

Annual Report 2010



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Corporate Information

Company Secretary

Equity Trust Secretaries Ltd

Registered Address

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

Country of incorporation

Federal Territory of Labuan, Malaysia

Company Registration

LL04433

Head Office Address

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

Main Country of Operation (Operating Subsidiaries' Address)

472380, Aktau Village
Karaganda Region
Republic of Kazakhstan

Nominated Adviser

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

and

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

Broker

Westhouse Securities Limited
One Angel Court
London EC2R 7HJ

Bankers

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

Group Auditor

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

UK Registrar

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

Solicitor

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



Chairman's Statement

The trading environment for Steppe Cement remained challenging during 2010, particularly during the first half of the year, reflecting the fragile international climate in the aftermath of the global financial crisis in 2008/9. Credit remained tightly constrained by the banks and other lending institutions in Kazakhstan. In consequence the activity levels for new private sector housing as well as commercial and industrial building were muted. By contrast, Government spending on infrastructure investment showed clear signs of growth. This should underpin a stronger level of construction activity in both the current year and 2012 as major road and rail projects announced in 2009/10 are realised. These initiatives are unlikely to be re-scheduled given the robust nature of the public finances and tax receipts enjoy the benefit from higher commodity prices. As a consequence we believe that cement demand may now be likely to continue on a recovery path. Having increased by 12% in 2010 is likely to show a similar rise in 2011 to 6.1 million tonnes.

The performance of Line 6 improved steadily throughout the year and accounted for 48% of group production as compared with 26% in 2009. The introduction of a new burner, modifications to the cooler and pre-heater boosted output levels in the first full year of operation. The cost advantages inherent in the dry process line over the older wet kilns means that this asset will become increasingly important as Steppe Cement seeks to manage the inflationary increases in the important variable costs, particularly of both coal and electricity as has become evident from their suppliers. Transport costs have also been directly impacted by higher fuel prices. This factor alone has squeezed margins on sales to more distant metro markets such as Almaty and has been a contributory factor in the decline in operating profit margins in 2010. Controlling costs remains a prime focus of the management. Total employee numbers fell again last year by 6% to 1057. Only those capital investments with a very fast payback, such as refurbishing the equipment to expand the cement bagging capacity, have been authorised.

In 2010, the Board took the decision to raise £10 million (USD15.9 million) of additional equity capital in order to strengthen the company's capital structure. This was successfully completed and fully subscribed by way of an offer for subscription in November. The Group was thus able to negotiate a two year extension to the principal repayments from its two main creditor banks EBRD and HSBC. Debt reduction continues to be a key short term priority and the overall level of indebtedness is scheduled to fall again this year with the repayment in August of the KZT2.7 billion (USD18.3 million) bond, in part funded by the offer proceeds. As part of the longer term objective to become wholly dependent on the economically more efficient dry process manufacture of cement, the capital costs needed to complete of Line 5 are being reviewed with suppliers. Any decision to proceed with such an investment would, however, depend on a strengthening forecast of domestic cement consumption in 2012/13 and beyond as well as the availability of attractive financing.

Reporting a further loss in 2010 is a cause for disappointment for Steppe shareholders. The enhanced performance of the dry process line 6 and the prospect of increasing market demand do, however, give cause for renewed confidence that the low point in the market may now have successfully passed.

Malcolm Ronald Brown
Non-Executive Chairman



CEO Statement

Steppe Cement continued to improve its volumes while the market confirmed the turnaround started in the second half of 2009, even though cement prices remained flat. Steppe Cement reduced its losses to USD 3.7 million, increased its capacity utilization to 75% and continued operational improvements helped offset the effects of low cement prices and higher utility and transportation costs. Steppe Cement managed to successfully raise additional equity in November 2010 with proceeds mainly to be utilised towards the repayment of the bonds due in August 2011. Steppe Cement stands to benefit from both the deleveraging of its balance sheet and Tenge strength against the USD. The cement market continues to improve and Steppe Cement has started to reconsider the completion of line 5 subject to better outlook in market prices and financing.

Key financials	Year ended 31-Dec-2010	Year ended 31-Dec-2009	Inc/ (Dec)%
Sales (tonnes of cement)	1,153,874	930,297	24
Consolidated turnover in USD Million	72.8	59.1	23
Consolidated loss before tax (USD Million)	(6.9)	(19.0)	(64)
Consolidated loss after tax (USD Million)	(3.7)	(16.5)	(77)
Loss per share (US cents)	(2.4)	(12)	(80)
Shareholders' funds (USD Million)	124.7	102.0	22
Average exchange rate (USD/KZT)	147.4	147.8	0
Exchange rate as at year end (USD/KZT)	147.4	148.4	0

The market volume increased by 12% in 2010 and we expect continued growth in 2011

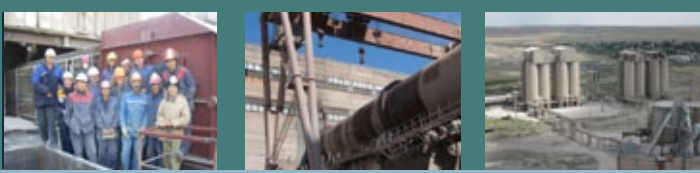
The Kazakh cement market demand in 2010 amounted to 5.7 million tonnes, an increase of 12% compared to 5.1 million tonnes in 2009, confirming the recovery announced in the second half of 2009. Our expectations are that overall market demand in 2011 will increase by 7% to 6.1 million tonnes, a level close to that achieved in 2006.

Imports declined again in 2010 and the share of local producers increased from 78% to 80%. Average cement prices were stable when compared to the previous year in Tenge and USD terms at USD 54 per tonne ex-factory or approximately USD 63 per tonne delivered.

Steppe Cement managed to increase its volumes by 24% and its market share from 18% to 20%. We are seeking to maintain our market share and increase prices in 2011.

The dry line continues to improve its performance while wet line costs have been optimised

The four wet lines produced 597,513 tonnes in 2010, a reduction of 5% when compared



CEO Statement

to 2009. The dry line contributed 556,361 tonnes, an increase of 90% over 2009. This trend will continue in the coming years as the capacity of line 6 increases and line 5 is brought into production.

The wet lines can produce 2,000 tonnes of clinker per day or 2,450 tonnes of cement per day. However, preference is given to the dry line whenever technically possible.

Line 6 produced up to 2,100 tonnes of clinker per day in 2010 and it is now able to produce 2,500 tonnes per day of clinker or the equivalent of 3,100 tonnes of cement. Improvements in 2010 included pre heater fans, cooler, a new burner, modifications to the cooler, changes in the kiln inlet seal and the pre-heater.

We have improved the cement mills and they allow us to produce at least 150,000 tonnes of cement per month. We intend to run the wet lines and line 6 to their maximum capacity during the summer months and carry some stock during the winter months.

Costs increased in 2010 driven by external inputs (electricity, coal and transport) but were partly offset by higher productivity and lower fuel consumption

During 2010, we had increases in the cost of electricity, coal and transportation while we managed to reduce the labour cost and the fuel consumption per tonne. This allowed us to limit the cash cost increase from USD 37 to USD 38 per tonne.

Selling expenses reflecting mostly delivery costs increased from USD 8.2 per tonne in 2009 to USD 10.5 per tonne. This was due to a combination of higher wagon rental rates, rates charged by the Kazakhstan TemirZholy (the national railway company) and the fact that more cement was sold into markets further from the factory, such as Almaty, where a major sales effort was made.

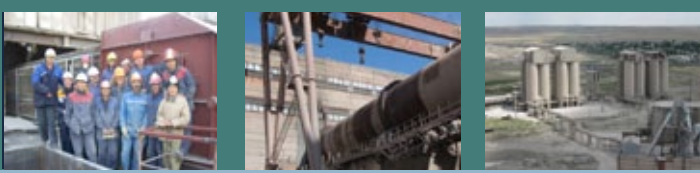
General and administrative expenses increased by 4% from 2009 while the official inflation rate was 7.8% in 2010.

In 2011, we again expect increasing costs of electricity and transportation that will be partly offset by the increasing productivity from the dry line resulting in lower energy consumption per unit of production. We intend to start a number of projects to reduce the impact of the inflation in utility prices.

The labour count stands at 1,057 as of March 2011 compared with 1,125 in March 2010. We have 763 employees in the wet lines and administration and 294 in the dry line.

The Kazakh economy has continued to rebound in 2010, helped by higher commodity prices. According to National Bank of Kazakhstan the Gross Domestic Product grew by 7% in 2010. The government has maintained its program of road and railway construction and infrastructure investment in the main cities.

Some of the main Kazakh banks have completed the restructuring of their debts and cut sharply the credit to the construction sector and the economy at large. We are now seeing signs of increased lending activity although the recovery will probably only be felt in 2012.



CEO Statement

The VAT and corporate income tax rate remain at 12% and 20% respectively and it seems that further revisions are unlikely during 2011. Karcement, the wholly owned subsidiary of Steppe Cement, enjoys a 0% income tax rate until 2014.

Finance cost and loans

In 2010, depreciation and finance costs amounted to USD 9.3 million and USD 6.2 million respectively.

During 2010, we successfully renegotiated the EBRD and HSBC loans. The loan's maturity was extended by two years to September 2015 and the interest increased to an average of Libor (6 months USD) + 5.9% from Libor (6 months USD) + 4.7%.

In November 2010, Steppe Cement issued 25 million new shares in the AIM market of the London Stock Exchange at 40 pence per share that raised GBP 9.7 million net of expenses. The total number of outstanding shares stands at 179 million reflecting a stronger capital base. The proceeds were kept in cash or used to reduce short-term loans.

Steppe Cement expects to repay the KZT 2.7 billion bonds listed in the Kazakhstan Stock Exchange in August 2011.

As of 31 December 2010, the total indebtedness decreased to USD 73.7 million down from USD 80.7 million in 2009 and the cash reserves stood at USD 9.5 million. As of 8 June 2011, the cash balance exceeded USD 15 million.

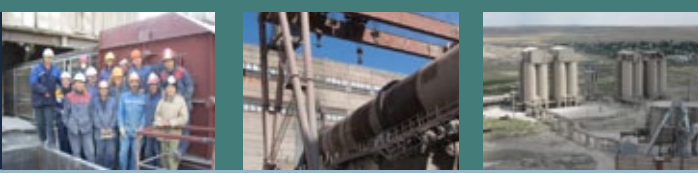
Steppe Cement undertook a revaluation of the land and buildings during 2010 in line with the practice of revaluing the properties every five years. The result has been an increase of the value of properties by USD 12.7 million that is reflected in the fixed assets and equity.

We have restarted the budgeting and evaluation of the pending works to complete the refurbishment of line 5. The decision of the continuation will be made based on the evolution of the market, the competition, and the availability of long term financing.

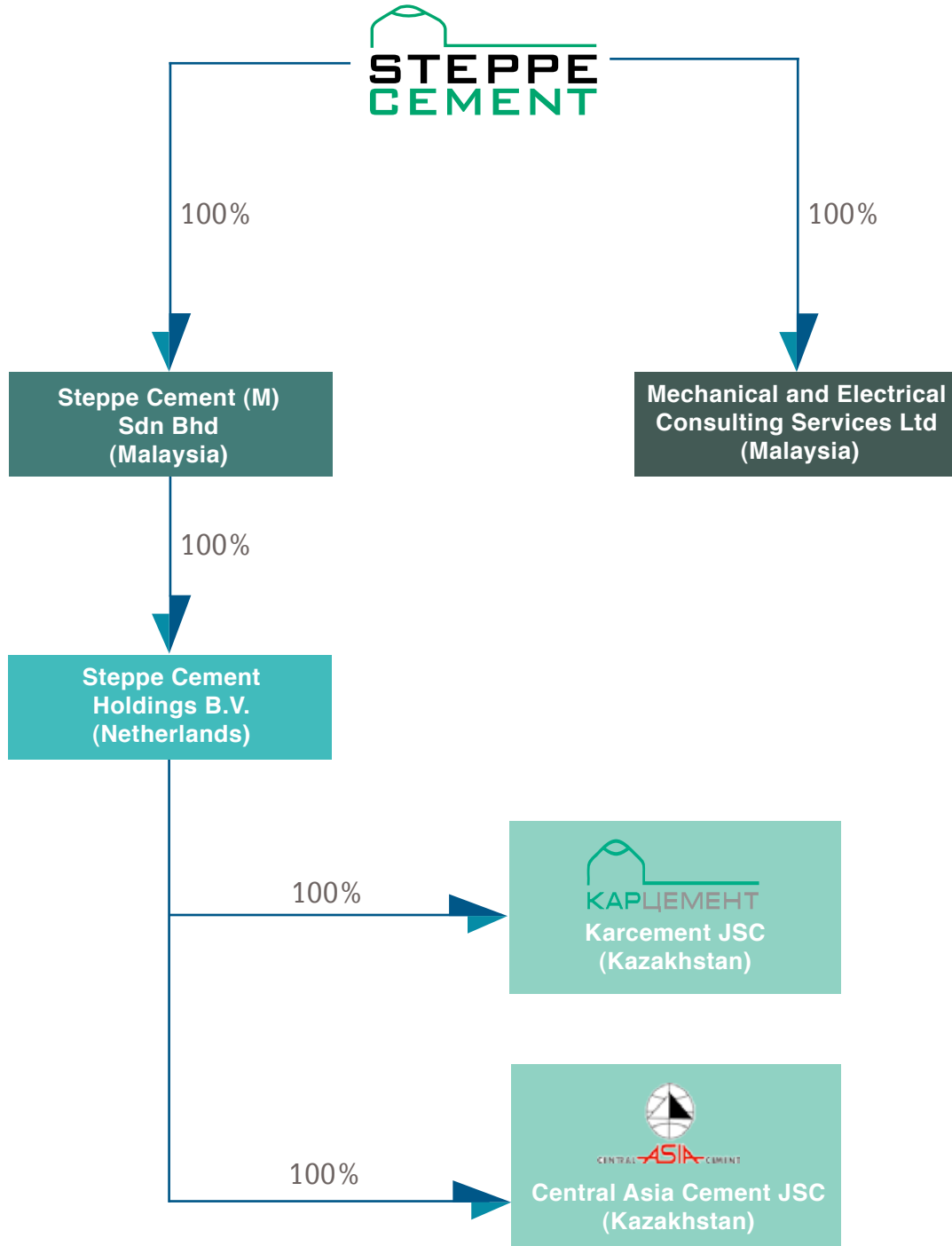
Dividends will not be proposed in respect of the 2010 financial year. Neither is it expected that a dividend will be proposed in respect of the 2011 financial year.

