



# ANNUAL REPORT 2008



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## CORPORATE INFORMATION

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|--|--|
| <b>Company Registration</b>            | LL04433  |
| <b>Stock Code</b>                      | STCM   |
| <b>Secretary and Registered Office</b> | Equity Trust Secretaries Ltd<br>Brumby House, Jalan Bahasa<br>P.O. Box 80148<br>87011 Federal Territory of Labuan<br>Malaysia  |
| <b>Corporate Office</b>                | 10th Floor<br>Rohas Perkasa, West Wing<br>No. 8, Jalan Perak<br>50450 Kuala Lumpur, Malaysia<br>Tel: +(603) 2161 7552<br>+(603) 2161 7542<br>Fax: +(603) 2161 8730<br>ir@steppecement.com      |
| <b>Nominated Adviser</b>               | RFC Corporate Finance Ltd<br>Level 14, 19-31 Pitt Street<br>Sydney, New South Wales, 2000<br>Australia<br>and<br>Level 15, QV1 Building<br>250 St Georges Tce<br>Perth, Western Australia 6000 |
| <b>Websites</b>                        | <a href="http://www.steppecement.com">www.steppecement.com</a><br><a href="http://www.cac.kz">www.cac.kz</a>   |
| <b>UK Registrar</b>                    | Computershare Investor Services PLC<br>The Pavilions<br>Bridgwater Road<br>Bristol BS13 8AE  |
| <b>Cement Plant</b>                    | 472380, Aktau Village<br>Karaganda Region<br>Republic of Kazakhstan  |
| <b>Broker</b>                          | HansonWesthouse Limited<br>1, Angel Court<br>London EC2R 7HJ, England  |
| <b>Auditor</b>                         | Deloitte & Touche<br>Unit 3 (I2) Main Office Tower<br>Financial Park Labuan<br>Jalan Merdeka<br>87000 Wilayah Persekutuan Labuan<br>Malaysia   |





## CHAIRMAN'S STATEMENT

This letter is my first opportunity to communicate with all Steppe Cement's shareholders and stakeholders as Chairman of the company. Although the recent year has provided us with even more challenges, I would like to assure you that the management, the employees and the Board are doing their utmost to ensure the short-term survival and the long-term prosperity of Steppe Cement ("Steppe" or "Company" "Group"). The completion of the 0.8 million tonnes per year capacity dry kiln ("Line 6") in October of last year represents an enormous milestone, not only in capacity but in reduced costs of production. I would like to express my sincere appreciation to the staff at all levels in Steppe Cement that made this achievement possible. The Board of Steppe Cement would like to thank Keith Robert Newman for his contributions to the Group for the last 3 years. I have set forth below my view as to the overall economic condition in Kazakhstan and more specific details as to how we intend to deal with the present situation.

The economic environment in which Steppe Cement operates in Kazakhstan has become increasingly challenging. It has been materially impacted in 2008 by the credit crisis that has profoundly dislocated the global economy depressing commodity prices, government revenues and the level of fixed capital investment. National economic growth slowed from 8.9% in 2007 to 3.0% in 2008; a reduction that was amplified in the level of output of the construction sector which managed an overall increase of only 1.9% in stark contrast to the 17% achieved in 2007. Private construction activity particularly in the commercial and residential sectors have suffered a serious downturn as the national banks and other lending institutions became increasingly risk averse.

Construction activity and with it cement demand has imploded a new and disorientating experience for contractors and building material producers alike. Since 2000, cement demand had risen from 1.1 million tonnes in an unbroken growth curve to 7.6 million tonnes in 2007, half of which had to be met from imports. In 2008, the market fell by 25% to 5.7 million tonnes with virtually all the setback concentrated in the second six months. Lower volumes are likely to be demanded in the current year. Imports, increasingly the marginal source of supply, have been the buffer experiencing the severest setback and these are now expected to account for only some 10% of the total domestic demand in the year ahead.

Cement prices have been the most notable casualty of the downturn retreating from a peak of KZT 14,000 per tonne in 2007 to an average of KZT 12,600 per tonne in the markets served by the group last year. Strong seasonality in demand, fostered by the climatic extremes, makes forecasting both volumes and price in the year ahead hazardous until activity on sites fully resumes in the late spring with the month of May traditionally providing a better litmus with which to test overall construction activity.



We do not underestimate the challenges presented by the market in 2009. Steppe has formulated a strategy to expand its market share from 14% to between 20%-25% in the current year to accommodate steadily rising production from the newly-commissioned Line 6. Steppe's lower production costs, allied to greater



transport and associated distribution expenses that our competitors will incur leave it competitively placed to service the important metro markets of Astana and Karaganda from our factory in Aktau village. Further capital expenditure needed to bring Line 5 into commercial production will be deferred until market prices and demand recovers. The management are aware of the necessity to reduce costs wherever possible and to this end overheads are being reduced at all levels in the Group and the effect of this will be progressively seen in 2009 but reflect fully in 2010.

As the international recession gathered momentum domestic commercial activity slowed dramatically in the second half of 2008 prompted by the outflow of private investment capital and a realisation by local banking institutions that credit risks had been poorly assessed; a fierce credit squeeze ensued. Faced with a dramatic increase in the level of non-performing loans the commercial banks and other financial institutions sought government support in February 2009. Around USD5 billion of new capital and deposits were advanced to shore up the financial sector and in two of the leading banks, namely Halyk and Kazkommertsbank this resulting in a 25% shareholding passing to the Government. Other more distressed institutions such as Alliance Bank and Bank Turan Alem have been effectively nationalized. Coincident on these events the national currency, the Kazakhstan Tenge ("KZT") was devalued against the USD by 25% from KZT 120 to KZT 150. One unwelcome effect of this devaluation for the Group will be to increase the amount of KZT required to service its USD denominated bank loans.

The reduction in cash flow from the twin effects of falling volumes and prices has added to the financing pressure on the Group though it is important to state that all banking covenants have been honoured. In the face of continuing uncertainty about the length and depth of the current recession the Board has decided not to burden the balance sheet with more debt but to raise fresh equity in the form of an Offer For Subscription to existing shareholders. The timing, terms and implications arising from this decision have been set out in detail a circular sent on 14 April 2009. The money raised will be applied to meet the repayment of principal, facilitate essential capital investment to lower production costs and fund working capital.

In Kazakhstan, the nation's finances remain strong and public finances well ordered. The government has already announced that a number of public construction projects are to be accelerated and these are expected to be of direct benefit to cement demand. For this reason the confidence of Steppe Cement in its future and in the medium term prospects for the Kazakhstan economy remain intact.



Malcolm Ronald Brown  
Non-Executive Chairman

## CEO STATEMENT

Thanks to the exceptional efforts of Steppe Cement employees, Dry Line 6 (“Line 6”) was commissioned in October 2008. The operating license for commercial operations of Line 6 was received on 5 February 2009 and all other necessary licenses and permits were received during the first quarter of 2009. Cement produced from this dry line will cost USD8 to USD12 per tonne less than cost of cement produced from the wet lines, a competitive advantage that should help Steppe Cement deal with the uncertainties imposed by current market conditions.

The cement market in 2008 continued its declining trend which was anticipated in 2007. The first half of 2008 saw a slower cement market than in 2007 but the same seasonal pattern persists. The second half of 2008 saw a sharp deceleration in economic activity that was compounded by the drop in commodity prices, resulting in lower demand and prices.

| Key financials                                | Year ended<br>31-Dec-08 | Year ended<br>31-Dec-07 | Inc<br>(Dec)<br>% |
|---|-------------------------|-------------------------|-------------------|
| Sales (tonnes)                                | 807,300                 | 820,287                 | (2)               |
| Consolidated turnover (USD Millions)          | 91.5                    | 100.8                   | (9)               |
| Consolidated profit before tax (USD Millions) | 26.6                    | 53.6                    | (50)              |
| Consolidated profit after tax (USD Millions)  | 18.6                    | 37.2                    | (50)              |
| Earnings per share (cents)                    | 16                      | 33                      | (50)              |
| Shareholders' funds (USD Millions)            | 128.9                   | 110.5                   | (17)              |
| Exchange rate (USD/KZT)                       | 120.8                   | 122.5                   |                   |

Banks struggled to repay their foreign debts and the Kazakhstan Government finally decided to step in to support them. On 4 February 2009, the Kazakhstan Tenge (“KZT”) was devalued against the USD by 25% from KZT 120 to KZT 150. An adverse effect of the devaluation for Steppe Cement will be the increase in the amount of KZT required to service its USD denominated bank loans.

Import volumes have continued to decrease during the second half of 2008 and the beginning of 2009.

Our four wet lines performed according to expectations and produced 807,300 tonnes during 2008. Following the commissioning of Line 6, Steppe Cement produced clinkers for inventory. Its production will be increased progressively through 2009 and will reach its full 800,000 tonnes capacity per year when Steppe Cement completes the second string of the pre-heater. Steppe Cement plans to meet demand first from Line 6 and then from the wet lines.





Steppe Cement has decided to slow down further investment in Dry Line 5 (“Line 5”) with an expected annual production capacity of 1.4 million tonnes) until Steppe Cement has greater clarity on the size of the market and the prevailing prices. Steppe Cement estimates that an additional USD25 million is needed to complete Line 5. Steppe Cement intends to continue with its construction as soon as market conditions permit.

The team to run Line 6 has been assembled and Steppe Cement will maintain a skeleton team to work on Line 5. In 2008, Steppe Cement experienced a small decrease of 2% in the sales volume, mostly in the last three months of the year. Prices fell by 9% overall for the year but the decrease was sharper in the second half of 2008.

The available production capacity in Kazakhstan outstrips the demand in the last two months of 2008. As a result, all cement companies in Kazakhstan either curtailed operations or stockpiled inventories through the winter.

**The overall cement market decreased by 25% in 2008 and a similar further decrease is anticipated in 2009.**

The market demand for cement in 2008 decreased by 25% to 5.7 million tonnes as GDP growth slowed to 3% per annum in 2008 from 10% per annum in 2007. Currently, Steppe Cement estimates the demand for cement in 2009 to contract further by approximately 25%, to about 4.5 million tonnes, due to continuing limited credit availability. The size of the 2009 market will not be visible until the spring construction season begins. Nevertheless, it is expected that Steppe Cement will be able to increase its volumes as it





continues to replace imports through aggressive pricing which it could afford due to its competitive cost structure. Prices in the neighbouring countries are slightly higher than in Kazakhstan and transportation costs remain significant, so Steppe Cement expects imports to decrease to approximately 10% of the market in 2009 from 30% in 2008. Russia and other neighbouring countries are experiencing a macro economic situation similar to the one in Kazakhstan.

After the drop of prices in the last months of 2008 and the beginning of 2009, Steppe Cement expects prices to remain flat during the remaining of 2009.

Steppe Cement dedicated much of its cash flows in 2008 to the refurbishment project. In 2009, Steppe Cement intends to apply available cash flows to repay the existing loans and credit lines. As a result, Steppe Cement does not anticipate to distribute any dividends to shareholders in 2009.

Steppe Cement will raise £10 million before expenses by way of an Offer for Subscription ("Offer") of 40,000,000 new ordinary shares at 25 pence per share to be conditionally underwritten. The net proceeds of the Offer will be used principally to repay a portion of the Company's bank loans and for working capital purposes. The Offer opens on 14 April 2009 and the exercise is expected to be completed in May 2009.



**Costs: Inflation for our inputs is now contained and Steppe Cement does not expect any increases in utilities or salaries.**

Costs increased during the first half of 2008 but remained relatively stable subsequently due to lower oil and commodity prices in the second half of 2008 as well as to a lack of credit. Overall, utility and coal prices were significantly higher in 2008 than in 2007 but coal prices are now stable or cheaper than last year. Transport prices started to fall in late 2008 and this trend continued to date in 2009.

Steppe Cement has initiated a program to optimize the use of in-house labor in the wet lines. Steppe Cement has subcontracted certain departments to external companies. In cooperation with the local authorities, Steppe Cement has encouraged retraining and redeployment in other companies. Steppe Cement intends to maximize the productivity of the remaining work force. As of 31 March 2009, the labor force of the wet lines had been reduced from 1,316 average in 2008 to 1,073 personnel. Further improvements in production efficiency and optimization are expected to follow. The dry lines currently have a total headcount of 240.





Effective 1st January 2009, the Kazakhstan Government reduced the VAT and corporate income tax rates from 13% to 12% and from 30% to 20% respectively. The reduction in taxes will have a positive impact on Steppe Cement's cash flows although it is expected for Karcement JSC to take a longer time to recover its substantial accumulated import VAT.

**Wet lines output remains stable; the wet lines will be used to supplement production according to market demand**

The four kilns production capacity increased slightly in 2008. In 2009, Steppe Cement plans to commission a new chain system in two kilns and re-commissioning of Cement Mill 6.

The limestone quarry license was extended by 25 years until 2043.

**Line 6 refurbishment project completed and Line 5 is on stand by**

Steppe Cement completed the commissioning of Line 6 in October 2008. Clinkers of increasing quality were produced for stock. No cement was sold from the dry lines in 2008 until receipt of the official license for commercial operations. Steppe Cement received all remaining licenses during the first quarter of 2009. As a result, the five year tax holiday will start from the 5 February 2009.

Steppe Cement will devote the rest of 2009 to improve the productivity and stability of Line 6 with minimal investment and to optimize the output of the four 80 tonnes/hour cement mills.

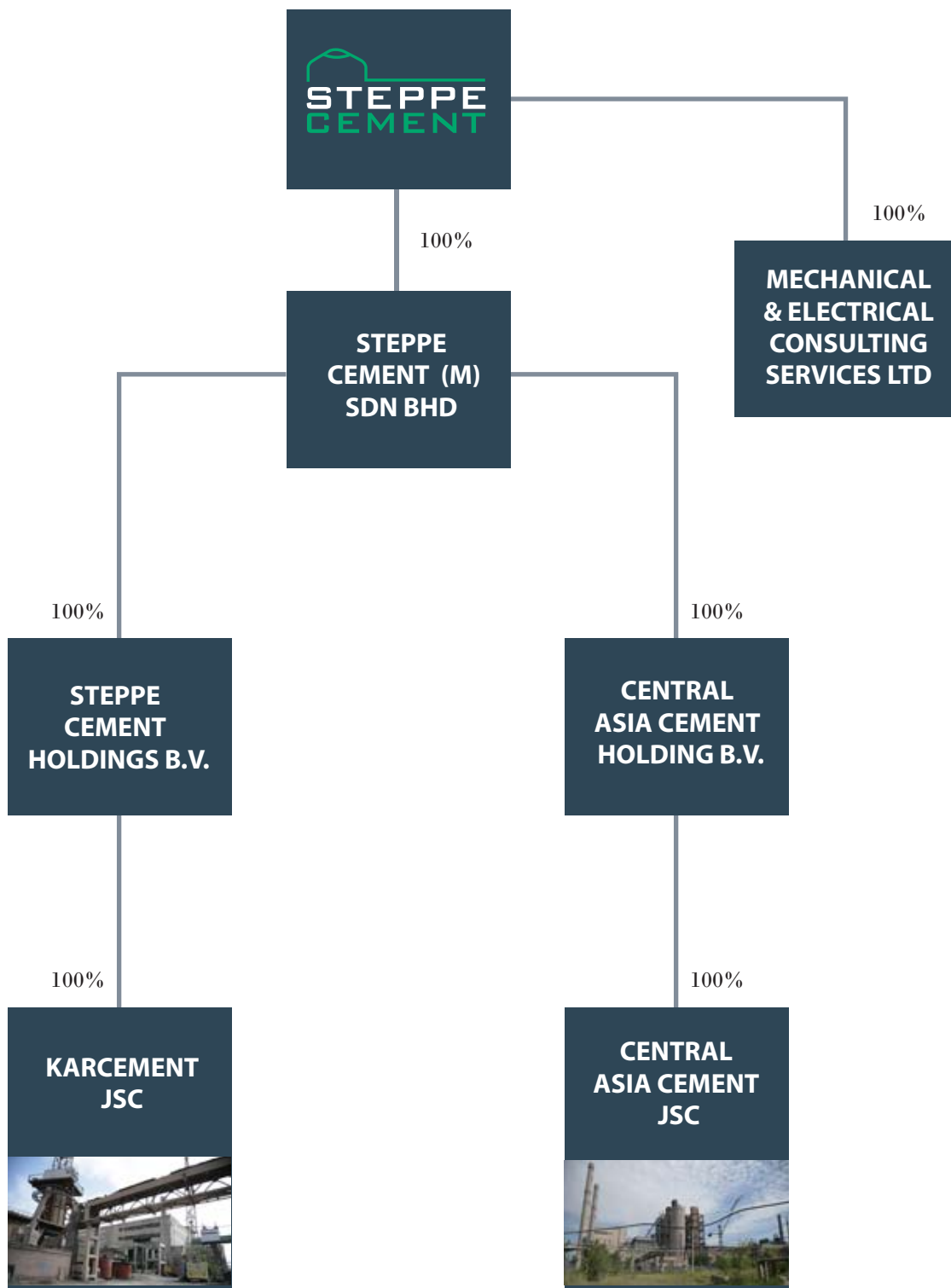
Steppe Cement aims to reduce production costs and fixed expenses to remain competitive in the market place.

The local authorities have stood by the Company during 2008 and Steppe Cement and the Board of Directors would like to thank them, our shareholders and the main banks - EBRD, HSBC, Halyk and Centercredit - for their continuing support.

Javier Del Ser Perez  
Chief Executive Officer



## GROUP STRUCTURE





## BOARD OF DIRECTORS

### Malcolm Ronald Brown (Non-Executive Chairman)

Malcolm Brown, 62 years of age, is a UK national with a background as an analyst and corporate finance adviser. He has significant experience with the European building materials sector and has been involved in a number of cement related transactions. Mr Brown worked with HSBC Investment Bank and its predecessor James Capel for 34 years as a director, senior analyst and adviser until his retirement in 2006. The research output, supported by a strong specialist sales team, enabled James Capel and subsequent to its purchase, by HSBC, to establish a leading position in the building material and construction sector in both the primary and the secondary market. This was reflected in the external poll ratings and the expanded number of corporate brokerships.

