street 127, Bishkek, 720040, Kyrgyz Republic on 3 July 2008 at 4:00pm local time.

I/We
(in BLOCK CAPITALS please)

of

being a shareholder(s) of the above-named Company, appoint the Chairman of the Meeting or

to act as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 3 July 2008 and at every adjournment thereof and to vote for me/us on my/our behalf as directed below.

Please indicate with an 'X' in the spaces below how you wish your vote to be cast. If no indication is given your proxy will vote for or against the resolutions or abstain from voting as he thinks fit.

Signed Dated 2008

Ordinary resolutions	**For**	**Against**
1 To approve the audited accounts for the period ended 31 December 2007		
2 To re-appoint Grant Thornton UK LLP as auditors		
3 To authorise the directors to determine the remuneration of the auditors		
4 To re-appoint Dekel Golan as a director		
5 To re-appoint Terence Cross as a director		
6 **Special resolution** To authorise the directors to allot equity securities during 2008/2009 up to a cumulative 50% of the Company's number of issued shares at the date of this Annual General Meeting		

Notes

1. If any other proxy is preferred, strike out the words "Chairman of the Meeting" and add the name and address of the proxy you wish to appoint and initial the alteration. The proxy need not be a member.
2. If the appointer is a corporation this form must be completed under its common seal or under the hand of some officer or attorney duly authorised in writing.
3. The signature of any one of joint holders will be sufficient, but the names of all the joint holders should be stated.
4. To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power must reach Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting, as the case may be.
5. The completion of this form will not preclude a member from attending the Meeting and voting in person.
6. Any alteration of this form must be initialled.

FOLD 1

AFFIX
STAMP
HERE

FOLD 2

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

FOLD 3 (then turn in)

CHAARAT GOLD HOLDINGS LTD

(THE "COMPANY")

FORM OF DIRECTION

(FOR COMPLETION BY HOLDERS OF DEPOSITARY INTERESTS)

Form of direction for completion by holders of Depositary Interests representing shares on a one for one basis in the Company in respect of the First Annual General Meeting of the Company at 4:00pm local time, on 3 July 2008 at Chokmorova Street 127, Bishkek, 720040, Kyrgyz Republic.

I/We ______________________________

(in BLOCK CAPITALS please)

of ______________________________

being a holder of Depositary Interests representing shares in the Issuer Company hereby instruct Capita IRG Trustees Limited, the Depositary, to vote for me/us and on my/our behalf in person or by proxy at the Annual General Meeting of the Company to be held on the above date (and at any adjournment thereof) as directed by an X in the spaces below.

Signature ______________________________ Dated ______________ 2008

Ordinary resolutions	**For**	**Against**
1 To approve the audited accounts for the period ended 31 December 2007		
2 To re-appoint Grant Thornton UK LLP as auditors		
3 To authorise the directors to determine the remuneration of the auditors		
4 To re-appoint Dekel Golan as a director		
5 To re-appoint Terence Cross as a director		
6 Special resolution To authorise the directors to allot equity securities during 2008/2009 up to a cumulative 50% of the Company's number of issued shares at the date of this Annual General Meeting		

Notes

1. To be effective, this form of direction and the power of attorney or other authority (if any) under which it is signed, or a notarially or otherwise certified copy of such power or authority, must be deposited at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 72 hours before the time appointed for holding the meeting.
2. Any alterations made to this form of direction should be initialled.
3. In the case of a corporation this proxy should be given under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
4. Please indicate how you wish your votes to be cast by placing "X" in the box provided. On receipt of this form duly signed, you will be deemed to have authorised Capita IRG Trustees Limited to vote, or to abstain from voting, as per your instructions. If no voting instruction is indicated, Capita IRG Trustees Limited will abstain from voting on such resolution.

FOLD 1

AFFIX
STAMP
HERE

FOLD 2

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

FOLD 3 (then turn in)

DIRECTORS AND ADVISERS

Directors

C Palmer-Tomkinson:	Non-executive Chairman
D Golan:	Chief Executive Officer
T A Cross:	Finance Director
A Novak:	Executive Director
S R Comline:	Non-executive Director
O R Greene:	Non-executive Director

Company Secretary
Chateau Management Limited
PO Box 693
Hamilton Estate
Charlestown
Nevis
Tel +41 22 316 6620
lee@chateaufid.ch

Registered Office
Palm Grove House
PO Box 438
Road Town, Tortola
British Virgin Islands, VG1110
Registered Number 1420336

Kyrgyz Republic Office
Chaarat Zaav CJSC
Chokmorova Street, 127
720040, Bishkek
Kyrgyz Republic

Web Site
www.chaarat.com

Auditors
Grant Thornton UK LLP
Grant Thornton House
Melton Street
London, NW1 2EP

Registrars
Capita Registrars (Guernsey) Ltd
2nd Floor, No 1 Le Truchot
St Peter Port
Guernsey

Depositary
Capita IRG Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

Principal Bankers
Royal Bank of Scotland International
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey

Nominated Advisor and Broker
Canaccord Adams Limited
Cardinal place, 7th Floor
80 Victoria Street
London, SW1E 5JL

Solicitors (UK)
Watson, Farley & Williams LLP
15 Appold Street
London, EC2A 2HB

Solicitors (Guernsey)
Ogier
Ogier House,
St. Julien's Avenue
St. Peter Port
Guernsey, GY1 1WA

Solicitors (BVI)
Ogier
Qwomar Complex, 4th Floor
PO Box 3170 Road Town
Tortola
British Virgin Islands, VG 1110

Solicitors (Kyrgyz Republic)
Kalikova & Associates
71 Erkindik Boulevard
Bishkek, 720040
Kyrgyz Republic