



  
**STEPPE**  
**CEMENT**

Annual Report 2009





# Contents

1	Corporate Information
2	Chairman's Statement
3-5	CEO Statement
6	Group Structure
7	Board Of Directors
8	Senior Management CAC JSC
9	Senior Management Karcement JSC
10-15	Corporate Governance Statement
16	Financial Highlights
17	Financial Ratios
18-85	Financial Statements
86	Statement by a Director
87-88	Notice of Annual General Meeting



**Company Secretary**

Equity Trust Secretaries Ltd

**Registered Address**

Brumby House, Jalan Bahasa  
P.O. Box 80148  
87011 Federal Territory of Labuan  
Malaysia

**Country of incorporation**

Federal Territory of Labuan, Malaysia

**Company Registration**

LL04433

**Head Office Address**

10th Floor Rohas Perkasa, West Wing  
No.8, Jalan Perak 50450 Kuala Lumpur  
Malaysia

**Main Country of Operation  
(Operating Subsidiaries' Address)**

472380, Aktau Village  
Karaganda Region  
Republic of Kazakhstan

**Nominated Adviser**

RFC Corporate Finance Ltd  
Level 14, 19-31 Pitt Street  
Sydney, New South Wales, 2000  
Australia

and

Level 15, QV1 Building  
250 St Georges Tce, Perth  
Western Australia 6000

**Broker**

Westhouse Securities Limited  
One Angel Court  
London EC2R 7HJ

**Bankers**

European Bank of Reconstruction and  
Development  
HSBC Bank Kazakhstan JSC  
Halyk Bank JSC  
Bank Center Credit JSC

**Group Auditor**

Deloitte & Touche  
Unit 3(I2) Main Office Tower  
Financial Park Labuan  
Jalan Merdeka  
87000 Wilayah Persekutuan Labuan  
Malaysia

**UK Registrar**

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

**Solicitor**

*Kazakh Law*

McGuireWoods Kazakhstan LLP  
Arai Business Center  
20 A, Kazybek Bi St., 4th floor  
Almaty, 050010  
Republic of Kazakhstan



At the time of writing my previous statement in April 2009 the cement market in Kazakhstan was in free fall, confirming our expectation of a further decline of 25% to around 4.5m tonnes. In the event whilst a contraction of this magnitude was recorded in the first half of the year the second six months saw a stabilisation and the market decline in 2009 overall was limited to 10%. The impact of this on the trading revenues was, however, compounded by a decline in the average price of cement which fell by 34% before levelling out at the end of the year.

Notwithstanding these challenges the management continued with productive investments in Line 6, commissioning a second string to the pre-heater with additional improvements to the fans, cooler and burner lifting production of clinker to 2,300 tonnes per day. As a consequence of these improvements and despite the overall market contraction Steppe Cement managed to increase sales by 16% to 930,000 tonnes and lift its market share from 14 % to 18%. Further progress is planned in 2010 as it benefits from a full year of these improvements in both the dry line and grinding mills. Imports are expected to continue to retreat while the sales by Steppe Cement are expected to grow by 15% and our overall market share should edge forward to 20% on the back of some recovery in the Karaganda, Astana and Almaty markets. The second half is expected to benefit from the start up of a number of major infrastructure contracts for which funding has already been allocated.

The most important single factor distorting any comparison between 2009 and the previous year was the impact that the devaluation of the KZ Tenge. This happened in February 2009 at a time of major economic upheaval made worse by the flight of capital by western banks from developing economies in Central Asia which saw the USD exchange rate move from KZT120 to KZT150 in part unsettled by the weakness in the Russian rouble. With 75% of the group's total debt denominated in USD the effect on servicing costs was profound but also in the absence of any derivative instruments to hedge the balance sheet liabilities this devaluation resulted in an unrealised foreign exchange charge of USD12.7m. The Kazakh currency appears now to be better regarded with commodity prices rising of oil, iron ore and copper all of which the country has in abundant supply.

The Board remains firmly focussed on further reduction in the levels of debt within the group and to this end all free cash flow that is generated in 2010 will be used to pay down borrowings. Although to date the group has always met both interest and principal repayments the Board has taken the view that reducing the overall level of debt remains a priority and was the reason why the equity base was expanded last year. It is also thought prudent to defer the balance of the capital expenditure of some USD25m required to complete Line 5 until the balance sheet had been strengthened and a recovery in the market is more assured.

Malcolm Ronald Brown  
Non-Executive Chairman





Steppe Cement completed its first full year of operation with increasing capacity at a time when the cement market weakened, as both prices and volumes decreased significantly. The decision of the Government to devalue the Tenge in February 2009 increased the effective cost of servicing and repaying our USD denominated debt facilities and prompted us to issue new equity in May 2009. The market has improved from the summer 2009 and we expect to benefit in the coming years as we shall enjoy the lower production cost from the dry lines.

Key financials	Year ended 31-Dec-09	Year ended 31-Dec-08	Inc (Dec) %
Sales (tonnes of cement)	930,297	805,000	+16%
Consolidated turnover in USD Million	59.1	91.5	(35%)
Consolidated profit (loss) before tax (USD Million)	(19.0)	26.6	(171%)
Consolidated profit (loss) after tax (USD Million)	(16.5)	18.6	(188%)
Earnings (loss) per share (US cents)	(12)	16	(175%)
Shareholders' funds (USD Million)	102.0	128.9	(22%)
Average exchange rate (USD/KZT)	147.8	120.3	(23%)
Exchange rate as at year end (USD/KZT)	148.4	120.8	(23%)

### The market decreased by 10% in 2009 but we expect a recovery in 2010

The Kazakh cement market in 2009 was 5.1 million tonnes, being 10% down from the 5.7 million tonnes in 2008 and continued the declining trend from 2007 when the peak consumption of 7.6 million tonnes was recorded. However the Kazakh cement market reached similar sizes in the second half of 2009 as in second half of 2008 and above our previously announced forecast. Our expectations are that overall market demand in 2010 will be at least similar to that in 2008.

Import volumes halved in 2009 from 2008 and the share of the market of the local producers increased from 65% to 78%. Average cement prices decreased by 34% in Tenge and by 47% in USD to USD 55 per tonne ex factory or approximately USD 63 per tonne delivered.

In spite of poor market conditions Steppe Cement managed to increase its volumes by 16% and its market share from 14% to 18%. The Company is seeking to increase sales volumes by 15% in 2010 and its market share to 20%. Alongside this trend, we expect prices to increase during 2010.



## **Improvement in the dry lines will help reduce our costs and increase volumes**

The four wet lines produced 637,000 tonnes during 2009 while the operating dry line (line 6) contributed 293,000 tonnes. These figures will be reversed in the coming years as the reliability and capacity of the dry line increases. The second string of the pre-heater in line 6 was commissioned and improvements in the pre-heater fans, cooler and the burner will allow us to increase its capacity to 2,300 tonnes per day of clinker (the equivalent of 2,900 tonnes per day of cement).

We have improved the cement mills and they should allow us to produce over 150,000 tonnes of cement per month. We intend to run the wet lines and line 6 to their maximum capacity during the summer months and carry as much stock as we can during the winter months.

Dry line number 5 (1.4 million tonnes per year capacity) continues on stand-by. We shall study the demand and the cement pricing this summer and the Board will then decide the timing of its commissioning during 2010. We estimate that an additional USD25 million is needed to complete line 5.



## **Costs were contained in 2009 but we expect some cost increases in 2010**

During 2009 we managed to reduce the labour cost and maintain the cost of coal, electricity and transportation. However, in 2010 we expect costs of main inputs to increase by 5 to 15% especially electricity and transportation. Nevertheless, the increased productivity from the dry line will result in lower energy consumption per unit of production.

The labour count stands at 1,125 as of March 2010 compared with 1,313 in March 2009. We have 831 employees on the wet lines and 294 on the dry line.

The Kazakh economy has stabilized and we expect increasing demand from the government infrastructure programmes particularly in road construction.

The increase in oil prices and Government spending accelerated the economic recovery and is having the desired effect in the construction sector. Some of the main banks opted to restructure their debts and cut sharply the credit to the construction companies and businesses at large. The Kazakhstan Government supported the financial sector and, early in the year, decided to devalue the currency to support the exporting industries and arrest the flight of capital. GDP was in negative territory most of the year although it just edged ahead in the last few months of 2009. The Government expects moderate growth in 2010.



The VAT and income tax rate remain at 12% and 20% respectively and it seems that further revisions are unlikely during 2010.

## **Financial cost and loans**

In 2009 we charged nearly a full year of depreciation against line 6 totaling USD 4 million and we expensed the full interest cost on debt facilities associated with the dry line refurbishment of both dry lines 5 and 6 totaling USD 3.9 million.

