



ANNUAL REPORT

2005

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CORPORATE INFORMATION

Company Registration

LL04433

Stock Code

STCM

Secretary and Registered Office

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P.O. Box 80148
87011 Federal Territory of Labuan
Malaysia

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www.cac.kz

UK Registrar

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CHAIRMAN'S LETTER

An Expanding Future

Dear Shareholder,

On behalf of your Board of directors, I take great pleasure in submitting the Annual Report of Steppe Cement Limited (hereinafter referred to as SCL or your Company) for the year ended 31st December 2005.

2005 financial results

I regret to say that SCL Group's maiden Financial Accounts for 2005, incorporating large corporate restructuring accounting adjustments and five months of post-acquisition operations of the principal, wholly-owned subsidiary, Central Asia Cement JSC (CAC), do not make a particularly illuminating document. The Group consolidated post-tax profits are \$16,667,693. To provide shareholders with a more meaningful review of operational performance of the Group's cement business, your directors have decided to include an extract of the accounts of CAC for the year ended 31st December, 2005 in SCL's 2005 Annual Report.

The year saw CAC growing its earnings to KZT 1.745 billion or \$13,053,000 (2004: KZT 1.07 billion or \$7,937,000), to reflect an increase of 63%. This was achieved on the back of sales growth of 42% to KZT 6.186 billion or \$46,276,000 (2004: KZT 4.376 billion or \$32,416,000).

In view of very sizeable capital project commitments, your directors are not recommending a payment of dividends for 2005.

Financing for expansion

It was a mere six months ago, on 15th September 2005, that your Company was listed on AIM in London. With the listing, a restructuring exercise to prepare a low-key Kazakhstani cement producer for bigger things was completed. Since then, your Company has announced its intention to expand capacity to approximately four times the current level.

In the pursuit of that expressed intention, your Company has achieved the following:

- i. Secured the commitment of a consortium led by the European Bank of Reconstruction and Development (EBRD) to finance US\$35 million of that expansion,
- ii. Made arrangements to raise further funds totalling approximately US\$20 million by way of a Tenge-denominated bond issue, and
- iii. Placed 14 million new shares to international institutional investors to raise approximately US\$21 million additional equity capital.

The financial means necessary to carry out the plant refurbishment/capacity expansion are now in place. Significant investment tax incentives from the government of the Republic of Kazakhstan have also been confirmed.

Refurbishment/expansion programme

Your company's cement business, held in wholly-owned subsidiary, Central Asia Cement JSC, comprises a Soviet-era plant of 4 wet-process lines and 2 dry-process lines located in the village of Aktau, in the Karaganda Oblast. The wet-process lines currently can produce approximately 800,000 tons of cement annually; the dry-process lines, with an original design capacity of 2 million tons, have not been operational for many years.

With Kazakhstan's GDP growth averaging 9% per annum since 1998, virtually all available operational capacity in the cement sector has been utilised, leaving as much as 1.7 million tons of demand to be met by imports in 2005. This deficit is expected to widen further in 2006. Cement sales in the first quarter of 2006 have accelerated compared to 2005. All Kazakhstani manufacturers are coaxing what additional capacity they can from their ancient plants but the greater part of the increased demand will have to be met by imports. With the Russian economy also growing vigorously and the cement market there tightening rapidly, it remains to be seen how this deficit is going to be satisfied.

Your company, however, does have huge latent capacity in the shape of the two very large dry-process lines, each of which, many years ago, was capable of producing over 1 million tons of cement. Although these lines were poorly designed and have suffered considerable damage during the last decade to require a major rehabilitation effort, they afford your company a unique opportunity to address the Kazakhstani cement deficit in a very time- and cost-efficient manner. We now have almost everything in place to be able to bring one of these lines into play for the 2007 season and the other for the following season.

Board Changes

Prior to listing on AIM, the controlling shareholders of the company deliberated and decided on a very small three-man Board to lead your Company. The emphasis was on board cohesion and quick and effective decision-making. I believe this has served the Company well in the initial period. It is the intention of the current Board to evolve and expand membership over time, with additions of new faces with the appropriate skills, experience, reputation and/or familiarity with the host country.

After the many years of famine, I have been privileged over the last year to be involved in AIM-listing, fund-raising and the excitement of expansion plans. However, having had in recent years to submit myself to a triple heart by-pass procedure, I am perhaps not the ideal robust person to be presiding over all of this excitement. Consequently, I intend to stand down from the Board at the forthcoming Annual General Meeting and to pass the reins into the experienced hands of Mr. John Richardson. Since he became an independent director of your Company last year, John has taken a lively and enquiring interest in the business and, with his experience as chief executive of Hutchison Whampoa and as Chairman of Barclays Bank Asia, I believe he is ideally suited to lead Steppe Cement during these exciting developments. His shall also be the task to expand the Board and evolve further corporate governance standards as your Company matures as the dominant player in the Kazakhstani cement sector.

The Board is considering the appointment of a new non-executive member whom the Board is satisfied has the experience in the cement industry at a very senior level as well as consultancy work experience in Kazakhstan. Of course I shall continue as one of the large shareholders of your Company, comfortable in the knowledge that your company will be in very capable and safe hands.

Prospects

Most of you became shareholders of Steppe only recently and therefore have not shared the suffering through the difficult years following the Russian default in 1998 (although I will readily acknowledge that our suffering was nothing compared to that of the employees at the plant). Those were grim days indeed when cement prices fell by half under pressure from Russian exporters desperate for convertible currency.

Eight years later, Russian cement manufacturers are exporting to Kazakhstan many times the volumes of 1998 but now we are glad of these tons for the country is suffering a severe shortage of supply and, for a country whose borders are thousands of kilometres from the sea, such shortage can result in the strangulation of the economy. The cement shortage and continued demand growth bodes well for your Company. With the process of expansion moving steadily ahead, the next three years ought to be years of plenty as we deliver additional capacity into the fast growing market.

Although Line 6 and Line 5 are scheduled to be delivered in Spring 2007 and Spring 2008 respectively, de-bottlenecking works will also see the four wet-lines producing perhaps 15% more cement in 2006.

Appreciation

It remains for me to thank all those who have helped bring Steppe Cement to this exciting threshold. The indefatigable Javier del Ser has proven invaluable in holding CAC together over the years and more recently in advancing the refurbishment plans. Mr Tham Hock Soon, the General Director at the plant, has braved the climate there for eight years and all the time produced timely and accurate accounts. Vasilyi Shalimov, the production manager, his deputy Nikolai Bolochovez, and all the production staff have done a miraculous job of squeezing production from our old wet lines and more recently of upgrading them. I must also congratulate and thank the Malaysian expatriate team at the plant for their perseverance, dedication and success in a challenging environment, in climate and cultural terms.

Finally, I would like to express my deepest respect and appreciation to the Government of Kazakhstan, and particularly its leader, President Nursultan Nazarbayev, for choosing the difficult course of privatisation and then staying that course through the painful adjustments. As a result of this steadfastness, I believe the Kazakhstan economy is now a shining example to all the other states of the Former Soviet Union. We at Steppe Cement shall certainly do everything possible to increase the supply of building material for the further growth and development of the Kazakhstani economy.

Yours sincerely,

Azmi Wan Hamzah

CEO STATEMENT

2005 has been a turnaround year for operations of Steppe Cement and its subsidiaries.

The operations of Steppe Cement continued to improve during 2005: In the wet lines we increased:

Production volumes by 8%

Turnover by 49%

Net profit by 64% on the back of strong prices during the summer.

PROFIT
▲ 64%

We expect further 13% production growth in 2006 thanks to the \$4.5 m. investment program currently in progress in the calcining and milling sections.

During 2005, our markets continued to perform exceedingly well with demand growing in all regions of Kazakhstan by an average 25%.

TURNOVER
▲ 49%

The local cement suppliers have been unable to cope with the surge in demand and nearly 30% of internal consumption was imported against 25% in 2004. This figure is likely to increase in 2006 and only be reduced once we commission both our dry lines. In landlocked Kazakhstan, the increased share of imported cement, mainly from Russia, has had a positive impact on our selling prices.

2006 PRODUCTION
to rise 13%

During 2005, we restructured the holding company and subsidiaries and became listed on AIM in London. This paved the road for the successful placement of 14 million new shares that took place in early 2006 and raised US\$21 million towards the cost of the refurbishment. The EBRD agreed to provide a new incorporated subsidiary, Karcement JSC, with a \$35 m. 7 years facility and Halyk Bank of Kazakhstan is arranging a domestic bond issue equivalent to US\$20 million that will be subscribed in the second quarter of 2006. This funding together with the strong cash flow from the wet line operations allowed management to move forward with an ambitious plan to refurbish both dry lines during 2006 and 2007. We also successfully negotiated an agreement with the Government of Kazakhstan which entitles Karcement to exemption from corporation tax during the first five years of the operations of the refurbished "dry lines".

We appointed PEG from Switzerland as our project consultant for line 5 and Yuzgi procement from Ukraine to conduct a technical due diligence on line 6. We expect to complete the tender award process for both lines in the summer of 2006 and, at the time of writing this letter, line 6 has been cleaned and 70% of the dismantling work in line 5 has been completed. The principal contract for line five, the replacement kiln, cooler and modifications to the pre-heater, has been awarded to FL Schmidt of Denmark and we expect the main contractors to be fully mobilised during 2006.



