RNS Number:8502A
Steppe Cement Limited
03 April 2006

Steppe Cement Limited

Trading Results of Key Operating Subsidiary for the Year Ended 31 December 2005

Steppe Cement Limited ("Steppe") is pleased to announce the finalisation of the audited accounts of its key operating subsidiary, Central Asia Cement JSC ("Central Asia Cement") for the year ended 31 December 2005.

Central Asia Cement (and its subsidiary) has recorded a consolidated net profit after tax for the year of 1,744.8 million tenge, being a 62.8% increase on the 1,071.5 million tenge returned for the year ended 31 December 2004.

Based on the average exchange rate for the year ended 31 December 2005 of 133.675 tenge per US$ (2004: 135 tenge per US$), the result for the 31 December 2005 year is equivalent to US$13,053,000. This compares with the US$7,937,000 for the year ended 31 December 2004 as reported in Steppe's September 2005 AIM admission document.

Central Asia Cement is the owner and operator of the Steppe Cement Group's cement production assets in Kazakhstan. Steppe has a 100% interest in Central Asia Cement held indirectly through two non-operating subsidiaries. The current group structure having been finalised during July 2005.

Steppe anticipates the release of its full consolidated financial statements for the year ended 31 December 2005 will occur during April 2006 following the completion of the audit of the group consolidation by Deloitte & Touche. Accounting standards require that the Steppe profit and loss statement for the year ended 31 December 2005 will only consolidate the results of Central Asia Cement from the date the present group structure was finalised.

A copy of Central Asia Cement's financial statements for the year ended 31 December 2005 follows.

JOINT STOCK COMPANY CENTRAL ASIA CEMENT
AND ITS SUBSIDIARY

Independent Auditors' 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 auditors' 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 | Nelly Brajnikova |
| General Director | Chief Accountant |
| | |
| 9 March 2006 | 9 March 2006 |
| Almaty | Almaty |

INDEPENDENT AUDITORS' 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 at 31 December 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended (the "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

(Except for Note 26, which is dated 28 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 | - |
| | | 3,782,744 | 468,943 |
| 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 | - |
| | | 1,658,813 | 1,307,183 |
| TOTAL ASSETS | | 5,441,557 | 1,776,126 |

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) |
| | | 3,278,594 | (152,871) |
| NON-CURRENT LIABILITIES: | | | |
| Deferred tax liabilities, net | 13 | 910,903 | - |
| Loans | 14 | - | 910,000 |
| | | 910,903 | 910,000 |
| CURRENT LIABILITIES: | | | |
| Trade accounts payable | 15 | 102,239 | 87,513 |
| Other payables and accrued liabilities | 16 | 81,941 | 133,030 |
| Taxes payable | 17 | 98,265 | 70,767 |
| Loans | 14 | 946,682 | 704,936 |
| Advance received | | 22,933 | 22,751 |
| | | 1,252,060 | 1,018,997 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 5,441,557 | 1,776,126 |

Signed on behalf of the Management of the Group:

| | |
|---|---|
| Tham Hock Soon | Nelly Brajnikova |
| General Director | Chief Accountant |
| 9 March 2006 | 9 March 2006 |

The notes on pages 8 to 25 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 | (2,520,817) | (1,771,486) |
| GROSS PROFIT | | 3,665,145 | 2,604,739 |

| | | | |
|---|---|---|---|
| Selling expenses | 20 | (334,993) | (284,411) |
| General and administrative expenses | 21 | (594,025) | (830,606) |
| OPERATING PROFIT | | 2,736,127 | 1,489,722 |
| Finance costs, net | 22 | (160,377) | (119,628) |
| Other (loss)/ income, net | 23 | (13,251) | 220,825 |
| PROFIT BEFORE INCOME TAX | | 2,562,499 | 1,590,919 |
| INCOME TAX EXPENSE | 13 | (817,698) | (519,434) |
| NET PROFIT for the year | | 1,744,801 | 1,071,485 |

Signed on behalf of the Management of the Group:

| | |
|---|---|
| Tham Hock Soon | Nelly Brajnikova |
| General Director | Chief Accountant |
| 9 March 2006 | 9 March 2006 |