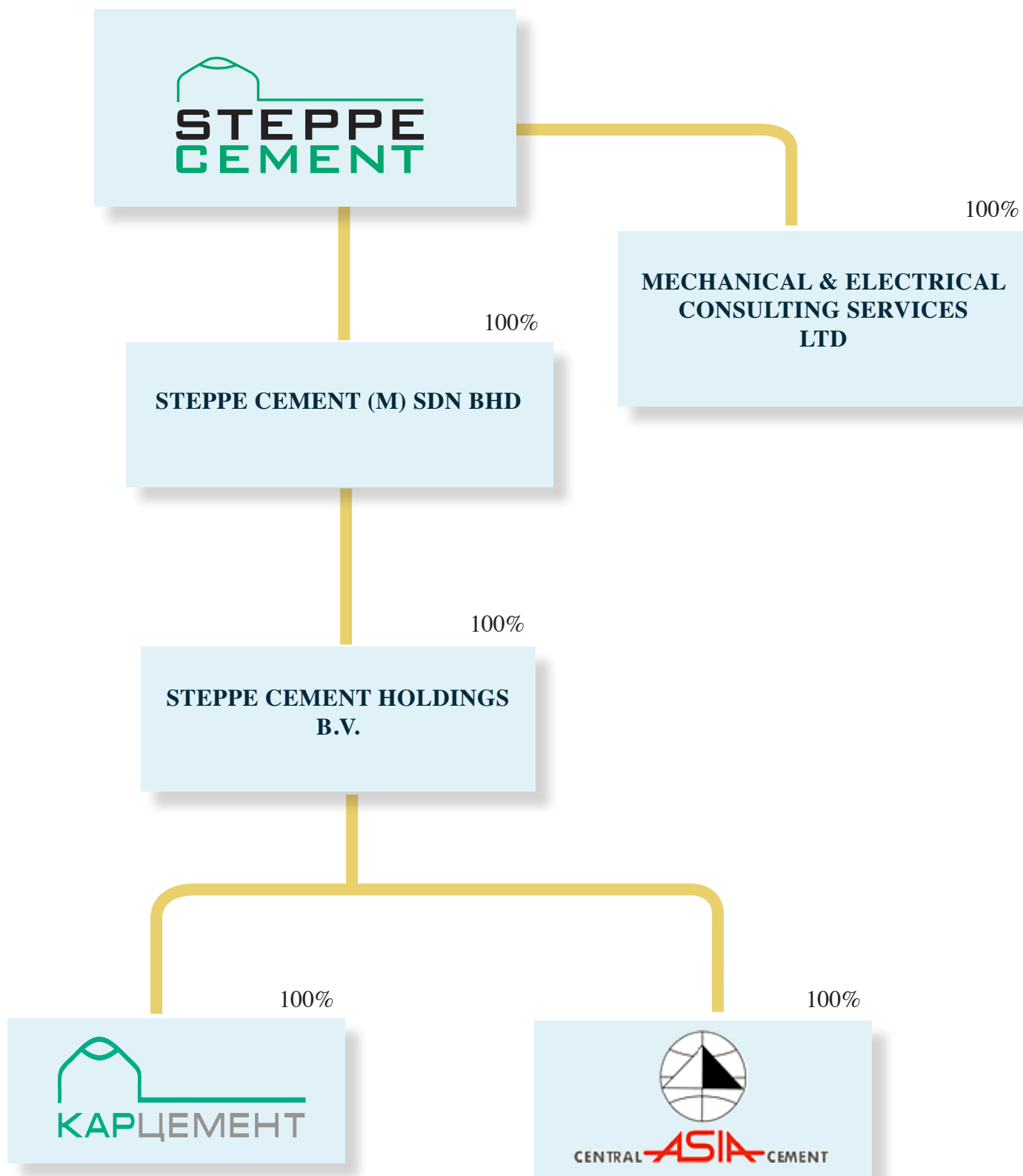
During 2009 and the first quarter of 2010 we used most of our cash flow and the USD15 million proceeds from the May 2009 share issue to service and repay debt facilities. At 31 December 2009 our total indebtedness was USD 80.7 million of which USD 74.6 million corresponded to EBRD, HSBC and the bond holders.

In addition we have short term credit lines available from Halik Bank of up to USD 10 million and Bank Center Credit of up to USD 4 million to finance our working capital needs.

Dividends will not be proposed in respect of the 2009 year and it is not expected that a dividend will be proposed in respect of the 2010 year.

**Javier del Ser**  
Chief Executive Officer





Note: Steppe Cement Holdings BV merged with CAC Holding BV wef 16 July 2009.



## Malcom Brown (Non-Executive Chairman)

Malcolm Brown, 63 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 markets. 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 Algeria. In Serbia, 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, 44, 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.

## Paul Rodzianko (Non-Executive Director)

Paul Rodzianko, 64, 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.

Paul is also a Director of Karcement JSC.





**Mehmet Faruk Osmanpasaoglu**  
Management Board Representative  
and Consultant

An engineering graduate from the Faculty of Mining Engineering, Istanbul Technical University. He has accumulated over 30 years of professional experiences in various senior capacities, mainly in 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 Italcementi Group.



**Peter Durnev**  
Marketing Director

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



**Vasily Shalimov**  
Plant Manager

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



**Chan Keng Chung**  
Accounting Consultant

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 degree of 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 CAC, he held a position of financial controller based in Hong Kong, after having spent 6 years in Shanghai. His expertise encompasses audit, financial reporting, internal control procedures, corporate finance and investment evaluation.



**Nelly Brazhnikova**  
Chief Accountant

Nelly graduated from the faculty - Industry Accounting, Karaganda Metallurgical University. She joined CAC in 1999 as deputy chief accountant and later promoted to chief accountant. She's experienced in tax accounting, bank procedures with legal entities.



**Nikolai Bolohovsev**  
Production Manager

Nikolai graduated from Moscow Chemical Engineering University; he started from rank and file, first as a mechanic, then as a chief of Burning shop and later as a deputy of Plant Manager. Since 1989 Nikolai is currently Plant Production Manager. 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.



**Irina Poluychik**  
Personnel Manager

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





**Gan Chee Leong**  
General Director

Gan a Malaysian is a Chartered Accountant from England and Wales. He started work in Kuala Lumpur as an auditor with a well-known international firm. He has about 16 years experience in cement industry in various capacities. Before joining CAC and KC, 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.



**Ramlan Safri**  
Head of Project

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



**George Ramesh**  
Maintenance Manager

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



**Alekseeva Svetlana**  
Chief Accountant

She is a CAP certified accountant and an Engineer-Economist by Qualification. She graduated from Karagandy Polytechnic Institute, specializing in economic and management in machinery and has been working in Karcement since 2008.



**Karunakaran Perumal**  
Plant Manager

A degree holder in Mechanical Engineer from Leeds University UK (1982), he has been in the Cement Industry since 2000. He has been spearheading the preventative maintenance program as the Methods Manager in two of the Lafarge Cement Plants in Malaysia with the implementation of Computerized Maintenance Management Systems (CMMS). Prior experience of 18 years has been 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).



**G.Srinivasa Reddy**  
Milling/Deputy Maintenance Manager

A Mechanical Engineer from India graduated from National Institute of Technology Warangal with strong academics. He came with 19 years of dry process cement industry experience. His experience includes Greenfield project execution with latest art of technology built in machinery, plant operation, maintenance and plant optimization. He had rich experience in vertical mills, ball mills and modern kilns. He also worked in plant up gradation projects during his career.



**P.Sampathkumar**  
Production Consultant

A Chemistry graduate from India, he has 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 operation, process control and optimization.



**Kuznetsova Veronica**  
Legal Department Chief

A graduate from the Legal Academy of Kazakhstan with a Masters Degree in Law. She joined CAC in 2005 as a lawyer. In 2007, she was transferred to Karcement and from 2010 she was appointed Chief of Legal Department.

Before joining with us he was working with Holcim (ACC Limited, India) wherein he worked in plant operation, maintenance and plant optimization areas in the 1 MTPA plant. Apart from maintenance he had also expertise in production and process optimization.



## 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;
- Review 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; and overall corporate governance of the Group.

### Board Process

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 Meetings

During the year ended 31 December 2009, 4 board meetings were held. The following is the attendance record of the directors:

Directors	No. of meetings attended
Malcolm Brown (Non-Executive Chairman)	4/4
Javier Del Ser Perez (Chief Executive Officer)	4/4
Paul Rodzianko (Non-Executive Director)	4/4



## **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.



## **Independence advice and insurance**

The Board may seek 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 comprises 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 comprises of:

1. Paul Rodzianko(Chairman)
2. Malcolm 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 and objectivity;
- 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 comprises of:

1. Paul Rodzianko (Chairman)
2. Malcolm Brown

## **Business Conduct Ethic**

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.

## **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.



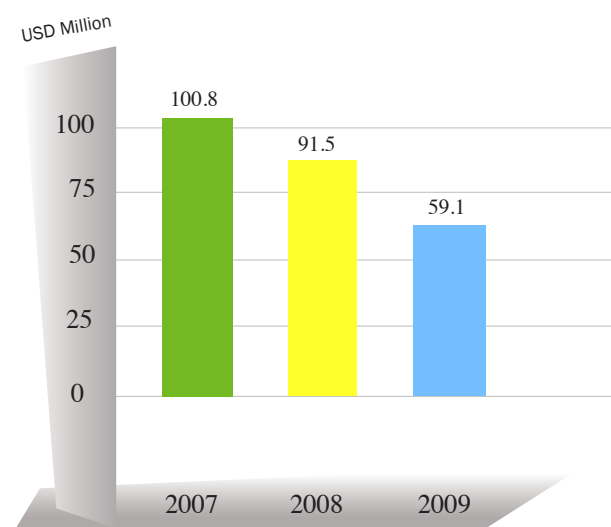
- Risk Management and Compliance – Risk management and compliance policies, controls and practices are in place for the Group to identify, assess, manage and monitor key business risks and exposure and for evaluation of their financial impact and other implications.

## **Monitoring and review mechanism**

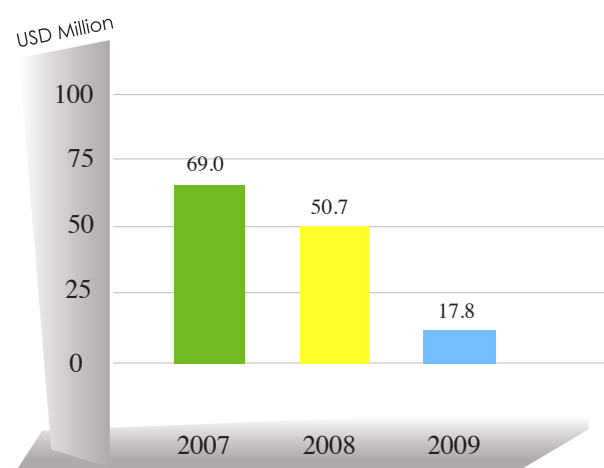
The Audit Committee is tasked to monitor and review the adequacy and effectiveness of the internal control system and procedures including risk management and compliance. The Group's internal audit function is responsible for conducting internal audits based on the risk-based audit plan approved annually 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.