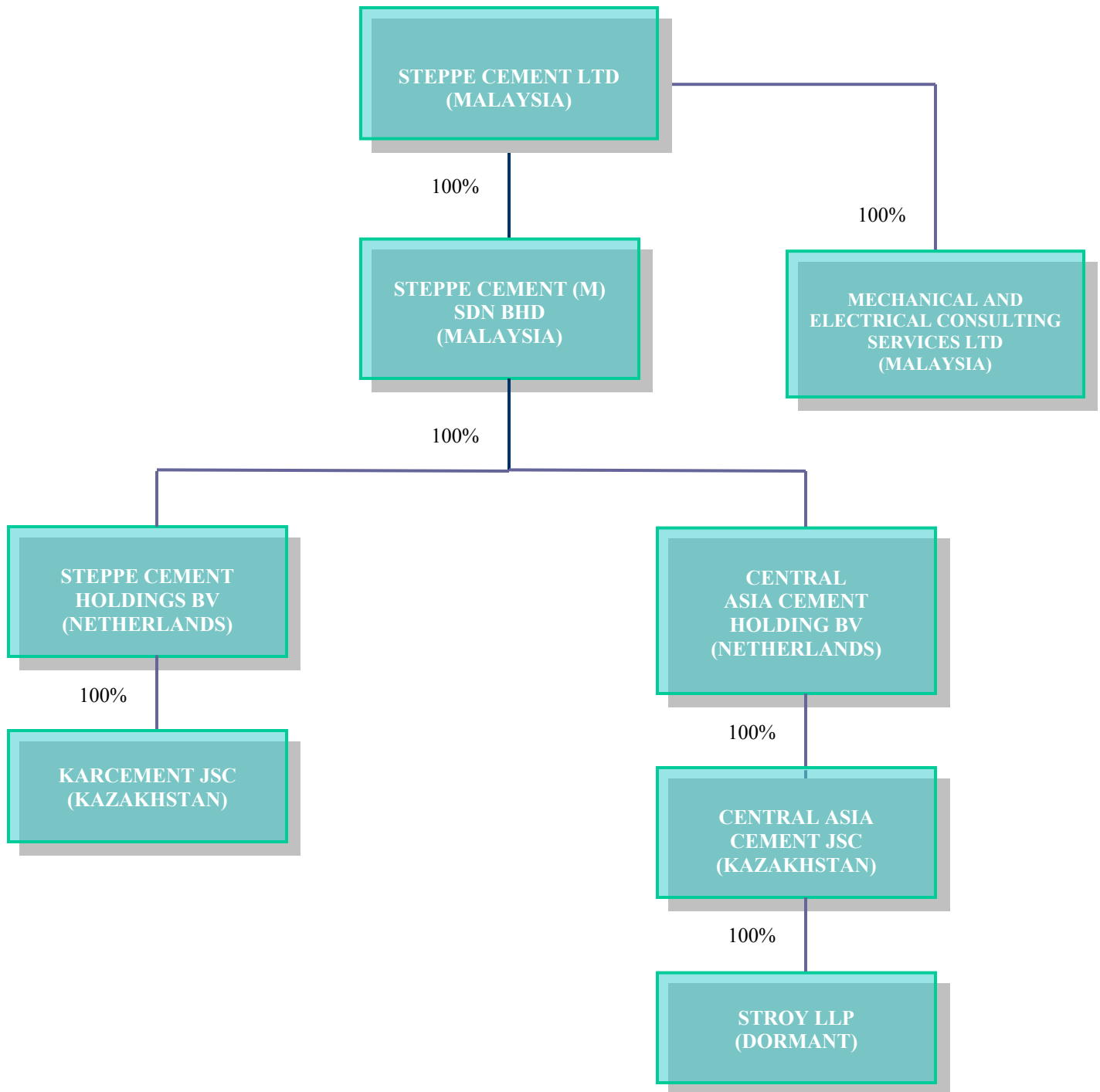
Refurbishment of dry line 5

We place the highest priority on our employees and we have initiated a program to select and train new employees for the dry lines. We have reinforced the management team with the recruitment of three experienced cement engineers and we expect this team to be increased by another ten that will recruit and train the operators of line 6 during 2006. We will create over 200 new jobs in line 6 and we expect it to perform to the highest standards. We would like to thank our employees, whose commitment over the years has enabled the factory to survive the difficult times and be ready for the current turnaround. We will continue to collaborate with the authorities in social programmes to improve their living standards and we will progressively install the environmental protection equipment necessary to enable the company to comply with international regulations.

Our main challenge remains the delivery of a massive capital investment programme on time and under budget. This programme will more than triple the current production to satisfy the increased demand for our product in a rapidly growing economy. The management team and the employees are fully committed to do so and are looking forward to the challenge.

Javier del Ser
Chief Executive Officer

GROUP STRUCTURE



BOARD OF DIRECTORS



From left to right

John Alan Richardson, Javier Del Ser Perez and
Azmi Wan Hamzah

Azmi Wan Hamzah, Tan Sri (Non-Executive Chairman)

Azmi Wan Hamzah, 56, is a qualified accountant with broad financial and general management exposure in the plantations, media, real estate, manufacturing and banking sectors. He was CEO of Maybank Berhad, Malaysia's largest banking group, before venturing out as an entrepreneur with diverse investment interests in real estate, tobacco, direct marketing, infrastructure and financial services.

He served as President of the Malaysian National and Malay Chambers of Commerce in 1992-1995. He served six years as the first Chairman of the Financial Reporting Foundation, a statutory body set up to oversee the development of financial reporting and accounting standards in Malaysia.

Javier Del Ser Perez (Chief Executive Officer)

Javier, 41, is both a Chartered Engineer (Spain) and holds a Master in Structural Engineering. Javier has lived in Kazakhstan since 1997 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 and he is the Chairman of the Company's operating subsidiary, Central Asia Cement. Javier has other business interests in Kazakhstan, including being a director and large shareholder in the Chagala Hotel Group.

Javier is also a director of Central Asia Cement B.V., Central Asia Cement JSC and Mechanical and Electrical Consulting Services Ltd.

John Alan Richardson (Non-Executive Director)

John Alan Richardson, 63, has degrees in law and economics and has held a number of senior positions across the financial, property, retail, telecommunication and resource sectors. After starting his career in corporate finance, John was appointed Chief Executive of Hutchison Whampoa Ltd, a Hong Kong based international company with interests in retail, property, infrastructure and telecommunications. In 1994, John was appointed Chairman and CEO of Barclays Bank Asia and BZW Asia, and in 1999 was the interim CEO and Vice Chairman of Iridium LLC the US based operator of the Iridium global communication system. John is currently working in a limited partnership specialising in asset recovery, restructurings and turnarounds for banks and financial institutions.

SENIOR MANAGEMENT TEAM



Standing (left to right)

Bolochovzev Nikolai, Braznikova Nelli, Irina Poluichik,
Ashkeev Talgat Sandinovich, Petr Durnev

Seated (left to right)

Gan Chee Leong, Tham Hock Soon and Vasilyi Shailmov

Tham Hock Soon, General Director

An accountant by profession with wide experience in various senior capacities in a number of major local and international companies. Prior to joining Central Asia Cement as finance director in July 1998, he was a senior member of a leading public listed cement company in Malaysia. He is a Fellow of The Chartered Association of Certified Accountants in the United Kingdom and has more than 20 years experience in the cement industry.

Gan Chee Leong, General Manager of Central Asia Cement

A British trained Chartered Accountant with approximately 13 years experience in cement industry in various capacities. Before joining Central Asia Cement in August 2004, he was the marketing general manager 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.

Vasilyi Shalimov, Production Director of Central Asia Cement

A mechanical engineer from Belgorod Institute Russia. He is well versed in all aspects of cement manufacturing activities. He commenced employment in the Cement Business as a trainee engineer and was gradually promoted through the levels of management. He has 38 years of cement manufacturing experience.

Ramlan Safri (not in picture), Technical Director of Central Asia Cement

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

Bolochovzev Nikolai, Plant Technical Chief

A graduate of the Moscow Chemical Engineering University, he commenced employment in the Cement Business approximately 40 years ago. He has held his current position since 1989 and has extensive experience with all of the plant equipment and technological process on dry and wet lines.

Ashkeev Talgat Sandinovich, Legal Head

In 1989 he graduated from Karaganda State University, legal faculty. He has 17 years of working experience and he joined Central Asia Cement in August 2004.

Peter Durnev, Marketing Manager

A graduate of Academy Marketing Moscow, he commenced employment with Central Asia Cement approximately 6 years ago as a marketing executive. He was promoted to the position of marketing manager in May 2003.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors 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. To fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving operational and capital budgets, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for operation and administration of the Company to Mr Javier del Ser Perez (Chief Executive Officer) and senior management.

The Board as a whole is able to address the governance aspects of the full scope of the Group's activities and to ensure that it adheres to appropriate ethical standards. This position will be reviewed as the Group develops.

BOARD PROCESSES

The Board has established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board holds regular meetings to discuss operational matters, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

Independent professional advice and access to Company information

The Board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

BOARD COMPOSITION

Section 87(1) of the OCA 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. The membership of the Board, its activities and composition is subject to periodic review.

The criteria for determining the identification and appointment of a suitable candidate for the Board shall include qualification of the individual, background of experience and achievements, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake board duties and responsibilities.

Remuneration policies

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The broad remuneration 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.

Ethical standards

The Board acknowledges the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of the Group. The Directors and management have the responsibility to carry out their functions with a view to maximising financial performance of the Group.

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. 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.

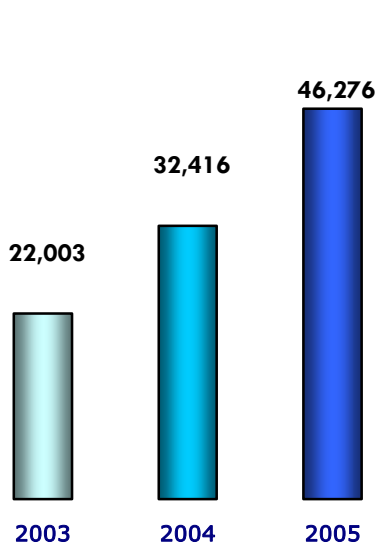
Financial reporting and budgeting

The Group's financial reporting is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board. A budgeting system with an annual budget approved by the Directors has been established.

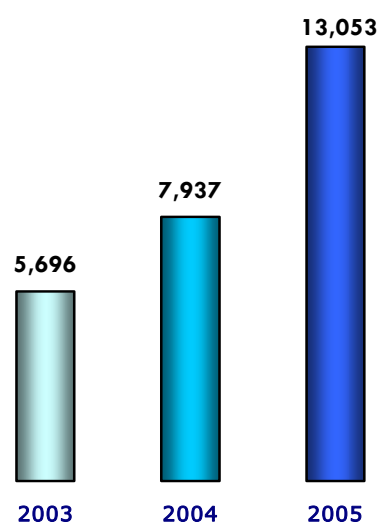
FINANCIAL HIGHLIGHTS

CENTRAL ASIA CEMENT JSC

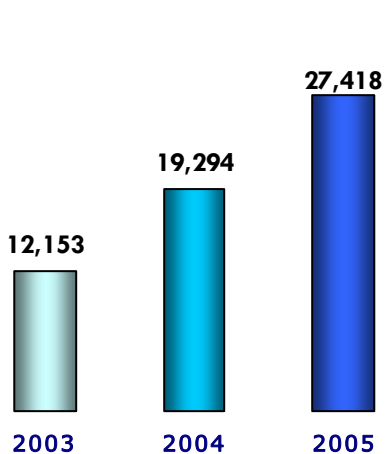
REVENUE
(USD'000)



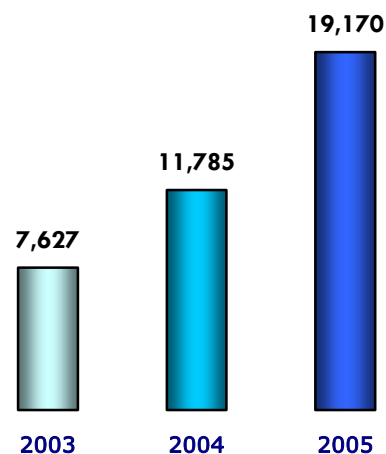
PROFIT AFTER TAX
(USD'000)



GROSS PROFIT
(USD'000)

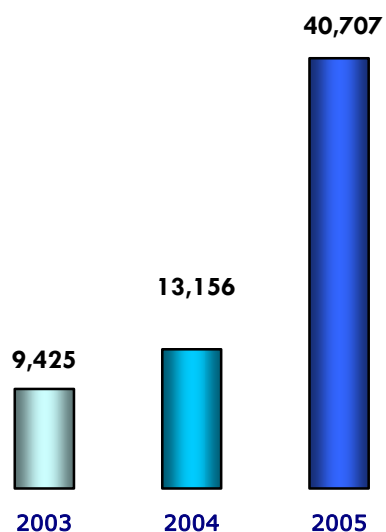


PROFIT BEFORE TAX
(USD'000)

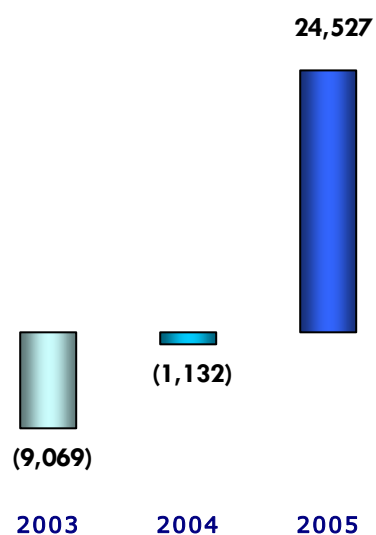


FINANCIAL HIGHLIGHTS (cont'd)

TOTAL ASSETS
(USD'000)



SHAREHOLDERS FUNDS
(USD'000)



Note:

We have not provided financial highlights at group level because only 5 months results were consolidated in the group accounts following the completion of group restructuring exercise in July 2005.