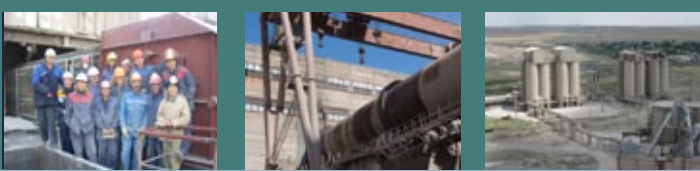
Javier del Ser
Chief Executive Officer





Group Structure





Board Of Directors



MALCOLM BROWN (Centre)
INDEPENDENT NON-EXECUTIVE CHAIRMAN

Malcolm Brown, 63 years of age, is a UK national with a background as an analyst and corporate finance adviser. He has significant experience with the European building materials sector and has been involved in a number of cement related transactions. Mr Brown worked with HSBC Investment Bank and its predecessor James Capel for 34 years as a director, senior analyst and adviser until his retirement in 2006. The research output, supported by a strong specialist sales team, enabled James Capel and subsequent to its purchase, by HSBC, to establish a leading position in the building material and construction sector in both the primary and the secondary market. This was reflected in the external poll ratings and the expanded number of corporate brokershops.

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

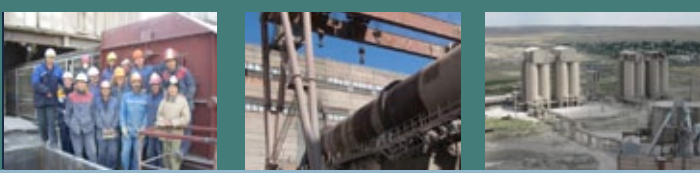
Whilst at HSBC Mr Brown was also engaged to find acquisitions on the Indian sub-continent for Holcim (Switzerland), Cimpor (Portugal) and Votorantim (Brazil). He has also worked with Vicat and Ciments Francais on opportunities in Egypt. Mr Brown is currently the Managing Director of a small consultancy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

JAVIER DEL SER PEREZ (Right)
CHIEF EXECUTIVE OFFICER

Javier del Ser Perez 45, is a Chartered Engineer (Spain), master in Structural Engineering and has a degree in Finance from HEC. Javier has lived in Kazakhstan since 1996, when he was appointed as the Investment Adviser to a large investment fund focused on the country. It was through this role that Javier first became involved with the Group's cement business. He is the Chairman of the Company's operating subsidiaries, Central Asia Cement and Karcement. Javier has other business interests in Kazakhstan, including being a Director and large shareholder in the Chagala Group. Javier is also a Director of Steppe Cement Holding B.V. and Mechanical and Electrical Consulting Services Ltd.

PAUL RODZIANKO (Left)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Paul Rodzianko, 65, is an international business executive with extensive experience in the energy, infrastructure and green technology sectors. He serves as Chairman or Independent Director of several emerging companies. He volunteers as Chairman of the Hermitage Museum Foundation. In addition, he serves on the boards of the US-Russia Business Council, the Kennan Council of the Woodrow Wilson International Center, the International Tax & Investment Center, the American-Russian Cultural Cooperation Foundation. He was previously director and vice-chairman of the US-Kazakhstan Business Association and member of the board of Energibolaget i Sverige (Sweden). He has served in senior executive capacities at Access Industries, Bogatyr Access Komir (Kazakhstan), the General Electric Company, Grace Geothermal Corporation, GreenFuel Technologies Corporation, CNPC-Aktobemunaigas (Kazakhstan), Sterling Grace & Co., Tyumen Oil Company (Russia), DataPort at the World Trade Center, and Mt. Hope Hydro. Paul holds a B.A. from Princeton University and an M.A. from the Institute of Critical Languages. He is a Fellow of The Explorers Club and the Royal Geographic Society.



Senior Management Team



Management & staff of Central Asia Cement JSC

Acting General Director : Peter Durnev

A graduate of Academy Marketing Moscow. He has worked in CAC for about 9 years rising from marketing executive to Marketing Manager. In 2010, he was appointed as the Acting General Director.

Management Board Representative and Consultant : Mehmet Faruk Osmanpasaoglu

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

Finance Director : Chan Keng Chung

Chan Keng Chung is a member of Malaysian Institute of Certified Public Accountants (MICPA) and a graduate from the University of Malaya with a bachelor degree of accountancy. He has over 11 years of working experience including in audit with a big-four accounting firm in Kuala Lumpur and in commerce with a Hong-Kong listed company. Before joining CAC, he held the position of financial controller based in Hong Kong, after having spent 6 years in Shanghai. His expertise encompasses audit, financial reporting, internal control procedures, corporate finance and investment evaluation.

Plant Manager : Vasily Shalimov

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

Production Manager : Nikolai Bolohovsev

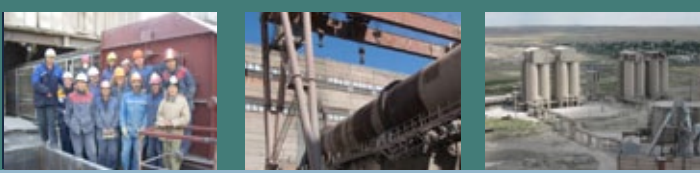
Nikolai graduated from Moscow Chemical Engineering University; he started from rank and file, first as a mechanic, then as a chief of Burning shop and later as a Deputy Plant Manager. Since 1989, Nikolai is currently Plant Production Manager. He is familiar with all the plant equipment and technological process on dry and wet lines. He has accumulated close to 40 years of cement manufacturing experience.

Chief Accountant : Nelly Brazhnikova

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

Personnel Manager : Irina Poluychik

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



Senior Management Team



Management & staff of Karcement JSC

General Director : Gan Chee Leong

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

Head of Project : Ramlan Safri

An electrical engineer by profession. He has a Master degree and currently is an Associate member of Institute of Engineers Malaysia and Associate of the Institute of Electrical Engineers (USA). He has about 20 years of working experience in the cement industry in a number of countries. Before joining CAC in the beginning of 2005, he worked for Lafarge Malaysia. He was transferred to Karcement in 2007.

Plant Manager : Karunakaran Perumal

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

Maintenance Manager : George Ramesh

A Mechanical Engineer by profession with a Masters degree in Business Management (Finance & Marketing) from India. He has about 17 years experience in the cement industry in various countries, and has handled

projects and maintenance. Before joining KC in September 2008, he worked as Maintenance & Project Manager for Holcim (Malaysia), and prior to that, with Lafarge (Malaysia).

Production Manager : P.Sampathkumar

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

Milling/Deputy Maintenance Manager : G.Srinivasa Reddy

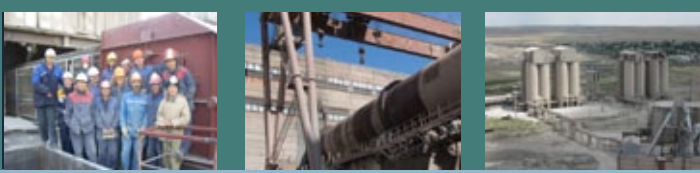
A Mechanical Engineer from India and a graduate of the National Institute of Technology Warangal with strong academics. He came with 19 years of dry process cement industry experience. His experience includes Greenfield project execution with latest art of technology built in machinery, plant operation, maintenance and plant optimization. He had rich experience in vertical mills, ball mills and modern kilns. He also worked in plant up gradation projects during his career. Before joining us he was working with Holcim (ACC Limited, India) wherein he worked in plant operation, maintenance and plant optimization at the 1 MTPA plant. Apart from maintenance he had also expertise in production and process optimization.

Legal Department Chief : Kuznetsova Veronica

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

Chief Accountant : Alekseeva Svetlana

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



Corporate Governance

CORPORATE GOVERNANCE STATEMENT

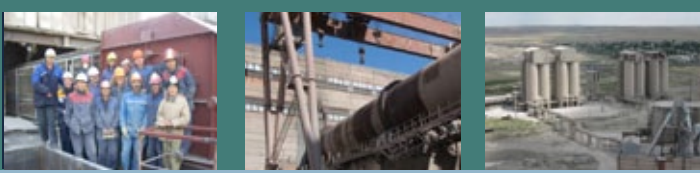
The Board of Directors (“Board”) is fully committed and strives to take the necessary measures to uphold the best principles and practices of corporate governance in the Group. Good corporate governance is fundamental to the Group’s discharge of its corporate responsibilities and accountability to protect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

Steppe Cement is not required to comply with the UK Combined Code of Corporate Governance (“Combined Code”) published by the UK Financial Reporting Council. The Combined Code applies to companies listed on the Main Board but not AIM companies.

The Quoted Companies Alliance (“QCA”) has published a set of corporate governance guidelines for AIM companies as a minimum standard to follow. The QCA guidelines are less rigorous than the Combined Code and recommendations include the following:

- Separation of Chairman and CEO roles –both roles should not be performed by the same individual;
- Independent non-executive directors – at least two independent non-executive directors, one of whom may be the Chairman.
- Establishment of Audit, Remuneration and Nomination Committees and that Audit and Remuneration Committees should comprise at least two independent non-executive directors.
- Re-election of directors – All directors should be submitted to re-election at regular intervals subject to continued satisfactory performance of the directors.
- Dialogue with shareholders – there should be a dialogue with shareholders based on mutual understanding of objectives.
- Matters reserved for the Board – there be a formal schedule of matters specifically reserved for the Board’s decision;
- Timely information – the Board should be supplied with timely information to discharge its duties;
- Review of internal controls annually. The review should encompass all material controls including financial, operational and compliance controls and risk management systems.

Steppe Cement complies with the QCA guidelines. Nonetheless, Steppe Cement adopts the principal requirements of the Combined Code, as far as practicable, to ensure high standards of corporate governance.



Corporate Governance

BOARD OF DIRECTORS

The Board's primary objective is to protect and enhance long-term shareholders' value. The Board is responsible for:

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

BOARD PROCESSES

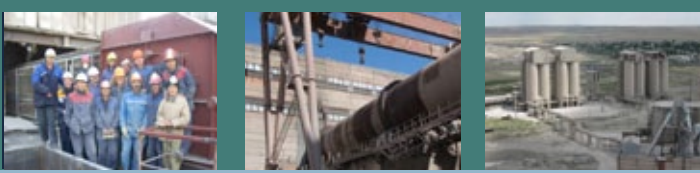
The Board has established a framework for the management of the Group including a system of internal control, risk management practices and the establishment of appropriate ethical standards. The Board holds regular meetings to discuss strategy, operational matters and any extraordinary meetings at such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

BOARD MEETINGS

During the year ended 31 December 2010, 4 board meetings were held. The following is the attendance record of the directors:

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Malcolm Brown (Non-Executive Chairman)	4/4	3/3	2/2	N/A
Javier Del Ser Perez (Chief Executive Officer)	4/4	N/A	N/A	1/1
Paul Rodzianko (Non-Executive Director)	4/4	3/3	2/2	1/1

Committee meetings are held concurrently with the board meetings.



Corporate Governance

BOARD COMPOSITION

At least half of the Board comprises of independent non-executive directors. The Board composition reflects the balance of skills and expertise to ensure that these are in line with the Group's strategies. There is a clear segregation of roles of between the Chairman and Chief Executive Officer. The Chairman is responsible for leadership and management of the Board and ensures that it operates effectively and fully discharges its responsibilities. The Board has delegated responsibility for the day-to-day management and operations of the Group in accordance with the objectives and strategies established by the Board to the Chief Executive Officer and the senior management.

Independence

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

The Board does not consider the 50,000 shares held by the Chairman, Malcolm Brown, to have any impact on his independence given the insignificant shareholdings as a percentage of Steppe paid-up capital. The Board has viewed the Chairman's contribution as valuable due to his extensive experience and knowledge of the building materials sector.

Selection and appointment of directors

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

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

Performance evaluation

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

Re-election of directors

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



Corporate Governance

Remuneration policy

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

Independent advice and insurance

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

BOARD COMMITTEES

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

Nomination Committee

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

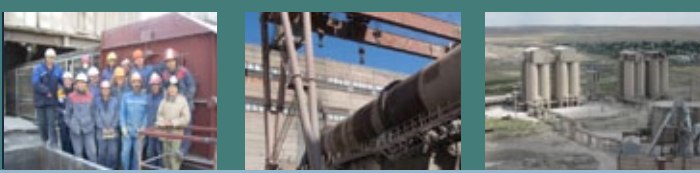
The Nomination Committee's members comprises of:

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

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

The functions of the Nomination Committee include:

- Review annually the structure, size and composition of the Board taking into account the Group's strategies;
- Identify and nominate the potential candidates to the Board for approval;
- Monitor the appointment process of directors;



Corporate Governance

- Recommend to the Board for approval on the re-appointment of directors;
- Oversee the succession planning of directors taking into consideration of the Group's strategies;
- Report and make recommendations to the Board on the Committee's activities; and
- Review and update the Terms of Reference at least once a year.