Some of the mandates in which Mr Brown was actively involved included the privatisation of the cement industry in Serbia and those in Algeria. In the former case, following the cessation of hostilities it was decided in 2001 that the three plants Beocin, Novi Popovac and Kosjeric should be sold and following a successful competitive auction, which was fast-tracked these were acquired by Lafarge, Holcim and Titan respectively. In Algeria HSBC won the mandate to advise the government on the sale of its cement assets and it was decided to prepare three out of the twelve plants for auction. Regrettably, although this had proceeded a long way, even to soliciting offers from international cement groups, the government withdrew at the eleventh hour in the face of strong union opposition.

Whilst at HSBC Mr Brown was also engaged to find acquisitions on the Indian sub-continent for Holcim (Switzerland), Cimpor (Portugal) and Votorantim (Brazil). He has also worked with Vicat and Ciments Francais on opportunities in Egypt. Mr Brown is currently the Managing Director of a small consultancy business, Carbery Cement Consultants, which provides strategic advice to mid cap, family-controlled businesses in the cement industry.

### Javier Del Ser Perez (Chief Executive Officer)

Javier, 43, is a Chartered Engineer (Spain), master in Structural Engineering and has a degree in Finance from HEC. Javier has lived in Kazakhstan since 1996, when he was appointed as the Investment Adviser to a large investment fund focused on the country. It was through this role that Javier first became involved with the Group's cement business. He is the Chairman of the Company's operating subsidiaries, Central Asia Cement and Karcement. Javier has other business interests in Kazakhstan, including being a Director and large shareholder in the Chagala Group. Javier is also a Director of Central Asia Cement Holding B.V. and Mechanical and Electrical Consulting Services Ltd.





#### Keith Robert Newman (Non-Executive Director)

Keith Robert Newman, 59, is an engineer with 30 years experience in senior management roles in industry sectors including construction materials. Keith's international business experience includes 7 years living in South and East Asia, 2 years in the Middle East and 2 years in Central Asia, which is particularly relevant for his role as a Director of Steppe Cement Limited. In Asia, he has experience of managing, developing and growing highly profitable multi-million pound businesses in construction materials and he has led teams in tendering for major infrastructure projects across the region. He has led teams and put together successful proposals for environmental projects in India and Indonesia, with projected values up to USD1B. and has advised major companies in the cross-border development of environmental solutions and systems.

#### Paul Rodzianko (Non-Executive Director)

Paul Rodzianko, 63, is an international business executive with extensive experience in the energy, infrastructure and green technology sectors. He serves as Chairman or Independent Director of several emerging companies and as a Managing Director of Bradley Woods. He volunteers as Chairman of the Hermitage Museum Foundation. In addition, he serves on the boards of the US-Russia Business Council, the Kennan Council of the Woodrow Wilson International Center, the International Tax & Investment Center, the American-Russian Cultural Cooperation Foundation, and previously of the US-Kazakhstan Business Association and Energibolaget i Sverige (Sweden). He has served in senior capacities at Access Industries, Bogatyr Access Komir (Kazakhstan), the General Electric Company, Grace Geothermal Corporation, GreenFuel Technologies Corporation, CNPC-Aktobemunaigas (Kazakhstan), Sterling Grace & Co., Tyumen Oil Company (Russia), DataPort at the World Trade Center, and Mt. Hope Hydro. Paul holds a B.A. from Princeton University and an M.A. from the Institute of Critical Languages. He is a Fellow of The Explorers Club and the Royal Geographic Society.



## SENIOR MANAGEMENT - CENTRAL ASIA CEMENT JSC

### **General Director: Tham Hock Soon**

An accountant by profession who has wide experience in various senior positions in a number of major Malaysian and international companies. Prior to joining CAC as Finance Director in July 1998, he has been in the cement industry for close to 14 years and his last position was General Manager Finance/Corporate Affairs as well as a Joint Secretary of Kedah Cement Holdings Berhad, one of the leading cement companies listed on The Kuala Lumpur Stock Exchange. He is a Fellow of the Chartered Association of Certified Accountants, UK and has more than 20 years experience in the cement industry.

### **Technical Director - Mehmet Faruk Osmanpasaoglu**

An engineering graduate from the Faculty of Mining Engineering, Istanbul Technical University. He has accumulated over 30 years of professional experience in various senior capacities, mainly in the cement related industry both in Turkey and Kazakhstan. Prior to joining CAC, he worked in Kazakhstan for about 5 years, first as General Director of Sastobe White Cement and Lime Plant in Shymkent and later as Technical Director of Shymkent Cement Plant, then a fully-owned subsidiary of Intalamenti Group.

### **Production Director: Vasily Shalimov**

A mechanical engineer from Belgorod Institute Russia. He is well versed in all aspects of cement manufacturing activities. He started as a trainee engineer in the Aktau cement plant and has gone through rank and file to be promoted to his present position. He has over 30 years of cement manufacturing experience.

### **Plant Technical Chief : Bolochovzev Nikolai**

Nikolai graduated from Moscow Chemical Engineering University. He started as a mechanic, then as Chief of Calcining Shop and later as Deputy Plant Manager. Since 1989, Nikolai is currently Plant Technical Chief. He is familiar with all the plant equipment and technological process on dry and wet lines. He has accumulated close to 40 years of cement manufacturing experience.

### **Chief Accountant : Braznikova Nelli**

Nelli graduated from Karaganda Metallurgical University - Faculty of Industry Accounting. She joined CAC in 1999 as Deputy Chief Accountant and was later promoted to Chief Accountant. She's experienced in tax accounting and corporate bank procedures.

### **Chan Keng Chung : Accountant**

Chan Keng Chung is a member of the Malaysian Institute of Certified Public Accountants (MICPA) and a graduate from the University of Malaya with a Bachelor's Degree in Accountancy. He has over 11 years of working experience including in audit with a big-four accounting firm in Kuala Lumpur and in commerce with a Hong-Kong listed company. Before joining Central Asia Cement, he was a Financial Controller based in Hong Kong and was also in Shanghai for 6 years. His expertise encompasses audit, financial reporting, internal control procedures, corporate finance and investment evaluation.

### **Marketing Manager: Petr Durnev**

A graduate of Academy Marketing Moscow. He has worked in CAC for about 9 years rising from marketing executive to his present position.

### **Personnel Manager: Irina Poluichik**

An economist by qualification. She specializes in human resources matters. She has been with CAC for more than 20 years.



## SENIOR MANAGEMENT - KARCEMENT JSC

### **General Director : Gan Chee Leong**

Gan is a Malaysian, aged 51, who is a Chartered Accountant from England and Wales. He was trained initially as an auditor in a well-known international firm in Kuala Lumpur. He has about 16 years experience in the cement industry in various capacities. Before joining CAC, he was GM - Marketing of a leading cement company in Malaysia. He held a number of positions in the Cement and Concrete Association Malaysia and was once the Deputy Secretary General of Asean Federation of Cement Manufacturers

### **Plant Manager : Thirupathi Raja**

A Chemical Engineer by profession, with 27 years experience in the cement industry in India and Malaysia. Before joining Karcement, he had worked in Lafarge Cement, Malaysia for 11 years, with his last position as Production Manager of one of their largest plant.

### **Production Manager : P. Sampathkumar**

A Chemistry graduate from India with extensive experience in the cement industry for more than 26 years. He has worked in India, Iraq and United Arab Emirates. He has very good knowledge about modern dry plant operations, process control and optimization.

### **Maintenance Manager : Karunakaran Perumal**

A Degree holder in Mechanical Engineering from Leeds University UK (1982). He has been in the cement industry since 2000. He has been spearheading the preventative maintenance program as a Methods Manager in two of the Lafarge cement plants in Malaysia with the implementation of Computerized Maintenance Management Systems (MMS). He has also 18 years experience in the design, repair, maintenance and commissioning of boilers, pressure vessels, and oil and gas equipment in many countries around the world. He is also an Internal Auditor for ISO 14001 Environment.

### **Project manager : Ramlan Safri**

An electrical engineer by profession. He has a Masters degree and is currently an Associate Member of Institute of Engineers Malaysia and an Associate of the Institute of Electrical Engineers (USA). He has about 20 years of working experience in the cement industry in a number of countries. Before joining CAC in the beginning of 2005, he worked for Lafarge Malaysia.

### **Project Manager-Mechanical : George Rozario Ramesh**

A Mechanical Engineer by profession with a Masters Degree in Business Management (Finance & Marketing) from India. He has about 17 years experience in the cement industry in various countries and has handled both projects and maintenance. Before joining Karcement in September 2008, he worked as the Maintenance & Project Manager for Holcim (Malaysia). He has also worked with Lafarge (Malaysia)





## CORPORATE GOVERNANCE STATEMENT

The Board of Directors (“Board”) is fully committed and strives to take the necessary measures to uphold the best principles and practices of corporate governance in the Group. Good corporate governance is fundamental to the Group’s discharge of its corporate responsibilities and accountability to protect and enhance the financial performance and shareholders’ value of the Group.

### BOARD OF DIRECTORS

The Board’s primary objective is to protect and enhance long-term shareholders’ value.

The Board is responsible for:

- formulating the Group’s strategic direction and major policies.
- reviewing the performance of the Group and monitor the achievement of management’s goals.
- approval of the Group’s financial statements, annual report and announcements.
- approval of Group’s operational and capital budgets.
- approval of major contracts, capital expenditure, acquisitions and disposals.
- setting the remuneration, appointing, removing and creating succession policies for directors and senior executives.
- the effectiveness and integrity of the Group’s internal control and management information systems.
- overall corporate governance of the Group.

### BOARD PROCESSES

The Board has established a framework for the management of the Group including a system of internal control, risk management practices and the establishment of appropriate ethical standards. The Board holds regular meetings to discuss strategy, operational matters and any extraordinary meetings at such other times as may be necessary to address any specific and significant matters that may arise. The Board has determined that individual directors have the right qualification and experience to perform their duties and responsibilities as directors.

### BOARD COMPOSITION

At least half of the Board comprises of independent non-executive directors. The Board composition reflects the balance of skills and expertise to ensure that these are in line with the Group’s strategies.

There is a clear segregation of roles of between the Chairman and Chief Executive Officer. The Chairman is responsible for leadership and management of the Board and ensures that it operates effectively and fully discharges its responsibilities. The Board has delegated responsibility for the day-to-day management and operations of the Group in accordance with the objectives and strategies established by the Board to the Chief Executive Officer and the senior management.



## Independence

The Non-Executive Directors are responsible for providing independent advice and are considered by the Board to be independent of management and free from any business or relationship that would materially interfere with the exercise of independent judgment as a member. No one individual in the Board has unfettered powers of decision and no director or group of directors is able to unduly influence the Board's decision making. This enables the independent directors to debate and constructively challenge the management on the Group's strategy, financial and operational matters.

## Selection and appointment of directors

The mix of skills, business and industry experience of the directors is considered to be appropriate for the proper and efficient functioning of the Board. The Board has delegated the functions of selection and appointment of directors to the Nomination Committee including the annual review of the structure, size, composition and balance of the Board.

Section 87(1) of the Labuan Offshore Companies Act provides that every offshore company shall have at least one director who may be a resident director. Section 87(2) states that only an officer of a trust company established in Labuan shall act or be appointed as a resident director. The Company's Articles provide that there shall be at least one and not more than 7 directors. If the Company's activities increase in size, nature and scope the size of the Board will be reviewed periodically and the optimum number of directors required to supervise adequately the Company is determined within the limitations imposed by the Company's Articles and as circumstances demand.

## Performance evaluation

The Board conducts regular evaluates its performance and the effectiveness of the Board Committees. The performance of the Chairman and individual directors is continually assessed to ensure that each director continues to contribute effectively and demonstrates commitment to the role.

## Re-election of directors

Every year, the directors offer themselves for re-election and their re-election is subject to the shareholders approval at the Company's Annual General Meeting.

## Remuneration policy

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Board has delegated the setting of broad remuneration policy to the Remuneration Committee. The purpose of the policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Where necessary, independent advice on the appropriateness of remuneration packages is obtained.



## Independent advice and insurance

The Board may seek an independent consultant's advice at the Company's expense in relation to director's rights and duties and the engagement is subject to prior approval of the Chairman and this will not be withheld unreasonably. The company maintains a Directors' and Officers' Liability Insurance policy that provides appropriate cover in respect of legal action brought against its directors.

## BOARD COMMITTEES

The Board has established the Nomination Committee, the Remuneration Committee and the Audit Committee and delegated certain functions to these committees as set out in each Committee's Terms of Reference.

### Nomination Committee

The Committee comprises of majority independent Non-Executive Directors. The Terms of Reference of the Nomination Committee was approved by the Board. The Nomination Committee meets at least once a year.

The Nomination Committee's members comprise of:

- 1) Paul Rodzianko (Chairman)
- 2) Javier Del Ser Perez

The principal objectives of the Committee are to review that the Board structure, size, composition and the mix of skills and expertise to ensure that these are in line with the Group's strategies and to recommend to the Board the potential candidates for directorship. The selection criteria for selection and recruitment of the potential candidates for directorship shall include qualifications of the individual, experience, knowledge and achievements, credibility and background and ability of the candidates to contribute effectively to the Board and Group.

The functions of the Nomination Committee include:

- Review annually the structure, size and composition of the Board taking into account the Group's strategies;
- Identify and nominate the potential candidates to the Board for approval;
- Monitor the appointment process of directors;
- Recommend to the Board for approval on the re-appointment of directors;
- Oversee the succession planning of directors taking into consideration of the Group's strategies;
- Report and make recommendations to the Board on the Committee's activities; and
- Review and update the Terms of Reference at least once a year.

### Remuneration Committee

The Remuneration Committee comprises entirely of independent Non-Executive Directors. The functions of the Remuneration Committee are governed by the Terms of Reference which was approved by the Board. The Remuneration Committee meets at least twice (2) a year.

The principal objectives of the Committee are to ensure that the broad remuneration policy and practices of the Group reflect the level of responsibilities, performance, relevant legal requirements and high standards of governance. In determining such policy, the Committee shall ensure that remuneration levels are appropriately and competitively set to attract, retain and motivate people of the highest quality.





The functions of the Remuneration Committee include:

- Determine and review the broad remuneration policy of the Chairman, Chief Executive Officer, Executive Directors and Senior Executives;
- Review the contracts for the Chairman, Chief Executive Officer, Executive Directors and the contractual terms;
- Obtain information on the remuneration of other listed companies of similar size and industry;
- Report and make recommendations to the Board on the Committee's activities; and
- Review and update the Terms of Reference every two (2) years, or more frequently as required to ensure its ongoing relevance and effectiveness.

The Remuneration Committee's members comprise of:

- 1) Keith Robert Newman (Chairman)
- 2) Paul Rodzianko
- 3) Malcolm Ronald Brown

#### **Audit Committee**

The Audit Committee comprises entirely of independent Non-Executive Directors. The functions of the Audit Committee are governed by the Terms of Reference which was approved by the Board. The Audit Committee meets at least three times (3) a year.

The principal objectives of the Committee are to monitor and review the adequacy, integrity and compliance of the Group's financial reporting and policies, internal controls system and procedures including risk management, and compliance and the external audit process. The Committee shall make the necessary recommendations to the Board to achieve its objectives.

The functions of the Audit Committee include:

- Review the Group's financial statements, regulatory announcements relating to the Group's results;
- Review the Group's significant accounting policies and practices;
- Review compliance with international financial reporting standards, regulatory and other legal requirements;
- Review and advise the Board on the appointment, nomination and re-appointment of the external auditors;
- Oversee the relationship with the external auditors, including the engagement of auditors, the audit scope, plan, remuneration
- Evaluate and monitor the adequacy and effectiveness of the internal controls system and procedures including risk management and compliance;
- Monitor and review the performance and effectiveness of the internal audit function;
- Report and make recommendations to the Board on the Committee's activities; and
- Review and update the Terms of Reference at least once a year and recommend any changes to the Board for approval.

The Audit Committee's members comprise of:

- 1) Paul Rodzianko (Chairman)
- 2) Keith Robert Newman



## **BUSINESS CONDUCT AND ETHICS**

In the course of business, the Board acknowledges the need to maintain high standards of business and ethical conduct by all Directors, management and employees of the Group. In this respect, the Group has the responsibility to observe local laws, customs and culture of each country in which it operates in particular Kazakhstan and to adopt the high standards of business practice, procedure and integrity. All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

### **Conflict of interest**

All Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. Where the Board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other Boards.

## **INVESTOR RELATIONS**

The Board recognises and values the importance of managing its relationship with the investing community. The Board is committed and communicates regularly with shareholders on the Group's strategy, financial performance, developments and prospects via issuance of annual and interim financial statements to shareholders, stock exchange announcements and in meetings.

The Group's management meets regularly with fund managers, analysts and shareholders to convey information about the development of the Group's performance and operations in Kazakhstan.

### **Annual General Meeting**

The Annual General Meeting ("AGM") provides the main forum and opportunity for discussion and interaction between the Board and the shareholders. The Board encourages the active participation of shareholders, both individuals and institutional at the AGM on important and relevant matters. The results of the AGM are announced via Regulatory News Service to the public after the AGM.

## **INTERNAL CONTROL**

The Board places importance on the maintenance of a strong internal control system in the Group, including compliance and risk management practices to ensure good corporate governance. The Board regularly evaluates and monitors the effectiveness of the internal control system.

### **Purpose**

The Group's internal control system is designed to safeguard the Group's assets and enhance the shareholders investments. The Group's internal control system is designed to manage rather than fully eliminate the risk of failure to achieve business objectives. Therefore, that the internal control system can only provide reasonable but not absolute assurance against material misstatement or loss.



## Key elements

The key elements of the Group's internal control system are:

- **Control** - an organisational structure is in place with clearly defined levels of responsibility and authority together with appropriate reporting procedures, particularly with respect to financial information and capital expenditure.
- **Financial Reporting and Budgeting** – A financial reporting and budgeting system with an annual budget approved by the directors has been established to monitor the performance of the subsidiaries. The management evaluates the actual against budget to identify and explain the causes of the significant variances for appropriate action. The budgets are revised regularly taking into internal and external variables such as performance, costs, capital expenditure requirements, macro outlook and other relevant factors.
- **Risk Management and Compliance** – Risk management and compliance policies, controls and practices are in place for the Group to identify, assess, manage and monitor key business risks and exposure and for evaluation of their financial impact and other implications.