The above financial highlights show 3 full years comparison of Central Asia Cement JSC, the main operating subsidiary of the group.

Company No. LL04433

STEPPE CEMENT LTD
(Company No. LL04433)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(In United States Dollar)

Company No. LL04433

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

FINANCIAL STATEMENTS

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REPORT OF THE AUDITORS TO THE MEMBERS OF

STEPPE CEMENT LTD AND ITS SUBSIDIARY COMPANIES

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

We have audited the accompanying balance sheets of Steppe Cement Ltd as of December 31, 2005 and the related statements of income, cash flows and changes in equity for the financial year then ended. These financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 117 of the Offshore Companies Act, 1990 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give, in all material respects, a true and fair view of the financial position of the Group and of the Company as of December 31, 2005 and of the results and the cash flows of the Group and of the Company for the year then ended, in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE

AAL 0011

Chartered Accountants

NG MENG KWAI

1303/05/06 (J/PH)

Partner

March 28, 2006

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

INCOME STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

(With comparative figures for the period September 17, 2004 (date of incorporation) to December 31, 2004)

		The Group		The Company	
		2005	2004	2005	2004
		(12 months)	(3 months)	(12 months)	(3 months)
	Note	USD	USD	USD	USD
Revenue	4	20,213,121	-	-	-
Cost of sales		<u>(8,272,798)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross profit		11,940,323	-	-	-
Selling expenses		(1,243,643)	-	-	-
General and administrative expenses		<u>(3,198,001)</u>	<u>(4,462)</u>	<u>(774,305)</u>	<u>(2,761)</u>
Operating profit/(loss)	5	7,498,679	(4,462)	(774,305)	(2,761)
Investment income	6	59,500	-	-	-
Finance costs	7	(577,498)	-	-	-
Excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of subsidiary companies acquired over the cost of acquisition	12	12,416,925	-	-	-
Other income, net	8	<u>49,407</u>	<u>-</u>	<u>6,168</u>	<u>-</u>
Profit/(Loss) before tax		19,447,013	(4,462)	(768,137)	(2,761)

(Forward)

		The Group		The Company	
		2005	2004	2005	2004
		(12 months)	(3 months)	(12 months)	(3 months)
	Note	USD	USD	USD	USD
Income tax expense	9	<u>(2,779,320)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit/(Loss) for the year		<u>16,667,693</u>	<u>(4,462)</u>	<u>(768,137)</u>	<u>(2,761)</u>
Attributable to:					
Shareholders of the Company		<u>16,667,693</u>	<u>(4,462)</u>	<u>(768,137)</u>	<u>(2,761)</u>
Earnings/(Loss) per share:					
Basic (cents)	10	<u>0.42</u>	<u>(0.04)</u>		

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

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

BALANCE SHEETS

AS OF DECEMBER 31, 2005

		The Group		The Company	
	Note	2005 USD	2004 USD	2005 USD	2004 USD
Assets					
Non-current assets:					
Property, plant and equipment	11	29,954,538	-	-	-
Investment in subsidiary companies	12	-	-	7,000,001	1
Advances paid	16	<u>131,072</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>38,085,610</u>	<u>-</u>	<u>7,000,001</u>	<u>1</u>
Current Assets					
Inventories, net	13	6,529,224	-	-	-
Trade receivable, net	14	730,570	-	-	-
Amount owing by subsidiary companies	15	-	-	252,249	2,479
Other receivables, advances and prepaid expenses	16	1,566,392	2,310	1,320	1,320
Cash and bank balances	17	<u>1,511,346</u>	<u>-</u>	<u>14,401</u>	<u>-</u>
		<u>10,337,532</u>	<u>2,310</u>	<u>267,970</u>	<u>3,799</u>
Total assets		40,423,142	2,310	7,267,971	3,800

(Forward)

		The Group		The Company	
	Note	2005 USD	2004 USD	2005 USD	2004 USD
Equity and Liabilities					
Capital and reserves					
Share capital	18	1,000,000	1,000	1,000,000	1,000
Share premium	19	6,300,000	-	6,300,000	-
Translation reserve	19	(41,692)	-	-	-
Unappropriated profit/(Accumulated loss)	19	<u>16,663,231</u>	<u>(4,462)</u>	<u>(770,898)</u>	<u>(2,761)</u>
Total equity		<u>23,921,539</u>	<u>(3,462)</u>	<u>6,529,102</u>	<u>(1,761)</u>
Non-Current Liabilities					
Deferred tax liabilities, net	20	<u>6,814,311</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>6,814,311</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current Liabilities					
Trade payable	22	764,833	-	-	-
Other payables and accrued liabilities	23	927,715	422	109,727	211
Amount owing to a corporate shareholder	15	174,319	5,350	174,319	5,350
Amount owing to subsidiary companies	15	-	-	454,823	-
Taxes payable	24	738,458	-	-	-
Loans	21	<u>7,081,967</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>9,687,292</u>	<u>5,772</u>	<u>738,869</u>	<u>5,561</u>
Total Equity and Liabilities		40,423,142	2,310	7,267,971	3,800

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

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005

(With comparative figures for period September 17, 2004 (date of incorporation) to December 31, 2004)

The Group	Share capital USD	Non-distributable reserve Share premium USD	Translation reserve USD	Unappropriated profit/ (Accumulated loss) USD	Total/ Net USD
Balance as of September 17, 2004 (date of incorporation) (Note 18)	1,000	-	-	-	1,000
Net loss for the period	-	-	-	(4,462)	(4,462)
Balance as of December 31, 2004	1,000	-	-	(4,462)	(3,462)
Issue of shares (Note 18)	999,000	6,300,000	-	-	7,299,000
Exchange differences arising on translation of foreign subsidiary companies	-	-	(41,692)	-	(41,692)
Net profit for the year	-	-	-	16,667,693	16,667,693
Balance as of December 31, 2005	<u>1,000,000</u>	<u>6,300,000</u>	<u>(41,692)</u>	<u>16,663,231</u>	<u>23,921,539</u>

Company No. LL04433

The Company	Share Capital USD	Share Premium USD	Accumulated Loss USD	Total/ Net USD
Balance as of September 17, 2004 (date of incorporation) (Note 18)	1,000	-	-	1,000
Net loss for the period	<u>-</u>	<u>-</u>	<u>(2,761)</u>	<u>(2,761)</u>
Balance as of December 31, 2004	1,000	-	(2,761)	(1,761)
Issuance of shares (Note 18)	999,000	6,300,000	-	7,299,000
Net loss for the year	<u>-</u>	<u>-</u>	<u>(768,137)</u>	<u>(768,137)</u>
Balance as of December 31, 2005	<u>1,000,000</u>	<u>6,300,000</u>	<u>(770,898)</u>	<u>6,529,102</u>

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

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

CASH FLOW STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

(With comparative figures for the period September 17, 2004 (date of incorporation) to December 31, 2004)

	Note	The Group		The Company	
		2005 (12 months) USD	2004 (3 months) USD	2005 (12 months) USD	2004 (3 months) USD
OPERATING ACTIVITIES					
Profit/(Loss) before tax		19,447,013	(4,462)	(768,137)	(2,761)
Adjustments for:					
Depreciation of property, plant and equipment		895,343	-	-	-
Finance costs		577,498	-	-	-
Loss on disposal of property, plant and equipment		32,070	-	-	-
Write off of receivables		20,655	-	-	-
Provision for doubtful receivables and advances paid		11,693	-	-	-
Recovery of obsolete inventories		(965)	-	-	-
Unrealised foreign exchange gain		(37,762)	-	-	-
Interest income		(59,500)	-	-	-
Excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of subsidiary companies acquired over the cost of acquisition		(12,416,925)	-	-	-
Operating Profit/ (Loss) Before Movement in Working Capital		8,469,120	(4,462)	(768,137)	(2,761)

(Forward)

	The Group		The Company	
	2005 (12 months) USD	2004 (3 months) USD	2005 (12 months) USD	2004 (3 months) USD
Note				
Increase/ (Decrease) in:				
Inventories	(1,232,019)	-	-	-
Trade receivables	(367,612)	-	-	-
Amount owing by subsidiary companies	-	-	(249,770)	(2,479)
Other receivable and prepaid expenses	(211,248)	(2,310)	-	(1,320)
Increase/ (Decrease) in:				
Trade payables	279,671	-	-	-
Other payables and accrued liabilities	(1,336,114)	422	109,516	211
Amount owing to a corporate shareholder	168,969	-	168,969	5,350
Amount owing to subsidiary companies	<u>-</u>	<u>5,350</u>	<u>454,823</u>	<u>-</u>
Cash Generated From/ (Used In) Operations	5,732,422	(1,000)	(284,599)	(999)
Income tax paid	(2,605,035)	-	-	-
Interest paid	<u>(577,498)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash From/ (Used In) by Operating Activities	<u>2,549,889</u>	<u>(1,000)</u>	<u>(284,599)</u>	<u>(999)</u>
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	23,415	-	-	-
Purchase of property, plant and equipment	(3,852,948)	-	-	-
Cash outflows from acquisition of subsidiary companies (Note 12)	<u>(2,042,618)</u>	<u>-</u>	<u>(7,000,000)</u>	<u>(1)</u>
Net Cash Used In Investing Activities	<u>(5,872,151)</u>	<u>-</u>	<u>(7,000,000)</u>	<u>(1)</u>

(Forward)

		The Group		The Company	
		2005	2004	2005	2004
		(12 months)	(3 months)	(12 months)	(3 months)
	Note	USD	USD	USD	USD
FINANCING ACTIVITIES					
Proceeds from issuance of shares		7,299,000	1,000	7,299,000	1,000
Interest received		59,500	-	-	-
Deposits pledged with financial institutions		(607,889)	-	-	-
Repayment of loans		<u>(2,524,892)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash From by Financing Activities		<u>4,225,719</u>	<u>1,000</u>	<u>7,299,000</u>	<u>1,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS					
		903,457	-	14,401	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ DATE OF INCORPORATION					
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/ PERIOD					
	25	903,457	-	14,401	-

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

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The total number of employees of the Group as of December 31, 2005 is 1,354 (Nil 2004). The Company does not have any employee other than its directors.

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.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Basis of presentation

The financial statements of the Group and the Company have been authorised by the Board of Directors for issuance on March 28, 2006.

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

The financial statements of the Group and the Company for 2004 were prepared in accordance with the applicable approved accounting standards of the Malaysian Accounting Standards Board. During the financial year, the Group and the Company adopted IFRS in the preparation of the financial statements. The adoption of IFRS does not have any significant impact on the financial statements of the Group and the Company.

Use of estimates and assumptions

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and the Company have been prepared under the historical cost convention.

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 into 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 and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, sales related taxes and value added tax. Sales of goods are recognised when goods are delivered and the title has passed.

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably.

Borrowing costs

Borrowing costs (if any) 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.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

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 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 compensated benefits requiring accrual.