Remuneration Committee

The Remuneration Committee comprises entirely of independent Non-Executive Directors. The functions of the Remuneration Committee are governed by the Terms of Reference which was approved by the Board. The Remuneration Committee meets at least twice (2) a year. The principal objectives of the Committee are to ensure that the broad remuneration policy and practices of the Group reflect the level of responsibilities, performance, relevant legal requirements and high standards of governance. In determining such policy, the Committee shall ensure that remuneration levels are appropriately and competitively set to attract, retain and motivate people of the highest quality.

The functions of the Remuneration Committee include:

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

The Remuneration Committee's members comprises of:

1. Malcolm Brown (Chairman)
2. Paul Rodzianko

Corporate Governance

Audit Committee

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

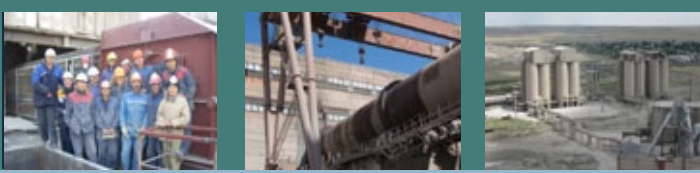
The principal objectives of the Committee are to monitor and review the adequacy, integrity and compliance of the Group's financial reporting and policies, internal controls system and procedures including risk management, and compliance and the external audit process. The Committee shall make the necessary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

The functions of the Audit Committee include:

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

The Audit Committee's members comprises of:

1. Paul Rodzianko (Chairman)
2. Malcolm Brown



Corporate Governance

BUSINESS CONDUCT AND ETHICS

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

Conflict of interest

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

INVESTOR RELATIONS

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

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

Annual General Meeting

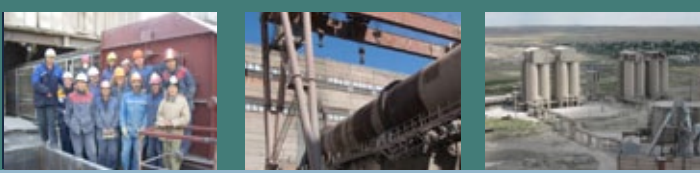
The Annual General Meeting ("AGM") provides the main forum and opportunity for discussion and interaction between the Board and the shareholders. The Board encourages the active participation of shareholders, both individuals and institutional at the AGM on important and relevant matters. The results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

INTERNAL CONTROL

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

Purpose

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



Corporate Governance

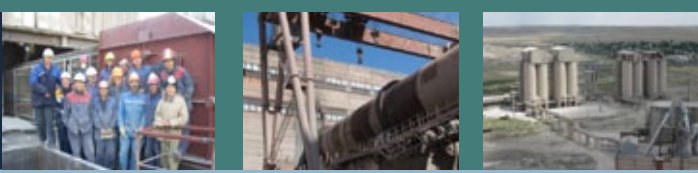
Key elements

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

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

Monitoring and review mechanism

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

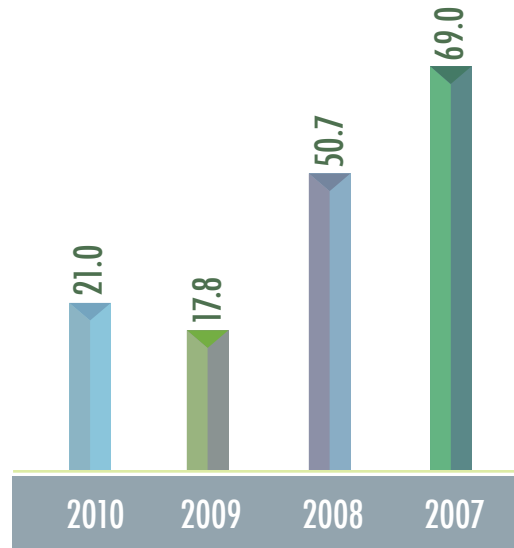


Financial Highlights

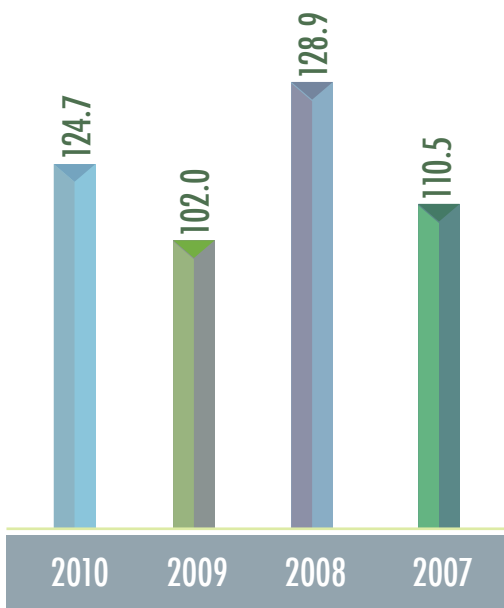
Revenue (USD Million)



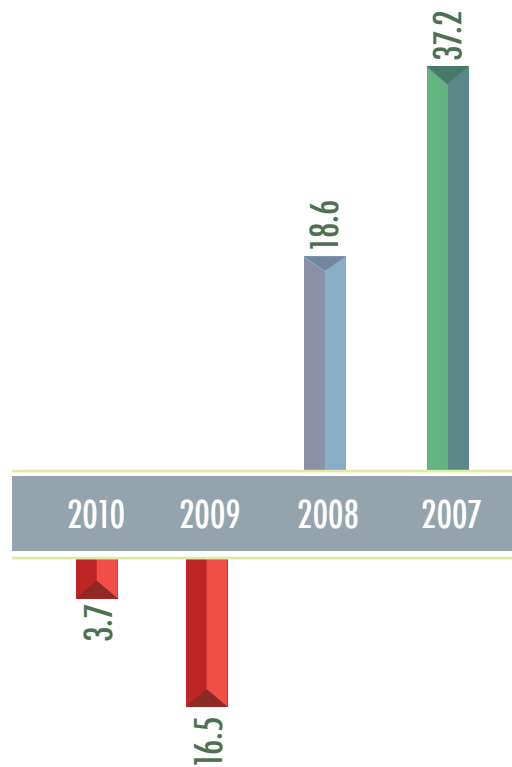
Gross Profit (USD Million)



Shareholders Fund (USD Million)



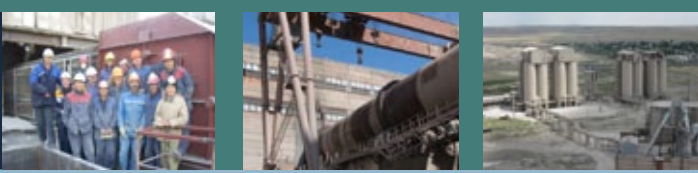
Profit / Loss after Tax (USD Million)





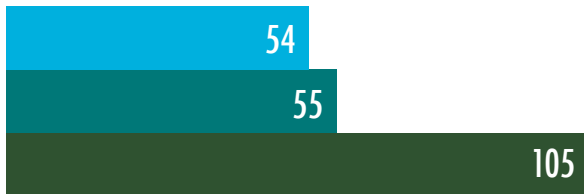
Financial Ratios

Ratios	FYE 2010	FYE 2009	FYE 2008
Gross profit margin (%)	29	30	55
(Loss) / Profit after tax margin (%)	(5)	(28)	20
Net (Loss) / earnings per share (cents)	(2)	(12)	16
Return on shareholders funds (%)	(3)	(16)	14
NTA Per Share (cents per share)	70	66	113
Shares data			
Number of shares issued	179,000,000	154,000,000	114,000,000



Operational and market data

Ex-factory price (USD)



Sales volume (million tonnes)



Market size (million tonnes)



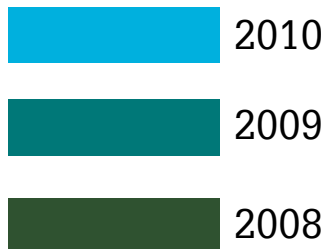
Market share (%)



Annual production capacity (million tonnes)



Capacity utilisation (%)





**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2010
(In United States Dollar)**



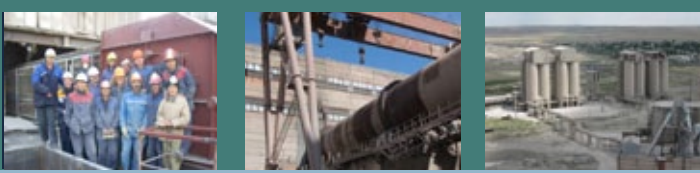
STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

FINANCIAL STATEMENTS

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Financial Statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STEPPE CEMENT LTD

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

Report on the Financial Statements

We have audited the financial statements of STEPPE CEMENT LTD, which comprise the statements of financial position of the Group and of the Company as of 31 December 2010, and the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 4 to 66.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Labuan Companies Act, 1990 in Malaysia and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

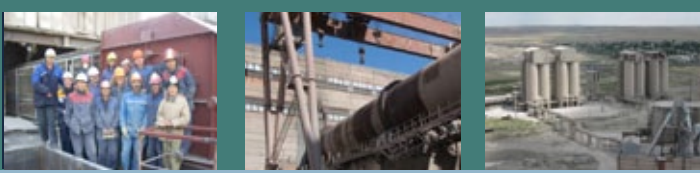
Auditors' Responsibility

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

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

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

(Forward)



Financial Statements

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

Opinion

In our opinion, the financial statements have been properly drawn up, in all material respects, in accordance with International Financial Reporting Standards and the Labuan Companies Act, 1990 in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of 31 December 2010 and of the financial performance and the cash flows of the Group and of the Company for the year ended on that date.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Note 1 to the Financial Statements on the economic environment in the Republic of Kazakhstan where the Group's activities are based. In addition, as mentioned in Note 12 to the Financial Statements, the Group has temporarily suspended the refurbishment of one of its production lines subject to further improvement in the economic conditions in Kazakhstan and availability of financing. Although the Group had developed programs to mitigate the effects of the economic situation on its operational and financial activities, there remain uncertainties which may cast doubt about the Group's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of those uncertainties.

DELOITTE & TOUCHE
AAL 0011
Chartered Accountants

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

20 June 2011



Financial Statements

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	The Group		The Company	
		2010 USD	2009 USD	2010 USD	2009 USD
Revenue	4	72,848,722	59,128,534	100,000	100,000
Cost of sales		(51,829,026)	(41,301,565)	-	-
Gross profit		21,019,696	17,826,969	100,000	100,000
Selling expenses		(12,094,165)	(7,600,633)	-	-
General and administrative expenses		(10,252,237)	(9,864,821)	(486,140)	(550,667)
Operating (loss)/profit	5	(1,326,706)	361,515	(386,140)	(450,667)
Investment income	6	2,407	88,945	52	406
Finance costs	7	(6,239,700)	(6,825,090)	-	-
Other income/ (expense), net	8	644,796	(12,625,398)	104,115	61,582
Loss before income tax		(6,919,203)	(19,000,028)	(281,973)	(388,679)
Income tax credit	9	3,181,440	2,483,108	-	-
Loss for the year		(3,737,763)	(16,516,920)	(281,973)	(388,679)
Attributable to: Shareholders of the Company		(3,737,763)	(16,516,920)	(281,973)	(388,679)
Loss per share:					
Basic (cents)	10	(2)	(12)		

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



Financial Statements

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	The Group		The Company	
		2010 USD	2009 USD	2010 USD	2009 USD
Loss for the year		(3,737,763)	(16,516,920)	(281,973)	(388,679)
Other comprehensive income/(loss):					
Revaluation of property, plant and equipment		12,681,224	-	-	-
Deferred tax assets from revaluation of property, plant and equipment		(2,536,249)	-	-	-
Effects of change in tax rate on revaluation reserve		(1,069,542)	810,328	-	-
Exchange differences arising on translation of foreign subsidiary companies	19	1,919,194	(26,263,752)	-	-
Total comprehensive income/(loss) for the year		7,256,864	(41,970,344)	(281,973)	(388,679)
Attributable to:					
Shareholders of the company		7,256,864	(41,970,344)	(281,973)	(388,679)

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



Financial Statements

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2010

	Note	The Group		The Company	
		2010 USD	2009 USD	2010 USD	2009 USD
Assets					
Property, plant and equipment	11	142,509,056	135,126,257	-	-
Investment in subsidiary companies	12	-	-	26,500,001	26,500,001
Advances paid	16	322,467	6,704,505	-	-
Other assets	13	32,434,084	28,181,945	-	-
Total Non-Current Assets		175,265,607	170,012,707	26,500,001	26,500,001
Current Assets					
Inventories, net	14	15,333,961	14,275,514	-	-
Trade receivables, net	15	2,135,095	825,764	-	-
Amount owing by subsidiary companies	12	-	-	28,589,870	10,889,037
Other receivables, advances and prepaid expenses	16	8,576,274	7,483,068	987	3,836
Cash and bank balances	17	9,531,530	6,545,329	964,171	3,885,860
Total Current Assets		35,576,860	29,129,675	29,555,028	14,778,733
Total Assets		210,842,467	199,142,382	56,055,029	41,278,734