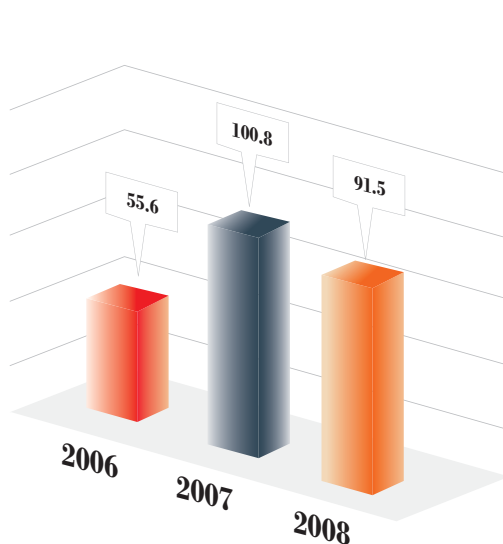
## Monitoring and review mechanism

The Audit Committee is tasked to monitor and review the adequacy and effectiveness of the internal control system and procedures including risk management and compliance. The Group's internal audit function is responsible for conducting internal audits based on the risk-based audit plan approved annually by the Audit Committee. The internal audit function provides regular reports to the Audit Committee highlighting the observations, recommendations and management action to improve the internal control system. The scope of work, authority and resources of the internal audit function are reviewed by the Audit Committee at annually. The Audit Committee also deliberates on control issues highlighted by the external auditors during the course of statutory audits.

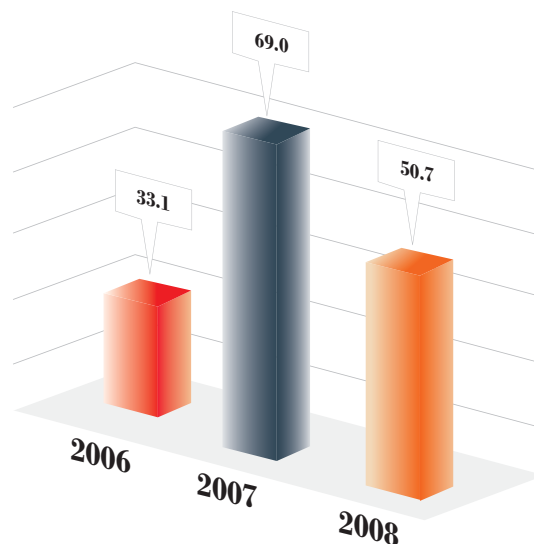




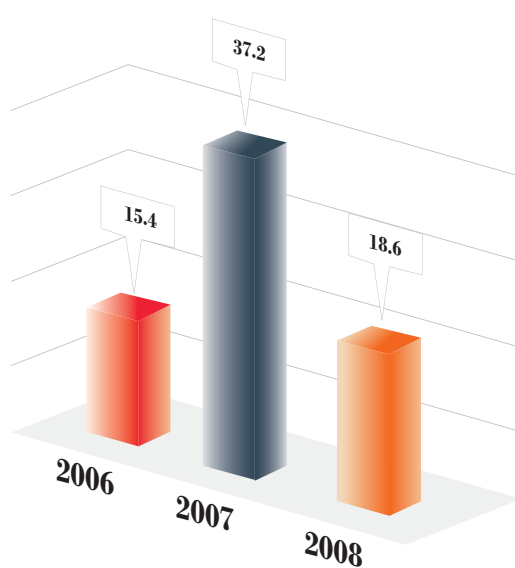
## FINANCIAL HIGHLIGHTS



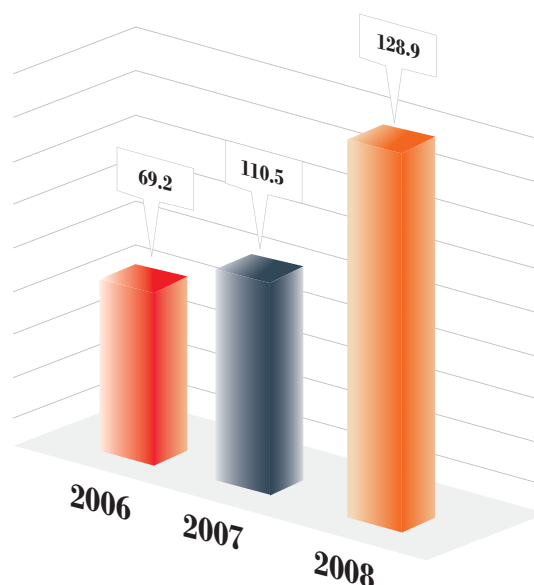
Revenue - USD' Millions



Gross Profit - USD' Millions



Profit After Tax - USD' Millions



Shareholders Funds - USD' Millions

## FINANCIAL RATIOS

|                                  | FYE<br>2008 | FYE<br>2007 | FYE<br>2006 |
|----------------------------------|-------------|-------------|-------------|
| Gross profit margin (%)          | 55          | 68          | 59          |
| Operating profit margin (%)      | 32          | 54          | 40          |
| Net profit margin (%)            | 20          | 37          | 26          |
| Net earnings per share (cents)   | 16          | 33          | 13          |
| Return on shareholders funds (%) | 14          | 34          | 21          |
| NTA per share (USD per share)    | 1.13        | 0.97        | 0.61        |

### Shares data

|                                       |             |             |             |
|---------------------------------------|-------------|-------------|-------------|
| Number of shares in issue at year end | 114,000,000 | 114,000,000 | 114,000,000 |
|---------------------------------------|-------------|-------------|-------------|



**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**  
(In United States Dollar)



**STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**AND ITS SUBSIDIARY COMPANIES**

**FINANCIAL STATEMENTS**

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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**Report on the Financial Statements**

We have audited the financial statements of **STEPPE CEMENT LTD**, which comprise the balance sheet of the Group and of the Company as of 31 December 2008, and the income statement, statement of changes in equity and cash flow statement of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 62.

*Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Offshore Companies Act, 1990 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion to you, as a body, in accordance with Section 117 of the Offshore Companies Act, 1990 in Malaysia and for no other purpose. We do not assume responsibility towards any other person for the contents of this report.

(Forward)

We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements have been properly drawn up, in all material respects, in accordance with International Financial Reporting Standards and the Offshore Companies Act, 1990 in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of 31 December 2008 and of the financial performance and the cash flows of the Group and of the Company for the year ended on that date.

### *Emphasis of Matter*

Without qualifying our opinion, we draw your attention to Note 12 to the Financial Statements. As at 31 December 2008, one of the subsidiary companies of the Company, Karcement JSC ("Karcement") was in the development stage and the financial statements of Karcement are prepared on the going concern basis. The successful completion of the entire development program of Karcement and achieving of profitability depend on future events, including sufficient financing for conducting further development activities, obtaining permits from regulatory authorities and achieving a revenue level sufficient to cover the expenses of Karcement. During the financial year, Karcement has completed the Line 6 refurbishment project and subsequent to the financial year, Karcement received the tax exemption approval and cement certification standard (Note 33). Line 6 successfully commenced commercial operations in March 2009. Completion of Line 5 however will be deferred until financial and cement markets in Kazakhstan recover.

In addition, as mentioned in Note 1 to the Financial Statements, during the second half of the financial year ended 31 December 2008, a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed in bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Kazakhstan (where the major subsidiary companies operate), notwithstanding any potential economic stabilisation measures that may be put in place by the Kazakhstani Government, there exist as at the date of these financial statements are authorised for issue, economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may not be recovered at their carrying amount in the ordinary course of business, with a corresponding impact on the Group's profitability. The Group had developed programs to mitigate the effects of the world economy recession on its operation and financial activities.

These conditions indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this material uncertainty.

**DELOITTE & TOUCHE**  
**AAL 0011**  
**Chartered Accountants**

**LOO CHEE CHOU**  
**Partner - 2783/09/10 (J)**  
**Chartered Accountant**

22 April 2009



**STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**AND ITS SUBSIDIARY COMPANIES**

**INCOME STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

|   | Note | The Group           |                     | The Company      |                  |
|---|------|---------------------|---------------------|------------------|------------------|
|   |      | 2008<br>USD         | 2007<br>USD         | 2008<br>USD      | 2007<br>USD      |
| Revenue   | 4    | 91,525,652          | 100,824,297         | 100,000          | 100,000          |
| Cost of sales                                   |      | <u>(40,859,535)</u> | <u>(31,821,857)</u> | -                | -                |
| Gross profit                                    |      | 50,666,117          | 69,002,440          | 100,000          | 100,000          |
| Selling expenses                                |      | (7,536,189)         | (5,331,059)         | -                | -                |
| General and administrative expenses             |      | <u>(13,892,248)</u> | <u>(9,236,831)</u>  | <u>(591,711)</u> | <u>(707,799)</u> |
| Operating profit/(loss)                         | 5    | 29,237,680          | 54,434,550          | (491,711)        | (607,799)        |
| Investment income                               | 6    | 21,545              | 197,120             | -                | 5,085            |
| Finance costs                                   | 7    | (2,804,520)         | (2,100,779)         | -                | -                |
| Other income/(expense), net                     | 8    | <u>180,640</u>      | <u>1,071,835</u>    | <u>2,524</u>     | <u>(2,651)</u>   |
| Profit/(Loss) before income tax                 |      | 26,635,345          | 53,602,726          | (489,187)        | (605,365)        |
| Income tax expense                              | 9    | <u>(7,993,412)</u>  | <u>(16,377,433)</u> | -                | -                |
| Profit/(Loss) for the year                      |      | <u>18,641,933</u>   | <u>37,225,293</u>   | <u>(489,187)</u> | <u>(605,365)</u> |
| Attributable to:<br>Shareholders of the company |      | <u>18,641,933</u>   | <u>37,225,293</u>   | <u>(489,187)</u> | <u>(605,365)</u> |
| Earnings per share:                             |      |                     |                     |                  |                  |
| Basic (cents)                                   | 10   | <u>16</u>           | <u>33</u>           |                  |                  |

The accompanying Notes form an integral part of the Financial Statements.

**STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**AND ITS SUBSIDIARY COMPANIES**

**BALANCE SHEETS**

**AS OF 31 DECEMBER 2008**

|  | Note | The Group          |                    | The Company       |                   |
|--|------|--------------------|--------------------|-------------------|-------------------|
|  |      | 2008               | 2007               | 2008              | 2007              |
|  |      | USD                | USD                | USD               | USD               |
| <b>Assets</b>                                    |      |                    |                    |                   |                   |
| <b>Non-Current Assets:</b>                       |      |                    |                    |                   |                   |
| Property, plant and equipment                    | 11   | 172,250,501        | 123,064,383        | -                 | -                 |
| Investment in subsidiary companies               | 12   | -                  | -                  | 26,500,001        | 26,500,001        |
| Advances paid                                    | 16   | 9,145,506          | 19,958,584         | -                 | -                 |
| Other assets                                     | 13   | 33,492,095         | 9,564,717          | -                 | -                 |
| <b>Total Non-Current Assets</b>                  |      | <u>214,888,102</u> | <u>152,587,684</u> | <u>26,500,001</u> | <u>26,500,001</u> |
| <b>Current Assets</b>                            |      |                    |                    |                   |                   |
| Inventories, net                                 | 14   | 20,508,732         | 9,605,742          | -                 | -                 |
| Trade receivables, net                           | 15   | 957,932            | 553,845            | -                 | -                 |
| Amount owing by subsidiary companies             | 12   | -                  | -                  | 746,873           | 656,861           |
| Other receivables, advances and prepaid expenses | 16   | 8,950,510          | 13,711,356         | 3,467             | 1,320             |
| Short-term investments                           | 17   | 2,391,437          | -                  | -                 | -                 |
| Cash and bank balances                           | 18   | 729,636            | 5,573,108          | 135,408           | 169,271           |
| <b>Total Current Assets</b>                      |      | <u>33,538,247</u>  | <u>29,444,051</u>  | <u>885,748</u>    | <u>827,452</u>    |
| <b>Total Assets</b>                              |      | <u>248,426,349</u> | <u>182,031,735</u> | <u>27,385,749</u> | <u>27,327,453</u> |

(Forward)

|  | Note | The Group                 |                           | The Company              |                          |
|--|------|---------------------------|---------------------------|--------------------------|--------------------------|
|  |      | 2008<br>USD               | 2007<br>USD               | 2008<br>USD              | 2007<br>USD              |
| <b>Equity and Liabilities</b>            |      |                           |                           |                          |                          |
| <b>Capital and Reserves</b>              |      |                           |                           |                          |                          |
| Share capital                            | 19   | 1,140,000                 | 1,140,000                 | 1,140,000                | 1,140,000                |
| Share premium                            | 20   | 26,646,982                | 26,646,982                | 26,646,982               | 26,646,982               |
| Revaluation reserve                      | 20   | 3,364,936                 | 4,601,668                 | -                        | -                        |
| Translation reserve                      | 20   | 5,400,137                 | 5,589,530                 | -                        | -                        |
| Retained earnings/<br>(Accumulated loss) | 20   | <u>92,369,081</u>         | <u>72,490,416</u>         | <u>(2,368,194)</u>       | <u>(1,879,007)</u>       |
| <b>Total Equity</b>                      |      | <u>128,921,136</u>        | <u>110,468,596</u>        | <u>25,418,788</u>        | <u>25,907,975</u>        |
| <b>Non-Current Liabilities</b>           |      |                           |                           |                          |                          |
| Bonds                                    | 21   | 22,871,578                | 22,731,206                | -                        | -                        |
| Loans                                    | 22   | 55,089,531                | 24,588,764                | -                        | -                        |
| Deferred tax liabilities, net            | 23   | <u>9,547,207</u>          | <u>11,671,362</u>         | <u>-</u>                 | <u>-</u>                 |
| <b>Total Non-Current Liabilities</b>     |      | <u>87,508,316</u>         | <u>58,991,332</u>         | <u>-</u>                 | <u>-</u>                 |
| <b>Current liabilities</b>               |      |                           |                           |                          |                          |
| Trade payables                           | 24   | 12,341,535                | 5,292,633                 | -                        | -                        |
| Other payables and accrued liabilities   | 25   | 2,855,760                 | 4,803,803                 | 666,191                  | 678,572                  |
| Loans                                    | 22   | 14,987,979                | 276,168                   | -                        | -                        |
| Amount owing to subsidiary companies     | 12   | -                         | -                         | 1,300,770                | 740,906                  |
| Taxes payable                            | 26   | <u>1,811,623</u>          | <u>2,199,203</u>          | <u>-</u>                 | <u>-</u>                 |
| <b>Total Current Liabilities</b>         |      | <u>31,996,897</u>         | <u>12,571,807</u>         | <u>1,966,961</u>         | <u>1,419,478</u>         |
| <b>Total Liabilities</b>                 |      | <u>119,505,213</u>        | <u>71,563,139</u>         | <u>1,966,961</u>         | <u>1,419,478</u>         |
| <b>Total Equity and Liabilities</b>      |      | <u><u>248,426,349</u></u> | <u><u>182,031,735</u></u> | <u><u>27,385,749</u></u> | <u><u>27,327,453</u></u> |

The accompanying Notes form an integral part of the Financial Statements.

**STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**AND ITS SUBSIDIARY COMPANIES**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008**

| The Group   | Share<br>capital<br>USD | ← Non-distributable →   |                               |                               | Distributable<br>Retained<br>earnings/<br>(Accumulated<br>loss)<br>USD | Total/Net<br>USD   |
|---|-------------------------|-------------------------|-------------------------------|-------------------------------|--|--------------------|
|   |                         | Share<br>premium<br>USD | Revaluation<br>reserve<br>USD | Translation<br>reserve<br>USD |  |                    |
| <b>Balance as at 1 January 2007</b>   | 1,140,000               | 26,646,982              | 6,491,683                     | 1,530,917                     | 33,375,108   | 69,184,690         |
| Exchange differences arising on<br>translation of foreign subsidiary<br>companies | -                       | -                       | -                             | 4,058,613                     | -  | 4,058,613          |
| Profit for the year   | -                       | -                       | -                             | -                             | 37,225,293   | 37,225,293         |
| Depreciation of revaluation<br>surplus  | -                       | -                       | (1,890,015)                   | -                             | 1,890,015  | -                  |
| <b>Balance as at 31 December 2007</b>   | <u>1,140,000</u>        | <u>26,646,982</u>       | <u>4,601,668</u>              | <u>5,589,530</u>              | <u>72,490,416</u>  | <u>110,468,596</u> |

(Forward)



| The Group   | ← Non-distributable →   |                         |                               |                               | Distributable<br>Retained<br>earnings/<br>(Accumulated<br>loss)<br>USD | Total/Net<br>USD   |
|---|-------------------------|-------------------------|-------------------------------|-------------------------------|--|--------------------|
|   | Share<br>capital<br>USD | Share<br>premium<br>USD | Revaluation<br>reserve<br>USD | Translation<br>reserve<br>USD |  |                    |
| <b>Balance as at 1 January 2008</b>   | 1,140,000               | 26,646,982              | 4,601,668                     | 5,589,530                     | 72,490,416   | 110,468,596        |
| Exchange differences arising on<br>translation of foreign subsidiary<br>companies | -                       | -                       | -                             | (189,393)                     | -  | (189,393)          |
| Profit for the year   | -                       | -                       | -                             | -                             | 18,641,933   | 18,641,933         |
| Depreciation of revaluation<br>surplus  | -                       | -                       | (1,236,732)                   | -                             | 1,236,732  | -                  |
| <b>Balance as at 31 December 2008</b>   | <u>1,140,000</u>        | <u>26,646,982</u>       | <u>3,364,936</u>              | <u>5,400,137</u>              | <u>92,369,081</u>  | <u>128,921,136</u> |

Company No. LL04433

**STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**AND ITS SUBSIDIARY COMPANIES**

| <b>The Company</b>                    | <b>Share<br/>capital<br/>USD</b> | <b>Non-<br/>distributable<br/>Share<br/>premium<br/>USD</b> | <b>Accumulated<br/>loss<br/>USD</b> | <b>Total/Net<br/>USD</b> |
|---------------------------------------|----------------------------------|---|-------------------------------------|--------------------------|
| <b>Balance as at 1 January 2007</b>   | 1,140,000                        | 26,646,982  | (1,273,642)                         | 26,513,340               |
| Loss for the year                     | <u>-</u>                         | <u>-</u>  | <u>(605,365)</u>                    | <u>(605,365)</u>         |
| <b>Balance as at 31 December 2007</b> | <u>1,140,000</u>                 | <u>26,646,982</u>   | <u>(1,879,007)</u>                  | <u>25,907,975</u>        |
| <b>Balance as at 1 January 2008</b>   | 1,140,000                        | 26,646,982  | (1,879,007)                         | 25,907,975               |
| Loss for the year                     | <u>-</u>                         | <u>-</u>  | <u>(489,187)</u>                    | <u>(489,187)</u>         |
| <b>Balance as at 31 December 2008</b> | <u><u>1,140,000</u></u>          | <u><u>26,646,982</u></u>                                    | <u><u>(2,368,194)</u></u>           | <u><u>25,418,788</u></u> |

The accompanying Notes form an integral part of the Financial Statements.

**STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**AND ITS SUBSIDIARY COMPANIES**

**CASH FLOW STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

|   | <b>The Group</b> |             | <b>The Company</b> |             |
|---|------------------|-------------|--------------------|-------------|
|   | <b>2008</b>      | <b>2007</b> | <b>2008</b>        | <b>2007</b> |
|   | <b>USD</b>       | <b>USD</b>  | <b>USD</b>         | <b>USD</b>  |
| <b>OPERATING ACTIVITIES</b>   |                  |             |                    |             |
| Profit/(Loss) before income tax   | 26,635,345       | 53,602,726  | (489,187)          | (605,365)   |
| Adjustments for:  |                  |             |                    |             |
| Depreciation of property,<br>plant and equipment                              | 3,719,549        | 3,222,110   | -                  | -           |
| Finance costs   | 2,804,520        | 2,100,779   | -                  | -           |
| Allowance for obsolete<br>inventories   | 279,413          | 271,194     | -                  | -           |
| Interest income   | (21,545)         | (197,120)   | -                  | (5,085)     |
| Unrealised foreign exchange<br>loss/(gain)                                    | 117,252          | 128,834     | (1,882)            | -           |
| (Gain)/loss on disposal of<br>property, plant and<br>equipment                | 118,459          | (155,748)   | -                  | -           |
| Allowance for doubtful<br>receivables and advances<br>paid no longer required | -                | (74,768)    | -                  | -           |
| Write-off of payables   | -                | (816)       | -                  | -           |
| Allowance for doubtful<br>receivables and advances<br>paid                    | 170,540          | -           | -                  | -           |
| Reversal of discount on<br>VAT  | (1,383,107)      | -           | -                  | -           |
| Operating Profit/ (Loss)Before<br>Working Capital Changes                     | 32,440,426       | 58,897,191  | (491,069)          | (610,450)   |

(Forward)

|   | <b>The Group</b>   |                    | <b>The Company</b> |                  |
|---|--------------------|--------------------|--------------------|------------------|
|   | <b>2008</b>        | <b>2007</b>        | <b>2008</b>        | <b>2007</b>      |
|   | <b>USD</b>         | <b>USD</b>         | <b>USD</b>         | <b>USD</b>       |
| (Increase)/ Decrease in:                                |                    |                    |                    |                  |
| Inventories   | (11,181,716)       | (1,350,583)        | -                  | -                |
| Trade receivables                                       | (508,207)          | 591,177            | -                  | -                |
| Amount owing by subsidiary companies                    | -                  | -                  | (90,012)           | (299,000)        |
| Other receivable and prepaid expenses                   | 4,694,652          | (11,364,622)       | (2,147)            | -                |
| Increase/ (Decrease) in:                                |                    |                    |                    |                  |
| Trade payables  | 7,048,902          | 4,000,520          | -                  | -                |
| Other payables and accrued liabilities                  | (1,838,438)        | 2,356,685          | (10,499)           | 315,959          |
| Amount owing to subsidiary companies                    | <u>-</u>           | <u>-</u>           | <u>559,864</u>     | <u>127,575</u>   |
| Cash Generated From/ (Used In) Operations               | 30,655,619         | 53,130,368         | (33,863)           | (465,916)        |
| Income tax paid   | (10,557,810)       | (14,649,772)       | -                  | -                |
| Interest paid   | <u>(6,295,323)</u> | <u>(2,805,635)</u> | <u>-</u>           | <u>-</u>         |
| Net Cash From/(Used In) Operating Activities            | <u>13,802,486</u>  | <u>35,674,961</u>  | <u>(33,863)</u>    | <u>(465,916)</u> |
| <b>INVESTING ACTIVITIES</b>                             |                    |                    |                    |                  |
| Proceeds from disposal of property, plant and equipment | 439,903            | 254,066            | -                  | -                |
| Purchase of property, plant and equipment               | (50,188,112)       | (66,279,803)       | -                  | -                |
| Proceeds from short-term investments                    | -                  | 16,763,327         | -                  | -                |
| Purchase of short-term investments                      | (2,391,437)        | -                  | -                  | -                |
| Advance for non-current assets (net)                    | (11,728,958)       | (19,508,594)       | -                  | -                |

(Forward)



|   | <b>Note</b> | <b>The Group</b>    |                     | <b>The Company</b> |                |
|---|-------------|---------------------|---------------------|--------------------|----------------|
|   |             | <b>2008</b>         | <b>2007</b>         | <b>2008</b>        | <b>2007</b>    |
|   |             | <b>USD</b>          | <b>USD</b>          | <b>USD</b>         | <b>USD</b>     |
| Interest received   |             | <u>21,545</u>       | <u>197,120</u>      | <u>-</u>           | <u>5,085</u>   |
| Net Cash<br>(Used In)/From<br>Investing Activities                    |             | <u>(63,847,059)</u> | <u>(68,573,884)</u> | <u>-</u>           | <u>5,085</u>   |
| <b>FINANCING<br/>ACTIVITIES</b>                                       |             |                     |                     |                    |                |
| Withdrawal of deposits<br>pledged with financial<br>institutions      |             | -                   | 55,862              | -                  | -              |
| Proceeds from<br>borrowings   |             | 68,412,577          | 41,798,752          | -                  | -              |
| Repayment of loans  |             | <u>(23,200,000)</u> | <u>(12,586,278)</u> | <u>-</u>           | <u>-</u>       |
| Net Cash From<br>Financing Activities                                 |             | <u>45,212,577</u>   | <u>29,268,336</u>   | <u>-</u>           | <u>-</u>       |
| <b>NET DECREASE IN<br/>CASH AND CASH<br/>EQUIVALENTS</b>              |             |                     |                     |                    |                |
| <b>EFFECTS OF<br/>FOREIGN<br/>EXCHANGE<br/>RATE CHANGES</b>           |             | (4,831,996)         | (3,630,587)         | (33,863)           | (460,831)      |
| <b>CASH AND CASH<br/>EQUIVALENTS<br/>AT BEGINNING<br/>OF THE YEAR</b> |             | <u>5,573,108</u>    | <u>8,808,072</u>    | <u>169,271</u>     | <u>630,102</u> |
| <b>CASH AND CASH<br/>EQUIVALENTS<br/>AT END OF YEAR</b>               | 27          | <u>729,636</u>      | <u>5,573,108</u>    | <u>135,408</u>     | <u>169,271</u> |

The accompanying Notes form an integral part of the Financial Statements.

**STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**AND ITS SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

The Company's principal activity is investment holding. The principal activity of the subsidiary companies is disclosed in Note 12.

The registered office of the Company is located at Brumby House, Jalan Bahasa, 87011 Labuan FT, Malaysia.

The Group's principal place of business is located at Aktau village, Karaganda region, Republic of Kazakhstan.

The financial statements of the Group and the Company have been approved by the Board of Directors and were authorised for issuance on 22 April 2009.

**Economic environment**

During the second half of the financial year, a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Kazakhstan (where the Group's principal subsidiary companies operate), notwithstanding any potential economic stabilisation measures that may be put place by the Kazakhstani Government, there exists as at the date these financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, with a corresponding impact on the Group's profitability.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

**Basis of preparation**

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### **Adoption of new and revised Standards**

The following interpretations issued by the International Accounting Standards Board are effective for the current year:

- IFRIC 12 “*Service Concession Agreements*” (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 13 “*Customer Loyalty Programs*” (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 14 “*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*” (effective for accounting periods beginning on or after 1 January 2008); and
- IFRIC 16 “*Hedging of net investments into foreign operations*” (effective for accounting periods beginning on or after 1 October 2008).

The adoption of these Interpretations did not have a material effect on the Group’s accounting policy.

### **Standards and Interpretations in issue but not yet adopted**

As at the date of authorisation of these financial statements, the following Standards and Interpretations were issued, but were not yet effective as at the date of the financial statements:

- IFRS 1 “*First-time Adoption of IFRS: Evaluation of investments into subsidiaries, jointly controlled companies and associates on first-time adoption*” (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 2 “*Share-based payment: Amendment relating to vesting conditions and cancellations*” (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3 “*Business Combinations*”: *Comprehensive revision on applying the acquisition method*” (revised) (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 8 “*Operating Segments*” (effective for accounting periods beginning on or after 1 January 2009);
- Amendments to IAS 1 “*Presentation of Financial Statements: Comprehensive revision including requiring a statement of comprehensive income, disclosure of puttable instruments and obligations arising on liquidation*” (effective for accounting periods beginning on or after 1 January 2009);
- Amendments to IAS 27 “*Consolidated and Separate Financial Statements*” arising from amendments to IFRS 3 “*Business Combinations*” (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IAS 27 “*Consolidated and Separate Financial Statements: cost of an investment on first-time adoption of IFRS*” (effective for accounting periods beginning on or after 1 January 2009);
- Amendments to IAS 28 “*Investments in Associates*” arising from amendments to IFRS 3 “*Business Combinations*” (effective for accounting periods beginning on or after 1 July 2009);

- Amendments to IAS 32 “*Financial Instruments: disclosure puttable instruments and obligations arising on liquidation*” (effective for accounting periods beginning on or after 1 January 2009);
- Amendments to IAS 39 “*Financial Instruments: Recognition and Measurement: hedged items*” (effective for accounting periods beginning on or after 1 July 2009);
- IFRIC 15 “*Agreements for the Construction of Real Estate*” (effective for accounting periods beginning on or after 1 January 2009); and
- IFRIC 17 “*Distributions of Non-cash Assets to Owners*” (effective for accounting periods beginning on or after 1 July 2009).
- IFRIC 18 “*Transfers of Assets from Customers*” (effective for transfers of assets from customers received on or after 1 July 2009).

In May 2008, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards, the IFRS Committee issued amendments to 20 existing standards. These amendments are related to certain expressions and issues regarding presentation of financial statements, issues of recognition and appraisal. The new version of the above standards and interpretations is effective for accounting periods starting on or after 1 January 2009.

Amendment to IAS 1 “Presentation of Financial Statements: total income” requires presentation of information in the financial statements on the basis of general characteristics and adopts a statement of comprehensive income. Due to the fact that amendment to IAS 1 affects only requirements on disclosures, it is expected that it will not affect the financial performance, position and cash flow of the Group. The Group is currently developing actions to implement procedures and to collect information required for compliance with all requirements for IAS 1.

The Group will adopt all applicable new, revised and changed standards and new interpretations from the effective dates. Management expects that adoption of these standards and interpretations will have no significant effect on the financial statements in the period of initial application.

### **Use of estimates and assumptions**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

### **Revaluation of property, plant and equipment**

In accordance with the accounting policy presented in Note 3, the Group’s land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Management has made an assessment of its fair value of land and buildings as at 31 December 2008 and determined that the carrying value of those assets as at that date is not materially different from their fair value.

### Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or the Group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 16.54% discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. During the financial year, the Group did not recognise impairment losses.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in the restructuring process, expectations of growth in the industry, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgements concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

### Allowances

The Group makes allowance for doubtful receivables. Significant judgement is used to estimate doubtful receivables. In estimating doubtful receivables, historical and anticipated customer performances are considered. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful receivables recorded in the financial statements. As of 31 December 2008, allowance for doubtful receivables of USD245,998 (2007: USD75,580) have been provided for in the financial statements (Notes 15 and 16).



The Group makes allowance for obsolete and slow-moving inventories based on data of annual stock count as well as on the results of inventory turnover analysis. As of 31 December 2008, allowance for obsolete and slow-moving inventories of USD703,917 (2007: USD425,191) have been provided for in the financial statements (Note 14).

### 3. **SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Accounting**

The financial statements of the Group and the Company have been prepared under the historical cost convention except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below.

#### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary companies). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiary companies to bring its accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### **Business combinations**

The acquisition of subsidiary companies is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill (if any), arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of business combinations over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combinations, the excess is recognised immediately in the income statement.

## **Revenue**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Management fee is recognised on accrual basis in accordance with the substance of the relevant agreement. Management fee is determined on time basis and is recognised on a straight-line basis over the period of the agreement.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## **Retirement benefit costs**

In accordance with the requirements of the legislation of the countries in which the Group operates, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by the employees. The Group does not have any pension arrangements separate from the State pension system of the countries where its subsidiary companies operate. In addition, the Group has no post-retirement benefits or other significant compensation benefits requiring accrual.

## **Provisions**

Provisions are recognised when the Group and the Company have a present obligation as a result of a past event, and it is probable that the Group and the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

## **Contingent liabilities**

Contingent liabilities are not recognised but are disclosed if the probability of any outflow in settlement is not remote. Contingent assets are not recognised in the financial statements, but are disclosed where an inflows of economic benefits is probable.

## **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## **Foreign Currencies**

The individual financial statements of each group entity is presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in United States Dollar, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary item and on the retranslation of monetary items, are included in the income statements for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statements for the year except for differences arising on the retranslation of non-monetary item in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in United States Dollar using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average rates at the dates of the transactions. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statements in the period in which the foreign operation is disposed of.

Goodwill (if any) and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The principal closing rates used in translation of foreign currency amounts are as follows:

|                    | <b>2008<br/>USD</b> | <b>2007<br/>USD</b> |
|--------------------|---------------------|---------------------|
| 1 Sterling Pound   | 1.4593              | 1.9840              |
| 1 Euro             | 1.3971              | 1.4590              |
| 1 Ringgit Malaysia | 0.2884              | 0.3024              |
| 1 RUB              | <u>0.0340</u>       | <u>0.0408</u>       |
|                    | <b>KZT</b>          | <b>KZT</b>          |
| 1 USD              | <u>120.875</u>      | <u>120.680</u>      |

### **Impairment of Tangible Assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statements, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statements, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



## **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any, except for buildings which are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses, if any. Revaluation is performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at balance sheet date.

Any revaluation increase arising on revaluation is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement, in which case, the increase is credited to the income statements to the extent of the decrease previously charged. A decrease in the carrying amount arising on revaluation is charged to the income statements to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previously revalued asset.

Revaluation surplus is transferred to retained earnings as the revalued asset is used by the Group. The amount transferred is calculated as the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of revalued assets, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Capitalised cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to the income statements as incurred.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation is charged so as to write off the cost of assets, other than freehold land, land improvement and construction in progress, over their estimated useful lives, using the straight-line method as follows:

|                         |              |
|-------------------------|--------------|
| Buildings               | 25 years     |
| Machinery and equipment | 14 years     |
| Other assets            | 5 - 10 years |
| Computer software       | 1 - 10 years |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statements.

## **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## **Financial Instruments**

Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

### **Financial Assets**

The Group has the following financial assets: cash and cash equivalents; short-term investments; trade and other receivables.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Short-term investments

Short-term investments represent current assets, limited in use, with term more than three months since the date of acquisition.

#### Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

### **Impairment of Financial Assets**

The Group creates an allowance for impairment of financial assets other than those at fair value through profit or loss when there is an objective evidence of impairment of a financial asset or group of assets. The allowance for impairment of financial assets represents a difference between the carrying value of the assets and current value of projected future cash inflows, including amounts expected to be received on guarantees and security discounted using the original effective interest rate on this financial instrument, which is reflected at amortised value. If in a subsequent period the value of the security decreases, and such a decrease can be objectively connected with an event which happened after recognition of the impairment then the previously recognised impairment loss is reversed with an adjustment of the allowance account.

For financial assets carried at cost, the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate for a similar financial instrument.

The impairment allowance is calculated based on the analysis of assets exposed to risks and reflects the amount sufficient, in the opinion of the management, to cover occurring losses. The allowances are calculated based on an individual evaluation of assets exposed to risks for financial assets, which are significant and based on an individual or collective evaluation for the financial assets, which are not individually significant.

The changes in impairment allowances are charged to profit and losses. The assets reflected on the balance sheet are reduced by the amount of created allowances. The factors evaluated by the Group in determining whether the evidence of impairment is objective includes information on liquidation of borrowers or issuers, solvency and exposure to financial risks, level or insolvency trends regarding similar financial assets, general economic situation and fair value of security and guarantees.

These and other factors individually or combined represent mainly an objective evidence to recognise an impairment loss on the financial assets.

The evaluation of losses is subjective. The management of the Group believes that the impairment loss is sufficient to cover occurring losses, although it is not excluded that in certain periods the Group could incur losses greater compared to the impairment allowance.

### **Financial Liabilities and Equity Instruments Issued By The Group**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

#### Debt securities issued

Debt securities issued initially are measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

#### Loans

Loans, on which interests are accrued, are initially recognised at fair value plus transaction costs, and are subsequently measured at amortised cost, using effective interest rate method.

#### Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### **Derecognition of Financial Assets and Liabilities**

#### Financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### Financial liabilities

Recognition of financial liability ceases, when it is accomplished, cancelled or expired.

If existing financial liability is substituted by other obligation from the same creditor on significantly different condition, or the conditions of existing liability is significantly changed, then the substitution or change is considered as cessation of initial obligation and recognition of new obligation, and the difference between carrying amounts is recognised in the income statements.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### **Cash Flow Statement**

The Group and the Company adopt the indirect method in the preparation of the cash flow statement.