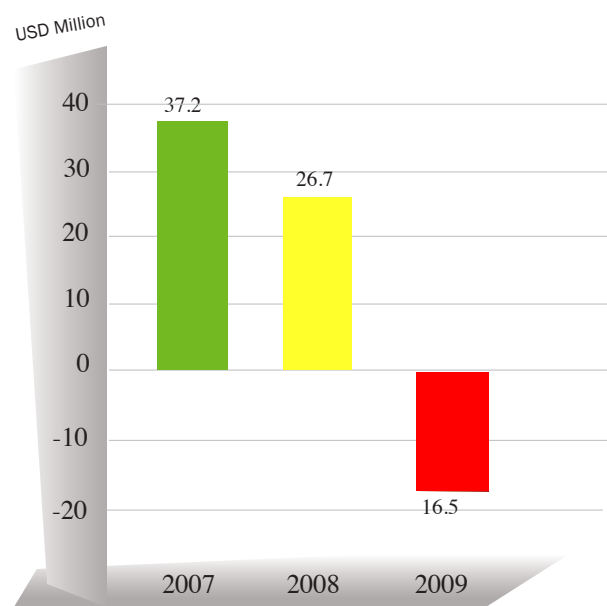
## Revenue



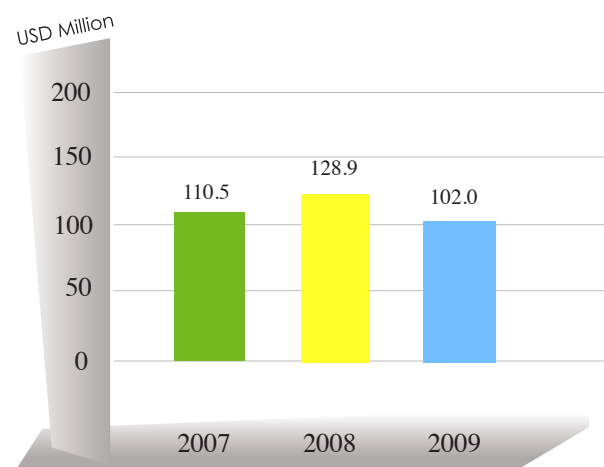
## Gross Profit



## Profit / Loss after Tax



## Shareholders Fund





Ratios	FYE 2009	FYE 2008	FYE 2007
Gross profit margin (%)	30	55	68
(Loss) / Profit after tax margin (%)	(28)	20	37
Net (Loss) / earnings per share (cents)	(12)	16	33
Return on shareholders funds (%)	(16)	14	34
NTA Per Share (cents per share)	66	113	97

## Shares data

Number of shares issued	154,000,000	114,000,000	114,000,000
-------------------------	-------------	-------------	-------------



**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2009**  
*(In United States Dollar)*



**STEPPE CEMENT LTD**

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

**AND ITS SUBSIDIARY COMPANIES**

## FINANCIAL STATEMENTS

<b>CONTENTS</b>	<b>PAGES</b>
Independent auditors' report	20 - 21
Income statements	22
Statements of comprehensive income	23
Statements of financial position	24 - 25
Statements of changes in equity	26 - 28
Cash flow statements	29 - 31
Notes to the financial statements	32 - 85
Statement by a Director	86



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

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

### **Report on the Financial Statements**

We have audited the financial statements of **STEPPE CEMENT LTD**, which comprise the statements of financial position of the Group and of the Company as of 31 December 2009, and the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements 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 65.

#### *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 Labuan 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 Labuan 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.

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.

(Forward)



## *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 Labuan 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 2009 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 1 to the Financial Statements on the economic environment in Kazakhstan where the Group's activities are based. In addition, as mentioned in Note 12 to the Financial Statements, the Group has suspended the refurbishment of one of its production lines as a result of the economic situation. Though, the Group had developed programs to mitigate the effects of the economic situation on its operational and financial activities, there remain uncertainties which may cast 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 uncertainties.

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

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

16 April 2010



## STEPPE CEMENT LTD

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

## AND ITS SUBSIDIARY COMPANIES

### INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		The Group		The Company	
	Note	2009 USD	2008 USD	2009 USD	2008 USD
Revenue	4	59,128,534	91,525,652	100,000	100,000
Cost of sales		(41,301,565)	(40,859,535)	-	-
Gross profit		17,826,969	50,666,117	100,000	100,000
Selling expenses		(7,600,633)	(7,536,189)	-	-
General and administrative expenses		(9,864,821)	(13,892,248)	(550,667)	(591,711)
Operating profit / (loss)	5	361,515	29,237,680	(450,667)	(491,711)
Investment income	6	88,945	21,545	406	-
Finance costs	7	(6,825,090)	(2,804,520)	-	-
Other (expense)/ income, net	8	(12,625,398)	180,640	61,582	2,524
(Loss)/Profit before income tax		(19,000,028)	26,635,345	(388,679)	(489,187)
Income tax credit/ (expense)	9	2,483,108	(7,993,412)	-	-
(Loss)/Profit for the year		(16,516,920)	18,641,933	(388,679)	(489,187)
Attributable to: Shareholders of the Company		(16,516,920)	18,641,933	(388,679)	(489,187)
(Loss)/Earnings per share:					
Basic (cents)	10	(12)	16		

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



## STEPPE CEMENT LTD

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

## AND ITS SUBSIDIARY COMPANIES

### STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	The Group		The Company	
		2009 USD	2008 USD	2009 USD	2008 USD
(Loss)/Profit for the year		(16,516,920)	18,641,933	(388,679)	(489,187)
Other comprehensive (loss)/income:					
Effects of changes in tax rate on revaluation reserve		810,328	-	-	-
Exchange differences arising on translation of foreign subsidiary companies	20	(26,263,752)	(189,393)	-	-
Total comprehensive (loss)/income for the year		<u>(41,970,344)</u>	<u>18,452,540</u>	<u>(388,679)</u>	<u>(489,187)</u>
Attributable to:					
Shareholders of the Company		<u>(41,970,344)</u>	<u>18,452,540</u>	<u>(388,679)</u>	<u>(489,187)</u>

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



## STEPPE CEMENT LTD

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

## AND ITS SUBSIDIARY COMPANIES

### STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2009

		The Group		The Company	
	Note	2009 USD	2008 USD	2009 USD	2008 USD
<b>Assets</b>					
<b>Non-Current Assets:</b>					
Property, plant and equipment	11	135,126,257	172,250,501	-	-
Investment in subsidiary companies	12	-	-	26,500,001	26,500,001
Advances paid	16	6,704,505	9,145,506	-	-
Other assets	13	28,181,945	33,492,095	-	-
<b>Total Non-Current Assets</b>		<u>170,012,707</u>	<u>214,888,102</u>	<u>26,500,001</u>	<u>26,500,001</u>
<b>Current Assets</b>					
Inventories, net	14	14,275,514	20,508,732	-	-
Trade receivables, net	15	825,764	957,932	-	-
Amount owing by subsidiary companies	12	-	-	10,889,037	746,873
Other receivables, advances and prepaid expenses	16	7,483,068	8,950,510	3,836	3,467
Short-term investments	17	-	2,391,437	-	-
Cash and bank balances	18	6,545,329	729,636	3,885,860	135,408
<b>Total Current Assets</b>		<u>29,129,675</u>	<u>33,538,247</u>	<u>14,778,733</u>	<u>885,748</u>
<b>Total Assets</b>		<u>199,142,382</u>	<u>248,426,349</u>	<u>41,278,734</u>	<u>27,385,749</u>

(Forward)



		The Group		The Company	
	Note	2009 USD	2008 USD	2009 USD	2008 USD
<b>Equity and Liabilities</b>					
<b>Capital and Reserves</b>					
Share capital	19	1,540,000	1,140,000	1,540,000	1,140,000
Share premium	20	41,296,193	26,646,982	41,296,193	26,646,982
Revaluation reserve	20	3,023,894	3,364,936	-	-
Translation reserve	20	(20,863,615)	5,400,137	-	-
Retained earnings/ (Accumulated loss)	20	77,003,531	92,369,081	(2,756,873)	(2,368,194)
<b>Total Equity</b>		<u>102,000,003</u>	<u>128,921,136</u>	<u>40,079,320</u>	<u>25,418,788</u>
<b>Non-Current Liabilities</b>					
Bonds	21	18,034,674	22,064,099	-	-
Loans	22	43,031,506	55,089,531	-	-
Deferred tax liabilities, net	23	6,420,953	9,547,207	-	-
<b>Total Non-Current Liabilities</b>		<u>67,487,133</u>	<u>86,700,837</u>	<u>-</u>	<u>-</u>
<b>Current liabilities</b>					
Trade payables	24	6,445,945	12,341,535	-	-
Other payables and accrued liabilities	25	3,213,763	3,663,239	747,793	666,191
Loans	22	19,682,609	14,987,979	-	-
Amount owing to subsidiary companies	12	-	-	451,621	1,300,770
Taxes payable	26	312,929	1,811,623	-	-
<b>Total Current Liabilities</b>		<u>29,655,246</u>	<u>32,804,376</u>	<u>1,199,414</u>	<u>1,966,961</u>
<b>Total Liabilities</b>		<u>97,142,379</u>	<u>119,505,213</u>	<u>1,199,414</u>	<u>1,966,961</u>
<b>Total Equity and Liabilities</b>		<u>199,142,382</u>	<u>248,426,349</u>	<u>41,278,734</u>	<u>27,385,749</u>

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



## STEPPE CEMENT LTD

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

## AND ITS SUBSIDIARY COMPANIES

### STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

The Group	Share capital USD	←		→		Total/Net USD
		Share premium USD	Non-distributable Revaluation reserve USD	Translation reserve USD	Distributable Retained earnings 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
Profit for the year	-	-	-	-	18,641,933	18,641,933
Exchange differences arising on translation of foreign subsidiary companies	-	-	-	(189,393)	-	(189,393)
Total comprehensive income/(loss) for the year	-	-	-	(189,393)	18,641,933	18,452,540
Transfer on revaluation reserve relating to property, plant and equipment through use	-	-	(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>