Financial Statements

	Note	The Group		The Company	
		2010 USD	2009 USD	2010 USD	2009 USD
Equity and Liabilities					
Capital and Reserves					
Share capital	18	58,298,542	1,540,000	58,298,542	1,540,000
Share premium	19	-	41,296,193	-	41,296,193
Revaluation reserve	19	10,940,027	3,023,894	-	-
Translation reserve	19	(18,944,421)	(20,863,615)	-	-
Retained earnings/ (Accumulated loss)	19	74,425,068	77,003,531	(3,038,846)	(2,756,873)
Total Equity		124,719,216	102,000,003	55,259,696	40,079,320
Non-Current Liabilities					
Bonds	20	-	18,034,674	-	-
Loans	21	52,462,014	43,031,506	-	-
Deferred tax liabilities, net	22	4,687,225	6,420,953	-	-
Total Non-Current Liabilities		57,149,239	67,487,133	-	-
Current liabilities					
Trade payables	23	4,465,134	6,445,945	-	-
Other payables and accrued liabilities	24	3,315,168	3,213,763	795,333	747,793
Bonds	20	18,257,495	-	-	-
Loans	22	2,248,456	19,682,609	-	-
Amount owing to subsidiary companies	12	-	-	-	451,621
Taxes payable	25	687,759	312,929	-	-
Total Current Liabilities		28,974,012	29,655,246	795,333	1,199,414
Total Liabilities		86,123,251	97,142,379	795,333	1,199,414
Total Equity and Liabilities		210,842,467	199,142,382	56,055,029	41,278,734

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



Financial Statements

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

The Group	← Non-distributable →		→ Distributable		Total/Net USD	
	Share Capital USD	Share premium USD	Revaluation reserve USD	Translation reserve USD		Retained earnings USD
Balance as at 1 January 2009	1,140,000	26,646,982	3,364,936	5,400,137	92,369,081	128,921,136
Loss for the year	-	-	-	-	(16,516,920)	(16,516,920)
Effects of change in tax rate	-	-	810,328	-	-	810,328
Exchange differences arising on translation of foreign subsidiary companies	-	-	-	(26,263,752)	-	(26,263,752)
Total comprehensive income/ (loss) for the year	-	-	810,328	(26,263,752)	(16,516,920)	(41,970,344)
Issue of shares (Notes 18 and 19)	400,000	14,688,578	-	-	-	15,088,578
Share issue expenses	-	(39,367)	-	-	-	(39,367)
Transfer on revaluation reserve relating to property, plant and equipment through use	-	-	(1,151,370)	-	1,151,370	-
Balance as at 31 December 2009	1,540,000	41,296,193	3,023,894	(20,863,615)	77,003,531	102,000,003



Financial Statements

The Group	← Non-distributable →				Distributable	
	Share Capital USD	Share premium USD	Revaluation reserve USD	Translation reserve USD	Retained earnings USD	Total/Net USD
Balance as at 1 January 2010	1,540,000	41,296,193	3,023,894	(20,863,615)	77,003,531	102,000,003
Loss for the year	-	-	-	-	(3,737,763)	(3,737,763)
Revaluation of property, plant and equipment	-	-	12,681,224	-	-	12,681,224
Deferred tax assets from revaluation of property, plant and equipment (Note 19)	-	-	(2,536,249)	-	-	(2,536,249)
Effects of change in tax rate	-	-	(1,069,542)	-	-	(1,069,542)
Exchange differences arising on translation of foreign subsidiary companies	-	-	-	1,919,194	-	1,919,194
Total comprehensive income/ (loss) for the year	-	-	9,075,433	1,919,194	(3,737,763)	7,256,864
Issue of shares (Notes 18 and 19)	250,000	15,724,957	-	-	-	15,974,957
Share issue expenses	-	(512,608)	-	-	-	(512,608)
Conversion to no par value shares (Notes 18 and 19)	56,508,542	(56,508,542)	-	-	-	-
Transfer on revaluation reserve relating to property, plant and equipment through use	-	-	(1,159,300)	-	1,159,300	-
Balance as at 31 December 2010	58,298,542	-	10,940,027	(18,944,421)	74,425,068	124,719,216



Financial Statements

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

The Company	Share Capital USD	Non- distributable Share premium USD	Accumulated loss USD	Total/Net USD
Balance as at 1 January 2009	1,140,000	26,646,982	(2,368,194)	25,418,788
Total comprehensive loss for the year	-	-	(388,679)	(388,679)
Issue of shares (Note 19 and 20)	400,000	14,688,578	-	15,088,578
Share issue expenses	-	(39,367)	-	(39,367)
Balance as at 31 December 2009	1,540,000	41,296,193	(2,756,873)	40,079,320
Balance as at 1 January 2010	1,540,000	41,296,193	(2,756,873)	40,079,320
Total comprehensive loss for the year	-	-	(281,973)	(281,973)
Issue of shares (Note 18 and 19)	250,000	15,724,957	-	15,974,957
Share issue expenses	-	(512,608)	-	(512,608)
Conversion to no par value shares (Notes 18 and 19)	56,508,542	(56,508,542)	-	-
Balance as at 31 December 2010	58,298,542	-	(3,038,846)	55,259,696

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



Financial Statements

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
CASH FLOWS (USED IN)/ FROM OPERATING ACTIVITIES				
Loss before income tax	(6,919,203)	(19,000,028)	(281,973)	(388,679)
Adjustments for:				
Unrealised foreign exchange (gain)/loss	(471,168)	12,748,250	(18,046)	(69,256)
Depreciation of property, plant and equipment	9,301,178	7,511,863	-	-
Finance costs	6,239,700	6,825,090	-	-
Allowance for doubtful receivables and advances paid	128,506	604,414	-	-
Loss on disposal of property, plant and equipment	12,907	28,224	-	-
Interest income	(2,407)	(88,945)	(52)	(406)
Recovery for doubtful receivables and advances paid no longer required	(38,047)	(2,770)	-	-
Recovery for obsolete inventories	(223,139)	(2,285)	-	-
Provision for unutilised leaves	38,199	-	-	-
Operating Profit/(Loss) Before Working Capital Changes	8,066,526	8,623,813	(300,071)	(458,341)



Financial Statements

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
(Increase)/Decrease in:				
Inventories	(478,184)	761,974	-	-
Trade receivables	(1,271,920)	156,574	-	-
Amount owing by subsidiary companies	-	-	(17,700,833)	(10,142,164)
Other receivables and prepaid expenses	(1,177,039)	1,435,064	2,850	(369)
Increase/(Decrease) in:				
Trade payables	(1,113,714)	(5,895,590)	-	-
Other payables and accrued liabilities	119,610	190,183	65,585	150,858
Amount owing to subsidiary companies	-	-	(451,621)	(849,149)
Cash Generated From/(Used In) Operations	4,145,279	5,272,018	(18,384,090)	(11,299,165)
Income tax paid	(300,706)	(1,568,081)	-	-
Interest paid	(5,777,170)	(6,209,710)	-	-
Net Cash Used In Operating Activities	(1,932,597)	(2,505,773)	(18,384,090)	(11,299,165)
CASH FLOWS (USED IN)/ FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	11,547	-	-	-
Purchase of property, plant and equipment	(1,823,951)	(2,025,959)	-	-
Proceeds from short-term investments	-	2,391,437	-	-
Purchase of short-term investments	-	-	-	-
Advance for non-current assets (net)	(301,627)	(918,018)	-	-



Financial Statements

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Interest received	2,407	88,945	52	406
Net Cash (Used In)/From Investing Activities	(2,111,624)	(463,595)	52	406
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	15,974,957	15,088,578	15,974,957	15,088,578
Share issue expenses	(512,608)	(39,367)	(512,608)	(39,367)
Proceeds from borrowings	18,488,369	22,087,180	-	-
Repayment of loans, net	(26,928,432)	(28,289,280)	-	-
Net Cash From Financing Activities	7,022,286	8,847,111	15,462,349	15,049,211
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS				
	2,978,065	5,877,743	(2,921,689)	3,750,452
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES				
	8,136	(62,050)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
	6,545,329	729,636	3,885,860	135,408
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 26)				
	9,531,530	6,545,329	964,171	3,885,860

NON-CASH TRANSACTIONS

In 2010, the Group capitalised inventories to the cost of property, plant, and equipment of USD361,057 (2009:USD1,230,583) and borrowing costs of Nil (2009:USD83,634) (Note 11).

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



Financial Statements

STEPPE CEMENT LTD

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

AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Steppe Cement Ltd (“the Company”) is incorporated and domiciled in Malaysia. The Group’s (“the Company and its subsidiaries”) principal place of business is located at Aktau village, Karaganda region, Republic of Kazakhstan. The Company’s shares are listed on the Alternative Investment Market of the London Stock Exchange.

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

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

The financial statements of the Group and the Company have been approved by the Board of Directors and were authorised for issuance on 20 June 2011.

Operating environment in the Republic of Kazakhstan

The Group’s principal business activity is exposed to economical, political, social, legal and normative risks, different from risks in developed markets. Laws and regulations that influence business in Kazakhstan are subject to rapid changes. Tax, currency and customs legislation in Kazakhstan is subject to various interpretations; in addition enterprises which carry out their primary activity in Kazakhstan constantly face various legal and financial difficulties. The future economic development is significantly dependent on the effectiveness of economic, tax-budget and currency reforms, conducted by the government and also on changes in legal, normative and political spheres.

The adverse impact of the global financial crisis in 2008 and 2009 on the financial and capital markets in the Republic of Kazakhstan decreased and economic growth resumed in 2010. At the same time a further downturn could still occur. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or from decline in commodity prices could slow or disrupt the Kazakhstan economy, adversely affect the Group’s access to capital and cost of capital for the Group and, more generally, its business, the results of its operations, and its financial condition and prospects.

The Kazakhstan economy has recovered since early 2009 and Kazakhstan economy achieved an economic growth of 7% and 1.2% in 2010 and 2009 respectively according to government statistical agency. Kazakhstan is also facing a relatively high level of inflation (according to the government’s statistical data consumer price inflation for the years ended 31 December 2010 and 2009 was 7.8% and 6.2%, respectively).



Financial Statements

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Basis of preparation

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

Adoption of new and revised Standards

In the current year, the Group has adopted the following new and revised standards and interpretations:

- Amendments to IAS 7 “Statement of Cash Flows” as part of improvements to IFRS issued in 2009 (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IAS 27 “Consolidated and Separate Financial Statements” as part of improvements to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IAS 28 “Investments in Associates” as part of improvements to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IAS 31 “Interest in Joint Ventures” as part of improvements to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” related to eligible hedged items (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 1 (revised) “First-time Adoption of International Financial Reporting Standards” (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” relating to oil and gas assets, and the determination as to whether an arrangement contains a lease (effective for accounting periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 “Share-based Payment – Group Cash-settled Share-based Payment Transactions” (effective for accounting periods beginning on or after 1 January 2010);
- IFRS 3 (revised) “Business Combinations” (effective for accounting periods beginning on or after 1 July 2009);
- IFRIC 17 “Distributions of Non-cash Assets to Owners” (effective for accounting periods beginning on or after 1 July 2009); and
- IFRIC 18 “Transfers of Assets from Customers” (effective for accounting periods beginning on or after 1 July 2009).

These amendments are related to certain expressions and issues regarding presentation of financial statements, issues of recognition and appraisal, and the adoption of these interpretation has not led to any changes in the Groups’s accounting policies.



Financial Statements

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

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) – (effective for accounting periods beginning on or after 1 July 2012);
- IAS 12 “Income Taxes” - Limited scope amendment (recovery of underlying assets) (effective for accounting periods beginning on or after 1 January 2012);
- IAS 19 “Employee Benefits” (effective for accounting periods beginning on or after 1 January 2013);
- IAS 24 “Related Party Disclosures” – Revised definition of related parties (effective for accounting periods beginning on or after 1 January 2011);
- Amendments to IAS 27 “Separate Financial Statements” (effective for accounting periods beginning on or after 1 January 2013);
- Amendments to IAS 28 “Inventories in Association and Joint Ventures” (effective for accounting period beginning on or after 1 January 2013);
- Amendments to IAS 32 “Financial Instruments: Presentation” - Amendments relating to classification of rights issues (effective for the periods beginning on or after 1 February 2010);
- IFRS 1 “First-time adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for accounting periods beginning on or after 1 July 2010);
- IFRS 1 “First-time adoption of International Financial Reporting Standards” - Replacement of ‘fixed dates’ for certain exceptions with ‘the date of transition to IFRSs’ (effective for accounting periods beginning on or after 1 July 2010);
- IFRS 1 “First-time adoption of International Financial Reporting Standards” - Additional exemption for entities ceasing to suffer from severe hyperinflation (effective for accounting periods beginning on or after 1 July 2010);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Amendments enhancing disclosures about transfers of financial assets (effective for accounting periods beginning on or after 1 July 2011);
- IFRS 9 “Financial Instruments” (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 10 “Consolidated Financial Statements” (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 11 “Joint Arrangements” (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 12 “Disclosure of Interests in Other Entities” (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 13 “Fair Value Measurement” (effective for accounting periods beginning on or after 1 January 2013);
- Amendments to IFRIC 14 “IAS 19 - Prepayments of a Minimum Funding Requirement” (effective for reporting periods beginning on or after 1 January 2011);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for reporting periods beginning on or after 1 July 2010).