## **4. REVENUE**

|   | <b>The Group</b>  |                    | <b>The Company</b> |                |
|---|-------------------|--------------------|--------------------|----------------|
|   | <b>2008</b>       | <b>2007</b>        | <b>2008</b>        | <b>2007</b>    |
|   | <b>USD</b>        | <b>USD</b>         | <b>USD</b>         | <b>USD</b>     |
| Sales of manufactured goods                       | 91,525,652        | 100,824,297        | -                  | -              |
| Management fee receivable from subsidiary company | -                 | -                  | 100,000            | 100,000        |
| <b>Total</b>                                      | <b>91,525,652</b> | <b>100,824,297</b> | <b>100,000</b>     | <b>100,000</b> |



**5. OPERATING PROFIT/(LOSS)**

Operating profit/(loss) for the year have been arrived at after charging/(crediting):

|  | <b>The Group</b> |             | <b>The Company</b> |             |
|--|------------------|-------------|--------------------|-------------|
|  | <b>2008</b>      | <b>2007</b> | <b>2008</b>        | <b>2007</b> |
|  | <b>USD</b>       | <b>USD</b>  | <b>USD</b>         | <b>USD</b>  |
| Cost of inventories  |                  |             |                    |             |
| recognised as expenses   | 12,923,588       | 14,498,209  | -                  | -           |
| Staff costs  | 8,958,342        | 8,770,205   | -                  | -           |
| Depreciation of property,<br>plant and equipment<br>(Note 11)                    | 3,719,549        | 3,222,110   | -                  | -           |
| Auditors' remuneration<br>for audit services                                     | 258,307          | 196,110     | 12,000             | 8,000       |
| Allowance for obsolete<br>inventories  | 279,413          | 271,194     | -                  | -           |
| Allowance for doubtful<br>receivables and<br>advances paid no longer<br>required | -                | (74,768)    | -                  | -           |
| Allowance for doubtful<br>receivables and<br>advances paid                       | 170,540          | -           | -                  | -           |
| Bad receivables written-<br>off  | 13,813           | -           | -                  | -           |
|  | <u>13,813</u>    | <u>-</u>    | <u>-</u>           | <u>-</u>    |

Staff costs include salaries, pension contributions and all other staff related expenses.

**6. INVESTMENT INCOME**

|   | <b>The Group</b> |                | <b>The Company</b> |              |
|---|------------------|----------------|--------------------|--------------|
|   | <b>2008</b>      | <b>2007</b>    | <b>2008</b>        | <b>2007</b>  |
|   | <b>USD</b>       | <b>USD</b>     | <b>USD</b>         | <b>USD</b>   |
| Interest income from short-<br>term deposit | <u>21,545</u>    | <u>197,120</u> | <u>-</u>           | <u>5,085</u> |

7. **FINANCE COSTS**

|  | <b>The Group</b>        |                         | <b>The Company</b> |                 |
|--|-------------------------|-------------------------|--------------------|-----------------|
|  | <b>2008</b>             | <b>2007</b>             | <b>2008</b>        | <b>2007</b>     |
|  | <b>USD</b>              | <b>USD</b>              | <b>USD</b>         | <b>USD</b>      |
| Interest expense on loans<br>from financial institutions | 607,041                 | 28,125                  | -                  | -               |
| Interest on debt securities                              | <u>2,197,479</u>        | <u>2,072,654</u>        | <u>-</u>           | <u>-</u>        |
| Total  | <u><u>2,804,520</u></u> | <u><u>2,100,779</u></u> | <u><u>-</u></u>    | <u><u>-</u></u> |

8. **OTHER INCOME/(EXPENSE), NET**

|  | <b>The Group</b>      |                         | <b>The Company</b>  |                       |
|--|-----------------------|-------------------------|---------------------|-----------------------|
|  | <b>2008</b>           | <b>2007</b>             | <b>2008</b>         | <b>2007</b>           |
|  | <b>USD</b>            | <b>USD</b>              | <b>USD</b>          | <b>USD</b>            |
| Income/(loss) from   |                       |                         |                     |                       |
| Transportation services  | 260,531               | 232,034                 | -                   | -                     |
| Sale of purchased goods  | 98,928                | 276,001                 | -                   | -                     |
| Other inventory  | 11,220                | (141,726)               | -                   | -                     |
| Sale of electricity  | -                     | 107,129                 | -                   | -                     |
| Foreign exchange<br>gain/(loss):                               |                       |                         |                     |                       |
| Realised   | 642                   | (3,510)                 | 642                 | (2,651)               |
| Unrealised   | (117,252)             | (128,834)               | 1,882               | -                     |
| Gain/(loss) on disposal of<br>property, plant and<br>equipment | (118,459)             | 155,748                 | -                   | -                     |
| Payables write-off   | -                     | 816                     | -                   | -                     |
| Other gains, net   | <u>45,030</u>         | <u>574,177</u>          | <u>-</u>            | <u>-</u>              |
| Total  | <u><u>180,640</u></u> | <u><u>1,071,835</u></u> | <u><u>2,524</u></u> | <u><u>(2,651)</u></u> |

## 9. INCOME TAX EXPENSE

The income tax expense is as follows:

|   | <b>The Group</b> |                   | <b>The Company</b> |             |
|---|------------------|-------------------|--------------------|-------------|
|   | <b>2008</b>      | <b>2007</b>       | <b>2008</b>        | <b>2007</b> |
|   | <b>USD</b>       | <b>USD</b>        | <b>USD</b>         | <b>USD</b>  |
| Estimated current tax payable:          |                  |                   |                    |             |
| - the Company                           | -                | -                 | -                  | -           |
| - subsidiary companies                  | 10,119,373       | 16,040,000        | -                  | -           |
| Deferred tax charge/(credit) (Note 23): |                  |                   |                    |             |
| - the Company                           | -                | -                 | -                  | -           |
| - subsidiary companies                  | (2,125,961)      | 337,433           | -                  | -           |
|   | <u>7,993,412</u> | <u>16,377,433</u> | <u>-</u>           | <u>-</u>    |

Under the Labuan Offshore Business Activity Tax Act, 1990, the Company has to elect annually whether it is to be charged tax at the rate of RM20,000 (USD5,768) or at a tax rate of 3% on the chargeable profits of an offshore company carrying on offshore trading activities for the basis period for that year of assessment. No tax is charged on offshore non-trading activities. The Company elected to be charged tax at 3% on the chargeable profits for the current and previous financial year.

The profits earned by the subsidiary companies incorporated in the Republic of Kazakhstan are subject to a statutory tax rate of 30%. In November 2008, the Kazakhstani Government approved the amendments to the Kazakhstan Tax Code to reduce the corporate income tax:

|                     |       |
|---------------------|-------|
| From 1 January 2009 | 20%   |
| From 1 January 2010 | 17.5% |
| From 1 January 2011 | 15%   |

On 23 December 2005, Karcement JSC, a subsidiary company had entered into an Investment Contract with the Investment Committee under the Ministry of Industry and Trade of Republic of Kazakhstan, whereby the subsidiary company had committed to invest KZT3,186 million equivalent to USD26,357,808 in the construction of cement production plant over a period of five years (2006 - 2010) (Note 29). On 21 April 2008, Karcement JSC made amendments to the Investment Contract, which increased the Karcement JSC's investment commitments to KZT7,975 million equivalent to USD65,977,249.

Under the Investment Contract, Karcement JSC is provided with the following investment tax concessions:

- For Corporate Income Tax - 5 years exemption is provided for payment of corporate income tax, starting from the date of commissioning of the cement production plant. The tax exemption status was approved on 5 February 2009 and the tax exemption commences on this date (Note 33);
- For Property Tax - 5 years exemption is provided for payment of property tax on newly built properties of the cement production plant starting from the date of commissioning of the cement production plant; and
- For Land Tax - 5 years exemption is provided for payment of tax on land parcel of 22 hectares from the date of commissioning of the cement production plant.

A reconciliation of income tax expense applicable to profit/(loss) before tax at the applicable statutory income tax rate to income tax expense at the effective income tax rate of the Group and the Company is as follows:

|   | <b>The Group</b>   |                   | <b>The Company</b> |                  |
|---|--------------------|-------------------|--------------------|------------------|
|   | <b>2008</b>        | <b>2007</b>       | <b>2008</b>        | <b>2007</b>      |
|   | <b>USD</b>         | <b>USD</b>        | <b>USD</b>         | <b>USD</b>       |
| Profit/ (Loss) before income tax  | <u>26,635,345</u>  | <u>53,602,726</u> | <u>(489,187)</u>   | <u>(605,365)</u> |
| Tax calculated at domestic tax rates applicable to the respective jurisdictions | 8,105,490          | 16,060,257        | (14,676)           | (18,161)         |
| Tax effects of:   |                    |                   |                    |                  |
| Expenses not deductible for tax purposes  | 1,593,272          | 230,353           | -                  | -                |
| Income not assessable to tax  | 784,986            | -                 | -                  | -                |
| Deferred tax assets not allowed to be carried forward/not recognised            | 72,129             | 86,823            | 14,676             | 18,161           |
| Effect of change in tax rate  | <u>(2,562,465)</u> | <u>-</u>          | <u>-</u>           | <u>-</u>         |
| Income tax expense  | <u>7,993,412</u>   | <u>16,377,433</u> | <u>-</u>           | <u>-</u>         |

10. **EARNINGS PER SHARE**

**Basic**

|  | <b>The Group</b>   |                    |
|--|--------------------|--------------------|
|  | <b>2008</b>        | <b>2007</b>        |
|  | <b>USD</b>         | <b>USD</b>         |
| Profit attributable to ordinary shareholders           | <u>18,641,933</u>  | <u>37,225,293</u>  |
|  | <b>2008</b>        | <b>2007</b>        |
| Number of shares in issue at beginning and end of year | <u>114,000,000</u> | <u>114,000,000</u> |
| Weighted average number of ordinary shares in issue    | <u>114,000,000</u> | <u>114,000,000</u> |
|  | <b>2008</b>        | <b>2007</b>        |
| Basic earnings per share (cents)                       | <u>16</u>          | <u>33</u>          |

The basic earnings per share is calculated by dividing the consolidated profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the financial year.

**11. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment as at 31 December 2008 and 31 December 2007 consists of the following:

| <b>The Group</b>                         | <b>Freehold<br/>land and<br/>land<br/>improvement<br/>USD</b> | <b>Buildings<br/>USD</b> | <b>Machinery<br/>and<br/>equipment<br/>USD</b> | <b>Other<br/>assets<br/>USD</b> | <b>Computer<br/>software<br/>USD</b> | <b>Construction<br/>in progress<br/>USD</b> | <b>Total<br/>USD</b> |
|--|---|--------------------------|--|---------------------------------|--------------------------------------|---|----------------------|
| <b>Cost (unless otherwise indicated)</b> |   |                          |  |                                 |                                      |   |                      |
| At 1 January 2007                        | 3,464,183   | 43,499,579               | 10,270,129                                     | 2,169,983                       | 1,980                                | 9,380,582                                   | 68,786,436           |
| Additions                                | 1,185   | 355,411                  | 555,138  | 92,716                          | 21,528                               | 66,636,540                                  | 67,662,518           |
| Transfers                                | -   | (560,035)                | 4,754,400                                      | 1,150,224                       | -                                    | (5,344,589)                                 | -                    |
| Disposals                                | -   | (12,330)                 | (129,939)                                      | (18,860)                        | (563)                                | -   | (161,692)            |
| Exchange differences                     | <u>175,535</u>  | <u>2,175,926</u>         | <u>520,400</u>                                 | <u>109,956</u>                  | <u>100</u>                           | <u>475,325</u>                              | <u>3,457,242</u>     |
| At 31 December 2007                      | 3,640,903   | 45,458,551               | 15,970,128                                     | 3,504,019                       | 23,045                               | 71,147,858                                  | 139,744,504          |
| Additions                                | 11,590  | 100,294                  | 2,220,856                                      | 147,739                         | 27,326                               | 51,142,305                                  | 53,650,110           |
| Transfers                                | -   | -                        | 1,706,275                                      | 828,319                         | -                                    | (2,534,594)                                 | -                    |
| Disposals                                | -   | -                        | (115,102)                                      | (8,836)                         | -                                    | (447,768)                                   | (571,706)            |
| Exchange differences                     | <u>(5,874)</u>  | <u>(73,335)</u>          | <u>(25,764)</u>                                | <u>(5,736)</u>                  | <u>(38)</u>                          | <u>(119,417)</u>                            | <u>(230,164)</u>     |
| At 31 December 2008                      | <u>3,646,619</u>  | <u>45,485,510</u>        | <u>19,756,393</u>                              | <u>4,465,505</u>                | <u>50,333</u>                        | <u>119,188,384</u>                          | <u>192,592,744</u>   |

(Forward)



| <b>The Group</b>                | <b>Freehold<br/>land and<br/>land<br/>improvement<br/>USD</b> | <b>Buildings<br/>USD</b> | <b>Machinery<br/>and<br/>equipment<br/>USD</b> | <b>Other<br/>assets<br/>USD</b> | <b>Computer<br/>software<br/>USD</b> | <b>Construction<br/>in progress<br/>USD</b> | <b>Total<br/>USD</b> |
|---------------------------------|---|--------------------------|--|---------------------------------|--------------------------------------|---|----------------------|
| <b>Accumulated depreciation</b> |   |                          |  |                                 |                                      |   |                      |
| At 1 January 2007               | -   | 11,233,962               | 898,158  | 716,621                         | 458                                  | -   | 12,849,199           |
| Charge for the year             | -   | 1,962,375                | 920,784  | 327,721                         | 11,230                               | -   | 3,222,110            |
| Transfer                        | -   | (195,028)                | 179,002  | 16,026                          | -                                    | -   | -                    |
| Disposals                       | -   | (12,928)                 | (43,230)                                       | (6,613)                         | (555)                                | -   | (63,326)             |
| Exchange differences            | -   | 571,031                  | 59,589   | 41,323                          | 195                                  | -   | 672,138              |
| At 31 December 2007             | -   | 13,559,412               | 2,014,303                                      | 1,095,078                       | 11,328                               | -   | 16,680,121           |
| Charge for the year             | -   | 1,952,000                | 1,212,046                                      | 545,172                         | 10,331                               | -   | 3,719,549            |
| Transfer                        | -   | -                        | (1,845)  | 1,845                           | -                                    | -   | -                    |
| Disposals                       | -   | -                        | (11,119)                                       | (2,226)                         | -                                    | -   | (13,345)             |
| Exchange differences            | -   | (30,883)                 | (8,835)  | (4,257)                         | (107)                                | -   | (44,082)             |
| At 31 December 2008             | -   | 15,480,529               | 3,204,550                                      | 1,635,612                       | 21,552                               | -   | 20,342,243           |
| <b>Net Book Value</b>           |   |                          |  |                                 |                                      |   |                      |
| At 31 December 2008             | <u>3,646,619</u>  | <u>30,004,981</u>        | <u>16,551,843</u>                              | <u>2,829,893</u>                | <u>28,781</u>                        | <u>119,188,384</u>                          | <u>172,250,501</u>   |
| At 31 December 2007             | <u>3,640,903</u>  | <u>31,899,139</u>        | <u>13,955,825</u>                              | <u>2,408,941</u>                | <u>11,717</u>                        | <u>71,147,858</u>                           | <u>123,064,383</u>   |

The buildings were last revalued in the financial year ended 31 December 2005 by independent appraiser not related with the Group, by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards. As at 31 December 2008, the Group did not identify impairment indication on land and buildings.

During financial year, the Group's subsidiary company, Karcement JSC capitalised borrowing costs of USD3,461,998 (2007: USD1,382,715) which comprise of interest charged on loan from European Bank for Reconstruction and Development ("EBRD"), Kazkommertsbank JSC and HSBC Bank Kazakhstan. Borrowing costs capitalised for the year ended 31 December 2007 include arrangement fees of USD282,052.

As at 31 December 2008, all of Karcement JSC's movable and immovable properties were pledged under the loan from EBRD and Kazkommertsbank JSC (Note 22). The Group's subsidiary, Central Asia Cement JSC's property, plant and equipment of USD41,923,946 were pledged under the loan granted by EBRD to Karcement JSC.

The cost of fully depreciated property, plant and equipment in 2008 amounted to USD532,798 (2007: USD14,750).

## 12. INVESTMENT IN SUBSIDIARY COMPANIES

|                          | <b>The Company</b> |                   |
|--------------------------|--------------------|-------------------|
|                          | <b>2008</b>        | <b>2007</b>       |
|                          | <b>USD</b>         | <b>USD</b>        |
| Unquoted shares, at cost | <u>26,500,001</u>  | <u>26,500,001</u> |

The details of subsidiary companies are as follows:

|  | <b>Place of<br/>incorporation<br/>(or registration)<br/>and operation</b> | <b>Proportion of<br/>ownership<br/>interest and<br/>voting power<br/>held</b> |             | <b>Principal<br/>activities</b>  |
|--|---|---|-------------|----------------------------------|
|  |   | <b>2008</b>   | <b>2007</b> |                                  |
|  |   | <b>%</b>  | <b>%</b>    |                                  |
| <b>Direct Subsidiary<br/>Companies</b> |   |   |             |                                  |
| Steppe Cement (M)<br>Sdn. Bhd.         | Malaysia  | 100   | 100         | Investment<br>holding<br>company |

(Forward)

|  | Place of<br>incorporation<br>(or registration)<br>and operation | Proportion of<br>ownership<br>interest and<br>voting power<br>held |           | Principal<br>activities                 |
|--|---|--|-----------|---|
|  |   | 2008<br>%  | 2007<br>% |   |
| Direct Subsidiary<br>Companies   |   |  |           |   |
| Mechanical & Electrical<br>Consulting Services Ltd   | Malaysia  | 100  | 100       | Provision of<br>consultancy<br>services |
| Indirect Subsidiary<br>Companies   |   |  |           |   |
| (Held through Steppe<br>Cement (M) Sdn. Bhd.)<br>Steppe Cement Holdings<br>B.V. *                    | Netherlands   | 100  | 100       | Investment<br>holding<br>company        |
| (Held through Steppe<br>Cement (M) Sdn. Bhd.)<br>Central Asia Cement<br>Holding B.V. *<br>("CAC BV") | Netherlands   | 100  | 100       | Investment<br>holding<br>company        |
| (Held through Central Asia<br>Cement Holding B.V.)<br>Central Asia Cement JSC *<br>("CAC JSC")       | Republic of<br>Kazakhstan                                       | 100  | 100       | Production and<br>sale of cement        |
| (Held through Central Asia<br>Cement JSC)<br>Stroy Invest LLP **                                     | Republic of<br>Kazakhstan                                       | -  | 100       | Dormant                                 |

(Forward)

|  | Place of<br>incorporation<br>(or registration)<br>and operation | Proportion of<br>ownership<br>interest and<br>voting power<br>held |           | Principal<br>activities  |
|--|---|--|-----------|--|
|  |   | 2008<br>%  | 2007<br>% |  |
| Indirect Subsidiary<br>Companies                                 |   |  |           |  |
| (Held through Steppe<br>Cement Holdings B.V.)<br>Karcement JSC * | Republic of<br>Kazakhstan                                       | 100  | 100       | Production and<br>sale of cement<br>(Development<br>stage and<br>currently<br>undergoing plant<br>refurbishment) |

\* audited by member firm of Deloitte Touche Tohmatsu

\*\* not audited by member firm of Deloitte Touche Tohmatsu and was liquidated during the financial year

During the financial year, the merger between Central Asia Cement Holding B.V. and Steppe Cement Holdings B.V. was initiated. The merger involves the transfer of Central Asia Cement Holding B.V.'s assets into Steppe Cement Holdings B.V. It is expected the completion of the merger process including the transfer of the Kazakhstan activities to Steppe Cement Holding B.V. will be effected in the second quarter of the financial year ending 31 December 2009.