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized 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 are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in United States Dollar, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in United States Dollar using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average rates at the dates of the transactions are used. 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 statement in the period in which the foreign operations is disposed of.

Goodwill (if any) and fair value adjustments arising on the acquisition of a 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:

	USD
1 Ringgit Malaysia	0.26459
1 Euro Dollar	1.18425
1 Kazakhstan Tenge	<u>0.00748</u>

Property, plant and equipment

Property, plant equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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 statement as incurred.

Depreciation is charged so as to write off the cost of assets, other than land 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 statement.

Impairment of tangible assets

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

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 profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Inventories

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

Financial instruments

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

Trade receivables

Trade 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 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.

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.

Trade payables

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

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

Provisions

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

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Cash Flow Statement

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

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

4. **REVENUE**

	The Group		The Company	
	2005	2004	2005	2004
	(12 months)	(3 months)	(12 months)	(3 months)
	USD	USD	USD	USD
Sales-manufactured goods	19,711,719	-	-	-
Other sales	501,402	-	-	-
Total	<u>20,213,121</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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

	The Group		The Company	
	2005	2004	2005	2004
	(12 months)	(3 months)	(12 months)	(3 months)
	USD	USD	USD	USD
Cost of inventories				
recognised as expenses	5,017,550	-	-	-
Staff costs (see Note 26)	2,443,946	-	-	-
Depreciation of property, plant and equipment (Note 11)	895,343	-	-	-
Auditors' remuneration for audit services	65,016	422	5,000	211
Provision for doubtful receivables and advances paid	<u>11,693</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

6. **INVESTMENT INCOME**

	The Group		The Company	
	2005	2004	2005	2004
	(12 months)	(3 months)	(12 months)	(3 months)
	USD	USD	USD	USD
Interest income from short term deposit	58,545	-	-	-
Interest income from third parties	<u>955</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>59,500</u>	<u>-</u>	<u>-</u>	<u>-</u>

7. FINANCE COSTS

	The Group		The Company	
	2005	2004	2005	2004
	(12 months)	(3 months)	(12 months)	(3 months)
	USD	USD	USD	USD
Interest expense on loan from financial institution	577,440	-	-	-
Other finance costs	58	-	-	-
Total	577,498	-	-	-

Other finance costs represent bank charges.

8. OTHER INCOME, NET

	The Group		The Company	
	2005	2004	2005	2004
	(12 months)	(3 months)	(12 months)	(3 months)
	USD	USD	USD	USD
Foreign exchange gain:				
Realised	74,656	-	6,168	-
Unrealised	37,762	-	-	-
Loss on disposal of property, plant and equipment	(32,070)	-	-	-
Receivables write-off	(20,655)	-	-	-
Other loss	(10,286)	-	-	-
Total	49,407	-	6,168	-

9. INCOME TAX EXPENSE

The income tax expense is as follows:

	The Group		The Company	
	2005	2004	2005	2004
	(12 months)	(3 months)	(12 months)	(3 months)
	USD	USD	USD	USD
Estimated current tax payable:				
- the Company	-	-	-	-
- subsidiary companies	2,764,262	-	-	-
Deferred tax expenses (Note 20):				
- the Company	-	-	-	-
- subsidiary companies	15,058	-	-	-
	<u>2,779,320</u>	<u>-</u>	<u>-</u>	<u>-</u>

Under the Labuan Offshore Business Activity Tax Act, 1990, the Company has to elect annually whether to be charged tax at the rate of RM20,000 (USD5,263) 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 assessment. No tax is charged on offshore non-trading activities. In 2005, the Company elected to be charged tax at 3% on the chargeable profits.

The profit earned by the subsidiary companies incorporated in the Republic of Kazakhstan is subject to a statutory tax rate of 30%.

The income tax expense for the year/period can be reconciled to the profit/ (loss) before tax per income statement as follows:

	The Group		The Company	
	2005	2004	2005	2004
	(12 months)	(3 months)	(12 months)	(3 months)
	USD	USD	USD	USD
Profit/ (Loss) before tax	<u>19,447,013</u>	<u>(4,462)</u>	<u>(768,137)</u>	<u>(2,761)</u>
Tax at statutory tax rate of 3%	583,411	(134)	(23,044)	(83)
Effect of different tax rate of subsidiary companies operating in other jurisdictions	2,260,012	-	-	-
Tax effects of:				
Expenses not deductible for tax purposes	366,174	-	-	-
Income not assessable to tax	(453,321)	-	-	-
Deferred tax assets not allowed to be carried forward/not recognised	<u>23,044</u>	<u>134</u>	<u>23,044</u>	<u>83</u>
Income tax expense	<u>2,779,320</u>	<u>-</u>	<u>-</u>	<u>-</u>

10. **EARNINGS/(LOSS) PER SHARE**

Basic

	The Group	
	2005	2004
	(12 months)	(3 months)
	USD	USD
Net profit/ (loss) attributable to ordinary shareholders	<u>16,667,693</u>	<u>(4,462)</u>
	2005	2004
Number of shares in issue at beginning of year/period	100,000	100,000
Issuance of shares on August 2, 2005	70,000,000	-
Issuance of shares on August 24, 2005	<u>29,900,000</u>	<u>-</u>
Number of shares in issue at end of year/period	<u>100,000,000</u>	<u>100,000</u>
Weighted average number of ordinary shares in issue	<u>39,626,301</u>	<u>100,000</u>
	2005	2004
	USD	USD
Basic earnings/(loss) per share (cents)	<u>0.42</u>	<u>(0.04)</u>

The basic earnings/(loss) per share is calculated by dividing the consolidated net profit/(loss) 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, NET**

Property, plant and equipment as at December 31, 2005 consisted 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
Cost (unless otherwise indicated)							
At January 1, 2005	-	-	-	-	-	-	-
Arising upon acquisition of subsidiary companies	3,238,496	23,990,193	1,729,276	1,355,145	3,321	702,981	31,019,412
Additions	1,264	360,987	1,986,160	271,913	-	1,232,624	3,852,948
Transfers	-	9,306	(19,375)	10,069	-	-	-
Disposals	-	(51,401)	(12,156)	-	-	-	(63,557)
At December 31, 2005	<u>3,239,760</u>	<u>24,309,085</u>	<u>3,683,905</u>	<u>1,637,127</u>	<u>3,321</u>	<u>1,935,605</u>	<u>34,808,803</u>

	Freehold land and land improvement USD	Buildings USD	Machinery and equipment USD	Other assets USD	Computer software USD	Construction in progress USD	Total USD
Accumulated depreciation							
At January 1, 2005	-	-	-	-	-	-	-
Arising upon acquisition of subsidiary companies	-	3,147,739	453,585	365,670	-	-	3,966,994
Charge for the year	-	704,447	102,420	86,965	1,511	-	895,343
Transfers	-	1,952	(2,573)	621	-	-	-
Disposals	-	(4,077)	(3,995)	-	-	-	(8,072)
At December 31, 2005	-	<u>3,850,061</u>	<u>549,437</u>	<u>453,256</u>	<u>1,511</u>	<u>-</u>	<u>4,854,265</u>
Net Book Value							
At December 31, 2005	<u>3,239,760</u>	<u>20,459,024</u>	<u>3,134,468</u>	<u>1,183,871</u>	<u>1,810</u>	<u>1,935,605</u>	<u>29,954,538</u>

The fully depreciated property, plant and equipment in 2005 amounted to USD40,060.

As at December 31, 2005, property, plant and equipment with book value of USD23,220,034, were pledged under the Loan Agreement #3220/04 dated November 2, 2004 (Note 22).

12. INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2005	2004
	USD	USD
Unquoted shares, at cost	<u>7,000,001</u>	<u>1</u>
i) On June 8, 2005, its subsidiary company, Steppe Cement (M) Sdn Bhd (“SCM”) incorporated a wholly owned subsidiary, Steppe Cement Holdings B.V. by subscribing for 18,000 shares of EUR 1 each for total cash consideration of RM80,566 (equivalent of EUR 18,000).		
ii) As approved by shareholders vide Member’s Resolution dated July 6, 2005, the Company subscribed for 1 ordinary share of USD1 in Mechanical & Electrical Consulting Services Ltd, a newly incorporated company in Labuan, Malaysia.		
iii) On July 29, 2005, the Company approved the acquisition by its subsidiary company, SCM of 5,833,287 ordinary shares of EUR 1 each, representing 100% interest in the capital of Central Asia Cement Holding B.V. (“CAC B.V.”) for a total cash consideration of USD7 million. The purchase consideration was settled by the Company issuing 70,000,000 new ordinary shares of USD0.01 each to the seller at a price of USD0.10 per share. SCM in turn issued 26,250 new ordinary shares of RM1 (equivalent to USD0.2631) at the issue price of RM1,000 (equivalent to USD263) each to the Company for settlement of USD7 million in relation to the purchase of 5,883,287 ordinary shares of CAC B.V.		
iv) As a result of acquiring CAC B.V, the Group has effectively acquired 100% equity interest in Central Asia Cement Joint Stock Company (CAC JSC), a wholly owned subsidiary of CAC B.V., which was acquired by CAC B.V. for a total cash consideration of USD 10 million.		
v) On November 15, 2005, its subsidiary company, Steppe Cement Holdings B.V., incorporated KarCement JSC, a new subsidiary company.		

The details of subsidiary companies, are as follows:

	Place of incorporation (or registration) and operation	Proportion of ownership interest and vesting power held		Principal Activity
		2005 %	2004 %	
Direct Subsidiary Companies				
Steppe Cement (M) Sdn. Bhd.	Malaysia	100	100	Investment holding company
Mechanical & Electrical Consulting Services Ltd	Malaysia	100	-	Provision of consultancy services
Indirect Subsidiary Companies				
(Held through Steppe Cement (M) Sdn. Bhd.) Steppe Cement Holdings B.V. *	Netherlands	100	-	Investment holding company
(Held through Steppe Cement (M) Sdn. Bhd.) Central Asia Cement Holding B.V. *	Netherlands	100	-	Investment holding company
(Held through Central Asia Cement Holding B.V.) Central Asia Cement JSC *	Republic of Kazakhstan	100	-	Production and sale of cement
(Held through Central Asia Cement JSC) Stroy Invest LLP *	Republic of Kazakhstan	100	-	Dormant
(Held through Steppe Cement Holdings B.V.) KarCement JSC **	Republic of Kazakhstan	100	-	Dormant

* audited by member firm of Deloitte Touche Tohmatsu

**** newly incorporated subsidiary company**

The Group's subsidiary company, Stroy Invest LLP is currently dormant and the Group has the intention to liquidate the entity. (see also Note 28)

The Group's subsidiary company, KarCement JSC has not been consolidated as the company is newly incorporated and no financial statements had been prepared.

The amount owing by subsidiary companies arose mainly from payments made on behalf, which are unsecured, interest-free and have no fixed term of repayment.

Acquisition of subsidiary companies

The Group effectively acquired 100% of the issued share capital of CAC JSC at a purchase consideration of USD10 million, being the consideration paid by CAC B.V. for the 100% equity interest in CAC JSC. This transaction has been accounted for using the acquisition method of accounting.