Financial Statements

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

Management anticipates that all of the above Standards and Interpretations will be adopted in the Group's financial statements for the period commencing 1 January 2011 and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Critical accounting judgements and key sources of estimation uncertainty

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

Revaluation of property, plant and equipment

In accordance with the accounting policy presented in Note 3, the Group's land and buildings are revalued with sufficient regularity so that their carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Management has engaged professional valuers to assess the fair value of land and buildings as at 27 August 2010. Valuation techniques are subjective and involve the use of professional judgment in the estimation amongst other things, of the Group's future cash flows from operations and appropriate discount factors and relevant market information.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 15.00% (2009: 16.49%) discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. During the financial year, the Group did not recognise impairment losses.

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



Financial Statements

Allowances

The Group makes allowance for doubtful receivables. Significant judgement is used to estimate doubtful receivables. In estimating doubtful receivables, historical and anticipated customer performances are considered. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful receivables recorded in the financial statements. As of 31 December 2010, allowance for doubtful receivables of USD898,009 (2009: USD802,035) has been made for in the financial statements (Notes 15 and 16).

The Group makes allowance for obsolete and slow-moving inventories based on data of annual stock count as well as on the results of inventory turnover analysis. As of 31 December 2010, allowance for obsolete and slow-moving inventories of USD351,924 (2009: USD571,129) has been made for in the financial statements (Note 14).

Assessment of the deferred income tax effect

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

Going Concern

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

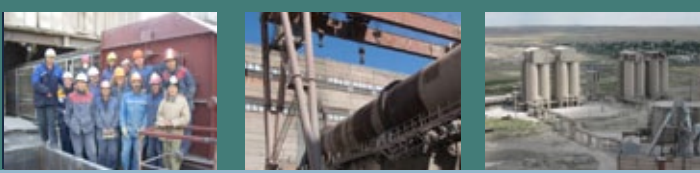
As at 31 December 2010, one of its subsidiary companies, Karcement JSC's ("Karcement") accumulated deficit and comprehensive loss for the year then ended were approximately USD24,839,682 (2009: USD18,572,000) and approximately USD4,627,672 (2009: USD16,503,700), respectively. As at 31 December 2010, Karcement has completed refurbishing process of production line number 6 but has continued the suspension of production line number 5 refurbishment. In 2010, Karcement continued production and sale of cement; however, revenue level was not sufficient to cover all the expenses, including finance costs. It is the intention of Karcement to resume and complete production line number 5 refurbishment when cement market recovers sufficiently, and evolution of production cost and production line number 5 project cost analyses proves favorable.

Management believes that Karcement will generate sufficient revenue to cover its expenses and that it will receive sufficient financing from the Company to continue its activities on a going concern basis.

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

Useful lives of property, plant and equipment

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



Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Consolidation

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

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

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

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

Business combinations

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

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



Financial Statements

Revenue

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

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

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

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

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

Retirement benefit costs

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

Provisions

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

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

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



Financial Statements

Contingent liabilities

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

Taxation

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

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

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

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

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

Foreign Currencies

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

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



Financial Statements

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

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

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

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

	2010 USD	2009 USD
1 Sterling Pound ("GBP")	1.5612	1.6170
1 Euro ("EUR")	1.3384	1.4321
1 Ringgit Malaysia ("MYR")	0.3264	0.2918
1 Swiss Franc ("CHF")	0.9352	1.0352
1 Russian Ruble ("RUB")	0.0327	0.0340
	<hr/>	<hr/>
	KZT	KZT
1 USD	147.375	148.385
	<hr/>	<hr/>

KZT denotes Kazakhstan Tenge.

Impairment of Tangible Assets

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

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

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



Financial Statements

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

Property, Plant and Equipment

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

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

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

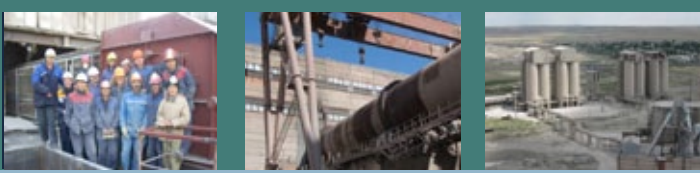
Capitalised cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to the income statements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

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

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

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

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



Financial Statements

Quarry Development Costs

The cost of removal of the overburden from the quarry is deferred until the commencement of physical extraction of limestone from the site. Such costs are amortised over the expected life of the quarry from the date of commencement of extraction.

Inventories

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

Financial Instruments

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

Financial Assets

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

Cash and cash equivalents

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

Trade and other receivables

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

Impairment of Financial Assets

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

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



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

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

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

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

Financial Liabilities and Equity Instruments Issued By The Group

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

Debt securities issued

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

Loans

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

Trade payables

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

Derecognition of Financial Assets and Liabilities

Financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group



Financial Statements

recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

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

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

Borrowing costs

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

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

Cash Flow Statement

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

4. REVENUE

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Sales of manufactured goods	72,374,322	59,128,534	-	-
Management fee receivable from subsidiary company	474,400	-	100,000	100,000
Total	72,848,722	59,128,534	100,000	100,000



Financial Statements

5. OPERATING (LOSS)/PROFIT

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

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Cost of inventories recognised as expenses	51,829,026	41,299,280	-	-
Staff costs	6,562,119	8,419,654	-	-
Depreciation of property, plant and equipment (Note 11)	9,301,178	7,511,863	-	-
Allowance for doubtful receivables and advances paid, net	128,506	604,414	-	-
Auditors' remuneration for audit services	209,774	154,681	12,000	12,000
Recovery for doubtful receivables and advances paid no longer required	(38,047)	(2,770)	-	-
Recovery for obsolete inventories	(223,139)	(2,285)	-	-

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

6. INVESTMENT INCOME

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Interest income from short-term deposits	2,407	88,945	52	406



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7. FINANCE COSTS

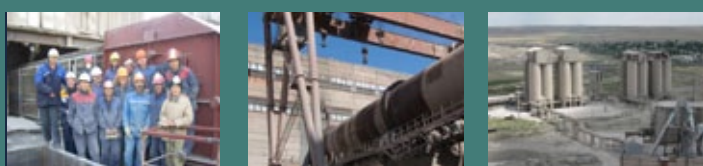
	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Interest expense on loans from financial institutions	4,400,488	4,959,839	-	-
Interest on bonds	1,784,236	1,737,458	-	-
Other finance costs	54,976	127,793	-	-
Total	6,239,700	6,825,090	-	-

The Group's weighted average interest rate on the bank loans is 6.18% per annum.

During the financial year, CAC JSC paid bond coupon interest of KZT243 million or equivalent in USD1,649,060.

8. OTHER INCOME/(EXPENSE), NET

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Income/(expense) from				
Transportation services	219,081	62,360	-	-
Sale of purchased goods	(19,354)	140,794	-	-
Other inventory - spare parts	9,865	547,124	-	-
Grinding of clinker	-	215,974	-	-
Foreign exchange gain/(loss):				
Realised	82,627	-	83,234	(7,674)
Unrealised	471,168	(12,748,250)	18,046	69,256
Loss on disposal of property, plant and equipment	(12,907)	(28,224)	-	-
Rental and repairs expense	-	(588,274)	-	-
Other (expenses)/income, net	(105,684)	(226,902)	2,835	-
Total	644,796	(12,625,398)	104,115	61,582



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9. INCOME TAX (EXPENSE)/CREDIT

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

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Estimated current tax payable:				
- the Company	-	-	-	-
- subsidiary companies	-	(113,012)	-	-
- (under)/overprovision in prior years	(909,517)	590,541	-	-
Deferred tax credit (Note 22):				
- the Company	-	-	-	-
- subsidiary companies	367,536	2,005,579	-	-
- overprovision in prior years	3,723,421	-	-	-
Total	3,181,440	2,483,108	-	-

Under the Labuan Business Activity Tax Act, 1990, the Company has to elect annually whether it is to be charged tax at the rate of RM20,000 (USD6,528) or at a tax rate of 3% on the chargeable profits of an offshore company carrying on offshore trading activities for the basis period for that year of assessment. No tax is charged on offshore non-trading activities.

There is no income tax expense for the current financial year as the Company does not have any chargeable income. The profits earned by the subsidiary companies incorporated in the Republic of Kazakhstan are subject to a statutory tax rate of 20%.

On 23 December 2005, Karcement JSC had entered into an Investment Contract with the Investment Committee under the Ministry of Industry and Trade of Republic of Kazakhstan, whereby the subsidiary company had committed to invest KZT3,186 million equivalent to USD26,357,808 in the construction of cement production plant over a period of five years (2006 - 2010) (Note 28). On 21 April 2008, Karcement JSC made amendments to the Investment Contract, which increased the Karcement JSC's investment commitments to KZT7,975 million equivalent to USD65,977,249.



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

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

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

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Loss before income tax	(6,919,203)	(19,000,028)	(281,973)	(388,679)
Tax calculated at domestic tax rates applicable to the respective jurisdictions	(1,898,265)	(3,697,124)	(8,459)	(11,660)
Tax effects of:				
Expenses not deductible for tax purposes	1,499,512	1,478,080	-	-
Deferred tax assets not allowed to be carried forward/not recognised	146,077	66,296	8,459	11,660
Change in allowance for deferred tax asset	(325,605)	58,394	-	-
Effect on deferred tax balances due to the change in income tax rate	210,745	201,787	-	-
Over provision in prior years	(2,813,904)	(590,541)	-	-
Income tax credit	(3,181,440)	(2,483,108)	-	-



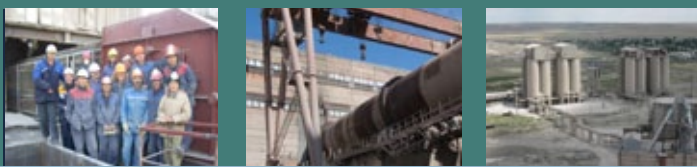
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10. LOSS PER SHARE

Basic

	The Group	
	2010 USD	2009 USD
Loss attributable to ordinary shareholders	(3,737,763)	(16,516,920)
	2010	2009
Number of shares in issue at beginning of year	154,000,000	114,000,000
Issue of shares during the year	25,000,000	40,000,000
Number of shares in issue at end of year	179,000,000	154,000,000
Weighted average number of ordinary shares in issue	158,383,562	139,753,425
	2010	2009
Loss per share (cents)	(2)	(12)

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



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11. PROPERTY, PLANT AND EQUIPMENT

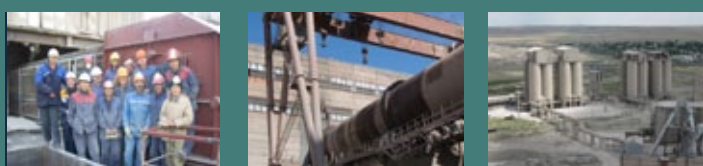
Property, plant and equipment as at 31 December 2010 and 31 December 2009 consists of the following:

The Group	Freehold land and land improvement	Buildings	Machinery and equipment	Other assets	Computer software	Construction in progress	Total
	USD	USD	USD	USD	USD	USD	USD
Cost (unless otherwise indicated)							
At 1 January 2009	3,646,619	45,485,510	19,756,393	4,465,505	50,333	119,188,384	192,592,744
Additions	1,617	125,693	2,670,546	225,986	29,686	286,648	3,340,176
Transfers	7,548	2,848,273	53,125,397	12,453,206	-	(68,434,424)	-
Disposals	-	-	(11,915)	(8,559)	-	(15,015)	(35,489)
Exchange differences	(676,069)	(8,432,836)	(3,662,751)	(827,887)	(9,332)	(23,118,751)	(36,727,626)
At 31 December 2009	2,979,715	40,026,640	71,877,670	16,308,251	70,687	27,906,842	159,169,805
Additions	658	33,236	672,287	189,550	7,288	2,149,087	3,052,106
Transfers	-	(193,506)	4,239,866	(2,999,844)	-	(1,046,516)	-
Disposals	-	(13,782)	(12,933)	(11,888)	-	(54)	(38,657)
Revaluation (Note 19)	1,212,465	11,468,759	-	-	-	-	12,681,224
Exchange differences	20,523	275,681	495,052	112,322	487	235,789	1,139,854
At 31 December 2010	4,213,361	51,597,028	77,271,942	13,598,391	78,462	29,245,148	176,004,332



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The Group	Freehold land and land improvement	Buildings	Machinery and equipment	Other assets	Computer software	Construction in progress	Total
	USD	USD	USD	USD	USD	USD	USD
Accumulated depreciation							
At 1 January 2009	-	15,480,529	3,204,550	1,635,612	21,552	-	20,342,243
Charge for the year	-	1,705,932	4,363,735	1,432,891	9,305	-	7,511,863
Transfer	-	4,819	(68,579)	63,760	-	-	-
Disposals	-	-	(3,653)	(3,612)	-	-	(7,265)
Exchange differences	-	(2,877,279)	(612,655)	(309,323)	(4,036)	-	(3,803,293)
At 31 December 2009	-	14,314,001	6,883,398	2,819,328	26,821	-	24,043,548
Charge for the year	-	2,388,573	5,470,919	1,433,787	7,899	-	9,301,178
Transfer	-	(96,969)	269,455	(172,486)	-	-	-
Disposals	-	(7,621)	(3,976)	(2,606)	-	-	(14,203)
Exchange differences	-	98,369	46,911	19,288	185	-	164,753
At 31 December 2010	-	16,696,353	12,666,707	4,097,311	34,905	-	33,495,276
Net Book Value							
At 31 December 2010	4,213,361	34,900,675	64,605,235	9,501,080	43,557	29,245,148	142,509,056
At 31 December 2009	2,979,715	25,712,639	64,994,272	13,488,923	43,866	27,906,842	135,126,257



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Land and land improvement, and buildings were revalued on 27 August 2010 by an independent professional valuer with reference to depreciated replacement cost and income approach. The last revaluation was performed as at 31 December 2005.