The financial statements of Karcement JSC ("Karcement") are prepared on a going concern basis, and there is no evidence that Karcement intends to discontinue, has to discontinue or significantly reduce the volume of its operations in the foreseeable future. Currently, Karcement's operations are concentrated on the refurbishment of cement production plant. Hence, Karcement is currently in the development stage. The successful completion of the development program of Karcement and, achieving the profitable stage depend on future events, including sufficient financing for conducting development activities, obtaining permits from regulatory authorities and achieving revenue level sufficient to cover the expenses of Karcement.

During the financial year, Karcement has completed the Line 6 refurbishment project and subsequent to the financial year, Karcement received the tax exemption approval and cement certification standard (Note 31). Line 6 has successfully commenced its commercial operations in March 2009. The completion of Line 5 refurbishment work however, was deferred until the financial and cement markets in Kazakhstan recover.

The amount owing by/(to) subsidiary companies arose mainly from unsecured inter-company payments on behalf, which are interest-free with no fixed terms of repayment.

The foreign currency profile of balances owing by subsidiary companies is as follows:

|                  | <b>The Company</b>  |                     |
|------------------|---------------------|---------------------|
|                  | <b>2008<br/>USD</b> | <b>2007<br/>USD</b> |
| Ringgit Malaysia | 286,359             | 283,947             |
| Euro             | <u>460,514</u>      | <u>372,914</u>      |
|                  | <u>746,873</u>      | <u>656,861</u>      |

### 13. OTHER ASSETS

|  | <b>The Group</b>    |                     | <b>The Company</b>  |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | <b>2008<br/>USD</b> | <b>2007<br/>USD</b> | <b>2008<br/>USD</b> | <b>2007<br/>USD</b> |
| VAT (recoverable)                      | 14,432,124          | 8,750,249           | -                   | -                   |
| Construction materials                 | 17,835,160          | 1,962,338           | -                   | -                   |
| Spare parts                            | <u>1,224,811</u>    | <u>237,471</u>      | <u>-</u>            | <u>-</u>            |
|  | 33,492,095          | 10,950,058          | -                   | -                   |
| Less: Discount on VAT<br>(recoverable) | <u>-</u>            | <u>(1,385,341)</u>  | <u>-</u>            | <u>-</u>            |
|  | <u>33,492,095</u>   | <u>9,564,717</u>    | <u>-</u>            | <u>-</u>            |

As of 31 December 2008, the Group classified construction materials of USD17,835,160 (2007: USD1,962,338) and certain spare parts of USD1,224,811 (2007: USD237,471) as non-current assets. Management expects to use the construction materials and spare parts during the period exceeding one year.

The directors consider that the carrying amount of other non-current assets approximates its fair value.

## 14. INVENTORIES, NET

|   | <b>The Group</b>  |                  | <b>The Company</b> |             |
|---|-------------------|------------------|--------------------|-------------|
|   | <b>2008</b>       | <b>2007</b>      | <b>2008</b>        | <b>2007</b> |
|   | <b>USD</b>        | <b>USD</b>       | <b>USD</b>         | <b>USD</b>  |
| Work in progress                            | 3,219,475         | 1,164,849        | -                  | -           |
| Finished goods                              | 1,733,535         | 1,845,650        | -                  | -           |
| Raw materials                               | 3,722,895         | 2,556,613        | -                  | -           |
| Spare parts                                 | 11,018,953        | 3,449,370        | -                  | -           |
| Construction materials                      | 80,546            | 78,099           | -                  | -           |
| Other materials                             | 1,437,245         | 936,352          | -                  | -           |
|   | 21,212,649        | 10,030,933       | -                  | -           |
| Less: Allowance for<br>obsolete inventories | <u>(703,917)</u>  | <u>(425,191)</u> | <u>-</u>           | <u>-</u>    |
| Net   | <u>20,508,732</u> | <u>9,605,742</u> | <u>-</u>           | <u>-</u>    |

The movements in the allowance for obsolete inventories were as follows for the years ended 31 December:

|  | <b>The Group</b> |                  | <b>The Company</b> |             |
|--|------------------|------------------|--------------------|-------------|
|  | <b>2008</b>      | <b>2007</b>      | <b>2008</b>        | <b>2007</b> |
|  | <b>USD</b>       | <b>USD</b>       | <b>USD</b>         | <b>USD</b>  |
| Balance at beginning of the<br>year        | (425,191)        | (143,558)        | -                  | -           |
| Exchange differences                       | 687              | (10,439)         | -                  | -           |
| Add: Allowance for<br>obsolete inventories | <u>(279,413)</u> | <u>(271,194)</u> | <u>-</u>           | <u>-</u>    |
| Balance at end of the year                 | <u>(703,917)</u> | <u>(425,191)</u> | <u>-</u>           | <u>-</u>    |

As at 31 December 2008, inventories of USD7,252,738 were collateralised under the short term loan agreement with Halyk Bank JSC (Note 22).

# 15. **TRADE RECEIVABLES, NET**

Trade receivables, net as at 31 December 2008 and 2007 consist of the following:

|  | <b>The Group</b> |                 | <b>The Company</b> |             |
|--|------------------|-----------------|--------------------|-------------|
|  | <b>2008</b>      | <b>2007</b>     | <b>2008</b>        | <b>2007</b> |
|  | <b>USD</b>       | <b>USD</b>      | <b>USD</b>         | <b>USD</b>  |
| Trade receivables                        | 1,074,639        | 566,432         | -                  | -           |
| Less: Allowance for doubtful receivables | <u>(116,707)</u> | <u>(12,587)</u> | <u>-</u>           | <u>-</u>    |
| Net                                      | <u>957,932</u>   | <u>553,845</u>  | <u>-</u>           | <u>-</u>    |

The standard credit period granted to trade debtors ranges from 1 to 30 days. The receivables are denominated in Kazakhstan Tenge.

An allowance of USD116,707 (2007: USD12,587) has been made for estimated irrecoverable amounts from the sale of goods. The allowance has been determined by reference to past default experience.

As mentioned in Note 1, as a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date, there exists the potential that assets may be not be recovered at their carrying amount in the ordinary course of business.

As at 31 December 2008, the Group has trade receivables of USD957,932 (2007: USD553,845). The recoverability of these trade accounts receivable depends to a large extent on the Group's customers' ability to meet timely their obligations, and other factors, which are beyond the Group's control. The recoverability of the Group's trade receivables is determined based on conditions prevailing and information available as at balance sheet date. The directors have reviewed the trade receivables and considered no further provision for trade receivables is necessary based on prevailing conditions and available information.

The future cash flows arising on a subsidiary company's future sales amounting to USD3,137,125 million have been assigned to Bank Center Credit JSC as security for the revolving credit facility of KZT360 million equivalent to USD2,978,283 (Note 22).

**16. OTHER RECEIVABLES, ADVANCES AND PREPAID EXPENSES**

Other receivables as at 31 December 2008 and 2007 consist of the following:

|  | <b>The Group</b> |              | <b>The Company</b> |             |
|--|------------------|--------------|--------------------|-------------|
|  | <b>2008</b>      | <b>2007</b>  | <b>2008</b>        | <b>2007</b> |
|  | <b>USD</b>       | <b>USD</b>   | <b>USD</b>         | <b>USD</b>  |
| Receivable from employees  | 118,842          | 141,175      | -                  | -           |
| Other receivables  |                  |              |                    |             |
| - VAT (recoverable)  | 7,028,161        | 3,582,897    | -                  | -           |
| - Others   | 43,119           | 1,290,014    | 428                | -           |
|  | 7,071,280        | 4,872,911    | 428                | -           |
| Prepaid expenses   | 223,098          | 450,865      | 3,039              | 1,320       |
|  | 7,413,220        | 5,464,951    | 3,467              | 1,320       |
| Advances paid to third parties, net of allowance of USD129,291 (2007: USD62,993) | 10,682,796       | 28,204,989   | -                  | -           |
|  | 18,096,016       | 33,669,940   | 3,467              | 1,320       |
| Advances paid to third parties - non-current portion                             | (9,145,506)      | (19,958,584) | -                  | -           |
|  | 8,950,510        | 13,711,356   | 3,467              | 1,320       |

Other receivables comprise mainly of recoverable VAT and others. VAT recoverable are value added tax credits arising from purchase of materials, property, plant and equipment and repair and maintenance services by Karcement JSC in relation to its line 6 refurbishment project. Others include custom duties levied on the import of property, plant and equipment for the refurbishment project.

Advances paid are mainly those advances incurred by subsidiary companies for the purchase of machinery, equipment and construction work for the refurbishment of cement plant.

The directors consider that the carrying amount of other receivables, advances and prepaid expenses approximates their fair value.



## 17. SHORT-TERM INVESTMENTS

As at 31 December 2008, the short-term investments of USD2,391,437 consists of EUR and USD deposits placed with Kazkommertsbank JSC with a maturity period ranging from 3 to 12 months, which comprises principal and interest receivable of USD331,110 and USD3,880 for the EUR deposit and USD1,986,019 and interest receivable of USD70,428 for the USD deposit.

EUR and USD deposits bear applicable interest rates of 4.00% per annum and 6.50% per annum respectively.

## 18. CASH AND BANK BALANCES

|                           | <b>The Group</b> |                  | <b>The Company</b> |                |
|---------------------------|------------------|------------------|--------------------|----------------|
|                           | <b>2008</b>      | <b>2007</b>      | <b>2008</b>        | <b>2007</b>    |
|                           | <b>USD</b>       | <b>USD</b>       | <b>USD</b>         | <b>USD</b>     |
| Cash in hand and at banks | 680,900          | 1,930,004        | 135,408            | 169,271        |
| Short-term deposits       | 48,736           | 3,643,104        | -                  | -              |
|                           | <u>729,636</u>   | <u>5,573,108</u> | <u>135,408</u>     | <u>169,271</u> |

As at 31 December 2008, in accordance with the Law of Republic of Kazakhstan on Labor, a non-interest bearing deposit of KZT5,434,000 equivalent to USD44,956 was placed with Kazkommertsbank JSC as part of work permit requirements for non-resident employees of the Republic of Kazakhstan (2007: KZT3,060,000 equivalent to USD25,356). The deposit is subjected to annual renewal.

As at 31 December 2008 all types of bank accounts were placed as security for a loan from EBRD (Note 22).

The analysis of cash and bank balances by currencies is as follows:

|                       | <b>The Group</b> |                  | <b>The Company</b> |                |
|-----------------------|------------------|------------------|--------------------|----------------|
|                       | <b>2008</b>      | <b>2007</b>      | <b>2008</b>        | <b>2007</b>    |
|                       | <b>USD</b>       | <b>USD</b>       | <b>USD</b>         | <b>USD</b>     |
| Kazakhstan Tenge      | 287,165          | 4,002,875        | -                  | -              |
| United States Dollars | 348,404          | 1,340,558        | 85,386             | 36,633         |
| Euro                  | 93,771           | 227,094          | 50,022             | 132,638        |
| Ringgit Malaysia      | 296              | 2,581            | -                  | -              |
|                       | <u>729,636</u>   | <u>5,573,108</u> | <u>135,408</u>     | <u>169,271</u> |

## 19. SHARE CAPITAL

|                                  | The Group and<br>the Company |                  |
|----------------------------------|------------------------------|------------------|
|                                  | 2008<br>USD                  | 2007<br>USD      |
| <b>Authorised:</b>               |                              |                  |
| Ordinary shares of USD0.01 each: |                              |                  |
| At beginning and end of year     | <u>5,000,000</u>             | <u>5,000,000</u> |
| <b>Issued and fully paid:</b>    |                              |                  |
| Ordinary shares of USD0.01 each: |                              |                  |
| At beginning and end of year     | <u>1,140,000</u>             | <u>1,140,000</u> |

## 20. RESERVES

|   | The Group          |                    | The Company       |                   |
|---|--------------------|--------------------|-------------------|-------------------|
|   | 2008<br>USD        | 2007<br>USD        | 2008<br>USD       | 2007<br>USD       |
| Non-distributable reserves:   |                    |                    |                   |                   |
| <b>Share premium</b>  |                    |                    |                   |                   |
| Balance at beginning and<br>end of year                                   | <u>26,646,982</u>  | <u>26,646,982</u>  | <u>26,646,982</u> | <u>26,646,982</u> |
| <b>Revaluation reserve</b>  |                    |                    |                   |                   |
| Balance at beginning of<br>year   | 4,601,668          | 6,491,683          | -                 | -                 |
| Depreciation of<br>revaluation surplus                                    | <u>(1,236,732)</u> | <u>(1,890,015)</u> | <u>-</u>          | <u>-</u>          |
| Balance at end of year  | <u>3,364,936</u>   | <u>4,601,668</u>   | <u>-</u>          | <u>-</u>          |
| <b>Translation reserve</b>  |                    |                    |                   |                   |
| Balance at beginning of<br>year   | 5,589,530          | 1,530,917          | -                 | -                 |
| Exchange differences on<br>translation of foreign<br>subsidiary companies | <u>(189,393)</u>   | <u>4,058,613</u>   | <u>-</u>          | <u>-</u>          |
| Balance at end of year  | <u>5,400,137</u>   | <u>5,589,530</u>   | <u>-</u>          | <u>-</u>          |

### **Share premium**

Share premium arose from the issuance of ordinary shares at prices above the par value of USD0.01 each.

### **Revaluation reserve**

Revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold or retired, the realised portion of the revaluation reserve is transferred directly to retained earnings. The revaluation reserve is not available for distribution to the Company's shareholders.

### **Translation reserve**

Exchange differences arising from the translation of assets and liabilities of foreign subsidiary companies, are taken to the translation reserve account.

### **Retained earnings**

Any dividend distributions to be made by Central Asia Cement JSC to Central Asia Cement Holding B.V. are in principle subject to Kazakhstan dividend withholding tax of 15%. However, under the tax treaty concluded between the Netherlands and Kazakhstan, this percentage can be reduced to 5% of the gross amounts of the dividends. Any dividend distributions by Central Asia Cement Holding B.V. to Steppe Cement (M) Sdn Bhd in Malaysia would normally be subject to 25% Dutch dividend withholding tax. However, under the tax treaty concluded between the Netherlands and Malaysia this percentage can be reduced to nil, assuming that Steppe Cement (M) Sdn Bhd is entitled to treaty protection under the Netherlands/Malaysia tax treaty.

Under the Malaysian tax law, any dividend income received by Steppe Cement (M) Sdn Bhd from Cement Asia Cement Holding B.V. and Steppe Cement Holdings B.V. will be credited into an exempt income account from which tax-exempt dividends can be distributed to the Company. There is no withholding tax on dividends distributed by Steppe Cement (M) Sdn Bhd to the Company.

Under the Labuan Offshore Business Activity Tax Act, 1990, dividends received by the Company from Steppe Cement (M) Sdn Bhd will be exempted from tax. There is no withholding tax on dividends distributed by the Company to its shareholders.

21. **BONDS**

|                                  | <b>The Group</b>         |                          |
|----------------------------------|--------------------------|--------------------------|
|                                  | <b>2008</b>              | <b>2007</b>              |
|                                  | <b>USD</b>               | <b>USD</b>               |
| Bonds issued at price of:        |                          |                          |
| 97.1895%                         | 5,601,483                | 5,601,483                |
| 98.3230%                         | 5,230,908                | 5,230,908                |
| 99.0574%                         | 2,366,024                | 2,366,024                |
| 99.0574%                         | 2,864,884                | 2,864,884                |
| 100.0096%                        | <u>5,230,916</u>         | <u>5,230,916</u>         |
|                                  | 21,294,215               | 21,294,215               |
| Exchange differences             | 1,042,910                | 1,079,003                |
| Discount on bonds issued         | (273,026)                | (411,783)                |
| Accrued interest on bonds issued | <u>807,479</u>           | <u>769,771</u>           |
| Total                            | <u><u>22,871,578</u></u> | <u><u>22,731,206</u></u> |

The 5-year KZT2.7 billion (USD22,871,578) bonds were issued by Central Asia Cement JSC in 2006. The bonds carry a coupon rate of 9% per annum and mature on 7 August 2011. The interest is payable semi-annually and the repayment of principal is in one bullet payment. The bonds are listed on the Kazakhstan Stock Exchange.

The directors consider that the carrying amount of the bonds issued approximates their fair value as of 31 December 2008.

22. **LOANS**

|                     | <b>Weighted average</b> | <b>The Group</b>         |                          |
|---------------------|-------------------------|--------------------------|--------------------------|
|                     | <b>interest</b>         | <b>2008</b>              | <b>2007</b>              |
|                     | <b>rate</b>             | <b>USD</b>               | <b>USD</b>               |
| Total outstanding   | 9.23%                   | 70,077,510               | 24,864,932               |
| Current portion     |                         | <u>(14,987,979)</u>      | <u>(276,168)</u>         |
| Non-current portion |                         | <u><u>55,089,531</u></u> | <u><u>24,588,764</u></u> |

### **Karcement JSC**

In accordance with the Loan Agreement (“Agreement”) dated 13 December 2005 and amended and restated Loan Agreement dated 21 June 2007, the Group’s subsidiary company, Karcement JSC, was granted a syndicated loan which comprises the Tranche 1 loan of up to USD32 million and the Tranche 2 loan of USD10 million from European Bank for Reconstruction and Development (“EBRD”) and a loan of up to USD23.2 million from Kazkommertsbank JSC (Note 29). The rehabilitation of production lines number 5 and 6 was partially financed by the syndicated loan.