The notes on pages 8 to 25 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 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) |

|  | Notes |  |  |  |  |
|---|---|---|---|---|---|
| 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 | Nelly Brajnikova |
|---|---|
| General Director | Chief Accountant |
| 9 March 2006 | 9 March 2006 |

The notes on pages 8 to 25 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 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 |
| Operating cash flow before movements in working capital | | 2,895,782 | 1,525,801 |
| (Increase)/ decrease in trade accounts receivable | | (131,439) | 27,747 |
| Increase in advances paid | | (89,967) | (19,579) |
| (Increase)/ decrease in prepaid expenses | | (7,319) | 3,890 |
| (Increase)/ decrease in value added tax receivable | | (23,721) | 148,255 |
| (Increase)/ decrease 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) |
| Increase /(decrease) in tax liability (other than income tax) | | 6,662 | (16,711) |
| Cash provided by operations | | 2,498,103 | 1,294,191 |
| Income tax paid | | (794,849) | (487,730) |
| Interest paid | | (177,747) | (471,624) |
| Net cash provided by operating activities | | 1,525,507 | 334,837 |
| INVESTING ACTIVITIES: | | | |
| Purchase of property, plant and equipment | 4 | (671,527) | (204,406) |
| Proceeds from disposal of property, plant and equipment | 4 | 3,130 | - |
| Purchase of intangible assets | | (576) | (311) |
| Disposal of short-term investments | | - | 79 |
| Net cash used in investing activities | | (668,973) | (204,638) |

JOINT STOCK COMPANY CENTRAL ASIA CEMENT AND ITS SUBSIDIARY

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

(in thousands of tenge)

| | Notes | 2005 | 2004 |
|---|---|---|---|
| FINANCING ACTIVITIES: | | | |
| Dividends paid | 11 | (434,080) | - |
| Proceeds from bank loans | | - | 1,872,851 |
| Repayment of loans | | (662,515) | (1,862,098) |
| Net cash (used in)/provided by financing | | | |

| | | |
|---|---|---|
| activities | (1,096,595) | 10,753 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (240,061) | 140,952 |
| CASH AND CASH EQUIVALENTS, beginning of the year | 419,014 | 278,062 |
| CASH AND CASH EQUIVALENTS, end of the year | 178,953 | 419,014 |

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 14).

Signed on behalf of the Management of the Group:

| | |
|---|---|
| ____________________ | ____________________ |
| Tham Hock Soon<br>General Director | Nelly Brajnikova<br>Chief Accountant |
| 9 March 2006 | 9 March 2006 |

The notes on pages 8 to 25 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

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 | 284,411 | 284,411 | - |

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 | 671,527 |
| 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 | 433,075 | 3,110,000 | 492,446 | 218,843 | 139,049 | 4,393,413 |

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 | - | (494,397) | (73,446) | (60,589) | - | (628,432) |
| Net Book Value At 31 December 2005 | 433,075 | 2,615,603 | 419,000 | 158,254 | 139,049 | 3,764,981 |
| At 31 December 2004 | 24,339 | 178,239 | 127,326 | 117,553 | 21,268 | 468,725 |

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 14).

## 4. 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 |

## 5. 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.

## 6. 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.

## 7. 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 14).

## 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) | - |

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. 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. 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). The outstanding principal and interest were repaid by the Group in full on 28 March, 2006 (see also Note 26).

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.

The loans and interest payable are repayable as follows:

| | | 2005 | 2004 |
|---|---|---|---|
| Within one year | | 946,682 | 704,936 |
| Within two to five years | | - | 910,000 |
| | Total | 946,682 | 1,614,936 |

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.

## 15. 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 |

## 16. 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).

## 17. 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 |

## 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 | 6,185,962 | 4,376,225 |

## 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 |
| | 2,411,253 | 1,899,635 |
| Work in progress as at beginning of the year | 190,768 | 111,584 |
| Work in progress as at end of the year | 199,722 | 190,768 |
| 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 | 128,487 | 154,446 |
| Change in finished goods | 25,959 | (90,344) |
| Cost of sales, manufactured goods | 2,428,258 | 1,730,107 |
| Cost of sales, purchased goods | 92,559 | 41,379 |
| Total | 2,520,817 | 1,771,486 |

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 14).

## 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 (KZT 194,693 thousand). 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 (KZT 524,920 thousand).

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).

On 28 March, 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 2 November, 2004 (see Note 14).