(Forward)



The Group	Share Capital USD	← Non-distributable		→ Distributable		Total/Net USD
		Share premium USD	Revaluation reserve USD	Translation reserve USD	Retained earnings USD	
<b>Balance as at 1 January 2009</b>	1,140,000	26,646,982	3,364,936	5,400,137	92,369,081	128,921,136
Loss for the year	-	-	-	-	(16,516,920)	(16,516,920)
Effects of change in tax rate	-	-	810,328	-	-	810,328
Exchange differences arising on translation of foreign subsidiary companies	-	-	-	(26,263,752)	-	(26,263,752)
Total comprehensive income/(loss) for the year	-	-	810,328	(26,263,752)	(16,516,920)	(41,970,344)
Transfer on revaluation reserve relating to property, plant and equipment through use	-	-	(1,151,370)	-	1,151,370	-
Issue of shares (Notes 19 and 20)	400,000	14,688,578	-	-	-	15,088,578
Share issue expenses	-	(39,367)	-	-	-	(39,367)
<b>Balance as at 31 December 2009</b>	<u>1,540,000</u>	<u>41,296,193</u>	<u>3,023,894</u>	<u>(20,863,615)</u>	<u>77,003,531</u>	<u>102,000,003</u>



## STEPPE CEMENT LTD

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

## AND ITS SUBSIDIARY COMPANIES

The Company	Share capital USD	Non-distributable Share premium USD	Accumulated loss USD	Total/Net USD
<b>Balance as at 1 January 2008</b>	1,140,000	26,646,982	(1,879,007)	25,907,975
Total comprehensive loss for the year	-	-	(489,187)	(489,187)
<b>Balance as at 31 December 2008</b>	1,140,000	26,646,982	(2,368,194)	25,418,788
<b>Balance as at 1 January 2009</b>	1,140,000	26,646,982	(2,368,194)	25,418,788
Total comprehensive loss for the year	-	-	(388,679)	(388,679)
Issue of shares (Note 19 and 20)	400,000	14,688,578	-	15,088,578
Share issue expenses	-	(39,367)	-	(39,367)
<b>Balance as at 31 December 2009</b>	1,540,000	41,296,193	(2,756,873)	40,079,320

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



## STEPPE CEMENT LTD

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

## AND ITS SUBSIDIARY COMPANIES

### CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
<b>CASH FLOWS (USED IN)/ FROM OPERATING ACTIVITIES</b>				
(Loss)/Profit before income tax	(19,000,028)	26,635,345	(388,679)	(489,187)
Adjustments for:				
Depreciation of property, plant and equipment	7,511,863	3,719,549	-	-
Finance costs	6,825,090	2,804,520	-	-
(Recovery)/Allowance for obsolete inventories	(2,285)	279,413	-	-
Interest income	(88,945)	(21,545)	(406)	-
Unrealised foreign exchange loss/(gain)	12,748,250	117,252	(69,256)	(1,882)
Loss on disposal of property, plant and equipment	28,224	118,459	-	-
Allowance for doubtful receivables and advances paid no longer required	(2,770)	-	-	-
Allowance for doubtful receivables and advances paid	604,414	170,540	-	-
Bad debts receivable written-off	-	13,813	-	-
Reversal of discount on VAT	-	(1,383,107)	-	-
Operating Profit/ (Loss)Before Working Capital Changes	8,623,813	32,454,239	(458,341)	(491,069)

(Forward)



	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
(Increase)/ Decrease in:				
Inventories	761,974	(11,181,716)	-	-
Trade receivables	156,574	(522,020)	-	-
Amount owing by subsidiary companies	-	-	(10,142,164)	(90,012)
Other receivables and prepaid expenses	1,435,064	4,694,652	(369)	(2,147)
Increase/ (Decrease) in:				
Trade payables	(5,895,590)	7,048,902	-	-
Other payables and accrued liabilities	190,183	(1,838,438)	150,858	(10,499)
Amount owing to subsidiary companies	-	-	(849,149)	559,864
Cash Generated From/(Used In) Operations	5,272,018	30,655,619	(11,299,165)	(33,863)
Income tax paid	(1,568,081)	(10,557,810)	-	-
Interest paid	(6,209,710)	(6,295,323)	-	-
Net Cash (Used In)/From Operating Activities	(2,505,773)	13,802,486	(11,299,165)	(33,863)
<b>CASH FLOWS (USED IN)/ FROM INVESTING ACTIVITIES</b>				
Proceeds from disposal of property, plant and equipment	-	439,903	-	-
Purchase of property, plant and equipment	(2,025,959)	(50,188,112)	-	-
Proceeds from short-term investments	2,391,437	-	-	-
Purchase of short-term investments	-	(2,391,437)	-	-
Advance for non-current assets (net)	(918,018)	(11,728,958)	-	-

(Forward)



	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Interest received	88,945	21,545	406	-
Net Cash (Used In)/From Investing Activities	(463,595)	(63,847,059)	406	-
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of shares	15,088,578	-	15,088,578	-
Share issue expenses	(39,367)	-	(39,367)	-
Proceeds from borrowings	22,087,180	68,412,577	-	-
Repayment of loans, net	(28,289,280)	(23,200,000)	-	-
Net Cash From Financing Activities	8,847,111	45,212,577	15,049,211	-
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,877,743	(4,831,996)	3,750,452	(33,863)
<b>EFFECTS OF FOREIGN EXCHANGE RATE CHANGES</b>	(62,050)	(11,476)	-	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	729,636	5,573,108	135,408	169,271
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 27)</b>	6,545,329	729,636	3,885,860	135,408

### NON-CASH TRANSACTIONS

During the financial year, the Group capitalised inventories to the cost of property, plant, and equipment of USD1,230,583 and borrowing costs of USD83,634 (2008: USD3,461,998) (Note 11).

During 2008, the Group dismantled certain equipments of USD373,245 and transferred these from property, plant and equipment to spare parts inventories.

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



**STEPPE CEMENT LTD**

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

**AND ITS SUBSIDIARY COMPANIES****NOTES TO THE FINANCIAL STATEMENTS****1. GENERAL INFORMATION**

The Company is incorporated and domiciled in Malaysia.

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 16 April 2010.

**Operating environment in the Republic of Kazakhstan**

Although in recent years there has been a general improvement in economic conditions in Republic of Kazakhstan, Kazakhstan continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Republic of Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Republic of Kazakhstan is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kazakhstan. The future economic direction of Republic of Kazakhstan is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

**Ongoing Global Liquidity Crisis**

The financial markets, both globally and in Republic of Kazakhstan, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. The global financial turmoil has significantly affected Kazakhstan's economy.



While many countries, including Republic of Kazakhstan, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Republic of Kazakhstan economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

The Government of Republic of Kazakhstan initiated the adoption of a package of laws and regulations to restore investor confidence, provide liquidity and support medium-term growth of Kazakhstan's economy. However at this stage, there is no clarity with respect to efficiency of these measures. While the Government of Republic of Kazakhstan has introduced a range of stabilization measures aimed at providing liquidity to Kazakhstani banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

## 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**

In the current year, the Group has adopted the following new and revised standards and interpretations issued by the International Financial Reporting Standards Board and the International Financial Reporting Interpretations Committee that are relevant to its operations and effective for accounting periods beginning on 1 January 2009.



Details of new and revised Standards affecting presentation and disclosure and have had no effect on the amounts reported are as follows:

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• IAS 1 (as revised in 2007) Presentation of Financial Statements</li> </ul>   | <p>IAS 1(2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.</p> |
| <ul style="list-style-type: none"> <li>• Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)</li> </ul> | <p>The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk.</p>  |

The following new and revised Standards, amendments to Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- IFRS 8 “Operating Segments”;
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;
- Amendments to IFRS 2 “Share-based Payment - Vesting Conditions and Cancellations”;
- IAS 23 (as revised in 2007) “Borrowing Costs”;
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation”;
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures regarding reclassifications of financial assets”;
- “Embedded Derivatives” (Amendments to IFRIC 9 and IAS 39);
- IFRIC 13 “Customer Loyalty Programmes”;
- IFRIC 15 “Agreements for the Construction of Real Estate”;
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”; and
- Improvements to IFRSs (2008) – 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 Improvements have led to a number of changes in the detail of the Company’s accounting policies – some of which are changes in terminology only, and some of which are substantive, but have had no material effect on amounts reported. The majority of these amendments are effective from 1 January 2009.



At the date of authorization of these financial statements the following Standards, amendments to Standards and Interpretations were in issue but not yet effective:

- IFRS 1 (as revised in 2008) “First-time Adoption of International Financial Reporting Standards” (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” additional exemptions for first-time adoption relating to oil and gas assets and arrangements containing leases (effective for reporting periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 “Share-based Payment” relating to group cash-settled share-based payment transactions (effective for reporting periods beginning on or after 1 January 2010);
- IFRS 3 (as revised in 2008) “Business Combinations” (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (effective for reporting periods beginning on or after 1 January 2010);
- IFRS 9 “Financial Instruments” (effective for reporting periods beginning on or after 1 January 2013);
- Amendments to IAS 7 “Statement of Cash Flows” (effective for reporting periods beginning on or after 1 January 2010);
- IAS 24 (revised) “Related Party Disclosures” (effective for reporting periods beginning on or after 1 January 2011);
- IAS 27 (as revised in 2008) “Consolidated and Separate Financial Statements” as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);
- IAS 28 (as revised in 2008) “Investments in Associates” as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);
- IAS 31 “Interests in Joint Ventures” as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);
- Amendment to IAS 32 “Financial Instruments: Presentation” relating to classification of rights issues (effective for reporting periods beginning on or after 1 February 2010);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items” (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement – Amendments for embedded derivatives when reclassifying financial instruments” (effective for reporting periods beginning on or after 30 June 2009);
- Amendments to IFRIC 14 IAS 19 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” relating to voluntary prepaid contributions (effective for reporting periods beginning on or after 1 February 2011);

(Forward)



- IFRIC 17 “Distributions of Non-cash Assets to Owners” (effective for reporting periods beginning on or after 1 July 2009);
- IFRIC 18 “Transfers of Assets from Customers” (effective for reporting periods beginning on or after 1 July 2009);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for reporting periods beginning on or after 1 July 2010); and
- Improvements to IFRSs (April 2009) – in April 2009, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards, the IFRS Committee issued amendments to 12 existing Standards and Interpretations. These Improvements are intended to deal with non-urgent, minor amendments to Standards and Interpretations. The new version of the above standards and interpretations is effective for reporting periods starting on or after 1 July 2009 and 1 January 2010.