In 2010, Karcement JSC capitalised inventories of USD361,057 (2009: USD1,230,583) and borrowing costs of USD83,634 which comprise of interest charged on loan from European Bank for Reconstruction and Development ("EBRD"), Kazkommertsbank JSC and HSBC Bank Kazakhstan JSC.

As at 31 December 2010, all of Karcement JSC's movable and immovable properties were pledged under the loan from EBRD and Kazkommertsbank JSC (Note 21). Central Asia Cement JSC's property, plant and equipment with a net book value of USD34,905,632 (2009: USD37,299,558) were pledged under the loan granted by EBRD to Karcement JSC.

The cost of fully depreciated property, plant and equipment in 2010 amounted to USD501,242 (2009: USD406,928).

12. INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2010	2009
	USD	USD
Unquoted shares, at cost	26,500,001	26,500,001

The details of subsidiary companies are as follows:

	Place of incorporation (or registration) and operation	Proportion of ownership interest and voting power held		Principal activities
		2010	2009	
		%	%	
Direct Subsidiary Companies				
Steppe Cement (M) Sdn. Bhd.	Malaysia	100	100	Investment holding company



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	Place of incorporation (or registration) and operation	Proportion of ownership interest and voting power held		Principal activities
		2010 %	2009 %	
Direct Subsidiary Companies				
Mechanical & Electrical Consulting Services Ltd. ("MECS Ltd")	Malaysia	100	100	Provision of consultancy services
Indirect Subsidiary Companies				
(Held through Steppe Cement (M) Sdn. Bhd.) Steppe Cement Holdings B.V. * ("SCH BV")	Netherlands	100	100	Investment holding company
(Held through SCH BV) Central Asia Cement JSC * ("CAC JSC")	Republic of Kazakhstan	100	100	Production and sale of cement
(Held through SCH BV) Karcement JSC *	Republic of Kazakhstan	100	100	Production and sale of cement

* audited by member firm of Deloitte Touche Tohmatsu.

The financial statements of Karcement JSC are prepared on a going concern basis, and there is no evidence that Karcement JSC intends to discontinue, has to discontinue or significantly reduce the volume of its operations in the foreseeable future. As at 31 December 2010, Karcement JSC continued the suspension of production line number 5 refurbishment. In 2010, Karcement JSC continued production and sale of cement; however, revenue level was not sufficient to cover all the expenses, including finance costs.

Management believes that Karcement JSC will generate sufficient revenue to cover its expenses and that it will receive sufficient financing from the Company to continue its activities on a going concern basis.



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The amount owing by/(to) subsidiary companies arose mainly from unsecured inter-company payments on behalf, which are interest-free and is repayable on demand.

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

Company	Nature	Revenue from services performed	
		2010 USD	2009 USD
MECS Ltd	Management fees	100,000	100,000

Company	Nature of transactions	Receivable from/(Payable to) subsidiary companies	
		2010 USD	2009 USD
Karcement JSC	Reimbursement of expenses	-	(121,255)
Karcement JSC	Intercompany loans	26,440,000	9,520,000
CAC JSC	Reimbursement of expenses	-	(451,621)
MECS Ltd.	Reimbursement of expenses and management fee	1,188,071	624,149
Steppe Cement (M) Sdn. Bhd.	Reimbursement of expenses	961,799	866,143
Steppe Cement Holdings B.V.	Reimbursement of expenses	-	235,237

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

	The Company	
	2010 USD	2009 USD
USD	28,298,722	10,597,889
MYR	291,148	291,148
	28,589,870	10,889,037



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13. OTHER ASSETS

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
VAT (recoverable)	10,291,117	11,197,143	-	-
Construction materials	21,063,792	13,497,901	-	-
Spare parts	718,355	3,448,690	-	-
Quarry development costs	339,839	38,211	-	-
Others	20,981	-	-	-
	32,434,084	28,181,945	-	-

As of 31 December 2010, the Group classified construction materials of USD21,063,792 (2009: 13,497,901) and certain spare parts of USD718,355 (2009: 3,448,690) as non-current assets. Management expects to use the construction materials and spare parts during the period exceeding one year.

As at 31 December 2010, quarry stripping costs represents actual costs of removing overburden of a new quarry. The overburden removal work of this new quarry began in 2009 and remained in progress as at 31 December 2010. Amortisation commences upon physical extraction of limestone and clay from this new quarry.

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

14. INVENTORIES, NET

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Work in progress	4,333,628	4,614,834	-	-
Finished goods	1,792,563	1,356,451	-	-
Raw materials	3,450,153	2,152,980	-	-
Spare parts	4,822,250	5,510,510	-	-
Fuel	726,009	832,712	-	-
Construction materials	110,871	54,844	-	-
Other materials	450,411	324,312	-	-
	15,685,885	14,846,643	-	-
Less: Allowance for obsolete inventories	(351,924)	(571,129)	-	-
Net	15,333,961	14,275,514	-	-

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



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	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Balance at beginning of the year	(571,129)	(703,917)	-	-
Exchange differences	(3,934)	130,503	-	-
Add: Recovery for obsolete inventories	223,139	2,285	-	-
Balance at end of the year	(351,924)	(571,129)	-	-

As at 31 December 2010, inventories of USD5,760,786 (2009: USD4,760,582) were collateralised under the short term loan agreement with Halyk Bank JSC (Note 21).

15. TRADE RECEIVABLES, NET

Trade receivables, net as at 31 December 2010 and 2009 consist of the following:

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Trade receivables	2,189,984	918,064	-	-
Less: Allowance for doubtful receivables	(54,889)	(92,300)	-	-
Net	2,135,095	825,764	-	-

The movements in the allowance for doubtful receivables were as follows for the years ended 31 December:

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Balance at beginning of the year	(92,300)	(116,707)	-	-
Exchange differences	(636)	21,637	-	-
Add: Recovery for doubtful receivables	38,047	2,770	-	-
Balance at end of the year	(54,889)	(92,300)	-	-

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



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As at 31 December 2010, the Group has trade receivables of USD2,135,095 (2009: USD825,764). The recoverability of these trade accounts receivable depends to a large extent on the Group's customers' ability to meet timely their obligations, and other factors, which are beyond the Group's control. The recoverability of the Group's trade receivables is determined based on conditions prevailing and information available as at reporting date. The directors have reviewed the trade receivables and considered no further provision for trade receivables is necessary based on prevailing conditions and available information.

The future cash flows arising on CAC JSC's major customers receivables have been assigned to Bank Center Credit JSC as security for the loan facility of KZT700 million equivalent to USD4,749,949 (Note 21).

16. OTHER RECEIVABLES, ADVANCES AND PREPAID EXPENSES

Other receivables as at 31 December 2010 and 2009 consist of the following:

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Receivable from employees	33,480	52,148	-	-
Income tax receivable	-	408,141	-	-
Other receivables				
- VAT (recoverable)	4,845,634	5,147,293	-	-
- Others	524,062	145,695	-	-
	5,369,696	5,292,988	-	-
Prepaid expenses	418,541	507,760	987	3,836
	5,821,717	6,261,037	987	3,836
Advances paid to third parties, net of allowance of USD55,334 (2009: USD161,667)	3,077,024	7,926,536	-	-
	8,898,741	14,187,573	987	3,836
Advances paid to third parties - non-current portion, net of allowance of USD787,786 (2009:548,068)	(322,467)	(6,704,505)	-	-
	8,576,274	7,483,068	987	3,836

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



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

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

17. CASH AND BANK BALANCES

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Cash in hand and at banks	5,418,813	3,300,149	964,171	685,664
Short-term deposits	4,112,717	3,245,180	-	3,200,196
	9,531,530	6,545,329	964,171	3,885,860

As at 31 December 2010, in accordance with the Law of Republic of Kazakhstan on Labor, a non-interest bearing deposit of KZT5,821,000 equivalent to USD39,499 was placed with Kazkommertsbank JSC as part of work permit requirements for non-resident employees of the Republic of Kazakhstan (2009: KZT6,675,000 equivalent to USD44,984). The deposit is subjected to annual renewal.

As at 31 December 2010, Karcement JSC's bank accounts of USD3,172,464 (2009: USD240,685) were placed as security for EBRD's loan (Note 21).

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

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
KZT	7,784,231	1,377,518	-	-
USD	1,471,644	5,125,954	957,531	3,878,130
EUR	270,186	41,791	6,640	7,730
RUB	4,926	-	-	-
MYR	543	66	-	-
	9,531,530	6,545,329	964,171	3,885,860



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18. SHARE CAPITAL

	The Group and the Company	
	2010 USD	2009 USD
Issued and fully paid:		
Ordinary shares of no par value each:		
At beginning of year	1,540,000	1,140,000
Issued during the year	250,000	400,000
Share premium transferred on conversion of ordinary shares from USD0.01 each to no par value	56,508,542	-
At end of year	58,298,542	1,540,000

During the year, the Company issued 25,000,000 new ordinary shares at an issue price of GBP0.40 per share (or approximately USD0.64 per ordinary share).

Under section 46(1) of the Labuan Companies Act, 1990 ("Act"), which came into effect in 2010, the shares of the Company shall have no par or nominal value. Section 46(3) of the Act requires any amount standing to the credit of the share premium account to become part of the share capital. As at 31 December 2010, the Company reclassified USD56,508,542 from share premium account to share capital to comply with the Act (Note 19).

19. RESERVES

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Non-distributable reserves:				
Share premium				
At beginning of year	41,296,193	26,646,982	41,296,193	26,646,982
Issue of shares	15,724,957	14,688,578	15,724,957	14,688,578
Share issue expenses	(512,608)	(39,367)	(512,608)	(39,367)
Transfer to share capital on conversion of ordinary shares from USD0.01 each to no par value	(56,508,542)	-	(56,508,542)	-
At end of year	-	41,296,193	-	41,296,193



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	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Revaluation reserve				
Balance at beginning of year	3,023,894	3,364,936	-	-
Revaluation of property, plant and equipment	12,681,224	-	-	-
Deferred tax assets from revaluation of property, plant and equipment	(2,536,249)	-	-	-
Effects of change in tax rate	(1,069,542)	810,328	-	-
Transfer of revaluation reserve relating to property, plant and equipment through use	(1,159,300)	(1,151,370)	-	-
Balance at end of year	10,940,027	3,023,894	-	-
Translation reserve				
Balance at beginning of year	(20,863,615)	5,400,137	-	-
Exchange differences on translation of foreign subsidiary companies	1,919,194	(26,263,752)	-	-
Balance at end of year	(18,944,421)	(20,863,615)	-	-



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Share premium

Share premium arose from the issuance of ordinary shares at prices above the par value of USD0.01 each. During the year, share premium increased by USD15,212,349 (net of share issue costs of USD512,608) arising from the issuance of 25,000,000 new ordinary shares of USD 0.01 each issued at a premium of approximately USD0.63 per ordinary share above the par value of USD0.01 per ordinary share.

As at 31 December 2010, the Company reclassified USD56,508,542 from share premium account to share capital to comply with the Act (Note 18).

Revaluation reserve

Revaluation reserve arose on the revaluation of land and buildings. Where revalued land or buildings are sold or retired, the realised portion of the revaluation reserve is transferred directly to retained earnings. On 27 August 2010, an independent appraiser valuation performed valuation on the land and buildings based on depreciated replacement cost and income approach. The revaluation increase amounted to KZT1,868,832,000 or equivalent to USD12,681,224. The revaluation reserve is not available for cash distribution to the Company's shareholders.

Translation reserve

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

Retained earnings

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

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

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



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20. BONDS

	The Group	
	2010 USD	2009 USD
Bonds issued at price of:		
97.1895%	5,601,483	5,601,483
98.3230%	5,230,908	5,230,908
99.0574%	2,366,024	2,366,024
99.0574%	2,864,884	2,864,884
100.0096%	5,230,916	5,230,916
	21,294,215	21,294,215
Exchange differences	(2,972,983)	(3,098,305)
Discount on bonds issued	(63,737)	(161,236)
Total	18,257,495	18,034,674

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

The bonds were reclassified from non-current liabilities to current liabilities as at 31 December 2010 as the bonds are due to mature on 7 August 2011.

The directors consider that the carrying amount of the bonds issued approximates their fair value as of 31 December 2010.



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21. LOANS

	Currency	Maturity date	Interest rate	The Group	
				2010 USD	2009 USD
EBRD	USD	11 May 2013	LIBOR plus 3.75%; LIBOR plus 5.00%	32,735,414	32,785,430
SB HSBC Bank Kazakhstan JSC	USD	10 July 2013	LIBOR plus 5.50%	20,690,839	23,055,470
Bank CenterCredit JSC	USD	22 February 2013	16.00%	-	1,607,251
Bank CenterCredit JSC	KZT	22 February 2013	16.00%	517,765	459,959
Halyk Bank JSC	USD	20 October 2011	13.00%	766,452	4,806,005
Total outstanding				54,710,470	62,714,115
Current portion				(2,248,456)	(19,682,609)
Non-current portion				52,462,014	43,031,506

Karcement JSC

EBRD

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

- Tranche 1 loan of up to USD32 million. On 2 September 2007, Karcement JSC received the first portion of the Tranche 1 loan amounting to USD25 million. On 1 April 2008, Karcement JSC received the second part of the Tranche 1 loan of USD7 million. Under the Agreement, Karcement JSC shall repay the Tranche 1 loan in ten equal semi-annual instalments commencing on 11 November 2008 and ending on 11 May 2013. The applicable interest rate payable on Tranche 1 loan is LIBOR (6-month USD) plus 3.75% per annum, payable semi-annually from the date of the initial drawdown.