The net assets acquired in the transaction, are as follows:

Net assets acquired	USD
Property, plant and equipment	27,052,418
Inventories, net	5,296,239
Other receivables and prepaid expenses, net	1,483,906
Trade receivables, net	398,651
Cash and cash equivalents	7,957,382
Trade accounts payable	(485,162)
Other payables and accrued liabilities	(1,688,461)
Taxes payable	(1,154,172)
Loans	(9,644,623)
Deferred tax liabilities	<u>(6,799,253)</u>
	22,416,925
Excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities over the cost of acquisition	<u>(12,416,925)</u>
Total consideration, satisfied by cash	<u>10,000,000</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(10,000,000)
Cash and cash equivalent acquired	<u>7,957,382</u>
	<u>(2,042,618)</u>

The effects of the acquisitions of subsidiary companies on the financial results of the Group for the current financial year are as follows:

	USD
Revenue	20,213,121
Cost of sales	<u>(8,272,798)</u>
Gross profit	11,940,323
Selling expenses	(1,243,643)
General and administration expenses	<u>(2,423,696)</u>
Operating profit	8,272,984
Investment income	59,500
Finance costs	(577,498)
Other income, net	<u>43,239</u>
Profit before tax	7,798,225
Income tax expense	<u>(2,779,320)</u>
Profit after tax	5,018,905
Excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of subsidiary companies acquired over the cost of acquisition – nil tax effect	<u>12,416,925</u>
Increase in profit for the year attributable to shareholders	<u>17,435,830</u>

13. INVENTORIES

	The Group		The Company	
	2005	2004	2005	2004
	USD	USD	USD	USD
Work in progress	1,494,086	-	-	-
Finished goods	961,189	-	-	-
Raw materials	412,852	-	-	-
Spare parts	280,636	-	-	-
Construction materials	69,452	-	-	-
Other material	3,660,199	-	-	-
	6,878,414			
Less: Provision for obsolete inventories	<u>(349,190)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net	<u>6,529,224</u>	<u>-</u>	<u>-</u>	<u>-</u>

14. TRADE RECEIVABLE, NET

Trade accounts receivable, net as at 31 December 2005 and 2004 consisted of the following:

	The Group		The Company	
	2005	2004	2005	2004
	USD	USD	USD	USD
Trade receivables from third parties	750,484	-	-	-
Accounts receivables from related parties (Note 26)	73,252	-	-	-
	823,736	-	-	-
Less: Provision for doubtful receivables	(93,166)	-	-	-
Net	<u>730,570</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

An allowance has been made for estimated irrecoverable amounts from the sale of goods of USD93,166. This allowance has been determined by reference to past default experience.

15. AMOUNT OWING TO CORPORATE SHAREHOLDER AND RELATED COMPANIES TRANSACTIONS

Amount owing to a corporate shareholder, Asian Investment Management Services Ltd., a company incorporated in the British Virgin Islands, arose mainly from payments of listing expenses made on behalf, which are unsecured, interest-free and have no fixed term of repayment.

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

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

	The Company	
	2005	2004
	USD	USD
Ringgit Malaysia	232,775	2,479
Euro	9,474	-
United States Dollars	10,000	-
Total	252,249	2,479

16. OTHER RECEIVABLES, ADVANCES AND PREPAID EXPENSES

Other receivables as at 31 December 2005 and 2004 consisted of the following:

	The Group		The Company	
	2005	2004	2005	2004
	USD	USD	USD	USD
Receivable from employees	96,757	-	-	-
Other receivables	176,147	-	-	-
Prepaid expenses	268,105	2,310	1,320	1,320
	541,009	2,310	1,320	1,320
Advances paid to third parties, net of provision of USD74,419 – current portion	1,025,383	-	-	-
	1,566,392	2,310	1,320	1,320
Advances paid to third parties – non-current portion	131,072	-	-	-
	1,697,464	2,310	1,320	1,320

An allowance has been made for estimated irrecoverable amounts of advances paid for the purchase of goods of USD74,419.

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

17. CASH AND BANK BALANCES

	The Group		The Company	
	2005	2004	2005	2004
	USD	USD	USD	USD
Cash in hand and at bank	1,400,562	-	14,401	-
Short term deposits	110,784	-	-	-
	<u>1,511,346</u>	<u>-</u>	<u>14,401</u>	<u>-</u>

The analysis of cash in foreign currencies is as follows:

	The Group		The Company	
	2005	2004	2005	2004
	USD	USD	USD	USD
Kazakhstan Tenge	1,331,767	-	-	-
United States Dollars	147,196	-	14,401	-
Euro Dollars	29,392	-	-	-
Ringgit Malaysia	2,991	-	-	-
	<u>1,511,346</u>	<u>-</u>	<u>14,401</u>	<u>-</u>

18. SHARE CAPITAL

	The Group and the Company	
	2005	2004
	USD	USD
Authorised:		
Ordinary shares of USD0.01 each		
At beginning of year/ date of incorporation	10,000	10,000
Created during the year	<u>4,990,000</u>	<u>-</u>
At end of year/ period	<u>5,000,000</u>	<u>10,000</u>
Issued and fully paid:		
Ordinary shares of USD0.01 each		
At beginning of year/ date of incorporation	1,000	1,000
Issued during the year	<u>999,000</u>	<u>-</u>
At end of year/ period	<u>1,000,000</u>	<u>1,000</u>

The Company was incorporated on September 17, 2004 with an authorised share capital of USD10,000, consisting of 1,000,000 ordinary shares of USD0.01 each, and an issued and paid-up share capital of USD1,000, consisting of 100,000 ordinary shares of USD0.01 each.

As approved by the shareholders at the Extraordinary General Meeting held on July 27, 2005, the authorised share capital of the Company was increased from USD10,000 to USD5,000,000 by the creation of 499,000,000 ordinary shares of USD0.01 each.

As approved by the shareholders on August 2, 2005, the issued and paid up share capital of the Company was increased from USD1,000 to USD701,000 by the issue and allotment of 70,000,000 ordinary shares of USD0.01 at an issue price of USD0.10 per share. The resulting share premium of USD6,300,000 has been credited to the share premium account.

As approved by the shareholders vide Members' Resolution dated August 24, 2005, the issued and paid up share capital of the Company was increased from USD701,000 to USD1,000,000 by the issue and allotment of 29,900,000 ordinary shares of USD0.01 each at an issue price of USD0.01 per share.

19. RESERVES

	The Group		The Company	
	2005	2004	2005	2004
	USD	USD	USD	USD
Non-distributable reserves:				
Share premium				
Balance at beginning of the year/ date of incorporation	-	-	-	-
Shares issued at a premium	6,300,000	-	6,300,000	-
Balance at end of the year	<u>6,300,000</u>	<u>-</u>	<u>6,300,000</u>	<u>-</u>
Translation adjustment account				
Balance at beginning of the year/ date of incorporation	-	-	-	-
Exchange differences on translation of foreign subsidiary companies	(41,692)	-	-	-
Balance at end of the year	<u>(41,692)</u>	<u>-</u>	<u>-</u>	<u>-</u>

Share premium

Share premium arose from the issuance of 70,000,000 ordinary shares of USD0.01 at an issue price of USD0.10 per share during the financial year.

Translation adjustment account

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

Unappropriated profit

Any dividend distributions to be made by Central Asia Cement JSC to Central Asia Cement Holding BV are in principle subject to Kazakhstan dividend withholding tax rate of 15%. However, under the tax treaty concluded between the Netherlands and Kazakhstan, this percentage can be reduced to 5% of the gross amounts of the dividends. Any dividend distributions by Central Asia Cement Holding BV 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 Malaysian tax law any dividend income received by Steppe Cement (M) Sdn Bhd from Cement Asia Cement Holding BV will be credited into an exempt income account from which tax-exempt dividends can be distributed to the Company. There is no withholding tax on dividends distributed by Steppe Cement (M) Sdn Bhd to the Company.

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

20. DEFERRED TAX LIABILITIES

	The Group		The Company	
	2005 (12 months) USD	2004 (3 months) USD	2005 (12 months) USD	2004 (3 months) USD
Balance at beginning of the year/ date of incorporation	-	-	-	-
Acquisition of subsidiary companies (Note 12)	6,799,253	-	-	-
Transfer from income statement (Note 9)	15,058	-	-	-
At end of year/ period	<u>6,814,311</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Assets/ (Liabilities)				
	The Group		The Company	
	2005 USD	2004 USD	2005 USD	2004 USD
Tax effects of temporary differences in respect of:				
Property, plant and equipment	(6,997,905)	-	-	-
Inventories	104,754	-	-	-
Taxes	49,067	-	-	-
Trade receivables	27,948	-	-	-
Others	1,825	-	-	-
Net deferred tax liabilities	<u>(6,814,311)</u>	<u>-</u>	<u>-</u>	<u>-</u>

21. LOANS

	Interest Rate	The Group		The Company	
		2005 USD	2004 USD	2005 USD	2004 USD
JSC Kazkommertsbank	12.5%	7,004,975	-	-	-
Interest payable		76,992	-	-	-
Total		<u>7,081,967</u>	<u>-</u>	<u>-</u>	<u>-</u>

The loan of USD12,000,000 was provided by JSC Kazkommertsbank, and is repayable by monthly equal installments of USD500,000 commencing November, 2004.

The loan is secured by:

- a. property, plant and equipment pledged amounting to USD23,220,034 (Note 11); and
- b. cash at bank of USD500,000 (Note 25)

22. TRADE PAYABLES

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

23. OTHER PAYABLES AND ACCRUED LIABILITIES

	The Group		The Company	
	2005 USD	2004 USD	2005 USD	2004 USD
Liquidation fund accruals	19,540	-	-	-
Accruals	908,175	422	109,727	211
Total	<u>927,715</u>	<u>422</u>	<u>109,727</u>	<u>211</u>

In accordance with the Subsurface Use Contracts requirements, the subsidiary company, Central Asia Cement JSC, should 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.

24. TAXES PAYABLE

	The Group		The Company	
	2005	2004	2005	2004
	USD	USD	USD	USD
Corporate income tax	396,397	-	-	-
Property tax	162,746	-	-	-
Personal income tax	37,232	-	-	-
Other taxes	142,083	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	738,458	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

25. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	2005	2004
	USD	USD	USD	USD
Cash in hand and at bank	1,400,562	-	14,401	-
Short term deposits	110,784	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,511,346	-	14,401	-
Less: Restricted cash	(107,889)	-	-	-
Less: Cash pledged	(500,000)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	903,457	-	14,401	-
	<hr/>	<hr/>	<hr/>	<hr/>

Restricted cash represents deposits required to be held under letters of credit.

Cash at bank of USD500,000 is pledged as security for loan granted to its subsidiary company (Note 21).

As at December 31, 2005 in accordance with the Law on Labor, a non-interest bearing deposit in the amount of 387,000 Tenge (USD2,895) (2004: nil) was placed with Halyk Savings Bank of Kazakhstan as a part of work permit requirements for non-resident employees of its subsidiary companies. The deposit is subject to annual renewal.

26. RELATED PARTIES.

Related parties include shareholder directors, affiliates and entities under common ownership, over 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 balances with related parties are included under trade receivables in the consolidated balance sheet as of December 31, 2005 and 2004:

	Accounts receivable from related parties	
	2005	2004
	USD	USD
KarCement JSC	<u>73,252</u>	<u>-</u>

The accounts receivable from KarCement JSC represent the amount of expenses on obtaining loan from the European Bank for Reconstruction and Development ("EBRD"), which will be reimbursed by KarCement JSC.