On 2 September 2007, Karcement JSC received the first portion of the Tranche 1 loan amounting to USD25 million. On 1 April 2008 Karcement JSC received the second part of the Tranche 1 loan of USD7 million. Under the Agreement, Karcement JSC shall repay the Tranche 1 loan in ten equal semi-annual instalments commencing on 11 November 2008 and ending on 11 May 2013. The applicable interest rate payable on Tranche 1 loan is LIBOR plus 3.75% per annum, payable semi-annually from the date of the initial draw down.

On 6 May 2008, Karcement JSC received the first portion of the Tranche 2 loan of USD5 million. On 12 June 2008, Karcement JSC received the second portion of the Tranche 2 loan of USD5 million. In line with the terms of the Agreement, Karcement JSC has to repay the Tranche 2 loan in one bullet payment on 11 May 2013. The applicable interest rate payable for Tranche 2 loan is LIBOR plus 5.00% per annum payable semi-annually commencing from the date of initial payment.

In parallel with the EBRD loan, Kazkommertsbank agreed to lend Karcement JSC up to USD 23.2 million. The applicable interest rate for the Kazkommertsbank loan was subsequently increased to 16% per annum. This loan was fully repaid on 24 September 2008 when Karcement JSC managed to refinance this loan with a term loan granted by HSBC Bank Kazakhstan.

According to the terms of the Agreement, all movable and immovable assets as well as any types of bank accounts are pledged to secure the syndicated loan. EBRD and Kazkommertsbank JSC signed a mutual agreement on collateral of Karcement’s assets (Note 11) as well as assets of JSC Central Asia Cement which Central Asia Cement JSC acts as a guarantor for the loan.

On 22 September 2008, HSBC Bank Kazakhstan granted Karcement JSC a term loan of USD23.2 million with the final repayment date on 10 July 2013. The applicable interest rate payable on this loan is 6-month USD LIBOR plus 5.50% per annum, payable semi-annually commencing 22 March 2009. The loan is repayable in eight equal semi-annual instalments commencing 22 March 2010.

As at 31 December 2008, Karcement JSC has fully utilised all of its loan commitments granted by EBRD and HSBC Bank Kazakhstan.

### **Central Asia Cement JSC**

As at 20 October 2008, Halyk Bank Kazakhstan JSC granted Central Asia Cement JSC a loan facility to finance its working capital requirements of USD10 million (or KZT1,197,600 thousand at exchange rate at the date of the agreement) with an interest rate of 16.50% per annum and the maturity date is on 20 October 2011. Drawdowns under the credit facility agreement are fixed in KZT at the relevant USD exchange rate established by the bank at the date of drawdown. The principal and interest are payable monthly in the six months period from the date of drawdown. The loan is secured by Central Asia Cement JSC's inventories of USD7,253,038 (KZT876,711 thousand).

On 15 October 2008, Bank CenterCredit JSC extended a loan facility of KZT360 million equivalent to USD2,978,283 to Central Asia Cement JSC to finance its working capital requirements. The applicable interest rate payable on the loan is 16.00% per annum and the maturity date is on 14 October 2009. Repayment of the principal amount is made in 3 equal monthly instalments from 3 months after the date of drawdown and accumulated interest is payable throughout the year commencing in the month following the month of the drawdown. The loan is secured against the future cash flows arising on the Central Asia Cement JSC's major customers' receivables of KZT379.2 million equivalent to approximately USD3,137,000.

On 19 June 2008, HSBC Bank Kazakhstan granted a loan facility of USD0.5 million (or KZT60,315,000 based on the exchange rate at the date of the agreement) to Central Asia Cement JSC to finance its working capital requirements. The applicable interest rate is LIBOR (based on the reference rate of 3 months USD) plus 4.00% spread and the maturity date is on 25 June 2009. The drawdowns are denominated in USD. The principal and interest are payable on 25 June 2009. During the financial year, the credit line was fully utilised. The loan is secured up to the loan principal amount by way of a corporate guarantee issued by HSBC Jersey.

As at 31 December 2008, the Group's subsidiary company, Central Asia Cement JSC has undrawn loan commitments of USD17,000 from the facility granted by Halyk Bank.

**23. DEFERRED TAX LIABILITIES**

|   | <b>The Group</b>          |                            | <b>The Company</b> |                 |
|---|---------------------------|----------------------------|--------------------|-----------------|
|   | <b>2008</b>               | <b>2007</b>                | <b>2008</b>        | <b>2007</b>     |
|   | <b>USD</b>                | <b>USD</b>                 | <b>USD</b>         | <b>USD</b>      |
| Balance at beginning of year                        | 11,671,362                | 10,782,413                 | -                  | -               |
| Exchange differences                                | 1,806                     | 551,516                    | -                  | -               |
| Charged/(Credited) to income statement (Note 9)     | <u>(2,125,961)</u>        | <u>337,433</u>             | <u>-</u>           | <u>-</u>        |
| Balance at end of year                              | <u>9,547,207</u>          | <u>11,671,362</u>          | <u>-</u>           | <u>-</u>        |
| <b>Deferred Tax Assets/ (Liabilities)</b>           |                           |                            |                    |                 |
|   | <b>The Group</b>          |                            | <b>The Company</b> |                 |
|   | <b>2008</b>               | <b>2007</b>                | <b>2008</b>        | <b>2007</b>     |
|   | <b>USD</b>                | <b>USD</b>                 | <b>USD</b>         | <b>USD</b>      |
| Tax effects of temporary differences in respect of: |                           |                            |                    |                 |
| Property, plant and equipment                       | (9,714,173)               | (11,511,303)               | -                  | -               |
| Inventories   | 140,782                   | 127,560                    | -                  | -               |
| Taxes   | 2,846                     | 10,176                     | -                  | -               |
| Trade receivables                                   | 23,338                    | 3,779                      | -                  | -               |
| Others  | <u>-</u>                  | <u>(301,574)</u>           | <u>-</u>           | <u>-</u>        |
| <b>Net deferred tax liabilities</b>                 | <u><b>(9,547,207)</b></u> | <u><b>(11,671,362)</b></u> | <u><b>-</b></u>    | <u><b>-</b></u> |

**24. TRADE PAYABLES**

The standard credit period granted by creditors ranges from 1 to 30 days.

The analysis of trade payables balance by currencies is as follows:

|                       | <b>The Group</b>         |                         | <b>The Company</b> |                 |
|-----------------------|--------------------------|-------------------------|--------------------|-----------------|
|                       | <b>2008</b>              | <b>2007</b>             | <b>2008</b>        | <b>2007</b>     |
|                       | <b>USD</b>               | <b>USD</b>              | <b>USD</b>         | <b>USD</b>      |
| Kazakhstan Tenge      | 7,878,023                | 3,115,835               | -                  | -               |
| United States Dollars | 2,254,676                | 1,208,949               | -                  | -               |
| Euro                  | 2,014,188                | 172,166                 | -                  | -               |
| RUB                   | 180,170                  | 14,849                  | -                  | -               |
| Sterling Pound        | <u>14,478</u>            | <u>780,834</u>          | <u>-</u>           | <u>-</u>        |
|                       | <u><b>12,341,535</b></u> | <u><b>5,292,633</b></u> | <u><b>-</b></u>    | <u><b>-</b></u> |

**25. OTHER PAYABLES AND ACCRUED LIABILITIES**

|                           | <b>The Group</b> |                  | <b>The Company</b> |                |
|---------------------------|------------------|------------------|--------------------|----------------|
|                           | <b>2008</b>      | <b>2007</b>      | <b>2008</b>        | <b>2007</b>    |
|                           | <b>USD</b>       | <b>USD</b>       | <b>USD</b>         | <b>USD</b>     |
| Liquidation fund accruals | 53,824           | 41,647           | -                  | -              |
| Accruals                  | 1,443,922        | 1,507,499        | 666,191            | 678,572        |
| Payable to employees      | 293,915          | 346,362          | -                  | -              |
| Advances received         | 1,064,099        | 2,908,295        | -                  | -              |
|                           | <u>2,855,760</u> | <u>4,803,803</u> | <u>666,191</u>     | <u>678,572</u> |

In accordance with the Subsurface Use Contracts requirements, the subsidiary company, Central Asia Cement JSC, shall contribute on an annual basis, 0.5% from the amount of actual expenditures for limestone and loam extraction to the liquidation fund, which shall be used for site restoration and abandonment of the Group mining operations.

**26. TAXES PAYABLE**

|                      | <b>The Group</b> |                  | <b>The Company</b> |             |
|----------------------|------------------|------------------|--------------------|-------------|
|                      | <b>2008</b>      | <b>2007</b>      | <b>2008</b>        | <b>2007</b> |
|                      | <b>USD</b>       | <b>USD</b>       | <b>USD</b>         | <b>USD</b>  |
| Corporate income tax | 1,688,876        | 1,510,912        | -                  | -           |
| Property tax         | 3,930            | 128,861          | -                  | -           |
| Personal income tax  | 29,841           | 80,643           | -                  | -           |
| Other taxes          | 88,976           | 478,787          | -                  | -           |
|                      | <u>1,811,623</u> | <u>2,199,203</u> | <u>-</u>           | <u>-</u>    |

**27. CASH AND CASH EQUIVALENTS**

|                           | <b>The Group</b> |                  | <b>The Company</b> |                |
|---------------------------|------------------|------------------|--------------------|----------------|
|                           | <b>2008</b>      | <b>2007</b>      | <b>2008</b>        | <b>2007</b>    |
|                           | <b>USD</b>       | <b>USD</b>       | <b>USD</b>         | <b>USD</b>     |
| Cash in hand and at banks | 680,900          | 1,930,004        | 135,408            | 169,271        |
| Short-term deposits       | 48,736           | 3,643,104        | -                  | -              |
|                           | <u>729,636</u>   | <u>5,573,108</u> | <u>135,408</u>     | <u>169,271</u> |

As at 31 December 2008, in accordance to the Law on Labour of Kazakhstan, non-interest bearing deposits in the amount of KZT5,434,000 equivalent to USD44,956 (2007: KZT3,060,000 equivalent to USD25,356) were placed with banks in Kazakhstan as part of work permit requirements for non-resident employees of Central Asia Cement JSC and Karcement JSC. The deposit is subject to annual renewal.



## 28. RELATED PARTIES

Related parties include shareholders, directors and affiliates and entities under common ownership (which the Group has the ability to exercise a significant influence).

Transactions between the Company and its subsidiary companies, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The following transactions with related parties are included in the consolidated income statement for the financial year ended 31 December 2008 and 2007:

|                                      | <b>2008</b>    | <b>2007</b>    |
|--------------------------------------|----------------|----------------|
|                                      | <b>USD</b>     | <b>USD</b>     |
| Rental expenses                      | 38,049         | 81,265         |
| Services rendered by related parties | <u>826,739</u> | <u>616,712</u> |

The following balances with related parties are included under trade payables in the consolidated balance sheet as of 31 December 2008 and 2007:

|                                      | <b>Payable to related parties</b> |               |
|--------------------------------------|-----------------------------------|---------------|
|                                      | <b>2008</b>                       | <b>2007</b>   |
|                                      | <b>USD</b>                        | <b>USD</b>    |
| Services rendered by related parties | <u>188,592</u>                    | <u>37,695</u> |

Included in services rendered by related parties are drilling and blasting services performed by Maxam Kazakhstan of USD176,099 (2007: USD521,437). The contract is negotiated yearly on an arms length basis. Maxam Kazakhstan is a subsidiary company of Maxam SA., a company in which the Company's director, Javier Del Ser Perez, indirectly holds a 20% equity interest in Maxam Kazakhstan.

### Compensation of key management personnel

Included in the staff costs are remuneration of directors and other members of key management during the financial year as follows:

|                    | <b>The Group</b> |                  | <b>The Company</b> |                |
|--------------------|------------------|------------------|--------------------|----------------|
|                    | <b>2008</b>      | <b>2007</b>      | <b>2008</b>        | <b>2007</b>    |
|                    | <b>USD</b>       | <b>USD</b>       | <b>USD</b>         | <b>USD</b>     |
| Remuneration       | 919,892          | 977,801          | 204,642            | 310,336        |
| Short-term benefit | <u>97,922</u>    | <u>124,260</u>   | <u>-</u>           | <u>-</u>       |
| Total              | <u>1,017,814</u> | <u>1,102,061</u> | <u>204,642</u>     | <u>310,336</u> |

The remuneration of directors and key executives is determined by the remuneration committees of the Company and subsidiary companies having regard to the performance of individuals and market trends.

## 29. COMMITMENTS AND CONTINGENCIES

***Contingent liabilities*** - On 13 December 2005, a Loan Agreement between European Bank for Reconstruction and Development (“EBRD”) and Karcement JSC (the “Borrower”) was signed. On and subject to the terms and conditions of this Agreement, EBRD agrees to lend to the Borrower an amount not exceeding USD65 million. On 21 June 2007, the Loan Agreement was amended and restated. On and subject to the terms and conditions of this Agreement, EBRD agrees to lend to the Borrower an amount not exceeding USD42 million. Under the Guarantee and Support Agreement signed between the Company, Steppe Cement (M) Sdn Bhd, Central Asia Cement JSC, Central Asia Cement B.V., Steppe Cement Holdings B.V. and other parties (“Guarantors”), EBRD and the Borrower, the Guarantors irrevocably and unconditionally guarantees to EBRD the due and punctual payment by the Borrower of all sums payable under or in connection with the Loan Agreement and agrees that it will pay to EBRD each and every sum of money which the Borrower is at any time liable to pay to EBRD under or pursuant to the Loan Agreement which is due but unpaid.

***Obligations under Liquidation Fund*** - In accordance with the Subsurface Use Contracts requirements, the subsidiary company, Central Asia Cement JSC shall contribute on annual basis 0.5% from the amount of actual expenditures for limestone and loam extraction to the liquidation fund, which shall be used for site restoration and abandonment of the subsidiary company mining operations. Not later than 6 months before the Subsurface Use Contract expiration, the subsidiary company shall submit the liquidation program to competent body. As at 31 December 2008 and 2007, the undiscounted contractual liability on future contributions to the liquidation fund obligation is KZT6,475,000 equivalent to USD55,801 (2007: KZT17,785,000 equivalent to USD147,373). Management estimated this liability, if discounted, will not have a material effect on these consolidated financial statements and therefore the Group recorded only current period contributions as liability in the consolidated balance sheet. Also, in accordance with the Law on Land and resource usage and Environmental rehabilitations, the Group will be obliged to provide additional resources to the state in the case the liquidation fund will be insufficient to cover actual site restoration and abandonment costs in the future. As at 31 December 2008, management believes that the amount of obligatory liquidation fund exceeds future site restoration and abandonment costs.

***Social commitments*** - Certain Group entities have entered into collective agreements with its employees. Under terms of such agreements, the Group has a commitment to make certain social payments to the employees, the amount of which can vary from year to year. No provision for such commitments is recorded in the consolidated financial statements as the Group’s management is unable to reasonably estimate the amount of the future social expense.

**Legal issues** - The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all such matters will not have a material impact on the Group's financial position or operating results.

**Implementation of Investment Contract** - In accordance with the Investment Contract entered into by Karcement JSC, Karcement JSC is obliged to follow and execute working program and report to the state authorities of Karaganda region on the status of work performed quarterly. The total amount of investment to be made by Karcement JSC in accordance with the working program is KZT7,975 million equivalent to USD65,977,249 (2007: KZT3,186 million equivalent to USD26,400,398) over the period of five years (2006 – 2010).

Non-compliance with the terms of the Investment Contract could lead to revocation of the Investment Contract by state authorities at any time. As at 31 December 2008, the Company invested approximately KZT16,879 million equivalent to USD139,640,124 (2007: KZT8,821 million equivalent to USD72,976,915).

**Purchase commitments** – The Group has outstanding commitments for the purchases of equipment, materials and services from various suppliers for rehabilitation of its production lines. The Group's purchase commitments as at 31 December 2008 is KZT918,649,000 equivalent to USD7,599,992 (2007: KZT2,339,241,000 equivalent to USD19,383,833). Subsequent to the financial year end, the Group has contracted no additional capital commitments.

### 30. SEGMENTAL REPORTING

No industry and geographical segmental reporting are presented as the Group's primary business is in the production and sale of cement which is located in Karaganda region, Republic of Kazakhstan.

### 31. OPERATING ENVIRONMENT

The Group's business activities are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

The Group believes it is currently in compliance with all existing environmental laws and regulations in the Company and its foreign subsidiary companies' jurisdiction. However, it is noted that the laws and regulation of its main subsidiary company may change in the future. The Group is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology to meet more stringent standards.

### **Tax and regulatory environment**

The government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities.

In particular, taxes are subject to review and investigation by a number of authorities enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group.

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes additionally accrued. Interest is assessed at 22.5%. As a result, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement. The provisions related to this uncertainty were not accrued by the Group in these financial statements.

## **32. FINANCIAL INSTRUMENTS**

### **Capital Risk Management**

The Group's capital risk management objectives are to maximise value to shareholders and to ensure that the Group's subsidiary companies will continue to operate as a going concern via optimisation of equity and debt structure.

The Group's capital structure consists of equity attributable to the shareholders of the holding company and debt. Equity attributable to the shareholders includes share capital, share premium, reserves and retained earnings and debt comprises bonds and loans.

### **Financial Risk Management Objectives and Policies**

The operations of the Group are subject to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and cash flow risk.

The Group continuously manage its exposures to risks and/or costs associated with the financing, investing and operating activities of the Group.

#### **(i) Foreign Currency Risk**

The Group undertakes trade and non-trade transactions with its trade customers and suppliers which are denominated in foreign currencies. As a result, the amount outstanding is exposed to currency translation risks.

The Group monitors the fluctuations in exchange rate of foreign currencies to limit currency risk.

### Foreign currency sensitivity analysis

The Group's financial assets and liabilities are mainly exposed to risk of change in KZT.