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- Tranche 2 loan of up to USD10 million. On 6 May 2008, Karcement JSC received the first portion of the Tranche 2 loan of USD5 million. On 12 June 2008, Karcement JSC received the second portion of the Tranche 2 loan of USD5 million. In line with the terms of the Agreement, Karcement JSC has to repay the Tranche 2 loan in one bullet payment on 11 May 2013. The applicable interest rate payable for Tranche 2 loan is LIBOR (6-month USD) plus 5.00% per annum payable semi-annually commencing from the date of initial drawdown.

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

HSBC

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

According to the terms of the Loan Agreement Karcement JSC's movable and immovable property as well as cash in bank are collateralized. EBRD and HSBC signed mutual agreement on collateral of the Company's assets (Note 11) as well as assets of CAC JSC. CAC JSC acts as a guarantor for the loan.

During the financial year, Karcement JSC did not receive any new borrowings. Karcement JSC paid interest of Tranche 1 and Tranche 2 to EBRD in accordance with the Loan Agreement, and paid the principal amount and interest of HSBC loan in accordance with HSBC Loan Agreement.

Debt Restructuring

In September 2010, Karcement JSC, EBRD and HSBC have agreed to restructure the EBRD's loan facilities of USD32 million and USD10 million respectively and HSBC's loan facility of USD23.2 million.

Rescheduling of the principal repayment

The original maturity on these loans will be extended by two years. Principal repayments will resume in May 2012 and September 2012 for EBRD and HSBC respectively.

ii) Interest rate margin revision

The interest rates for EBRD Tranche 1 and 2 facility has been revised to LIBOR (6-month USD) plus 5% per annum and LIBOR (6-month USD) plus 6.5% per annum respectively. The interest rate for HSBC facility has been revised to LIBOR (6-month USD) plus 6.5% per annum.

On 9 March 2011, Karcement JSC signed the debt restructuring agreement with HSBC. The debt restructuring documentation with EBRD is pending completion and is expected to be completed in the second half of 2011 (Note 32).

As at 31 December 2010, Karcement JSC has fully drawn down all of its loan commitments granted by EBRD and HSBC Bank Kazakhstan JSC.



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Central Asia Cement JSC

Bank CenterCredit JSC

On 31 March 2010, CAC JSC signed an agreement with Bank CenterCredit JSC to increase the limit from KZT360 million to KZT700 million. The applicable interest rate payable on the loan is revised to 15% p.a. and 14% p.a. for 6 months and 3 months period respectively. The drawdown period is from 31 March 2010 to 22 February 2013. For 6 months loan, repayment of the principal amount is to be made in 6 equal monthly installments after a grace period of 6 months from the date of withdrawal. For 3 months loan, repayment of the principal amount is to be made in one single payment after 3 months. Accumulated interest is payable throughout the tenure commencing in the month following the month of the withdrawal for both 3 months and 6 month loans.

The loan is secured against the future cash flows arising on the CAC JSC's major customers' receivables (Note 15).

Subsequent to financial year end, the interest rates were reduced for 3 months loan from 14% p.a. to 10% p.a. and 6 months loan from 15% p.a. to 11% p.a. (Note 32).

Halyk Bank Kazakhstan JSC

On 20 October 2008, Halyk Bank Kazakhstan JSC granted CAC JSC a loan facility to finance its working capital requirements of USD10 million (or KZT1,197,600 thousand at exchange rate at the date of the agreement) with an interest rate of 13% in US Dollar and 16.5% in KZT per annum and the maturity date is on 20 October 2011. In 2009, drawdowns under the credit facility agreement are only in US Dollar (in 2008 only in KZT). The principal and interest are payable monthly in the six months period from the date of drawdown. The loan is secured by Central Asia Cement JSC's inventories of USD5,760,786 (KZT848,967 thousand) (Note 14).

As at 31 December 2010, CAC JSC has undrawn loan commitments of KZT625 million or equivalent to USD4.24 million and USD9.24 million from the facility granted by Bank CenterCredit JSC and Halyk Bank JSC respectively.

Subsequent to financial year end, CAC JSC fully repaid its loan from Halyk Bank JSC (Note 32).



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22. DEFERRED TAX LIABILITIES, NET

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Balance at beginning of year	6,420,957	9,547,207	-	-
Exchange differences	(1,248,566)	(310,347)	-	-
Charged/(Credited) to equity	3,605,791	(810,328)	-	-
Credited to income statement (Note 9)	(4,090,957)	(2,005,579)	-	-
Balance at end of year	4,687,225	6,420,953	-	-

Deferred Tax Liabilities

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Tax effects of:				
Temporary differences in respect of:				
Property, plant and equipment	(11,630,956)	(10,649,498)	-	-
Inventories	70,388	114,223	-	-
Taxes	84,447	46,016	-	-
Trade receivables	10,979	61,516	-	-
Others	39,832	(25,960)	-	-
Unutilised tax losses	6,738,085	4,032,750	-	-
Net deferred tax liabilities	(4,687,225)	(6,420,953)	-	-

23. TRADE PAYABLES

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Services	1,863,980	1,957,183	-	-
Raw materials	864,464	1,075,938	-	-
Spare parts	153,450	627,779	-	-
Finished goods	-	344,981	-	-
Property, plant & equipment	1,529,775	2,396,873	-	-
Others	53,465	43,191	-	-
	4,465,134	6,445,945	-	-

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



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

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
KZT	2,801,494	3,762,772	-	-
USD	1,114,092	1,666,513	-	-
EUR	548,164	986,966	-	-
GB	-	28,440	-	-
CHF	1,384	1,254	-	-
	4,465,134	6,445,945	-	-

24. OTHER PAYABLES AND ACCRUED LIABILITIES

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Liquidation fund accruals	61,939	52,047	-	-
Accruals	1,679,089	1,263,560	795,333	747,793
Accrued interest on bonds issued	697,428	689,045	-	-
Payable to employees	274,676	277,804	-	-
Provision for unutilised leaves	199,138	160,939	-	-
Advances received	402,898	770,368	-	-
	3,315,168	3,213,763	795,333	747,793

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

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
KZT	2,475,944	2,271,496	-	-
USD	30,871	147,152	17,376	8,000
EUR	27,853	52,610	-	-
GBP	776,862	644,736	776,862	644,736
MYR	3,638	97,769	1,095	95,057
	3,315,168	3,213,763	795,333	747,793



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

25. TAXES PAYABLE

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Corporate income tax	340,144	-	-	-
Property tax	-	2,022	-	-
Personal income tax	22,026	21,390	-	-
VAT	1,893	-	-	-
Other taxes	323,696	289,517	-	-
	687,759	312,929	-	-

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Cash in hand and at banks	5,418,813	3,300,149	964,171	685,664
Short-term deposits	4,112,717	3,245,180	-	3,200,196
	9,531,530	6,545,329	964,171	3,885,860

27. RELATED PARTIES

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

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



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The following transactions with related parties are included in the consolidated income statement for the financial year ended 31 December 2010 and 2009:

	2010 USD	2009 USD
Underwriting fees	489,600	-
Rental expenses	18,533	23,532
Services rendered by related parties	732,801	696,819

The underwriting fees of GBP300,000 (3% of gross proceeds GBP10 million) or equivalent to USD489,600 were paid to the major shareholders of the Company, Halfmoon Bay Capital Limited, Mango Bay Enterprises Inc., Asian Investment Management Services Limited and Portola Group Limited (controlled by a director), in relation to their role to fully underwrite the Offer for Subscription exercise completed in Nov 2010.

The following balances with related parties are included under trade payables in the consolidated statement of financial position as of 31 December 2010 and 2009:

	Payable to related parties	
	2010 USD	2009 USD
Services rendered by related parties	122,040	226,249

Included in services rendered by related parties are drilling and blasting services performed by Maxam Kazakhstan of USD109,391 (2009: USD195,491). The contract is negotiated yearly on an arms length basis. Maxam Kazakhstan is a subsidiary company of Maxam SA., a company in which the Company's director, Javier Del Ser Perez, indirectly holds a 20% equity interest.

Compensation of key management personnel

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

	The Group		The Company	
	2010 USD	2009 USD	2010 USD	2009 USD
Remuneration	861,961	876,391	220,129	241,332
Short-term benefit	38,078	36,500	-	-
Total	900,039	912,891	220,129	241,332

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.



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The directors' remuneration in the Company is as follows:

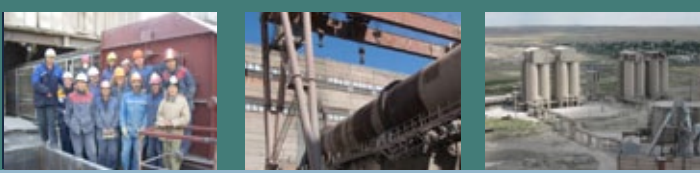
	The Company			
	2010	2009	2010	2009
	GBP	GBP	USD	USD
Director fees				
Executive director				
Javier del Ser Perez	66,000	66,000	103,039	106,722
Non-executive director				
Malcolm Brown	50,000	50,000	78,060	80,850
Paul Rodzianko	25,000	25,000	39,030	40,425
Keith Newman*	-	8,699	-	13,335
Total	141,000	149,699	220,129	241,332

* from 1 Jan 2009 to 7 May 2009.

28. COMMITMENTS AND CONTINGENCIES

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

The Borrower is required to comply with financial covenants in to the EBRD facility. These covenants include various financial performance ratios. The Borrower has breached these financial performance ratio covenants during the year ended 31 December 2010. As at 31 December 2010, the Borrower negotiated new terms with EBRD, where the Borrower and EBRD agreed deferment of loan repayment to September 2015. As a result of the negotiation, an Indicative Restructuring Term Sheet was signed by the parties and management has concluded that the loan will not be recalled and therefore, does not consider any contingent liabilities arising from the abovementioned fact, since the new terms are agreed subject to the legal formalities of signing an addendum to the loan agreement.



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Obligations under Liquidation Fund - In accordance with the Subsurface Use Contracts requirements, the subsidiary company, Central Asia Cement JSC shall contribute on annual basis 0.5% from the amount of actual expenditures for limestone and loam extraction to the liquidation fund, which shall be used for site restoration and abandonment of the subsidiary company mining operations. Not later than 6 months before the Subsurface Use Contract expiration, the subsidiary company shall submit the liquidation program to competent body. As at 31 December 2010 and 2009, the undiscounted contractual liability on future contributions to the liquidation fund obligation is KZT70,365,000 equivalent to USD477,472 (2009: KZT41,441,00 equivalent to USD281,203). Management estimated this provision, if discounted, will not have a material effect on these consolidated financial statements and therefore the Group recorded only current period contributions as liability in the consolidated statement of financial statement. Also, in accordance with the Law on Land and resource usage and Environmental rehabilitations, the Group will be obliged to provide additional resources to the state in the case the liquidation fund will be insufficient to cover actual site restoration and abandonment costs in the future. As at 31 December 2010, management believes that the amount of obligatory liquidation fund exceeds future site restoration and abandonment costs.

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

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

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

Non-compliance with the terms of the Investment Contract could lead to revocation of the Investment Contract by state authorities at any time. As at 31 December 2010, the Group invested approximately KZT17,822 million equivalent to USD120,933,704 (KZT17,312 million equivalent to USD116,669,475).

Purchase commitments – The Group has outstanding commitments for the purchases of equipment, materials and services from various suppliers for rehabilitation of its production lines. The Group's purchase commitments as at 31 December 2010 is KZT99,735,000 equivalent to USD676,766 (2009: KZT250,131,000 equivalent to USD1,685,689)

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.



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30. OPERATING ENVIRONMENT

The Group's business activities are within the Republic of Kazakhstan and are exposed to economical, political, social, legal and normative risks, different from risks in developed market. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

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

The global financial turmoil that has negatively affected the Republic of Kazakhstan financial and capital markets in 2008 and 2009 has receded. However significant economic uncertainties remain. Adverse changes arising from systemic risk in global financial systems, including any tightening of the credit environment or from decline in oil and gas prices could slow or disrupt the Kazakhstan economy, adversely affect the Company's access to capital and cost of capital for the Company and, more generally, its business, the results of its operations, and its financial condition and prospects.

Kazakhstan is also facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2010 and 2009 was 7.8% and 6.2% respectively).

Tax and regulatory environment

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

Tax, currency and customs legislation in Kazakhstan is subject to various interpretations; in addition enterprises which carry out their primary activity in Kazakhstan constantly face various legal and finance difficulties. The future economic development is significantly dependant on effectiveness of economic, tax-budget and currency reforms, conducted by the government and also on change in legal, normative and political spheres.

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

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes additionally accrued. Interest is assessed at 15%. As a result, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement. The provisions related to this uncertainty were not accrued by the Group in these financial statements.



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Environment protection matters

The Group believes it is currently in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Group is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Company to modernise technology to meet more stringent standards.

31. FINANCIAL INSTRUMENTS

Capital Risk Management

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

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

Financial Risk Management Objectives and Policies

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

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

(i) Foreign Currency Risk

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

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

(ii) Market Risk

The market is the risk of possible fluctuations in the value of the financial instrument as a result of changes in market prices. The Group manages the market risk by periodic evaluation of potential losses which may arise from negative changes in the market condition.