Compensation of key management personnel

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

	The Group		The Company	
	2005	2004	2005	2004
	(12 months)	(3 months)	(12 months)	(3 months)
	USD	USD	USD	USD
Remunerations	95,534	-	94,780	-
Short-term benefit	92,164	-	-	-
Post-employment benefit	<u>8,640</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>196,338</u>	<u>-</u>	<u>94,780</u>	<u>-</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.

27. COMMITMENTS AND CONTINGENCIES

Contingent liabilities – On December 13, 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 to exceed USD35,000,000. Under the Guarantee and Support Agreement between a subsidiary company, Central Asia Cement JSC, EBRD, the Borrower and other parties, the subsidiary company acts as guarantor and 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, and its subsidiary companies (the Group) should 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 Group mining operations. Not later than 6 months before the Subsurface Use Contract expiration the Company shall submit the liquidation program to competent body. As at December 31, 2005 the undiscounted contractual liability on future contributions to the liquidation fund obligation is 59,771,000 Tenge (USD447,137). Management estimated this liability, if discounted, will not have a material effect on these consolidated financial statements and therefore the Group recorded only current period contributions as liability in 2005 consolidated balance sheet. Also, in accordance with the Law on Land and resource usage and Environmental rehabilitations, the Group will be obliged to provide additional resources to the state in the case the liquidation fund will be insufficient to cover actual site restoration and abandonment costs in the future. As at December 31, 2005 management believes that the amount of obligatory liquidation fund exceeds future site restoration and abandonment costs.

28. EVENTS AFTER THE BALANCE SHEET DATE

- (a) On January 20, 2006, the directors of the Company approved a private placement of 14 million new ordinary shares of USD0.01 each at a placement price of USD1.50 per share.
- (b) The subsidiary company, Central Asia Cement JSC and its subsidiary company (the Group) has entered into an agreement on a credit line #219/06 dated February 15, 2006 with JSC Kazkommertsbank. Under the accessory agreement #220/06 dated February 16, 2006, JSC Kazkommertsbank issued to the subsidiary company, Central Asia Cement JSC, a loan of USD1,483,600. Under the collateral agreement #126/06-z dated February 15, 2006, JSC Kazkommertsbank pledged cash in the subsidiary company’s bank account incoming from the contract between the subsidiary company and JSC Stroyconstructsiya for the total amount of USD4,000,000.

- (c) On February 27, 2006, the Board of Directors of a subsidiary company, Central Asia Cement JSC, resolved to liquidate the indirect subsidiary of the Company, Stroy Invest LLP in 2006.
- (d) On March 28, 2006, the Group repaid in full the outstanding principal and interest on the loan provided by JSC Kazkommertsbank under the Loan Agreement #3220/04 dated November 2, 2004.

29. 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.

30. 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 within 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.

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 risks for the Group.

31. FINANCIAL INSTRUMENTS

Financial Risk management Objectives and Policies

The operations of the Group and the Company 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 and the Company 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 and the Company undertake trade and non-trade transactions with its holding company, trade customers and suppliers which are denominated in foreign currencies. As a result, the amount outstanding are exposed to currency translation risks.

(ii) Credit Risk

The Group and the Company are exposed to credit risk mainly from trade receivables. The Group and the Company have no major concentration of credit risk and manage these risks by monitoring credit ratings and limiting the aggregate financial exposure to any individual counterparty.

(iii) Liquidity Risk

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities.

(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.

Financial Assets

The Group and the Company's principal financial assets are cash and bank balances, trade and other receivables.

The accounting policies applicable to the major financial assets are as disclosed in Note 3.

Financial Liabilities and Equity Instruments

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual agreement.

The Group and the Company's principal liabilities include trade and other payables, amount owing to a corporate shareholder and loans, which are stated at their nominal value.

Equity instruments are recorded at the proceeds received net of direct issue costs.

Fair value of Financial Assets and Financial Liabilities

The carrying amount of the financial assets and financial liabilities reported in the balance sheet approximate fair values because of the short term maturity of these instruments.

Company No. LL04433

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

STATEMENT BY A DIRECTOR

I, **TAN SRI AZMI BIN WAN HAMZAH**, on behalf of the directors of **STEPPE CEMENT LTD** state that, in opinion of the Directors, the accompanying balance sheets and the related statements of income, cash flows and changes in equity are drawn up in accordance with the 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 December 31, 2005 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,

TAN SRI AZMI BIN WAN HAMZAH

Labuan
March 28, 2006

**JOINT STOCK COMPANY
CENTRAL ASIA CEMENT
AND ITS SUBSIDIARY**

Independent Auditor's Report

Consolidated Financial Statements
For the Year Ended 31 December 2005

JOINT STOCK COMPANY CENTRAL ASIA CEMENT AND ITS SUBSIDIARY

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Central Asia Cement and its subsidiary (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2005 and 2004, the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining accounting records in compliance with legislation and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2005 and 2004 were authorized for issue on 9 March 2006 by the Management board of JSC Central Asia Cement.

On behalf of the Management of the Group:

Tham Hock Soon
General Director

9 March 2006
Almaty

Nelly Brajnikova
Chief Accountant

9 March 2006
Almaty

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Joint Stock Company Central Asia Cement:

We have audited the accompanying consolidated balance sheet of Joint Stock Company Central Asia Cement and its subsidiary ("the Group") as of 31 December 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended (hereinafter – consolidated financial statements). These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

9 March 2006

JOINT STOCK COMPANY CENTRAL ASIA CEMENT AND ITS SUBSIDIARY

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005 (in thousands of tenge)

	Notes	2005	2004
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment, net	4	3,764,981	468,725
Intangible assets, net		242	218
Advances paid		17,521	-
		<u>3,782,744</u>	<u>468,943</u>
CURRENT ASSETS:			
Inventories, net	5	872,794	753,729
Prepaid expenses		23,370	16,051
Trade accounts receivable, net	6	158,905	27,788
Advances paid, net	7	137,068	65,863
Value added tax receivable		30,851	7,130
Other receivables	8	17,922	17,608
Cash and cash equivalents	9	178,953	419,014
Assets classified as held for sale	10	238,950	-
		<u>1,658,813</u>	<u>1,307,183</u>
TOTAL ASSETS		<u>5,441,557</u>	<u>1,776,126</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	11	80,000	80,000
Revaluation reserve	12	2,015,902	-
Retained earnings/(accumulated deficit)		1,182,692	(232,871)
		<u>3,278,594</u>	<u>(152,871)</u>
NON-CURRENT LIABILITIES:			
Deferred tax liabilities, net	13	910,903	-
		<u>910,903</u>	<u>910,000</u>
CURRENT LIABILITIES:			
Trade accounts payable	14	102,239	87,513
Other payables and accrued liabilities	15	81,941	133,030
Taxes payable	16	98,265	70,767
Loans	17	946,682	704,936
Advance received		22,933	22,751
		<u>1,252,060</u>	<u>1,018,997</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		<u>5,441,557</u>	<u>1,776,126</u>

Signed on behalf of the Management of the Group:

Tham Hock Soon
General Director

9 March 2006

Nelly Brajnikova
Chief Accountant

9 March 2006

The notes on pages 8 to 24 form an integral part of these consolidated financial statements. The independent auditors' report is on page 2.

JOINT STOCK COMPANY CENTRAL ASIA CEMENT AND ITS SUBSIDIARY

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005 (in thousands of tenge)

	Notes	2005	2004
REVENUE	18	6,185,962	4,376,225
COST OF SALES	19	<u>(2,520,817)</u>	<u>(1,771,486)</u>
GROSS PROFIT		3,665,145	2,604,739
Selling expenses	20	(334,993)	(284,411)
General and administrative expenses	21	<u>(594,025)</u>	<u>(830,606)</u>
OPERATING PROFIT		2,736,127	1,489,722
Finance costs, net	22	(160,377)	(119,628)
Other (loss)/ income, net	23	<u>(13,251)</u>	<u>220,825</u>
PROFIT BEFORE INCOME TAX		2,562,499	1,590,919
INCOME TAX EXPENSE	13	<u>(817,698)</u>	<u>(519,434)</u>
NET PROFIT for the year		<u><u>1,744,801</u></u>	<u><u>1,071,485</u></u>

Signed on behalf of the Management of the Group:

Tham Hock Soon
General Director

9 March 2006

Nelly Brajnikova
Chief Accountant

9 March 2006

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JOINT STOCK COMPANY CENTRAL ASIA CEMENT AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005 (in thousands of tenge)

	Notes	Share capital	Revaluation reserve	Retained earnings/ (accumulated deficit)	Total shareholders' equity
Balance as at 31 December 2003		80,000		(1,304,356)	(1,224,356)
Net profit for the year		-	-	1,071,485	1,071,485
Balance as at 31 December 2004		80,000	-	(232,871)	(152,871)
Net profit for the year		-	-	1,744,801	1,744,801
Dividends paid	11	-	-	(434,080)	(434,080)
Revaluation of property, plant and equipment	4	-	3,029,634	-	3,029,634
Deferred tax liabilities related to revalued property, plant and equipment	13	-	(908,890)	-	(908,890)
Depreciation of revaluation reserve		-	(104,842)	104,842	-
Balance as at 31 December 2005		80,000	2,015,902	1,182,692	3,278,594

Signed on behalf of the Management of the Group:

Tham Hock Soon
General Director

9 March 2006

Nelly Brajnikova
Chief Accountant

9 March 2006

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JOINT STOCK COMPANY CENTRAL ASIA CEMENT AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005

(in thousands of tenge)

	Notes	2005	2004
OPERATING ACTIVITIES:			
Profit before income tax		2,562,499	1,590,919
Adjustments for:			
Depreciation and amortization		156,828	34,956
Loss on disposal of property, plant and equipment	23	6,549	192
Provision for doubtful receivables and advances paid	21	1,563	7,650
Recovery of obsolete inventory	21	(129)	-
Unrealized foreign exchange loss/(gain)		46,731	(227,544)
Write off of receivables	23	2,761	-
Write off of payables	23	(41,397)	-
Finance costs, net	22	160,377	119,628
		<u>2,895,782</u>	<u>1,525,801</u>
Operating cash flow before movements in working capital		2,895,782	1,525,801
Decrease/(increase) in trade accounts receivable		(131,439)	27,747
Increase in advances paid		(89,967)	(19,579)
Decrease/(increase) in prepaid expenses		(7,319)	3,890
Decrease/(increase) in value added tax receivable		(23,721)	148,255
Decrease/(increase) in other receivables		(38,175)	17,990
Increase in inventories		(118,936)	(379,284)
Increase in trade accounts payable		14,726	59,527
Decrease in advances received, other payables and accrued liabilities		(9,510)	(73,445)
Decrease in tax liability (other than income tax)		6,662	(16,711)
		<u>2,498,103</u>	<u>1,294,191</u>
Cash provided by operations		2,498,103	1,294,191
Income tax paid		(794,849)	(487,730)
Interest paid		(177,747)	(471,624)
		<u>1,525,507</u>	<u>334,837</u>
Net cash provided by operating activities		1,525,507	334,837
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	4	(871,532)	(204,406)
Proceeds from disposal of property, plant and equipment	4	203,135	-
Purchase of intangible assets		(576)	(311)
		<u>-</u>	<u>79</u>
Disposal of short-term investments		-	79
		<u>(668,973)</u>	<u>(204,638)</u>
Net cash used in investing activities		(668,973)	(204,638)

FINANCING ACTIVITIES:

Dividends paid	11	(434,080)	-
Proceeds from bank loans		-	1,872,851
Repayment of loans		<u>(662,515)</u>	<u>(1,862,098)</u>
Net cash (used in)/provided by financing activities		<u>(1,096,595)</u>	<u>10,753</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(240,061)</u>	<u>140,952</u>
CASH AND CASH EQUIVALENTS, beginning of the year		<u>419,014</u>	<u>278,062</u>
CASH AND CASH EQUIVALENTS, end of the year		<u>178,953</u>	<u>419,014</u>

Non-cash transactions for the year ended 31 December 2005 consisted of the off-set of the loan in the amount of KZT 35,100 thousand (2004: nil) made by Cement Engineering Consultancy Ltd. to the Group against other accounts receivable (see Note 17).