Balance sheet values of financial assets and financial liabilities in foreign currencies as of 31 December are presented below:

| <b>2008</b>                  | <b>KZT</b> | <b>GBP</b> | <b>EUR</b> | <b>MYR</b> | <b>RUB</b> | <b>USD</b> | <b>Total</b> |
|------------------------------|------------|------------|------------|------------|------------|------------|--------------|
| <b>Financial Assets</b>      |            |            |            |            |            |            |              |
| Cash and cash equivalents    | 287,165    | -          | 93,771     | 296        | -          | 348,404    | 729,636      |
| Short-term investments       | -          | -          | 334,991    | -          | -          | 2,056,446  | 2,391,437    |
| Trade receivables            | 957,932    | -          | -          | -          | -          | -          | 957,932      |
| <b>Financial Liabilities</b> |            |            |            |            |            |            |              |
| Trade payables               | 7,878,023  | 14,478     | 2,014,188  | -          | 180,170    | 2,254,676  | 12,341,535   |
| Other payables               | 118,569    | 537,687    | 71,417     | 7,159      | -          | 2,120,928  | 2,855,760    |
| Loans                        | 7,136,439  | -          | -          | -          | -          | 62,941,071 | 70,077,510   |
| Bonds                        | 22,871,578 | -          | -          | -          | -          | -          | 22,871,578   |
| <b>2007</b>                  | <b>KZT</b> | <b>GBP</b> | <b>EUR</b> | <b>MYR</b> | <b>RUB</b> | <b>USD</b> | <b>Total</b> |
| <b>Financial Assets</b>      |            |            |            |            |            |            |              |
| Cash and cash equivalents    | 3,977,519  | -          | 227,124    | 2,581      | -          | 1,365,884  | 5,573,108    |
| Trade receivables            | 553,845    | -          | -          | -          | -          | -          | 553,845      |
| <b>Financial Liabilities</b> |            |            |            |            |            |            |              |
| Trade payables               | 3,115,835  | 780,834    | 172,166    | -          | 14,849     | 1,208,949  | 5,292,633    |
| Other payables               | 3,840,048  | 608,674    | 71,713     | 8,111      | -          | 275,257    | 4,803,803    |
| Bonds                        | 22,731,206 | -          | -          | -          | -          | -          | 22,731,206   |

The following table displays the Group's sensitivity to a 10% increase and decrease in the value of USD against the relevant foreign currencies. A benchmark sensitivity rate of 10% is used to report foreign currency risk internally to key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and these items are translated at financial year end for a 10% change in foreign currency rates. The sensitivity analysis includes payables, loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. The sensitivity analysis below indicates the changes in financial assets and liabilities of the effect of a 10% increase in value of USD against the relevant foreign currency. A positive/(negative) effect will increase/(decrease) the Group's profits. In the case of 10% decrease in value of USD against the relevant foreign currency, there would be an equal and opposite impact on the Group's profits.

|                       |  | <b>Effect of KZT</b> |                  |
|-----------------------|--|----------------------|------------------|
|                       |  | <b>2008</b>          | <b>2007</b>      |
| Financial assets      |  | (124,510)            | (453,136)        |
| Financial liabilities |  | <u>3,800,461</u>     | <u>2,698,826</u> |
|                       |  | <b>Effect of GBP</b> |                  |
|                       |  | <b>2008</b>          | <b>2007</b>      |
| Financial assets      |  | -                    | -                |
| Financial liabilities |  | <u>55,216</u>        | <u>138,950</u>   |
|                       |  | <b>Effect of EUR</b> |                  |
|                       |  | <b>2008</b>          | <b>2007</b>      |
| Financial assets      |  | (42,876)             | (22,712)         |
| Financial liabilities |  | <u>208,560</u>       | <u>24,387</u>    |
|                       |  | <b>Effect of MYR</b> |                  |
|                       |  | <b>2008</b>          | <b>2007</b>      |
| Financial assets      |  | (30)                 | (258)            |
| Financial liabilities |  | <u>716</u>           | <u>811</u>       |
|                       |  | <b>Effect of RUB</b> |                  |
|                       |  | <b>2008</b>          | <b>2007</b>      |
| Financial assets      |  | -                    | -                |
| Financial liabilities |  | <u>18,017</u>        | <u>1,485</u>     |

The Group's sensitivity to foreign currency has increased during the current year mainly due to the increase in other receivables, advances and prepaid expenses.

(ii) **Credit Risk**

Financial instruments, which affect the Group in respect of credit risk, include cash and cash equivalents, bank deposits, accounts receivable and advances. In spite of the fact that Group can incur losses on unpaid financial instruments in case of breach of contract by other parties, it does not expect occurrence of such losses.

Concentration of credit risk on accounts receivable and payable is limited due to large customer profile and use of prepayment terms for major sales. The Group invests its cash in financial institutions with high credit worthiness level.

(iii) **Liquidity Risk**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities. The Group actively monitors its forecasts and actual cash flows and matches the maturity profiles of financial assets and liabilities to determine any shortfall in cash requirements.

As at 31 December 2008, the Group's subsidiary company, Central Asia Cement JSC has undrawn loan commitments of USD17,000 from the facility granted by HSBC Bank Kazakhstan (Note 22). Subsequent to financial year end, other facilities were secured by Central Asia Cement JSC and Karcement JSC as disclosed in Note 31 to enable the Group to meet its funding requirements and to further reduce liquidation risk.



**Tables on Liquidity and Interest Risk**

The following tables reflect contractual terms of the Group for its non-derivative financial liabilities. The table was prepared based on the undiscounted cash flows on financial liabilities on the basis of the earliest date at which the Group can be required to pay. The table includes both interest and principal cash flows.

| <b>2008</b>                 | <b>Weighted<br/>average<br/>effective<br/>interest rate</b> | <b>Less than<br/>1 month</b> | <b>1-3 months</b> | <b>3 months<br/>- 1 year</b> | <b>1-5 years</b>   | <b>Greater<br/>than<br/>5 years</b> | <b>Total</b>       |
|-----------------------------|---|------------------------------|-------------------|------------------------------|--------------------|-------------------------------------|--------------------|
| <i>Interest bearing</i>     |   |                              |                   |                              |                    |                                     |                    |
| Bonds                       | 9.00%   | -                            | 992,877           | 992,877                      | 26,308,633         | -                                   | 28,294,387         |
| Loans                       | 9.23%   | 60,277                       | 1,864,256         | 18,673,646                   | 74,304,091         | -                                   | 94,902,270         |
| <i>Non-interest bearing</i> |   |                              |                   |                              |                    |                                     |                    |
| Trade accounts payable      |   | 12,341,535                   | -                 | -                            | -                  | -                                   | 12,341,535         |
| Other payables              |   | 412,484                      | -                 | 456,093                      | 537,687            | -                                   | 1,406,264          |
|                             |   | <u>12,814,296</u>            | <u>2,857,133</u>  | <u>20,122,616</u>            | <u>101,150,411</u> | <u>-</u>                            | <u>136,944,456</u> |
| <b>2007</b>                 |   |                              |                   |                              |                    |                                     |                    |
| <i>Interest bearing</i>     |   |                              |                   |                              |                    |                                     |                    |
| Bonds                       | 9.00%   | -                            | -                 | 2,043,744                    | 28,504,450         | -                                   | 30,548,194         |
| Loans                       | 12.44%  | -                            | -                 | 4,772,564                    | 25,311,344         | 3,044,498                           | 33,128,406         |
| <i>Non-interest bearing</i> |   |                              |                   |                              |                    |                                     |                    |
| Trade accounts payable      | -   | 5,292,633                    | -                 | -                            | -                  | -                                   | 5,292,633          |
| Other payables              | -   | 390,404                      | 969,798           | -                            | -                  | -                                   | 1,360,202          |
|                             |   | <u>5,683,037</u>             | <u>969,798</u>    | <u>6,816,308</u>             | <u>53,815,794</u>  | <u>3,044,498</u>                    | <u>70,329,435</u>  |

The following table reflects expected maturities of non-derivative financial assets of the Group. The table was prepared based on undiscounted contractual terms of financial assets, including interest received on these assets, except when the Group expects the cash flow in a different period.

| <b>2008</b>   | <b>Weighted<br/>average<br/>effective<br/>interest rate</b> | <b>Less than<br/>1 month</b> | <b>1-3 months</b> | <b>3 months<br/>- 1 year</b> | <b>1-5 years</b> | <b>Greater<br/>than<br/>5 years</b> | <b>Total</b>      |
|---|---|------------------------------|-------------------|------------------------------|------------------|-------------------------------------|-------------------|
| <i><u>Interest bearing</u></i>                      |   |                              |                   |                              |                  |                                     |                   |
| Cash and cash equivalents                           |   | -                            | -                 | -                            | -                | -                                   | -                 |
| Short-term investments                              | 5.25%   | -                            | -                 | 2,391,437                    | -                | -                                   | 2,391,437         |
| <i><u>Non-interest bearing</u></i>                  |   |                              |                   |                              |                  |                                     |                   |
| Cash and cash equivalents                           |   | 729,636                      | -                 | -                            | -                | -                                   | 729,636           |
| Trade receivables                                   |   | 957,932                      | -                 | -                            | -                | -                                   | 957,932           |
| Other receivables, advances and<br>prepaid expenses |   | -                            | -                 | 8,950,508                    | -                | -                                   | 8,950,508         |
|   |   | <u>1,687,568</u>             | <u>-</u>          | <u>11,341,945</u>            | <u>-</u>         | <u>-</u>                            | <u>13,029,513</u> |
| <b>2007</b>   |   |                              |                   |                              |                  |                                     |                   |
| <i><u>Interest bearing</u></i>                      |   |                              |                   |                              |                  |                                     |                   |
| Cash and cash equivalents                           | 3.25 - 4.68%  | 3,613,853                    | -                 | -                            | -                | -                                   | 3,613,853         |
| <i><u>Non-interest bearing</u></i>                  |   |                              |                   |                              |                  |                                     |                   |
| Cash and cash equivalents                           |   | 1,959,255                    | -                 | -                            | -                | -                                   | 1,959,255         |
| Trade receivables                                   |   | 553,845                      | -                 | -                            | -                | -                                   | 553,845           |
| Other receivables, advances and<br>prepaid expenses |   | 171,064                      | -                 | 3,318                        | 8,750,249        | -                                   | 8,924,631         |
|   |   | <u>6,298,017</u>             | <u>-</u>          | <u>3,318</u>                 | <u>8,750,249</u> | <u>-</u>                            | <u>15,051,584</u> |

(iv) **Cash Flow Risk**

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

(v) **Interest rate risk**

The only potential risk of the Group connected with change in interest rates is related to loans of the Group. The Group does not use any derivative financial instruments to manage its interest rate exposure.

The sensitivity analysis below shows the Group's sensitivity to the increase/decrease of floating rate by 1%. The analysis was applied to floating rate loans based on the assumptions that amount of liability outstanding as at the balance sheet date was outstanding for the whole year.

|  | <b>2008</b>    | <b>2007</b>   |
|--|----------------|---------------|
|  | <b>USD</b>     | <b>USD</b>    |
| Increase/Decrease in finance costs capitalised | <u>622,625</u> | <u>83,071</u> |

**Fair Value of Financial Assets and Financial Liabilities**

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments:

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to the short-term nature of maturity of these financial instruments.

Trade and other receivables and payable

For assets and liabilities with maturity less than twelve months, the carrying value approximate fair value due to the short-term nature of maturity of these financial instruments.

For following table shows the carrying and fair value of monetary assets and liabilities as of 31 December:

|  | <b>The Group</b>                  |                           | <b>The Company</b>                |                           |
|--|-----------------------------------|---------------------------|-----------------------------------|---------------------------|
|  | <b>Carrying<br/>value<br/>USD</b> | <b>Fair value<br/>USD</b> | <b>Carrying<br/>value<br/>USD</b> | <b>Fair value<br/>USD</b> |
| <b>2008</b>  |                                   |                           |                                   |                           |
| <b>Financial Assets</b>                                |                                   |                           |                                   |                           |
| Trade receivables, net                                 | 957,932                           | 957,932                   | -                                 | -                         |
| Amount owing by<br>subsidiary companies                | -                                 | -                         | 746,873                           | 746,873                   |
| Other receivables,<br>advances and prepaid<br>expenses | 8,950,510                         | 8,950,510                 | 3,467                             | 3,467                     |
| Short-term investments                                 | 2,391,437                         | 2,391,437                 | -                                 | -                         |
| Cash and bank<br>balances                              | <u>729,636</u>                    | <u>729,636</u>            | <u>135,408</u>                    | <u>135,408</u>            |
| <b>Financial Liabilities</b>                           |                                   |                           |                                   |                           |
| Bonds  | 22,871,578                        | 22,871,578                | -                                 | -                         |
| Loans  | 70,077,510                        | 70,077,510                | -                                 | -                         |
| Trade payables   | 12,341,535                        | 12,341,535                | -                                 | -                         |
| Other payables and<br>accrued liabilities              | 2,855,760                         | 2,855,760                 | 666,191                           | 666,191                   |
| Amount owing to<br>subsidiary companies                | <u>-</u>                          | <u>-</u>                  | <u>1,300,770</u>                  | <u>1,300,770</u>          |

|  | <b>The Group</b>                  |                           | <b>The Company</b>                |                           |
|--|-----------------------------------|---------------------------|-----------------------------------|---------------------------|
|  | <b>Carrying<br/>value<br/>USD</b> | <b>Fair value<br/>USD</b> | <b>Carrying<br/>value<br/>USD</b> | <b>Fair value<br/>USD</b> |
| <b>2007</b>  |                                   |                           |                                   |                           |
| <b>Financial Assets</b>                                |                                   |                           |                                   |                           |
| Trade receivables, net                                 | 553,845                           | 553,845                   | -                                 | -                         |
| Amount owing by<br>subsidiary companies                | -                                 | -                         | 656,861                           | 656,861                   |
| Other receivables,<br>advances and prepaid<br>expenses | 13,711,356                        | 13,711,356                | 1,320                             | 1,320                     |
| Short-term investments                                 | -                                 | -                         | -                                 | -                         |
| Cash and bank<br>balances                              | <u>5,573,108</u>                  | <u>5,573,108</u>          | <u>169,271</u>                    | <u>169,271</u>            |
| <b>Financial Liabilities</b>                           |                                   |                           |                                   |                           |
| Bonds  | 22,731,206                        | 22,731,206                | -                                 | -                         |
| Loans  | 24,864,932                        | 24,864,932                | -                                 | -                         |
| Trade payables   | 5,292,633                         | 5,292,633                 | -                                 | -                         |
| Other payables and<br>accrued liabilities              | 4,803,803                         | 4,803,803                 | 678,572                           | 678,572                   |
| Amount owing to<br>subsidiary companies                | <u>-</u>                          | <u>-</u>                  | <u>740,906</u>                    | <u>740,906</u>            |

### 33. SUBSEQUENT EVENTS

- (a) On 4 February 2009, the Government of the Republic of Kazakhstan devalued the Kazakhstani Tenge (“KZT”) by approximately 25% against major foreign currencies. The KZT weakened to 150 per United States Dollar (“USD”), approximately 25% decline from the closing rate as at 31 December 2008.
- (b) In January 2009, Central Asia Cement JSC secured three loan facilities from Halyk Bank JSC of up to USD2,309,000. In 2009, Halyk Bank JSC and Bank CenterCredit JSC have restricted the drawdowns under Central Asia Cement’s KZT facilities to USD.
- (c) On 9 February 2009, Karcement JSC entered into a Letter of Credit facility agreement. In line with the terms of this agreement, Karcement JSC’s cash of USD800,599 was restricted for use until 9 November 2009.
- (d) Karcement JSC was granted the operating license for commencement of commercial operations effective 5 February 2009. The tax exemption for corporate income tax will commence from 5 February 2009 for a period of 5 years. On 17 March 2009, Karcement JSC received the GOST cement certification from the respective Kazakhstan authority.
- (e) On 14 April 2009, the Company announced, subject to the approval of the shareholders at the Extraordinary General Meeting (“EGM”) scheduled on 7 May 2009, its intention to raise £10 million before expenses by way of an Offer for Subscription (“Offer”) of 40,000,000 new ordinary shares at 25 pence per share to be conditionally underwritten. Subscriptions can be made by qualifying shareholders as at record date and any subscriptions made must be for a minimum of £50,000 (i.e. 200,000 new ordinary shares).

The offer shares will represent approximately 35 per cent of the existing issued ordinary share capital and approximately 26 per cent of the enlarged issued ordinary share capital. The net proceeds of the Offer will be used principally to repay a portion of the Company’s bank loans and for working capital purposes.

Company No. LL04433

**STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

**AND ITS SUBSIDIARY COMPANIES**

**STATEMENT BY A DIRECTOR**

I, **JAVIER DEL SER PEREZ**, on behalf of the directors of **STEPPE CEMENT LTD**, state that, in the opinion of the Directors, the accompanying balance sheets and the related statements of income, cash flows and changes in equity are drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as of 31 December 2008 and of the results and the cash flows of the Group and of the Company for the year ended on that date.

Signed in accordance with a  
resolution of the Directors,

---

**JAVIER DEL SER PEREZ**

Labuan  
22 April 2009



## **NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the 2009 ANNUAL GENERAL MEETING of the Company will be held at the offices of Hanson Westhouse Limited, 12<sup>th</sup> Floor, One Angel Court, London EC2R 7HJ, England on Thursday, 7 May 2009 at 2.00 p.m. for the purposes of considering and if thought fit, passing the following Resolution:

### **ORDINARY RESOLUTION**

#### **ADOPTION OF AUDITED FINANCIAL STATEMENTS**

1. To receive and adopt the audited financial statements for year ended 31 December 2008.

#### **RESOLUTION 1**

### **RE-ELECTION OF DIRECTORS**

2. To re-elect the following directors who offered themselves for re-election:
  - 2.1 Javier Del Ser Perez
  - 2.2 Paul Rodzianko
3. To transact any other business of which due notice shall have been given in accordance with the Offshore Companies Act, 1990.

#### **RESOLUTION 2**

**BY ORDER OF THE BOARD**

**EQUITY TRUST SECRETARIES LTD.**  
Corporate Secretary

Labuan F.T., Malaysia

Notes:

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy to appoint and vote instead of him.
2. The instrument appointing a proxy shall be produced at the place appointed for the meeting before the time for holding the meeting at which the person named in such instrument proposes to vote.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer, unless the appointer is a corporation or other form of legal entity other than one or more individuals holding as joint owners, in which case the instrument appointing a proxy shall be in writing under the hand of an individual duly authorised by such corporation or legal entity to execute the same.
4. Copies of the proxy form and form of instruction are available at the UK Registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS138AE.





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