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Foreign currency sensitivity analysis

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

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

2010	KZT	GBP	EUR	MYR	CHF	RUB	USD	Total
Financial Assets								
Cash and cash equivalents	7,784,231	-	270,186	543	-	4,926	1,471,644	9,531,530
Trade receivables	2,135,095	-	-	-	-	-	-	2,135,095
Financial Liabilities								
Trade payables	2,801,494	-	548,164	-	1,384	-	1,114,092	4,465,134
Other payables	2,475,944	776,862	27,853	3,638	-	-	30,871	3,135,168
Loans	517,765	-	-	-	-	-	54,192,705	54,710,470
Bonds	18,257,495	-	-	-	-	-	-	18,257,495
2009	KZT	GBP	EUR	MYR	CHF	RUB	USD	Total
Financial Assets								
Cash and cash equivalents	1,377,518	-	41,791	66	-	-	5,125,954	6,545,329
Trade receivables	825,764	-	-	-	-	-	-	825,764
Financial Liabilities								
Trade payables	3,762,772	28,440	986,966	-	1,254	-	1,666,513	6,445,945
Other payables	2,271,496	644,736	52,610	97,769	-	-	147,152	3,213,763
Loans	459,959	-	-	-	-	-	62,254,156	62,714,115
Bonds	18,034,674	-	-	-	-	-	-	18,034,674



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The following table displays the Group's sensitivity to a 10% increase and decrease in the value of USD against the relevant foreign currencies. A benchmark sensitivity rate of 10% is used to report foreign currency risk internally to key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only non-regulated monetary position in foreign currency and adjusted their translated taking into account at financial year end 10% change in foreign currency rates. The sensitivity analysis includes payables, loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower a) external loans and trade account payables, and b) trade receivables where the loan or trade accounts payable/receivable are denominated in the currency different from the currency of the creditor or debtor. The sensitivity analysis below indicates the changes in financial assets and liabilities of the effect of a 10% increase in value of USD against the relevant foreign currency. A positive/(negative) effect will increase/(decrease) the Group's profits. In the case of 10% decrease in value of USD against the relevant foreign currency, there would be an equal and opposite impact on the Group's profits.

	Effect of KZT	
	2010	2009
Financial assets	(991,933)	(220,328)
Financial liabilities	2,405,270	2,452,890

	Effect of GBP	
	2010	2009
Financial liabilities	77,686	67,318

	Effect of EUR	
	2010	2009
Financial assets	(27,019)	(4,179)
Financial liabilities	57,602	103,958

	Effect of MYR	
	2010	2009
Financial assets	(54)	(7)
Financial liabilities	364	9,777

	Effect of CHF	
	2010	2009
Financial liabilities	138	125

	Effect of RUB	
	2010	2009
Financial assets	(493)	-



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(ii) Credit Risk

Credit risk arising as a result of counterparties' failure to meet the term of contracts with financial instruments of the Group is normally limited to the amounts, if any, by which the amount of liabilities of the counterparties exceeds the Group's liabilities before these counterparties. The Group's policy provides for conducting operations with financial instruments with a number of creditworthy counterparties. The maximum exposure to credit risk equals the carrying amount of each financial asset.

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

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

(iii) Liquidity Risk

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

As at 31 December 2010, Central Asia Cement JSC has undrawn loan commitments of KZT625 million or equivalent to USD4.24 million and USD9.24 million from the facility granted by Bank CenterCredit JSC and Halyk Bank JSC respectively (Note 21) to meet its funding requirements and to further reduce liquidation risk.

Subsequent to financial year end, CAC JSC fully repaid its loan from Halyk Bank JSC (Note 32).



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Tables on Liquidity and Interest Risk

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

2010	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	Greater than 5 years	Total
Interest bearing							
Bonds	9.00%	-	824,455	19,145,688	-	-	19,970,143
Loans	6.18%	783,287	983,653	481,516	51,497,774	-	53,746,230
Non-interest bearing							
Trade accounts payable		4,465,134	-	-	-	-	4,465,134
Other payables		655,139	-	970,613	605,780	-	2,231,532
		5,903,560	1,808,108	20,597,817	52,103,554	-	80,413,039
2009							
Interest bearing							
Bonds	9.00%	-	818,816	818,816	19,833,541	-	21,471,173
Loans	7.25%	1,294,167	5,889,551	12,503,211	43,031,506	-	62,718,435
Non-interest bearing							
Trade accounts payable		6,445,945	-	-	-	-	6,445,945
Other payables		283,344	-	421,556	520,710	-	1,225,610
		8,023,456	6,708,367	13,743,583	63,385,757	-	91,861,163



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

2010	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	Greater than 5 years	Total
Interest bearing							
Cash and cash equivalents		-	-	-	-	-	-
Non-interest bearing							
Cash and cash equivalents		9,492,030	-	-	-	-	9,492,030
Trade receivables		2,135,095	-	-	-	-	2,135,095
Other receivables, advances and prepaid expenses		543,672	-	-	-	-	543,672
		12,170,797	-	-	-	-	12,170,797
2009							
Interest bearing							
Cash and cash equivalents		-	-	-	-	-	-
Non-interest bearing							
Cash and cash equivalents		6,545,329	-	-	-	-	6,545,329
Trade receivables		825,764	-	-	-	-	825,764
Other receivables, advances and prepaid expenses		206,914	-	-	-	-	206,914
		7,578,007	-	-	-	-	7,578,007



Financial Statements

(iv) Cash Flow Risk

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

(v) Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use derivative instruments for the purpose of interest rate risk management. The Group limits its interest rate risk by monitoring changes in interest rates applicable to currencies in which loan are denominated.

The only potential risk of the Group connected with change in interest rates is related to loans of the Group.

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

	2010 USD	2009 USD
Increase/Decrease in finance costs	524,620	552,369

Fair Value of Financial Assets and Financial Liabilities

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument (Level 3 fair value measurement).

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

Cash and cash equivalents

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



Financial Statements

Trade and other receivables and payable

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

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

	The Group		The Company	
	Carrying value	Fair value	Carrying value	Fair value
	USD	USD	USD	USD
2010				
Financial Assets				
Trade receivables, net	2,135,095	2,135,095	-	-
Amount owing by subsidiary companies	-	-	28,589,870	28,589,870
Other receivables, advances and prepaid expenses	8,576,274	8,576,274	987	987
Cash and bank balances	9,531,530	9,531,530	964,171	964,171
Financial Liabilities				
Bonds	18,257,495	18,257,495	-	-
Loans	54,710,470	54,710,470	-	-
Trade payables	4,465,134	4,465,134	-	-
Other payables and accrued liabilities	3,315,168	3,315,168	795,333	795,333
Amount owing to subsidiary companies	-	-	-	-
2009				
Financial Assets				
Trade receivables, net	825,764	825,764	-	-
Amount owing by subsidiary companies	-	-	10,889,037	10,889,037
Other receivables, advances and prepaid expenses	7,483,068	7,483,068	3,836	3,836
Cash and bank balances	6,545,329	6,545,329	3,885,860	3,885,860



Financial Statements

	The Group		The Company	
	Carrying value USD	Fair value USD	Carrying value USD	Fair value USD
Financial Liabilities				
Bonds	18,034,674	18,034,674	-	-
Loans	62,714,115	62,714,115	-	-
Trade payables	6,445,945	6,445,945	-	-
Other payables and accrued liabilities	3,213,763	3,213,763	747,793	747,793
Amount owing to subsidiary companies	-	-	451,621	451,621

Borrowings

The estimate was made by discounting expected future cash flows on separate borrowings during the estimated period using market rates prevailing at the end of the relevant year on loans with similar maturities and credit rating. The majority of loans are issued to the Group by international financial institutions and foreign banks. As a result, interest rates on these loans, although lower than interest rates of private commercial credit organizations in Republic of Kazakhstan, are considered as market interest rates for this category of credits.

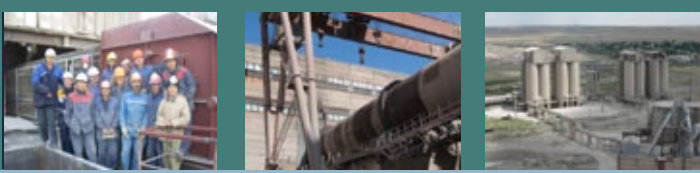
As at 31 December 2010 and 2009, the fair value of financial assets and financial liabilities were not significantly different from its carrying value.

32. SUBSEQUENT EVENTS

In February 2011, CAC JSC fully repaid its loan from Halyk Bank JSC.

On 11 February 2011, CAC JSC agreed with Bank CenterCredit JSC to revise the interest rates of the existing KZT700 million loan facility. The interest rates for 3 months loan were reduced from 14% p.a. to 10% p.a. and 6 months loan reduced from 15% p.a. to 11% p.a. On 10 May 2011, the Company issued a letter of guarantee in favour of Bank CenterCredit JSC in relation to the KZT700 million loan facility.

On 9 March 2011, Karcement signed the debt restructuring agreement with HSBC. The debt restructuring documentation with EBRD is pending completion and is expected to be completed in the second half of 2011.



Financial Statements

STEPPE CEMENT LTD

(Incorporated in Labuan FT, Malaysia under the Labuan Companies Act, 1990)
AND ITS SUBSIDIARY COMPANIES

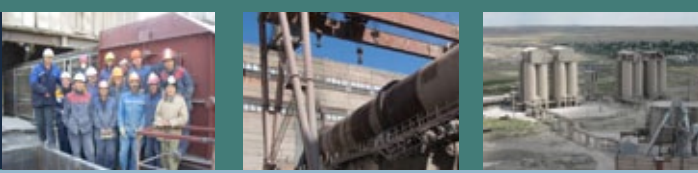
STATEMENT BY A DIRECTOR

I, JAVIER DEL SER PEREZ, on behalf of the directors of STEPPE CEMENT LTD, state that, in the opinion of the Directors, the accompanying statements of financial position and the related statements of income, cash flows and changes in equity are drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as of 31 December 2010 and of the results and the cash flows of the Group and of the Company for the year ended on that date.

Signed in accordance with a
resolution of the Directors,

JAVIER DEL SER PEREZ

Labuan
20 June 2011



Plant Location in Kazakhstan

Steppe Cement's plant is located at Aktau village which is about 40 km north of Karaganda city and 180 km to the south of Astana, the new capital of Kazakhstan since 1996.



Republic of Kazakhstan, is a transcontinental country mostly located in Central Asia, with a relatively small portion in Eastern Europe. Ranked as the ninth largest country in the world, it is also the world's largest landlocked country; its territory of 2,727,300 km² is greater than Western Europe. Kazakhstan is one of the six independent Turkic states. It is neighbored clockwise from the north by Russia, China, Kyrgyzstan, Uzbekistan, Turkmenistan, and also borders on a significant part of the Caspian Sea. Although Kazakhstan does not share a border with Mongolia, its eastern-most point is only 38 kilometres (24 miles) from Mongolia's western tip. The capital was moved in 1997 from Almaty (formerly Alma-Ata), Kazakhstan's largest city, to Astana.

Vast in size, the terrain of Kazakhstan ranges from flatlands, steppes, taigas, rock canyons, hills, deltas, and snow-capped mountains to deserts. With 16.4 million people (2010 estimate) Kazakhstan has the 62nd largest population in the world, though its population density is less than 6 people per square kilometre (15 per sq. miles).

Source: en.wikipedia.org



NOTICE OF 2011 AGM

NOTICE IS HEREBY GIVEN that the 2011 ANNUAL GENERAL MEETING of the Company will be held at the office of Steppe Cement Ltd, Suite 10, 10th Floor, West Wing Rohas Perkasa, 8 Jalan Perak, Kuala Lumpur, Malaysia on Monday, 4 July 2011 at 2.30 p.m. for the purpose of considering and if though fit, passing the following Resolutions:

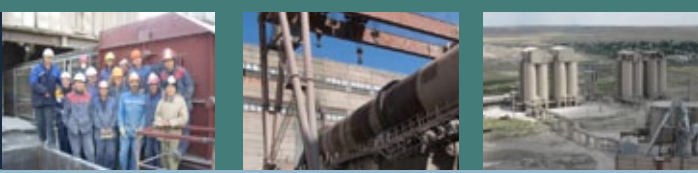
ORDINARY RESOLUTION

1.	<p>ADOPTION OF AUDITED FINANCIAL STATEMENTS</p> <p>To receive and adopt the audited financial statements for year ended 31 December 2010.</p>	RESOLUTION 1
2.	<p>RE-ELECTION OF DIRECTORS</p> <p>To re-elect the following Directors who offered themselves for re-election:</p> <p>2.1 Malcolm Ronald Brown</p> <p>2.2 Javier Del Ser Perez</p> <p>2.3 Paul Rodzianko</p>	RESOLUTION 2
3.	<p>To transact any other business of which due notice shall have been given in accordance with the Labuan Companies Act, 1990.</p>	

BY ORDER OF THE BOARD

EQUITY TRUST SECRETARIES LTD.
Corporate Secretary

Labuan F.T., Malaysia
Date: 20 June 2011



NOTICE OF 2011 AGM

Notes:

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy to appoint and vote instead of him.
2. The instrument appointing a proxy shall be produced at the place appointed for the meeting before the time for holding the meeting at which the person named in such instrument proposes to vote.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer, unless the appointer, is a corporation or other form of legal entity other than one or more individuals holding as joint owners, in which case the instrument appointing a proxy shall be in writing under the hand of an individual duly authorised by such corporation or legal entity to execute the same.
4. Copies of the proxy form and form of instruction are available at the UK Registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road BS99 6ZY.

STEPPE CEMENT LTD

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