The Group and the Company will adopt all relevant new, revised and amended Standards and new and amended Interpretations from their respective effective dates.

Management anticipates that all of the above Standards and Interpretations will be adopted in the Group’s financial statements for the period commencing 1 January 2010 and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

## **Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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 judgements, 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 so that their carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Management has made an assessment of the fair value of land and buildings as at 31 December 2009 and determined that the carrying value of those assets as at that date is not significantly 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. 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 16.49% (2008: 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 expected 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 2009, allowance for doubtful receivables of USD802,035 (2008: USD245,998) has been made 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 2009, allowance for obsolete and slow-moving inventories of USD571,129 (2008: USD703,917) has been made for in the financial statements (Note 14).

## Assessment of the deferred income tax effect

At each reporting date, the management of the Group determines the future effect of deferred income tax by reconciliation of the carrying amounts of assets and liabilities recorded in the financial statements against the respective tax base. Deferred tax assets and liabilities are assessed at the tax rates applicable to the period in which such assets are realised or liabilities are discharged. Deferred tax assets are recognised to such extent in which it is probable that sufficient taxable profits will be available to allow realisation of the respective deductible temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to such extent in which it is no longer probable that the respective tax benefits will be realised.



## Going Concern

These financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

As at 31 December 2009, one of its subsidiary companies, Karcement JSC's ("Karcement") accumulated deficit and loss for the year then ended were approximately USD18,572,000 (2008: USD2,625,000) and approximately USD16,503,700 (2008: USD1,430,000), respectively. Cash used in operating activities for the year ended 31 December 2009 was approximately USD2,705,000 (2008: USD10,078,000). As at 31 December 2009, Karcement has completed refurbishing process of production line number 6, but temporarily has suspended the refurbishing of production line number 5. In 2009, Karcement started production and sale of finished goods; however, revenue level was not sufficient to cover its expenses.

Management believes that the successful completion of full development program of Karcement and, reaching the profitable stage, will depend on future events, including sufficient financing for conducting development activities, obtaining permits from regulating authorities and achieving revenue level, sufficient to cover its expenses. Also, management believes that Karcement will generate sufficient revenue to cover its expenses as soon as full production starts and that Karcement will have sufficient financing from the Company to continue its activities on a going concern basis.

These financial statements do not include any adjustments in the carrying values of assets and liabilities, the reported revenues and expenses, and classifications used in the statement of financial position, that might result from the outcome of this uncertainty, and such adjustments may be material.

## Useful lives of property, plant and equipment

The estimated useful lives, residual value and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

## **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 to be 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 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 reporting date, and are discounted to present value where the effect is material.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## **Contingent liabilities**

Contingent liabilities are not recognised in these financial statements, except for liabilities on which there are possible outflows of resources needed for settlement of the liabilities and can be measured reliably. Contingent assets are not recognised in the financial statements, but where an inflow of economic benefits is probable, they are disclosed in the notes to the financial statements.



## **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 reporting 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 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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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 reporting 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:

	2009 USD	2008 USD
1 Sterling Pound	1.6170	1.4593
1 Euro	1.4321	1.3971
1 Ringgit Malaysia	0.2918	0.2884
1 CHF	1.0352	1.0507
1 RUB	0.0340	0.0408
	<b>KZT</b>	<b>KZT</b>
1 USD	148.385	120.875

## Impairment of Tangible Assets

At each reporting 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 reporting 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 reporting 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 the estimated costs necessary to make the sale

## **Financial Instruments**

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position 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 present value of estimated 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.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The changes in impairment allowances are charged to profit and losses. The assets reflected on the statement of financial position 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

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Sales of manufactured goods	59,128,534	91,525,652	-	-
Management fee receivable from subsidiary company	-	-	100,000	100,000
Total	59,128,534	91,525,652	100,000	100,000



## 5. OPERATING PROFIT/(LOSS)

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

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Cost of inventories recognised as expenses	41,299,280	41,138,948	-	-
Staff costs	8,419,654	8,958,342	-	-
Depreciation of property, plant and equipment (Note 11)	7,511,863	3,719,549	-	-
Allowance for doubtful receivables and advances paid	604,414	170,540	-	-
Auditors' remuneration for audit services	154,681	258,307	12,000	12,000
Allowance for doubtful receivables and advances paid no longer required	(2,770)	-	-	-
(Recovery)/Allowance for obsolete inventories	(2,285)	279,413	-	-
Bad receivables written-off	-	13,813	-	-

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

## 6. INVESTMENT INCOME

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Interest income from short-term deposits	88,945	21,545	406	-



## 7. FINANCE COSTS

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Interest expense on loans from financial institutions	4,959,839	607,041	-	-
Interest on debt securities	1,737,458	2,197,479	-	-
Other finance costs	127,793	-	-	-
Total	6,825,090	2,804,520	-	-

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

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Income from				
Transportation services	62,360	260,531	-	-
Sale of purchased goods	140,794	98,928		
Other inventory - spare parts	547,124	11,220	-	-
Grinding of clinker	215,974	-	-	-
Foreign exchange gain/ (loss):				
Realised	-	642	(7,674)	642
Unrealised	(12,748,250)	(117,252)	69,256	1,882
Loss on disposal of property, plant and equipment	(28,224)	(118,459)	-	-
Rental and repairs expense	(588,274)	-	-	-
Other (expenses)/income, net	(226,902)	45,030	-	-
Total	(12,625,398)	180,640	61,582	2,524



## 9. INCOME TAX CREDIT/(EXPENSE)

The income tax credit/(expense) is as follows:

	The Group		The Company	
	2009	2008	2009	2008
	USD	USD	USD	USD
Estimated current tax payable:				
- the Company	-	-	-	-
- subsidiary companies	(113,012)	(10,119,373)	-	-
Overprovision in prior years	590,541	-	-	-
Deferred tax credit (Note 23):				
- the Company	-	-	-	-
- subsidiary companies	2,005,579	2,125,961	-	-
<b>Total</b>	<b>2,483,108</b>	<b>(7,993,412)</b>	<b>-</b>	<b>-</b>

Under the Labuan Business Activity Tax Act, 1990, the Company has to elect annually whether it is to be charged tax at the rate of RM20,000 (USD5,836) 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.

There is no income tax expense for the current financial year as the Company does not have any chargeable income.

The profits earned by the subsidiary companies incorporated in the Republic of Kazakhstan are subject to a statutory tax rate of 20%. In 2009, the following amendments were made to the Kazakhstan Tax Code ("Tax Code") to reduce the corporate income tax rate:

From 1 January 2009	20%
From 1 January 2013	17.5%
From 1 January 2014	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;
- 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 numerical reconciliation of income tax expense applicable to (loss)/profit before income 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:

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
(Loss)/Profit before income tax	(19,000,028)	26,635,345	(388,679)	(489,187)
Tax calculated at domestic tax rates applicable to the respective jurisdictions	(3,697,124)	8,105,490	(11,660)	(14,676)
Tax effects of:				
Expenses not deductible for tax purposes	1,478,080	1,593,272	-	-
Income not assessable to tax	-	784,986	-	-
Deferred tax assets not allowed to be carried forward/not recognised	66,296	72,129	11,660	14,676
Change in allowance for deferred tax asset	58,394	-	-	-
Effect on deferred tax balances due to the change in income tax rate from 17.5% to 15%	201,787	(2,562,465)	-	-
Over provision in prior years	(590,541)	-	-	-
Income tax (credit)/expense	(2,483,108)	7,993,412	-	-



## 10. (LOSS)/EARNINGS PER SHARE

Basic	The Group	
	2009 USD	2008 USD
(Loss)/Profit attributable to ordinary shareholders	(16,516,920)	18,641,933
	2009	2008
Number of shares in issue at beginning of year	114,000,000	114,000,000
Issue of shares during the year	40,000,000	-
Number of shares in issue at end of year	154,000,000	114,000,000
Weighted average number of ordinary shares in issue	139,753,425	114,000,000
	2009	2008
Basic (loss)/earnings per share (cents)	(12)	16

The basic (loss)/earnings per share is calculated by dividing the consolidated (loss)/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 2009 and 31 December 2008 consists of the following:

The Group	Freehold land and land improvement USD	Buildings USD	Machinery and equipment USD	Other assets USD	Computer software USD	Construction in progress USD	Total USD
<b>Cost (unless otherwise indicated)</b>							
At 1 January 2008	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	(5,874)	(73,335)	(25,764)	(5,736)	(38)	(119,417)	(230,164)
At 31 December 2008	3,646,619	45,485,510	19,756,393	4,465,505	50,333	119,188,384	192,592,744
Additions	1,617	125,693	2,670,546	225,986	29,686	286,648	3,340,176
Transfers	7,548	2,848,273	53,125,397	12,453,206	-	(68,434,424)	-
Disposals	-	-	(11,915)	(8,559)	-	(15,015)	(35,489)
Exchange differences	(676,069)	(8,432,836)	(3,662,751)	(827,887)	(9,332)	(23,118,751)	(36,727,626)
At 31 December 2009	2,979,715	40,026,640	71,877,670	16,308,251	70,687	27,906,842	159,169,805

(Forward)



The Group	Freehold land and land improvement USD	Buildings USD	Machinery and equipment USD	Other assets USD	Computer software USD	Construction in progress USD	Total USD
<b>Accumulated depreciation</b>							
At 1 January 2008	-	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
Charge for the year	-	1,705,932	4,363,735	1,432,891	9,305	-	7,511,863
Transfer	-	4,819	(68,579)	63,760	-	-	-
Disposals	-	-	(3,653)	(3,612)	-	-	(7,265)
Exchange differences	-	(2,877,279)	(612,655)	(309,323)	(4,036)	-	(3,803,293)
At 31 December 2009	-	14,314,001	6,883,398	2,819,328	26,821	-	24,043,548
<b>Net Book Value</b>							
At 31 December 2009	2,979,715	25,712,639	64,994,272	13,488,923	43,866	27,906,842	135,126,257
At 31 December 2008	3,646,619	30,004,981	16,551,843	2,829,893	28,781	119,188,384	172,250,501



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 2009, the Group did not identify impairment indication on land and buildings.