Signed on behalf of the Management of the Group:

Tham Hock Soon
General Director
9 March 2006

Nelly Brajnikova
Chief Accountant
9 March 2006

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JOINT STOCK COMPANY CENTRAL ASIA CEMENT AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (in thousands of tenge)

1. NATURE OF THE BUSINESS

Closed Joint Stock Company Central Asia Cement (the “Company”) was founded in the Republic of Kazakhstan and was registered in September 1998. The Company was reregistered in April, 2005 as Joint Stock Company Central Asia Cement.

The Group’s primary business is the production and sale of cement.

The address of its registered office is Aktau village, Karaganda region, Republic of Kazakhstan.

The Company’s subsidiary as at 31 December 2005 and 2004 was as follows:

Operating Entity	Principal Activity	Country of incorporation
Stroy Invest LLP	Dormant	Republic of Kazakhstan

The Company’s subsidiary, Stroy Invest LLP is currently dormant and the management has the intention to discontinue the entity (see also Note 26).

The sole shareholder of the Group as at 31 December 2005 and 2004 is Central Asia Cement Holding B.V. The ultimate shareholder is Steppe Cement Ltd., Malaysia.

In accordance with Subsurface Use Contracts dated 4 August 1999 and Licenses for Subsurface Use KO-03 N 016 and KO-03 N 016 dated 18 June 1999, the Company is engaged in limestone and loam extraction at Astakhovskoye deposit in Bukhar-Zhyrauskyi region, Karaganda oblast.

The number of employees of the Company as at 31 December 2005 and 2004 were 1,354 and 1,368 respectively.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements are presented in thousands of tenge unless otherwise indicated. The Company, together with its subsidiary, collectively referred to as “the Group” maintains its accounting records in tenge (“Tenge” or “KZT”) in accordance with Kazakhstani Accounting Standards (“KAS”). Kazakhstani statutory accounting principles and procedures differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group’s Kazakhstani statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

These consolidated financial statements of the Group are prepared on the historical cost basis, except for revaluation of land, buildings and constructions and financial instruments.

Use of estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and

expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

Measurement currency

The measurement currency of the accompanying consolidated financial statements is tenge.

Adoption of new and revised international financial reporting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current year:

- Non-current assets held for sale and discontinued operations (IFRS 5);

The impact of this change in accounting policies is discussed in detail later in Notes 3 and 10.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entity controlled by the Company (its subsidiary). 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.

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

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

Foreign currencies

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

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to

the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Machinery and equipment and other assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

Capitalized 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 capitalization are charged to the consolidated income statement as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

Buildings	25 years
Machinery and Equipment	14 years
Other assets	5-10 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 profit or loss.

Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is computed under the straight-line method over the estimated useful lives of assets of 1 – 10 years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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.

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 profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average

method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Financial instruments

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

Trade receivables

Trade 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 recognized in profit or loss 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.

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.

Trade payables

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

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. Sales are recognized net of value added tax.

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.

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 funds. 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 employees. The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan and countries where its subsidiaries operate. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Provisions

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

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized 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 profit or loss, 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.

Reclassifications

The consolidated financial statements as at December 31, 2004 and for the year ended December 31, 2004 were reclassified to comply with the consolidated financial statements presentation requirements

as at December 31, 2005 and for the year ended December 31, 2005. These reclassifications have not affected previously reported results of operations or shareholders' equity. These reclassifications are presented below:

	For the year ended December 31, 2004	For the year ended December 31, 2004 (Reclassified)	Total
Selling expenses:			
Railway transportation	221,569	189,839	31,730
Shipping and transportation	4,771	59,504	(54,733)
Payroll and related taxes	17,936	17,936	-
Rent	2,475	4,151	(1,676)
Advertising	1,349	910	439
Depreciation	-	5,017	(5,017)
Other	36,311	7,054	29,257
Total selling expenses	<u>284,411</u>	<u>284,411</u>	<u>-</u>

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment as at 31 December 2005 and 2004 consisted of the following:

	Land and land improvement	Buildings	Machinery and equipment	Other Assets	Construction in progress	Total
Cost						
At 1 January 2005	24,339	202,579	179,893	153,088	21,268	581,167
Additions	169	50,123	316,768	66,993	237,474	871,532
Transfers	-	1,244	(2,590)	1,346	-	-
Disposals	-	(6,871)	(1,625)	(2,584)	-	(11,080)
Reclassification as held for sale (see Note 10)	-	(139,517)	-	-	(119,693)	(259,210)
Revaluation	408,567	3,002,442	-	-	-	3,411,009
At 31 December 2005	<u>433,075</u>	<u>3,110,000</u>	<u>492,446</u>	<u>218,843</u>	<u>139,049</u>	<u>4,393,413</u>
Accumulated depreciation						
At 1 January 2005	-	(24,340)	(52,567)	(35,535)	-	(112,442)
Charge for the year	-	(109,226)	(21,924)	(25,126)	-	(156,276)
Reclassification as held for sale (see Note 10)	-	20,260	-	-	-	20,260
Revaluation	-	(381,375)	-	-	-	(381,375)
Transfers	-	(261)	344	(83)	-	-
Disposals	-	545	701	155	-	1,401
At 31 December 2005	<u>-</u>	<u>(494,397)</u>	<u>(73,446)</u>	<u>(60,589)</u>	<u>-</u>	<u>(628,432)</u>
Net Book Value						
At 31 December 2005	<u>433,075</u>	<u>2,615,603</u>	<u>419,000</u>	<u>158,254</u>	<u>139,049</u>	<u>3,764,981</u>
At 31 December 2004	<u>24,339</u>	<u>178,239</u>	<u>127,326</u>	<u>117,553</u>	<u>21,268</u>	<u>468,725</u>

Land and buildings were revalued at 31 December 2005 by Rice Group LLC, independent appraisers not connected with the Group, by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards.

As at December 31, 2005 and 2004 fully depreciated property, plant and equipment amounted to KZT 5,355 thousand and nil, respectively.

As at 31 December 2005 and 2004 a property with a book value of KZT 3,103,938 thousand and KZT 395,316 thousand, respectively, was pledged under the Loan Agreement #3220/04 dated 2 November 2004 (Note 17).

5. INVENTORIES, NET

Inventories, net as at 31 December 2005 and 2004 consisted of the following:

	2005	2004
Work in Process	199,722	190,768
Finished goods	128,487	154,446
Fuel	56,359	80,668
Raw materials	55,188	39,950
Spare parts	37,514	26,801
Goods for resale	13,395	13,475
Packing materials	10,939	10,712
Construction materials	9,284	6,324
Other material	408,584	277,392
Less: provision for obsolete inventory	(46,678)	(46,807)

Total	872,794	753,729
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6. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, net as at 31 December 2005 and 2004 consisted of the following:

	2005	2004
Trade receivables from third parties	100,321	39,920
Accounts receivable from related parties (see Note 24)	71,038	-
Less: Provision for doubtful receivables	(12,454)	(12,132)
Total	158,905	27,788

An allowance has been made for estimated irrecoverable amounts from the sale of goods of 12,454 thousand tenge (2004: 12,132 thousand tenge). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade receivables approximates their fair value.

7. ADVANCES PAID, NET

Advances paid, net as at 31 December 2005 and 2004 consisted of the following:

	2005	2004
Advances paid to third parties	147,016	74,570
Less: Provision for advances paid	(9,948)	(8,707)
Total	137,068	65,863

An allowance has been made for estimated irrecoverable amounts of advances paid for the purchase of goods of 9,948 thousand tenge (2004: 8,707 thousand tenge).

The directors consider that the carrying amount of advances paid approximates their fair value.

8. OTHER RECEIVABLES

Other receivables as at 31 December 2005 and 2004 consisted of the following:

	2005	2004
Receivable from employees	12,934	14,059
Other receivables	4,988	3,549
Total	17,922	17,608

The directors consider that the carrying amount of other receivables approximates their fair value.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2005 and 2004 consisted of the following:

	2005	2004
Cash in banks, in KZT	163,192	395,033
Cash in banks, in USD	929	891
Petty cash	23	712
Restricted cash	14,422	22,378
Deposits	387	-
Total	178,953	419,014

Restricted cash represents deposits required to be held under letters of credit.

As at 31 December 2005 in accordance with the Law on Labor a non-interest bearing deposit in the amount of 387 thousand tenge (2004: nil) was placed with Halyk Savings Bank of Kazakhstan as a part of work permit requirements for non-resident employees. The deposit is subject to annual renewal.

Cash in current bank account of 500,000 US Dollars (KZT 66,885 thousand) was pledged under the loan from JSC Kazkommertsbank, according to the Loan Agreement #3220/04 dated 2 November, 2004 (see Note 17).

10. ASSETS CLASSIFIED AS HELD FOR SALE

On 9 March 2006 the shareholders resolved to dispose the Group's dry line of cement production. The assets attributable to the production line, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the balance sheet (see Note 4).

The major classes of assets comprising the disposal group classified as held for sale are as follows:

	2005	2004
Construction in progress	119,693	-
Buildings and constructions	119,257	-
Total	238,950	-

11. SHARE CAPITAL

At 31 December 2005 and 2004 the Company had 1,000 ordinary shares authorized, issued and fully paid with a par value of USD 1,000, or KZT 80,000 each.

In accordance with the decision of the Board of Directors as of 19 August 2005 dividends were declared and paid for the 6 months ended 30 June 2005 in the amount of KZT 412,376 thousand, net of withholding tax of KZT 21,704 thousand and nil for the same period and for the year ended 31 December 2004.

12. REVALUATION RESERVE

At 31 December 2005 revaluation reserve amounted to 2,015,902 thousand tenge which consist of revaluation performed by Rice Group LLC (2004:nil). The revaluation reserve is not available for distribution to the Company's shareholders.

13. INCOME TAX

The Group's provision for income tax for the years ended 31 December 2005 and 2004 is as follows:

	2005	2004
Current income tax expenses	815,685	519,434
Deferred income tax expenses	2,013	-
Total income tax expense	817,698	519,434

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December is presented below:

	2005	2004
Deferred tax assets		
Provision for doubtful accounts	3,736	6,251
Difference in depreciable value of property, plant and equipment	-	16,107
Provision for obsolete inventory	14,003	-
Taxes	6,559	-
Other adjustments	273	3,978
Total	24,571	26,336

	2005	2004
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(935,445)	-
Other adjustments	(29)	-
Total	(935,474)	-
Deferred tax (liabilities)/assets	(910,903)	26,336
Valuation allowance	-	(26,336)
Net deferred tax liabilities	(910,903)	-

Recorded:

in the consolidated income statement	(2,013)
in the consolidated statement of changes in shareholder's equity	(908,890)

Total	(910,903)
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The statutory tax rate effective in the Republic of Kazakhstan, was 30% in 2005 and 2004. The taxation charge for the year is different from that which would be obtained by applying the statutory

income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 30% to the actual expense recorded in the Group's consolidated income statement:

	2005	2004
Profit before income tax	2,562,499	1,590,919
Theoretical income tax at statutory rate of 30%	768,750	477,276
Adjustments due to:		
Tax effect of non-deductible expenses	75,284	30,220
Change in valuation allowance	(26,336)	11,938
Income tax expense	817,698	519,434

14. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at 31 December 2005 and 2004 consisted of the following:

	2005	2004
Trade payables to third parties	102,239	87,513
Total	102,239	87,513

15. OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities as at 31 December 2005 and 2004 consisted of the following:

	2005	2004
Payables to employees	54,098	20,649
Liquidation fund accruals	2,612	1,764
Other payables and accruals	25,231	110,617
Total	81,941	133,030

Other payables and accruals for 2004 include accrued management fee to Cement Engineering Consultancy Ltd (former shareholder of the Group) of KZT 75,833 thousand, accrued interest and penalty on the loan from Cement Engineering Consultancy Ltd of KZT 2,266 thousand and KZT 14,528 thousand, respectively.

According to the Assignment Agreement dated 5 March 2005 between Kazakhstan Asset Management Ltd ("KAM") and the Group, KAM has assigned and transferred to the Group the loans and all other amounts due and payable by Cement Engineering Consultancy Ltd, a former shareholder of the Group ("CEC"), to KAM in the amount of US\$1,015,431 (KZT 133,265 thousand) in consideration of the payment for the amount of US\$700,000 (KZT 91,868 thousand) by the Group to KAM as the purchase price for the assignment of such receivables, payable pursuant to the provisions of such Assignment Agreement. As a result of such assignment, the debts formerly due and payable by CEC to KAM became debts due and payable by CEC to the Group. The remaining amount of payables of KZT 41,397 thousand was written off as other income (see Note 23).

16. TAXES PAYABLE

Taxes payable as at 31 December 2005 and 2004 consisted of the following:

2005	2004
------	------

Corporate income tax	52,540	31,704
Withholding tax	-	15,167
Property tax	21,755	283
Personal income tax	4,977	4,815
Other taxes	18,993	18,798
Total	98,265	70,767

17. LOANS

Loans as at 31 December 2005 and 2004 consisted of the following:

	Interest rate	2005	2004
JSC Kazkommertsbank (a)	12.5%	936,390	1,560,000
Cement Engineering Consultancy (b)	2 x 1 year LIBOR	-	35,100
Interest payable		10,292	19,836
Total		946,682	1,614,936

a) The loan of 12,000,000 US Dollars (KZT 1,560,000 thousand) was provided by JSC Kazkommertsbank, according to the Loan Agreement #3220/04 dated 2 November, 2004 for the purpose of repayment of the loan provided by Kazakhstan Investment Fund (former shareholder). The principle is repayable monthly by equal installments of 500,000 USD. The maturity date is 2 February 2007. As at 31 December 2005 and 2004 a property with a book value of KZT 3,103,938 thousand and KZT 395,316 thousand, respectively, was pledged under the Loan Agreement #3220/04 dated 2 November 2005 (Note 4) and cash in current bank account of 500,000 US Dollars (KZT 66,885 thousand) (see Note 9).

b) The loan of 350,000 US Dollars (KZT 50,477 thousand) was provided by Cement Engineering Consulting, a former shareholder of the Group, for three years according to the agreement dated 21 March, 2000. The principal amount of 80,000 US Dollars was repaid in year 2004. The outstanding amount of the loan as at 31 December 2004 amounted to 270,000 US Dollars (KZT 35,100 thousand) and was off-set against other accounts receivable during 2005. There was no collateral obligation under this loan agreement.

Bank loans of 936,390 thousand tenge (2004: 1,595,100 thousand tenge) are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

18. REVENUE

Revenue for years ended 31 December 2005 and 2004 consisted of the following:

	2005	2004
Sales-manufactured goods	6,070,106	4,317,602

Other sales	115,856	58,623
Total	<u>6,185,962</u>	<u>4,376,225</u>

19. COST OF SALES

Cost of sales for years ended 31 December 2005 and 2004 consisted of the following:

	2005	2004
Cost of production		
Materials	1,376,961	1,203,982
Payroll and related taxes	465,204	347,271
Electricity	256,739	219,278
Depreciation	130,917	31,205
Other	181,432	97,899
	<u>2,411,253</u>	<u>1,899,635</u>
Work in progress as at beginning of the year	190,768	111,584
Work in progress as at end of the year	<u>199,722</u>	<u>190,768</u>
Change in work in progress	(8,954)	(79,184)
Finished goods as at beginning of the year	154,446	64,102
Finished goods as at end of the year	<u>128,487</u>	<u>154,446</u>
Change in finished goods	25,959	(90,344)
Cost of sales, manufactured goods	<u>2,428,258</u>	<u>1,730,107</u>
Cost of sales, purchased goods	<u>92,559</u>	<u>41,379</u>
Total	<u>2,520,817</u>	<u>1,771,486</u>

20. SELLING EXPENSES

Selling expenses for the years ended 31 December 2005 and 2004 consisted of the following:

	2005	2004
Railway transportation	191,505	189,839
Shipping and transportation	105,599	59,504
Payroll and related taxes	21,951	17,936
Rent	5,231	4,151
Advertising	1,779	910
Depreciation	1,748	5,017
Other	7,180	7,054
Total	334,993	284,411

21. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2005 and 2004 consisted of the following:

	2005	2004
Payroll and related taxes	132,927	128,349
Management fee	93,511	87,900
Tax and customs duties	80,405	60,798
Security	36,595	34,193
Transport expenses	28,999	14,235
Materials	26,600	22,987
Current repair expenses	26,149	19,829
Depreciation and amortization	24,163	3,751
Legal services (a)	18,311	144,041
Bank service payments	17,188	13,315
Audit expenses	16,001	6,609
Business trip expenses	11,475	5,843
Communication costs	10,131	5,089
Utilities	6,298	9,452
Laboratory costs	3,712	1,231
Office costs	2,840	3,326
Penalties (a)	422	256,682
Provision for doubtful receivables and advances paid	1,563	7,650
Consulting and project expenses	150	2,957
Recovery of obsolete inventory	(129)	-
Other expenses	56,714	2,369
	594,025	830,606

- a) Legal fee in 2004 was incurred mainly for refinancing of the shareholder's loan and purchase of former shareholder's interest in the Company.
- b) Penalties in 2004 related to the late payment of principal and interest on the loan provided in accordance with the loan agreement dated 21 May 1998 granted by Kazakhstan Investment Fund (see Note 17).

22. FINANCE COSTS, NET

Finance costs, net for the years ended 31 December 2005 and 2004 consisted of the following:

	2005	2004
Interest income	7,826	5,257
Interest expense	(168,203)	(88,500)
Other finance costs	-	(36,385)
Total	(160,377)	(119,628)

Other finance costs for 2004 related to the bank commission paid to Kazkommertsbank.

23. OTHER (LOSS)/INCOME, NET

Other (loss)/income, net for the years ended 31 December 2005 and 2004 consisted of the following:

	2005	2004
Foreign exchange (loss)/ gain	(46,704)	227,544
Loss on disposal of property, plant and equipment	(6,549)	(192)
Receivables write-off	(2,761)	-
Payables write-off	41,397	-
Other gain/(loss)	1,366	(6,527)
Total	(13,251)	220,825

24. RELATED PARTIES

The immediate parent and the ultimate controlling party respectively of the Group are Central Asia Cement Holding B.V. (incorporated in Netherlands) and Steppe Cement Ltd. (incorporated in Malaysia).

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

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The following transactions and balances with related parties are included in the consolidated income statement and balance sheet for the years ended 31 December 2005 and 2004:

	Purchases of services	
	2005	2004
Management fee	93,511	87,900
Other	-	62,897

		Accounts receivable from related parties (see Note 6)	
		2005	2004
Steppe Cement Ltd. and subsidiaries	-	71,038	-

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the period for bad or doubtful debts in respect of the accounts receivable from related parties.

Accounts receivable from related parties for 2005 represent the amount of expenses on obtaining loan from the European Bank for Reconstruction and Development (“EBRD”), which will be reimbursed by JSC KarCement in the amount of KZT 9,792 thousand and receivable for listing fee at London Stock Exchange from the ultimate parent, Steppe Cement Ltd. in the amount of KZT 61,246 thousand.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
Short-term benefit	12,320	5,441
Post-employment benefit	1,155	488
Total	13,475	5,929

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

25. COMMITMENTS AND CONTINGENCIES

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.

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.

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 characterized 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.

Contingent liabilities – On 13 December, 2005 Loan agreement between EBRD and JSC KarCement (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 to exceed 35,000,000 US Dollars. Under the Guarantee and Support Agreement between the JSC Central Asia Cement, EBRD, the Borrower and other parties, the Company acts as guarantor and 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.

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 Group to modernize technology to meet more stringent standards.

Obligations under Liquidation Fund – In accordance with the Subsurface Use Contracts requirements, the Group should 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 Group mining operations. Not later than 6 months before the Subsurface Use Contract expiration the Group shall submit the liquidation program to competent body. As at 31 December 2005 the undiscounted contractual liability on future contributions to the liquidation fund obligation is 59,771 thousand tenge. Management estimated this liability, if discounted, not to have material effect on these consolidated financial statements and therefore the Group recorded only current period contributions as liability on 2005 consolidated balance sheet. Also, in accordance with the Law on Land and resource usage and Environmental rehabilitations the Group will be obliged to provide additional resources to the state in the case the liquidation fund will be insufficient to cover actual site restoration and abandonment costs in the future. As at December 31, 2005 management believes that amount of obligatory liquidation fund exceeds future site restoration and abandonment costs.

26. EVENTS AFTER THE BALANCE SHEET DATE

According to the minute of the meeting of the board of directors dated 27 February, 2006 the management of the Group made the decision on liquidation of the Company’s subsidiary Stroy Invest LLP.

The Company signed the agreement on a credit line #219/06 dated 15 February 2006 with JSC Kazkommertsbank. Under the accessory agreement #220/06 dated 16 February 2006, JSC Kazkommertsbank issued to the Company a loan of 1,483,600 US Dollars. Under the collateral agreement #126/06-z dated 15 February 2006, JSC Kazkommertsbank pledged cash in the Company’s bank account incoming from the contract between the Company and JSC Stroyconstructsiya for the total amount of 4,000,000 US Dollars.

According to the management of the Company, fixed assets with total cost of KZT 238,950 thousand will be sold to JSC KarCement on an arm’s length basis during 2006 (see Note 10).



Steppe Cement Ltd

(Company No. LL04433)

(Incorporated in Labuan F.T., Malaysia under the Offshore Companies Act, 1990)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2006 ANNUAL GENERAL MEETING of the Company will be held at 8th Floor, Clements House, 14-18 Gresham Street, London EC2V 7NN, England on 4 May 2006 at 11.30 a.m. for the following purposes:

AGENDA

1. To receive and adopt the audited financial statements of the Company for year ended 31 December 2005. **RESOLUTION 1**
2. To transact any other business of which due notice shall have been given in accordance with the Offshore Companies Act, 1990.

BY ORDER OF THE BOARD

Director

Date:

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, PO Box 82, the Pavilions, Bridgwater Road BS99 7NH.



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