During the financial year, the Group's subsidiary company, Karcement JSC capitalised inventories of USD1,230,583 and borrowing costs of USD83,634 (2008: USD3,461,998) which comprise of interest charged on loan from European Bank for Reconstruction and Development ("EBRD"), Kazkommertsbank JSC and HSBC Bank Kazakhstan JSC.

As at 31 December 2009, 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 company, Central Asia Cement JSC's property, plant and equipment with a net book value of USD37,299,558 were pledged under the loan granted by EBRD to Karcement JSC.

The cost of fully depreciated property, plant and equipment in 2009 amounted to USD406,928 (2008: USD532,798).

## 12. INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2009	2008
	USD	USD
Unquoted shares, at cost	26,500,001	26,500,001

The details of subsidiary companies are as follows:

	Place of incorporation (or registration) and operation	Proportion of ownership interest and voting power held		Principal activities
		2009	2008	
		%	%	
<b>Direct Subsidiary Companies</b>				
Steppe Cement (M) Sdn. Bhd.	Malaysia	100	100	Investment holding company

(Forward)



		Proportion of ownership interest and voting power held		Principal activities
Place of incorporation (or registration) and operation		2009 %	2008 %	
Direct Subsidiary Companies				
Mechanical & Electrical Consulting Services Ltd	Malaysia	100	100	Provision of consultancy services
Indirect Subsidiary Companies				
(Held through Steppe Cement (M) Sdn. Bhd.)				
Steppe Cement Holdings B.V. * (“SCH BV”)	Netherlands	100	100	Investment holding company
(Held through Steppe Cement (M) Sdn. Bhd.)				
Central Asia Cement Holding B.V. * (“CAC BV”)	Netherlands	-	100	Dissolved
(Held through SCH BV)				
Central Asia Cement JSC * (“CAC JSC”)	Republic of Kazakhstan	100	100	Production and sale of cement
(Held through SCH BV)				
Karcement JSC *	Republic of Kazakhstan	100	100	Production and sale of cement

\* audited by member firm of Deloitte Touche Tohmatsu



During the financial year, the merger between SCH BV and CAC BV was completed. CAC BV's assets, mainly the investment in CAC JSC, and liabilities were transferred into SCH BV. CAC BV ceased to exist after the merger.

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. As at 31 December 2009, Karcement has completed the line number 6 refurbishment project, but temporarily has suspended the refurbishment of production line number 5. In 2009, Karcement commenced production and sale of finished goods; however, revenue level was not sufficient to cover the expenses of Karcement. The successful completion of full development program of Karcement and, reaching the profitable stage, will depend on future events, including sufficient financing for conducting development activities, obtaining permits from regulating authorities and achieving revenue level that will be sufficient to cover expenses of Karcement.

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 following transactions and balances of the Company with subsidiary companies are included in the income statements and statements of financial position of the Company:

Company	Nature	Revenue from services performed	
		2009 USD	2008 USD
Mechanical & Electrical Consulting Services Ltd.	Management fees	100,000	100,000

Company	Nature of transactions	Receivable from/(Payable to) subsidiary companies	
		2009 USD	2008 USD
Karcement JSC	Reimbursement of expenses	(121,255)	(121,255)
Karcement JSC	Intercompany loans	9,520,000	-
CAC JSC	Reimbursement of expenses	(451,621)	(451,621)
Mechanical & Electrical Consulting Services Ltd.	Reimbursement of expenses and management fee	624,149	(727,894)
Steppe Cement (M) Sdn. Bhd.	Reimbursement of expenses	866,143	286,359
Steppe Cement Holdings B.V.	Reimbursement of expenses	-	235,237



Company	Nature of transactions	Receivable from/(Payable to) subsidiary companies	
		2009 USD	2008 USD
Central Asia Cement Holding B.V.	Reimbursement of expenses	-	225,277

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

	The Company	
	2009 USD	2008 USD
US Dollar	10,597,889	-
Ringgit Malaysia	291,148	286,359
Euro	-	460,514
	<u>10,889,037</u>	<u>746,873</u>

### 13. OTHER ASSETS

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
VAT (recoverable)	11,197,143	14,432,124	-	-
Construction materials	13,497,901	17,835,160	-	-
Spare parts	3,448,690	1,224,811	-	-
Quarry stripping costs	38,211	-	-	-
	<u>28,181,945</u>	<u>33,492,095</u>	<u>-</u>	<u>-</u>

As of 31 December 2009, the Group classified construction materials of USD13,497,901 (2008: USD17,835,160) and certain spare parts of USD3,448,690 (2008: USD1,224,811) as non-current assets. Management expects to use the construction materials and spare parts during the period exceeding one year.

As at 31 December 2009, quarry stripping costs represents actual costs of removing overburden of a new quarry. The overburden removal work of this new quarry began in 2009 and remained in progress as at 31 December 2009. Amortisation commences upon physical extraction of limestone and clay from this new quarry.

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



## 14. INVENTORIES, NET

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Work in progress	4,614,834	3,219,475	-	-
Finished goods	1,356,451	1,733,535	-	-
Raw materials	2,152,980	3,722,895	-	-
Spare parts	5,510,510	11,018,953	-	-
Fuel	832,712	80,546	-	-
Construction materials	54,844	876,748	-	-
Other materials	324,312	560,497	-	-
	14,846,643	21,212,649	-	-
Less: Allowance for obsolete inventories	(571,129)	(703,917)	-	-
Net	14,275,514	20,508,732	-	-

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

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Balance at beginning of the year	(703,917)	(425,191)	-	-
Exchange differences	130,503	687	-	-
Add: Recovery/ (Allowance) for obsolete inventories	2,285	(279,413)	-	-
Balance at end of the year	(571,129)	(703,917)	-	-

As at 31 December 2009, inventories of USD4,760,582 (2008: 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 2009 and 2008 consist of the following:

	The Group		The Company	
	2009	2008	2009	2008
	USD	USD	USD	USD
Trade receivables	918,064	1,074,639	-	-
Less: Allowance for doubtful receivables	(92,300)	(116,707)	-	-
Net	825,764	957,932	-	-

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

An allowance of USD92,300 (2008: USD116,707) 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 reporting 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 2009, the Group has trade receivables of USD825,764 (2008: USD957,932). 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 reporting 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 major customers' receivables of USD5,111,029 (2008: USD3,137,125) have been assigned to Bank Center Credit JSC as security for the loan facility of KZT360 million equivalent to USD2,426,121 (Note 22).



## 16. OTHER RECEIVABLES, ADVANCES AND PREPAID EXPENSES

Other receivables as at 31 December 2009 and 2008 consist of the following:

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Receivable from employees	52,148	118,842	-	-
Income tax receivable	408,141	-	-	-
Other receivables				
- VAT (recoverable)	5,147,293	7,028,161	-	-
- Others	145,695	43,119	-	428
	5,292,988	7,071,280	-	428
Prepaid expenses	507,760	223,098	3,836	3,039
	6,261,037	7,413,220	3,836	3,467
Advances paid to third parties, net of allowance of USD161,667 (2008: USD129,291)	7,926,536	10,682,796	-	-
	14,187,573	18,096,016	3,836	3,467
Advances paid to third parties - non-current portion, net of allowance of USD548,068 (2008: Nil)	(6,704,505)	(9,145,506)	-	-
	7,483,068	8,950,510	3,836	3,467

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 number 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 2009, all short-term investments have been liquidated.

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

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Cash in hand and at banks	3,300,149	680,900	685,664	135,408
Short-term deposits	3,245,180	48,736	3,200,196	-
	<u>6,545,329</u>	<u>729,636</u>	<u>3,885,860</u>	<u>135,408</u>

As at 31 December 2009, in accordance with the Law of Republic of Kazakhstan on Labor, a non-interest bearing deposit of KZT6,675,000 equivalent to USD44,984 was placed with Kazkommertsbank JSC as part of work permit requirements for non-resident employees of the Republic of Kazakhstan (2008: KZT5,891,000 equivalent to USD48,736). The deposit is subjected to annual renewal.

As at 31 December 2009, Karcement's bank accounts of USD240,685 (2008: USD56,587) were placed as security for EBRD's loan (Note 22).

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

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Kazakhstan Tenge	1,377,518	287,165	-	-
United States Dollars	5,125,954	348,404	3,878,130	85,386
Euro	41,791	93,771	7,730	50,022
Ringgit Malaysia	66	296	-	-
	<u>6,545,329</u>	<u>729,636</u>	<u>3,885,860</u>	<u>135,408</u>



## 19. SHARE CAPITAL

The Group and the Company		
	2009	2008
	USD	USD
<b>Authorised:</b>		
Ordinary shares of USD0.01 each:		
At beginning and end of year	5,000,000	5,000,000
<b>Issued and fully paid:</b>		
Ordinary shares of USD0.01 each:		
At beginning of year	1,140,000	1,140,000
Issued during the year	400,000	-
At end of year	1,540,000	1,140,000



During the year, the issued and paid-up share capital of the Company was increased from USD1,140,000 to USD1,540,000 by issuance of 40,000,000 new ordinary shares of USD 0.01 each at an issue price of GBP0.25 per share (or approximately USD0.377 per ordinary share).

## 20. RESERVES

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Non-distributable reserves:				
<b>Share premium</b>				
At beginning of year	26,646,982	26,646,982	26,646,982	26,646,982
Issue of shares	14,688,578	-	14,688,578	-
Share issue expenses	(39,367)	-	(39,367)	-
At end of year	41,296,193	26,646,982	41,296,193	26,646,982
<b>Revaluation reserve</b>				
Balance at beginning of year	3,364,936	4,601,668	-	-
Effects of change in tax rate	810,328	-	-	-
Depreciation of revaluation surplus	(1,151,370)	(1,236,732)	-	-
Balance at end of year	3,023,894	3,364,936	-	-
<b>Translation reserve</b>				
Balance at beginning of year	5,400,137	5,589,530	-	-
Exchange differences on translation of foreign subsidiary companies	(26,263,752)	(189,393)	-	-
Balance at end of year	(20,863,615)	5,400,137	-	-



## **Share premium**

Share premium arose from the issuance of ordinary shares at prices above the par value of USD0.01 each. During the year, share premium increased by USD14,649,211 (net of share issue costs of USD39,367) arising from the issuance of 40,000,000 new ordinary shares of USD 0.01 each issued at a premium of approximately USD0.367 per ordinary share above the par value of USD0.01 per ordinary share.

## **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 Steppe Cement Holdings 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 Steppe Cement Cement Holdings 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 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 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

	The Group	
	2009 USD	2008 USD
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%	5,230,916	5,230,916
	21,294,215	21,294,215
Exchange differences	(3,098,305)	1,042,910
Discount on bonds issued	(161,236)	(273,026)
Total	18,034,674	22,064,099

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 2009.

## 22. LOANS

	Currency	Maturity Date	Interest rate	The Group	
				2009 USD	2008 USD
EBRD	US Dollar	11 May 2013	LIBOR plus 3.75%; LIBOR plus 5.00%	32,785,430	39,452,112
HSBC Bank Kazakhstan JSC	US Dollar	10 July 2013	LIBOR plus 5.50%	23,055,470	22,989,501
Bank Center-Credit JSC	US Dollar	14 October 2011	16.00%	1,607,251	-
Bank Center-Credit JSC	Tenge	14 October 2011	16.00%	459,959	3,018.755
Halyk Bank JSC	US Dollar	20 October 2011	13.00%	4,806,005	-



				The Group	
	Currency	Maturity Date	Interest rate	2009	2008
Halyk Bank JSC	Tenge	20 October 2011	16.50%	-	4,117,684
HSBC Bank Kazakhstan JSC	US Dollar	25 June 2009	LIBOR plus 4.00%	-	499,458
Total outstanding				62,714,115	70,077,510
Current portion				(19,682,609)	(14,987,979)
Non-current portion				43,031,506	55,089,531

### Karcement JSC

In accordance with the Loan Agreement (“Agreement”) dated 13 December 2005 and the amended and restated Loan Agreement dated 28 June 2007, the Group’s subsidiary company, Karcement JSC, was granted a syndicated loan from European Bank for Reconstruction and Development (“EBRD”), under which EBRD agreed to lend Karcement JSC an amount not exceeding USD42 million. The EBRD loan consists of two tranches:

- Tranche 1 loan of up to USD32 million. 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 (6-month USD) plus 3.75% per annum, payable semi-annually from the date of the initial drawdown.
- Tranche 2 loan of up to USD10 million. 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 (6-month USD) plus 5.00% per annum payable semi-annually commencing from the date of initial drawdown.

The purpose of these loans is to partially finance the refurbishment of production lines number 5 and 6.

In parallel with the EBRD loan, Kazkommertsbank JSC granted Karcement JSC a loan of USD23.2 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 JSC (refer to details below).

According to the terms of the Agreement, all movable and immovable assets of Karcement JSC 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 Central Asia Cement JSC. Central Asia Cement JSC acts as a guarantor for the loan.

On 22 September 2008, HSBC Bank Kazakhstan JSC 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 LIBOR (6-month USD) 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 2009, Karcement JSC has fully drawn down all of its loan commitments granted by EBRD and HSBC Bank Kazakhstan JSC.

## **Central Asia Cement JSC**

On 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 13% in US Dollar and 16.5% in Tenge per annum and the maturity date is on 20 October 2011. In 2009, drawdowns under the credit facility agreement are only in US Dollar (in 2008 only in Tenge). 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 USD4,760,582 (KZT706,399 thousand) (Note 14).

On 15 October 2008, Bank CenterCredit JSC extended a loan facility of KZT360 million equivalent to USD2,426,121 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 2011. Repayment of the principal amount is made in 3 equal monthly instalments after a grace period of 3 months from the date of drawdown and interest is payable commencing in the month following the month of the drawdown. Beginning 2 March 2009, Bank CenterCredit JSC amended the 3 equal monthly instalments to 6, and grace period of 3 months to 6 months. The loan is secured against the future cash flows arising on the Central Asia Cement JSC's major customers' receivables of KZT758,400 thousand equivalent to approximately USD5,111,029 (Note 15).

On 19 June 2008, HSBC Bank Kazakhstan JSC 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 were payable on 25 June 2009. The loan was secured up to the loan principal amount by way of a corporate guarantee issued by HSBC Jersey. In June 2009, the loan was fully settled.



As at 31 December 2009, Central Asia Cement JSC has undrawn loan commitments of USD5.5 million and KZT59.2 million or equivalent to USD398,362 from the facility granted by Halyk Bank JSC and Bank CenterCredit JSC respectively.

## 23. DEFERRED TAX LIABILITIES, NET

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Balance at beginning of year	9,547,207	11,671,362	-	-
Exchange differences	(310,347)	1,806	-	-
Credited to equity	(810,328)	-	-	-
Credited to income statement (Note 9)	(2,005,579)	(2,125,961)	-	-
Balance at end of year	6,420,953	9,547,207	-	-

### Deferred Tax Assets/ (Liabilities)

	The Group		The Company	
	2009 USD	2008 USD	2009 USD	2008 USD
Tax effects of :				
Temporary differences in respect of:				
Property, plant and equipment	(10,649,498)	(9,714,173)	-	-
Inventories	114,223	140,782	-	-
Taxes	78,202	2,846	-	-
Trade receivables	61,516	23,338	-	-
Others	(58,146)	-	-	-
Unutilised tax losses	4,032,750	-	-	-
Net deferred tax liabilities	(6,420,953)	(9,547,207)	-	-



24. **TRADE PAYABLES**

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Services	1,957,183	4,487,454	-	-
Raw materials	1,075,938	1,041,928	-	-
Spare parts	627,779	2,038,883	-	-
Finished goods	344,981	-	-	-
Property, plant & equipment	2,396,873	4,773,270	-	-
Others	43,191	-	-	-
	<u>6,445,945</u>	<u>12,341,535</u>	<u>-</u>	<u>-</u>

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>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Kazakhstan Tenge	3,762,772	7,878,023	-	-
United States Dollars	1,666,513	2,254,676	-	-
Euro	986,966	2,014,188	-	-
Sterling Pound	28,440	14,478	-	-
CHF	1,254	-	-	-
RUB	-	180,170	-	-
	<u>6,445,945</u>	<u>12,341,535</u>	<u>-</u>	<u>-</u>

25. **OTHER PAYABLES AND ACCRUED LIABILITIES**

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Liquidation fund accruals	52,047	53,824	-	-
Accruals	1,424,499	1,443,922	747,793	666,191
Accrued interest on bond issued	689,045	807,479	-	-
Payable to employees	277,804	293,915	-	-
Advances received	770,368	1,064,099	-	-
	<u>3,213,763</u>	<u>3,663,239</u>	<u>747,793</u>	<u>666,191</u>



The analysis of other payables and accrued liabilities balance by currencies is as follows:

	The Group		The Company	
	2009	2008	2009	2008
	USD	USD	USD	USD
Kazakhstan Tenge	2,271,496	926,048	-	-
United States Dollars	147,152	2,120,928	747,793	666,191
Euro	52,610	71,417	-	-
Sterling Pound	644,736	537,687	-	-
Ringgit Malaysia	97,769	7,159	-	-
	3,213,763	3,663,239	747,793	666,191

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

	The Group		The Company	
	2009	2008	2009	2008
	USD	USD	USD	USD
Corporate income tax	-	1,688,876	-	-
Property tax	2,022	3,930	-	-
Personal income tax	21,390	29,841	-	-
Other taxes	289,517	88,976	-	-
	312,929	1,811,623	-	-

## 27. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	2009	2008
	USD	USD	USD	USD
Cash in hand and at banks	3,300,149	680,900	685,664	135,408
Short-term deposits	3,245,180	48,736	3,200,196	-
	6,545,329	729,636	3,885,860	135,408



## 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 2009 and 2008:

	<b>2009</b>	<b>2008</b>
	<b>USD</b>	<b>USD</b>
Rental expenses	23,532	38,049
Services rendered by related parties	<u>696,819</u>	<u>826,739</u>

The following balances with related parties are included under trade payables in the consolidated statement of financial position as of 31 December 2009 and 2008:

	<b>Payable to related parties</b>	
	<b>2009</b>	<b>2008</b>
	<b>USD</b>	<b>USD</b>
Services rendered by related parties	<u>214,139</u>	<u>188,592</u>

Included in services rendered by related parties are drilling and blasting services performed by Maxam Kazakhstan of USD195,491 (2008: USD176,099). 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.

### 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>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Remuneration	876,391	919,892	241,332	204,642
Short-term benefit	36,500	97,922	-	-
Total	<u>912,891</u>	<u>1,017,814</u>	<u>241,332</u>	<u>204,642</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, 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 2009 and 2008, the undiscounted contractual liability on future contributions to the liquidation fund obligation is KZT7,723,000 equivalent to USD52,047 (2008: KZT6,475,000 equivalent to USD55,801). Management estimated this provision, 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 statement of financial statement. 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 2009, 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 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 2009, the Group invested approximately KZT17,312 million equivalent to USD116,669,475 (2008: KZT16,879 million equivalent to USD139,640,124).

***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 2009 is KZT250,131,000 equivalent to USD1,685,689 (2008: KZT918,649,000 equivalent to USD7,599,992).



## 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 15%. 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.

### **Environment protection matters**

The Group believes it is currently in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations 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 Company to modernise technology to meet more stringent standards.



## 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.

The carrying amounts of the Group's financial assets and financial liabilities in foreign currencies as of 31 December are presented below:

2009	KZT	GBP	EUR	MYR	CHF	RUB	USD	Total
<b>Financial Assets</b>								
Cash and cash equivalents	1,377,518	-	41,791	66	-	-	5,125,954	6,545,329
Short-term investments	-	-	-	-	-	-	-	-
Trade receivables	825,764	-	-	-	-	-	-	825,764
<b>Financial Liabilities</b>								
Trade payables	3,762,772	28,440	986,966	-	1,254	-	1,666,513	6,445,945
Other payables	2,271,496	644,736	52,610	97,769	-	-	147,152	3,213,763
Loans	459,959	-	-	-	-	-	62,254,156	62,714,115
Bonds	18,034,674	-	-	-	-	-	-	18,034,674



2008	KZT	GBP	EUR	MYR	CHF	RUB	USD	Total
<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	926,048	537,687	71,417	7,159	-	-	2,120,928	3,663,239
Loans	7,136,439	-	-	-	-	-	62,941,071	70,077,510
Bonds	22,064,099	-	-	-	-	-	-	22,064,099



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.

Effect of KZT		
	2009	2008
Financial assets	(220,328)	(124,510)
Financial liabilities	2,452,890	3,800,461
Effect of GBP		
	2009	2008
Financial assets	-	-
Financial liabilities	67,318	55,216
Effect of EUR		
	2009	2008
Financial assets	(4,179)	(42,876)
Financial liabilities	103,958	208,560
Effect of MYR		
	2009	2008
Financial assets	(7)	(30)
Financial liabilities	9,777	716
Effect of CHF		
	2009	2008
Financial liabilities	125	-
Effect of RUB		
	2009	2008
Financial liabilities	-	18,017



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 2009, the Group's subsidiary company, Central Asia Cement JSC has undrawn loan commitments of USD5.5 million and KZT59.2 million or equivalent to USD398,362 from the facility granted by Halyk Bank JSC and Bank CenterCredit JSC respectively (Note 22) to meet its funding requirements and to further reduce liquidation risk. Subsequent to financial year end, Central Asia Cement JSC secured an increase of KZT340 million or equivalent to USD2,291,337 in the loan facility limit from Bank CenterCredit JSC as disclosed in Note 33 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.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	Greater than 5 years	Total
<b>2009</b>							
<i>Interest bearing</i>							
Bonds	9.00%	-	818,816	818,816	19,833,541	-	21,471,173
Loans	7.25%	1,294,167	5,889,551	12,503,211	43,031,506	-	62,718,435
<i>Non-interest bearing</i>							
Trade accounts payable		6,445,945	-	-	-	-	6,445,945
Other payables		2,271,497	-	421,556	520,710	-	3,213,763
		<u>10,011,609</u>	<u>6,708,367</u>	<u>13,743,583</u>	<u>63,385,757</u>	<u>-</u>	<u>93,849,316</u>
<b>2008</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>



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.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	Greater than 5 years	Total
<b>2009</b>							
<i>Interest bearing</i>							
Cash and cash equivalents		-	-	-	-	-	-
Short-term investments		-	-	-	-	-	-
<i>Non-interest bearing</i>							
Cash and cash equivalents		6,545,329	-	-	-	-	6,545,329
Trade receivables		825,764	-	-	-	-	825,764
Other receivables, advances and prepaid expenses		7,483,068	-	-	-	-	7,483,068
		14,854,161	-	-	-	-	14,854,161
<b>2008</b>							
<i>Interest bearing</i>							
Cash and cash equivalents		-	-	-	-	-	-
Short-term investments	5.25%	-	-	2,391,437	-	-	2,391,437
<i>Non-interest bearing</i>							
Cash and cash equivalents		729,636	-	-	-	-	729,636
Trade receivables		957,932	-	-	-	-	957,932
Other receivables, advances and prepaid expenses		-	-	8,950,508	-	-	8,950,508
		1,687,568	-	11,341,945	-	-	13,029,513



## (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 reporting date was outstanding for the whole year.

	2009	2008
	USD	USD
Increase/Decrease in finance costs capitalised	613,166	622,625

## **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 (Level 3 fair value measurement).

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 instrument.

### 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:



	The Group		The Company	
	Carrying value USD	Fair value USD	Carrying value USD	Fair value USD
<b>2009</b>				
<b>Financial Assets</b>				
Trade receivables, net	825,764	825,764	-	-
Amount owing by subsidiary companies	-	-	10,889,037	10,889,037
Other receivables, advances and prepaid expenses	7,483,068	7,483,068	3,836	3,836
Cash and bank balances	6,545,329	6,545,329	3,885,860	3,885,860
<b>Financial Liabilities</b>				
Bonds	18,034,674	18,034,674	-	-
Loans	62,714,115	62,714,115	-	-
Trade payables	6,445,945	6,445,945	-	-
Other payables and accrued liabilities	3,213,763	3,213,763	747,793	747,793
Amount owing to subsidiary companies	-	-	451,621	451,621
<b>2008</b>				
<b>Financial Assets</b>				
Trade receivables, net	957,932	957,932	-	-
Amount owing by subsidiary companies	-	-	746,873	746,873
Other receivables, advances and prepaid expenses	8,950,510	8,950,510	3,467	3,467
Short-term investments	2,391,437	2,391,437	-	-
Cash and bank balances	729,636	729,636	135,408	135,408
<b>Financial Liabilities</b>				
Bonds	22,064,099	22,064,099	-	-
Loans	70,077,510	70,077,510	-	-
Trade payables	12,341,535	12,341,535	-	-
Other payables and accrued liabilities	3,663,239	3,663,239	666,191	666,191
Amount owing to subsidiary companies	-	-	1,300,770	1,300,770



### 33. SUBSEQUENT EVENT

In March 2010, Central Asia Cement JSC secured an increase in loan facility limit of KZT340 million or equivalent of USD2,291,337 to KZT700 million or equivalent of USD2,426,121 from Bank CenterCredit JSC. The applicable interest rate payable on the loan is revised to 15% p.a. and 14% p.a. for 6 months and 3 months period respectively. The drawdown period is from 31 March 2010 to 22 February 2013.

### 34. COMPARATIVE FIGURES

Certain comparative figures of the Group have been reclassified in order to conform with the current year's presentation.

	As previously classified	Reclassification	As reclassified
	USD	USD	USD
Bonds	22,871,578	(807,479)	22,064,099
Other payables and accrued liabilities	2,855,760	807,479	3,663,239



## **STEPPE CEMENT LTD**

(Incorporated in Labuan FT, Malaysia under the Labuan 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 statements of financial position 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 2009 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  
16 April 2010



## **NOTICE OF 2010 ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the 2010 ANNUAL GENERAL MEETING of the Company will be held at the office of Steppe Cement Ltd, Suite 10, 10<sup>th</sup> Floor, West Wing Rohas Perkasa, 8 Jalan Perak, Kuala Lumpur, Malaysia on Monday, 10 May 2010 at 2.00 p.m. for the purpose of considering and if though fit, passing the following Resolutions:

### **ORDINARY RESOLUTION**

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

- |   |                     |
|---|---------------------|
| 1. To receive and adopt the audited financial statements for year ended 31 December 2009. | <b>RESOLUTION 1</b> |
|---|---------------------|

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

- |  |                     |
|--|---------------------|
| 2. To re-elect the following Directors who offered themselves for re-election:<br><br>2.1 Javier Del Ser Perez<br>2.2 Paul Rodzianko<br>2.3 Malcolm Ronald Brown | <b>RESOLUTION 2</b> |
|--|---------------------|

#### **AUDIT FEES**

- |   |                     |
|---|---------------------|
| 3. To authorize the Directors of the Company to determine the Auditors' remuneration. | <b>RESOLUTION 3</b> |
|---|---------------------|

#### **ELECTRONIC COMMUNICATION TO SHAREHOLDERS OF ANNUAL REPORTS AND ACCOUNTS**

- |  |                     |
|--|---------------------|
| 4. To approve the use of electronic communication to shareholders to receive the annual reports and accounts as provided in the Guidance Notes to AIM Rules 18 and 19. | <b>RESOLUTION 4</b> |
| 5. To transact any other business of which due notice shall have been given in accordance with the Labuan Companies Act, 1990.   |                     |

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 BS13 8AE.
5. The Guidance Notes to AIM Rules 18 and 19 state that an AIM company is able to satisfy the requirement in AIM Rule 19 to send accounts to shareholders by sending such accounts by electronic communication to shareholders, providing the following requirements have been satisfied:
  - (iv) a decision to use electronic communication to shareholders has been approved by shareholders in a general meeting of the AIM company;
  - (v) appropriate identification arrangements have been put in place so that the shareholders are effectively informed; and
  - (vi) shareholders individually:
    - have been contacted in writing to request their consent to receive accounts by means of electronic communication and if they do not object within 28 days, their consent can be considered to have been given;
    - are able to request at any time in the future that accounts be communicated to them in writing; and
    - are contacted alerting them to the publication of the accounts on an AIM company's website.
6. Electronic communication is defined in the AIM Rules as any communication sent by e-mail or made available on an AIM company's website pursuant to AIM Rule 26.





STEPPE CEMENT LTD  
*(Corporate Office)*

10th Floor, Rohas Perkasa, West Wing,  
No.8, Jalan Perak, 50450, Kuala Lumpur  
Malaysia.

Tel: +(603) 2161 7552 / 7542

Fax: +(603) 2161 8730

*email: [ir@steppecement.com](mailto:ir@steppecement.com)*

*[www.steppecement.com](http://www.steppecement.com)*